

**ANNUAL REPORT**  
**FOR THE FINANCIAL YEAR ENDED December 31, 2020**

**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: the duration and spread of the COVID-19 outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume; market demand and semiconductor industry conditions; the ability to successfully introduce new technologies and products; the demand for the goods into which NXP's products are incorporated; trade disputes between the U.S. and China, potential increase of barriers to international trade and resulting disruptions to NXP's established supply chains; 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 potential impact of the outbreak of COVID-19 on NXP's business, operations, results of operations, financial condition, workforce or the operations or decisions of customers, suppliers or business customers; the access to production capacity from third-party outsourcing partners and any events that might affect their business or NXP's relationship with them including the outbreak of COVID-19 or the requirements to suspend activities with customers or suppliers because of changing import and export regulations; 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 successfully hire and retain key management and senior product engineers; 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. There can be no assurances that a pandemic, epidemic or outbreak of contagious diseases, such as COVID-19, will not have a material and adverse impact on our business, operating results and financial condition in the

future. 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](http://www.nxp.com/investor) or from the SEC website, [www.sec.gov](http://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	2020	2019
<b>Revenue</b>	<b>8,612</b>	8,877
<b>Operating income</b>	<b>715</b>	957
as a % of revenue	<b>8.3 %</b>	10.8 %
<b>Net income</b>	<b>308</b>	541
- per common share in \$:		
* basic	<b>1.00</b>	1.82
* diluted	<b>0.98</b>	1.78
<b>Earnings before interest, tax, depreciation and amortization (EBITDA) <sup>1)</sup></b>	<b>3,237</b>	3,430
as a % of revenue	<b>37.6 %</b>	38.6 %
<b>Cash flows before financing activities</b>	<b>2,121</b>	136
<b>Shareholders' equity</b>	<b>11,183</b>	11,444
<b>Employees at end of period</b>	<b>28,900</b>	29,400

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

# Report of the Directors About NXP

## History and development of the Company

### Company Overview

NXP Semiconductors N.V. is a global semiconductor company and a long-standing supplier in the industry, with over 50 years of innovation and operating history. For the year ended December 31, 2020, we generated revenue of \$8,612 million, compared to \$8,877 million for the year ended December 31, 2019.

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

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

Our legal name is NXP Semiconductors N.V. and our commercial name is “NXP” or “NXP Semiconductors.” We were incorporated in the Netherlands in 2006 as a Dutch public company with limited liability (naamloze vennootschap).

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

Our corporate seat is in Eindhoven, the Netherlands. Our principal executive office is at High Tech Campus 60, 5656 AG Eindhoven, the Netherlands, and our telephone number is +31 40 2729999. We are registered at the office of the Commercial Register in Eindhoven, Netherlands (file no. 34253298). 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 overview

### Semiconductors Market Overview

Semiconductors perform a broad variety of functions within electronic products and systems, including processing data, sensing, storing information and converting or controlling electronic signals. Semiconductors vary significantly depending upon the specific function or application of the end product in which the semiconductor is used and the customer who is deploying it. Semiconductors also vary on a number of technical characteristics including the degree of integration, level of customization, programmability and the process technology utilized to manufacture the semiconductor. Advances in semiconductor technology have increased the functionality and performance of semiconductors, improving their features and power consumption characteristics while reducing their size and cost. These advances have resulted in growth of semiconductors and electronic content across a diverse array of products. The semiconductor market totaled \$440.4 billion in 2020.

### Reporting segments

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

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

# Report of the Directors About NXP

## End-market Exposure

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

	<b>Automotive</b>	<b>Industrial &amp; IoT</b>	<b>Mobile</b>	<b>Comm Infra &amp; Other</b>
<b>Key Applications</b>	ADAS/Radar Connected Infotainment Vehicle Networks Electrification Secure Car Access eCockpit Body Comfort & Convenience Powertrain	Factory and Building Automation Smart Home and Building Control Home Entertainment Power and Energy Medical Smart Retail Smart Appliances	Smartphones Wearables Tablets Mobile Accessories	Wireless Basestations Enterprise Data Center Network & Security Wired and Wireless Service Provider Infrastructure Banking Cards Government ID documents Transit Cards RFID Tagging
<b>Growth Drivers</b>	Vehicle electrification and automation Government requirements & consumer demands for increased safety, reliability, comfort and efficiency Increase need of security across all applications	Shift from mechanical to electronic equipment Increasing processing and connectivity Increasing use of low-power nodes Energy efficiency Predictive maintenance Automation Machine Learning	Mobile Wallet/Mobile Transit Custom Interface/Power solutions	5G development/Massive MiMo and mmwave Increasing demand for bandwidth, cloud computing IoT

## Automotive

Growth in automotive semiconductor sales relies on global vehicle sales and production trends and the increase in semiconductor content per vehicle, which is being driven by the proliferation of electronic features throughout the vehicle. Despite the decline in vehicles sales and production in 2020 due to the outbreak of the COVID-19 (the "COVID-19 Pandemic"), the increase in semiconductor content per vehicle continued.

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

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

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

## ***Industrial & IoT***

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

Growth in the Industrial market is driven by the replacement of traditional mechanical equipment by smart and connected electronic equipment using various sensors, processors, connectivity and security chipsets that align well with NXP's ability to provide a complete range of processing, connectivity and secure solutions. In IoT, growth is driven by the increasing use of high-performance edge and media devices (e.g. home entertainment, connected home assistants, home control and security) and low power IoT nodes (e.g. smart home, wearables, health trackers) where NXP scalable solutions across the entire embedded processing spectrum are ideally suited. Working from home strongly increased in 2020 due to the COVID-19 outbreak and this had a positive impact on some applications (e.g. smart home devices, home entertainment and gaming consoles) within our Industrial & IoT business.

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

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

## ***Mobile***

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

## ***Communication Infrastructure & Other***

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

# Report of the Directors **About NXP**

The COVID-19 pandemic is showing the critical role of digital networking in today's society. Workplaces have changed en masse from office to home. Consumers and enterprise need to adapt to changing working conditions, leading to increasing demand for better digital communication capabilities.

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

## **Products**

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

### ***Microcontrollers***

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

### ***Application Processors***

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



Our S32x Automotive Processing Platform offers scalability across products and multiple application domains based on Arm Cortex-A, Cortex-R, and Cortex-M cores with Automotive Safety Integrity Level (ASIL-D) capabilities.

### ***Communication Processors***

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

### ***Wireless Connectivity***

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

### ***Analog and Interface Products***

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

### ***Radio Frequency Devices***

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

# Report of the Directors **About NXP**

## *Security Controllers*

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

## *Sensors*

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

## **Manufacturing**

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

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

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

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

Our front-end manufacturing facilities use a broad range of production processes and proprietary design methods, including complementary metal oxide semiconductor (CMOS), bipolar, bipolar CMOS (BiCMOS) and double-diffused metal on silicon oxide semiconductor (DMOS) technologies. Our wafer fabs produce semiconductors with line widths ranging from 90 nanometers to 3 microns for integrated circuits and 0.5 microns to greater than 4 microns for 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 sized used	Line widths used (µm) (Microns)	Technology/Products
<b>Front-end</b>				
Singapore (SSMC) <sup>1)</sup>	61.2 %	8"	0.14-0.25	CMOS, eNVM, Power, BCDMOS, RF
Nijmegen, the Netherlands	100 %	8"	0.14-1.00	CMOS, BCDMOS, RF, Power MOSFET
Austin (Oak Hill), United States	100 %	8"	0.25-1.50	CMOS, Sensors, RF, Power MOSFET
Chandler, United States	100 %	8"	0.25-0.50	CMOS, eNVM, BCDMOS
Chandler RF, United States	100 %	6"	0.25-0.40	GaN
Austin (Ed Bluestein), United States	100 %	8"	0.09-0.18	CMOS, eNVM, BCDMOS, Radar
<b>Back-end</b>				
Kaohsiung, Taiwan	100 %	—	—	NFC, Automotive Car-access, Micro-controllers
Bangkok, Thailand	100 %	—	—	Automotive In-Vehicle Networking and Sensors, Banking and e-Passport modules
Kuala Lumpur, Malaysia	100 %	—	—	Micro-processors, Micro-controllers, Power Management, Analog and Mixed Signal, RF devices
Tianjin, China	100 %	—	—	Micro-controllers, Analog and Sensors

<sup>1)</sup> Joint venture with TSMC; we are entitled to 60% of the joint venture's annual capacity.

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

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

Due to the COVID-19 pandemic, semiconductor supply chains have been under more pressure. As a result, there has been a tendency towards longer term contracts with suppliers in exchange for capacity. From an operational perspective, all of our manufacturing facilities continue to operate around the world in accordance with guidance issued by local and national government authorities.

# Report of the Directors About NXP

## **Sales, Marketing and Customers**

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

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

Our sales and marketing strategy focuses on key defined verticals in Automotive, Mobile, Industrial & 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, including our three largest, Arrow, Avnet and SAC.

Our revenue is primarily the sum of our direct sales to OEMs plus our distributors' resale of NXP products. Avnet accounted for 17% of our revenue in 2020 and 14% in 2019. No other distributor accounted for greater than 10% of our revenue. Continental accounted for less than 10% of our revenue in 2020 and 11% in 2019. No other OEM for which we had direct sales to accounted for more than 10% revenue in 2020 or 2019.

## **Research and Development**

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

To outpace market growth we invest in research and development to extend or create leading market positions, with an emphasis on fast growing sizable market segments, such as ADAS, in-vehicle networks and power management, as well as Edge computing to support the successful deployment in the IoT with our cross-over processing technology, but also in emerging markets, such as massive MIMO in RF Power and mmWave for 5G. In addition, we invest a few percent of our total research and development expenditures in research activities that develop fundamental new technologies or product categories that could contribute significantly to our company's 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 approximately 9,500 patent families (each patent family includes all patents and patent applications originating from the same invention). To protect confidential technical information and software, we rely on copyright and trade secret law and enter into confidentiality agreements as applicable. In situations where we believe that a third party has infringed on our intellectual property, we enforce our rights through all available legal means to the extent that we determine the benefits of such actions to outweigh the costs and risks involved.

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

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

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

## **Competition**

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

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

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

## **Environmental Regulation**

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

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

## Report of the Directors **About NXP**

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, 2020, we have recorded \$87 million for environmental remediation costs, which are primarily included in *Long-term provisions* in the accompanying consolidated balance sheet.

## Management commentary

### Introduction

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

For the IFRS accounting principles, we refer to Note 2 *Significant accounting policies and new accounting standards to be adopted after 2020* 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 or impairment if applicable. Under U.S. GAAP development costs are immediately recognized as an expense;
- Unlike U.S. GAAP, IFRS does not allow the application of the straight-line attribution method for awards with graded vesting in allocating share-based payment expenses but requires the application of the graded vesting attribution method;
- Under IFRS the recognition date of restructuring charges is sometimes different compared to U.S. GAAP;
- All other differences between IFRS and U.S. GAAP are of a minor importance and have no material impact.

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

\$ in millions	2020	2019
Operating income as per the consolidated statements of operations on an IFRS basis	715	957
Adjustments to reconcile to U.S. GAAP:		
- Reversal of capitalized product development costs	(749)	(697)
- Reversal of amortization of product development assets	388	314
- Reversal of impairment of product development assets	92	56
- Reversal of product development assets sold	11	—
- Additional amortization of intangible assets	—	2
- Reversal of IFRS adjustments for share-based compensation	(11)	(11)
- Reversal of IFRS adjustment for restructuring	(28)	15
- Pension accounting	5	9
- Lease accounting	(5)	(4)
Operating income as per the consolidated statement of operations on a U.S. GAAP basis	418	641

# Report of the Directors Management commentary

## Performance of the Group

### Operating Results

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

### Revenue and Operating income

The following table presents the composition of revenue and operating income for the years ended December 31, 2020 and December 31, 2019.

\$ in millions	2020			2019		
	U.S. GAAP	IFRS Difference	Total	U.S. GAAP	IFRS Difference	Total
Revenue	8,612	—	8,612	8,877	—	8,877
% nominal growth	(3.0)%		(3.0)%	(5.6)%		(5.6)%
Gross profit	4,235	1	4,236	4,618	(5)	4,613
% of Revenue	49.2 %		49.2 %	52.0 %		52.0 %
Research and development	(1,725)	(972)	(2,697)	(1,643)	(1,042)	(2,685)
Selling, general and administrative (SG&A)	(879)	(49)	(928)	(924)	(72)	(996)
Amortization of acquisition-related intangible assets	(1,327)	1,327	—	(1,435)	1,435	—
Operating Expenses	(3,931)	306	(3,625)	(4,002)	321	(3,681)
% of Revenue	45.7 %		42.1 %	45.1 %		41.5 %
Other income	116	(10)	106	27	—	27
Other expense	(2)	—	(2)	(2)	—	(2)
Operating income (loss)	418	297	715	641	316	957
% of Revenue	4.9 %		8.3 %	7.2 %		10.8 %

### Revenue

Revenue for the year-ended December 31, 2020 was \$8,612 million compared to \$8,877 million for the year-ended December 31, 2019, a decrease of \$265 million or 3.0%. The decrease is attributed to the impact of the COVID-19 pandemic in our primary end-markets, including year-on-year decreases in the Automotive and in the Communication Infrastructure & Other end markets. These declines were partly offset by increases in the Industrial & IoT and Mobile end markets.



Revenue by end-market was as follows:

(\$ in millions, unless otherwise stated)	2020	2019	Increase / Decrease	%
Automotive	3,825	4,212	(387)	(9.2)%
Industrial & IoT	1,836	1,599	237	14.8 %
Mobile	1,248	1,191	57	4.8 %
Communication Infrastructure & Other	1,703	1,875	(172)	(9.2)%
Revenue :	8,612	8,877	(265)	(3.0)%

Revenue by sales channel was as follows:

(\$ in millions, unless otherwise stated)	2020	2019	Increase / Decrease	%
Distributors	4,720	4,409	311	7.1 %
OEM/EMS	3,728	4,352	(624)	(14.3)%
Other	164	116	48	41.4 %
Revenue :	8,612	8,877	(265)	(3.0)%

Revenue by geographic region, which is based on the customer's shipped-to location, was as follows:

(\$ in millions, unless otherwise stated)	2020	2019	Increase / Decrease	%
Greater China (including Asia Pacific)	5,124	4,934	190	3.9 %
EMEA (Europe, the Middle East and Africa)	1,538	1,760	(222)	(12.6)%
Americas	977	1,076	(99)	(9.2)%
Japan	647	780	(133)	(17.1)%
South Korea	326	327	(1)	(0.3)%
Revenue :	8,612	8,877	(265)	(3.0)%

Revenue in the Automotive end market declined \$387 million year-on-year. The decline was due to the COVID-19 pandemic, which impacted automotive supply chains and resulted in many auto OEMs outside of China shutting car production sites, primarily in Europe and North America. The year-on-year declines were most notable in our core automotive products which are more susceptible to variances in auto production rates, including our mainstream auto processors, advanced analog, and sensor products.

Revenue derived from the Industrial & IoT market increased \$237 million year-on-year, driven by the contribution of revenue associated with the recently acquired Marvell wireless connectivity assets for connected IoT solutions. Additionally, revenue increased from higher demand for smart power, high performance analog, and general-purpose microcontrollers, primarily in the distribution channel in Greater China.

Within the Mobile end-market, revenue increased \$57 million year-on-year. The increase was predominantly associated with continued customer adoption of secure mobile wallet solutions primarily to distributors in Greater China, as well as increased demand for embedded power solutions, which increased sales to distributors mainly in Greater China and OEM sales in Asia Pacific. These increases were offset by the divestment of Voice and Audio Solutions, which closed early in the first quarter of 2020.

Revenue in the Communication Infrastructure & Other end market declined \$172 million year-on-year. The decline was related to reduced demand in Greater China and Asia Pacific for High-Performance Radio Frequency (HPRF) power amplifiers used in 4G cellular base stations, offset by increased demand for network communication processors from distributors and OEM customers. In addition, the overall decline was also offset by revenue related to the acquisition of the Marvell wireless connectivity assets used in access solutions.

# Report of the Directors **Management commentary**

## Gross profit

Gross profit for the year-ended December 31, 2020 was \$4,236 million, or 49.2% of revenue, compared to \$4,613 million, or 52.0% of revenue, for the year-ended December 31, 2019. The decrease of \$377 million was primarily driven by lower revenue and the reduced internal manufacturing activity during the second and third quarters, further by with the absorption of excess manufacturing fixed costs as a result of abnormal under-loading in our front-end factories due to the COVID-19 crisis as well as the purchase accounting effect on inventory (\$17 million) resulting from the Marvell acquisition. As a result, the gross margin percentage decreased to 49.2% from 52.0%.

## Operating Expenses

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

(\$ in millions, unless otherwise stated)	2020	% of revenue	2019	% of revenue	% change
<b>Research and development</b>	<b>2,697</b>	<b>31.3 %</b>	2,685	30.2 %	0.4 %
a. Amortization of acquisition related intangible assets	1,260	14.6 %	1,364	15.4 %	(7.6)%
b. Other R&D	1,437	16.7 %	1,321	14.9 %	8.8 %
<b>Selling, general and administrative</b>	<b>928</b>	<b>10.8 %</b>	996	11.2 %	(6.8)%
a. Amortization of acquisition related intangible assets	67	0.8 %	72	0.8 %	(6.9)%
b. Other SG&A	861	10.0 %	924	10.4 %	(6.8)%
<b>Operating expenses</b>	<b>3,625</b>	<b>42.1 %</b>	3,681	41.5 %	(1.5)%

Operating expenses for the year-ended December 31, 2020 totaled \$3,625 million, or 42.1% of revenue, compared to \$3,681 million, or 41.5% of revenue, for the year-ended December 31, 2019.

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

Amortization of acquisition-related intangible assets with regard to R&D and SG&A decreased by \$109 million, or 7.6%, when compared to 2019 since certain intangibles became fully amortized during 2020; partially offset by a \$36 million impairment charge (see also Note 14 *Intangible assets*) and the start of amortization of intangible assets related to the December 2019 Marvell acquisition.

Other R&D costs for the year-ended December 31, 2020 increased by \$116 million, or 8.8%, when compared to 2019. The change is primarily the combined effect of higher costs related to the Marvell activities (December 2019 acquisition), higher share-based compensation expenses as well as pre-production related expenses; partially offset by lower travel expenses, lower personnel related costs (including variable compensation) and lower costs related to Voice and Audio Solutions (VAS); which was divested on February 3, 2020.

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

Other SG&A costs for the year-ended December 31, 2020 decreased by \$63 million, or 6.8%, when compared to last year. The reduction mainly stems from : lower sales and marketing costs, lower travel expenses, lower personnel related costs (including variable compensation costs), lower professional services; partially offset by higher share-based compensation expenses as a result of the CEO transition.

When comparing to U.S. GAAP, the \$306 million lower 2020 operating expenses (2019: \$321 million) under IFRS primarily relate to (i) the net effect of capitalizing development costs of \$269 million (2019: \$327 million) and (ii) the lower IFRS restructuring charges for an amount of \$27 million (2019: IFRS higher restructuring charges of \$14 million) due to the stricter IFRS recognition criteria.

### Other Income (Expense)

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

The following table presents the split of other income (expense) for the years ended December 31, 2020 and 2019:

(\$ in millions)	2020	2019
Result from MSA and TSA arrangements	—	—
Other, net	104	25
Total :	104	25

Other income (expense) reflects income of \$104 million for 2020, compared to \$25 million of income in 2019. Included in 2020 is \$110 million relating to the net gain on the sale of the Voice and Audio Solutions (VAS) assets, whereas the 2019 amount included \$20 million relating to the sale of assets.

### Restructuring charges

Total restructuring and restructuring related costs amounted to \$51 million in 2020, compared to \$42 million in 2019. The 2020 and 2019 restructuring charges relate primarily to employee severance costs.

### Financial Income (Expense)

(\$ in millions)	For the years ended December 31,	
	2020	2019
Interest income	13	57
Interest expense	(369)	(376)
Total interest expense, net	(356)	(319)
Foreign exchange rate results	(16)	(15)
Extinguishment of debt	(60)	(11)
Miscellaneous financing costs/income and other, net	14	(10)
Total other financial income (expense)	(418)	(355)

Financial income (expense) was an expense of \$418 million in 2020, compared to an expense of \$355 million in 2019. The change in financial income (expense) is primarily attributable to a decrease in interest income of million, as a result of a lower average cash level and lower interest rates and higher debt extinguishment costs in 2020 versus 2019 of \$49 million. This was partially offset by results on investments of \$24 million.

For information on the use of financial instruments and risk management we refer to Note 21 *Long-term debt* and Note 33 *Financial risk management and concentration of risk*. Legal requirements with regard to future obligations are disclosed in Note 27 *Contractual obligations*.

### Income taxes

We recorded an income tax benefit of \$15 million in 2020, which reflects a negative effective tax rate of 5.0% compared to an income tax expense of \$62 million in 2019, which reflects an effective tax rate of 10.4%.

# Report of the Directors **Management commentary**

	2020		2019	
	million	%	million	%
Income before taxes	297		602	
Income tax expense (benefit)	(15)		62	
Income after tax	312		540	
Statutory income tax in the Netherlands	74	25.0 %	150	25.0 %
Rate differential local statutory rates versus statutory rate of the Netherlands	9	3.0 %	8	1.3 %
Loss carry forwards for which deferred tax assets were not recognized in the year of loss	9	3.0 %	15	2.5 %
Changes previous year's tax effect	(10)	(3.4)%	9	1.5 %
Non-taxable income	(5)	(1.7)%	(3)	(0.5)%
Non-tax-deductible expenses	59	19.9 %	41	6.8 %
Sale of non-deductible goodwill	6	2.0 %	—	0.0 %
Other taxes and tax rate and legislation changes	26	8.8 %	11	1.8 %
Other permanent differences	—	0.0 %	12	2.1 %
Withholding and other taxes	(31)	(10.5)%	5	0.8 %
Unrecognized Tax benefits	13	4.4 %	—	0.0 %
Tax incentives and other	(165)	(55.6)%	(186)	(30.9)%
Effective tax rate	(15)	(5.0)%	62	10.4 %

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, changes in estimates of prior years' income taxes, tax rate and legislation changes and non-deductible expenses, sale of non-deductible goodwill and withholding taxes. The impact of these items results in offsetting factors that attribute to the change in the effective tax rate between the two periods, with the significant drivers outlined below:

- The Company benefits from certain tax incentives, which reduce the effective tax rate. The dollar amount of the incentive in any given year is commensurate with the taxable income in that same period. For 2020, the Netherlands tax incentives was lower than 2019 by \$20 million, mainly due to the fact that NXP has a lower qualifying income.
- The tax effect of the non-deductible goodwill of \$6 million is linked to the divestiture of the VAS business in 2020.
- The difference of \$36 million in the withholding tax benefit in 2020 as compared with 2019 is mainly due to changes in the applicable deferred tax liability rate regarding future remittances of the earnings of foreign subsidiaries and due to additional undistributed earnings being considered permanently reinvested.
- The change in estimates of prior years' income taxes was higher in 2020 as compared to 2019, mostly relating to NXP USA (\$20 million) primarily due to the early adoption of the U.S. regulations issued in Q3 2020. This was partly offset by other changes in estimates relating to multiple jurisdictions.
- The tax rate and legislation changes in 2020 respectively 2019 is mainly driven by the changes in the enacted Dutch corporate income tax rates applicable for future years.

On a go-forward basis, cash payments for corporate income taxes that are relative to our on-going operations are expected at a quarterly average of \$76 million during 2021. Our future cash payments for income taxes will also be impacted by non-recurring events, resulting in additional payments of \$78 million in total, which will be paid in 2021.

## **Results Relating to Equity-accounted Investees**

Results relating to equity-accounted investees amounted to a loss of \$(4) million in 2020 (2019: gain of \$1 million).

## 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 \$28 million for the year-ended December 31, 2020, compared to a profit of \$29 million for the year-ended December 31, 2019.

## Financial Condition, Liquidity and Capital Resources

Thanks to our financial strength, we expect to be able to maintain adequate liquidity as we manage through the current environment impacted by the COVID-19 pandemic. Over the years, NXP has created a business that generates significant cash, thanks to its large and diverse revenue stream. We therefore believe we have sufficient liquidity to satisfy our cash needs. However, we will continue to monitor, evaluate and take action, as necessary, to preserve adequate liquidity and ensure that our business can continue to operate during these uncertain times. We continue to successfully constrain discretionary spending across the organization, re-prioritizing our capital projects, while simultaneously maintaining critical investments in areas that we believe will assure NXP's long-term success.

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, 2020, our cash balance was \$2,275 million, an increase of \$1,230 million compared to December 31, 2019 (\$1,045 million). Taking into account the available undrawn amount of the Unsecured Revolving Credit Facility (the "RCF Agreement") of \$1,500 million, we had access to \$3,775 million of liquidity as of December 31, 2020.

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 \$392 million in 2020, compared to \$526 million in 2019. Capital expenditures on development assets capitalized under IFRS amounted to \$749 million (2019: \$697 million).

The common stock repurchase activity was as follows:

(\$ in millions, unless otherwise stated)	2020	2019
Shares repurchased	4,828,913	15,865,718
Cost of shares repurchased	627	1,443
Average price per share	\$129.7	\$90.94

Under Dutch corporate law and our articles of association, NXP may acquire its own shares if the general meeting of shareholders has granted the board of directors the authority to effect such acquisitions. It is our standard practice to request our annual general meeting of shareholders (the "AGM") every year to renew this authorization for a period of 18 months from the AGM. For repurchases of shares in 2019 and 2020, the board of directors made use of the authorizations renewed by the AGM on June 22, 2018, June 17, 2019 and May 27, 2020, respectively. In October 2018, the board of directors of NXP approved the repurchase of shares so long as the total number of shares held by NXP in treasury does not exceed 20% (approximately 69 million shares) of the number of shares issued, and in November 2019, the board of directors approved the additional repurchase of shares up to a maximum of \$2 billion. During the fiscal year-ended December 31, 2019 NXP repurchased 15.9 million shares, for a total of approximately \$1.4 billion, and during the fiscal year-ended December 31, 2020 NXP repurchased 4.8 million shares, for a total of approximately \$0.6 billion. Under Dutch tax law, the repurchase of a company's shares by an entity domiciled in the Netherlands results in a taxable event (unless exemptions apply). The tax on the repurchased shares is attributed to the shareholders, with NXP making the payment on the shareholders' behalf. As such, the tax on the repurchased shares is accounted for within shareholders' equity.

Subject to Dutch corporate law and our articles of association, the board of directors of NXP may cancel shares acquired if authorized by the general meeting of shareholders. As with repurchases of our shares, it is our standard practice to request our annual general meeting of shareholders (the "AGM") every year to renew this

# Report of the Directors **Management commentary**

authorization for a period of 18 months from the AGM. For cancellations of shares in 2019 and 2020, the board of directors made use of the authorizations renewed on June 17, 2019 and May 27, 2020, respectively.

As approved by the board of directors, on November 27, 2019, NXP cancelled some 13.2 million shares and on December 15, 2020, NXP cancelled 26 million shares. As a result, the number of issued NXP shares as per December 15, 2020 is 289,519,638.

Under our Quarterly Dividend Program, interim dividends of \$0.25 per ordinary share were paid on March 15 and June 13, 2019, and dividends of \$0.375 per ordinary share were paid on October 4, 2019; January 6, April 6, July 6, October 5, 2020; and January 5, 2021.

(\$ in millions, unless otherwise stated)	2020	2019
Dividend per share	1.50	1.25
Amount	420	351

Our total debt amounted to \$7,609 million as of December 31, 2020, an increase of \$244 million compared to December 31, 2019 (\$7,365 million). On May 1, 2020, NXP issued \$500 million of 2.7% Senior Unsecured Notes due 2025, \$500 million of 3.15% Senior Unsecured Notes due 2027 and \$1 billion of 3.4% Senior Unsecured Notes due 2030. On September 28, 2020, \$1,350 million of 4.125% Senior Notes due 2021 and \$400 million of 4.625% Senior Notes due 2022 were redeemed in full.

At December 31, 2020, our cash balance was \$2,275 million, of which \$185 million was held by SSMC, our consolidated joint venture company with TSMC. Under the terms of our joint venture agreement with TSMC, a portion of this cash can be distributed by way of a dividend to us, but 38.8% of the dividend will be paid to our joint venture partner. During 2020, \$90 million dividend (2019 : no dividend) was declared.

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

## **Cash flow from operating activities**

For the year ended December 31, 2020, our operating activities provided \$3,288 million in cash; slightly above the \$3,116 million generated during 2019. This was primarily the result of net income of \$308 million (2019: \$541 million), and non-cash items; primarily depreciation, amortization and impairment of \$2,526 million (2019: \$2,472 million).

The \$59 million increase in receivables and other current assets was primarily due to the increase in trade accounts receivable, net, which was driven by the increasing linearity in revenue and the related timing of cash collections in the fourth quarter of 2020 compared with the same period in 2019.

The \$163 million decrease in inventories was primarily related to existing inventory on hand supplying the increase in revenues at the end of the third quarter 2020 continuing into the fourth quarter 2020, while production levels have been increased to align future inventory on hand with the current demand forecasts.

The \$124 million increase in accounts payable and accrued liabilities was primarily related to increases in trade accounts payable of \$47 million and \$50 million related to accruals for employee compensation.



## Cash flow from investing activities

For the year ended December 31, 2020, net cash used for investing activities amounted to \$1,167 million and consisted primarily of property, plant and equipment capital expenditures of \$392 million, capital expenditures on development assets for \$749 million, \$130 million for the purchase of intangible assets, \$34 million purchases of interests in businesses (net of cash acquired), and \$30 million purchase of investments; partly offset by proceeds of \$161 million from sale of business (net of cash), related to the sale of our Voice and Audio Solution assets.

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

## Cash Flow from Financing Activities

Net cash used for financing activities was \$892 million for the year-ended December 31, 2020 compared to \$1,878 million for the year-ended December 31, 2019. The cash flows related to financing transactions in 2020 and 2019 are primarily related to the financing activities described below under the captions *2020 Financing Activities and 2019 Financing Activities*.

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

(\$ in millions)	Year ended December 31,	
	2020	2019
Dividends paid to non-controlling interests	(35)	—
Dividends paid to common stockholders	(420)	(319)
Cash proceeds from exercise of stock options	72	84
Purchase of treasury shares	(627)	(1,443)
Cash paid on behalf of shareholders for tax on repurchased shares	—	(128)
Payments of lease liabilities	(57)	(48)
Other, net	(1)	—

## 2020 Financing Activities

### *2025, 2027 and 2030 Senior Unsecured Notes*

On May 1, 2020, NXP B.V., together with NXP USA Inc. and NXP Funding LLC, issued \$500 million of 2.7% Senior Unsecured Notes due 2025, \$500 million of 3.15% Senior Unsecured Notes due 2027 and \$1 billion of 3.4% Senior Unsecured Notes due 2030. NXP used the net proceeds of the offering of these notes to repay in full on September 28, 2020, the \$1,350 million aggregate principal amount of outstanding 4.125% Senior Notes due 2021 and the \$400 million aggregate principal amount of outstanding 4.625% Senior Notes due 2022.

