NXP Semiconductors N.V.
Form 20-F
March 13, 2012
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As filed with the Securities and Exchange Commission on March 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

Commission file number 001-34841

NXP Semiconductors N.V.

(Exact name of Registrant as specified in its charter)

The Netherlands

(Jurisdiction of incorporation or organization)

High Tech Campus 60, Eindhoven 5656 AG, the Netherlands

(Address of principal executive offices)

Jean Schreurs, SVP and Senior Corporate Counsel, High Tech Campus 60, 5656 AG, Eindhoven, the Netherlands

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

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

Title of each class	Name of each exchange on which registered
Common shares par value euro (EUR) 0.20 per share	The NASDAQ Global Select Market

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

None

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

Common shares par value EUR 0.20 per share

(Title of class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

Class	Outstanding at December 31, 2011
Ordinary shares, par value EUR 0.20 per share	251,751,500 shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ¨ Yes x No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

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Introduction

This annual report contains forward-looking statements that contain risks and uncertainties. Our actual results may differ significantly from future results as a result of factors such as those set forth in Part I Item 3. Key Information D. Risk Factors and Part I Item 5. Operating and Financial Review and Prospects G. Safe Harbor .

The financial information included in this annual report is based on United States Generally Accepted Accounting Principles (U.S. GAAP), unless otherwise indicated.

In presenting and discussing our financial position, operating results and cash flows, management uses certain non-U.S. GAAP financial measures. These non-U.S. GAAP financial measures should not be viewed in isolation or as alternatives to the equivalent U.S. GAAP measures and should be used in conjunction with the most directly comparable U.S. GAAP measures. A discussion of non-U.S. GAAP measures included in this annual report and a reconciliation of such measures to the most directly comparable U.S. GAAP measures are contained in this annual report under Part I Item 5. Operating and Financial Review and Prospects A. Operating Results Use of Certain Non-U.S. GAAP Financial Measures .

Unless otherwise required, all references herein to we , our , us , NXP and the Company are to NXP Semiconductors N.V. and its consolidated subsidiaries.

A glossary of abbreviations and technical terms used in this annual report is set forth on page 107.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. ***Selected financial data.***

The following table presents a summary of our selected historical consolidated financial data. We prepare our financial statements in accordance with U.S. GAAP.

The results of operations for prior years are not necessarily indicative of the results to be expected for any future period.

Discontinued Operations

On July 4, 2011, we sold our Sound Solutions business (formerly included in our Standard Products segment) to Knowles Electronics, LLC (Knowles Electronics), an affiliate of Dover Corporation, for $855 million in cash. The transaction resulted in a gain of $414 million, net of post-closing settlements, transaction-related costs, including working capital settlements, cash divested and taxes, which is included in income from discontinued operations. The consolidated financial statements have been reclassified for all periods presented to reflect the Sound Solutions business as a discontinued operation.

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The selected historical consolidated financial data should be read in conjunction with the discussion under Part I Item 5. Operating and Financial Review and Prospects A. Operating Results and the consolidated financial statements and the accompanying notes included elsewhere in this annual report.

($ in millions unless otherwise stated)	2007(1)	2008(1)	2009(1)	2010	2011
	As of and for the years ended December 31,				
Consolidated Statements of Operations:					
Revenue	6,051	5,104	3,519	4,402	**4,194**
Operating income (loss)	(791)	(2,643)	(931)	273	**357**
Financial income (expense)-net	(181)	(614)	682	(628)	**(257)**
Income (loss) from continuing operations attributable to stockholders	(664)	(3,593)	(199)	(515)	**(44)**
Income (loss) from discontinued operations attributable to stockholders	29	36	32	59	**434**
Net income (loss) attributable to stockholders	(635)	(3,557)	(167)	(456)	**390**
Per share data(2):					
Basic and diluted earnings per common share attributable to stockholders in $(3)					
- Income (loss) from continuing operations	(250.00)	(19.94)	(0.93)	(2.25)	**(0.17)**
- Income (loss) from discontinued operations	5.80	0.20	0.15	0.26	**1.74**
- Net income (loss)	(244.20)	(19.74)	(0.78)	(1.99)	**1.57**
Weighted average number of shares of common stock outstanding during the year (in thousands)(4)					
- Basic and diluted	5,000	180,210	215,252	229,280	**248,812**
Consolidated balance sheet data:					
Cash and cash equivalents	1,029	1,781	1,026	898	**743**
Total assets	13,574	10,213	8,579	7,637	**6,612**
Net assets	4,565	1,182	1,041	1,219	**1,357**
Working capital(5)	1,081	1,355	870	811	**969**
Total debt(6)	6,076	6,367	5,283	4,551	**3,799**
Total stockholders equity	4,308	969	843	986	**1,145**
Common stock	133	42	42	51	**51**
Other operating data:					
Capital expenditures	(496)	(356)	(92)	(258)	**(221)**
Depreciation and amortization(7)	1,506	1,924	887	684	**591**
Consolidated statements of cash flows data:					
Net cash provided by (used for):					
Operating activities	469	(638)	(701)	361	**175**
Investing activities	(618)	1,046	63	(269)	**(202)**
Financing activities	(26)	299	(109)	(157)	**(926)**
Net cash provided by (used for) continuing operations	(175)	707	(747)	(65)	**(953)**
Net cash provided by (used for) discontinued operations	8	2		(5)	**809**

(1) All years prior to 2010 have been restated to reflect the effect of the sale of the Sound Solutions business in 2011 as discontinued operations.

(2) On February 29, 2008, through a multi-step transaction, the nominal value of the common shares was decreased from 1.00 to 0.01 and all preference shares were converted into common shares, which resulted in an increase of outstanding common shares from 100 million to 4.3 billion. On August 2, 2010, we amended our articles of association in order to effect a 1-for-20 reverse stock split, decreasing the number of shares of common stock outstanding from approximately 4.3 billion to approximately 215 million and increasing the par value

of the shares of common stock from 0.01 to 0.20. In all periods presented, basic and diluted weighted average shares outstanding and earnings per share have been calculated to reflect the 1-for-20 reverse stock split.

(3) For purposes of calculating per share net income, net income includes the undeclared accumulated dividend on preferred stock of $586 million in 2007. This right was extinguished in 2008.

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(4) Due to our net losses from continuing operations attributable to stockholders in the periods from 2007 to 2011, all potentially dilutive securities have been excluded from the calculation of diluted earnings per common share because their effect would be anti-dilutive.
(5) Working capital is calculated as current assets less current liabilities (excluding short-term debt).
(6) As adjusted for our cash and cash equivalents our net debt was calculated as follows:

	2007	2008	2009	2010	2011
Long-term debt	6,070	5,964	4,673	4,128	**3,747**
Short-term debt	6	403	610	423	**52**
Total debt	6,076	6,367	5,283	4,551	**3,799**
Less: cash and cash equivalents	(1,029)	(1,781)	(1,026)	(898)	**(743)**
Net debt	5,047	4,586	4,257	3,653	**3,056**

Net debt is a non-GAAP financial measure. See Part I Item 5. Operating and Financial Review and Prospects A. Operating Results Use of Certain Non GAAP Financial Measures .

(7) Depreciation and amortization includes the cumulative net effect of purchase price adjustments related to a number of acquisitions and divestments, including the purchase by a consortium of private equity investors of an 80.1% interest in our business, described elsewhere in this annual report as our Formation. The cumulative net effects of purchase price adjustments in depreciation and amortization aggregated to $762 million in 2007, $658 million in 2008, $371 million in 2009, $302 million in 2010 and $301 million in 2011. In 2011, depreciation and amortization included $5 million (2010: $40 million; 2009: $4 million) related to disposals that occurred in connection with our restructuring activities and $1 million (2010: $6 million; 2009: $42 million) relating to other incidental items. For a detailed list of the acquisitions and a discussion of the effect of acquisition accounting, see Part I Item 5. Operating and Financial Review and Prospects A. Operating Results Factors Affecting Comparability Effect of Acquisition Accounting contained elsewhere in this annual report. Depreciation and amortization also includes impairments to goodwill and other intangibles, as well as write-offs in connection with acquired in-process research and development, if any.

The majority of our expenses are incurred in euros, while most of our revenue is denominated in U.S. dollars. As used in this annual report, euro , or means the single unified currency of the European Monetary Union. U.S. dollar , USD , U.S. $ or $ means the lawful currency of the Un States of America. As used in this annual report, the term noon buying rate refers to the exchange rate for euro, expressed in U.S. dollars per euro, as announced by the Federal Reserve Bank of New York for customs purposes as the rate in the city of New York for cable transfers in foreign currencies.

The table below shows the average noon buying rates for U.S. dollars per euro for the five years ended December 31, 2011. The averages set forth in the table below have been computed using the noon buying rate on the last business day of each month during the periods indicated.

Year ended December 31,	Average ($ per)
2007	1.3771
2008	1.4726
2009	1.3935
2010	1.3261
2011	1.3931

The following table shows the high and low noon buying rates for U.S. dollars per euro for each of the six months in the six-month period ended March 2, 2012:

Month	High	Low
	($ per)	

2011		
September	**1.4283**	**1.3446**
October	**1.4172**	**1.3281**
November	**1.3803**	**1.3244**
December	**1.3487**	**1.2926**
2012		
January	**1.3192**	**1.2682**
February	**1.3463**	**1.3087**

On March 2, 2012, the noon buying rate was $1.3202 per   1.00.

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Fluctuations in the value of the euro relative to the U.S. dollar have had a significant effect on the translation into U.S. dollar of our euro assets, liabilities, revenue and expenses, and may continue to do so in the future. For further information on the impact of fluctuations in exchange rates on our operations, see Part I Item 3. Key Information D. Risk factors Fluctuations in Foreign Exchange Rates May Have An Adverse Effect On Our Financial Results and Part I Item 11. Quantitative and Qualitative Disclosures About Market Risk Foreign Currency Risks .

B. ***Capitalization and indebtedness.***

Not applicable.

C. ***Reasons for the offer and use of proceeds.***

Not applicable.

D. ***Risk factors.***

The following section provides an overview of the risks to which our business is exposed. You should carefully consider the risk factors described below and all other information contained in this annual report, including the financial statements and related notes. The occurrence of the risks described below could have a material adverse impact on our business, financial condition or results of operations. Various statements in this annual report, including the following risk factors, contain forward-looking statements. Please also refer to Part I Item 5. Operating and Financial Review and Prospects G. Safe Harbor , contained elsewhere in this annual report.

The semiconductor industry is highly cyclical.

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

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

Since early 2008, Europe, the United States and international markets have experienced increased volatility and instability. More recently, this volatility and instability intensified because of the sovereign debt crisis in Europe and the debt-ceiling crisis in the United States and the related financial restructuring efforts, the ratings downgrade of certain major economies , including the United States and France, continued hostilities in the Middle East and tensions in North Africa and other world events. This could further adversely affect the economies of the European Union, the United States and those of other countries and may exacerbate the cyclicality of our business. Among other factors, we face risks attendant to declines in general economic conditions, changes in demand for end-user products and changes in interest rates.

In January 2012, the International Monetary Fund projected global world output growth of 3.3% and 3.9% in 2012, and 2013, respectively, a decrease of 0.7% and 0.6% from its estimates released in September 2011. Official forecasts have been fluctuating as of late and negative economic trends may become worse. Despite indications of stabilization and aggressive measures taken by governments and central banks, there is a significant risk that the global economy could enter into a deeper and longer lasting recession. If economic conditions remain uncertain or deteriorate, our business, financial condition and results of operations could be materially adversely affected.

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

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

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

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

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

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

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

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

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The semiconductor industry is characterized by significant price erosion, especially after a product has been on the market for a significant period of time.

One of the results of the rapid innovation that is exhibited by 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 receive 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 growth rates and 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.

Our substantial amount of debt could adversely affect our financial health, which could adversely affect our results of operations.