## 2019 Financing Activities

### *2024 Revolving Credit Facility*

On June 11, 2019, NXP B.V. together with NXP Funding LLC, entered into a \$1.5 billion unsecured revolving credit facility agreement maturing June 11, 2024, replacing the \$600 million secured revolving credit facility, entered into on December 7, 2015.

# Report of the Directors **Management commentary**

## *2020 Senior Notes*

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

## *2026 and 2029 Senior Unsecured Notes*

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

## *2019 Cash Convertible Senior Notes*

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

## **Debt position**

### **Short-term Debt**

As of December 31, 2020 and 2019, there was no short-term debt outstanding.

### **Long-term debt**

We refer to Note 21 *Long-term debt* for the details and 2020 changes in our long-term debt.

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

## **2019 Cash Convertible Senior Notes**

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

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

## **Employees**

As of December 31, 2020 we had 28,900 full-time equivalent employees compared to 29,400 at December 31, 2019. The average 2020 full-time equivalent employees is 29,150; which is calculated by the sum of 28,900 and 29,400 divided by two.



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

	% as of December 31,	
	2020	2019
The Netherlands	7 %	7 %
Rest of Europe and Africa	13 %	13 %
Americas	18 %	20 %
Asia	62 %	60 %
<b>Total :</b>	<b>100 %</b>	<b>100 %</b>

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

We also have employee lead worker's councils in various countries that provide input and oversight to many of the decisions made on behalf of employees.

### Subsequent events

On March 4, 2021, the Board of Directors of NXP Semiconductors N.V. approved the payment of an interim dividend for the first quarter of 2021 of \$0.5625 per ordinary share. The interim dividend will be paid on April 5, 2021 to shareholders of record as of March 15, 2021.

Additionally, on March 4, 2021, consistent with NXP's historic policy of returning excess cash to shareholders, the board of directors has also approved a new \$2 billion 2021 share repurchase program. The new \$2 billion share repurchase authorization is in addition to \$640 million remaining for repurchase under the previously authorized share repurchase program.

Eindhoven, March 4, 2021

Board of Directors

# Report of the Directors Governance

## NXP's Leadership

### Board of Directors

Set forth below are the names and ages, as of December 31, 2020 and positions of the persons who serve as members of our board of directors.

Name	Age	Position	Meeting attendance 1)
Kurt Sievers 2)	51	Executive director, President and chief executive officer	100%
Sir Peter Bonfield	76	Non-Executive Director and Chairman of the Board, and Member of the Board's Nominating and Governance Committee and of the Board's Compensation Committee	100%
Kenneth A. Goldman	71	Non-Executive Director and Member of the Board's Nominating and Governance Committee	100%
Josef Kaeser	63	Non-Executive Director and Member of the Board's Nominating and Governance Committee	100%
Lena Olving	64	Non-Executive Director and Member of the Board's Compensation Committee	100%
Peter Smitham	78	Non-Executive Director and Vice-Chairman of the Board, and Chair of the Board's Compensation Committee	100%
Julie Southern	61	Non-Executive Director and Chair of the Board's Audit Committee	100%
Jasmin Staiblin	50	Non-Executive Director and Member of the Board's Audit Committee	100%
Gregory L. Summe	64	Non-Executive Director and Chair of the Board's Nominating and Governance Committee	100%
Karl-Henrik Sundström	60	Non-Executive Director and Member of the Board's Audit Committee and the Board's Compensation Committee	100%

1) Attendance is reflected for the 5 Board meetings/calls held in 2020. For those directors that are member of the audit committee, the compensation committee and the nominating and governance committee attendance also reflects the 9 audit committee meetings/calls, the 8 compensation committee meetings / calls and the 4 nominating and governance committee meetings / calls.

2) Effective May 27, 2020, the Company's Annual General Meeting of Shareholders appointed Mr. Kurt Sievers as Executive Director and President/CEO, succeeding Mr. Richard Clemmer.

- **Kurt Sievers (1969, German).** Mr. Sievers is executive director, president and chief executive officer since May 2020, after a successful track record as the president of NXP, overseeing all the company's business lines, since 2018. Mr. Sievers joined NXP in 1995, and rapidly moved through a series of Marketing & Sales, Product Definition & Development, Strategy and General Management leadership positions across a broad number of market segments. He has been a member of the executive management team since 2009, where he has been instrumental in the definition and implementation of the NXP High-Performance Mixed Signal strategy. In 2015, Mr. Sievers was influential in the merger of NXP and Freescale Semiconductor. Mr. Sievers serves on the Board of the German National Electrical and Electronics Industry Association (ZVEI) and chairs the Advisory Board of the international trade-fair Electronica. He also serves as a board member of AENEAS, the cluster for application and technology research in Europe on nano-electronics. Mr. Sievers serves as a member of the Asia-Pacific-Committee of German Business (APA) and as a member of the Board at the German Asia-Pacific Business Association (OAV), acting as the spokesperson for the Republic of Korea. Mr. Sievers earned a master's degree in physics and information technology from Augsburg University, Germany.

- **Sir Peter Bonfield CBE FREng (1944, British).** Sir Peter was 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 non-executive directorships at Taiwan Semiconductor Manufacturing Company Limited and Imagination Technologies, is Board Director at East West Institute USA and Board Mentor at CMI in London. He is Advisor to Longreach LLP in Hong Kong, Alix Partners UK LLP in London and is a Fellow of The Royal Academy of Engineering. Sir Peter is named Outstanding Director for 2019 by the Financial Times.

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

- **Josef Kaeser (1957, German).** Mr. Kaeser was appointed a non-executive director of our board of directors effective September 1, 2010. Mr. Kaeser was the president and chief executive officer of Siemens AG from August 2013 until February 2021. Prior to this, from May 2006 to August 2013, he was a 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 additionally held various other positions within the Siemens group since he joined Siemens in 1980. Mr. Kaeser serves on the managing board of Daimler AG and the supervisory board of Siemens Energy AG.

- **Lena Olving (1956, Swedish).** Mrs. Olving was appointed a non-executive director of our board of directors in June 2019. She served as President and CEO of Mycronic AB (listed on Nasdaq OMX Stockholm), between 2013 and 2019 a Swedish high-tech equipment company serving the electronics industry. Before that Ms. Olving worked at Saab AB, a listed Defence and Security company, as Deputy CEO and Chief Operating Officer. Her earlier career also includes various managerial positions within Volvo Car Corporation, in total 25 years, of which 5 years in Asia Pacific and 7 years in the Executive Management Team. Ms. Olving is a board member of Assa Abloy AB, Investment AB Latour, Munters Group AB (all public listed), Chairman of Academic Work Holding AB, Chairman of the Board at the Royal Swedish Opera and ScandiNova Systems AB and board member of Stena Metall AB. She is a fellow of IVA the Royal Swedish Academy of Engineering Sciences. She holds a Master of Science in Mechanical Engineering from Chalmers in Gothenburg, Sweden. In January 2018, Ms. Olving was presented H.M., The King's Medal of the 12th size with blue ribbon for outstanding efforts within Swedish business sector. In October 2019, she was awarded IVA's Gold Medal for pioneering and outstanding leadership within the tech sector.

- **Peter Smitham (1942, British).** Mr. Smitham was appointed a non-executive director of our board of directors effective December 7, 2015. Mr. Smitham retired from his position as a partner of the private equity firm Permira on December 31, 2009, but until August 1, 2015, he was a member of Permira Advisers LLP, which he joined in 1985, the year the London office was founded. Mr. Smitham was the managing partner of the London office from 1994 until 1998 and led Permira's European business from 1996 until 2000. He has worked on numerous transactions focusing on technology, including those involving 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 was a member of the Compensation and Leadership Committee and the Nominating and Corporate Governance Committee of the Freescale board. He has

# Report of the Directors Governance

a degree in Geography from Swansea University, Wales, and attended the Senior Executive Program at Stanford Business School.

- **Julie Southern (1959, British).** Mrs. Southern was 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, Ocado Group plc and easyJet plc, and is Chair of their respective Audit Committees. Ms. Southern is also a member of the Remuneration Committees at Ocado and easyJet.
- **Jasmin Staiblin (1970, German).** Mrs. Staiblin was appointed a non-executive director of our board of directors in June 2019. She served between 2013 and 2018 as Chief Executive Officer of Alpiq, a leading Swiss energy services provider and power producer in Europe. She successfully led the company through a major transformation in a fundamentally changing energy market. She began her career in 1997 at the ABB Group, the Swedish-Swiss global technology company, starting in ABB's group research center. From 1999 to 2005 she served in various global functions and as a member of the management team for ABB's power technologies division. She held the position of chief executive officer of ABB Switzerland from 2006 to 2012. Ms. Staiblin is a board member of Georg Fischer AG, Schaffhausen, Rolls-Royce plc, London and Zurich Insurance Group Ltd. Ms. Staiblin studied Physics and Electrical Engineering at the Karlsruhe Institute of Technology, Germany and the Royal Institute of Technology in Stockholm, Sweden. She completed her studies with a Degree in Physics and has a Master of Science in electrical engineering.
- **Gregory L. Summe (1956, American).** Mr. Summe was appointed a non-executive director of our board of directors effective December 7, 2015. Mr. Summe is the Co-Chairman of NextGen Acquisition Corporation and the Managing Partner of Glen Capital Partners, an investment fund. 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. 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, Avantor Corporation and NextGen Acquisition Corporation and two private companies, Ohana Biosciences, and Pella Corporation.
- **Karl-Henrik Sundström (1960, Swedish).** Mr. Sundström was appointed a non-executive director of our board of directors in June 2019. He served as CEO of Stora Enso from 2014 until his retirement in 2019. He joined Stora Enso in August 2012 as CFO and member of the Group Leadership Team. In June 2013 he took on the role as Executive Vice President for division Paper and Wood Products. Prior to joining Stora Enso, Mr. Sundström held the role as CFO of NXP Semiconductors N.V. (2008–2012). Before that, he held several managerial positions in Ericsson, including CFO. He is a member of the board of Vestas AS, Mölnlycke AB and chairman of the tax delegation for Swedish Business and Commerce, Chair of the Climate Leadership Coalition and member of the board of the Marcus Wallenberg Foundation, Baffin Bay Networks AB and Tracklib Holdings AB. Mr. Sundström participated in an Advanced Management Program at Harvard Business School in 1997 and holds a degree in Business Administration, Finance and Accounting from the Uppsala University, Sweden.

Information on the remuneration of our board of directors is disclosed in Note 31 *Information on remuneration board of directors* of the consolidated financial statements.

## Information about our Executive Officers

Set forth below are the names and ages as of December 31, 2020 and positions of Mr. Sievers and the other executive officers of NXP under the rules of the U.S. Securities Exchange Act of 1934.

Name	Age	Position
Kurt Sievers	51	Executive director, President and chief executive officer
Peter Kelly	63	Executive vice president and chief financial officer
Christopher Jensen	51	Executive vice president and chief human resources officer
Stephen Owen	60	Executive vice president sales & marketing
David Reed	62	Executive vice president technology and operations
Jennifer Wuamett	55	Executive vice president and general counsel

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

- **Peter Kelly (1957, American).** Mr. Kelly is executive vice president, chief financial officer and a member of the management team. He joined NXP in March, 2011 and serves as NXP's chief financial officer. Mr. Kelly has over 30 years of applicable experience in the global technology industry and has extensive financial expertise having worked in financial management positions in several other companies, including as CFO of UGI Corp. and Agere Systems Inc. Mr. Kelly also serves on the board of Plexus, Corp and is on the Audit Committee and Nominating & Corporate Governance Committee.
- **Christopher Jensen (1969, American).** Mr. Jensen is executive vice president, chief human resources officer and a member of the management team. In this role, he is responsible for all aspects of the Company's global human resources function, driving programs and process to enable NXP's business performance. Mr. Jensen has been with NXP since the merger of Freescale and NXP in 2015, having been a key leader in the integration of the two companies. He has extensive experience in leading the various functions across human resources, with strength in change management, compensation and benefits design, and mergers and acquisitions. Prior to Freescale, Mr. Jensen held executive human resources positions at Applied Materials and Tandem Computers. Mr. Jensen also serves as a part-time adjunct professor at Baylor University, teaching in their Executive MBA Program.
- **Stephen Owen (1960, Dutch).** Mr. Owen is executive vice president, global sales & marketing and member of the management team. He has extensive experience in developing business internationally and served in various marketing and sales leadership positions at NXP and Philips since 1998.
- **David Reed (1958, American).** Mr. Reed is executive vice president of Technology and Operations at NXP. He joined NXP in 2015, having served as general manager at Freescale until the merger with NXP. He has 30 years of extensive international experience with global execution of fabs, assembly/test, packaging, R&D, foundries and joint ventures for Analog, Automotive, Logic and Wireless customers. He joined Freescale Semiconductor in 2012 as Senior Vice President, Manufacturing Operations. Previously he was vice president and general manager at GLOBALFOUNDRIES. He began his career at Texas Instruments in 1984 where he held multiple overseas and leadership assignments.
- **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 served in various other positions at Freescale and Motorola beginning in 1997.

## Corporate Governance

### Introduction

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

We were incorporated in the Netherlands as a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the name KASLION Acquisition B.V. on August 2, 2006.

# Report of the Directors Governance

On May 21, 2010, we converted into a Dutch public company with limited liability (*naamloze vennootschap*) and changed our name to NXP Semiconductors N.V. In August 2010, we listed our common shares on the Nasdaq Global Select Market (“Nasdaq”).

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

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

We conduct our operations in accordance with internationally accepted principles of good governance and best practice, while ensuring compliance with the corporate governance requirements applicable in the countries in which we operate:

- We have a transparent corporate structure, with approval rights of our general meeting of shareholders for any significant change in the identity or nature of our Company or business;
- Each share of our common stock confers the right to cast one vote at the general meeting of shareholders;
- Our directors are appointed for one year terms;
- We do not have a poison pill in place;
- We only have outstanding common stock, and no priority, preference or other shares with special voting rights are issued, and cannot be issued without majority shareholder approval;
- Any issuance of common or preference shares, for any reason, is subject to the approval of the general meeting of shareholders; and
- We allow special meetings of our shareholders to be called upon the written request of shareholders holding at least 10% of our outstanding voting stock.

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

The Code of Conduct outlines our general commitment to be a responsible social partner and the way in which we attempt to interact with our stakeholders, including shareholders, suppliers, customers, employees and the market. The Code of Conduct expresses our commitment to an economically, socially and ethically sustainable way of working. It covers our policy on a diverse array of subjects, including corporate gifts, child labor,

International Labor Organization conventions, working hours, sexual harassment, free-market competition, bribery and the integrity of financial reporting.

The Code of Conduct is built around the campaign “Know Right, Do Right” and consists of a framework of a variety of controls, a strict non-retaliation policy, a training program for employees, the SpeakUp telephone line where people can report potential issues in a confidential manner, a confidential investigation process, risk assessments, background checks and audits. Any reports related to the Code of Conduct are brought to the attention of our Ethics Committee to ensure that all reports are properly investigated and addressed. Each quarter the Ethics Committee communicates to the Audit Committee all reports and investigations.

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

### **How our Board Governs and is Governed**

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

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

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

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

Our directors are appointed for one year and will be, if nominated by the Board, re-electable each year at a general meeting of shareholders. As directors are only appointed until the next general meeting of shareholders, and the Board maintains an orderly, robust process for Board refreshment and succession as explained in this report, the Board does not limit the number of times directors can be nominated for re-election as referred to in par. 2.2.2 of the DCGC. Our directors may be suspended or dismissed at any time by the shareholders at an annual general meeting of shareholders. A resolution to suspend or dismiss a director will have to be adopted by at least a two thirds majority of the votes cast, provided such majority represents more than half of our issued share capital unless the proposal to suspend or dismiss a director is made by the Board, in which case resolutions shall be adopted by a simple majority of votes cast. An executive director can also be suspended by the Board.

# Report of the Directors Governance

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

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

## *Rules Governing the Board*

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

In addition to the Rules of Procedure, the Board has adopted charters of its committees, to which the plenary Board, while retaining overall responsibility, has assigned certain tasks: the Audit Committee, the Nominating and Governance Committee, and the Compensation Committee. Each committee reports to the plenary Board. The Rules of Procedure were amended during 2020, and are, together with the committee charters, posted on our Investor Relations website at <http://investors.nxp.com> under the "Corporate Governance" section. Copies of our corporate governance materials are also available to shareholders who request them. Requests must be in writing and sent to: NXP Semiconductors N.V., High Tech Campus 60, 5656 AG, Eindhoven, The Netherlands, Attention: Secretary.

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

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

Under the Rules of Procedure, Board members must comply with any provisions on the maximum number of directorships and board memberships as decided by the Nominating & Governance Committee. Currently, the Nominating & Governance Committee has determined that members of the Board shall have no more than four board memberships in public companies in addition to service on the Board of NXP, and not more than two of such board memberships if they are an executive officer.

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



### *Board Leadership and Role in Risk Oversight*

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

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

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

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

- All nine current non-executive directors are independent; the sole board member not being independent is the executive director (the CEO);
  - Robust Corporate Governance principles, which are reviewed annually;
  - A Chairman with deep experience in and knowledge of our business and industry with a demonstrated unique and successful strategic vision. Our Chairman continues to be actively focused on his role of providing the overall strategic leadership for the Company, consistent with Dutch law and the Company's organizational documents - a role that the Board believes remains critically important as our industry continues to experience significant change and disruption at a rapid rate;
  - The Audit, Compensation, and Nominating and Governance Committees all are composed entirely of independent directors (as defined in the applicable Nasdaq listing standards and within the meaning of the DCGC);
  - Approval of any appointment of members to the Audit, Compensation, and Nominating and Governance Committees must include at least a majority of the independent directors;
  - All Board committees operate pursuant to written charters and conduct annual self-assessments;
  - The independent directors of the Board and its committees receive extensive information and input from multiple layers of management and external advisors, engage in detailed discussion and analysis regarding matters brought before them (including in executive session) and consistently and actively engage in the development and approval of significant corporate strategies;
  - The Board and its committees have unrestricted access to management;
  - The Board and its committees can retain, at Company expense, any advisors they deem necessary with respect to any matter brought before them; and
  - In 2020, the Board held four executive sessions of non-management members, and its committees collectively held 21 executive sessions.

# Report of the Directors Governance

## *Meetings of NXP's Board*

The Board met five times in 2020. In addition to these meetings, directors attended meetings of individual Board committees of which they were members. Each of the directors attended 100% of the aggregate of the Board meetings and meetings of committees of which they were a member during the periods for which they served in 2020. NXP does not have a formal policy regarding Board members' attendance at annual general meetings, but all of our Board members are invited to attend the Annual General Meeting. The Chairman and the Chief Executive Officer attended last year's virtual annual general meeting.

The Rules of Procedure require the independent directors to meet in executive session from time to time, and at least twice annually, without any members of management present. During 2020, the independent directors of the Board met in executive session four times.

## *NXP's Board Committees*

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

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

### AUDIT COMMITTEE

#### Members

**Ms. Southern  
(Chair)**  
Ms. Staiblin  
Mr. Sundström

#### KEY OVERSIGHT RESPONSIBILITIES INCLUDE, BUT ARE NOT LIMITED TO:

- The integrity of the Company's financial statements and its accounting and financial reporting processes
- The effectiveness of the Company's internal control over financial reporting
- Compliance with applicable legal and regulatory requirements
- Oversight of information technology risks, including cybersecurity
- The qualifications, independence and performance of the independent registered public accounting firm for U.S. public reporting purposes and the Company's external auditor for purposes of Dutch law
- The Internal Audit group
- The Company's processes and procedures related to risk assessment and risk management

**Number of  
meetings during  
2020:**

9

## COMPENSATION COMMITTEE

<b>Members</b> <b>Mr. Smitham</b> <b>(Chair)</b> Sir Peter Bonfield Ms. Olving Mr. Sundström	<b>KEY OVERSIGHT RESPONSIBILITIES INCLUDE, BUT ARE NOT LIMITED TO:</b> <ul style="list-style-type: none"> <li>• CEO and senior management compensation, including the corporate goals and objectives relevant to such compensation and evaluating performance in light of those goals and objectives</li> <li>• Board and committee compensation</li> <li>• Relationship between the Company’s compensation policies and practices and risk management</li> <li>• Management Team succession plans</li> <li>• Compensation and benefits-related disclosures and equity compensation plans in which executives participate</li> <li>• Various human capital management topics, including diversity, equality and inclusion, Workforce trends and surveys, as well as University Relations Program</li> </ul>
<b>Number of meetings during 2020:</b>	<b>8</b>

## NOMINATING AND GOVERNANCE COMMITTEE

<b>Members</b> <b>Mr. Summe</b> <b>(Chair)</b> Sir Peter Bonfield Mr. Goldman Mr. Kaeser	<b>KEY OVERSIGHT RESPONSIBILITIES INCLUDE, BUT ARE NOT LIMITED TO:</b> <ul style="list-style-type: none"> <li>• Corporate governance matters</li> <li>• Nomination or re-nomination of director candidates and approval of other shareholders meeting agenda items</li> <li>• The annual self-evaluation of the Board and its committees</li> <li>• Review NXP top identified risks and make proposals to the Board on oversight</li> <li>• Initiatives and reporting on Environment, Social and Governance</li> </ul>
<b>Number of meetings during 2020:</b>	<b>4</b>

### *Setting and Overseeing Strategy*

The Board actively determines the Company’s strategy and continues to focus on those strategies designed to ensure the continued durability and sustainability of the Company, while creating long-term value for our shareholders, and serving the interests of our other stakeholders. The Board and its committees regularly and extensively reviewed during their meetings throughout 2020 the Company’s strategy, the Company’s primary risks as well as the design and operation of the internal control systems to ensure it supports the long-term growth and sustainability of the Company and reflects, among other considerations, market challenges and

# Report of the Directors Governance

opportunities, and the interests of shareholders and other stakeholders. This has substantially impacted the long-term value creation strategy as referred to in practice 1.1.1 of the Dutch Corporate Governance Code ("DCGC") and as further outlined in below Sustainability statements and the Annual Social Responsibility Report . In addition to quarterly updates on the business performance and detailed presentations by the various business managers, the Board, as part of its annual meeting schedule, spent a full meeting in November to review and discuss the mid- to long-term strategy of the Company.

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

## *Risk Oversight*

Our management is directly responsible for executing the Company's risk management processes. Reference is made to pages 45-46 where we further lay-out the Enterprise Risk Management process and the various risk factors. Our Board is responsible for overseeing these risk management processes. In exercising its oversight, the Board and, as appropriate, the relevant Board committees, assesses the material risks facing the Company and evaluate management's plans for managing material risk exposures. The Company conducts a formal annual risk assessment to identify, analyze and report on enterprise risks. The results of this risk assessment are reported to and discussed with the Board.

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

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

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

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

#### *Board Education*

Individual members of the Board participate in director education seminars, conferences and other director education programs presented by external and internal resources, on matters that relate to, among other topics, compensation, governance, board processes, risk oversight, business, industry, audit and accounting, credit and financial, regulatory and other current issues. In February 2020, a number of newly appointed members of the Board had a two-day visit to the NXP headquarters in Eindhoven and the factory in Nijmegen, where they received a number of presentations on various topics by members of management.

### **How Our Directors Are Selected and Evaluated**

#### *Consideration of Director Nominees*

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

- Directors shall have relevant expertise and experience and be able to offer advice and guidance to the CEO based on that expertise and experience;
- Directors shall have the ability to exercise sound business judgment;
- Directors shall represent diverse viewpoints; the personal backgrounds and qualifications of the directors, considered as a group, should provide the Company with a significant composite mix of experience, knowledge and abilities; and
- Unless otherwise approved by the Board, directors shall not be a member of the board of directors or an officer or employee of a competitor (or an affiliate of a competitor) of the Company.

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

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

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

# Report of the Directors Governance

## *Evaluation*

In accordance with the Rules of Procedure, once a year the Board, initiated by the Nominating & Governance Committee and supervised by the Chairman, evaluates its performance, functioning and effectiveness. As part of this self-evaluation process, all Board members complete a relevant questionnaire, and the results of this are being discussed in a Board meeting. In 2020, the questionnaire covered topics such as the composition of the Board, required skills and experience of Board members, dynamics and focus of Board meetings, the relationship between the Non-Executive members of the Board and management, access to information, the frequency and quality of the meetings, quality and timeliness of the meeting materials, the nature of the topics discussed during meetings, strategic oversight, and the performance of the Board's committees. The responses to the questionnaire were aggregated into a report, and the results of the self-evaluation were shared and discussed in private meetings of the Board. The responses provided by the Board members indicated that the Board continues to be a well-functioning team. A number of suggestions were made to improve the performance of the Board over the coming period, including oversight of R&D effectiveness and regularly inviting external experts to comment on different aspects of the business. The functioning of the Board committees was rated highly.

## *Diversity*

In compliance with par. 2.1.5 DCGC, the Board is committed to supporting, valuing and leveraging diversity, including gender and ethnic/cultural diversity, in its composition, among other qualities that the Board believes serve the best interests of the Company and its stakeholders. As part of these efforts and in line with Dutch corporate law, the Board, while taking into account the overall profile and selection criteria for appointments of suitable candidates, applies as its policy that at least 30% of the seats on our Board are to be taken by men and at least 30% of the seats by women. The Board aims to continue in its efforts to have a diverse gender and ethnic composition as it continues its board refreshment process as described below, which process also is part of the diversity policy as referred to in par. 2.1.5 DCGC.

## *Board Refreshment*

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

The Board continues its orderly Board succession and refreshment process, refreshing 6 director seats since 2015.

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

## *Director Independence*

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

## **Certain Relationships and Related Transactions**

Under the Rules of Procedure, a conflict of interest must be reported to the Board and the Board shall determine the consequences of such conflict, 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 voted on by shareholders at the general meeting of shareholders.

Other than the compensation items described in the Group Financial Statements Note 31 *Information on remuneration board of directors* no decisions to enter into material transactions in which there were conflicts of interest with directors occurred during the financial year 2020.

## **How Our Directors Are Compensated**

The Compensation Committee has responsibility for reviewing and considering any revisions to compensation for our executive and non-executive directors. The compensation of our CEO, currently Mr. Kurt Sievers, is determined by the Board in accordance with the principles set forth in the remuneration policy for executive and non-executive directors previously approved by our general meeting of shareholders, as required under Dutch law. In determining the compensation of our CEO, specific actions are taken to ensure the direct connection of rewards to key performance outcomes aligning executive pay to short and long-term stakeholder interests. Overall, our programs are competitive in the marketplace and highly incentive-based, with a majority of compensation at-risk earned via our short- and long-term incentive programs based on overall Company and individual performance. In connection with Mr. Sievers' appointment as executive director and president/chief executive officer, Mr. Sievers and the Company entered into a management agreement (the "Management Agreement") and NXP Semiconductors Germany GmbH, a wholly owned indirect affiliate of the Company, and Mr. Sievers entered into an addendum to Mr. Sievers' existing employment agreement (the "Secondment Addendum" and together with the Management Agreement, the "CEO Agreements").

In connection with the CEO transition, the previous CEO, Mr. Clemmer, entered into an agreement with NXP USA, Inc. ("NXP USA"), a wholly owned indirect subsidiary of the Company (the "Advisory Agreement"). Under the Advisory Agreement, effective May 28, 2020, Mr. Clemmer serves as strategic advisor to the CEO until October 31, 2021, unless terminated on an earlier date by NXP USA.

A copy of the CEO Agreements and the Advisory Agreement can be found on Form 8-K filed by the Company on March 9, 2020.

The Board reviews the Compensation Committee's recommendations and makes the final recommendations to the shareholders meeting regarding compensation for non-executive directors. In accordance with Dutch law, the current remuneration of the non-executive directors of the Board's committees was approved at the annual general meeting in 2020. It is our policy to reimburse all directors for reasonable expenses incurred in performing their duties as a director.

Refer to Note 31 *Information on remuneration board of directors* of the group financial statements for Directors and remuneration detail.

## **General Meeting of Shareholders: Procedures, Admission and Voting Rights**

### *Introduction*

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

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

Public notice of a general meeting of shareholders or an extraordinary meeting of shareholders shall be given by the board of directors, upon a term of at least such number of days prior to the day of the meeting as required by law and in accordance with the regulations of the NASDAQ stock exchange. This term is currently 15 days. The

# Report of the Directors Governance

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 60<sup>th</sup> 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 2020, no preferred stock was issued.

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

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

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

### *Going concern*

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

### *Internal controls and disclosure policies*

Based on its oversight activities, reports from management and third parties, and extensive discussions and analyses, the Board believes that the Company's internal risk management and control systems provide reasonable assurance that the Company's financial reporting does not contain any errors of material importance.

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.

# Report of the Directors Governance

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, 2020 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, 2020. The Board has no reason to believe that there are material shortcomings associated with the Company's internal risk management and control systems that would otherwise have to be disclosed in this report. Consequently, those systems have not been materially revised during the fiscal year to which this report pertains and no material improvements thereto are scheduled. The Company's internal risk management and control systems have been discussed with the audit committee and non-executive directors.

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 May 27, 2020, upon the proposal of the board of directors, have appointed as advised by its audit committee determined to recommend that Ernst & Young Accountants LLP ("EY") stand for appointment as the Company's independent registered public accounting firm for the Company's fiscal years ending December 31, 2020 through December 31, 2022 at the 2020 AGM under the requirement under Dutch law and as set forth in the Articles, subject to the completion of EY's standard client acceptance procedures.

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

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

## **Audit committee pre-approval policies**

The Audit Committee has adopted rules for the pre-approval by the Audit Committee of all services to be provided by the external auditor. Proposed services may be pre-approved at the beginning of the year by the Audit Committee (annual pre-approval) or may be pre-approved during the year in respect of a particular engagement (specific pre-approval). The pre-approval is based on a detailed, itemized list of services to be

provided, designed to ensure that there is no management discretion in determining whether a service has been approved and to ensure the Audit Committee is informed of each service it is pre-approving. Unless covered by the pre-approved services, each proposed service requires specific pre-approval during the year. Any pre-approved services where the fee for the engagement is expected to exceed pre-approved cost levels or budgeted amounts will also require specific pre-approval. During 2020, there were no services provided to the Company by the external auditors which were not pre-approved by the Audit Committee.

In 2020, the external auditor attended all formal meetings of the Audit Committee. The findings of the external auditor, the audit approach and the risk analysis are also discussed at these meetings. In its audit report on the annual accounts to the Board, the external auditor refers to the financial reporting risks and issues that were identified during the audit, internal control matters, and any other matters, as appropriate, requiring communication under the auditing standards generally accepted in The Netherlands and the United States.

### **Compliance with the Dutch corporate governance code**

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

- Best practice provision 2.2.2. state that directors are appointed for a period of four years and may then be reappointed once for another four-year period, which ultimately may be extended twice for a period of two years. We follow a different approach, whereby directors are only appointed for a period on one year until the next general meeting of shareholders. As the Board maintains an orderly, robust process for Board refreshment and succession as explained in this report, the Board does not limit the number of times directors can be nominated for re-election. We feel that with this, although not strictly following the recommendation of the DCGC, our practice is in the spirit of the DCGC. It also meets US practices and policies adopted by US investors, and provides the opportunity to have a balanced board composition on the basis of the following four tenure categories: 0 to 3 years (new directors), 4 to 7 years (medium-tenured directors), 8 to 11 years (experienced directors), and 12 years or more (long-tenured directors).
- 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 Share Ownership Guidelines, as amended, to maintain at least six times his (gross) base salary in NXP equity value, 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 and need to retain at least five times of their annual (gross) fee in NXP equity with the purpose of creating long-term commitment to the Company.
- Best practice provision 3.1.2, section iii of the Dutch corporate governance code states that information about the pay ratios within the Company and its affiliated enterprise should form part of the remuneration report. In order to comply with the Dutch corporate governance code, using the data that have been published in this annual report - which will be different than the U.S. GAAP information that will be described in the Proxy Statement - NXP reports that the ratio of total remuneration of the Chief Executive Officer (\$10,609,601 as CEO (see also Note 31 *Information on remuneration board of directors*; prorated for the full year to \$17,812,449) versus the average of total employee remuneration (\$2,932 million (see also Note 5 *Operating income - Employee benefits* and Note 30 *Share-based compensation*) over 29,150 FTE employees) is approximately 177:1.
- Best practice provision 3.2.3 states that the remuneration of a member of our board in the event of dismissal may not exceed one year's salary. Considering our chief executive officer being employed at

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NXP since 1995, currently at our German subsidiary NXP Semiconductors Germany GmbH, and he is being appointed at the annual shareholders meeting for a one-year term each time, our current chief executive shall be eligible for a severance payment of two times the gross annual base salary and a pro-rata payment of the annual cash bonus, depending on achievement of the pay-out conditions and the period in which the CEO has performed actual work for the Company.

- 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, while maintaining their independence.
- Pursuant to best practice provision 3.4.1., the compensation committee should prepare a remuneration report which, in a transparent manner, describes the various remuneration topics related to the Executive and Non-Executive Members of the Board. In addition to the detailed and according to Dutch law required disclosure of individual remuneration of members of the Board referred to in Note 31 *Information on remuneration board of directors* of our Group Financial Statements, detailed information of the 2020 executive compensation program for the so-called (six) named Executive Officers of the Company is described in the Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934 published in view of the next Annual General Meeting, and posted on the Company's website <https://investors.nxp.com>.
- 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, in conjunction with the proposed appointment of the Board members for one year, 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. In addition, our regular shareholder engagement approach includes semi-annual outreaches by the Chairman of the Board and other non-executive directors to our top investors. We believe that regular engagement with our shareholders in order to understand and respond to their feedback, questions and concerns is important. Thus, we have established a plan where Independent members of our Board engage directly twice per

year, along with our internal team. Throughout this process, we seek to gain feedback and answer questions on our business strategy, compensation practices, governance topics, and other related issues. Also on our bilateral communications with investors, we are strict in our compliance with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders.

## **Risk management**

The purpose of our enterprise risk management (“ERM”) has been to timely identify, evaluate, prioritize, respond to, and manage material business risks impacting NXP Semiconductors’ strategic objectives.

The objectives of ERM have been to:

- Enhance our understanding of risks across the organization and their impact on our strategy
- Improve our ability to respond to risks, particularly those that could result in a strategic impact event
- Ensure there is an effective system of management for key risks
- Prioritize and align risk management efforts and resources effectively
- Provide reasonable assurance, in line with the three lines of defense model, to stakeholders that there is a system in place to manage risk and that legal requirements are complied with, and the integrity of the Company’s financial reporting and related disclosures is safeguarded.

Key ERM activities include:

- Assessment (identification and evaluation of risks)
- Response (building capabilities, mitigation)
- Management Assurance (effective management methods, clear accountabilities)
- Monitoring (audit, inquire, verify)
- Communication (internally and externally)
- Periodically evaluate effectiveness method

The procedures plan for reasonably coverage of the potential risks. Despite the thoroughness of the process unforeseen events that impact the strategy may happen.

### *Risk management governance*

The Board of Directors oversees NXP’s processes and procedures related to risk assessment and risk management, reviews NXP top identified risks and NCG committee makes proposals to the board on oversight.

The NXP Management Team Our management team oversees, identifies and manages the top risks NXP faces in executing its strategy, defines the risk appetite and manages risks consistently with the risk appetite.

The Enterprise Risk Management function enables management to make risk management more efficient and effective by providing and maintaining a risk management framework, a risk monitoring mechanism and facilitation of the execution of the ERM process. All required to mitigate the risks to levels consistent with the risk appetite of NXP. We believe that our risk appetite is consistent with our peers in the semiconductor industry and a reflection of the risk in the semiconductor industry. This risk appetite is different for the different identified risks and therefore the level of mitigation can be different. For mitigation of the operational, financial disclosure and compliance risk we merely rely on our framework of business controls, processes, authorizations and “tone at the top”. For the more strategic risk a more top down approach to mitigating the risks is applied.

The risk appetite for the main risk categories is shown underneath:

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	Very Low	Low	Medium	High	Very High
Strategic (Geopolitical, Innovation, Markets, IP)					
Operational ( Execution, Human capital, Cyber security)					
Financial disclosure					
Compliance					

A risk owner performs an assessment and prioritizes the most likely and impactful risk elements and takes appropriate measures to mitigate the risk within the given appetite.

The Internal Audit function, as part of annual audit plan approved by the Audit Committee of the Board of Directors, provides assurance of effectiveness of NXP's risk management

A structured risk management process is put in place to identify and manage the most crucial risks for NXP, taking into account both internal and external information sources. The ERM process is existing of the following elements:

- Yearly interviews with all NXP MT members, starting from the strategy and seeking their insight in the most important risks for NXP
- Assessment of a consolidated risk list on both likelihood and impact by different layers in the organization
- Based on likelihood and impact, the top risk list is (re-)confirmed by the MT and reported to the Board of Directors
- Risk owners drive required mitigation actions to ensure the risk meets the risk specific appetite
- Corrective action are taken where necessary as a result of evaluation of the controls by internal audit and/or self-assessments
- Effectiveness of the controls are measured by specified risk indicators, updated on at least a quarterly basis
- Risk status and controls in place are discussed each quarter in Board or the selected board committee
- At least once per year, the risk process is review with the Board of Directors on effectiveness and improved where needed.

## Risk Factors

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. In addition, we added the risks related to the coronavirus (COVID-19) pandemic. The Company's risk factors can be summarized as follows:

### *Risks related to the coronavirus (COVID-19) pandemic*

The extent to which the coronavirus (COVID-19) outbreak and measures taken in response thereto could materially adversely affect our financial condition and results of operations will depend on future developments, which are highly uncertain and are difficult to predict. The COVID-19 pandemic and measures taken in response have adversely impacted the Company's financial condition and results of operations.

The novel strain of the coronavirus identified in China in late 2019 has globally spread throughout other areas such as Asia, Europe, the Middle East, and North America and has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders, and shutdowns. These measures have adversely impacted and may further impact our workforce and operations, the operations of our customers, and those of our respective vendors and suppliers. We have significant manufacturing operations in China, Malaysia, Thailand, Singapore, Taiwan, The Netherlands and the U.S., and each of these countries has been affected by the outbreak and taken measures to try to contain it. There is considerable uncertainty regarding such measures and potential future measures, and restrictions on our access to our manufacturing facilities or on our support operations or workforce, or similar limitations for our vendors

and suppliers, and restrictions or disruptions of transportation, such as reduced availability of air transport, port closures, and increased border controls or closures, could limit our capacity to meet customer demand and have a material adverse effect on our financial condition and results of operations.

The outbreak has significantly increased economic and demand uncertainty. We experienced significant decline in revenue in the first half of 2020 related to the COVID-19 outbreak. Although we experienced improvements in the business environment in the second half of 2020, the situation remains uncertain and the continued spread of COVID-19 may result in another economic slowdown similar or worse than what we experienced in the first half of 2020, including the possibility that it could lead to a global recession. Risks related to a slowdown or recession are described in our risk factor titled “Significantly increased volatility and instability and unfavorable economic conditions may adversely affect our business” below.

The spread of COVID-19 has caused us to modify our business practices (including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers, partners, and suppliers. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, and our ability to perform critical functions could be harmed.

The degree to which COVID-19 adversely impacts our future results will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may experience material adverse impacts to our business as a result of the global economic impact and any recession that has occurred or may occur in the future. To the extent the COVID-19 pandemic adversely affects our business, results of operations, financial condition and cash flows, it may also heighten many of the other risks described below. There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak on our operations and financial results is highly uncertain and subject to change.

### **Risks related to the semiconductor industry and the markets in which we participate**

*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.*

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 generally, or specific to the markets in which we participate. In the first half of 2020, demand in the automotive market steeply declined as a result of manufacturing shutdowns by automotive OEMs due to the coronavirus pandemic, resulting in an unforeseen negative impact to our results of operations. In 2008 and 2009, Europe, the United

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States and international markets experienced increased volatility and instability related to the global financial crisis. In the event of a future decline in global economic conditions, our business, financial condition and results of operations could be materially adversely affected, and the resulting economic decline might disproportionately affect the markets in which we participate, further exacerbating a decline in our results of operations.

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

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

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

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

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.

### **Risks related to our business 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.

Our global business operations expose us to international business risks that could adversely affect our business.

If any of the following 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:

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

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

Goodwill and other identifiable intangible assets are recorded at fair value on the date of an acquisition. As a result of our acquisition of Marvell's Wireless WiFi Connectivity Business Unit, Bluetooth technology portfolio and related assets in 2019, we recognized goodwill of \$1.1 billion and intangible assets of \$0.5 billion. As a result of our acquisition of Freescale in 2015, we recognized goodwill of \$7.5 billion and intangible assets of

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\$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.

*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, our production requirements are in part met by our own manufacturing facilities. In less favorable industry environments, like we faced in the first half of 2020, 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.

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

We have previously executed restructuring initiatives and continue to assess, restructure and make changes to parts of the processes in our organization. If the global economy remains volatile, our revenues could decline and we may be forced to take additional cost savings steps that could result in additional charges and materially affect our business. The costs of implementing any restructurings, changes or cost savings steps may differ from our estimates and any negative impacts on our revenues or otherwise of such restructurings, changes or steps, such as situations in which customer satisfaction is negatively impacted, may be larger than originally estimated.

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

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

*Our working capital needs are difficult to predict.*

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

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

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

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

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

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

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

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

We currently use outside suppliers for a portion of our manufacturing capacity. Outsourcing our production presents a number of risks. If our outside suppliers are unable to satisfy our demand, or experience manufacturing difficulties, delays or reduced yields, our results of operations and ability to satisfy customer demand could suffer. In addition, purchasing rather than manufacturing these products may adversely affect our gross profit margin if the purchase costs of these products are higher than our own manufacturing costs would have been. Prices for foundry products also vary depending on capacity utilization rates at our suppliers,

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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.

*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.

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

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

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

## *Risks related to regulatory or legal challenges*

As our business is global, we need to comply with laws and regulations in countries across the world.

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, data privacy, 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.

No assurance can be given that we have been or will be at all times in complete compliance with the laws and regulations to which we are subject or that we have obtained or will obtain the permits and other authorizations or licenses that we need. If we violate or fail to comply with laws, regulations, permits and other authorizations or licenses, we could be fined or otherwise sanctioned by regulators. Furthermore, if one or more of our customers are sanctioned by regulators for non-compliance with laws and regulations, we could experience a decrease in demand for our products. For example, import and export regulations, such as the U.S. Export Administration Regulations administered by the U.S. Department of Commerce, are complex, change frequently, have generally become more stringent over time and have intensified in recent years. Our results of operations could be negatively impacted if we are required to suspend activities with certain customers or suppliers due to future changes in regulations. In 2020, due to regulations imposed by the U.S. government, we ceased shipments of our products to Huawei pending approval of export licenses. Furthermore, global privacy legislation, enforcement, and policy activity, such as the EU General Data Privacy Regulation, 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. Even our inadvertent failure to comply with applicable privacy-related or data protection laws and regulations could result in proceedings against us by governmental entities or others.

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.

*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

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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.

## *Risks related to cybersecurity and IT systems*

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

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

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

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

## *Risks related to intellectual property*

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

Our success and future revenue growth depends, in part, on our ability to protect our proprietary technology, our products, our proprietary designs and fabrication processes, and other intellectual property against

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

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

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

#### *Risks related to human capital management*

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

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

## *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. See Part III, Item 10. Directors, Executive Officers and Corporate Governance.

### **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, 2020, we had outstanding indebtedness with an aggregate principal amount of \$7,650 million. Our substantial indebtedness could have a material adverse effect on our business by:

- increasing our vulnerability to adverse economic, industry or competitive developments;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;
- exposing us to the risk of increased interest rates in the event we have borrowings under our \$1,500 million revolving credit facility agreement (the “RCF Agreement”) because loans under the RCF Agreement bear interest at a variable rate;
- making it more difficult for us to satisfy our obligations with respect to our indebtedness and any failure to comply with the obligations of any our debt instruments, including restrictive covenants and borrowing conditions, could result in an event default under the indentures governing our notes and agreements governing other indebtedness;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financial for working capital, capital expenditures, restructurings, product development, research and development, debt service requirements, investments, acquisitions and general corporate or other purposes; and
- limiting our flexibility in planning for, or reacting to, changes in our business or market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged and who therefore, may be able to take advantage of opportunities that our leverage prevents us from exploiting.

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

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

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

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

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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.

## **General risk factors**

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 \$167.27 on December 7, 2020 and a low of \$58.41 on March 18, 2020 in the twelve-month period ending on December 31, 2020. 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, variations between our actual financial results or guidance and expectations of securities analysts or investors 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.

*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.

*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, 2020, we had recognized a net accrued benefit liability of \$566 million, representing the unfunded benefit obligations of our defined pension plans. The funding status and the liabilities and costs of maintaining these defined benefit pension plans may be impacted by financial market developments. For example, the accounting for such plans requires determining discount rates, expected rates of compensation and expected returns on plan assets, and any changes in these variables can have a significant impact on the projected benefit obligations and net periodic pension costs. Negative performance of the financial markets could also have a material impact on funding requirements and net periodic pension costs. Our defined benefit pension plans may also be subject to demographic trends. Accordingly, our costs to meet pension liabilities going forward may be significantly higher than they are today, which could have a material adverse impact on our financial condition.

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

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

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

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

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

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

Additionally, in December of 2017, the United States enacted a budget reconciliation act amending the Internal Revenue Code of 1986 (the "Tax Cuts and Jobs Act") and, as from 2018, the U.S. Treasury Department issued

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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.

## Sustainability Statements

### *Introduction*

At NXP, we believe that a commitment to sustainability is a critical part of our business oversight and strive to be proactive towards developing products that support a sustainable future, drive transparency and accountability in our operations and supply chain, mitigate our impact on the environment, and provide a workplace that is safe and secure for our employees. We report our progress annually in our sustainability report ([https://www.nxp.com/company/our-company/about-nxp/corporate-responsibility:CORP\\_SOCIAL\\_RESP](https://www.nxp.com/company/our-company/about-nxp/corporate-responsibility:CORP_SOCIAL_RESP)), which includes more details about our commitment to sustainable practices and supporting our global community.

### *Product Solutions Contributing to Sustainability*

In the same way that we commit ourselves to delivering products that can improve life, we commit ourselves to minimizing our impact on the environment. As we word toward the future, we're focused on the megatrends of energy efficiency, connected devices, security, safety, and health.

Below are some examples of how our products are minimizing the impact on the environment.

- *Smart Mobility*

Electric vehicles are ramping up in volume, but their limited range is still cited as a main purchasing obstacle. Our smart solutions enable the efficient use and regeneration of energy through battery control, resulting in extended efficiency and range, and in the case of hybrid vehicles, lowering emissions too.

Our chip architectures enable Advanced Driver Assistance Systems, commonly referred to as ADAS systems, offer a range of features, from simple cruise control to fully autonomous driving. Driver-assistance features can reduce fuel consumption, since on-board systems do a better job of smoothing out the ride and saving fuel. On-board systems automatically respect speed limits, while vehicle-to-vehicle and vehicle-to-infrastructure communication systems help reduce traffic congestion.

- *Smart Buildings*

The demand for electricity in buildings has grown rapidly in the last 25 years, accounting for nearly 60% of total growth in global electricity consumption. Significant amounts of energy can be saved using smart control systems for air conditioning, heating, lighting, and other interior functions. Improving the operational efficiency of buildings by using real-time data can lower total energy consumption, because the equipment's usage can adapt to human presence, activity, and preference settings. Artificial intelligence can make these systems self-learning and more autonomous, minimizing energy consumption further. NXP develops systems and components that enable smart buildings and homes.

- *5G Networks*

Base-stations for wireless communication transmit huge amounts of data over long distances. The power amplifiers and antennas that enable transmission and reception typically consume many kilowatts (kW) of

electric power per station, radiating energy in an omnidirectional way (360°). The new 5G standard is expected to increase energy consumption further, since many more base stations are required to run a 5G network. NXP has developed a driver device in the high-frequency range of 5G (mmWave) that saves energy by focusing the beams between the base station and the mobile device so wireless transmissions use less power.

- *Edge Processing*

Our edge processing portfolio for automotive, industrial, and IoT offers excellent power efficiency and battery life. Our smallest microcontrollers consume as little as one microwatt ( $\mu\text{W}$ ) in certain standby conditions. This high degree of power efficiency provides years of battery life. New research and development (R&D) projects are aimed at achieving benchmark power consumption rates in our microcontrollers.

- *Power Conversion*

Electronic devices used by many consumers worldwide use power adapters to convert the high-voltage power that comes from the energy grid to a lower level. Our solutions help our customers with existing and future regulations to reduce emissions and increase energy efficiency.

### *Green Innovation Bond*

In April 2020, we became one of the first semiconductor companies to launch a Green Innovation Bond offering ([www.nxp.com/docs/en/supporting-information/GREEN-INNOVATION-BOND-FRAMEWORK-FINAL.pdf](http://www.nxp.com/docs/en/supporting-information/GREEN-INNOVATION-BOND-FRAMEWORK-FINAL.pdf)), designed to support climate-related and environmental initiatives by funding R&D investments and projects related to our manufacturing and non-manufacturing activities. We believe that the proceeds of the Green Innovation Bond offering will contribute to the sustainability of our business while also improving the sustainability of the smarter world we are helping to create. The bond offering raised \$1 billion of proceeds for eligible green projects.

### *Product Stewardship*

Minimizing the environmental and social impact of each product designed and produced.

### *Eliminating Hazardous Substances from our Products*

We aim to eliminate hazardous substances from our products, and we go beyond what is required by local, regional and global laws in doing so. Included in our scope are directives such as Restriction on Hazardous Substances in Electrical and Electronic Equipment (RoHS), Registration, Evaluation and Authorization of Chemical substances (REACH), Waste from Electrical and Electronic Equipment (WEEE), and End of Life Vehicle (ELV). Changes in legislation, updates to the list of exemptions, and the arrival of new chemical substances make compliance a moving target. We report the most current information on our website (<https://www.nxp.com/company/about-nxp/sustainability/environmental-compliance-organization:ECO-PRODUCTS>).

We maintain a catalog of restricted substances and product compliance data that is made available to our customers upon request. We regularly participate in industry-wide reviews and discussions to assist in leading the development of industry standards.

### *Responsible Mineral Sourcing*

Our policy is to ethically source minerals from responsible suppliers to attempt to ensure our supply chain does not contribute to human rights abuses. Our products may contain 3TG (tin, tantalum, tungsten, and gold), which are necessary to the functionality or production of our products. We have implemented due diligence measures to conform to the Organization for Economic Cooperation and Development Due Diligence (OECD) Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. We have established strong management systems for 3TG supply chain due diligence, identified and assessed 3TG risks in our supply chain, designed and implemented strategies to respond to identified risks, and report on 3TG supply due diligence activities annually. All smelters identified were compliant with a third-party audit program (conformant). Since 2017, 100% of the smelters within our supply chain have been certified conflict free. We

# Report of the Directors Governance

extended the scope of our due diligence procedures to include cobalt and publicly report using the industry standard Cobalt Reporting Template (CRT).

## *Human Rights*

As part of our commitment to respect and protect human rights, we seek to uphold the highest standards in our labor practices and have made this a key corporate initiative through our own operations and across our supply chain. NXP adheres to applicable local labor laws, which are consistent with both the United Nations Global Compact and the International Labor Organization (ILO) core labor principles and conform to the NXP Auditable Standards (standards which are stricter than the Responsible Business Alliance Code of Conduct). Our human rights commitment includes clear statements regarding labor and human rights in which we do not tolerate harassment in the workplace, involuntary labor, child labor, payment of fees, withholding of personal documentation and excessive working hours. We conduct annual risk assessments in our manufacturing sites to identify and mitigate labor and human rights risks that could arise. In addition, we participate in third party internal audits to ensure policies and practices are aligned with local legislation and the NXP auditable standards. We also look to foster open communication and provide employees access to the NXP Global Speak Up hotline.

## *Human Rights and our Supply chain*

To ensure integrity throughout our supply chain, we require key, high-risk suppliers, as well as selected indirect suppliers, to undergo the NXP supplier audit process. The pandemic severely impacted how NXP conducts its supply chain human rights due diligence, through physical, onsite assessments and worker interviews. As a temporary alternative solution and a means for NXP to sustain its supply chain due diligence, we introduced remote audits by using video conference solutions to engage with our suppliers and their workers. We continue to gather human rights information through surveys of our high priority suppliers to gain an understanding on how the pandemic has impacted their business and operations, and how suppliers are protecting the rights, health and safety, and the well-being of workers. We completed four supplier audits through the calendar year 2020, two onsite audits and two remote audits.

Over the course of eight years of auditing our supply chain, the top five nonconformances from over more than 4,500 findings allows us to target specific topics. Even though 2020 included remote audits, Freely Chosen Employment is the highest reoccurring nonconformance.

## *Employee Health and Safety*

We remain committed to achieving zero injuries through NXP's Safety First program. All of our manufacturing sites are certified to the ISO 45001 health and safety management system. Our injury rate reached a historic low in 2020 at 0.08, a rate that is well below the semiconductor industry average published by the European Semiconductor Industry Association (ESIA) and the Semiconductor Industry Association (SIA), which ranges from 0.5 to 0.9.

## *Protecting our Environment*

As part of our commitment to preventing pollution and conserving natural resources, we make the environment a key pillar in both our Sustainability Policy and strategy. We drive continuous improvement of our processes to protect the environment by designing, implementing and maintaining a management system and programs to reduce social, economic and environmental consequences if not properly dealt with. We continue to set sustainability goals, track our progress, and audit our management systems to reduce energy consumption, carbon emissions, waste and water usage throughout our global footprint. These efforts are fully supported by senior management. We report our metrics based on the calendar year 2020.

All our manufacturing facilities are certified to ISO 14001 Environmental Management System. We set goals to reduce the amount of carbon emissions, energy and water consumption.

We report our metrics based on calendar year 2020.

Emissions - Carbon emissions are measured using three scopes: Scope 1 emissions are all direct emissions, Scope 2 emissions are indirect emissions from electricity purchased and consumed by NXP, and Scope 3 are all other indirect emissions. In 2020, our carbon emissions under Greenhouse Gas

Protocol for Scope 1, 2 and 3 totaled about 1,054,000 tons CO<sub>2</sub>, which is an absolute reduction of 33% since 2010.

Energy - We have been increasing renewable energy sources within the mix of our electricity consumption and in 2020, 27% of our overall electricity use was from renewable energy sources. In 2020, the Nijmegen wafer fab consumed electricity that was from 100% renewable energy sources. This is NXP's first manufacturing facility to run on 100% renewable energy.

Our total grid electricity consumption in 2020 was about 1,400-Gigawatt hour ("GWh"). In 2020, our absolute energy reduction was 7%, which is significant because our products have become increasingly more complex over the past ten years and involve many more manufacturing steps which require additional electricity.

Water – We have been reducing water consumption through more efficient processes and increase water recycling. Since 2010, we have increased our water recycle rate by 19% for an overall total of 47% recycled water. In 2020, our water withdrawal was about 10,600,000 m<sup>3</sup> and is an absolute water reduction of 8% from 2010.

#### *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 its 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](http://www.commissiecorporategovernance.nl)).

#### **Audit Committee Report**

##### *Audit Committee*

All members of the Audit Committee are independent directors, as defined in the applicable Nasdaq listing standards, applicable SEC rules and the DCGC. Our Audit Committee is a separately-designated standing committee established in accordance with Section 3(a)(58)(A) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), and currently (as of December 31, 2020) consists of Ms. Southern (Chair), Ms. Staiblin and Mr. Sundström, each of whom are independent for purposes of the Nasdaq listing standards, our Rules of Procedure and Rule 10A-3 of the Exchange Act.

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

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

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

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

Number of meetings in 2020: 9.

# Report of the Directors Governance

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

The Audit Committee has reviewed and discussed the audited financial statements with NXP’s management and its independent auditor, EY. The Audit Committee has also discussed with EY the matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board (“PCAOB”) and the U.S. Securities and Exchange Commission (SEC). In addition, EY provided the Audit Committee with the written disclosures and the letter required by applicable requirements of the PCAOB regarding the independent accountant’s communications with the audit committee concerning independence, and the Audit Committee discussed with EY its independence from NXP and its management. The Audit Committee has also considered whether the provision of other non-audit services by EY to NXP is compatible with the auditors’ independence and has concluded that it is.

## Compensation Committee Report

### *Compensation Committee*

Members of the Compensation Committee are independent directors, as defined in the applicable Nasdaq listing standards, applicable SEC rules and the DCGC. Our Compensation Committee as of December 31, 2020 consists of Mr. Smitham (Chair), Sir Peter Bonfield, Ms. Olving and Mr. Sundström. Our Board has determined that all of the members of the Compensation Committee are independent for purposes of Nasdaq listing standards, our Rules of Procedure and Rule 10C-1 of the Exchange Act. Pursuant to its charter and the authority delegated to it by our Board, the Compensation Committee is responsible for overseeing our compensation and employee benefit plans and practices, including formulating, evaluating and approving the compensation of our executive officers, including the compensation of our Chief Executive Officer, and for overseeing all compensation programs involving the issuance of our equity securities. Refer to Note 31 *Information on remuneration board of directors* of our Group Financial Statements for Directors and Executives remuneration detail. In determining the compensation for our Board members and NEOs, the Compensation Committee, advised by an independent Compensation Consultant guiding on the compensation plans, carried out scenario analyses - and have been taken into consideration - in relation to the offered incentive schemes as referred to in 3.1.2.ii DCGC.

In addition to the detailed and according to Dutch law required disclosure of individual remuneration of members of the Board of Directors of NXP Semiconductors N.V. refer to Note 31 *Information on remuneration board of directors* of our Group Financial Statements, the Compensation Committee of the Board of Directors of NXP Semiconductors N.V., have reviewed and discussed the Compensation Discussion & Analysis (CD&A) with management of the Company. Detailed information of the 2020 executive compensation program for the five named Executive Officers (NEO's) of the Company (Ms. Wuamett, and Messrs. Sievers, Kelly, Owen, and Reed) will be described in the Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 to be published in view of the next Annual General Meeting.

We encourage shareholders to understand our beliefs in rewarding our Board members and executives. Therefore, we are providing an overview of the philosophies, principles and practices that we employ, as governed by the Board. The NEOs, under the leadership of our CEO and the other members of the Board, are held accountable for delivering results, while simultaneously creating a culture of innovation and customer focus. The Compensation Committee meets as often as it deems necessary, but not less than four times a year.

Number of meetings in 2020: 8.

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



## **Nominating and Governance Committee Report**

### *Nominating and Governance Committee*

Members of the Nominating and Governance Committee are independent directors, as defined in the applicable Nasdaq listing standards, applicable SEC rules and the DCGC. Our Nominating and Governance Committee as of December 31, 2020 consists of Mr. Summe (Chair), Sir Peter Bonfield, Mr. Kaeser and Mr. Goldman. Our Board has determined that all of the members of the Nominating and Governance Committee are independent for purposes of Nasdaq listing standards and our Rules of Procedure. Pursuant to its charter and the authority delegated to it by our Board, the Nominating and Governance Committee is responsible for determining selection criteria and appointment procedures for members of our Board, periodically assessing the scope and composition of our Board and evaluating the performance of its individual members.

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

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

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

Number of meetings in 2020: 4.

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

### **Audited financial statements**

The consolidated financial statements of the Company for the year ended December 31, 2020 included in this Annual Report, as presented by the board of directors, have been audited by Ernst & Young Accountants LLP, an independent registered public accounting firm. The report of the independent registered public accounting firm appears at the end of this Annual Report under *Other information*. The board of directors has approved these financial statements.