We are highly leveraged. Our substantial indebtedness could have a material adverse effect on us by: making it more difficult for us to satisfy our payment obligations under our existing senior secured revolving credit facility (the Secured Revolving Credit Facility) or the forward start revolving credit facility (the Forward Start Revolving Credit Facility), as the case may be, the secured term credit agreement that we entered into on March 4, 2011 (the First 2017 Term Loan), the joinder and amendment agreement to the secured term credit agreement that we entered into on November 18, 2011 (the Second 2017 Term Loan and, together with the First 2017 Term Loan, the 2017 Term Loans) and the joinder and amendment agreement to the secured term credit agreement that we entered into on February 16, 2012 (the 2019 Term Loan and, together with the 2017 Term Loans, the Term Loans) and under our euro-denominated 10% super priority notes due 2013 (the Euro Super Priority Notes), U.S. dollar-denominated 10% super priority notes 2013 (the Dollar Super Priority Notes and, together with the Euro Super Priority Notes, the Super Priority Notes), the euro-denominated floating rate senior secured notes due 2013 (the Euro Floating Rate Secured Notes), U.S. dollar-denominated floating rate senior secured notes due 2013 and the U.S. dollar-denominated floating rate senior secured notes due 2016 (together the Dollar Floating Rate Secured Notes), U.S. dollar-denominated 9 3/4% senior secured notes due 2018 (the 2018 Dollar Fixed Rate Secured Notes together with the Euro Floating Rate Secured Notes and the Dollar Floating Rate Secured Notes, the Secured Notes) and our euro-denominated 8 5/8% senior notes due 2015 (the Euro Unsecured Notes) and U.S. dollar-denominated 9 1/2% senior notes due 2015 (the Dollar Unsecured Notes and, together with our Euro Unsecured Notes, the Unsecured Notes); limiting our ability to borrow money for working capital, restructurings, capital expenditures, research and development, investments, acquisitions or other purposes, if needed, and increasing the cost of any of these borrowings; requiring us to dedicate a substantial portion of our cash flow from operations to service our debt, which reduces the funds available for operations and future business opportunities; limiting our flexibility in responding to changing business and economic conditions, including increased competition and demand for new services; placing us at a disadvantage when compared to those of our competitors that have less debt; and making us more vulnerable than those of our competitors who have less debt to a downturn in our business, industry or the economy in general. Despite our substantial indebtedness, we may still incur significantly more debt, which could further exacerbate the risks described above.

We may not be able to generate sufficient cash to service and repay all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

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 the principal, premium, if any, and interest on our indebtedness. We have seen substantial negative cash flows from operations in periods of adverse economic developments. Our business may not generate sufficient cash flow from operations and future borrowings under our Secured Revolving Credit Facility or Forward Start Revolving Credit Facility, as the case may be, or from other sources may not be available to us, in an amount sufficient to enable us to repay our indebtedness, including the Secured Revolving Credit Facility or the Forward Start Revolving Credit Facility, as the case may be, the Term Loans, the Super Priority Notes, the Secured Notes or the Unsecured Notes, or to fund our other liquidity needs, and working capital and capital expenditure requirements, and we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness.

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In addition, the availability of our Forward Start Revolving Credit Facility is subject to a number of conditions. If we do not satisfy these conditions by a certain date, our Forward Start Revolving Credit Facility will not be available to refinance our Secured Revolving Credit Facility or for other purposes, and as a result we will lose an important source of liquidity. For further information on our Forward Start Revolving Credit Facility, please see note 27 to our consolidated financial statements included in Part III, Item 18 of this Report.

A substantial portion of our indebtedness currently bears interest at floating rates, and therefore if interest rates increase, our debt service requirements will increase. We may therefore need to refinance or restructure all or a portion of our indebtedness, including the Secured Revolving Credit Facility or the Forward Start Revolving Credit Facility, as the case may be, the Term Loans, the Super Priority Notes, the Secured Notes and the Unsecured Notes, on or before maturity.

If we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional equity investments or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances, any of which could have a material adverse effect on our business, or seeking to restructure our debt through compromises, exchanges or insolvency processes.

If we cannot make scheduled payments on our debt, we will be in default and, as a result:

- holders of our debt securities could declare all outstanding principal and interest to be due and payable;
- the lenders under our Secured Revolving Credit Facility or Forward Start Revolving Credit Facility, as the case may be, could terminate their commitments to lend us money and/or foreclose against the assets securing any outstanding borrowings; and
- we could be forced into bankruptcy or liquidation.

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 acquisition. 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, 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 registered 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. See Part I Item 5. Operating and Financial Review and Prospects A. Operating Results Factors Affecting Comparability Effect of Acquisition Accounting for the latest impairment charges that we have made. 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 net worth.

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

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

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

There is new U.S. legislation to improve the transparency and accountability concerning the supply of minerals coming from the conflict zones of the Democratic Republic of Congo. Such legislation includes disclosure requirements regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer s efforts to prevent the sourcing of such conflict minerals. The implementation of these requirements could affect the sourcing and availability of minerals used in the manufacture of our products. As a result, there may only be a limited pool of suppliers who provide conflict free metals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices. Also, since our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of all metals used in our products.

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

- negative economic developments in economies around the world and the instability of governments, such as the sovereign debt crisis in certain European countries and the debt-ceiling crisis in the United States or the recent downgrade of certain major economies, including the United States and France;

- Social and political instability in a number of countries around the world, including the developments in North Africa and the Middle East, and also including the threat of war, terrorist attacks in the United States or in EMEA, epidemics or civil unrest. Although we have no direct investments in North Africa and the Middle East, the ongoing changes may have, for instance via our customers, the energy prices and the financial markets, a negative effect on our business, financial condition and operations;

- pandemics, which may adversely affect our workforce, as well as our local suppliers and customers in particular in Asia;

- adverse changes in governmental policies, especially those affecting trade and investment;

- our customers or other groups of stakeholders might impose requirements that are more stringent than the laws in the countries in which we are active;

- foreign currency exchange, in particular with respect to the U.S. dollar, and transfer restrictions, in particular in Greater China; and

- threats that our operations or property could be subject to nationalization and expropriation.

No assurance can be given that we have been or will be at all times in complete compliance with the laws and regulations to which we are subject or that we have obtained or will obtain the permits and other authorizations or licenses that we need. If we violate or fail to comply with laws, regulations, permits and other authorizations or licenses, we could be fined or otherwise sanctioned by regulators. In this case, or if any of the international business risks were to materialize or become worse, they could have a material adverse effect on our business, financial condition and results of operations.

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

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

We rely on the efficient and uninterrupted operation of complex information technology applications, systems and networks to operate our business. Any significant interruption in our business applications, systems or networks, including but not limited to new system implementations, computer viruses, cyber attacks, security breaches, facility issues or energy blackouts could have a material adverse impact on our operations, sales and operating results. For example, from time to time, our information technology Systems and networks have been attacked by unauthorized parties. Any systems and network disruption could result in a loss of our intellectual property, the release of commercially sensitive information or partner, customer or employee personal data, or the loss of production capabilities at one of our manufacturing sites. Therefore, any such severe incident could harm our competitive position, result in a loss of customer confidence, and cause us to incur significant costs to remedy the damages caused by the system or network disruptions, whether caused by cyber attacks, security breaches or otherwise. The protective measures that we are adopting to avoid system or network disruptions may be insufficient to prevent or limit the damage from any future disruptions and any disruption could have a material adverse impact on our business, operations and financial results.

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

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

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

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

We are bound by the restrictions contained in the Secured Revolving Credit Facility or the Forward Start Revolving Credit Facility, as the case may be, the Term Loans and the Indentures, which may restrict our ability to pursue our business strategies.

Restrictive covenants in our Secured Revolving Credit Facility or the Forward Start Revolving Credit Facility, as the case may be, the Term Loans and the indentures related to the Super Priority Notes, the Secured Notes, the Unsecured Notes (collectively, the Indentures) limit our ability, among other things, to:

- incur additional indebtedness or issue preferred stock;
- pay dividends or make distributions in respect of our capital stock or make certain other restricted payments or investments;
- repurchase or redeem capital stock;
- sell assets, including capital stock of restricted subsidiaries;
- agree to limitations on the ability of our restricted subsidiaries to make distributions;
- enter into transactions with our affiliates;
- incur liens;
- guarantee indebtedness; and
- engage in consolidations, mergers or sales of substantially all of our assets.

These restrictions could restrict our ability to pursue our business strategies. We are currently in compliance with all of our restrictive covenants.

Our failure to comply with the covenants contained in our Secured Revolving Credit Facility or the Forward Start Revolving Credit Facility, as the case may be, the Term Loans or the Indentures or our other debt agreements, including as a result of events beyond our control, could result in an event of default which could materially and adversely affect our operating results and our financial condition.

Our Secured Revolving Credit Facility or the Forward Start Revolving Credit Facility, as the case may be, the Term Loans and the Indentures require us to comply with various covenants. Even though we are currently in compliance with all of our 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, when required, we are unable to repay, refinance or restructure our indebtedness under, or amend the covenants contained in, our Secured Revolving Credit Facility or the Forward Start Revolving Credit Facility, as the case may be, or if a default otherwise occurs, the lenders under our Secured Revolving Credit Facility or the Forward Start Revolving Credit Facility, as the case may be, could elect to terminate their commitments there under, cease making further loans and issuing or renewing letters of credit, declare all outstanding borrowings and other amounts, together with accrued interest and other fees, to be immediately due and payable, institute enforcement proceedings against those assets that secure the extensions of credit under our Secured Revolving Credit Facility or the Forward Start Revolving Credit Facility, as the case may be, and thereby prevent us from making payments on our debt. Any such actions could force us into bankruptcy or liquidation.

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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.

We depend significantly on patents and other intellectual property rights to protect our products and proprietary design and fabrication processes against misappropriation by others. We may in the future have difficulty obtaining patents and other intellectual property rights, and the patents we receive may be insufficient to provide us with meaningful protection or commercial advantage. We may not be able to obtain patent protection or secure other intellectual property rights in all the countries in which we operate, and under the laws of such countries, patents and other intellectual property rights may be or become unavailable or limited in scope. The protection offered by intellectual property rights may be inadequate or weakened for reasons or circumstances that are out of our control. Further, our trade secrets may be vulnerable to disclosure or misappropriation by employees, contractors and other persons. In particular, intellectual property rights are difficult to enforce in the People s Republic of China (PRC) and certain other countries, since the application and enforcement of the laws governing such rights may not have reached the same level as compared to other jurisdictions where we operate, such as the United States, Germany and the Netherlands. Consequently, operating in some of these nations 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.

The intellectual property that was transferred or licensed to us from Philips may not be sufficient to protect our position in the industry.

In connection with our separation from Philips in 2006, Philips transferred approximately 5,300 patent families to us subject to certain limitations, including (1) any prior commitments to and undertakings with third parties entered into prior to the separation and (2) certain licenses retained by Philips. The licenses retained by Philips give Philips the right to sublicense to third parties in certain circumstances, which may divert revenue opportunities from us. Approximately 800 of the patent families transferred from Philips were transferred to ST-NXP Wireless (and subsequently to ST-Ericsson, its successor) in connection with the contribution of our wireless operations to ST-NXP Wireless in 2008. Approximately 400 of the patent families transferred from Philips were transferred to Trident Microsystems, Inc. (Trident) in connection with the divestment of our television systems and set-top box business lines to Trident in 2010. Further, a number of other patent families have been transferred in the context of other transactions. In addition, the sale of our Sound Solutions business to Knowles Electronics has lead to the transfer of certain patent families to them.

Philips granted us a non-exclusive license to: (1) all patents Philips holds but has not assigned to us, to the extent that they are entitled to the benefit of a filing date prior to the separation and for which Philips is free to grant licenses without the consent of or accounting to any third party and (2) certain know-how that is available to us, where such patents and know-how relate to: (i) our current products and technologies, as well as successor products and technologies, (ii) technology that was developed for us prior to the separation and (iii) technology developed pursuant to contract research co-funded by us. Philips has also granted us a non-exclusive royalty-free and irrevocable license under: (1) certain patents for use in giant magneto-resistive devices outside the field of healthcare and bio applications, and (2) certain patents relevant to polymer electronics resulting from contract research work co-funded by us in the field of radio frequency identification tags. Such licenses are subject to certain prior commitments and undertakings. However, Philips retained ownership of certain intellectual property related to our business, as well as certain rights with respect to intellectual property transferred to us in connection with the separation. There can be no guarantee that the patents transferred to us will be sufficient to assert offensively against our competitors, to be used as leverage to negotiate future cross-licenses or to give us freedom to operate and innovate in the industry. The strength and value of our intellectual property may be diluted if Philips licenses or otherwise transfers such intellectual property or such rights to third parties, especially if those third parties compete with us. The foregoing risks could 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

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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.

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

As part of our strategy, we have entered into a number of long-term strategic partnerships with other leading industry participants. For example, we have entered into a joint venture with Taiwan Semiconductor Manufacturing Company Limited (TSMC) called Systems on Silicon Manufacturing Company Pte. Ltd. (SSMC), and we jointly operate with Jilin Sino-Microelectronics Company Ltd. the joint venture Jilin NXP Semiconductors Ltd. (Jilin). We established Advanced Semiconductor Manufacturing Corporation Limited (ASMC) together with a number of Chinese partners, and together with Advanced Semiconductor Engineering Inc. (ASE), we established the assembly and test joint venture ASEN Semiconductors Co. Ltd. (ASEN). As a result of the transfer of our television systems and set-top box business lines to Trident, we acquired an equity stake in Trident. On January 4, 2012, Trident and one of its subsidiaries, Trident Microsystems (Far East) Ltd., filed for voluntary petitions under Chapter 11 of the United States Bankruptcy Code, in the U.S. Bankruptcy Court for the District of Delaware. At this time the long-term impact to revenue associated with contract manufacturing services provided and goods supplied to Trident is not known, but could have a material adverse effect on our business, financial condition and results of operations.