March 4, 2021

Board of directors

# Group Financial Statements

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

\$ in millions, unless otherwise stated		2020	2019
Note			
5	Revenue	8,612	8,877
	Cost of revenue	(4,376)	(4,264)
	<b>Gross profit</b>	<b>4,236</b>	4,613
	Selling, general and administrative expenses:	(928)	(996)
	a. Amortization of acquisition related intangible assets	(67)	(72)
	b. Other SG&A	(861)	(924)
	Research and development expenses:	(2,697)	(2,685)
	a. Amortization of acquisition related intangible assets	(1,260)	(1,364)
	b. Other R&D	(1,437)	(1,321)
	Other income	106	27
	Other expense	(2)	(2)
5,6	<b>Operating income</b>	<b>715</b>	957
7	Financial income (expense):		
	- Extinguishment of debt	(60)	(11)
	- Other financial income	13	57
	- Other financial expense	(371)	(401)
	<b>Income before income taxes</b>	<b>297</b>	602
8	Income tax (expense) benefit	15	(62)
	<b>Income after income taxes</b>	<b>312</b>	540
9	Results relating to equity-accounted investees:		
	- Share of result of equity-accounted investees	(4)	(2)
	- Impairment and other	—	3
	<b>Net income</b>	<b>308</b>	541
	<b>Attribution of net income:</b>		
	Net income attributable to shareholders of NXP	280	512
10	Net income attributable to non-controlling interests	28	29
	<b>Net income</b>	<b>308</b>	541
11	<b>Earnings per share data:</b>		
	<i>Net income (loss) per common share attributable to shareholders of NXP in \$:</i>		
	- Basic	1.00	1.82
	- Diluted	0.98	1.78
	Weighted average number of shares of common stock outstanding during the year (in thousands)		
	• Basic	279,763	282,056
	• Diluted	285,121	287,484

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

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

\$ in millions, unless otherwise stated		2020	2019
Note	<b>Net income</b>	<b>308</b>	541
<b>Other comprehensive income items that will not be reclassified to profit or loss:</b>			
	— Remeasurements defined benefits	(58)	(46)
	— Related income taxes	14	14
	<b>Total of items that will not be reclassified to profit or loss</b>	<b>(44)</b>	<b>(32)</b>
<b>Other comprehensive income items that are or may be reclassified to profit or loss :</b>			
	— Currency translation adjustments (“CTA”)	78	(15)
	— Cash flow hedging	15	(6)
	— Cash flow hedging - income tax	(2)	(2)
	— Cash flow hedging reclassified to profit or loss	(4)	13
	<b>Total of items that are or may be reclassified to profit or loss</b>	<b>87</b>	<b>(10)</b>
	<b>Other comprehensive income (loss)</b>	<b>43</b>	<b>(42)</b>
	<b>Total comprehensive income</b>	<b>351</b>	<b>499</b>
<b>Attributable to:</b>			
	Shareholders of NXP	323	470
10	Non-controlling interests	28	29
	<b>Total comprehensive income</b>	<b>351</b>	<b>499</b>

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

# Group Financial Statements

## Consolidated Balance Sheet of NXP Semiconductors N.V.

### Assets

		December 31,	
		2020	2019
\$ in millions, unless otherwise stated			
Note	<b>Non-current assets</b>		
12,27	Property, plant and equipment	2,504	2,672
13	Goodwill	10,021	9,986
14	Intangible assets	4,924	6,033
9	Equity-accounted investees	61	11
8	Deferred tax assets	341	308
15	Financial assets *	76	41
15	Other non-current assets *	176	161
	Total non-current assets	<b>18,103</b>	19,212
<b>Current assets</b>			
16	Inventories	1,030	1,192
17	Other current assets	185	201
4	Assets held for sale	—	60
8	Income tax receivables *	8	17
18	Trade and other receivables *	817	745
19	Cash and cash equivalents	2,275	1,045
	Total current assets	<b>4,315</b>	3,260
	<b>Total assets</b>	<b>22,418</b>	22,472

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

\*See Note 2 *Significant accounting policies and new accounting standards to be adopted after 2020 - Reclassifications.*

## Equity and liabilities

\$ in millions, unless otherwise stated		December 31,	
		2020	2019
Note	<b>Equity</b>		
20	Shareholders' equity:		
	Share capital		
	<i>Preferred stock</i> , par value €0.20 per share:		
	Authorized: shares 645,754,500 (2019: 645,754,500)		
	Issued: none		
	<i>Common stock</i> , par value €0.20 per share:		
	Authorized: 430,503,000 shares (2019: 430,503,000)		
	Issued and fully paid: 289,519,638 shares (2019: 315,519,638 shares)	59	64
	Capital in excess of par value **	15,261	16,307
	Treasury shares	(1,037)	(3,037)
	Accumulated deficit **	(2,123)	(870)
	Other comprehensive income (loss)	(977)	(1,020)
	Total shareholders' equity	11,183	11,444
10	Non-controlling interests	211	218
	Total equity	11,394	11,662
	<b>Non-current liabilities</b>		
21	Long-term debt	7,609	7,365
23	Post-employment benefits	559	459
22	Long-term provisions	125	128
8	Deferred tax liabilities	454	745
24	Other non-current liabilities	301	336
	Total non-current liabilities	9,048	9,033
	<b>Current liabilities</b>		
	Accounts payable	991	944
25	Accrued liabilities *	534	485
22,28	Short-term provisions	32	34
8	Income tax liabilities *	148	43
23	Post-employment benefits	13	12
26	Other current liabilities *	258	259
	Total current liabilities	1,976	1,777
	<b>Total equity and liabilities</b>	22,418	22,472

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

\*See Note 2 *Significant accounting policies and new accounting standards to be adopted after 2020 - Reclassifications and Income taxes for \*\**.

# Group Financial Statements

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

\$ in millions, unless otherwise stated	2020	2019
<i>Cash flows from operating activities:</i>		
<b>Net income</b>	<b>308</b>	541
Adjustments to reconcile net income to net cash generated by operating activities:		
Depreciation, amortization and impairment	2,526	2,472
Share-based payments	373	334
(Gain) loss on sale of assets	(104)	(20)
(Gain) loss on equity securities, net	(21)	—
Net interest expense	356	320
(Gain) loss on extinguishment of debt	60	11
Income tax expense/(benefit)	15	62
Results relating to equity-accounted investees	4	(1)
<i>Changes in operating assets and liabilities:</i>		
(Increase) decrease in receivables and other current assets	(59)	113
(Increase) decrease in inventories	163	128
Increase (decrease) in accounts payable and accrued liabilities	124	(174)
Decrease (increase) in other non-current assets	7	43
Increase (decrease) in provisions	23	(108)
Exchange differences	16	15
Other items	(11)	(3)
<b>Net cash generated by operations</b>	<b>3,780</b>	3,733
Interest paid	(357)	(305)
Interest received	13	56
Income taxes paid	(148)	(368)
<b>Net cash provided by operating activities</b>	<b>3,288</b>	3,116
<i>Cash flows from investing activities:</i>		
Purchase of intangible assets	(130)	(102)
Capital expenditures on development assets	(749)	(697)
Capital expenditures on property, plant and equipment	(392)	(526)
Proceeds from disposals of property, plant and equipment	4	23
Proceeds from the sale of investments	2	1
Purchase of interests in businesses, net of cash acquired	(34)	(1,698)
Purchase of investments	(30)	(19)
Proceeds from the sale of interests in businesses, net of cash	161	37
Proceeds from return of equity investment	1	—
<b>Net cash used for investing activities</b>	<b>(1,167)</b>	(2,981)
<i>Cash flows from financing activities:</i>		
Payment of cash convertible note	—	(1,150)
Proceeds from settlement of cash convertible note hedge	—	144
Payment of bond hedge derivative/conv. option	—	(144)
Repurchase of long-term debt	(1,809)	(600)
Proceeds from the issuance of long-term debt	2,000	1,750
Cash paid for debt issuance costs	(15)	(24)
Payments of lease liabilities	(57)	(48)
Cash proceeds from the exercise of stock options	72	84
Purchase of treasury shares	(627)	(1,443)
Cash paid for deemed dividend tax	—	(128)
Dividends paid to common shareholders	(420)	(319)

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

\$ in millions, unless otherwise stated	2020	2019
Dividends paid to non-controlling interests	(35)	—
Other, net	(1)	—
<b>Net cash provided by (used for) financing activities</b>	<b>(892)</b>	<b>(1,878)</b>
Effect of changes in exchange rates on cash positions	1	(2)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,230</b>	<b>(1,744)</b>
Cash and cash equivalents at beginning of period	1,045	2,789
<b>Cash and cash equivalents as reported</b>	<b>2,275</b>	<b>1,045</b>

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

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

# Group Financial Statements

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

	Other comprehensive income (loss)												
	Outstanding number of shares (in thousands)	Share capital	Capital in excess of par value	Treasury shares reserve	Accumulated deficit	Currency translation reserve	Net investment hedging reserve	Cash flow hedging reserve	Remeasurements defined benefits	Total other comprehensive income (loss)	Total shareholders' equity	Non-controlling interests	Total equity
Balance as of December 31, 2018	292,790	67	16,587	(3,238)	(233)	(369)	(513)	(3)	(93)	(978)	12,205	189	12,394
Change in accounting policy <i>excess tax benefits</i> *			(19)		19								
Balance as of January 1, 2019	292,790	67	16,568	(3,238)	(214)	(369)	(513)	(3)	(93)	(978)	12,205	189	12,394
Net income					512						512	29	541
Other comprehensive income (loss):													
- Current period change						(15)		(6)	(32)	(53)	(53)		(53)
- Reclassification to income (loss)								13		13	13		13
- Income tax on current period changes								(2)		(2)	(2)		(2)
Total comprehensive income (loss)					512	(15)	—	5	(32)	(42)	470	29	499
Share-based compensation plans			339								339		339
Excess tax benefits from SBC plans			13		13						26		26
Dividends non-controlling interests											—	—	—
Dividends common stock					(351)						(351)		(351)
Transactions with owners of the Company recognized directly in equity:											—		—
- Purchase of treasury shares	(2,683)			(221)							(221)		(221)
- Retirement treasury shares	(13,183)	(3)	(632)		(587)						(1,222)		(1,222)
- Shareholder tax on repurchased shares					95						95		95
- Re-issuance of treasury shares	4,513			422	(338)						84		84
Business combinations			19								19		19
<b>Balance as of December 31, 2019</b>	<b>281,437</b>	<b>64</b>	<b>16,307</b>	<b>(3,037)</b>	<b>(870)</b>	<b>(384)</b>	<b>(513)</b>	<b>2</b>	<b>(125)</b>	<b>(1,020)</b>	<b>11,444</b>	<b>218</b>	<b>11,662</b>
Net income					280						280	28	308
Other comprehensive income (loss):													
- Current period change						78		15	(44)	49	49		49
- Reclassification to income (loss)								(4)		(4)	(4)		(4)
- Income tax on current period changes								(2)		(2)	(2)		(2)
Total comprehensive income (loss)					280	78	—	9	(44)	43	323	28	351
Share-based compensation plans			373								373		373
Excess tax benefits from SBC plans			16		2						18		18
Dividends non-controlling interests											—	(35)	(35)
Dividends common stock					(420)						(420)		(420)
Transactions with owners of the Company recognized directly in equity:											—		—
- Purchase of treasury shares	(4,829)			(627)							(627)		(627)
- Retirement treasury shares		(5)	(1,267)	2,263	(991)						—		—
- Expiration of warrants			(168)		168						—		—
- Re-issuance of treasury shares	3,867			364	(292)						72		72
<b>Balance as of December 31, 2020</b>	<b>280,475</b>	<b>59</b>	<b>15,261</b>	<b>(1,037)</b>	<b>(2,123)</b>	<b>(306)</b>	<b>(513)</b>	<b>11</b>	<b>(169)</b>	<b>(977)</b>	<b>11,183</b>	<b>211</b>	<b>11,394</b>

• See note 2 *Significant accounting policies and new accounting standards to be adopted after 2020 - Income taxes.*



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

All amounts in millions of \$ unless otherwise stated

### 1. Company overview

NXP Semiconductors N.V. is a global semiconductor company and a long-standing supplier in the industry, with over 50 years of innovation and operating history. For the year ended December 31, 2020, we generated revenue of \$8,612 million, compared to \$8,877 million for the year ended December 31, 2019.

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

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

Our legal name is NXP Semiconductors N.V. and our commercial name is "NXP" or "NXP Semiconductors." We were incorporated in the Netherlands in 2006 as a Dutch public company with limited liability (naamloze vennootschap).

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

Our corporate seat is in Eindhoven, the Netherlands. Our principal executive office is at High Tech Campus 60, 5656 AG Eindhoven, the Netherlands, and our telephone number is +31 40 2729999. We are registered at the office of the Commercial Register in Eindhoven, Netherlands (file no. 34253298). Our registered agent in the United States is NXP USA, Inc., 6501 William Cannon Dr. West, Austin, Texas 78735, United States of America, phone number +1 512 9338214.

### 2. Significant accounting policies and new accounting standards to be adopted after 2020

#### 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 2020. The financial statements were authorized for issue by the board of directors on March 4, 2021.

Throughout the notes to the consolidated financial statements, reference to "statement of operations" means the consolidated statement of operations.

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

#### Reclassifications

In enhancing the usefulness of the Company's reported assets and liabilities in the balance sheet, the following line items were added in the balance sheet :

- *Financial assets* (previously included in the line item *Other non-current assets* - balance at 1 January 2019 \$32 million, balance at 31 December 2019 \$41 million)

# Group Financial Statements

- *Income tax receivables* (previously included under *Trade and other receivables* - balance at 1 January 2019 \$55 million, balance at 31 December 2019 \$17 million)
- *Income tax liabilities* (previously included under *Accrued liabilities* - balance at 1 January 2019 \$235 million, balance at 31 December 2019 \$37 million, and *other current liabilities* - balance at 1 January 2019 \$11 million, balance at 31 December 2019 \$6 million).

## Basis of measurement

Historical cost is used as the measurement basis unless otherwise indicated. The significant accounting policies are set out below.

## Basis of consolidation

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

## Business combinations

We allocate the purchase price paid for assets acquired and liabilities assumed in connection with our acquisitions based on their estimated fair values at the time of acquisition. This allocation involves a number of assumptions, estimates and judgments that could materially affect the timing or amounts recognized in our financial statements.

Significant judgment is required in estimating the fair value of acquired intangible assets, including the valuation methodology, estimations of future cash flows, discount rates, market segment growth rates, and our assumed market segment share, as well as the estimated useful life of intangible assets. Further judgment is required in estimating the fair values of inventory, property, plant and equipment, pre-existing liabilities or legal claims, deferred revenue and contingent consideration, each as may be applicable.

The fair value estimates are based on available historical information and on future expectations and assumptions deemed reasonable by management but are inherently uncertain. Our assumptions and estimates are based upon comparable market data and information obtained from our management and the management of the acquired companies as well as the amount and timing of future cash flows (including expected revenue growth rates and profitability), the underlying product or technology life cycles, the economic barriers to entry and the discount rate applied to the cash flows. As such, acquired tangible and identified intangible assets are classified as Level 3 assets. Unanticipated market or macroeconomic events and circumstances may occur that could affect the accuracy or validity of the estimates and assumptions.

## Fair value measurements

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

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

## Equity-accounted investees

NXP's investments over which it has significant influence, but not control, are accounted for using the equity method. Under the equity method, the investment is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in NXP's share of net assets of the equity accounted investee since the acquisition date. NXP's share of the results of operations of the equity accounted investees is presented under *Results relating to equity-accounted investees*.

## Financial assets

All marketable and non-marketable equity investments, other than equity-method investments, in unconsolidated entities are measured at fair value through profit or loss in the statement of operations on a recurring basis. Gains and losses on these investments, realized and unrealized, are presented under *Financial income (expense)*.

## Loss of control

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

## Foreign currencies

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

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

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

	\$ per € 1			
	period end	average <sup>(1)</sup>	high	low
Year-ended December 31, 2020	1.2280	1.1412	1.0862	1.2280
Year-ended December 31, 2019	1.1217	1.1210	1.0935	1.1476

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

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

# Group Financial Statements

other comprehensive income and are presented as a separate component of accumulated other comprehensive income (loss) within equity.

## Use of estimates and judgments

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

Estimates significantly impact goodwill (see also Note 13 *Goodwill*) and intangible assets acquired and related impairments (see also Note 14 *Intangible assets*), valuation of inventories (see also Note 16 *Inventories*), liabilities from employee benefit plans (see also Note 23 *Post-employment benefits*), other provisions (see also Note 22 *Provisions*), recoverability of capitalized development costs (see also Note 14 *Intangible assets*), fair value of derivatives (see also Note 32 *Fair value of financial instruments*), useful lives of property, plant and equipment (see also Note 12 *Property, plant and equipment*), income taxes (see also Note 8 *Income taxes*) and other contingencies (see also Note 28 *Contingencies*). The fair values of acquired identifiable intangibles are based on an assessment of future discounted cash flows. Impairment analysis of goodwill is performed annually and whenever a triggering event has occurred to determine whether the carrying value exceeds the recoverable amount. These analyses are based on estimates of future cash flows.

## Segment reporting

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

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

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

## Earnings per share

Basic earnings per share attributable to shareholders is calculated by dividing net income or loss attributable to shareholders of the Company by the weighted average number of common shares outstanding during the period. To determine diluted share count, we apply the treasury stock method to determine the dilutive effect of outstanding stock option shares, RSUs, PSUs and Employee Stock Purchase Plan ("ESPP") shares. Under the treasury stock method, the amount the employee must pay for exercising share-based awards and the amount of compensation cost for future service that the Company has not yet recognized are assumed to be used to repurchase shares.

## Revenue recognition

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

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

Revenue is recognized when control of the product is transferred to the customer (i.e., when the Company's performance obligation is satisfied), which typically occurs at shipment. In determining whether control has transferred, the Company considers if there is a present right to payment and legal title, and whether risks and rewards of ownership having transferred to the customer.

The Company applies the practical expedient to not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which the Company has the right to invoice for services performed. The Company applies the practical expedient to expense sales commissions when incurred because the amortization period would have been one year or less.

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

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

# Group Financial Statements

## Government grants

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

## Employee benefits

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

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

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

The net pension liability or asset recognized in the balance sheet in respect of defined benefit pension plans is the present value of the projected defined benefit obligation less the fair value of plan assets at the period end date. Most of our plans result in a pension provision (in case the plan is unfunded) or a net pension liability (for funded plans). The projected defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method.

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

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

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

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

## Share-based compensation

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

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

### **Financial income and expense**

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

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

### **Income taxes**

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

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

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

During 2020 the Company amended its accounting policy with regard to the allocation between profit or loss and equity of the tax deduction on share-based payment transactions (excess tax benefits) by adopting an award by award approach instead of a total outstanding awards approach. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, this change was applied retrospectively, as disclosed in the consolidated statement of changes in equity (reclassification of a \$19 million profit from *Capital in excess of par value to Accumulated deficit*). This change had no material impact on the 2019 consolidated statement of operations.

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

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

# Group Financial Statements

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

## Property, plant and equipment

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

## Leases

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

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the respective NXP entity’s incremental borrowing rate. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured when there is a change in the future lease payments arising from a change in an index as well as when NXP changes its assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the RoU asset, or is recorded in profit or loss if the carrying amount of the RoU asset has been reduced to zero.

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

Our lease terms include the non-cancelable period for which we have the right to use an underlying asset, together with both periods covered by an option to extend the lease if we are reasonably certain to exercise that option; and the periods covered by an option to terminate the lease if we are reasonably certain not to exercise the option.



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

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

Lease contracts that have not yet commenced at the reporting date are disclosed as part of the purchase commitments - see Note 27 *Contractual obligations*.

### **Goodwill**

The Company initially measures the amount of goodwill as the excess of the considerations transferred to acquire an entity over the fair value of the identifiable assets and liabilities assumed at the acquisition date. Goodwill is not amortized but tested for impairment annually in the fourth quarter or more frequently if events and circumstances indicate that goodwill may be impaired. Reflecting the way in which our chief operating decision maker executes operating decisions, allocates resources, manages the growth and profitability of the Company and our Board monitors goodwill, the cash flows at the entity level as a whole are considered substantially independent. Consequently, the entity as a whole is a cash generating unit for goodwill impairment testing. A goodwill impairment loss is recognized in the statement of operations whenever and to the extent the carrying amount of a cash generating unit exceeds the recoverable amount of that unit. The recoverable amount is the higher of value in use and fair value less costs of disposal. The recoverable amount of the cash generating unit of the Company is determined on the basis of fair value. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. An impairment loss in respect of goodwill is not reversed.

### **Intangible assets**

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

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

Expenditures on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized as an internally developed intangible asset (referred to as *product development assets*) if development costs can be measured reliably, if the product or process is technically and commercially feasible, future economic benefits are probable, the Group has sufficient resources and the intention to complete development and to use or sell the asset. The development expenditure capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads. Other development expenditure and expenditure on research activities are recognized in the statement of operations as an expense as incurred. Capitalized development expenditure is stated at costs less accumulated amortization and impairment losses. Amortization of capitalized development expenditure is charged to the statement of operations on a straight-line basis over the estimated useful lives of the intangible assets. Product development assets that are not yet in use are tested for impairment at least annually or more frequently if events and circumstances indicate that the related product development asset may be impaired.

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 (including right-of-use assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of an asset with the greater of its value in use and its fair value less cost to sell. Value in use is measured as the present value of future cash flows expected to be generated by the asset. Fair value is measured based on

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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 of the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

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

## **Inventories**

Inventories are stated at the lower of cost or net realizable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. An allowance is made for the estimated losses due to obsolescence. This allowance is determined for groups of products based on purchases in the recent past and/or expected future demand and market conditions. Abnormal amounts of idle facility expense and waste are not capitalized in inventory. The allocation of fixed production overheads to the inventory cost is based on the normal capacity of the production facilities.

## **Receivables**

Receivables are held under the business model hold to collect. The cash flows exist solely of payments of principal and interest. Receivables are carried at amortized cost, net of allowances for credit loss and net of rebates and other contingent discounts granted to distributors. When circumstances indicate a specific customer's ability to meet its financial obligation to us is impaired, we record an allowance against amounts due and value the receivable at the amount reasonably expected to be collected. For all other customers, we evaluate our trade accounts receivable risk of credit loss based on numerous factors including historical loss rates, credit-risk concentration, and specific circumstances such as serious adverse economic conditions in a specific country or region.

## **Derivative financial instruments including hedge accounting**

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

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

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

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

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

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

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

### **Cash and cash equivalents**

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

### **Provisions and accruals**

Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions of a long-term nature are measured at present value when the amount and timing of related cash payments are fixed or reliably determinable using a pre-tax discount rate. Short-term provisions are stated at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

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

### **Restructuring**

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

### **Debt and other liabilities**

Debt and other liabilities, excluding provisions, are initially recognized at fair value and subsequently measured at amortized cost. Direct costs incurred to obtain financing are capitalized and subsequently amortized over the term of the debt, applying the effective interest rate method. Upon extinguishment of any related debt, any unamortized debt issuance costs are expensed immediately.

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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.

For each repurchase of common shares, the number of shares and the acquisition price for those shares is added to the existing treasury shares count and total value. When treasury shares are retired, the Company's policy is to allocate the excess of the repurchase price over the par value of shares acquired to both equity captions *Capital in excess of par value* and *Accumulated deficit*. The portion allocated to *Capital in excess of par value* is calculated by applying a percentage, determined by dividing the number of shares to be retired by the number of shares issued, to the balance of *Capital in excess of par value* as of the retirement date.

## 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 2020

No new accounting standards were adopted during 2020 that had a material impact on the financial statements.

## New accounting standards after 2020

There are no new IFRS that have been issued but are not yet effective; which are expected to have an impact on the Company's financial statements in the period of initial application.

## 3. Segments and geographical information

Our revenue is primarily the sum of our direct sales to OEMs plus our distributors' resale of NXP products. Avnet accounted for 17% of our revenue in 2020 and 14% in 2019. No other distributor accounted for greater than 10% of our revenue. Continental accounted for less than 10% of our revenue in 2020 and 11% in 2019. No other OEM for which we had direct sales to accounted for more than 10% revenue in 2020 or 2019.

Revenue attributed to geographic areas is based on the customer's shipped-to location. Long-lived assets include Property and equipment, net, which were based on the physical location of the assets as of the end of each year.

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

## Geographical information

	Revenue		Property, plant and equipment	
	2020	2019	2020	2019
China	3,324	3,147	257	265
Netherlands	222	275	212	221
United States	750	840	766	845
Singapore	1,064	1,006	304	321
Germany	483	526	51	52
Japan	647	780	—	—
South Korea	327	327	—	—
Malaysia	95	120	288	337
Other countries	1,700	1,856	406	407
<b>Total</b>	<b>8,612</b>	<b>8,877</b>	<b>2,284</b>	<b>2,448</b>
Adjustments to reconcile to IFRS	—	—	220	224
	<b>8,612</b>	<b>8,877</b>	<b>2,504</b>	<b>2,672</b>

The adjustments to reconcile to IFRS with regard to *Property, plant and equipment* relate to lease accounting since under U.S. GAAP operating leases are not classified under *Property, plant and equipment* but rather *Other non-current assets*.

Total non-current assets, excluding financial assets and deferred taxes amount to \$17,616 million (2019: \$18,843 million). These are located primarily in the Netherlands, amounting to 2,992 million (2019: \$2,988 million) and in the United States, amounting to \$12,438 million (2019: \$13,628 million).

## 4. Acquisitions, divestments and Assets held for sale

### 2020

There were no material acquisitions during 2020.

### 2019

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

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

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

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

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The identified intangible assets assumed were recognized as follows:

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

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

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

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

## Pro forma financial information (unaudited)

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

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

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

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

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

### *Assets held for sale*

At December 31, 2020, there were no *Assets held for sale*.

In the second quarter of 2019, NXP management, in reviewing its portfolio, concluded that certain activities (Voice and Audio Solutions (VAS)) no longer fit the NXP strategic portfolio and took actions that resulted in the assets meeting the held for sale criteria.

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

	<b>December 31, 2019</b>
Inventories	8
intangible assets	29
Goodwill	23
Total	60

On February 3, 2020, we completed the sale of the Company's Voice and Audio Solutions (VAS) assets, pursuant to the definitive agreement dated August 16, 2019 and which was previously classified as held for sale, with Shenzhen Goodix Technology Co., Ltd. ("Goodix") from China, for a net cash amount of \$161 million inclusive of final working capital adjustments. This resulted in a gain of \$100 million, presented under *Other income* in the 2020 consolidated statement of operations.

## **5. Operating income**

### *Disaggregation of revenue*

Revenue by end-market was as follows:

	<b>2020</b>	2019
Automotive	<b>3,825</b>	4,212
Industrial & IoT	<b>1,836</b>	1,599
Mobile	<b>1,248</b>	1,191
Communication Infrastructure & Other	<b>1,703</b>	1,875
	<b>8,612</b>	8,877

Revenue by sales channel was as follows:

	<b>2020</b>	2019
Distributors	<b>4,720</b>	4,409
Original Equipment Manufacturers and Electronic Manufacturing Services	<b>3,728</b>	4,352
Other	<b>164</b>	116
	<b>8,612</b>	8,877

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

### *Employee benefits*

	<b>2020</b>	2019
Salaries and wages	<b>2,173</b>	2,112
Pension and other post-employment costs	<b>99</b>	100
Social security and similar charges <sup>1)</sup>	<b>286</b>	306
	<b>2,559</b>	2,518

1) 2019 has been reclassified in order to conform with the 2020 presentation.

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Salaries and wages in 2020 include \$51 million (2019: \$42 million) relating to restructuring charges - see also Note 6 *Restructuring*. Pension and other post-employment costs include the costs of pension benefits, and other post-employment benefits. Part of salaries and wages were capitalized as product development assets.

Covid-19 government related assistance with regard to payroll related costs was recognized in the 2020 consolidated statement of operations for a total amount of \$17 million.

As of December 31, 2020 28,900 full-time equivalent employees compared to 29,400 at December 31, 2019. The following table indicates the % of full-time equivalent employees per geographic area:

	% as of December 31,	
	2020	2019
The Netherlands	7 %	7 %
Rest of Europe and Africa	13 %	13 %
Americas	18 %	20 %
Asia	62 %	60 %
<b>Total :</b>	<b>100 %</b>	<b>100 %</b>

See Note 23 *Post-employment benefits* for further information regarding pension and other post-employment benefits and Notes 30 *Share-based compensation* and 31 *Information on remuneration board of directors* for further information about remuneration and share-based payments (not included in the above disclosed employee benefits) to executives and non-executives.

## *Depreciation, amortization and impairment*

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

	2020	2019
Depreciation of property, plant and equipment - owned	544	516
Depreciation of property, plant and equipment - leased	61	57
Amortization of product development assets	388	314
Amortization of other intangible assets	1,398	1,525
Impairment intangible assets	135	60
	<b>2,526</b>	<b>2,472</b>

Depreciation of property, plant and equipment is primarily included in *Cost of revenue*. Amortization of intangible assets is primarily reported under *Research and development expenses*.

## *Impairments*

During the year, impairment events for intangible assets resulted in a total impairment charge of \$135 million, which is included under *Research and development expenses* (2019: \$60 million) – see also Note 14 *Intangible assets*.

## *Research and development expenses*

The 2020 research and development expenses, excluding amortization of acquisition related intangible assets, amounted to \$1,437 million (2019: \$1,321 million). Government grants with regard to research and development activities were recognized in the consolidated statement of operations for a total amount of \$72 million (2019: \$78 million).



## 6. Restructuring

At each reporting date, we evaluate our restructuring liabilities, which consist primarily of termination benefits, to ensure that our accruals are still appropriate. During 2020 and 2019 there were no new significant restructuring programs.

The 2020 changes in the provision and accrued liabilities for restructuring are as follows:

\$ in millions	<u>Balance January 1, 2020</u>	<u>Additions</u>	<u>Utilized</u>	<u>Released</u>	<u>Balance December 31, 2020</u>
Restructuring Liabilities	18	50	(36)	—	32

The total restructuring liability as of December 31, 2020 of \$32 million is classified in the balance sheet under short-term provisions for \$17 million, long-term provisions for \$14 million and accrued liabilities for \$1 million. The utilization of the restructuring liabilities mainly reflects the execution of ongoing restructuring programs the Company initiated in earlier years.

The following table presents the changes in the provision and accrued liabilities for restructuring in 2019:

\$ in millions	<u>Balance January 1, 2019</u>	<u>Additions</u>	<u>Utilized</u>	<u>Released</u>	<u>Other changes<sup>(1)</sup></u>	<u>Balance December 31, 2019</u>
Restructuring Liabilities	37	44	(57)	(4)	(2)	18

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

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

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

The components of restructuring charges less releases recorded in the liabilities in 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Personnel lay-off costs	51	46
Release of provisions/accruals	—	(4)
Net restructuring charges	51	42

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

	<u>2020</u>	<u>2019</u>
Cost of revenue	16	9
Selling, general and administrative expenses	13	12
Research and development expenses	22	21
Net restructuring charges	51	42

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## 7. Financial income (expense)

	2020	2019
Interest income	13	57
Interest expense	(369)	(376)
Total interest expense, net	(356)	(319)
Net gain (loss) on extinguishment of debt	(60)	(11)
Foreign exchange rate results	(16)	(15)
Other	14	(10)
Total other financial income and expense	(62)	(36)
Total	(418)	(355)

Financial income (expense) was an expense of \$418 million in 2020, compared to an expense of \$355 million in 2019. The change in financial income (expense) is primarily attributable to a decrease in interest income of \$44 million, as a result of a lower average cash level and lower interest rates and higher debt extinguishment costs in 2020 versus 2019 of \$49 million. This was partially offset by results on investments of \$24 million.

The 2020 Foreign exchange rate results include a currency hedging gain of \$64 million (2019: \$30 million loss). Note 21 *Long-term debt* contains detailed information on our outstanding debt and related interest rates.

## 8. Income taxes

The tax benefit on the net income before income tax recognized in the consolidated statement of operations amounted to \$15 million (2019: expense of \$62 million). The components of income tax (expense) benefit are as follows:

	2020	2019
Current taxes		
Netherlands:	(147)	(84)
Foreign:	(122)	(110)
	(269)	(194)
Deferred taxes		
Netherlands:	40	(3)
Foreign:	244	135
	284	132
Income tax (expense) benefit	15	(62)

The Company's operations are subject to income taxes in various jurisdictions. Excluding certain tax incentives, the statutory income tax rates vary from 9% to 34%.

The current tax expense consists of the following items:

	2020	2019
Current year	(264)	(198)
Adjustments for prior years	(5)	4

The deferred tax benefit of 2020 and 2019 recognized in the statement of operations consists of the following items:

	2020	2019
Origination and reversal of temporary differences	305	167
Changes in recognition of deferred tax assets	(4)	(15)
Tax rate and law change	(26)	(11)
Prior year adjustments and other	9	(9)

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

	2020	2019
Income tax (expense) benefit from continuing operations	15	(62)
Income tax (expense) benefit from discontinued operations	—	—

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

	2020		2019	
	million	%	million	%
Income before taxes	297		602	
Income tax expense (benefit)	(15)		62	
Income after tax	312		540	
Statutory income tax in the Netherlands	74	25.0 %	150	25.0 %
Rate differential local statutory rates versus statutory rate of the Netherlands	9	3.0 %	8	1.3 %
Loss carry forwards for which deferred tax assets were not recognized in the year of loss	9	3.0 %	15	2.5 %
Changes in estimates of prior years' income taxes	(10)	(3.4)%	9	1.5 %
Non-taxable income	(5)	(1.7)%	(3)	(0.5)%
Non-tax-deductible expenses	59	19.9 %	41	6.8 %
Sale of non-deductible goodwill	6	2.0 %	—	0.0 %
Other taxes and tax rate and legislation changes	26	8.8 %	11	1.8 %
Other permanent differences	—	0.0 %	12	2.1 %
Withholding and other taxes	(31)	(10.5)%	5	0.8 %
Unrecognized Tax benefits	13	4.4 %	—	0.0 %
Tax incentives and other	(165)	(55.6)%	(186)	(30.9)%
Effective tax rate	(15)	(5.0)%	62	10.4 %

We recorded an income tax benefit of \$15 million in 2020, which reflects a negative effective tax rate of 5.0% compared to an income tax expense of \$62 million in 2019, which reflects an effective tax rate of 10.4%.

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, changes in estimates of prior years' income taxes, tax rate and legislation changes and non-deductible expenses, sale of non-deductible goodwill and withholding taxes. The impact of these items results in offsetting factors that attribute to the change in the effective tax rate between the two periods, with the significant drivers outlined below:

- The Company benefits from certain tax incentives, which reduce the effective tax rate. The dollar amount of the incentive in any given year is commensurate with the taxable income in that same

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period. For 2020, the Netherlands tax incentives was lower than 2019 by \$20 million, mainly due to the fact that NXP has a lower qualifying income.

- The tax effect of the non-deductible goodwill of \$6 million is linked to the divestiture of the VAS business in 2020.
- The difference of \$36 million in the withholding tax benefit in 2020 as compared with 2019 is mainly due to changes in the applicable deferred tax liability rate regarding future remittances of the earnings of foreign subsidiaries and due to additional undistributed earnings being considered permanently reinvested.
- The change in estimates of prior years' income taxes was higher in 2020 as compared to 2019, mostly relating to NXP USA (\$20 million) primarily due to the early adoption of the U.S. regulations issued in Q3 2020. This was partly offset by other changes in estimates relating to multiple jurisdictions.
- The tax rate and legislation changes in 2020 respectively 2019 is mainly driven by the changes in the enacted Dutch corporate income tax rates applicable for future years.

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

Unrecognized tax benefits excluding interest and penalties as per December 31, 2020 amounted to \$161 million (2019: \$159 million).

The net income tax payable as of December 31, 2020 amounted to \$166 million (2019: payable \$49 million). It includes amounts directly payable to or receivable from tax authorities, the effect of unrecognized tax benefits on income taxes payable to tax authorities and non-current income tax receivable - see also Note 24 *Other non-current liabilities*.

Tax years that remain subject to examination by major tax jurisdictions: the Netherlands (2017-2019), Germany (2017-2019), USA (2005-2019), China (2010-2019), Taiwan (2015-2019), Thailand (2015-2019), Malaysia (2011-2019) and India (2004, 2005, 2007-2019).

## *Deferred tax assets and liabilities*

Deferred tax assets and liabilities for 2020 and 2019 relate to the following balance sheet captions:

	<b>Balance January 1, 2020</b>	<b>Recognized in income</b>	<b>Acquisitions / disposals</b>	<b>Other<sup>1)</sup></b>	<b>Balance December 31, 2020</b>
Intangible assets	(1,097)	300		(2)	(799)
Property, plant and equipment	(85)	24		(1)	(62)
Inventories	27	(4)			23
Receivables	64	(12)		3	55
Other assets	1	(5)		(3)	(7)
Post-employment benefits	95			26	121
Provisions:					
– Restructuring	2	3			5
– Accrued interest	103	(34)			69
– Other	—	4			4
Long-term debt					
Other liabilities	164	(5)		3	162
Share-based payments	40	(3)		5	42
Undistributed earnings subsidiaries	(99)	48		(3)	(54)
Tax loss carry forward (including tax credit carry forwards)	348	(32)		12	328
Net deferred tax assets (liabilities)	(437)	284	—	40	(113)

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

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

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

	Assets		Liabilities		Net	
	2020	2019	2020	2019	2020	2019
Intangible assets			(799)	(1,097)	(799)	(1,097)
Property, plant and equipment			(62)	(85)	(62)	(85)
Inventories	23	27			23	27
Receivables	55	64			55	64
Other assets	—	1	(7)		(7)	1
Post-employment benefits	121	95			121	95
Provisions:						
– Restructuring	5	2			5	2
– Accrued interest	69	103			69	103
– Other	4				4	—
Other liabilities	162	164			162	164
Share-based payments	42	40			42	40
Undistributed earnings subsidiaries			(54)	(99)	(54)	(99)
Tax loss carry forward (including tax credit carry forwards)	328	348		—	328	348
Deferred taxes	809	844	(922)	(1,281)	(113)	(437)
Offsetting between assets and liabilities	(468)	(536)	468	536		
Net deferred taxes recognized	341	308	(454)	(745)	(113)	(437)

The Company does not reinvest the majority of the undistributed earnings of its subsidiaries for the foreseeable future. Consequently, the Company has recognized a deferred tax liability of \$54 million at December 31, 2020 (2019: \$99 million) for the additional income taxes and withholding taxes payable upon the future remittances of these earnings of foreign subsidiaries. The Company considers \$114 million of the undistributed earnings reinvested for the foreseeable future although the timing of the reversal can be controlled. Upon repatriation of those earnings the Company would be subject to tax of \$11 million which is not recognized as deferred tax liability at December 31, 2020.

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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, 2020 the amounts of deductible temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognized are as follows:

	2020	2019
Deductible temporary differences	29	5
Tax losses	163	158
Tax credits	145	146

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	2021	2022	2023	2024	2025	2026-2030	later	unlimited
163	—	7	—	2	77	30	7	40

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

Total	2021	2022	2023	2024	2025	2026-2030	later	unlimited
145	1	7	5	7	13	40	46	26

## 9. Equity-accounted investees

The carrying value of equity-accounted investees as of December 31, can be summarized as follows:

	2020		2019	
	Shareholding %	Amount	Shareholding %	Amount
Wise Road Industry Investment Fund I, L.P.	10.17 %	29	—	—
Others	—	32	—	11
		61		11

Results related to equity-accounted investees for each reporting period are as follows:

	2020	2019
Share of result of equity-accounted investees	(4)	(2)
Other results	—	3
	(4)	1

The changes in the carrying value of equity-accounted investees are as follows:

	2020	2019
Balance as of January 1,	11	13
Changes:		
Share in income (loss)	(4)	(2)
Investments	46	—
Transfers from financial assets	8	—
Balance as of December 31,	61	11

The financial information of NXP's associates, prepared in accordance with IFRS, including fair value adjustments on acquisition and before inter-company eliminations, can be summarized as follows:

	2020	2019
Revenue	16	15
Income before income taxes from continuing operations	(17)	(5)
Total comprehensive income	(18)	(5)
NXP's share in total comprehensive income	(4)	(2)
Non-current assets	343	12
Current assets	25	12
	368	24
Non-current liabilities	—	—
Current liabilities	(14)	(10)
	(14)	(10)
Net assets	354	14
NXP's share in net assets	43	5
Goodwill associates	18	6
Carrying amount associates	61	11

## 10. Subsidiaries and non-controlling interests

NXP Semiconductors N.V.'s material wholly owned (unless indicated differently) subsidiaries as of December 31, 2020:

Country of incorporation	Legal entity name
Austria	NXP Semiconductors Austria GmbH & Co KG
Austria	Catena DSP GmbH
Belgium	NXP Semiconductors Belgium N.V.
Brazil	NXP Semicondutores Brasil Ltda.

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<b>Country of incorporation</b>	<b>Legal entity name</b>
BVI	Freescale Semiconductor Holding Limited
Canada	NXP Canada Inc.
China	NXP (China) Management Ltd (PSC)
China	Freescale Semiconductor (China) Ltd.
China	NXP Qiangxin (Tianjin) IC Design Co. Ltd. (75.0%)
China	NXP (Chongqing) Semiconductors Co. Ltd.
China	NXP Semiconductors (Shanghai) Co., Ltd.
Czech Republic	NXP Semiconductors Czech Republic s.r.o
France	NXP Semiconductors France SAS
Germany	NXP Semiconductors Germany GmbH
Germany	SMST Unterstützungskasse GmbH
Germany	Catena Germany GmbH
Hong Kong	NXP Semiconductors Asia Hong Kong Limited
Hungary	NXP Semiconductors Hungary Ltd.
India	NXP India Pvt. Ltd.
India	Intoto Software India Private Limited
Ireland	GloNav Limited
Israel	NXP Semiconductors Israel Limited
Israel	Freescale Semiconductor Israel Limited
Japan	NXP Japan Ltd
Korea	NXP Semiconductors Korea Ltd.
Malaysia	NXP Malaysia Sdn. Bhd
Malaysia	Freescale Asia Fulfillment Centre Sdn. Bhd.
Mexico	NXP Semiconductors Mexico, S. de R.L. de C.V.
Netherlands	NXP Semiconductors Netherlands B.V.
Netherlands	NXP B.V.
Netherlands	NXP Software B.V.
Netherlands	Catena Holding B.V.
Netherlands	Catena Microelectronics B.V.
Netherlands	Catena Radio Design B.V.
Philippines	NXP Philippines Inc.
Romania	NXP Semiconductors Romania SRL
Russia	NXP Semiconductors Moscow LLC
Singapore	NXP Semiconductors Singapore Pte. Ltd.
Singapore	Systems on Silicon Manufacturing Company Pte Ltd (61.2%)
Sweden	NXP Semiconductors Nordic AB
Switzerland	Freescale Semiconductor EME&A SA
Taiwan	NXP Semiconductors Taiwan Ltd
Thailand	NXP Manufacturing (Thailand) Ltd.
Thailand	NXP Semiconductors (Thailand) Ltd
Turkey	NXP Semiconductors Elektronik Ticaret A.S.
United Kingdom	NXP Laboratories UK Limited
US	NXP USA, Inc.
US	Freescale Semiconductor Holdings V, Inc.
US	Freescale Semiconductor International Corporation
US	OmniPhy Inc.
US	NXP Funding LLC
US	Intoto LLC



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

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

	2020	2019
Revenue	397	384
Net income	71	74
Net income attributable to NCI	28	29
Other comprehensive income	—	—
Total comprehensive income	71	74
Total comprehensive income attributable to NCI	28	29
Non-current assets	345	362
Current assets	319	325
	<b>664</b>	<b>687</b>
Non-current liabilities	(39)	(41)
Current liabilities	(69)	(71)
	<b>(108)</b>	<b>(112)</b>
Net assets	556	575
Net assets attributable to NCI	208	215
Cash flows from operating activities	176	128
Cash flows from investing activities	(87)	(81)
Cash flows from financing activities	(92)	—
Net increase in cash and cash equivalents	(3)	47
Dividends paid to NCI during the year <sup>1)</sup>	(35)	—

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 \$28 million in 2020 which relates predominantly to SSMC (2019: profit of \$29 million which relates predominantly to SSMC). As of December 31, 2020, non-controlling interests in equity totaled \$211 million of which \$208 million relates to SSMC (2019: \$218 million of which \$215 million relates to SSMC).

At December 31, 2020 the Company had the following branches:

- Freescale Semiconductor (China) Ltd., various branches in China
- NXP (China) Management Ltd., various branches in China
- NXP Semiconductors (Shanghai) Co., Ltd., various branches in China
- NXP Semiconductors Hungary Ltd., Swiss branch
- NXP Semiconductors Netherlands B.V., Italy branch
- NXP Semiconductors Netherlands B.V., Denmark branch
- NXP Semiconductors Netherlands B.V., Spain branch
- NXP Semiconductors Netherlands B.V., Finland branch
- NXP Semiconductors Singapore Pte. Ltd., Australia branch

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## 11. Earnings per share

	2020	2019
Net income	308	541
Less: Net income attributable to non-controlling interests	28	29
Income attributable to shareholders of NXP	280	512
Weighted average number of shares outstanding (in thousands)	279,763	282,056
Plus incremental shares from assumed conversion of:		
Options <sup>1)</sup>	526	800
Restrictive Share Units, Performance Share Units and Equity Rights <sup>2)</sup>	4,832	4,628
Dilutive potential common shares	5,358	5,428
Adjusted weighted average number of shares outstanding during the year (in thousands)	285,121	287,484
<i>EPS attributable to shareholders of NXP in \$:</i>		
Basic net income	1.00	1.82
Diluted net income <sup>1)</sup>	0.98	1.78

1) No stock options to purchase shares of NXP's common stock that were outstanding in 2020 (2019: 0.1 million shares) were anti-dilutive and were not included in the computation of diluted EPS because the exercise price was greater than the average fair market value of the common stock or the number of shares assumed to be repurchased using the proceeds of unrecognized compensation expense and exercise prices was greater than the weighted average number of shares underlying outstanding stock options.

2) Unvested RSU's, PSU's and equity rights of 0.6 million shares that were outstanding in 2020 (2019: 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.

## 12. Property, plant and equipment

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

	December 31,	
	2020	2019
Property, plant and equipment owned	2,214	2,376
Property, plant and equipment leased (right-of-use assets)	290	296
Total :	2,504	2,672

The changes in owned property, plant and equipment in 2020 and 2019 can be summarized as follows:

	Total	Land and buildings	Machinery and installations	Other equipment	Prepayments and construction in progress
Balance as of January 1, 2020:					
Cost	6,108	1,469	3,720	666	253
Accumulated depreciation and impairments	(3,732)	(781)	(2,576)	(375)	—
Book value	2,376	688	1,144	291	253
Changes in book value:					
Capital expenditures	377	—	—	—	377
Transfer assets put into use	—	67	254	100	(421)
Depreciation	(544)	(114)	(340)	(90)	—
Movements in exchange rates & other	5	3	(1)	2	1
Total changes	(162)	(44)	(87)	12	(43)
Balance as of December 31, 2020:					
Cost	6,439	1,537	3,941	752	209
Accumulated depreciation and impairments	(4,225)	(893)	(2,883)	(449)	—
Book value	2,214	644	1,058	303	209
Balance as of January 1, 2019:					
Cost	5,654	1,357	3,406	612	279
Accumulated depreciation and impairments	(3,292)	(670)	(2,313)	(309)	—
Book value	2,362	687	1,093	303	279
Changes in book value:					
Capital expenditures	526	—	—	—	526
Transfer assets put into use	(1)	121	358	77	(557)
Retirements and sales	(11)	(4)	(3)	(4)	—
Acquisitions through business combinations	2	—	—	2	—
Depreciation	(505)	(115)	(304)	(86)	—
Movements in exchange rates & other	3	(1)	—	(1)	5
Total changes	14	1	51	(12)	(26)
Balance as of December 31, 2019:					
Cost	6,108	1,469	3,720	666	253
Accumulated depreciation and impairments	(3,732)	(781)	(2,576)	(375)	—
Book value	2,376	688	1,144	291	253

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The useful lives of property, plant and equipment as of December 31, 2020 are as follows:

	<b>Useful Life (in years)</b>
Buildings	<b>9 to 50</b>
Machinery and installations	<b>2 to 10</b>
Other Equipment	<b>1 to 5</b>

## *Property, plant and equipment leased*

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

The changes in property, plant and equipment leased by the Company (right-of-use assets) were as follows :

	<b>Total</b>	<b>Land and buildings</b>	<b>Machinery and installations</b>	<b>Other equipment</b>
<b>Balance as of January 1, 2020:</b>				
Cost	<b>356</b>	<b>272</b>	<b>75</b>	<b>9</b>
Accumulated depreciation and impairments	<b>(60)</b>	<b>(43)</b>	<b>(17)</b>	<b>—</b>
Book value	<b>296</b>	<b>229</b>	<b>58</b>	<b>9</b>
<b>Changes in book value:</b>				
Additions	<b>48</b>	<b>30</b>	<b>17</b>	<b>1</b>
Depreciation	<b>(61)</b>	<b>(46)</b>	<b>(15)</b>	<b>—</b>
Effect of movements in exchange rates and other	<b>7</b>	<b>6</b>	<b>1</b>	<b>—</b>
Total changes	<b>(6)</b>	<b>(10)</b>	<b>3</b>	<b>1</b>
<b>Balance as of December 31, 2020:</b>				
Cost	<b>409</b>	<b>308</b>	<b>91</b>	<b>10</b>
Accumulated depreciation and impairments	<b>(119)</b>	<b>(88)</b>	<b>(31)</b>	<b>—</b>
Book value	<b>290</b>	<b>220</b>	<b>60</b>	<b>10</b>

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

Information on the related lease liabilities is reported in Note 24 *Other non-current liabilities*.

### 13. Goodwill

The changes in goodwill during 2020 and 2019 were as follows:

	2020	2019
Balance as of January 1,		
Cost	10,240	9,119
Accumulated impairment	(254)	(254)
Book value	9,986	8,865
Changes in book value:		
Acquisitions	3	1,149
Transfers to assets held for sale	—	(23)
Effect of movements in exchange rates	32	(5)
Total changes	35	1,121
Balance as of December 31,		
Cost	10,257	10,240
Accumulated impairment	(236)	(254)
Book value	10,021	9,986

At December 31, 2020 the goodwill stemming from the purchase accounting for the December 2015 acquisition of Freescale amounted to \$7,503 million (December 31, 2019: \$7,503 million) while \$1,149 million relates to the December 2019 Marvell acquisition - see also Note 4 *Acquisitions, divestments and Assets held for sale*.

# Group Financial Statements

No goodwill impairment was identified in 2020 or 2019 and the recoverable amounts substantially exceeded the carrying amount of the cash generating unit.

Based on analysis of the 2020 events and circumstances, NXP assessed at the end of 2020 that the likelihood that the recoverable amount determination would be less than the current carrying amount of the cash-generating unit was remote. As the assets and liabilities making up the cash-generating unit have not changed significantly since the most recent recoverable amount calculations in 2019, and those calculations resulted in an amount that exceeded the carrying amount of the unit by a substantial margin, these calculations were used in the 2020 goodwill impairment testing.

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

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

## 14. Intangible assets

The changes in intangible assets during 2020 and 2019 can be summarized as follows:

	Total	Other intangible assets	Product development assets <i>In use</i>	Product development assets <i>Under development</i>
Balance as of January 1, 2020:				
Cost	12,470	9,384	1,912	1,174
Accumulated amortization and impairments	(6,437)	(5,764)	(673)	—
Book value	6,033	3,620	1,239	1,174
Changes in book value:				
Additions from internal development	749	—	83	666
Transfer assets put in use	—	—	404	(404)
Additions from separate acquisitions	63	63	—	—
Amortization	(1,786)	(1,398)	(388)	—
Impairment	(135)	(43)	(11)	(81)
Total changes	(1,109)	(1,378)	88	181
Balance as of December 31, 2020:				
Cost	12,801	9,249	2,196	1,356
Accumulated amortization and impairments	(7,877)	(7,007)	(870)	—
Book value	4,924	2,242	1,326	1,356

	Total	Other intangible assets	Product development assets	
			In use	Under development
Balance as of January 1, 2019:				
Cost	11,864	9,182	1,431	1,251
Accumulated amortization and impairments	(5,281)	(4,713)	(568)	—
Book value	6,583	4,469	863	1,251
Changes in book value:				
Additions from internal development	697	—	115	582
Transfer assets put in use	—	—	599	(599)
Additions from separate acquisitions	167	167	—	—
Acquisitions through business combinations	514	514	—	—
Amortization	(1,837)	(1,523)	(314)	—
Impairment	(60)	(4)	—	(56)
Divestments and transfer to assets held for sale	(29)	(1)	(24)	(4)
Total changes	(550)	(849)	376	(77)
Balance as of December 31, 2019:				
Cost	12,470	9,384	1,912	1,174
Accumulated amortization and impairments	(6,437)	(5,764)	(673)	—
Book value	6,033	3,620	1,239	1,174

Intangible assets as of December 31 consist of:

	2020		2019	
	Gross	Accumulated amortization	Gross	Accumulated amortization
IPR&D	147	—	272	—
Marketing-related	81	(81)	81	(66)
Customer-related	957	(382)	968	(341)
Technology-based	11,616	(7,415)	11,149	(6,030)
	12,801	(7,877)	12,470	(6,437)

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

Amortization expenses are in the statement of operations primarily presented under *Research and development expenses*. During 2020 there were impairments totaling \$135 million (2019: \$60 million) which includes charges to *Other Intangible Assets* primarily due to a \$36 million impairment on IPR&D acquired as part of the 2015 Freescale acquisition, as well as charges to *Product Development Assets*. These charges are typically triggered by our annual fundamental review of our business portfolio and our related new product and technology development opportunities; accordingly triggering changes in the allocation of our research and development resources.

The useful lives of other intangible assets and the internally generated product development assets ranges respectively from 1 to 13 years and 5 to 6 years as of December 31, 2020.

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## 15. Financial and other non-current assets

### *Financial assets*

Financial assets consist of the following :

	2020	2019
Marketable equity investments at fair value through profit or loss	19	—
Non-marketable equity investments at fair value through profit or loss	39	25
Other investments	18	16
	76	41

### *Other non-current assets*

Other non-current assets as of December 31, 2020 amounted to \$176 million (2019: \$161 million) and consist primarily of prepaid expenses and accrued income of \$161 million (2019: \$152 million) and non-current income tax receivable of \$5 million (2019: \$5 million).

## 16. Inventories

Inventories are summarized as follows:

	2020	2019
Raw materials	66	52
Work in process	786	894
Finished goods	178	246
	1,030	1,192

The amounts recorded above are net of an allowance for obsolescence of \$122 million as of December 31, 2020 (2019 : \$114 million).

The portion of finished goods stored at customer locations under consignment amounted to \$31 million as of December 31, 2020 (2019: \$41 million).

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

	2020	2019
Balance as of January 1,	114	111
Additions charged to income	57	62
Deductions from allowance	(47)	(59)
Other movements <sup>1)</sup>	(2)	—
Balance as of December 31,	122	114

1) Includes the effect of currency translation differences

## 17. Other current assets

Other current assets as of December 31, 2020 amounted to \$185 million (2019: \$201 million) and consist primarily of government grants to collect for \$113 million (2019: \$111 million), prepaid expenses of \$12 million (2019: \$38 million) and accrued revenue of \$31 million (2019: \$32 million).



## 18. Trade and other receivables

Receivables are summarized as follows:

	2020	2019
Accounts receivable from third parties	767	669
Less: allowance for credit losses	(2)	(2)
Other receivables	52	78
	<u>817</u>	<u>745</u>

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

	2020	2019
Not past due	765	656
1-15 days past due	—	11
more than 16 days past due	—	—
	<u>765</u>	<u>667</u>

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

	2020	2019
Distributors	186	80
Original Equipment Manufacturers and Electronic Manufacturing Services	533	536
Other	46	51
	<u>765</u>	<u>667</u>

## 19. Cash and cash equivalents

At December 31, 2020 and December 31, 2019, our cash balance was 2,275 million and \$1,045 million, respectively, of which \$185 million and \$188 million was held by SSMC, our consolidated joint venture company with TSMC. Under the terms of our joint venture agreement with TSMC, a portion of this cash can be distributed by way of a dividend to us, but 38.8% of the dividend will be paid to our joint venture partner. During 2020, a dividend of \$90 million (2019: no dividend) was paid by SSMC.

## 20. Shareholders' equity

The share capital of the Company as of December 31, 2020 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.

In October 2018, the board of directors of NXP, as authorized by the annual general meeting of shareholders ("AGM"), approved the repurchase of shares as long as the total number of shares held by NXP in treasury does not exceed 20% (approximately 69 million shares) of the number of shares issued. During the year-ended December 31, 2019, NXP repurchased 15.9 million shares, for a total of approximately \$1.4 billion, and during the year-ended December 31, 2020, NXP repurchased 4.8 million shares, for a total of approximately \$0.6 billion. As approved by the board of directors, on November 27, 2019, NXP cancelled some 13.2 million shares and on December 15, 2020, NXP cancelled 26 million shares. As a result, the number of issued NXP shares as per December 31, 2019 is 315,519,638 shares and as per December 31, 2020, the Company has issued and paid up 289,519,638 shares of common stock each having a par value of €0.20 or a nominal stock capital of €58 million (2019: €63 million).

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## *Cash dividends*

The following dividends were declared in 2020 and 2019 under NXP's quarterly dividend program which was introduced as of the third quarter of 2018:

	2020	2019
Dividends declared (in millions)	420	351
Dividends declared (per share)	1.50	1.25

## *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 30 *Share-based compensation*).

## *Treasury shares*

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

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

The following treasury share transactions took place in 2020 and 2019:

	2020	2019
Total shares in treasury at beginning of year	34,082,242	35,913,021
Total cost	3,037	3,238
Shares acquired under repurchase program	4,828,913	15,865,718
Average price in \$ per share	129.7	90.94
Amount paid	627	1,443
Shares delivered	3,866,203	4,513,416
Average price in \$ per share	94.26	93.55
Amount received	71	84
Shares retired	26,000,000	13,183,081
Total shares in treasury at end of year	9,044,952	34,082,242
Total cost	1,037	3,037

## *Shareholder tax on repurchased shares*

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

## 21. Long-term debt

The following table summarizes the outstanding long-term debt as of December 31, 2020 and 2019:

	Maturities	2020		2019	
		Amount	Effective rate	Amount	Effective rate
Fixed-rate 4.125% senior unsecured notes	Jun, 2021	—	4.125	1,350	4.125
Fixed-rate 4.625% senior unsecured notes	Jun, 2022	—	4.625	400	4.625
Fixed-rate 3.875% senior unsecured notes	Sep, 2022	1,000	3.875	1,000	3.875
Fixed-rate 4.625% senior unsecured notes	Jun, 2023	900	4.625	900	4.625
Fixed-rate 4.875% senior unsecured notes	Mar, 2024	1,000	4.875	1,000	4.875
Fixed-rate 2.7% senior unsecured notes	May, 2025	500	2.700	—	—
Fixed-rate 5.35% senior unsecured notes	Mar, 2026	500	5.350	500	5.350
Fixed-rate 3.875% senior unsecured notes	Jun, 2026	750	3.875	750	3.875
Fixed-rate 3.15% senior unsecured notes	May, 2027	500	3.150	—	—
Fixed-rate 5.55% senior unsecured notes	Dec, 2028	500	5.550	500	5.550
Fixed-rate 4.3% senior unsecured notes	Jun, 2029	1,000	4.300	1,000	4.300
Fixed-rate 3.4% senior unsecured notes	May, 2030	1,000	3.400	—	—
Floating-rate revolving credit facility (RCF)	Jun, 2024	—	—	—	—
Total principal		7,650		7,400	
Unamortized discounts, premiums and debt issuance costs		(41)		(35)	
Total debt, including unamortized discounts, premiums, debt issuance costs and fair value adjustments		7,609		7,365	
Current portion of long-term debt		—		—	
Long-term debt		7,609		7,365	

	Range of interest rates	Average rate of interest	Principal amount outstanding 2020	Due in 2021	Due after 2021	Due after 2025	Average remaining term (in years)	Principal amount outstanding 2019
USD notes	2.7%-5.55%	4.2 %	7,650	—	7,650	4,250	5.3	7,400
Revolving Credit Facility <sup>1)</sup>	— %	— %	—	—	—	—	0	—
Bank borrowings	— %	— %	—	—	—	—	0	—
		4.2 %	7,650	—	7,650	4,250	5.3	7,400

<sup>1)</sup> We do not have any borrowings under the \$1,500 million Revolving Credit Facility as of December 31, 2020 and 2019.

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(\$ in millions)	December 31, 2019	Accrual/ release Original Issuance/ Debt Discount and Debt Issuance Cost	Debt Exchanges/ Repurchase/ New Borrowings	December 31, 2020
U.S. dollar-denominated 4.125% senior unsecured notes due June 2021 <sup>(1)</sup>	1,350	—	(1,350)	—
U.S. dollar-denominated 4.625% senior unsecured notes due June 2022 <sup>(2)</sup>	398	2	(400)	—
U.S. dollar-denominated 3.875% senior unsecured notes due September 2022 <sup>(3)</sup>	997	1	—	998
U.S. dollar-denominated 4.625% senior unsecured notes due June 2023 <sup>(4)</sup>	896	1	—	897
U.S. dollar-denominated 4.875% senior unsecured notes due March 2024 <sup>(5)</sup>	994	2	—	996
U.S. dollar-denominated 2.7% senior unsecured notes due May 2025 <sup>(6)</sup>	—	—	497	497
U.S. dollar-denominated 5.35% senior unsecured notes due March 2026 <sup>(5)</sup>	497	1	—	498
U.S. dollar-denominated 3.875% senior unsecured notes due June 2026 <sup>(7)</sup>	746	—	—	746
U.S. dollar-denominated 3.15% senior unsecured notes due May 2027 <sup>(6)</sup>	—	1	496	497
U.S. dollar-denominated 5.55% senior unsecured notes due December 2028 <sup>(5)</sup>	496	—	—	496
U.S. dollar-denominated 4.3% senior unsecured notes due June 2029 <sup>(7)</sup>	991	1	—	992
U.S. dollar-denominated 3.4% senior unsecured notes due May 2030 <sup>(6)</sup>	—	—	992	992
	7,365	9	235	7,609
RCF Agreement <sup>(8)</sup>	—	—	—	—
<b>Total long-term debt</b>	<b>7,365</b>	<b>9</b>	<b>235</b>	<b>7,609</b>

- (1) 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. On September 28, 2020, the Notes were redeemed in full.
- (2) On June 9, 2015, we issued \$400 million aggregate principal amount of 4.625% Senior Unsecured Notes due 2022. On September 28, 2020, the Notes were redeemed in full.
- (3) On August 11, 2016, we issued \$1,000 million aggregate principal amount of 3.875% 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 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.
- (6) On May 1, 2020, we issued \$500 million aggregate principal amount of 2.7% Senior Unsecured Notes due 2025, \$500 million aggregate principal amount of 3.15% Senior Unsecured Notes due 2027 and \$1 billion aggregate principal amount of 3.4% Senior Unsecured Notes due 2030.
- (7) On June 18, 2019, we issued \$750 million of 3.875% Senior Unsecured Notes due 2026 and \$1 billion of 4.3% Senior Unsecured Notes due 2029.
- (8) On June 11, 2019, we entered into a \$1.5 billion unsecured revolving credit facility agreement, replacing the \$600 million secured revolving credit facility, entered into on December 7, 2015.