If any of our strategic partners in industry groups or in any of the other alliances we engage with were to encounter financial difficulties or change their business strategies, they may no longer be able or willing to participate in these groups or alliances, which could have a material adverse effect on our business, financial condition and results of operations. We do not control some of these strategic partnerships, joint ventures and alliances in which we participate. Even though we own 57% of the outstanding stock of Trident, for instance, we only have a 30% voting interest in participatory rights and have a 57% voting interest only for certain protective rights; in addition, our voting interest may be negatively impacted by the Chapter 11 filing of Trident on January 4, 2012. We may also have certain obligations, including some limited funding obligations or take or pay obligations, with regard to some of our strategic partnerships, joint ventures and alliances. For example, we have made certain commitments to SSMC, in which we have a 61.2% ownership share, whereby we are obligated to make cash payments to SSMC should we fail to utilize, and TSMC does not utilize, an agreed upon percentage of the total available capacity at SSMC s fabrication facilities if overall SSMC utilization levels drop below a fixed proportion of the total available capacity.

We have made and may continue to make acquisitions and engage in other transactions to complement or expand our existing businesses. However, we may not be successful in acquiring suitable targets at acceptable prices and integrating them into our operations, and any acquisitions we make may lead to a diversion of management resources.

Our future success may depend on acquiring businesses and technologies, making investments or forming joint ventures that complement, enhance or expand our current portfolio or otherwise offer us growth opportunities. If we are unable to identify suitable targets, our growth prospects may suffer, and we may not be able to realize sufficient scale advantages to compete effectively in all markets. In addition, in pursuing acquisitions, we may face competition from other companies in the semiconductor industry. Our ability to acquire targets may also be limited by applicable antitrust laws and other regulations in the United States, the European Union and other jurisdictions in which we do business. To the extent that we are successful in making acquisitions, we may have to expend substantial amounts of cash, incur debt, assume loss-making divisions and incur other types of expenses. We may also face challenges in successfully integrating acquired companies into our existing organization. Each of these risks could have a material adverse effect on our business, financial condition and results of operations.

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

From time to time, we may decide to divest certain product lines and businesses or restructure our operations, including through the contribution of assets to joint ventures. We have, in recent years, exited several of our product lines and businesses, and we have closed several of our manufacturing and research facilities. We may continue to do so in the future. However, our ability to successfully exit product lines and businesses, or to close or consolidate operations, depends on a

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number of factors, many of which are outside of our control. For example, if we are seeking a buyer for a particular business line, none may be available, or we may not be successful in negotiating satisfactory terms with prospective buyers. In addition, we may face internal obstacles to our efforts. In particular, several of our operations and facilities are subject to collective bargaining agreements and social plans or require us to consult with our employee representatives, such as work councils which may prevent or complicate our efforts to sell or restructure our businesses. In some cases, particularly with respect to our European operations, there may be laws or other legal impediments affecting our ability to carry out such sales or restructuring.

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

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

Between 2008 and 2011, we executed our redesign program (the Redesign Program). We plan to continue to restructure and make changes to parts of the processes in our organization. Furthermore, if the global economy remains as volatile or unstable or if the global economy reenters into a deeper and longer lasting recession, our revenues could decline, and we may be forced to take additional cost savings steps that could result in additional charges and materially affect our business. The costs of implementing any restructurings, changes or cost savings steps may differ from our estimates and any negative impacts on our revenues or otherwise of such restructurings, changes or steps, such as situations in which customer satisfaction is negatively impacted, may be larger than originally estimated.

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

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

Our working capital needs are difficult to predict.

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

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

We make highly complex electronic components and, accordingly, there is a risk that defects may occur in any of our products. Such defects can give rise to significant costs, including expenses relating to recalling products, replacing defective items, writing down defective inventory and loss of potential sales. In addition, the occurrence of such defects may give rise to product liability and warranty claims, including liability for damages caused by such defects. If we release defective products into the market, our reputation could suffer and we may lose sales opportunities and incur liability for damages. Moreover, since the cost of replacing defective semiconductor devices is often much higher than the value of the devices themselves, we may at times face damage claims from customers in excess of the amounts they pay us for our products, including consequential damages. We also face exposure to potential liability resulting from the fact that our customers typically integrate the semiconductors we sell into numerous consumer products, which are then sold into the marketplace. We are exposed to product liability claims if our semiconductors or the consumer products based on them malfunction and result in personal injury or death. We may be named in product liability claims even if there is no evidence that our products

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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 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 outside foundry suppliers to perform could adversely affect our ability to exploit growth opportunities.

We currently use outside suppliers or foundries 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. Our internal manufacturing costs include depreciation and other fixed costs, while costs for products outsourced are based on market conditions. Prices for foundry products also vary depending on capacity utilization rates at our suppliers, quantities demanded, product technology and geometry. Furthermore, these outsourcing costs can vary materially from quarter to quarter and, in cases of industry shortages, they can increase significantly, negatively affecting our gross profit.

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

We depend on our key management to run our business and on our senior engineers to develop new products and technologies. Our success will depend on the continued service of these individuals. Although we have several share based compensation plans in place, we cannot be sure that these plans will help us in our ability to retain key personnel, especially considering the fact that participants under some of our plans are allowed to exercise stock options and sell the shares so acquired pro rata upon a sale of shares of common stock by the co-investors, including the Private Equity Consortium (as defined below) and that all of the stock options under some of our plans become exercisable upon a change of control (in particular, the Private Equity Consortium no longer jointly holding 30% of our shares of common stock). 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.

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The market for qualified employees, including skilled engineers and other individuals with the required technical expertise to succeed in our business, is highly competitive and the loss of qualified employees or an inability to attract, retain and motivate the additional highly skilled employees required for the operation and expansion of our business could hinder our ability to successfully conduct research activities or develop marketable products. The foregoing risks could have a material adverse effect on our business.

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

A substantial portion of our revenue is derived from our top customers, including our distributors. We cannot guarantee that we will be able to generate similar levels of revenue from our largest customers in the future. Should 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, should we terminate any activities or operations, including strategic alliances or joint ventures, we may face adverse actions from the local governmental agencies providing such subsidies to us. In particular, such government agencies could seek to recover such subsidies from us and they could cancel or reduce other subsidies we receive from them. This could have a material adverse effect on our business, financial condition and results of operations.

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

We and certain of our businesses are involved as plaintiffs or defendants in legal proceedings in various matters. Although the ultimate disposition of asserted claims and proceedings cannot be predicted with certainty, our financial position and results of operations could be affected by an adverse outcome.

For example, we are the subject of an investigation by the European Commission in connection with alleged violations of competition laws in connection with the smart card chips we produce. The European Commission stated in its release on January 7, 2009 that it would start investigations in the smart card chip sector because it has reason to believe that the companies concerned may have violated European Union competition rules, which prohibits certain practices such as price fixing, customer allocation and the exchange of commercially sensitive information. As a company active in the smart card chip sector, we are subject to the ongoing investigation. We are cooperating in the investigation. If the European Commission were to find that we violated European Union competition laws, it could impose fines and penalties on our company that, while the amounts cannot be predicted with certainty, we believe would not have a material adverse effect on our consolidated financial position. However, any such fines or penalties may be material to our consolidated statement of operations for a particular period.

Fluctuations in foreign exchange rates may have an adverse effect on our financial results.

A majority of our expenses are incurred in euro, while most of our revenue is denominated in U.S. dollars. Accordingly, our results of operations may be affected by changes in exchange rates, particularly between the euro and the U.S. dollar. In addition, we have euro denominated assets and liabilities and, since our reporting currency is the U.S. dollar, the impact of currency translation adjustments to such assets and liabilities may have a negative effect on our equity position. In addition, the U.S. dollar-denominated debt held by our Dutch subsidiary with functional currency euro may generate adverse currency results in our financial income and expenses. Part of this effect is mitigated due to the application of net investment hedge accounting, since May 2011, pursuant to which the currency results on (part of) the U.S. dollar denominated debt is reported as part of other comprehensive income within equity instead of financial income and expense in the income statement. Absent the application of net investment hedge accounting, we would have recorded an additional $203 million financial income and expense in the 2011 statement of operations. We continue to hold or convert most of our cash in euros as a hedge for euro expenses, euro interest payments and payments in relation to the Redesign Program. We are exposed to fluctuations in exchange rates when we convert U.S. dollars to euro. The current European sovereign debt crisis and the uncertainties as to its resolution or outcome intensify these currency exchange risks.

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

We are a global company and, as a direct consequence, movements in the financial markets may impact our financial results. We are exposed to a variety of financial risks, including currency fluctuations, interest rate risk, liquidity risk, commodity price risk and credit risk and other non-insured risks. We enter into diverse financial transactions with several counterparties to mitigate our currency risk. Derivative instruments are only used for hedging purposes. The rating of our debt by major rating agencies may further improve or deteriorate. As a result, our additional borrowing capacity and financing costs may be impacted.

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

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

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, 2011, we had recognized a net accrued benefit liability of $195 million, representing the unfunded benefit obligations of our defined pension plans. The funding status and the liabilities and costs of maintaining such 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.

Changes in the tax deductibility of interest may adversely affect our financial position and our ability to service the obligations under our indebtedness.

On December 5, 2009, the previous Dutch State Secretary of Finance published a letter in which it was announced that, with respect to corporate taxation, the following four issues were the subject of further study: interest deductions of holding companies that are engaged in leveraged acquisitions, tax losses of foreign branches, interest deductions and earnings stripping rules and the so-called group interest box. On April 7, 2010, a committee appointed by the Dutch Ministry of Finance published its initial report. This report contained a general description of potential measures that may effectively limit deductibility of interest, including interest on acquisition debt and measures limiting the deductibility of foreign branch losses A legislative proposal changing the regime applicable to interest deductions of tax losses of foreign branches by holding companies that have been set up as part of a leveraged acquisition was approved by the Dutch Parliament in December 2011. However, it remains unclear whether expected new legislative proposals in 2012 will limit the tax deductibility of the interest payable by us under our indebtedness. However, if it does, this may adversely affect our financial position and our ability to service the obligations under our indebtedness.

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

We are required to pay taxes in multiple jurisdictions. We determine the taxation 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. 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.

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In order to mitigate the transfer pricing uncertainties within our deployment, measures have been taken and a monitoring system has been put in place. On a regular basis, internal reviews are executed to test the correct implementation of the transfer pricing directives.

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 have various tax assets partly resulting from the acquisition of our business from Philips in 2006 and from other 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.

Although we have remediated the specific material weakness in our internal control over financial reporting identified for the year ended December 31, 2009, and believe that we have established proper compliance procedures, there may from time to time exist deficiencies in our control systems that could adversely affect the accuracy and reliability of our periodic reporting.

We are required to establish and periodically assess the design and operating effectiveness of our internal control over financial reporting. In connection with our assessment of the internal control over financial reporting for the year ended December 31, 2009, we identified a deficiency related to the accounting and disclosure for income taxes, which we concluded constituted a material weakness. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness that we identified related to the execution of the procedures surrounding the preparation and review of our income tax provision as of December 31, 2009. In particular, the execution of our controls did not ensure the accuracy and validity of our acquisition accounting adjustments and the determination of the valuation allowance for deferred tax assets. Part of the identified issue was caused by the complexity that resulted from the fact that step-ups from acquisitions were accounted for centrally. During the year ended December 31, 2010, we updated our internal controls and concluded that we had remediated this material weakness. However, despite the compliance procedures that we adopted, there may from time to time exist deficiencies in our control systems that could adversely affect the accuracy and reliability of our periodic reporting. Our periodic reporting is the basis of investors and other market professionals understanding of our businesses. Imperfections in our periodic reporting could create uncertainty regarding the reliability of our results of operations and financial results, which in turn could have a material adverse impact on our reputation or share price.

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

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

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

Scientific examination of, political attention to and rules and regulations on issues surrounding the existence and extent of climate change may result in an increase in the cost of production due to increase in the prices of energy and introduction of energy or carbon tax. A variety of regulatory developments have been introduced that focus on restricting or managing the emission of carbon dioxide, methane and other greenhouse gasses. Enterprises may need to purchase at higher costs new equipment or raw materials with lower carbon footprints. These developments and further legislation that is likely to be enacted could affect our operations negatively. Changes in environmental regulations could increase our production costs, which could adversely affect our results of operations and financial condition.