As of December 31, 2020, the following principal amounts of long-term debt are due in the next 5 years:

2021	—
2022	1,000
2023	900
2024	1,000
2025	500
Due after 5 years	4,250
	<u>7,650</u>

As of December 31, 2020, the book value of our outstanding long-term debt was \$7,650 million, less debt issuance costs of \$33 million and original issuance/debt discount of \$8 million.

As of December 31, 2020, we had no aggregate principal amount of variable interest rate indebtedness under our loan agreements. The remaining tenor of unsecured debt is on average 5.3 years.

Accrued interest as of December 31, 2020 is \$57 million (December 31, 2019: \$52 million).

## **2020 Financing Activities**

### *2025, 2027 and 2030 Senior Unsecured Notes*

On May 1, 2020, NXP B.V., together with NXP USA Inc. and NXP Funding LLC, issued \$500 million of 2.7% Senior Unsecured Notes due 2025, \$500 million of 3.15% Senior Unsecured Notes due 2027 and \$1 billion of 3.4% Senior Unsecured Notes due 2030. NXP used the net proceeds of the offering of these notes to repay in full on September 28, 2020, the \$1,350 million aggregate principal amount of outstanding 4.125% Senior Notes due 2021 and the \$400 million aggregate principal amount of outstanding 4.625% Senior Notes due 2022.

## **2019 Financing Activities**

### *2024 Revolving Credit Facility*

On June 11, 2019, NXP B.V. together with NXP Funding LLC, entered into a \$1.5 billion unsecured revolving credit facility agreement maturing June 11, 2024, replacing the \$600 million secured revolving credit facility, entered into on December 7, 2015.

### *2020 Senior Notes*

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

### *2026 and 2029 Senior Unsecured Notes*

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

### *2019 Cash Convertible Senior Notes*

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

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## *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, 2020 and December 31, 2019 has been secured by collateral on substantially all of the Company's assets and of certain of its subsidiaries.

We are in compliance with all covenants under our debt agreements as of December 31, 2020.

### **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 Cash Convertible Notes matured on December 1, 2019. All of the holders elected to convert their Cash Convertible Notes for settlement on December 2, 2019, and none of the Cash Convertible Notes were repurchased or converted into cash prior to such date.

On December 2, 2019, we repaid the \$1,150 million aggregate principal amount of the Cash Convertible Notes using available cash.

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 expired on various dates ranging from March 2, 2020 to May 26, 2020. During the full period the NXP share price was below the conversion price of the warrants, and as such, none of the warrants have been converted. The Warrants are included in diluted earnings per share to the extent the impact is dilutive. As of December 31, 2020, the Warrants were not dilutive.

## **22. Provisions**

Provisions can be summarized as follows:

	2020		2019	
	Long-term	Short-term	Long-term	Short-term
Restructuring	14	17	—	17
Environmental and other provisions	111	15	128	17
Total	125	32	128	34

### *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*.

### *Environmental and other provisions*

The environmental and other provisions as of December 31, 2020 include provisions for environmental remediation costs of \$87 million (2019: \$90 million) as well as litigation costs totaling \$17 million (2019: \$41 million) – see also Note 28 *Contingencies*.

The changes in environmental and other provisions are as follows:

	2020	2019
Balance as of January 1,	145	220
Changes:		
Additions	19	10
Utilizations	(32)	(79)
Releases	(6)	(6)
Balance as of December 31,	126	145

### **23. Post-employment benefits**

Amounts recognized in the balance sheet with regard to post-employment benefits can be summarized as follows:

	2020		2019	
	Long-term	Short-term	Long-term	Short-term
1. Unfunded defined benefit pension plans	(299)	(10)	(255)	(9)
2. Unfunded other post-employment benefits	(5)	(1)	(7)	(2)
3. Accrued pension costs-underfunded plans	(255)	(2)	(197)	(1)
Post-employment benefits - liabilities :	(559)	(13)	(459)	(12)

The sum of items 1 and 3 represents our net defined benefit pension liability of \$566 million at December 31, 2020 (2019: \$462 million) for which a reconciliation from the opening balance to the closing balance is provided below.

#### *Pensions*

Our employees participate in employee pension plans in accordance with the legal requirements, customs and the local situation in the respective countries. These are defined-benefit pension plans, defined-contribution plans and multi-employer plans.

The Company's employees in The Netherlands participate in a multi-employer plan, implemented for the employees of the Metal and Electrical Engineering Industry ("Bedrijfstakpensioenfonds Metalektro" or "PME") in accordance with the mandatory affiliation to PME effective for the industry in which NXP operates. As this affiliation is a legal requirement for the Metal and Electrical Engineering Industry it has no expiration date. This PME multi-employer plan (a career average plan) covers 1,390 companies and 626,000 participants. The plan monitors its risk on an aggregate basis, not by company or participant and can therefore not be accounted for as a defined benefit plan. The pension fund rules state that the only obligation for affiliated companies will be to pay the annual plan contributions. There is no obligation for affiliated companies to fund plan deficits. Affiliated companies are also not entitled to any possible surpluses in the pension fund.

Every participating company contributes the same fixed percentage of its total pension base, being pensionable salary minus an individual offset. The Company's pension cost for any period is the amount of contributions due for that period.

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The contribution rate for the mandatory scheme will increase from 26.41% (2020) to 27.59% (2021).

<b>PME multi-employer plan</b>	<b>2020</b>	2019
NXP's contributions to the plan	<b>33</b>	31
(including employees' contributions)	<b>4</b>	4
Average number of NXP's active employees participating in the plan	<b>2,048</b>	2,129
NXP's contribution to the plan exceeded more than 5 percent of the total contribution (as of December 31 of the plan's year-end)	<b>No</b>	No

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

	<b>2020</b>	2019
Defined benefit plans	<b>21</b>	24
Defined contribution plans excluding multi-employer plans	<b>47</b>	47
Multi-employer plans	<b>29</b>	27
	<b>97</b>	98

## *Defined-benefit plans*

The benefits provided by defined-benefit plans are based on employees' years of service and compensation levels. Contributions are made by the Company, as necessary, to provide assets sufficient to meet the benefits payable to defined-benefit pension plan participants.

These contributions are determined based upon various factors, including funded status, legal and tax considerations as well as local customs. The Company funds certain defined-benefit pension plans as claims are incurred.



The following table shows a reconciliation from the opening balance to the closing balance of our net defined benefit pension liability and its components.

	<i>Defined benefit obligation</i>		<i>Fair value of plan assets</i>		<i>Net defined benefit liability</i>	
	<b>2020</b>	2019	<b>2020</b>	2019	<b>2020</b>	2019
Balance at January 1,	<b>(665)</b>	(617)	<b>203</b>	201	<b>(462)</b>	(416)
<b>Included in profit or loss</b>						
Current service cost	<b>(17)</b>	(14)	—	—	<b>(17)</b>	(14)
Past service and settlement effects	—	(1)	—	—	—	(1)
Interest (cost) income	<b>(7)</b>	(12)	<b>3</b>	3	<b>(4)</b>	(9)
	<b>(24)</b>	(27)	<b>3</b>	3	<b>(21)</b>	(24)
<b>Included in OCI</b>						
Remeasurement (loss) gain:						
– Actuarial (loss) gain arising from:						
- demographic assumptions	<b>(5)</b>	—	—	—	<b>(5)</b>	—
- financial assumptions	<b>(54)</b>	(47)	—	—	<b>(54)</b>	(47)
- experience adjustment	<b>(6)</b>	(2)	—	—	<b>(6)</b>	(2)
- Return on plan assets excl. interest income	—	—	<b>1</b>	2	<b>1</b>	2
Effect of movements in exchange rates	<b>(58)</b>	5	<b>17</b>	(2)	<b>(41)</b>	3
	<b>(123)</b>	(44)	<b>18</b>	—	<b>(105)</b>	(44)
<b>Other</b>						
Contributions paid by the Company	—	—	<b>22</b>	22	<b>22</b>	22
Benefits paid	<b>22</b>	23	<b>(22)</b>	(23)	—	—
Settlement payments	—	—	—	—	—	—
	<b>22</b>	23	—	(1)	<b>22</b>	22
Balance at December 31,	<b>(790)</b>	(665)	<b>224</b>	203	<b>(566)</b>	(462)

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

	<b>2020</b>	2019
Cost of revenue	<b>4</b>	5
Selling, general and administrative expenses	<b>9</b>	11
Research and development expenses	<b>8</b>	8
Net periodic pension cost	<b>21</b>	24

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

	<b>2020</b>	2019
Discount rate	<b>0.8 %</b>	1.2 %
Expected rate of salary increase	<b>1.6 %</b>	1.5 %

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At December 31, 2020 the weighted-average duration of the defined benefit obligation was 16 years (2019: 16 years).

For the Company's major plans, the discount rate used is based on high quality corporate bonds (iBoxx Corporate Euro AA 10+).

The mortality tables used in the actuarial valuations of the Company's most significant plans are:

- Germany: Richttafeln 2018 G by K. Heubeck with CMI projection;
- Taiwan: Taiwan Standard Ordinary Mortality Table of 2011;
- Thailand: Thailand TMO 17 table; and
- Japan: Japan MHLW 2015 table.

A sensitivity analysis shows that if the discount rate increases by 1% from the level of December 31, 2020, with all other variables held constant, the defined benefit obligation would decrease by \$122 million. If the discount rate decreases by 1% from the level of December 31, 2020, with all other variables held constant, the defined benefit obligation would increase by \$138 million.

A sensitivity analysis shows that if the assumption of salary increases by 1% from the level of December 31, 2020, with all other variables held constant, the defined benefit obligation would increase by \$24 million. If the assumption of salary increase decreases by 1% from the level of December 31, 2020, with all other variables held constant, the defined benefit obligation would decrease by \$23 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, 2020, with all other variables held constant, the defined benefit obligation for our German plans would increase with \$20 million.

## *Estimated future pension benefit payments*

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

2021	24
2022	24
2023	26
2024	28
2025	28
Years 2026-2030	170

## *Plan assets*

The actual post-employment plan asset allocation at December 31, 2020 and 2019 is as follows:

	2020	2019
Asset Category:		
Equity securities	76	63
Debt securities	88	87
Insurance contracts	15	14
Other	45	39
	224	203

We met our target plan asset allocation. The investment objectives for the pension plan assets are designed to generate returns that, along with the future contributions, will enable the pension plans to meet their future obligations. The investments in our major defined benefit plans largely consist of government bonds, "Level 2" Corporate Bonds and cash to mitigate the risk of interest fluctuations. The asset mix of equity, bonds, cash and other categories is evaluated by an asset-liability modeling study for our largest plan. The assets of funded plans in other countries mostly have a large proportion of fixed income securities with return characteristics that are

aligned with changes in the liabilities caused by discount rate volatility. Total pension plan assets of \$224 million include \$195 million related to the German and Japanese pension funds.

The following table summarizes the classification of these assets.

	2020			2019		
	Level I	Level II	Level III	Level I	Level II	Level III
Equity securities	—	71	—	—	59	—
Debt securities	8	62	—	11	62	—
Insurance contracts	—	15	—	—	14	—
Other	—	21	18	2	18	14
	8	169	18	13	153	14

#### *Cash flow 2021*

The Company currently expects to make \$9 million of employer contributions to defined-benefit pension plans and \$10 million of expected cash payments in relation to unfunded pension plans in 2021.

#### **24. Other non-current liabilities**

Other non-current liabilities are summarized as follows:

	2020	2019
Asset retirement obligations	5	5
Income tax	31	28
Lease liabilities	200	199
Others	65	104
	301	336

In determining the amounts of current income tax positions the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. At December 31, 2020 the related tax liability amounted to \$31 million (2019: \$28 million) - see also Note 8 *Income taxes*.

Lease liabilities are split between current and non-current as follows:

	December 31,	
	2020	2019
Other current liabilities	63	64
Other non-current liabilities	200	199
Total :	263	263

The maturity profile of our lease liabilities as of December 31, 2020 is as follows:

	Leases
2021	69
2022	53
2023	47
2024	31
2025	26
Thereafter	63
Total future lease payments	289
Less imputed interest	26
Total lease liabilities	263

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Rent expense amounted to \$9 million in 2020 (containing only services related to leased assets as well as short-term leases) compared to \$12 million in 2019.

The related Right-of-use assets are disclosed in Note 12 *Property, plant and equipment*. Payments of lease liabilities amounted to \$57 million (2019: \$48 million) - see also *Consolidated statement of cash flows*.

## 25. Accrued liabilities

Accrued liabilities can be summarized as follows:

	2020	2019
Personnel		
- Salaries and wages	107	103
- Accrued vacation entitlements	78	68
- Other personnel	56	47
Sales & Distribution	50	36
Purchases	20	22
Communication & IT	57	63
Utilities, rent and other	51	35
Interest accruals	57	52
Other accrued liabilities	58	59
	<u>534</u>	<u>485</u>

Other accrued liabilities consist of various smaller items.

## 26. Other current liabilities

Other current liabilities are summarized as follows:

	2020	2019
Dividends payable	105	106
Lease liabilities <sup>1)</sup>	63	64
License payable	20	38
Social security contribution payable	45	29
Other short-term liabilities <sup>2)</sup>	26	22
	<u>258</u>	<u>259</u>

1) See also Note 24 *Other non-current liabilities*

2) Other short-term liabilities consist of various smaller items

## 27. Contractual obligations

The Company maintains purchase commitments with certain suppliers, primarily for raw materials, semi-finished goods and manufacturing services and for some non-production items. Purchase commitments for inventory materials are generally restricted to a forecasted time-horizon as mutually agreed upon between the parties. This forecasted time-horizon can vary for different suppliers. As of December 31, 2020, the Company had purchase commitments of \$372 million (2019: \$290 million) which are due through 2044 (2019: 2044).

## 28. Contingencies

### *Litigation*

We are regularly involved as plaintiffs or defendants in claims and litigation relating to a variety of matters such as contractual disputes, personal injury claims, employee grievances and intellectual property litigation. In addition, our acquisitions, divestments and financial transactions sometimes result in, or are followed by, claims or litigation. Some of these claims may possibly be recovered from insurance reimbursements. Although the ultimate disposition of asserted claims cannot be predicted with certainty, it is our belief that the outcome of any

such claims, either individually or on a combined basis, will not have a material adverse effect on our consolidated financial position. However, such outcomes may be material to our consolidated statement of operations for a particular period. The Company records an accrual for any claim that arises whenever it considers that it is probable that it is exposed to a loss contingency and the amount of the loss contingency can be reasonably estimated. Legal fees are expensed when incurred.

Based on the most current information available to it and based on its best estimate, the Company also reevaluates at least on a quarterly basis the claims that have arisen to determine whether any new accruals need to be made or whether any accruals made need to be adjusted. Based on the procedures described above, the Company has an aggregate amount of \$17 million accrued for potential and current legal proceedings pending as of December 31, 2020, compared to \$44 million accrued at December 31, 2019 (without reduction for any related insurance reimbursements). The accruals are included in *Long-term provisions* and *Short-term provisions*. As of December 31, 2020, the Company's balance related to insurance reimbursements was \$8 million (December 31, 2019: \$25 million) and is included in "Other current assets" and "Other non-current assets".

The Company also estimates the aggregate range of reasonably possible losses in excess of the amount accrued based on currently available information for those cases for which such estimate can be made. The estimated aggregate range requires significant judgment, given the varying stages of the proceedings, the existence of multiple defendants (including the Company) in such claims whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the claims, and the attendant uncertainty of the various potential outcomes of such claims. Accordingly, the Company's estimate will change from time to time, and actual losses may be more than the current estimate. As at December 31, 2020, 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 million and \$23 million (2019: \$0 million and \$66 million). Based upon our past experience with these matters, the Company would expect to receive insurance reimbursement on certain of these claims that would offset the potential maximum exposure of up to \$15 million (2019: \$53 million).

In addition, the Company is currently assisting Motorola in the defense of personal injury lawsuits due to indemnity obligations included in the agreement that separated Freescale from Motorola in 2004. The multi-plaintiff Motorola lawsuits are pending in the Circuit Court of Cook County, Illinois. These claims allege a link between working in semiconductor manufacturing clean room facilities and birth defects in 18 individuals. The Motorola suits allege exposures between 1981 and 2006. Each claim seeks an unspecified amount of damages for the alleged injuries; however, legal counsel representing the plaintiffs has indicated they will seek substantial compensatory and punitive damages from Motorola for the entire inventory of claims which, if proven and recovered, the Company considers to be material. A portion of any indemnity due to Motorola will be reimbursed to NXP if Motorola receives an indemnification payment from its insurance coverage. Motorola has potential insurance coverage for many of the years indicated above, but with differing types and levels of coverage, self-insurance retention amounts and deductibles. We are in discussions with Motorola and their insurers regarding the availability of applicable insurance coverage for each of the individual cases. Motorola and NXP have denied liability for these alleged injuries based on numerous defenses.

#### *Environmental remediation*

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

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

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

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As of December 31, 2020, we have recorded \$87 million (2019: \$90 million) for environmental remediation costs, which are primarily included in *Long-term provisions* in the accompanying consolidated balance sheet. This amount was determined as the higher of the amount that would be recognized in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the fair value amount recognized at the acquisition date; with regard to the 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.

## 29. 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 and post-employment benefit plans.

The following table presents the amounts related to revenue and other income and purchase of goods and services incurred in transactions with these related parties:

	2020	2019
Revenue and other income	54	82
Purchase of goods and services	36	64

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

	2020	2019
Receivables	3	21
Payables	7	9

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 31 *Information on remuneration board of directors*.

## 30. Share-based compensation

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

	2020	2019
Cost of revenue	44	41
Research and development	154	136
Selling, general and administrative	175	157
	373	334

### *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. On October 27, 2020, the Company granted PSU awards to certain executives of the Company 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. The Company estimates the fair value of the PSUs using a Monte Carlo valuation model, utilizing assumptions underlying the Black-Scholes methodology. The grant date fair value was \$167.64 per PSU. The fair value of the PSUs is recognized

as compensation cost over the service period of 3 years. 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 resulting from a significant reduction in either the nature or scope of duties and responsibilities, a reduction in compensation or a required relocation. The number of shares authorized and available for awards at December 31, 2020 was 26.1 million.

A charge of \$365 million was recorded in 2020 for the LTIP (2019: \$326 million). A summary of the activity for our LTIP's during 2020 and 2019 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 5.98 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 did not have sufficient historical exercise data at the grant date of the options;
- a risk-free interest rate varying from 1.2% to 1.9%;
- no expected dividend payments; and
- a volatility of 42 – 45% based on the volatility of a set of peer companies. Peer company data was used given the short period of time our shares had been publicly traded.

Above assumptions were valid at the moment NXP granted the options. Changes in the assumptions can materially affect the fair value estimate.

	2020		2019	
	Stock options	Weighted average exercise price in USD	Stock options	Weighted average exercise price in USD
Outstanding at January 1,	1,202,909	52.08	2,104,088	51.81
Granted	—	—	—	—
Exercised	547,174	47.77	880,581	50.97
Forfeited	11,401	35.53	20,598	72.07
Outstanding at December 31,	644,334	56.03	1,202,909	52.08
Exercisable at December 31,	644,334	56.03	1,193,418	51.85

No options were granted in 2020 and 2019.

The intrinsic value of the exercised options was \$48 million (2019: \$48 million), whereas the amount received by NXP was \$26 million (2019: \$45 million).

The weighted average share price at the date of exercise for share options exercised in 2020 was \$130.59 (2019: \$105.49). For stock options outstanding at the end of the reporting period the range of the exercise prices was USD 16.84 to USD 86.25. The weighted average contractual life is 3.46 years.

At December 31, 2020, there were no (2019: none) unrecognized compensation cost related to non-vested stock options.

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## Performance share units

### Performance conditions

	2020		2019	
	Shares	Weighted average grant date fair value in USD	Shares	Weighted average grant date fair value in USD
Outstanding at January 1,	195,098	75.60	222,496	75.28
Granted	—	—	—	—
Vested	—	—	—	—
Forfeited	195,098	75.60	27,398	73.00
Outstanding at December 31,	—	—	195,098	75.60

### Market conditions

	2020		2019	
	Shares	Weighted average grant date fair value in USD	Shares	Weighted average grant date fair value in USD
Outstanding at January 1,	1,844,187	125.61	1,478,986	121.18
Granted	335,567	164.92	400,025	141.64
Vested	—	—	—	0.00
Forfeited	48,060	125.28	34,824	121.37
Outstanding at December 31,	2,131,694	131.81	1,844,187	125.61

In 2020 no (2019: none) PSUs based on market conditions have vested.

At December 31, 2020, there was a total of \$89 million (2019: \$135 million) of unrecognized compensation cost related to non-vested PSUs based on performance conditions or market conditions. This cost is expected to be recognized over a weighted-average period of 2.0 years (2019: 2.0 years).

### Restricted share units

	2020		2019	
	Shares	Weighted average grant date fair value in USD	Shares	Weighted average grant date fair value in USD
Outstanding at January 1,	6,006,591	102.20	6,511,564	94.73
Granted	2,616,364	129.05	2,953,782	111.62
Vested	2,863,408	102.73	3,119,913	96.13
Forfeited	366,861	103.86	338,842	96.50
Outstanding at December 31,	5,392,686	114.83	6,006,591	102.20

The weighted average grant date fair value of restricted share units granted in 2020 was \$129.05 (2019: \$111.62). The fair value of the restricted share units at the time of vesting was \$372 million (2019: \$325 million).



At December 31, 2020, there was a total of \$369 million (2019: \$358 million) of unrecognized compensation cost related to non-vested restricted share units. This cost is expected to be recognized over a weighted-average period of 1.6 years (2019: 1.6 years).

### **31. Information on remuneration board of directors**

In accordance with Dutch law, our stockholders have adopted a compensation policy for the board of directors. The remuneration of our non-executive directors is determined at the general meeting of shareholders and the remuneration of our executive directors is resolved upon by our board of directors, with due observance of our compensation policy. Our chief executive officer is our only executive director. The executive director does not participate in the discussions of our board of directors on his compensation, nor does the chief executive officer vote on such a matter. To the extent the stockholders at a future stockholder meeting do not adopt the proposal of the board, the board must prepare a new proposal. After adoption of a proposal, only subsequent amendments will require stockholder approval.

#### *Compensation Policy and Objectives*

We operate globally and our chief executive officer, and the other named executive officers, other members of our management team and other key employees are located in multiple countries. As a result, our pay philosophy considers both the overall importance of consistency across the geographies in which we operate and where our executive talent resides, as well as the need to ensure competitive practices within a local country.

Our executive compensation program is designed to:

- Enable the organization to attract, retain, motivate and grow highly qualified talent with competitive and comprehensive programs
- Align to stakeholder interests, including shareholders, customers, employees, suppliers, as well as local and international communities where we operate, by delivering short and long term corporate strategic goals
- Create, develop and reward our smart, dedicated, hard-working and innovative executive and management team
- Reward both collective and individual performance with highly competitive rewards for outstanding performance consistent with our top pay for superior performance
- Deliver fiscally sound practices while maximizing the value to individuals and NXP
- Align to and reward demonstration of corporate values in support of our strong corporate culture

Overall, our compensation programs are competitive in the marketplace and highly incentive-based, with a majority of compensation at-risk which can be earned via our short and long term incentive programs based on overall Company performance.

Our executive compensation package therefore includes a significant variable part, consisting of an annual cash incentive, restricted stock units and performance-based restricted stock units. Executive performance targets are determined annually, at the beginning of the year, and assessed after the year once the financial performance of the year is known by, respectively, our Compensation Committee, our executive director or the other members of our management team. The compensation package for our board of directors, including our chief executive officer, the other members of our management team and our key employees is benchmarked on a regular basis against other companies in the high-tech and semiconductors industry.

#### *Say on Pay*

At our annual general meeting of shareholders held on May 27, 2020, we did not receive a majority of votes in favor of the proposal to approve, on a non-binding, advisory basis, our Named Executive Officers' compensation. We recognized the importance of engaging our shareholders' governance and investment stewardship teams to ensure that we understood their concerns on this issue and our compensation program philosophy and design.

- In response to shareholder concerns related to Say on Pay, we engaged in a broad shareholder outreach program, requesting meetings with the governance and investment stewardship teams of our 25 of our largest shareholders, which represented approximately 59% of our identifiable and actively managed shares, to discuss specific concerns and solicit feedback regarding our compensation programs and the publication of our proxy.

# Group Financial Statements

- In addition to our management outreach, our Chairman of the Board, and Chairs of the Compensation and Nominating and Governance committees met with governance and investment stewardship teams of five of our major shareholders, representing approximately 37% of our identifiable and actively managed shares, providing an opportunity for these shareholders to speak directly to our board leadership.
- In 2021, we have continued our commitment to an ongoing shareholder outreach program involving both Non-Executive Board members and internal management conversations with shareholders.

## *What we heard*

The feedback we received from our shareholders was direct and helpful. It included concerns regarding the magnitude of the equity incentive “reboot” grants in 2018 following the termination of the Qualcomm acquisition. We also heard concern about the terms of the advisory agreement with our former CEO taking effect in May 2020. These terms provided that he will serve as a strategic advisor to the Company to ensure an effective transition of leadership and that he would receive continued vesting of certain of his equity awards through October 31, 2021, subject to his continued service through that date.

We also discussed the design and payout ranges of our performance-based equity program. This program uses relative total shareholder return as the performance measure over a three-year period. Target shares are earned if we are at the median of the identified and disclosed peer group of companies.

Shareholders with whom we connected generally provided positive feedback on our overall ongoing program design and found that we have an appropriate balance of short and long-term rewards, with sufficient performance related elements.

Ultimately, the key feedback we heard was that the magnitude of the 2018 awards was perceived negatively while our overall ongoing program design was in line with market standards.

In addition to specific comments on executive compensation, shareholders expressed an interest in understanding important information about our workforce including demographics, diversity, equality and inclusion goals and statistics, how we invest in our current and future talent and how we monitor and manage retention.

## *What we did*

Our Board and executives thoughtfully considered and evaluated important information gathered from our shareholder engagement process and, together with feedback and input from our independent compensation consultant, decided upon the most appropriate course of action considering all relevant stakeholders. Based on this process and the input we received from our shareholders, we believe our current ongoing executive compensation program reflects current market practices and serves to strongly align the interests of our executives with those of our shareholders.

We acknowledge the shareholder concerns about the one-time “reboot” awards provided in the 2018. No grants of similar size have been made in 2019 and 2020, regardless of the extraordinary impact of COVID, taking into consideration the feedback regarding the 2018 “reboot” grant. Mr. Clemmer, for his role as CEO through May 2020, was provided no new award in 2020 and his 2019 award represented 23% of the award provided in 2018.

We structured Mr. Sievers’ compensation in connection with his promotion to CEO in 2020 with a focus on ensuring that his compensation is aligned with market practices. Mr. Sievers received a promotional grant in July, according to the CEO Agreements entered into and disclosed in March 2020, upon taking the role of CEO and combined with his annual grant as CEO received a total award less than the award provided as President in 2018. As CEO, his equity award was determined at 66% of the 2018 award granted as President. There is no current intention to provide exceptional awards to NEOs in the future.

With respect to the performance-based equity program, the Compensation Committee of the Board (the “Compensation Committee” or the “Committee”) considered the shareholder feedback and determined to continue with the current plan design. The Committee specifically considered that a common market practice is to have a single measure and have target payout at the median of the market, and therefore no changes were warranted. Relative Total Shareholder Return (“RTSR”) is the prevailing measure among our peers for a three-

year period which remains our ongoing measure for 2020 grants. It also represents the clearest connection to shareholder interests.

We have continued our standard practice of determining equity award sizes for all NEOs, including our new CEO, based on prevailing market practice in our peer group. We are also maintaining the program elements that are discussed later with positive support from these shareholders.

#### *Ongoing Shareholder Engagement*

We will continue a regular, proactive shareholder engagement approach with both the portfolio managers, sector equity analyst and governance teams and including semi-annual outreach by our Chairman and other non-executive directors to our top investors. We believe that regular engagement with our shareholders is important and will allow us to continue to understand and respond to their feedback, questions, and concerns on a more real-time basis. Throughout this process, we will seek to gain feedback and answer questions on our business strategy, compensation practices, governance topics, ESG and other related issues. Investor outreach has increased in 2020 focusing our efforts on virtually remaining connected. In those calls, investors have been given opportunity to ask questions and express ideas or concerns. In addition to the Board engagement described above, management held discussions with 109 active shareholders representing 81% of our outstanding shares. Overall management held 275 unique investor meetings or events with existing and potential investors as well as sell-side analysts.

#### *Base Salary*

Base salary represents annual fixed compensation and is a standard element of our executive compensation program we believe is necessary to attract and retain talent. The Compensation Committee reviews and approves our executive director's and other named executive officer's ("NEO's") base salary after assessing the following:

- An individual's role, performance and contributions, experience, and internal equity considerations relative to other executives with similar level roles and responsibilities;
- The competitive landscape, including the compensation practices of the companies in our Peer Group (and where appropriate, survey data from a broader index of comparable public companies); and
- Our business strategy and compensation philosophy.

After thoughtful consideration of these factors, the Compensation Committee increased the base salary of our chief executive officer, Mr. Sievers, to 1 million Euro in 2020 in recognition of his promotion to CEO, from his previous base salary of 665,000 Euro. Though all other annual base salaries remained unchanged from 2019 in accordance with the normal review process, each NEO agreed to a voluntary reduction in base pay of 25% from April 1, 2020. The reduced amounts were voluntarily forfeited and will not be recuperated. The voluntary 25% reduction in base pay for Messrs. Sievers, Kelly, Owen and Reed and Ms. Wuamett was terminated on December 31, 2020.

During 2020, we paid 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. As the chief executive officer and other NEO's, also all non-executive directors agreed to a voluntarily reduction in base fee of 25% from April 1, 2020 to December 31, 2020.

In accordance with Dutch law, the remuneration of the non-executive directors of the Board's committees has been set at the annual general meeting of shareholders held on May 27, 2020 as follows:

- Members of all permanent committees (the Audit Committee, the Compensation Committee and the Nominating and Governance Committee) will receive an annual fixed fee of \$15,000; and
- Chairs of all permanent committees will receive, in addition to their committee annual fixed fee remuneration, an annual fixed Chair fee of \$15,000.

Detailed information of the 2020 executive compensation program for the five NEO's of the Company (Messrs. Sievers, Kelly, Owen and Reed, and Ms. Wuamett) will be described in the Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 to be published in view of the next Annual General Meeting in May 2021.