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

Environmental and other disasters, such as flooding, large earthquakes, volcanic eruptions or nuclear or other disasters, or a combination thereof may negatively impact our business. If flooding, a large earthquake, volcanic eruption or other natural disaster were to directly damage, destroy or disrupt our manufacturing facilities, it could disrupt our operations, delay new production and shipments of existing inventory or result in costly repairs, replacements or other costs, all of which would negatively impact our business. Even if our manufacturing facilities are not directly damaged, a large natural disaster may result in disruptions in distribution channels or supply chains. For instance, the dislocation of the transport services following volcanic eruptions in Iceland in April 2010 caused us delays in distribution of our products. Also, in 2011, the flooding in Thailand and the nuclear incident following the tsunami in Japan impacted the supply chains of our customers and suppliers. The impact of such occurrences depends on the specific geographic circumstances but could be significant, as some of our factories are located in islands with known earthquake fault zones, including the Philippines, Singapore or Taiwan. There is increasing concern that climate change is occurring that may cause a rising number of natural disasters with potentially dramatic effects on human activity. We cannot predict the economic impact, if any, of natural disasters or climate change.

The Private Equity Consortium controls us and this control limits your ability to influence our significant corporate transactions. The Private Equity Consortium may have conflicts of interest with other stakeholders, including our shareholders, in the future.

A consortium of funds advised by Kohlberg Kravis Roberts & Co. L.P.(KKR), Bain Capital Partners, LLC (Bain), Silver Lake Management Company, LLC (Silver Lake), Apax Partners LLP (Apax) and AlpInvest Partners N.V. (AlpInvest), and collectively, the Private Equity Consortium , controls us. As a result, the Private Equity Consortium will continue to be able to influence or control the election and removal of our directors, our corporate and management policies, potential mergers or acquisitions, payment of dividends, asset sales and other significant corporate transactions. We cannot assure you that the interests of the Private Equity Consortium will coincide with the interests of our other stakeholders, particularly if we encounter financial difficulties or are unable to pay our debts when due.

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.

There is no treaty between the United States and the Netherlands for the mutual recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon the U.S. federal securities laws, would not be enforceable in the Netherlands unless the underlying claim is re-litigated before a Dutch court. Under current practice however, a Dutch court will generally grant the same judgment without a review of the merits of the underlying claim if (i) that judgment resulted from legal proceedings compatible with Dutch notions of due process, (ii) that judgment does not contravene public policy of the Netherlands and (iii) the jurisdiction of the United States federal or state court has been based on internationally accepted principles of private international law.

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 II Item 16G Corporate Governance .

Our articles of association, Dutch corporate law and our current and future debt instruments contain provisions that may discourage a takeover attempt.

Provisions contained in our articles of association and the laws of the Netherlands, the country in which we are incorporated, could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders. Provisions of our articles of association impose various procedural and other requirements, which could make it more difficult for stockholders to effect certain corporate actions.

Our general meeting of stockholders has empowered our board of directors to issue additional shares or to restrict or exclude pre-emptive rights on existing shares for a period of five years from August 2, 2010 until August 2, 2015. An issue of new shares may make it more difficult for a stockholder to obtain control over our general meeting.

In addition, our debt instruments contain, and future debt instruments may also contain, provisions that require prepayment or offers to prepay upon a change of control. These clauses may also discourage takeover attempts.

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

We report under the Securities Exchange Act of 1934, as amended (the Exchange Act), as a non-U.S. company with foreign private issuer status. Because we qualify as a foreign private issuer under the Exchange Act and although we follow Dutch laws and regulations with regard to such matters, we are exempt from certain provisions of the Exchange Act that are applicable to U.S. public companies, including: (i) the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act (ii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time and (iii) the rules under the Exchange Act requiring the filing with the Commission of quarterly reports on Form 10-Q containing unaudited financial and other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events. In addition, for fiscal years ending on or after December 15, 2011, foreign private issuers will be required to file their annual report on Form 20-F by 120 days after the end of each fiscal year while U.S. domestic issuers that are accelerated filers are required to file their annual report on Form 10-K within 75 days after the end of each fiscal year. Foreign private issuers are also exempt from the Regulation Fair Disclosure, aimed at preventing issuers from making selective disclosures of material information. As a result of the above, even though we are contractually obligated and intend to make interim reports available to our stockholders, copies of which we are required to furnish to the Securities and Exchange Commission (the SEC) on a Form 6-K, and even though we are required to file reports on Form 6-K disclosing whatever information we have made or are required to make public pursuant to Dutch law or distribute to our stockholders and that is material to our company, you may not have the same protections afforded to stockholders of companies that are not foreign private issuers.

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

We are a foreign private issuer. As a result, in accordance with the listing requirements of the NASDAQ Global Select Market we rely on home country governance requirements and certain exemptions there under rather than relying on the corporate governance requirements of the NASDAQ Global Select Market. For an overview of our corporate governance principles, see Part II Item 16G Corporate Governance , including the section describing the differences between the corporate governance requirements applicable to common stock listed on the NASDAQ Global Select Market and the Dutch corporate governance requirements. Accordingly, you may not have the same protections afforded to stockholders of companies that are not foreign private issuers.

The market price of our common stock may be volatile.

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our common stock in spite of our operation performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response, the market price of our common stock could decrease significantly.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the operation and expansion of our business and in the repayment of our debt. Accordingly, investors must rely on sales of their shares of common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

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

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

There are 251,751,500 shares of our common stock outstanding. We also have an aggregate of approximately 23,495,104 shares of common stock underlying stock options outstanding as of December 31, 2011, of which 16,128,196 stock options at a weighted average exercise price of 24.46 (or $31.65 based on the exchange rate as of December 31, 2011) per share and 7,366,908 stock options at a weighted average exercise price of $15.49. Furthermore, we have an aggregate of 3,847,955 shares of common stock outstanding as of December 31, 2011, issued as performance and restricted share units, under the Long Term Incentive Plan 2011 and 2010. In addition, 444,395 shares of common stock issuable upon the exercise of equity rights are outstanding as of December 31, 2011 under different employee incentive programs.

In the future, we may issue additional shares of common stock in connection with acquisitions and other investments, as well as in connection with our current or any revised or new equity plans for management and other employees. The amount of our common stock issued in connection with any such transaction could constitute a material portion of our then outstanding common stock.

Our actual operating results may differ significantly from our guidance.

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

Guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as

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variables are changed but are not intended to represent that actual results could not fall outside of the suggested ranges. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons.

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

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

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Item 4. Information on the Company

A. ***History and Development of the Company***

Name and History

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

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, in connection with the sale by Philips of 80.1% of its semiconductor business to the Private Equity Consortium . For a list of the specific funds that hold our common stock and their respective share ownership, see Part I Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders elsewhere in this document. Initially, the Private Equity Consortium invested in our Company through KASLION Holding B.V., a Dutch private company with limited liability.

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. Concurrently, we amended our articles of association in order to effect a 1-for-20 reverse stock split of our shares of common stock.

In August 2010, we made an initial public offering of 34 million shares of our common stock and listed our common stock on the NASDAQ Global Select Market.

On March 31, 2011, certain of our stockholders offered 30 million shares of our common stock, priced at $30.00 per share. The underwriters of the offering exercised in full their option to purchase from the selling stockholders 4,431,000 additional shares of common stock at the secondary offering price. We did not receive any proceeds from this secondary offering. The settlement date for the offering was April 5, 2011.

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

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 2729233. Our registered agent in the United States is NXP Semiconductors USA, Inc., 411 East Plumeria Drive, San Jose, CA 95134, United States of America, phone number +1 408 5185400.

Our website address is www.nxp.com.

NXP Repositioning and Redesign

Since our separation from Philips in 2006, we have significantly repositioned our business and market strategy. Between 2008 and 2011, we executed our Redesign Program to better align our costs with our more focused business and to achieve a world-class cost structure and processes. Key elements of our repositioning and redesign are:

Our Repositioning

New leadership team. Ten of the twelve members of our executive management team are new to the Company or new in their roles since our separation from Philips in 2006, and eight of the twelve have been recruited from outside NXP. Prior to joining NXP, our chief executive officer and chief financial officer, Rick Clemmer and Karl-Henrik Sundström, played leading roles in programs that significantly enhanced the performance of their previous companies, Agere Systems Inc. (Agere) and Telefonaktiebolaget LM Ericsson, respectively. Loh Kin Wah, our executive vice president of sales, was previously President and CEO of Qimonda AG, and prior to that responsible for the Communication Business Group and subsequently the Memories Product Group at Infineon Technologies AG (Infineon). Chris Belden, our executive vice president of Operations, implemented the manufacturing redesign program of Freescale Semiconductor, Inc. (Freescale), formerly part of Motorola, Inc. (Motorola), between 2002 and 2005, that resulted in a significant margin improvement for Freescale. Peter Kelly, who was appointed in March 2011 as our executive vice president for operations sharing this responsibility with Chris Belden, was previously a key part of the management team that led the spin-off of Agere from Lucent Technologies Inc. (Lucent), where he led the global operations team. Ruediger Stroh joined us from LSI Corporation and previously Agere, where he helped to turn the hard disk-drive business into a market leader with strong profitability. Within NXP, Ruediger Stroh now manages our High Performance Mixed Signal businesses focused on identification applications. Alexander Everke came to NXP from Infineon, where he led its global sales organization and helped to restructure the company s go-to-market model while driving significant top-line growth. At NXP, Alexander Everke now manages our High Performance Mixed Signal businesses, focusing on wireless infrastructure, lighting, industrial, mobile, consumer and computing applications.

Focus on High Performance Mixed Signal solutions. We have implemented our strategy of focusing on High Performance Mixed Signal solutions because we believe it to be an attractive market in terms of growth, barriers to entry, relative market share, relative business and pricing stability, and capital intensity. Several transactions have been core to our strategic realignment and focus on High Performance Mixed Signal: in September 2007, we divested our cordless phone system-on-chip business to DSP Group, Inc. (DSPG); in July 2008, we contributed our wireless activities to the ST-NXP Wireless joint venture (our stake in which was subsequently sold, with the business being renamed ST-Ericsson); and in February 2010, we merged our television systems and set-top box business with Trident. Our primary motivations for exiting the system-on-chip markets for wireless activities and consumer applications were the significant research and development investment requirements and high customer concentration inherent in these markets, which make these businesses less profitable and predictable than our High Performance Mixed Signal and Standard Products businesses. In addition, we recently sold two non-semiconductor component businesses. On December 14, 2010, we sold NuTune Singapore Pte. Ltd. (NuTune), our joint venture with Technicolor S.A. that produces can tuner modules for all segments related to broadcast transmission, to AIAC. On July 4, 2011, we sold our Sound Solutions business (formerly included in our Standard Products segment), which makes mobile speakers and receivers, to Knowles Electronics, an affiliate of Dover Corporation. This has enabled us to significantly increase our research and development investments in the High Performance Mixed Signal applications on which we focus.

New customer engagement strategy. We have implemented a new approach to serving our customers and have invested in significant additional resources in our sales and marketing organizations. In spite of the recent economic downturn, we hired over 100 additional field application engineers in recent years in order to better serve our customers with High Performance Mixed Signal solutions. We have also created application marketing teams that focus on delivering solutions that include as many suitable NXP components as possible in their system reference designs, which helps us achieve greater cross-selling between our various product lines, while helping our customers accelerate their time to market. With the increased number of application engineers and our applications marketing approach, we are able to engage with more design locations ranging from our largest, highest volume customers to the mid-size customers who typically have lower volumes but more attractive margins.

Our Redesign Program

Streamlined cost structure. We have achieved annualized cost savings of $928 million by the end of 2011, as compared to our annualized third quarter results for 2008, which was the quarter during which we contributed our wireless operations to ST-NXP Wireless (Holding) AG (which ultimately became ST-Ericsson). These savings are primarily achieved through a combination of headcount reductions, factory closings and restructuring of our IT infrastructure. Between 2008 and December 31, 2011, $727 million has been paid for the accelerated and expanded Redesign Program and other restructuring activities.

Leaner manufacturing base. As a part of our Redesign Program, we have significantly reduced our overall manufacturing footprint, particularly in high cost geographies. Our current manufacturing strategy focuses on capabilities that differentiate NXP in terms of product features, process capabilities, cost, supply chain and quality. Accordingly, we have closed or sold a number of facilities, including but not limited to, the sale of our wafer factory in Caen, France in June 2009, the closure of our production facility in Fishkill, New York in July 2009, the closure of part of our front-end manufacturing in Hamburg, Germany in January 2010, and the closure of our ICN5 facility in Nijmegen at the end of 2010. As a result, we have reduced the number of our front-end manufacturing facilities from fourteen at the time of our separation from Philips in 2006 to six by the end of 2011.

As a result of our repositioning and redesign activities, we believe we are well positioned to grow and benefit from improved operating leverage, focused research and development expenditures and an optimized manufacturing infrastructure.

Reporting Segments

NXP is organized into three reportable segments in compliance with Accounting Standards Codification (ASC) Topic 280 Segment Reporting .

The Company is structured in two market oriented business segments, High Performance Mixed Signal and Standard Products and one other reportable segment, Manufacturing Operations.

Corporate and Other is not a separate reporting segment anymore because it no longer meets the criteria for being separately reported. Particularly the quantitative thresholds are not met after the divestment of NuTune in 2010 and the reallocation of the remaining activities that used to belong to the Home segment. Items under Corporate and Other in this annual report represent the remaining portion of our former Corporate and Other segment to reconcile to the consolidated financial statements along with the Divested Home activities, which were divested in 2010.

Our High Performance Mixed Signal businesses deliver High Performance Mixed Signal solutions to our customers to satisfy their system and sub systems needs across eight application areas: automotive, identification, mobile, consumer, computing, wireless infrastructure, lighting and industrial.

Our Standard Products business segment offers standard products for use across many applications markets, as well as application-specific standard products predominantly used in application areas such as mobile handsets, computing, consumer and automotive.

Our Manufacturing Operations are conducted through a combination of wholly owned manufacturing facilities, manufacturing facilities operated jointly with other semiconductor companies and third-party foundries and assembly and test subcontractors, which together form our Manufacturing Operations segment. While the main function of our Manufacturing Operations segment is to supply products to our High Performance Mixed Signal and Standard Products segments, revenue and costs in this segment are to a large extent derived from sales of wafer foundry and packaging services to our divested businesses in order to support their separation and, on a limited basis, their ongoing operations. As these divested businesses develop or acquire their own foundry and packaging capabilities, our revenue from these sources is expected to decline.

Corporate and Other includes unallocated research expenses not related to any specific business segment, corporate restructuring charges not allocated to High Performance Mixed Signal and Standard Products and other expenses, as well as some operations not included in our two business segments, such as manufacturing, marketing and selling of can tuners through our former joint venture NuTune (which was sold and divested on December 14, 2010) and software solutions for mobile phones (the NXP Software business). Revenue recorded in Corporate and Other is primarily generated from the NXP Software business.

B. ***Business Overview***

Our Company

We are a global semiconductor company and a long-standing supplier in the industry, with over 50 years of innovation and operating history. We provide leading High Performance Mixed Signal and Standard Product solutions that leverage our deep application insight and our technology and manufacturing expertise in RF, analog, power management, interface, security and digital processing products. Our product solutions are used in a wide range of automotive, identification, wireless infrastructure, lighting, industrial, mobile, consumer and computing applications. We engage with leading original equipment manufacturers (OEMs) worldwide and over 57% of our revenue in 2011 was derived from Asia Pacific (excluding Japan).

Since our separation from Philips in 2006, we have significantly repositioned our business to focus on High Performance Mixed Signal solutions and have implemented a Redesign Program aimed at achieving a world-class cost structure and processes. As of December 31, 2011, we had approximately 23,700 full-time equivalent employees located in at least 30 countries, with research and development activities in Asia, Europe and the United States, and manufacturing facilities in Asia and Europe. For the year ended December 31, 2011, we generated revenue of $4,194 million.

Markets, applications and products

We sell two categories of products, High Performance Mixed Signal product solutions and Standard Products. The first category, which consists of highly differentiated application-specific High Performance Mixed Signal semiconductors and system solutions, accounted for 76% of our total product revenue in 2011. We believe that High Performance Mixed Signal is an attractive market in terms of growth, barriers to entry, relative market share, relative business and pricing stability and capital intensity. The second of our product categories, Standard Products, accounted for 24% of our total product revenue in 2011, and consists of devices that can be incorporated in many different types of electronics equipment and that are typically sold to a wide variety of customers, both directly and through distributors. Manufacturing cost, supply chain efficiency and continuous improvement of manufacturing processes drive the profitability of our Standard Products.

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High Performance Mixed Signal

We focus on developing products and system and sub-system solutions that are innovative and allow our customers to bring their end products to market more quickly. Our products, particularly our application system and sub-system solutions, help our customers design critical parts of their end products and thus help many of them to differentiate themselves based on feature performance, advanced functionality, cost or time-to-market.

We leverage our technical expertise in the areas of RF, analog, power management, interface, security technologies and digital processing across our priority applications markets. Our strong RF capabilities are utilized in our high performance RF for wireless infrastructure and industrial applications, television tuners, car security and entertainment products and contactless identification products. Our power technologies and capabilities are applied in our lighting products, AC-DC power conversion and audio power products, while our ability to design ultra-low power semiconductors is used in a wide range of our products including our consumer, mobile, identification and healthcare products and our microcontrollers. Our high-speed interface design skills are applied in our interface products business, and also in our high-speed data converter and satellite outdoor unit products. Security solutions are used in our identification, microcontroller, telematics and smart metering products and solutions. Finally, our digital processing capabilities are used in our Auto DSPs, the products leveraging our Coolflux ultra-low power DSPs, such as our mobile audio and hearing aid business and our microcontroller based products. In addition, digital processing knowledge is required to design High Performance Mixed Signal solutions that leverage other suppliers and digital processing products.

We focus on developing High Performance Mixed Signal solutions for automotive, identification, wireless infrastructure, lighting, industrial, mobile, consumer and computing. The below table provides an overview of our key applications, the leading products we sell into those areas and our key customers and distribution partners.

	Automotive	**Identification**	**Wireless infra structure**	**Lighting**	**Industrial**	**Mobile**	**Consumer**	**Computing**
Key applications	Car access & immobilizers In vehicle networking Car entertainment Telematics ABS Transmission/ throttle control Lighting	Secure identity Secure transactions Tagging & authentication	Wireless base stations Satellite CATV infra Radar	CFL Lighting LED Lighting Back-lighting Lighting Networks	Smart metering White goods & home appliances Pachinko machines Medical Industrial	Mobile handset Portable power supplies Hearing aids	TV Satellite, Cable, Terrestrial and IP Set-top boxes Satellite outdoor units	Monitor Power supplies Personal computer video
Selected market leading positions	#1 Can/LIN/ Flex Ray in -vehicle	#1 e-Government #1 Transport & Access management #2 Banking	#2 in HP RF			#2 Digital Logic	#1 in TV and set-top-box	Leader in notebook AC-DC

	networking	#1 NFC					tuners	power
	#1 passive	#1 Radio frequency identification						adaptors
	keyless entry/							Top 3 in
	immobilizers							interface,
	#1 car radio							leader in
	#4 magnetic							specific
	sensors							niches
Key OEM	Becker	Advanide	Alcatel	Flextronics	Arrow	Apple	Broadcom	Apple
customers	Bosch	Apple	Andrew Corp.	Neonlite	BSS	Huawei	Canon	Arrow
	Continental	ASK	Arrow	Osram	Continental	Lab126	Continental	Cisco
	Delphi	Austria	Ericsson	Panasonic	Electrolux	LGE	Funai	Dell
	Desay	Avery Dennison	Huawei	Philips	Emerson	Marvell	Huawei	Emerson
	Fujitsu	Bundesdr	NSN	PLI	Luxim	Motorola	Humax	Flextronics
	Harman/	COV	Samsung	Sharp	Philips	Nokia	Konka	Foxconn
	Becker	Gemalto	ZTE	TCP	PNK	Philips	LGE	HP
	Hella	Giesecke			Rhodeschw	Samsung	Microsoft	Huawei
	Humax	Google			Samsung	SEMC	Motorola	Intel
	Hyundai	GTO			Schneider	ST-Ericsson	Pace	Neonode
	JCAE	LGE			Siemens	ZTE	Panasonic	Samsung
	Lear	Marvell			TCP		Philips	Western
	LGE	Oberthur			Xilinx		Sagem	Digital
	Microsoft	ORGA			ZTE		Samsung	
	Panasonic	Qualcomm					Scatlanta	
	Pioneer	Samsung					SEMCO	
	Sony	SDU Identification					Sony	
	Valeo	SEMC					Technicolor	
	Visteon	Smartrac					Thomson	
	VON							

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The customers listed above represent key OEM customers based on two criteria: (1) top ten OEM customers (if ten customers meet the criteria) in terms of revenue in 2010 in the specific application market with revenue of at least $3 million, plus any customer with revenue of over $10 million in that market and (2) top ten existing OEM customers (if ten customers meet the criteria) in terms of realized design wins in 2010 in that application market with a minimum design win value of $5 million.

Our key distributors across these applications are Arrow, Avnet, Future and WPG. These distributors represent our top four distributors in terms of revenue in 2011. In addition, our three catalog and web-based distributors, Digi-key, Mouser and Premier Farrell, are included based on their strategic positions, as they engage early with all of our customers, thereby enabling us to engage early with customers with whom we may not have direct relationships. Also, because of their internet presence and focus, they are the fastest growing segment of distribution and our fastest growing distributors.

Automotive. In the automotive market we are a leader in in-vehicle networking car passive keyless entry and immobilization and car radio and car audio amplifiers, hold a strong position in magnetic sensors and have an emerging business in telematics.

In the can/LIN/FlexRay in-vehicle networking market, we are the market leader, having played a defining role in setting the can/LIN and more recently FlexRay standards. We are a leading supplier to major OEMs and continue to drive new system concepts, such as partial networking for enhanced energy efficiency. In the car access and immobilizers market, we lead the development of new passive keyless entry/start and two-way key concepts with our customers and, as a result, we are a key supplier to almost all car OEMs for those products. We are the market leader in AM/FM car radio chip sets.

Our leadership in mid- and high-end car radio is driven by excellent reception performance, whereas in the low-end and after-market car radio, our leadership is driven by our one-chip radio solutions that offer ease of implementation and low cost of ownership. In digital reception, we have developed multi-standard radios based on our software-defined radio implementation. In addition, we provide class-AB and class-D audio amplifiers and power analog products for car entertainment. In telematics, we have developed a complete and secure systems solution for implementation in car on-board units, which we supply in a module that is small in size and delivers good performance. We leverage our proprietary processes for automotive, high-voltage RF and non-volatile processes as well as our technology standards and leading edge security IP developed by our identification business, to deliver our automotive solutions. We are compliant with all globally relevant automotive quality standards (such as ISO/TS16949 and VDA6.3) and we have reduced our defective parts per million rate from two to one over the past four years.

For the full year 2011, we had High Performance Mixed Signal revenue of $930 million in automotive applications, compared to $931 million in 2010, which represents a 0.1% year over year decline. According to Strategy Analytics, the total market for automotive semiconductors was $21.7 billion in 2010, and projects it will grow at a compounded annual growth rate of 10% between 2010 and 2014. According to Strategy Analytics estimates we were the fifth largest supplier of automotive semiconductors worldwide in 2010, and we have increased our market share from 5.8% in 2005 to 6.9% in 2010.

Identification. We are the market leader in contactless identification ICs and a leader in the overall contact and contactless identification chip market.

We address all segments of the market, except for the commodity SIM market, and have leading positions in e-government, transportation and access management, smart card readers, and radio frequency identification tags and labels. For example, we supply to approximately 85% of worldwide e-passport projects, and our MIFARE product is used in approximately 70% of the public transport systems that have adopted electronic ticketing. We have led the development and standard setting of near field communications (NFC), which is an emerging standard for secure short-range connectivity that has been established to enable secure transactions between mobile devices and point-of-sale terminals or other devices, and are pursuing the fast-growing product authentication market. Our leadership in the identification market is based on the strength of our security, end-to-end system contactless read speed performance, our ability to drive new standard settings and the breadth of our product portfolio. Key growth drivers will be the adoption of new security standards in existing smart card markets, the implementation of security ICs in a range of devices to enable secure mobile transactions and product authentication, and the increase in new radio frequency identification applications such as supply chain management.

On December 6, 2010, we announced a strategic collaboration with Google to provide a complete open source software stack for NFC integration and validation on Gingerbread, the latest version of the Android platform. Google also integrated our NFC controller (PN544) into its newly launched Nexus STM phone, co-developed by Google and Samsung, offering users access to compelling NFC based services and applications. With over 100,000 applications and an extensive community of developers, Android is a growing player in the smart phone and mobile device world. According to Gartner, Android is expected to be the number one smart phone operating system in 2011, with 221 million smart phones sold in that year.

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For the full year 2011, we had High Performance Mixed Signal revenue of $698 million in identification applications, compared to $589 million in 2010, which represents an 18.5% year over year growth. The market size for identification ICs was $2.7 billion in 2010, and is expected to grow at a compounded annual rate of 6% to $3.3 billion in 2014.

Wireless infrastructure, lighting and industrial. We have a leading market position in high-performance radio frequency solutions and a strong position in 32-bit ARM microcontrollers, a strong portfolio of lighting drivers and an emerging business in high-speed data converters. Our overall revenue in these businesses was $567 million in 2011 versus $547 million in 2010, which represents a 3.7% year over year growth.