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## *Annual Incentive*

Each year, our chief executive officer, the other NEO's and members of our management team and our other key employees can qualify to earn a variable cash incentive under the Annual Incentive Plan (“AIP”), subject to whether certain specific and challenging performance targets have been met. The AIP focuses on annual performance metrics critical to NXP’s success. These metrics and goals and their associated performance ranges are established near the start of the fiscal year and approved by the Compensation Committee. The Compensation Committee also reviews and approves AIP program taking into consideration:

- Each NEO’s role, experience and expected contributions
- The competitive market for determining targets as a percentage of base salary
- What measures best reflect the performance expectations for the fiscal year and their alignment to shareholder interests
- What structure will be motivating to reward executive leadership in delivering performance

For Mr. Sievers, the target was increased to 150% from 100% as a reflection of taking the role of CEO in May 2020. 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 2020 is based on revenue and market share targets, as well as on gross margin. Any targets are set by the board of directors, at the proposal of its compensation committee.

Over the year 2020, the financials targets were not earned at threshold and thus no amount has been accrued as an annual incentive bonus for our chief executive officer for our performance in 2020. Based on our performance in 2019, no annual bonus for our chief executive officer was paid over the year 2019.

## *Share Based Compensation Plans*

The purpose of our share based compensation plans, is to align the interests of directors and management with those of our stockholders by providing additional incentives to improve our medium and long term performance, by offering the participants an opportunity to share in the success of NXP.

Since 2010, we have maintained annual Long Term Incentive Plans, under which performance stock, restricted stock and stock options were granted to the members of our board of directors, NEO's, management team, our other executives, selected other key employees/talents of NXP and selected new hires. Under these Long Term Incentive Plans, equity incentives may be granted on, or the first Nasdaq trading day after NXP publishes its quarterly financials.

Performance stock units and restricted stock units vest over a period of one to three years, subject to relevant performance criteria being met in the case of performance stock units, and stock options vest over four years. Since 2016, no stock options are granted anymore. In the annual general meeting of shareholders held in June 2019, our shareholders approved the 2019 Omnibus Incentive Plan which provides for parameters of cash and equity-based incentive awards for employees including our chief executive officer, the other members of the board of directors and our management team.

Since this 2019 restrictive Omnibus Incentive Plan, restrictive stock units granted to the non-executive directors in our board vest over a period until the next annual general meeting of shareholders. As of July 26, 2018, we granted performance stock units (“PSU’s”) awards with a performance measure of Relative Total Shareholder Return (“Relative TSR”). Each PSU, which cliff vests on the third anniversary of the date of grant, entitles the grant recipient to receive from 0 to 2 common shares for each of the target units awarded based on the Relative TSR of the Company's share price as compared to a set of peer companies. Awards granted generally will become fully vested upon a termination event occurring within one year following a change in control, as defined. A termination event is defined as either termination of employment or services other than for cause or constructive termination of resulting from a significant reduction in either the nature or scope of duties and responsibilities, a reduction in compensation or a required relocation.

As of December 31, 2020, under the above equity plans, a total amount of 644,334 stock options, 2,131,694 performance stock units and 5,392,686 restricted stock units were outstanding, in total representing 8,168,714 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, 2020, the following stock options, restricted stock, performance stock and shares of common stock were outstanding with members of our board of directors:

### Kurt Sievers, CEO

As of December 31, 2020, our chief executive officer held 49,603 shares of common stock as filed under SEC Section 16 and had been granted the following unvested stock options, restricted stock units and performance stock units, which were outstanding:

Series	Number of Stock Options	Exercise Price (in \$)	Stock options Exercisable
2015/October	26,067	73.00	26,067

Series	Number of Stock Options	Exercise Price (in \$)	Stock Options Exercisable
2014/October	9,819	64.18	9,819

Series	Number of Restricted Stock Units	Number of Restricted Stock Units per vesting schedule		
		10/27/21	10/27/22	10/27/23
2020/October	24,770	8,256	8,256	8,258

Series	Number of Restricted Stock Units	Number of Restricted Stock Units per vesting schedule		
		07/28/21	07/28/22	07/28/23
2020/July	7,810	2,603	2,603	2,604

Series	Number of Restricted Stock Units	Number of Restricted Stock Units per vesting schedule	
		10/29/21	10/29/22
2019/October	11,363	5,681	5,682

Series	Number of Restricted Stock Units	Number of Restricted Stock Units per vesting schedule
		07/26/21
2018/July	21,551	21,551

Series	Number of Performance Stock Units	Number of Performance Stock Units per vesting schedule
		Maximum 200% pay-out 10/26/2023
2020/October	57,795	115,590

Series	Number of Performance Stock Units	Number of Performance Stock Units per vesting schedule
		Maximum 200% pay-out 07/26/21
2020/July	18,223	36,446

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Series	Number of Performance Stock Units	Number of Performance Stock Units per vesting schedule
		Maximum 200% pay-out 10/28/2022
2019/October	39,770	79,540

Series	Number of Performance Stock Units	Number of Performance Stock Units per vesting schedule
		Maximum 200% pay-out 7/26/2021
2018/July	150,846	301,692

## Other members of our board of directors

As of December 31, 2020, the other members of our board of directors held the following number of shares of common stock:

- Sir Peter Bonfield: 14,434 from vested stock units
- Mr. Goldman: 21,982 from vested stock units and acquisitions in the open market
- Mrs. Olving: 883 from vested stock units
- Mr. Kaeser: 38,949 from vested stock units
- Mrs. Staiblin: 2,642 from vested stock units and acquisitions in the open market
- Mr. Smitham: 5,034 from vested stock units
- Ms. Southern: 8,146 from vested stock units and acquisitions in the open market
- Mr. Sundström: 883 from vested stock units
- Mr. Summe: 12,736 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, 2020:

Series	Number of Restricted Stock Units	Number of Stock Units per vesting schedule
		05/26/21
2020/October	1,502	1,502

## Pensions

The following table sets forth certain information with respect to the potential benefits to our chief executive officer, Mr. Sievers, as of December 31, 2020. No other board members or NEO participates in a Company-sponsored defined benefit pension plan.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Kurt Sievers	Germany DBP	22	6,547,343	-

In connection with Mr. Sievers' employment by our German subsidiary, NXP Semiconductors Germany GmbH, he participates in the Defined Benefit Plan offered through that subsidiary (the "Germany DBP"). This Germany DBP is closed to new employees but was available to all eligible employees of that subsidiary until December 31, 2006. The value in this table has been converted from Euros using the rate of 1.1412, the average euro to U.S. dollar conversation rate for 2020.

Under the Germany DBP, participants receive notional contributions that are credited to their personal pension accounts in an amount of 11% of monthly base salary in excess of a calculated social security contribution ceiling that does not factor in the 2003 exceptional adjustment step (leading to a 2020 ceiling value of €6,200), less the additional contribution paid by the employer in the staff pension insurance. Contributions and returns on investments accumulated at retirement (normal retirement age is defined as between 60 – 67) are converted into an annuity based on fixed standard actuarial factors as mentioned in the plan rules. The Germany DBP also provides for certain disability, widow(er) and orphan beneficiary pension benefits.

In calculating the amounts shown in the column titled “Present Value of Accumulated Benefit” in the table above, we calculated the amounts reflected for Mr. Sievers in accordance with ASC 715 using the following assumptions: a calculation date of December 31, 2020, a 0.60 % discount rate, a 1.25 % pension increase rate, retirement occurring at age 63, and applicability of the “Heubeck-Richttafeln 2018 G” mortality table.

#### *Additional Arrangements*

In connection with Mr. Sievers’ nomination as executive director and president/chief executive officer, Mr. Sievers and the Company entered into a management agreement (the “Management Agreement”) and NXP Semiconductors Germany GmbH, a wholly owned indirect affiliate of the Company, and Mr. Sievers entered into an addendum to Mr. Sievers’ existing employment agreement (the “Secondment Addendum” and together with the Management Agreement, the “CEO Agreements”). A copy of the CEO Agreements can be found on Form 8-K filed by the Company on March 9, 2020.

The CEO Agreements provide that effective May 27, 2020 Mr. Sievers serves as Executive Director and President/CEO until the date of the following annual general meeting, and will be extended if NXP’s general meeting reappoints Mr. Sievers as Executive Director and President/CEO of NXP. The CEO Agreements provide that in the event that Mr. Sievers employment is terminated at the initiative of the Company and other than for cause, Mr. Sievers will be entitled to a severance amount of two times the gross annual base salary and a pro-rata payment of the annual cash bonus, depending on achievement of the pay-out conditions and the period in which Mr. Sievers has performed actual work for the Company. Mr. Sievers is subject to non-competition provisions that remain in effect for a period of one year following the termination of his employment agreement. The main elements of any new employment contract that we will enter into with a member of the board of directors will be made public no later than the date of the public notice convening the general meeting of stockholders at which the appointment of such member of the board of directors will be proposed. Non-executive directors of our board do not have a contract of employment.

In addition to the main conditions of employment, a number of additional arrangements apply to our chief executive officer; these arrangements do not apply to the non-executive members of our board of directors. These additional arrangements, such as housing compensation and relocation allowances, medical insurance, accident insurance, company car arrangements, are broadly in line with those for the NXP executives globally. In the event of disablement, our chief executive officer is entitled to benefits in line with those for other NXP executives. In the event of our chief executive officer’s death while in the service of NXP, any unvested equity awards (including any performance stock units and restricted stock units) will vest. In line with regulatory requirements, the Company’s policy forbids personal loans, guarantees or similar arrangements to members of our board, and consequently no loans, guarantees or similar arrangements were granted to such members since 2010, nor were any such loans outstanding as of December 31, 2020.

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.

#### *2020 CEO transition*

In connection with the promotion of Mr. Sievers to CEO on May 27, 2020, NXP USA, Inc. (“NXP USA”), a wholly owned indirect subsidiary of the Company entered into an agreement with the previous Mr. Clemmer (the “Advisory Agreement”). Under the Advisory Agreement, effective May 28, 2020, Mr. Clemmer will serve as strategic advisor to the Company’s Chief Executive Officer until October 31, 2021, unless terminated on an

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earlier date by NXP USA. During his term as CEO from January 1 to May 27, 2020, Mr. Clemmer's annual base salary was 1.2M Euro. He voluntarily accepted a 25% base pay reduction from April 1 through May 28, 2020. During the term of the Advisory Agreement, Mr. Clemmer will be paid a bi-weekly salary of the US\$ equivalent of EUR 46,153.86. Mr. Clemmer was eligible for a cash bonus of 150% of his salary under the Company's annual incentive plan for the period January 1, 2020 until May 28, 2020. He was not entitled to a payment under our AIP or LTI programs as of May 28, 2020.

In the event Mr. Clemmer's employment is terminated prior to October 31, 2021, other than for cause, he will be entitled to a fixed gross severance amount equal to the amount of the base salary he would have received from the date of termination of employment through October 31, 2021. The Advisory Agreement provides the Mr. Clemmer's equity awards will continue to vest, subject to achieving the targets, through his employment under the Advisory Agreement, including any extensions thereof and accelerated vesting upon death and change of control would continue to apply during this period. Unless in the event of termination of Mr. Clemmer's employment for cause, Reboot RSUs and Reboot PSUs granted on July 26, 2018 shall continue to vest until July 26, 2021 (full vesting), subject to achieving the targets. The Advisory Agreement contains non-compete and non-solicitation provisions that apply until the earlier of (i) one year from the end of his employment under the Advisory Agreement or (ii) June 1, 2022. A copy of the Advisory Agreement can be found as Exhibit 10.3 on Form 8-K filed by the Company on March 9, 2020.

Prior to entering into the Advisory Agreement, Mr. Clemmer served as the Executive Director and CEO with employment arrangements outlined in the management services agreement as amended over time for his hire in 2009.

## *Summary Compensation Table – key management remuneration*

The following table summarizes the total compensation paid to our chief executive officer and to each member of our board of directors, in each of the years presented. Any amounts that are paid to individuals in Euros are presented in U.S. dollars, where the average exchange rate for the year was used for conversion. In connection with the disclosure requirements of IAS 24 *Related Party Disclosures*, we consider the board of directors as our key management personnel.



Name and Principal Position	Year	Salary	Non-equity Incentive Plan Compensation	Performance and Restricted Share Units	Stock Options	Cost of Share and Option Awards	Other Compensation, Pension Costs, Pension Allowances	Total Costs
		(\$)	(\$ 1)	(# 2)	(# 3)	(\$ 4)	(\$ 5)	(\$ 4)
<b>Kurt Sievers</b>	2020 7)	483,015	—	108,598	—	7,703,511	2,423,075	10,609,601
Executive director, President and CEO	2019	—	—	—	—	—	—	—
	2018	—	—	—	—	—	—	—
<b>Richard L. Clemmer</b>	2020 8)	513,523	—	—	—	41,496,218	872,214	42,881,955
Executive director and CEO	2019 8)	1,345,200	—	131,109	—	33,633,528	1,608,589	36,587,317
	2018 8)	1,369,730	1,388,390	646,483	—	26,810,424	1,695,958	31,264,502
<b>Sir Peter Bonfield</b>	2020	284,965	—	1,502	—	197,061	—	482,026
Non-executive director and	2019	326,275	—	1,749	—	221,365	—	547,640
chairman of the board	2018	336,348	—	2,379	—	195,984	—	532,332
<b>Johannes P. Huth 9)</b>	2020	—	—	—	—	—	—	—
Non-executive director and	2019	44,997	—	—	—	(32,146)	—	12,851
vice-chairman of the board	2018	97,000	—	2,379	—	195,984	—	292,984
<b>Kenneth A. Goldman</b>	2020	84,063	—	1,502	—	197,061	—	281,124
Non-executive director	2019	100,000	—	1,749	—	221,365	—	321,365
	2018	110,000	—	2,379	—	195,984	—	305,984
<b>Dr. Marion Helmes 6)</b>	2020 9)	—	—	—	—	—	—	—
Non-executive director	2019 9)	—	—	—	—	—	—	—
	2018	50,000	—	—	—	(36,165)	—	13,835
<b>Josef Kaeser</b>	2020	84,063	—	1,502	—	197,061	—	281,124
Non-executive director	2019	98,750	—	1,749	—	221,365	—	320,115
	2018	100,000	—	2,379	—	195,984	—	295,984
<b>Ian Loring 6)</b>	2020 9)	—	—	—	—	—	—	—
Non-executive director	2019 9)	—	—	—	—	—	—	—
	2018	42,500	—	—	—	(36,165)	—	6,335
<b>Eric Meurice 10)</b>	2020	—	—	0	—	—	—	—
Non-executive director	2019	39,431	—	—	—	(32,146)	—	7,285
	2018	101,667	—	2,379	—	195,984	—	297,651
<b>Peter Smitham</b>	2020	99,063	—	1,502	—	197,061	—	296,124
Non-executive director	2019	111,667	—	1,749	—	221,365	—	333,032
	2018	101,334	—	2,379	—	195,984	—	297,318
<b>Gregory L. Summe</b>	2020	99,063	—	1,502	—	197,061	—	296,124
Non-executive director	2019	113,000	—	1,749	—	221,365	—	334,365
	2018	104,000	—	2,379	—	195,984	—	299,984
<b>Julie Southern</b>	2020	99,063	—	1,502	—	197,061	—	296,124
Non-executive director	2019	115,000	—	1,749	—	221,365	—	336,365
	2018	105,000	—	2,379	—	195,984	—	300,984
<b>Lena Olving 12)</b>	2020	84,063	—	1,502	—	197,061	—	281,124
Non-executive director	2019	50,569	—	1,749	—	57,957	—	108,526
	2018	—	—	—	—	—	—	—
<b>Jasmin Staiblin 12)</b>	2020	84,063	—	1,502	—	197,061	—	281,124
Non-executive director	2019	50,569	—	1,749	—	57,957	—	108,526
	2018	—	—	—	—	—	—	—
<b>Karl-Henrik Sundström 12)</b>	2020	99,063	—	1,502	—	197,061	—	296,124
Non-executive director	2019	55,569	—	1,749	—	57,957	—	113,526

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Name and Principal Position	Year	Salary	Non-equity Incentive Plan Compensation	Performance and Restricted Share Units	Stock Options	Cost of Share and Option Awards	Other Compensation, Pension Costs, Pension Allowances	Total Costs
		(\$)	(\$ 1)	(# 2)	(# 3)	(\$ 4)	(\$ 5)	(\$ 4)
	2018	—	—	—	—	—	—	—
Total	2020	2,014,007	—	—	—	50,973,278	3,295,289	56,282,574
	2019	2,451,027	—	—	—	35,071,297	1,608,589	39,130,913
	2018	2,517,579	1,388,390	—	—	28,305,966	1,695,958	33,907,893

- 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.
- Represents the number of Performance and Restricted share units granted to the individual in the year reported. See also Note 30 *Share-based Compensation* for additional information regarding our long-term incentive plans.
- Represents the number of Stock Options granted to the individual in the year reported. See also Note 30 *Share-based Compensation* for additional information regarding our long-term incentive plans.
- 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.
- The amounts reflected for Mr. Sievers in 2020 represent the time he was CEO from May 27 to December 31, 2020. The amounts consist of pension (2020: \$2,292,852) and other payments (2020: \$130,223). The amounts for Mr. Clemmer in 2020 reflect the time he was CEO from January 1 to May 27 2020. The amounts consist of pension cost 2020: \$0 - 2019: \$3,049 - 2018: \$12,549), pension allowances (2020: 197,362, 2019: \$590,765 - 2018: \$627,304) and other allowances (2020: \$674,852, 2019: \$1,014,775 - 2018: \$1,056,105).
- 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.
- In 2020, Mr. Sievers received no performance share units that had financial performance conditions, 76,018 performance share units that had market performance conditions and 32,580 restricted share units.
- In 2020, Mr. Clemmer did not receive any performance share unit or restricted share units. In 2019, Mr. Clemmer received no performance share units that had financial performance conditions, 91,776 performance share units that had market performance conditions and 39,333 restricted share units. In 2018, Mr. Clemmer received no performance share units that had financial performance conditions, 452,538 performance share units that had market performance conditions and 193,945 restricted share units.
- As a result of not standing for re-election by Dr. Helmes and Mr. Loring as noted in Note 6, 1,715 awards for Dr. Helmes and for Mr. Loring, respectively, were forfeited in 2018 resulting in a reversal of the related costs in accordance with IFRS 2 *Share-based Payment*.
- Mr. Eric Meurice's and Mr. Johannes P. Huth's director term expired at the annual meeting of shareholders on June 17, 2019, and both did not stand for re-election to the board of directors.
- As a result of not standing for re-election by Mr. Eric Meurice's and Mr. Johannes P. Huth as noted in Note 10, 2,379 awards for Mr. Eric Meurice's and Mr. Johannes P. Huth, respectively, were forfeited in 2019 resulting in a reversal of the related costs in accordance with IFRS 2 *Share-based Payment*.
- Ms. Lena Olving, Jasmin Staiblin and Mr. Karl-Hendrik Sundström were appointed as non-executive director effective June 17, 2019.

The tables below give an overview of the vesting of performance shares, restricted shares and stock options held by the members of the board of directors.

## Performance shares (holdings) in number of shares and US\$ - 2020

	1-Jan-20	Awarded 2020	Grant Date Share Price	Vested in 2020	Vesting dates in 2020	Vesting Date Share price	Vesting in 2021 or later
Kurt Sievers	22,603						
	150,846						150,846
	39,770						39,770
		18,223	115.24				18,223
		57,795	133.23				57,795

PSU's outstanding under the 2015 grant (22,603 shares per January 1, 2020) were forfeited since the related performance targets were not met.

*Performance shares (holdings) in number of shares and US\$ - 2019*

	1-Jan-19	Awarded 2019	Grant Date Share Price	Vested in 2019	Vesting dates in 2019	Vesting Date Share price	Vesting in 2020 or later
Richard L. Clemmer	71,918		73.00				71,918
	13,105		76.31				13,105
	452,538		92.81				452,538
		91,776	114.41				91,776

In the period from January 1, 2020 until the CEO transition on May 27, 2020, no PSU's have been granted, vested or cancelled for Mr. Clemmer or Mr. Sievers.

*Restricted shares (holdings) in number of shares and US\$ - 2020*

	1-Jan-20	Awarded 2020	Grant Date Share Price	Vested in 2020	Vesting Date Share Price	Vesting date	Vesting in 2021 or later
Kurt Sievers	10,607			10,607	137.18	Oct 26, 2020	
	43,100			21,549	115.75	Jul 26, 2020	21,551
	17,044			5,681	129.77	Oct 29, 2020	11,363
		7,810	115.24				7,810
		24,770	133.23				24,770
Sir Peter Bonfield	1,749			1,749	102.01	May 27, 2020	
		1,502	133.23				1,502
Kenneth Goldman	1,749			1,749	102.01	May 27, 2020	
		1,502	133.23				1,502
Josef Kaeser	1,749			1,749	102.01	May 27, 2020	
		1,502	133.23				1,502
Julie Southern	1,749			1,749	102.01	May 27, 2020	
		1502	133.23				1,502
Peter Smitham	1,749			1,749	102.01	May 27, 2020	
		1,502	133.23				1,502
Gregg Summe	1,749			1,749	102.01	May 27, 2020	
		1502	133.23				1,502
Lena Olving	1,749			1,749	102.01	May 27, 2020	
		1,502	133.23				1,502
Jasmin Staiblin	1,749			1,749	102.01	May 27, 2020	
		1,502	133.23				1,502
Karl-Henrik Sundström	1,749			1,749	102.01	May 27, 2020	
		1,502	133.23				1,502

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*Restricted shares (holdings) in number of shares and US\$ - 2019*

	1-Jan-19	Awarded 2019	Grant Date Share Price	Vested in 2019	Vesting Date Share Price	Vesting date	Vesting in 2020 or later
Richard L. Clemmer	42,054			42,054	105.86	Oct 27, 2019	
	90,910			45,455	105.86	Oct 26, 2019	45,455
	193,945			64,648	101.77	Jul 26, 2019	129,297
		39,333	114.41				39,333
Sir Peter Bonfield	2379			2379	113.68	Nov 1, 2019	
		1749	114.41				1,749
Kenneth Goldman	2379			2379	113.68	Nov 1, 2019	
		1749	114.41				1,749
Josef Kaeser	2379			2379	113.68	Nov 1, 2019	
		1749	114.41				1,749
Julie Southern	2379			2379	113.68	Nov 1, 2019	
		1749	114.41				1,749
Peter Smitham	2379			2379	113.68	Nov 1, 2019	
		1749	114.41				1,749
Gregg Summe	2379			2379	113.68	Nov 1, 2019	
		1749	114.41				1,749
Lena Olving							
		1749	114.41				1,749
Karl-Henrik Sundström							
		1749	114.41				1,749

*Stock Options (holdings) in number of shares and US\$ - 2020*

	Outstanding 1/1/2020	Granted	Strike Price	Vested	Vest date	Vest date share price	Exercised	Exercise date	Exercise price	Outstanding 31/12/2020	Exercisable
Kurt Sievers	9,819		\$64.18							9,819	9,819
	26,067		\$73.00							26,067	26,067

*Stock Options (holdings) in number of shares and US\$ - 2019*

	Outstanding 1/1/2019	Granted	Strike Price	Vested	Vest date	Vest date share price	Exercised	Exercise date	Exercise price	Outstanding 31/12/2019	Exercisable
Richard L. Clemmer	40,419		\$64.18							40,419	40,419
	82,939		\$73.00	41,470	29-Oct-19	\$108.65				82,939	41,469
	15,376		\$76.31	7,688	29-Oct-19	\$108.65				15,376	7,688

### 32. Fair value of financial instruments

The following table summarizes the estimated fair value of our financial instruments which are measured at fair value on a recurring basis:

	Fair value hierarchy	Estimated fair value	
		December 31, 2020	December 31, 2019
Assets:			
Money market funds	1	1,469	6
Marketable equity securities	1	19	1
Derivative instruments-assets	2	18	10
Liabilities:			
Derivative instruments-liabilities	2	—	(1)

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

#### *Assets and liabilities measured at fair value on a recurring basis*

Investments in money market funds (as part of our cash and cash equivalents) and marketable equity securities (as part of financial assets) have fair value measurements which are all based on quoted prices in active markets for identical assets or liabilities. For non-marketable equity securities, the fair value is estimated based on recent transactions, net asset value information or in the absence of reliable observable information, at cost. For derivatives (as part of other current assets or accrued liabilities) the fair value is based upon significant other observable inputs depending on the nature of the derivative.

#### *Assets and liabilities recorded at fair value on a non-recurring basis*

We measure and record our equity method investments and non-financial assets, such as intangible assets and property, plant and equipment, at fair value when an impairment charge is required.

#### *Assets and liabilities not recorded at fair value on a recurring basis*

Financial instruments not recorded at fair value on a recurring basis include equity method investments that have not been remeasured or impaired in the current period and debt. As of December 31, 2020, the estimated fair value of debt, including the current portion, was \$8.6 billion (\$7.9 billion as of December 31, 2019). The fair value is estimated on the basis of broker-dealer quotes, which are Level 2 inputs. Accrued interest is included under accrued liabilities and not within the carrying amount or estimated fair value of debt.

### 33. Financial risk management and concentration of risk

We conduct business in diverse markets around the world and employ a variety of risk management strategies and techniques to manage foreign currency exchange rate and interest rate risks. Our risk management program focuses on the unpredictability of financial markets and seeks to minimize the potentially adverse effects that the volatility of these markets may have on our operating results. One way we achieve this is through the active hedging of risks through the selective use of derivative instruments.

Derivatives are recorded on our consolidated balance sheet at fair value which fluctuates based on changing market conditions.

The Company does not purchase or hold financial derivative instruments for trading purposes.

The aim of the capital management strategy of NXP is to secure the Company's continued business operations, to enhance its enterprise value and to create solid capital resources for financing its profitable growth. When analyzing NXP's capital structure the Company uses the same debt/equity classifications as applied in the IFRS reporting.

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In managing capital we seek to:

- maintain sufficient financial strength to support our business growth as well as satisfy the requirements of our regulators and other stakeholders, giving both our customers and shareholders assurance of our financial stability;
- optimize our overall debt to equity structure to enhance our returns to shareholders, subject to our capital risk appetite and balancing the requirements of the range of stakeholders;
- retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.

## *Market risk*

We are exposed to changes in interest rates and foreign currency exchange rates because we finance certain operations through fixed and variable rate debt instruments and denominate our transactions in a variety of foreign currencies. Changes in these rates may have an impact on future cash flow and earnings. We manage these risks through normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. We do not enter into financial instruments for trading or speculative purposes.

By using derivative instruments, we are subject to credit and market risk. The fair market value of the derivative instruments is determined by using valuation models whose inputs are derived using market observable inputs, including interest rate yield curves, as well as foreign exchange and commodity spot and forward rates, and reflects the asset or liability position as of the end of each reporting period. When the fair value of a derivative contract is positive, the counterparty owes us, thus creating a receivable risk for us. We are exposed to counterparty credit risk in the event of non-performance by counterparties to our derivative agreements. We minimize counterparty credit (or repayment) risk by entering into transactions with major financial institutions of investment grade credit rating. Our exposure to market risk is not hedged in a manner that completely eliminates the effects of changing market conditions on earnings or cash flow.

## *Interest rate risk*

Our RCF Agreement has a \$1,500 million borrowing capacity with a floating rate interest. As there are currently no borrowings under this facility, a hypothetical increase in LIBOR based interest rates would not have caused any change to our interest expense on our floating rate debt. Additional information regarding our notes is provided in Note 21 - *Long-term debt*.

## *Currency risk*

The Company's transactions are denominated in a variety of currencies. The Company uses financial instruments to reduce its exposure to the effects of currency fluctuations. Accordingly, the Company's organizations identify and measure their exposures from transactions denominated in other than their own functional currency. We calculate our net exposure on a cash flow basis considering balance sheet items, actual orders received or made and anticipated revenue and expenses. The Company generally hedges foreign currency exposures in relation to transaction exposures, such as receivables/payables resulting from such transactions and part of anticipated sales and purchases. The Company generally uses forwards to hedge these exposures. As of January 1, 2016, as a result of the acquisition of Freescale, NXP has concluded that the functional currency of the holding company is USD. Beginning from January 1, 2016, our U.S. dollar-denominated notes and short term loans will no longer need to be re-measured. Prior to January 1, 2016, the U.S. dollar-denominated debt held by our Dutch subsidiary (which had at that time a euro functional currency) could have generated adverse currency results in financial income and expenses depending on the exchange rate movement between the euro and the U.S. dollar. This exposure was partially mitigated by the application of net investment hedge accounting, which had been applied since May 2011. The U.S. dollar exposure of the net investment in U.S. dollar functional currency subsidiaries was hedged by certain of our U.S. dollar denominated debt. The hedging relationship was assumed to be highly effective. Foreign currency gains or losses on this U.S. dollar debt that were recorded in a euro functional currency entity that were designated as, and to the extent they were effective, as a hedge of the net investment in our U.S. dollar foreign entities, were reported as a translation adjustment in other comprehensive income within equity, and offset in whole or in part the foreign currency changes to the net investment that were also reported in other comprehensive income. Absent the application of net investment hedging, these amounts would have been recorded as a loss within financial income (expense) in the statement of operations.

In the below table we have summarized how the quarterly change in the EUR/USD exchange rate during 2020 impacted the foreign exchange result in the statement of operations as well as the currency translation reserve in equity:

Volatility (\$ in millions)	EUR/USD opening-closing rate	change in %	statement of operations	Statement of changes in equity
			foreign exchange gain/(loss)	currency translation gain/(loss)
Q1 2020	1.1217 - 1.0954	(2)%	4	(49)
Q2 2020	1.0954 - 1.1226	2 %	(5)	26
Q3 2020	1.1226 - 1.1642	4 %	(5)	37
Q4 2020	1.1642 - 1.2280	5 %	(10)	64

Our currency hedging activity had an impact of a \$1 million gain on *Cost of revenue* (2019: nil), no impact on *Research and development expenses* (2019: \$9 million loss), and a \$1 million gain impact on *Selling, general and administrative expenses* (2019: \$4 million loss). The impact of currency hedging on financial income is disclosed in Note 7 *Financial income (expense)*.

The gross notional amounts of the Company's foreign currency derivatives by currency for the years ended December 31, 2020 and December 31, 2019 were as follows:

	2020	2019
Euro	532	579
Chinese renminbi	150	90
Great British pound	34	22
Japanese yen	21	29
Malaysian ringgit	122	138
Singapore dollar	65	49
Swiss franc	29	28
Taiwan dollar	159	103
Thai baht	104	69
Other	48	41

See also Note 7 *Financial income (expense)* as well as Note 32 *Fair value of financial instruments* for the effect that hedge accounting has had on our statement of operations and balance sheet.

#### *Liquidity risk*

At December 31, 2020, our cash balance was \$2,275 million, of which \$185 million was held by SSMC, our consolidated joint venture company with TSMC. Under the terms of our joint venture agreement with TSMC, a portion of this cash can be distributed by way of a dividend to us, but 38.8% of the dividend will be paid to our joint venture partner. During 2020, \$90 million dividend (2019, no dividend) was declared.