Our leading high-performance radio frequency business mainly provides RF front-end solutions for markets, such as mobile base stations, satellite and CATV infrastructure and receivers, industrial and medical applications, and to a lesser extent addresses the military and aerospace markets. We have a leading position in Power Amplifiers and a top 3 position in Small Signal RF discretes and RF ICs for consumer electronics and cable television infrastructure, while we have emerging businesses in RF ICs for mobile base stations, monolithic microwave ICs (MMICs) and low noise amplifiers (LNAs). Our leadership is based on our world-class proprietary RF process technologies and technology advancements that drive overall system performance, such as power scaling in mobile base stations. We are engaged with the majority of the largest customers in mobile base stations and in several other application areas. Key growth drivers for our high-performance RF business include infrastructure build-outs driven by the substantial growth in mobile data use and digital broadcast adoption, infrastructure development of developing countries, including China, new radar implementations, and our expansion into new product markets such as mobile base station RF ASICs, and wireless communications infrastructure MMICs and LNAs. The market for RF and microwave components, excluding handsets, computing and automotive, which we believe corresponds best with the high-performance RF market, is estimated to be $1.9 billion in 2010. This market is projected to grow at a compounded annual growth rate of 8% to $2.6 billion in 2014.

In lighting, we are the leader in high-intensity discharge drivers, and have emerging positions in CFL and LED drivers. In CFL, we are helping to create an entirely new market for lighting ICs by developing a dimmable CFL lighting driver that replaces existing solutions based on discrete components. Our solution allows midsize lighting OEMs and ODMs to eliminate most of the quality issues that have historically plagued CFL light bulbs, while offering a smaller form factor and new features, such as deep dimming and fast start-up time. Our strength in lighting ICs is based on our leading-edge high-voltage power analog process technologies and system optimization concepts, such as our patented technology to develop sensors-less temperature-controlled LED drivers. According to Datapoint Research Ltd. (2011), the lighting control and power supply/output IC market (excluding microcontrollers) will grow from $1.2 billion in 2010 to $3.3 billion in 2014, which corresponds to a 28% compounded annual growth rate. The lighting IC market is a high growth market, partly driven by government regulations around the world that ban or discourage the use of incandescent light bulbs and encourage or mandate CFL and LED lighting solutions and by energy-savings conscious customers.

In microcontrollers, we have a strong position in multi-purpose 32-bit ARM microcontrollers serving a broad array of applications, including smart metering, white goods, home appliances and various industrial applications. ARM processor cores have been gaining momentum in the general purpose MCU market during the past few years. Our competitive advantage is based on our strategic relationship with ARM, which often makes us the launching partner for its new ARM microcontroller cores, our rich portfolio of analog and security IP, which we integrate with the ARM core into a family of microcontroller products, and our distribution leverage based on our ability to offer a full microcontroller software development kit on a USB stick for approximately $30, compared to traditional software development kits which cost hundreds to thousands of dollars. Our latest ARM Cortex M0-based product achieves pricing levels that places it squarely in competition with 8-bit microcontrollers, while offering better performance in terms of processing speed and system power consumption. This should start expanding the addressable market for 32-bit ARM microcontrollers at the expense of 8-bit ARM microcontrollers. Gartner estimates the market for 32-bit ARM microcontrollers to be $4.8 billion in 2010, and expects a compounded annual growth rate of 7% between 2010 and 2014.

In high-speed data converters, we have developed a high-performance 14/16-bit data converter platform, and were the first to implement the JEDEC high-speed digital serial interface in our products. Our innovative data converter solutions enable our customers to achieve significant breakthroughs in system performance, size and cost reduction, and time-to-market. Due to our strength in small-signal RF products, RF power amplifiers and high-speed data converters, we are unique in covering all component markets involved in designing RF front-end solutions for the wireless communications infrastructure market. Beyond this market segment, our high-speed data converters can be used in a broad range of industrial equipment designs, including medical imaging. The market for data converters for industrial and mobile communications infrastructure is projected to grow at a compounded annual growth rate of 10% between 2010 to 2014, from $0.8 billion to $1.2 billion.

Mobile, Consumer and Computing. We are the market leader in TV front-end solutions, a top three supplier in the fragmented interface market and a leader in digital logic. In addition, we have strong positions in selected niche segments of AC-DC power conversion and personal healthcare markets. We are engaged in development activities and standard setting initiatives with many of the innovation leaders in each of these markets. Our overall High Performance Mixed Signal revenue in these businesses was $711 million in 2011, compared to $779 million in 2010, which represents an 8.7% year over year decline.

We have a leading position in high efficiency AC-DC power conversion ICs for notebook personal computers (our green chip solutions), and are expanding our offering into mobile device chargers. Our strength in AC-DC power conversion is based on our leading edge high-voltage power analog process technologies and engineering capabilities in designing high efficiency power conversion products. Due to worldwide conservation efforts, many countries, states and local governments have adopted regulations that increase the demand for higher power efficiency solutions in computing and consumer applications, especially in power conversion. The market for power analog ICs for battery chargers for data processing and portable devices is expected to grow at a compounded annual rate of 11%, from $0.27 billion in 2010 to $0.41 billion in 2014.

Our TV front-end products are used in the TV reception and tuning sub-systems of televisions and set-top boxes. We are the leader in the mature markets for IF and MOPLL IC products, which are placed into traditional can tuner modules, and the growing market for silicon tuner products, which are replacing can tuners. In addition, we are pursuing new businesses such as digital outdoor units and full spectrum radio solutions. Our market strengths are our specialty RF process technology, decades of experience in designing tuners that work under all broadcasting standards and conditions across the world, and our innovations in new broadcasting standards. Key growth drivers for our products in these markets include the adoption of silicon tuners by TV manufacturers, penetration of new broadcast standards such as DVB-T2, DVC-C2 and DOCSIS 3.0, and the adoption of multi-tuner applications. With the transition of outdoor satellite units from analog to digital, we are succeeding in replacing incumbent suppliers in those solutions, and we expect customers in the United States to start adopting wide spectrum reception solutions. We estimate the market for silicon tuners and TV front-end products to grow at a compounded annual growth rate of 0% between 2010 and 2014, with $0.60 billion in 2010, according to an internal company model that takes into account a declining market for ICs incorporated in can tuners and a growing market for silicon tuners, outdoor units and full spectrum radios.

The interface products market is highly fragmented with niche markets around each of the established interface standards, where overall we are a top 3 player. Our products address 11 of the 17 interface standards segments that we define to encompass the interface products market and we serve various applications across the mobile, computing, pachinko, e-metering and automotive markets. We have broad product portfolios in five of our 11 addressed interface segments, being UARTs and bridges, I^2C and SPI LED controllers, low power real-time clocks and watch ICs, HDMI switches and transceivers, and display port multiplexers. Our core competencies are the design of high speed interfaces, high voltage design needed for LED and LCD drivers, ultra low power design for real-time clocks and watch ICs, and our ability to engage with leading OEMs in defining new interface standards and product designs. While we engage with leading OEMs to drive our innovation roadmaps, we generate the majority of our revenue by subsequently selling these products to a very broad customer base, which we serve through our distribution channel. Key growth drivers will be the adoption rate of new high-speed interface standards such as display port, and LED, smart meter and display card market growth. Specifically, in display port, we are engaged in development activities and standard setting initiatives with many of the innovation leaders in this market. The interface products market is projected to grow at a 3% compounded annual rate between 2010 and 2014, from a revenue base of $2.8 billion in 2010 to $3.2 billion in 2014.

We have a leading digital logic components business, which we leverage in a large number of our High Performance Mixed Signal solutions. We offer several product families for low-voltage applications in communication equipment, personal computers, personal computer peripherals and consumer and portable electronics. Our 3V and 5V families hold a leading share of the logic market. We are currently expanding the higher margin product range in this business by expanding, among others, our switches and translators (or custom logic) portfolio and optimizing our manufacturing. Gartner sizes the standard logic market at $1.7 billion in 2010, estimated to grow to $1.9 billion in 2014, which corresponds to a compounded annual growth rate of 3%.

In addition, we have two emerging product development areas, one focused on developing ICs for personal healthcare applications and the other focused on the mobile audio market. Currently, our personal healthcare revenue is generated by our hearing aid products, which leverage our proprietary ultra low power Coolflux DSP, our low power audio IC design capabilities and our magnetic induction radio technology. We design customer-specific ICs for major hearing aid OEMs, and many of these customers fund our product development efforts. Our mobile audio business leverages many of the same core technologies and competencies, where we work closely with a number of large smart phone OEMs to define audio chips with increasing levels of silicon integration.

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Standard Products

Our Standard Products business supplies a broad range of standard semiconductor components, such as small signal discretes, power discretes and integrated discretes, which we largely produce in dedicated in-house high-volume manufacturing operations. Our small signal and power discretes businesses offer a broad portfolio of standard products, using widely-known production techniques, with characteristics that are largely standardized throughout the industry. Our Standard Products are often sold as separate components, but in many cases, are used in conjunction with our High Performance Mixed Signal solutions, often within the same subsystems. Further, we are able to leverage customer engagements where we provide standard products devices, as discrete components, within a system to identify and pursue potential High Performance Mixed Signal opportunities.

Our products are sold both directly to OEMs as well as through distribution, and are primarily differentiated on cost, packaging type and miniaturization, and supply chain performance. Alternatively, our integrated discretes businesses offer design-in products, which require significant engineering effort to be designed into an application solution. For these products, our efforts make it more difficult for a competitor to easily replace our product, which makes these businesses more predictable in terms of revenue and pricing than is typical for standard products.

Our key product applications, markets and customers are described in the table below.

	Discretes	Integrated Discretes
Key applications	SS Transistors and Diodes SS MOS Power MOS Bipolar Power Transistors Thyristors Rectifiers	ESD protection devices
Key product markets	All applications	Mobile handsets Personal computers Consumer electronics
Key OEM and electronic manufacturing services (EMS) customers	Bosch Continental Delphi Flextronics Nokia Samsung Mobile	Apple Asustek Motorola Nokia Oppo BK Quanta Sharp Sony/Sony Ericsson

TCL

The customers listed above represent our largest OEM and electronic manufacturing services customers based on 2010 revenue in the specified key product markets. For Integrated Discretes, it includes our top four mobile handset customers, our top two OEM customers who use our products in consumer applications and our top two personal computers customers. For Discretes, the list includes all our OEM and EMS customers with revenue of over $15 million.

Key distributors across these applications are Arrow, Avnet, Future and WPG. These distributors represent our top four distributors in terms of revenue in 2011. In addition, our three catalog and web-based distributors, Digi-key, Mouser, Premier Farrell, are included based on their strategic positions, as they engage early with all of our customers, thereby enabling us to engage early with customers with whom we may not have direct relationships. Also, because of their internet presence and focus, they are the fastest growing segment of distribution and our fastest growing distributors.

In 2011, our Standard Products business generated net revenue of $925 million, compared to $848 million in 2010, which represents a 9.1% year over year growth. The market for discretes, excluding RF & Microwave, is expected to grow at a compounded annual rate of 6%, from $18.6 billion in 2010 to $23.4 billion in 2014.

Discretes. We are the number two global supplier of small-signal discretes, with one of the broadest product portfolios in the industry. We have been gaining market share in small signal transistors and diodes over the past few years due to our strong cost competitiveness, supply chain performance, leverage of our OEM relationships and a broadening portfolio. We are focusing on expanding our share of higher margin products in this business. In addition, we are also building a small signal MOSFET product line, which leverages our small signal transistors and diodes packaging operations and strong customer relationships. In addition to our small signal discretes products, we have a Power MOSFET product line, which is focused on the low-voltage segment of the market. The majority of our revenue in Power MOSFETs is to automotive customers. We have recently introduced a new range of general purpose Power MOSFET products in our Trench 6 manufacturing process, and our automotive revenues have rebounded from the low levels experienced in the first half of 2009 due to the economic recovery. Finally, we have small bipolar power, thyristor and rectifier product lines, which are focused on specific applications, such as white goods and lighting, and are sold as part of our overall High Performance Mixed Signal application solutions.

Integrated Discretes. We are a strong supplier of integrated discretes and modules, which are used for interface signal conditioning, filtering and ESD protection in mobile phones, consumer and computing applications. Our system know-how for support in application design-in efforts, our proprietary IP and our volume manufacturing capabilities distinguish us from our competitors. Given the greater IP and product design efforts involved in this business, gross margins earned are typically higher than in discrete components. We are currently broadening our customer base in mobile phone OEMs, and are developing products to address the consumer and computing markets.

Sound Solutions. On July 4, 2011 we sold our Sound Solutions business to Knowles Electronics for $855 million in cash. As part of that deal, Knowles Electronics entered into a supplier agreement with NXP for Mobile Audio ICs like MEMS microphone drivers and smart speaker drivers.

Manufacturing

We manufacture integrated circuits and discrete semiconductors through a combination of wholly owned manufacturing facilities, manufacturing facilities operated jointly with other semiconductor companies and third-party foundries and assembly and test subcontractors. Our manufacturing operations primarily focus on manufacturing and supplying products to our High Performance Mixed Signal and Standard Products businesses. 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 addition, on a limited basis, we also produce and sell wafers and packaging services to our divested businesses (currently Trident, ST-Ericsson and DSPG) in order to support their separation and, on a limited basis, their ongoing operations. As these divested businesses develop or acquire their own foundry and packaging capabilities, our revenue from these sources is expected to decline. We currently have three agreements relating to servicing our divested businesses. The term of the agreements in each case is three years. Our agreement with DSPG expired in December 2010 (although we have an ongoing obligation to supply services relating to certain specialty processes until December 2014), our original agreement with ST-Ericsson expired in August 2011, but was extended until the end of 2012 and our agreement with Trident expires in January 2013. 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 mainly in our High Performance Mixed Signal and to a lesser extent in Standard Products businesses.

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 facilities, which predominantly run manufacturing processes in the 140 nanometer, 180 nanometer and 250 nanometer process nodes, and have concentrated the majority of our manufacturing base in Asia. This focus increases our return on invested capital and reduces capital expenditures.

Our front-end manufacturing facilities use a broad range of production processes and proprietary design methods, including CMOS, bipolar, bipolar CMOS (BiCMOS) and double-diffused metal on silicon oxide semiconductor (DMOS) technologies. Our wafer fabs produce semiconductors with line widths ranging from 140 nanometers to 3 microns for integrated circuits and 0.5 microns to greater than 4 microns for discretes. This broad technology portfolio enables us to meet increasing demand from customers for system solutions, which require a variety of technologies.

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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, as internal benchmarks indicate that we achieve a significant cost advantage over outsourcing options due to our scale and operational performance. In addition, control over these processes enables us to deliver better supply chain performance to our customers, providing us with a competitive advantage over our competitors who rely significantly on outsourcing partners. Finally, a number of our High Performance Mixed Signal products enjoy significant packaging cost and innovation benefits due to the scale of our Standard Products business, which manufactures tens of billions of units per year.

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

Site	Ownership	Wafer sizes used	Line widths used (vm) (Microns)	Technology
Front-end				
Singapore[1]	61.2%	8	0.14-0.25	CMOS
Jilin, China[2]	60%	5	>4	Bipolar
Nijmegen, the Netherlands	100%	8	0.14-0.80	CMOS, BiCMOS, LDMOS
Nijmegen, the Netherlands[3]	100%	6	0.50-3.0	CMOS
Hamburg, Germany	100%	6 /8	0.5-3.0	Discretes, Bipolar
Manchester, United Kingdom	100%	6	0.5	Power discretes
Back-end[4]				
Kaohsiung, Taiwan	100%			Leadframe-based packages and ball grid arrays
Bangkok, Thailand	100%			Low-pin count leadframes
Hong Kong, China[5]	100%			Pilot factory discrete devices
Guangdong, China	100%			Discrete devices
Seremban, Malaysia	100%			Discrete devices
Cabuyao, Philippines	100%			Power discretes, sensors and RF modules processes

(1) Joint venture with TSMC; we are entitled to 60% of the joint venture s annual capacity.
(2) Joint venture with Jilin Sino-Microelectronics Co. Ltd.; we own 60% of the joint venture s annual capacity.
(3) Announced to close in 2012.
(4) In back-end manufacturing we entered into a joint venture with ASE in Suzhou (ASEN), in which we currently hold a 40% interest.
(5) Announced to close in 2012.

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, while our joint venture plants use wafers ranging from 5 inches to 8 inches. In addition, our SSMC wafer fab facility, which produces 8 inch wafers, is jointly owned by TSMC and ourselves. We are leveraging our experience in that fab facility in optimizing our remaining wholly owned Nijmegen and Hamburg wafer fabs. Our other two remaining fabs are small and are focused exclusively on manufacturing power discretes. 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.

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In addition to our semiconductor fabrication facilities, we also operated certain non-semiconductor manufacturing plants, which produced mobile speakers for our former Sound Solutions business and can tuners for the NuTune joint-venture with Technicolor. We sold both these businesses (NuTune in December 2010 and the Sound Solutions business in July 2011), and as such, the dedicated related fabrication facilities have moved to the acquirers of those businesses.

Corporate and Other

We also sold can tuners through our former joint venture NuTune and software solutions for mobile phones through our NXP Software business. On December 14, 2010, we sold our NuTune joint-venture to AIAC and therefore its results were only consolidated up to that date. NuTune represented approximately half of Corporate and Other revenue in 2010.

The NXP Software solutions business develops audio and video multimedia solutions that enable mobile device manufacturers to produce differentiated hand held products that enhance the end-user experience. Our software has been incorporated into over 750 million mobile devices produced by the world s leading mobile device manufacturers.

Sales, Marketing and Customers

We market our products worldwide to a variety of OEMs, ODMs, contract manufacturers and distributors. We generate demand for our products by delivering High Performance Mixed Signal solutions to our customers, and supporting their system design-in activities by providing application architecture expertise and local field application engineering support. We have 36 sales offices in 20 countries.

Our sales and marketing teams are organized into six regions, which are EMEA (Europe, the Middle East and Africa), the Americas, Japan, South Korea, Greater China and Asia Pacific. These sales regions are responsible for managing the customer relationships, design-in and promotion of new products. We seek to further expand the presence of application engineers closely supporting our customers and to increase the amount of product development work that we can conduct jointly with our leading customers. Our web-based marketing tool is complementary to our direct customer technical support.

Our sales and marketing strategy focuses on deepening our relationship with our top OEMs and electronic manufacturing service customers and 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 direct customers are Apple, Bosch, Continental, Delphi, Giesecke/Devrient, Harman/Becker, Hua Wei, Nokia, Samsung and ZTE. When we target new customers, we generally focus on companies that are leaders in their markets either in terms of market share or leadership in driving innovation. We also have a strong position with our distribution partners, being the number two semiconductor supplier (other than microprocessors) through distribution worldwide. Our key distribution partners are Arrow, Avnet, Future, SAC, Vitec, WPG and Yuban.

Based on total revenue during 2011, excluding the divestiture of our Sound Solutions business and revenue from Manufacturing Operations, our top 40 direct customers accounted for 39% of our total revenue, our ten largest direct customers accounted for approximately 21% of our total revenue and no customer represented more than 7% of our total revenue. We generated approximately 30% of our total revenue through our four largest distribution partners, and another 21% with our other distributors.

Our sales and marketing activities are regulated by certain laws and government regulations, including antitrust laws, legislation governing our customers privacy and regulations prohibiting or restricting the transfer of technology to foreign nationals and the export of certain electronic components that may have a military application. For example, we are required to obtain licenses and authorizations under the U.S. Export Administration Regulations and the International Traffic in Arms Regulations, in order to export some of our products and technology. Further, some of our products that contain encrypted information are required to undergo a review by the Bureau of Industry and Security of the U.S. Department of Commerce prior to export. While we believe that we have been and continue to be in compliance with these laws and regulations, if we fail to comply with their requirements, we could face fines or other sanctions. We do not believe any such fines or sanctions would be material to our business. In addition, we do not believe that such laws and government regulations impact on the time-to-market of our products. However, any changes in export regulations may impose additional licensing requirements on our business or may otherwise impose restrictions on the export of our products.

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Research and Development, Patents and Licenses, etc.

See Part I Item 5. Operating and Financial Review and Prospects C. Research and Development, Patents and Licenses, etc.

Competition

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

Our key competitors in alphabetical order include Analog Devices Inc., Atmel Corporation, Entropic Communications Inc., Fairchild Semiconductors International Inc., Freescale, Infineon, International Rectifier Corporation, Linear Technology Corporation, Maxim Integrated Products, Inc., MaxLinear, Inc., Microtune Inc., National Semiconductor, NEC Corporation, ON Semiconductor Corporation, Power Integrations Inc., ROHM Co., Ltd., Samsung, Silicon Laboratories Inc., STMicroelectronics and Texas Instruments Incorporated.

The basis on which we compete varies across market segments and geographic regions. Our High Performance Mixed Signal businesses compete primarily on the basis of our ability to timely develop new products and the underlying intellectual property and on meeting customer requirements in terms of cost, product features, quality, warranty and availability. In addition, our High Performance Mixed Signal system solutions businesses require in-depth knowledge of a given application market in order to develop robust system solutions and qualified customer support resources. In contrast, our Standard Products business competes primarily on the basis of manufacturing and supply chain excellence and breadth of product portfolio.

Legal Proceedings

We are regularly involved as plaintiffs or defendants in claims and litigation relating to matters such as commercial transactions and intellectual property rights. In addition, our divestments sometimes result in, or are followed by, claims or litigation by either party. From time to time, we also are subject to alleged patent infringement claims. We rigorously defend ourselves against these alleged patent infringement claims, and we rarely participate in settlement discussions. Although the ultimate disposition of asserted claims and proceedings 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.

Set forth below are descriptions of the Company s most important legal proceedings pending as of December 31, 2011, for which the related loss contingency is either probable or reasonably possible, including the legal proceedings for which accruals have been made:

* Three former employees of Signetics Corp, a predecessor of NXP Semiconductors USA, Inc. and their respective children each separately filed various counts against NXP Semiconductors USA, Inc. (negligence, premises liability, strict liability, abnormal and ultrahazardous activity, willful and wanton misconduct and loss of consortium) asserting exposure to harmful chemicals and substances while the employees concerned were working in a factory clean room of Signetics Corp., resulting in alleged physical injuries and eventual birth defects to their children (cases No. N09C-10-032 JRJ, N10C-05-137 JRJ and 1-10-CV-188679). Initial discovery has commenced by both sides in above mentioned cases. Actual substantive responses are pending. Trial dates for Case No. N09C-10 032 and Case No. N10C-05-137 have been set at October 7, 2013 and April 28, 2014, respectively. No trial date has been set in Case No. 1-10-CV-188679 yet.

* Norit Winkelsteeg B.V. and Vitens N.V. alleged that NXP Semiconductors Netherlands B.V. breached a contract it had entered into with them to build a so-called permeate-water factory or, in the alternative, had terminated negotiations to enter into such contract in bad faith. Claimants hold NXP Semiconductors Netherlands B.V. liable for all costs, expenses and damages, including loss of profit. In an interim judgment dated January 27, 2009, the Court of Appeal in Arnhem, the Netherlands, recognized that part of the claim related to costs and expenses could be awarded but the Court further stated that reticence must be observed in awarding compensation for loss of profits. Court appearance is adjourned.

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* In 2007, certain former employees of NXP Semiconductors France SAS employed by a subsidiary of the DSP Group, Inc. filed a claim against NXP Semiconductors France SAS before the Tribunal de Grande Instance in an emergency procedure (procédure de référé) to demand re-integration within NXP Semiconductors France SAS, following the closure of the DSP Group s activities in France and the consequent termination of their employment agreements. The claim was rejected by the Tribunal de Grande Instance. The employees concerned then brought the same claim before the Social Court (Conseil de Prud hommes) in Caen which, on April 27, 2010, also ruled in favor of NXP Semiconductors France SAS. The claimants filed for an appeal in last resort on May 18, 2010, which is still pending.

* ILM Technologies France S.à.r.l. and AMO Consulting S.à.r.l. filed a complaint against NXP Semiconductors France SAS with the Commercial Court (Tribunal de Commerce) of Mans, in France, in November 2007 for breach of a services contract without cause. ILM Technologies France S.à.r.l. and AMO Consulting S.à.r.l. lost the case in first instance on March 30, 2009 and, in appeal on October 19, 2010, before the Court of Appeal (Cour d Appel) in Angers, France. ILM Technologies France S.à.r.l and AMO Consulting S.à.r.l. filed for appeal in last resort with the Supreme Court (Cour de Cassation), which is still pending.

In addition, on January 7, 2009, the European Commission issued a release in which it confirmed it had started an investigation in the smart card chip sector. The European Commission has reason to believe that the companies concerned may have violated European Union competition rules prohibiting certain practices such as price fixing, customer allocation and the exchange of commercially sensitive information. As one of the companies active in the smart card chip sector, NXP is subject to this ongoing investigation and is assisting the regulatory authorities in this investigation. The investigation is in its initial stage and it is currently not possible to reliably estimate its outcome.

For an overview of how we account for these legal proceedings, see Part I Item 5. Operating and Financial Review and Prospects B. Liquidity and Capital Resources Critical Accounting Estimates Legal Proceedings contained elsewhere in this annual report.

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, we face 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 property in Hamburg, Germany. At our Hamburg location, the remediation process has been ongoing for several years and is expected to continue for several years.