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.

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## *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 17% of our revenue in 2020 and 14% in 2019. One other distributor accounted for less than 10% of our revenue in 2020 and 2019. No other distributor accounted for greater than 10% of our revenue for 2020 or 2019. One OEM for which we had direct sales to accounted for less than 10% of our revenue in 2020 and 11% in 2019. No other individual OEM for which we had direct sales to accounted for more than 10% of our revenue for 2020 or 2019.

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

The Company is using outside suppliers or foundries for a portion of its manufacturing capacity.

We have operations in Europe and Asia subject to collective bargaining agreements which could pose a risk to the Company in the near term, but we do not expect that our operations will be disrupted if such is the case.

The Company's risk factors are summarized in the Report of the Directors under the *Governance* chapter.

### **34. Subsequent events**

On March 4, 2021, the Board of Directors of NXP Semiconductors N.V. approved the payment of an interim dividend for the first quarter of 2021 of \$0.5625 per ordinary share. The interim dividend will be paid on April 5, 2021 to shareholders of record as of March 15, 2021.

Additionally, on March 4, 2021, consistent with NXP's historic policy of returning excess cash to shareholders, the board of directors has also approved a new \$2 billion 2021 share repurchase program. The new \$2 billion share repurchase authorization is in addition to \$640 million remaining for repurchase under the previously authorized share repurchase program.



# Company Financial Statements

## Balance sheet of NXP Semiconductors N.V.

The balance sheet is presented after appropriation of profit.

	December 31,	
	2020	2019
\$ in millions, unless otherwise stated		
<b>Assets</b>		
2 Equity -accounted investees	10,540	11,196
<b>Non-current assets</b>	<b>10,540</b>	11,196
3 Loan receivable from subsidiary	748	354
<b>Current assets</b>	<b>748</b>	354
<b>Total assets</b>	<b>11,288</b>	11,550
<b>Liabilities and shareholders' equity</b>		
Dividend payable	105	106
<b>Current liabilities</b>	<b>105</b>	106
<b>Current assets less current liabilities</b>	<b>643</b>	248
<b>Total assets less current liabilities</b>	<b>11,183</b>	11,444
<b>4 Shareholders' equity:</b>		
Share capital		
<i>Preferred stock, par value €0.20 per share:</i>		
Authorized: 645,754,500 (2019: 645,754,500 shares)		
Issued: none		
<i>Common stock, par value €0.20 per share:</i>		
Authorized: 430,503,000 shares (2019: 430,503,000 shares)		
Issued and fully paid: 289,519,638 shares (2019: 315,519,638 shares)	71	64
Capital in excess of par value**	15,261	16,307
Legal reserves: currency translation differences	(306)	(384)
Legal reserves: hedging	(502)	(511)
Legal reserves: participating interests	1,357	1,310
Retained earnings: treasury shares	(1,037)	(3,037)
Retained earnings: accumulated deficit* **	(3,661)	(2,305)
	<b>11,183</b>	11,444
<b>Total equity and liabilities</b>	<b>11,288</b>	11,550

\* Accumulated deficit is restated by combining *unappropriated profit* (previously *net income*) and *accumulated deficit*. See also Note 1 *Basis of preparation and summary of significant accounting policies – change in accounting policy balance sheet after profit appropriation*.

\*\* See Note 2 *Significant accounting policies and new accounting standards to be adopted after 2020 - Income taxes* of the consolidated financial statements.

Shareholders' equity corresponds with the shareholders' equity of NXP as disclosed in the consolidated balance sheet.

# Company Financial Statements

## Statement of operations of NXP Semiconductors N.V.

\$ in millions, unless otherwise stated	2020	2019
Income from equity accounted investees	263	720
Other income (expense)	17	(208)
Net income	280	512

Other income includes \$17 million interest income (2019 interest expense of \$210 million).

The net income corresponds with the net income attributable to shareholders of NXP as disclosed in the consolidated statements of operations.

## Notes to the Company financial statements for the year ended December 31, 2020

\$ 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 2020* of the consolidated financial statements of this Annual report.

The loan receivable from 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 which amounts to \$4 million (2019: corporate income tax benefit of \$52 million). NXP Semiconductors Netherlands BV has a corporate income tax payable of \$90 million (2019: corporate income tax receivable of \$1 million). For more information on income taxes, see Note 8 *Income taxes* of the consolidated financial statements.

The statutory reserve for participating interests pertains to participating interests that are measured at net asset value. The reserve is equal to the share in the results and direct changes in equity (both calculated on the basis of the Company's accounting policies) of the participating interests since the first measurement at net asset value, less the distributions that the Company has been entitled to since the first measurement at net asset value, and less distributions that the Company may effect without restrictions. As to the latter share, this takes into account any profits that may not be distributable by participating interests that are Dutch limited companies based on the distribution tests to be performed by the management of those companies. The statutory reserve is determined on an individual basis.

The statutory reserve for hedging pertains to net investment and cash flow hedge accounting, measured in accordance with IFRS. The statutory reserve for currency translation is determined in accordance with the IFRS requirements for currency translation reserve.

Income from equity accounted investees relates to the share of the Company in the results of its participating interests.

### *Presentation of Company financial statements*

The statement of operations has been prepared in accordance with Section 402 Part 9 of Book 2 of the Netherlands Civil Code which allows a simplified statement of operations in the event that a comprehensive statement of operations is included in the consolidated group financial statements. The Company financial statements only contain an abbreviated statement of operations.

### *Change in accounting policy balance sheet after profit appropriation*

NXP updated its policy with regard to the presentation of the balance sheet from *before profit appropriation* to *after profit appropriation*. This update is driven by the revised accounting guidance in Dutch GAAP (RJ 160.210) on the presentation of interim dividends that apply to the balance sheet before profit appropriation.

The change is applied retrospectively, by restating the opening balance for 2019 and the equity movement schedule (in note 4 *Shareholders' equity*). As a result, *undistributed profits* are now included in *accumulated deficit*. This policy change does not impact net income or total equity.

## **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:

	<u>2020</u>	<u>2019</u>
Balance as of January 1,	11,196	19,493
Changes in book value:		
Share-based payments	321	318
Net income	263	720
Currency translation differences	78	(15)
Hedge accounting	9	5
Treasury shares used by NXP B.V. and its subsidiaries	(285)	(310)
Net actuarial gains/(losses)	(41)	(32)
Dividend paid	(1,000)	(9,000)
Business combinations	—	19
Other	(1)	(2)
Balance as of December 31,	<u>10,540</u>	<u>11,196</u>

A list of subsidiaries and affiliated companies, prepared in accordance with the relevant legal requirements (Netherlands Civil Code, Book 2, Sections 379 and 414), is deposited at the office of the Commercial Register in Eindhoven, Netherlands.

## **3. Loan receivable from subsidiary**

The loan receivable from NXP B.V. increased during the year from \$354 million at December 31, 2019 to \$748 million at December 31, 2020. The increase is primarily explained by the dividend paid by NXP B.V. of \$ 1,000 million and the cross charging to NXP B.V. for treasury shares used by NXP B.V. and its subsidiaries for a total amount of \$285 million; partially offset by the 2020 financing by NXP B.V. of the Company's purchases of treasury shares (including taxes) (\$ 555 million), dividends paid (\$420 million) and interest received (\$17 million). Furthermore, the loan receivable consists of the settlement of assets and liabilities between NXP Semiconductors N.V. and NXP B.V. related to the ordinary course of business. The applicable interest rate is LIBOR plus a margin equal to the credit spread for the NXP B.V.'s Revolving Credit Facility.

# Company Financial Statements

## 4. Shareholders' equity

	Legal reserves					Retained earnings			Total Shareholders' equity
	Share capital	Capital in excess of par value	Currency translation differences	Hedging	Participating interests*	Treasury shares	Accumulated deficit	Undistributed profits	
Balance as of December 31, 2018	67	16,587	(369)	(516)	1,241	(3,238)	(4,164)	2,597	12,205
Change in accounting policy <i>excess tax profits</i> **		(19)					19		
Change in accounting policy balance sheet after profit appropriation ***							2,597	(2,597)	
Balance as of 1 January, 2019	67	16,568	(369)	(516)	1,241	(3,238)	(1,548)		12,205
Net income (loss)							512		512
Allocation to legal reserve							(69)		(69)
Current period change			(15)	(6)	69				48
Reclassifications to income				11					11
Share-based compensation plans		352					13		365
Retirement treasury shares	(3)	(632)					(587)		(1,222)
Shareholder tax on repurchased shares							95		95
Remeasurements defined benefits							(32)		(32)
Other treasury shares transactions						201	(338)		(137)
Dividends common stock							(351)		(351)
Business combinations		19							19
<b>Balance as of December 31, 2019</b>	<b>64</b>	<b>16,307</b>	<b>(384)</b>	<b>(511)</b>	<b>1,310</b>	<b>(3,037)</b>	<b>(2,305)</b>		<b>11,444</b>
Net income (loss)							280		280
Allocation to legal reserves							(47)		(47)
Current period change			78	15	47				140
Reclassifications to income				(6)					(6)
Share-based compensation plans		389					2		391
Retirement treasury shares	(5)	(1,267)				2,263	(991)		—
Remeasurements defined benefits							(44)		(44)
Treasury shares transactions						(263)	(292)		(555)
Dividends common stock							(420)		(420)
Expiration of warrants		(168)					168		—
Revaluation share capital	12						(12)		—
<b>Balance as of December 31, 2020</b>	<b>71</b>	<b>15,261</b>	<b>(306)</b>	<b>(502)</b>	<b>1,357</b>	<b>(1,037)</b>	<b>(3,661)</b>		<b>11,183</b>

\* The Participating interests reserve includes the legal reserve related to capitalized development expenses of the Dutch principal.

\*\* See Note 2 *Significant accounting policies and new accounting standards to be adopted after 2020 - Income taxes* of the consolidated financial statements.

\*\*\* Accumulated deficit is restated by combining *unappropriated profit* (previously *net income*) and *accumulated deficit*. See also Note 1 *Basis of preparation and summary of significant accounting policies - change in accounting policy balance sheet after profit appropriation*.

The net income for the year 2020 of \$280 million has been appropriated to the accumulated deficit in accordance with Article 34.5 of the Company's articles of association.

On September 10, 2018, NXP announced the initiation of a Quarterly Dividend Program under which the Company started to pay a regular quarterly cash dividend. Accordingly, interim dividends of \$0.375 per ordinary share were paid on January 6, April 6, July 6, October 5, 2020; and January 5, 2021.

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

## 5. Employees

The number of persons having a contract with the Company at the year-end 2020 was 2 (2019: 3): of which one of them (Mr. Sievers) had a management services contract, and the other had a contract of employment.

Detailed information of the 2020 executive compensation program for the five Named Executive Officers of the Company (Messrs. Sievers, Kelly, Owen and Reed, and Ms. Wuamett) will be described in the Proxy Statement

Pursuant to Section 14(a) of the Securities Exchange Act of 1934 to be published in view of the next Annual General Meeting.

## 6. Contingent liabilities

General guarantees as referred to in Section 403, Book 2, of the Dutch Civil Code, have been given by the Company for to the following group companies in the Netherlands:

- NXP B.V.
- NXP Semiconductors Netherlands B.V.
- NXP Software B.V.
- Catena Holding B.V.
- Catena Microelectronics B.V.
- Catena Radio Design B.V.

## 7. Audit fees

\$ in millions	EY NL/KPMG Accountants N.V.*		Other EY/KPMG network*		Total	
	2020	2019	2020	2019	2020	2019
Audit of the financial statements	3.3	3.3	0.8	1.1	4.1	4.4
Other audit engagements	0.2	0.2	—	—	0.2	0.2
Tax-related advisory services	—	—	0.2	—	0.2	—
Other non-audit services	—	—	0.5	—	0.5	—
<b>Total</b>	<b>3.5</b>	<b>3.5</b>	<b>1.5</b>	<b>1.1</b>	<b>5.0</b>	<b>4.6</b>

\*Following the appointment of Ernst & Young Accountants LLP as our independent auditors for a three-year period, starting with the year ending December 31, 2020, the above 2020/2019 audit fees relate to respectively Ernst & Young Accountants LLP/KPMG Accountants N.V. and their network.

Audit fees consist of fees for the examination of both the consolidated and statutory financial statements. Other audit engagements also include fees that only our independent auditor can reasonably provide such as comfort letters and review of documents filed with the SEC. The above mentioned fees exclude out of pocket expenses of \$0.3 million (2019: \$0.3 million).

The fees mentioned in the table for the audit of the financial statements relate to the total fees for the audit of the financial statements 2020 (2019), irrespective of whether the activities have been performed during the financial year 2020 (2019).

## 8. Related parties

Reference is made to Note 29 *Related-party transactions* of the consolidated financial statements. The Company maintains a General Service Agreement contract with NXP B.V. that stipulates that certain third party consultancy costs and other services, which are due by the Company (including salary costs of the Executive Officers), are paid by NXP B.V.

## 9. Subsequent events

For the subsequent events, we refer to Note 34 *Subsequent events* of the consolidated financial statements.

March 4, 2021

Board of directors

# Other Information

## Independent auditor's report

To: the shareholders and audit committee of the board of directors of NXP Semiconductors N.V.

## Report on the audit of the financial statements 2020 included in the annual report

### Our opinion

We have audited the financial statements 2020 of NXP Semiconductors N.V. (the Company), based in Eindhoven. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of NXP Semiconductors N.V. as at 31 December 2020, and of its result and its cash flows for 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) 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 31 December 2020, and of its result for 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated balance sheet as at 31 December 2020
- The following statements for 2020: the consolidated statements of operations, comprehensive income, changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2020
- The company statement of operations for 2020
- The notes comprising a summary of the 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.

## Our audit approach

### Our understanding of the business

NXP Semiconductors N.V. is a global semiconductor manufacturer operating in a broad range of markets. The group is structured in operating reporting units (components) and we tailored our group audit approach accordingly. We paid specific attention in our audit to a number of areas driven by the operations of the group and our risk assessment.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks and to obtain 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Initial audit engagements involve considerations in addition to those applied in recurring audits. During initial audit engagements we need to gain sufficient knowledge about the Company, its business, control environment and application of accounting principles in order to perform our initial audit risk assessment and planning of audit activities. A transition plan, including independence clearance, was prepared prior to the start of the audit. We started our transitional procedures to gain an understanding of the Company and its business including its control environment and accounting policies. We have been in close contact with the predecessor auditor and have performed reviews on their audit files at all levels throughout the group. During 2020 we have had regular meetings with management, performed quarterly review procedures and assessed key audit matters at an early stage.

In 2020 we were forced to perform our procedures to a greater extent remotely due to the Covid-19 measures. This limits our observation and increases the risk of missing certain signals. In order to compensate for the limitations related to physical presence and direct observation, we performed alternative procedures (for example for certain locations where we were unable to attend inventory observations physically due to restrictions, we performed inventory observations using remote viewing technology) to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

### Materiality

Materiality	USD 60 million
Benchmark applied	2.5% of EBITDA
Explanation	We selected EBITDA to benchmark materiality as in our professional judgment, users of the financial statements of a listed and mature company primarily focus on earnings based measures. Other earnings based measures may be very volatile as a result of the cyclical nature of the semiconductor industry and the specific cost structure of the company.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the audit committee of the board of directors that misstatements in excess of USD 3 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.

# Other Information

## **Scope of the group audit**

NXP Semiconductors N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of NXP Semiconductors N.V.

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 components. Decisive were the size and/or the risk profile of the components or operations. On this basis, we selected components for which an audit or review had to be carried out on the complete set of financial information or specific items.

Following our assessment of the risk of material misstatement to NXP Semiconductors N.V.'s consolidated financial statements, we have selected significant components in United States, the Netherlands, Malaysia, Singapore, Taiwan, and Thailand. For these components we allocated an audit of the complete financial information (full scope components) or we allocated components to perform audit procedures on specific account balances that we considered had the potential for the greatest impact on the significant accounts in the financial statements, either because of the size of these accounts or their risk profile. We performed audit procedures on accounting areas managed centrally, such as the key audit matters related to revenue recognition and capitalized development costs, the majority of the audit procedures of the US and Dutch components and other centralized accounts. We performed review procedures or specific audit procedures at other group entities.

Because of the (international) travel restrictions and social distancing due to the Covid-19 pandemic, we needed to restrict or have been unable to visit management and/or component auditors to perform our oversight procedures on site. Instead, we predominantly used video or teleconferencing facilities, as well as EY's electronic audit file platform and screen sharing to communicate with component audit teams. Our communication with component teams included discussions relating to, among others, the business activities and the identified significant risks or to review and evaluate relevant parts of the component auditor's audit documentation and to discuss significant matters arising from that evaluation. In these extraordinary circumstances we predominantly used communication technology and written information exchange, e.g. intensified communication with management and component teams, requiring more granular reporting from our component teams, performing audit procedures centrally, etc. in order to obtain sufficient and appropriate audit evidence.

By performing the procedures mentioned above at 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 consolidated financial statements. These procedures represent 96.0% of the group's total assets and 99.7% of gross revenues.

## **Teaming, use of specialists**

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a listed client in the semiconductor industry. We included specialists in the areas of IT audit, forensics, income tax and transfer pricing and have made use of our own experts in the areas of valuation and actuaries.

## **Our focus on fraud and non-compliance with laws and regulations**

### **Our responsibility**

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. Non-compliance with laws and regulations may result in fines, litigation or other consequences for the company that may have a material effect on the financial statements.

### **Our audit response related to fraud risks**

In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the entity and its environment, including the entity's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the company's internal control.



We considered available information and made enquiries of relevant executives, directors and the audit committee of the board of directors. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic specialists. In our risk assessment we considered the potential impact of performance based bonus schemes which the company has in place. Furthermore, as NXP Semiconductors N.V. is a global company, operating in multiple jurisdictions, we considered the risk of bribery and corruption. In our process of identifying fraud risks, we considered whether the Covid-19 pandemic gives rise to specific fraud risk factors. We also considered the potential risk of management under pressure to meet financial targets.

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in the financial statements. We have also used data analysis to identify and address high-risk journal entries.

We describe the audit procedures responsive to the assessed fraud risk related to revenue recognition in the description of our audit approach for the key audit matter.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

#### **Our audit response related to risks of non-compliance with laws and regulations**

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the management board, reading minutes, inspection of internal audit and compliance reports and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

#### **Going concern**

We performed the following procedures in order to identify and assess the risks of going concern and to conclude on the appropriateness of management's use of the going concern basis of accounting. Management made a specific assessment of the company's ability to continue as a going concern and to continue its operations for at least the next twelve months. We discussed and evaluated the assessment with management exercising professional judgment and maintaining professional skepticism, and specifically focusing on the process followed by management to make the assessment, management bias that could represent a risk, the impact of current events and conditions have on the company's operations and forecasted cash flows, with a focus on whether the company will have sufficient liquidity to continue to meet its obligations as they fall due.

We consider based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

# Other Information

## General audit procedures

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

## Our key audit matters

Key audit matters are those matters that, in our professional judgment, 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.

Fraud risk related to revenue recognition <i>Reference is made to Note 5 of the consolidated financial statements</i>	
Risk	<p>As discussed in Note 5 net revenues for the year ended 31 December 2020 amounted to USD 8,612 million. Revenue is recognized when control of the product is transferred to the customer, which typically occurs at delivery taken into account contractual agreements. Further reference is made to Note 2 to the Consolidated financial statements for the significant accounting policies on revenue recognition.</p> <p>Management focuses on revenue as a key performance measure. This could create an incentive for improper revenue recognition due to the pressure management may feel to achieve desired targets. We consider the fraud risk related to revenue recognition a key audit matter specifically relating to the risk of management override, which could occur via manual journal entries or via manual adjustments to the distributor incentive accrual or cut-off of revenue transactions.</p>
Our audit approach	<p>As part of our audit procedures, we evaluated the appropriateness of the Group's revenue recognition accounting policies. We obtained an understanding, evaluated the control design and tested the operating effectiveness of the Company's controls that address the risk of management override relating to revenues. This included the testing of controls related to manual journal entries, the distributor incentive accrual, and cut-off of revenue transactions. We also performed procedures to evaluate the design and operation of IT processes, including testing of application controls and the data and reports used in the execution of key controls.</p> <p>We used data-analytics to audit key risk areas and identify exceptional or unusual revenue activity and patterns. We performed cut-off procedures to ensure revenue is recognized in the correct period by obtaining formal customer acceptance documentation to evidence occurrence of revenues in the appropriate period. With respect to the distributor incentive accrual, we evaluated management's estimates by performing, amongst others, an evaluation of the nature and substantiation of manual adjustments, analytical procedures, a retrospective review of actual settlements and confirmation of the agreed upon terms and conditions for a sample of customer contracts.</p> <p>We also assessed the adequacy of the Company's revenue disclosures contained in Note 2, Significant accounting policies, and Note 5, Operating income, to the consolidated financial statements.</p>
Key observations	<p>We consider the Company's accounting policies related to revenues appropriate. Furthermore, we did not identify any material misstatement in the revenues reported within the financial statements. In addition, we assessed that the revenue disclosures are adequate.</p>

Uncertain tax positions	
<i>Reference is made to Note 8 of the consolidated financial statements</i>	
Risk	<p>As discussed in Note 8, at 31 December 2020, the Company had approximately USD 161 million of unrecognized tax benefits associated with uncertain tax positions. Uncertainty in a tax position may arise as tax laws are subject to interpretation. The Company uses significant judgment in (1) determining whether a tax position's technical merits are more-likely-than-not to be sustained and (2) measuring the amount of tax benefit that qualifies for recognition.</p> <p>As part of our initial audit, auditing the recognition and measurement of tax positions related to uncertain tax positions involved significant auditor judgment and use of tax professionals with specialized skills and knowledge because both the recognition and measurement of the tax positions are complex, highly judgmental and based on interpretations of tax laws and legal rulings.</p>
Our audit approach	<p>We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process to record the reserve for uncertain tax positions. For example, we tested controls over management's evaluation of the technical merits of tax positions and identification of uncertain tax positions and the controls to measure the benefit of those tax positions, including management's review of the inputs and calculations of unrecognized tax benefits resulting from uncertain tax positions.</p> <p>To test the amounts recorded as uncertain tax positions we involved our tax professionals with specialized skills and knowledge to evaluate the technical merits of the Company's tax positions. Our procedures included, among others, inspecting correspondence, assessments and settlements from the relevant tax authorities and evaluating income tax opinions or other third-party advice obtained by the Company. We also applied our knowledge and experience with the application of federal, foreign and state income tax laws to evaluate the Company's accounting for those tax positions. We analyzed the Company's assumptions and data used to determine the amount of tax benefit to recognize and tested the accuracy of the calculations. We also evaluated the Company's income tax disclosures included in Note 8 in relation to these matters.</p>
Key observations	<p>We consider the Company's accounting policies related to uncertain tax positions appropriate. Furthermore, we did not identify any material misstatement in the uncertain tax positions reported within the financial statements. In addition, we assessed that the income tax disclosures are adequate.</p>

# Other Information

Capitalized development costs <i>Reference is made to Note 14 of the consolidated financial statements</i>	
Risk	<p>In determining the amounts to be capitalized, the Company makes assumptions regarding the expected future economic benefits generated by a project. As discussed in Note 14 the capitalized development costs at 31 December 2020 amount to USD 2,682 million, of which USD 1,356 million are in progress and therefore not yet amortized.</p> <p>Development costs are capitalized based on management's judgment that technological feasibility and economic profitability is probable, as required under IAS 38. Intangible assets, including capitalized development costs, are assessed for impairment by the Company.</p> <p>Auditing the capitalized development costs requires significant attention for the audit team given the inherent uncertainty around forecasting future economic benefits supporting the initial recognition of capitalized development costs and the significance of the amounts involved.</p>
Our audit approach	<p>We obtained an understanding and evaluated the control design over the Company's process, which includes the Company's assessment of the eligibility of the development costs based on the relevant capitalization criteria.</p> <p>In line with our risk assessment, we focused our audit procedures on projects, based on a representative sample, which moved from research phase to development phase in 2020 for which we evaluated whether the capitalization criteria per IAS 38 were met.</p> <p>Furthermore, our audit procedures included, amongst others, assessment of the eligibility of the development costs for capitalization, based on a representative sample. In relation to the impairment test for capitalized development costs we have evaluated the indicators and methodology used by management. We also assessed the adequacy of the Company's disclosure in the financial statements.</p>
Key observations	<p>We consider the Company's accounting policies related to capitalized development costs appropriate. Furthermore, we did not identify any material misstatement in the capitalized development costs reported within the financial statements. We also assessed the adequacy of the Company's disclosure in the financial statements.</p>

## Report on 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:

- The report of the directors
- The remuneration report
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 and Sections 2:135b and 2:145 sub-section 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 and Section 2:135b sub-Section 7 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.

Management is responsible for the preparation of the other information, including the report of the directors in accordance with Part 9 of Book 2 of the Dutch Civil Code, other information required by Part 9 of Book 2 of the Dutch Civil Code and the remuneration report in accordance with Sections 2:135b and 2:145 sub-section 2 of the Dutch Civil Code.

## **Report on other legal and regulatory requirements**

### **Engagement**

We have been engaged by the general meeting of shareholders as auditor of NXP Semiconductors N.V. as from the financial year 2020.

## **Description of responsibilities for the financial statements**

### **Responsibilities of management and the audit committee of the board of directors for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS-EU and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management 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, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management 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 judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The Our audit approach section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

### **Communication**

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.

# Other Information

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.

Eindhoven, 4 March 2021

Ernst & Young Accountants LLP

P.J.A. Gabriëls

## Statutory rules concerning appropriation of profit

### Distributions.

#### Article 34.

- 34.1. The Board will keep a separate share premium account for each class of shares to which only the holders of the class of shares in question are entitled.  
The amount or the value of the share premium paid on a specific class of shares issued by the Company will be booked separately on the share premium account in question.
- 34.2. The Company may make distributions on shares only to the extent that its shareholders' equity exceeds the sum of the paid-up and called-up part of the capital and the reserves which must be maintained by law.
- 34.3. Distributions of profit, meaning the net earnings after taxes shown by the adopted annual accounts, shall be made after the determining of the annual accounts from which it appears that they are justified, entirely without prejudice to any of the other provisions of the Articles of Association.
- 34.4. a. A dividend shall be paid out of the profit, if available for distribution, first of all on the preferred shares series PA in accordance with this paragraph. Subsequently, a dividend shall be paid out of the profit, if possible, on the preferred shares series PB in accordance with this paragraph.
- b. The dividend paid on the preferred shares shall be based on the percentage, mentioned immediately below, of the amount called up and paid-up on those shares. The percentage referred to in the previous sentence shall be equal to the average of the EURIBOR interest charged for cash loans with a term of twelve months as set by the European Central Bank - weighted by the number of days to which this interest was applicable - during the financial year for which this distribution is made, increased by a maximum margin of three hundred (300) basis points to be fixed upon issue by the Board; EURIBOR shall mean the euro Interbank Offered Rate, which margin may vary per with each individual series.
- c. If in the financial year over which the aforesaid dividend is paid the amount called up and paid-up on the preferred shares has been reduced or, pursuant to a resolution to make a further call on said shares, has been increased, the dividend shall be reduced or, if possible, increased by an amount equal to the aforesaid percentage of the amount of such reduction or increase, as the case may be, calculated from the date of the reduction or, as the case may be, from the date when the further call on the shares was made.
- d. If and to the extent that the profit is not sufficient to pay in full the dividend referred to under a of this paragraph, the deficit shall be paid to the debit of the reserves, provided that doing so shall not be in violation of paragraph 2 of this article.  
If and to the extent that the dividend referred to under a of this paragraph cannot be paid to the debit of the reserves either, the profits earned in subsequent years shall be applied first towards making to the holders of preferred shares such payment as will fully clear the deficit, before the provisions of the following paragraphs of this article can be applied. No further dividends on the preferred shares shall be paid than as stipulated in this article, in article 35 and in article 37. Interim dividends paid over any financial year in accordance with article 35 shall be deducted from the dividend paid by virtue of this paragraph 4.
- e. If the profit earned in any financial year has been determined and in that financial year one (1) or more preferred shares have been cancelled against repayment, the persons who were the holders of those shares shall have an inalienable right to payment of dividend as described below. The amount of profit, if available for distribution, to be distributed to the aforesaid persons shall be equal to the amount of the dividend to which by virtue of the provision under a of this paragraph they would be entitled if on the date of determination of the profit they had still been the holders of the aforesaid preferred shares, calculated on the basis of the period during which in the financial year concerned said persons were holders of said shares, this dividend to be reduced by the amount of any interim dividend paid in accordance with article 35.
- f. If in the course of any financial year preferred shares have been issued, with respect to that financial year the dividend to be paid on the shares concerned shall be reduced pro rata to the day of issue of said shares.
- g. If the dividend percentage has been adjusted in the course of a financial year, then for the purposes of calculating the dividend over that financial year the applicable rate until the date of adjustment

## Other Information

- shall be the percentage in force prior to that adjustment and the applicable rate after the date of adjustment shall be the altered percentage.
- 34.5. Any amount remaining out of the profit, after application of paragraph 4, shall be carried to reserve as the Board may deem necessary.
  - 34.6. The profit remaining after application of paragraphs 4 and 5 shall be at the disposal of the General Meeting, which may resolve to carry it to reserve or to distribute it among the holders of common shares.
  - 34.7. On a proposal of the Board, the General Meeting may resolve to distribute to the holders of common shares a dividend in the form of common shares in the capital of the Company.
  - 34.8. Subject to the other provisions of this article the General Meeting may, on a proposal made by the Board, resolve to make distributions to the holders of common shares to the debit of one (1) or several reserves which the Company is not prohibited from distributing by virtue of the law.
  - 34.9. No dividends shall be paid to the Company on shares held by the Company or where the Company holds the depositary receipts issued for such shares, unless such shares or depositary receipts are encumbered with a right of usufruct or pledge.
  - 34.10. Any change to an addition as referred to in paragraph 4 under b and g in relation to an addition previously determined by the Board shall require the approval of the meeting of holders of preferred shares of the series concerned. If the approval is withheld the previously determined addition shall remain in force.

### **Special statutory voting rights**

There are no special statutory voting rights.



# Investor Information

## **Corporate seat and head office**

We were incorporated in The Netherlands as a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the name KASLION Acquisition B.V. on August 2, 2006. On May 21, 2010 we converted into a public company with limited liability (*naamloze vennootschap*) and changed our name to NXP Semiconductors N.V.. Our corporate seat is in Eindhoven, The Netherlands, and the statutory list of all subsidiaries and affiliated companies, prepared in accordance with the relevant legal requirements (Netherlands Civil Code, Part 9 of Book 2, Sections 379 and 414), forms part of the notes to the consolidated financial statements and is deposited at the office of the Commercial Register in Eindhoven, Netherlands (file no. 34253298).

Our registered office is:  
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5656 AG Eindhoven  
The Netherlands  
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