Our former property in Lent, the Netherlands, is affected by trichloroethylene contamination. ProRail B.V., owns certain property located nearby and has claimed that we have caused trichloroethylene contamination on their property. We have rejected ProRail s claims, as we believe that the contamination was caused by a prior owner of our property in Lent. While we are currently not taking any remediation or other actions, we estimate that our aggregate potential liability, if any, in respect of this property will not be material.

Asbestos contamination has been found in certain parts of our properties in Manchester in the United Kingdom and in Nijmegen, the Netherlands. In the United Kingdom, we will be required to dispose of the asbestos when the buildings currently standing on the property are demolished. We estimate our potential liability will not be material. In the Netherlands, we will be required to remediate the asbestos contamination at a leased property, upon termination of the lease. The lease is not expected to end soon and we estimate the cost of remediation will not be material.

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Climate change poses both regulatory and physical risks that could harm our results of operations or affect the way we conduct our business. In addition to the possible direct economic impact that climate change could have on us, climate change mitigation programs and regulation may increase our costs. For example, the cost of perfluorocompounds (PFCs), a gas that we use in our manufacturing, could increase over time under some climate-change-focused emissions trading programs that may be imposed by government regulation. If the use of PFCs is prohibited, we would need to obtain substitute materials that may cost more or be less available for our manufacturing operations. We also see the potential for higher energy costs driven by climate change regulations. Our costs could increase if utility companies pass on their costs, such as those associated with carbon taxes, emission cap and trade programs, or renewable portfolio standards.

It is our belief that the risks of the environmental issues described above, 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.

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C. ***Organizational Structure.***

A list of our significant subsidiaries, including name, country of incorporation or residence and proportion of ownership interest and voting power is provided in Part III Item 19. Exhibits Exhibit 21.1 , which is incorporated herein by reference.

CORPORATE STRUCTURE

The following chart reflects our corporate structure as of December 31, 2011.

(1) Includes the Private Equity Consortium, as well as certain co-investors. Some of our co-investors have recently sold all or part of their shares of our common stock, in accordance with the applicable securities law exemptions from registration.

(2) On October 29, 2010, PPTL Investment LP purchased shares of common stock from Philips Pension Trustees Limited. The latter had purchased these shares of common stock from Royal Philips Electronics on September 7, 2010.

(3) For a more detailed description of our management equity stock option plan (Management Equity Stock Option Plan) and our Long-Term Incentive Plans 2010 and 2011, see Part I Item 6.Management B. Compensation Share Based Compensation Plans .

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D. ***Property, Plant and Equipment.***

NXP uses 62 sites in 27 countries with approximately 23,700 full-time employees, 8.9 million square feet of total owned and leased building space of which 5.1 million square feet is owned property.

The following table sets out our principal real property holdings as of December 31, 2011:

Location	Use	Owned/leased	Building space (square feet)
Eindhoven, the Netherlands	Headquarters	Leased	248,753
Hamburg, Germany	Manufacturing	Owned	766,074
Nijmegen, the Netherlands	Manufacturing	Owned	2,031,365
Singapore	Manufacturing	Leased	841,048
Bangkok, Thailand	Manufacturing	Owned	604,231
Cabuyao, Philippines	Manufacturing	Owned	444,086
Kaohsuing, Taiwan	Manufacturing	Leased	338,118
Kaohsuing, Taiwan	Manufacturing	Owned	525,681
Manchester, United Kingdom	Manufacturing	Owned	221,787
Jilin, China(1)	Manufacturing	Leased	138,783
Hong Kong, China	Manufacturing	Leased	289,990
Guangdong, China	Manufacturing	Leased	924,544
Seremban, Malaysia	Manufacturing	Owned	291,037

(1) Leased by the Jilin joint venture.

In addition to the foregoing, we own or lease over 51 additional sites around the world for research and development, sales and administrative activities.

The following is a summary of the terms of our material lease agreements:

SSMC leases 841,048 square feet of space at 70 Pasir Ris Drive 1 in Singapore from Jurong Town Corporation for use as a manufacturing facility. The lease commenced on June 1, 1999 for a term of 30 years at an annual rental rate of 1,484,584 Singapore Dollars ($1,146,378), which amount is subject to revision up to, but not exceeding, 5% of the yearly rent for the immediately preceding year, on the anniversary of the lease commencement date.

We lease 924,544 square feet of manufacturing space through our subsidiary, NXP Semiconductors Guangdong Ltd., at Tian Mei High Tech, Industrial Park, Huang Jiang Town, Dongguan City, China, from Huangjiang Investment Development Company (Huangjiang). The lease commenced on October 1, 2003 for a term of 13 years at an annual rental rate calculated to be the greater of: (a) a yearly rental rate of RMB96 ($15) per square meter or (b) a yearly rent equal to 13% of the actual construction cost of the leased facility. The rental amount is subject to revision on an annual basis, subject to the interest rate Huangjiang must pay for loans used in the construction of the facilities agreed upon in the lease.

We lease 187,234 square feet of public land and manufacturing space through our subsidiary, NXP Semiconductors Taiwan Ltd., located in Nanzi Manufacturing and Export Zone, Taiwan, from the Export Processing Zone Administration, Ministry of Economic Affairs. We lease the manufacturing space and its associated parcels of land in a series of leases, the earliest of which commenced on March 13, 2000 and the last of which expires on September 30, 2018. Our monthly rental rate on the combined leases is 3,582,979 New Taiwan Dollars ($118,35) per month plus a 5% business tax applicable thereto as from July 1, 2008.

Item 4A. Unresolved Staff Comments

Not applicable.

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Item 5. Operating and Financial Review and Prospects
A. ***Operating results.***

Basis of Presentation

Reporting Segments

We are a global semiconductors company and leading provider of High Performance Mixed Signal and Standard Product solutions that leverage our leading RF, Analog, power management, interface, security and digital processing expertise. These innovations are used in a wide range of automotive, identification, wireless infrastructure, lighting, industrial, mobile, consumer and computing applications.

We have operations in more than 27 countries and our business is organized into three reportable segments: two market-oriented business segments, High Performance Mixed Signal (HPMS) and Standard Products (SP), and one other reportable segment, Manufacturing Operations. Corporate and Other represents the remaining portion to reconcile to the consolidated statements along with the divested Home activities, which were divested in 2010. See Part I Item 4. Information on the Company A. History and Development of the Company Reporting Segments .

Recent Developments

On February 16, 2012, we announced that our subsidiaries, NXP B.V. and NXP Funding LLC, entered into the 2019 Term Loan. The transaction is scheduled to fund on or before March 19, 2012. This new long-term debt has a seven year maturity, has a margin of 4% above LIBOR, with a LIBOR floor of 1.25%, and was priced at 98.5% of par. The covenants of the 2019 Term Loan are substantially the same as those contained in our 2017 Term Loans. We intend to use the proceeds from the 2019 Term Loan, together with available borrowing capacity under the Revolving Credit Facility, to redeem all of our outstanding euro-denominated 8 5/8% Senior Notes due October 2015 and U.S. dollar-denominated 9 1/2% Senior Notes due October 2015, for a total amount of approximately $775 million.

On January 4, 2012, Trident Microsystems, Inc., (Trident) of which we currently hold 57% of the stock, filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Although the outcome of the procedure is difficult to determine at this date, it has been announced that Trident and Entropic Communications Inc. (Entropic) have reached an agreement on the sale of Trident s set-top-box business (which constituted part of the consideration we used to purchase its common stock) to Entropic. At this time, the long-term impact to revenue associated with manufacturing services provided and goods supplied by NXP to Trident group companies, and potentially to Entropic, is not known.

Treasury shares

As announced on July 29 and August 17, 2011, we started a stock repurchase program to repurchase shares to cover in part employee stock options and equity rights under our long term incentive plans. Under the repurchase program, we may repurchase up to 8 million shares of our common stock from time to time in both privately negotiated and open market transactions, subject to management s evaluation of market conditions, terms of private transactions, the best interests of our shareholders, applicable legal requirements and other factors. There is no guarantee as to the exact number of shares that will be repurchased under the stock repurchase program, and we may terminate the repurchase program at any time. In connection with our share repurchase programs, shares that have been repurchased are held in treasury for delivery upon exercise of options and under restricted share programs and are accounted for as a reduction of stockholders equity. As at December 31, 2011, 3,915,144 shares were held in treasury under this program.

Secondary Offering of Common Stock

After our IPO in August 10, 2010 of 34 million shares of common stock on the NASDAQ Global Select Market under the ticker NXPI , certain of our stockholders offered an additional 30 million shares of our common stock on March 31, 2011, which was priced at $30.00 per share. The underwriters of the offering exercised in full their option to purchase from the selling stockholders up to 4,431,000 additional shares of common stock at the secondary offering price. We did not receive any proceeds from this secondary offering. The settlement date for the offering was April 5, 2011.

Factors Affecting Comparability

Economic Situation

In 2011, the massive earthquake in Japan followed by a tsunami, a major flood in Thailand and the global weakening of the economic climate had an impact on the demand and supply in the semiconductor market and has negatively impacted our revenues and profitability in the year 2011. In the year 2010, an overall market recovery from the global economic downturn, which started in the second half of 2008 and continued through 2009, had a positive impact on our revenues and profitability. For more information on trends and other factors affecting our business see Part I Items 3. Key Information D. Risk Factors .

Restructuring and Redesign Program

Since our separation from Philips, we have taken significant steps to reposition our businesses and operations through a number of acquisitions, divestments and restructurings. As a result of the Redesign Program and other restructurings, costs were reduced significantly, driven by lower costs in manufacturing, research and development and selling, general and administrative activities. Between 2008 and 2011, we executed our Redesign Program to refocus and resize our business in response to a challenging economic environment. and achieved approximately $928 million in annualized savings, as compared to our annualized third quarter results for 2008, which was the quarter during which we contributed our wireless operations to ST-NXP Wireless. Between 2008 and 2011, $727 million has been paid related to the Redesign Program and other restructuring activities.

Restructuring and Other Incidental Items

Certain gains and losses of an incidental but sometimes recurring nature have affected the comparability of our results over the years. These include costs related to the Redesign Program and other restructuring programs, process and product transfer costs, costs related to our separation from Philips and gains and losses resulting from divestment activities and impairment charges.

Certain of these restructuring and other incidental items are recorded in our cost of revenue, which affects our gross profit and operating income, while certain other restructuring and other incidental items are recorded in our operating expenses, which only affect our operating income.

Net investment hedge accounting

The Company has applied net investment hedge accounting since May, 2011. The U.S. dollar exposure of the $1.7 billion net investment in U.S. dollar functional currency subsidiaries has been hedged by our U.S. dollar denominated notes. As a result, in 2011, a charge of $203 million was recorded in other comprehensive income, relating to the foreign currency result on the U.S. dollar notes that are recorded in a euro functional currency entity. Absent the application of net investment hedge accounting this amount would have been recorded as a loss within financial income (expense) in the statement of operations.

Capital Structure

As of December 31, 2011, the book value of our total debt was $3,799 million and included $52 million of short-term debt and $3,747 million of long-term debt. This is $752 million lower than the book value of total debt of $4,551 million as of December 31, 2010.

In 2011, we entered into the 2017 Term Loans dated March 4, 2011 and November 18, 2011, and issued new Dollar Floating Rate Secured Notes pursuant to a senior secured indenture dated as of November 10, 2011, which increased the book value of our long term debt by $1,584 million. In addition, other new borrowings increased long-term debt by $6 million.

The effect of foreign currency differences on long-term debt was negligible, whereas an accrual of debt discount increased long-term debt by $19 million in 2011. Other effects caused a decrease of $15 million, mainly representing the increase in the current portion of long-term debt, which decreased the book value of long-term debt by $12 million.

In 2011, through a combination of individually negotiated buybacks and debt redemptions, we were able to reduce the book value of our long-term debt by $1,975 million.

Furthermore, total debt was also reduced in 2011 by $371 million in short-term debt, of which $400 million consisted of a repayment under our Secured Revolving Credit Facility.

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As a result of the newly issued long-term debt and the debt buybacks and redemptions, our full year net interest expense was reduced from $359 million in 2009 to $318 million in 2010 and to $307 million in 2011.

The total cash used for individually negotiated debt buybacks in 2011 amounted to $1,997 million, resulting in a total recognized loss of $32 million on these transactions, compared to a gain of $57 million during 2010. Principal other payments on long-term debt amounted to $10 million. The net cash proceeds from the issuance of long-term debt amounted to $1,578 million.

Impairment of Goodwill and Other Intangibles

Our goodwill is tested for impairment on an annual basis in accordance with ASC 350, Intangibles Goodwill and Other . Based on the impairment analysis in the fourth quarter of 2011, we have concluded that no impairment is required because the fair value significantly exceeded the carrying value. No impairment was required in 2010.

In 2009, following the announcement to sell a major portion of our former Home segment to Trident, the assets and liabilities to be divested were reported as held for sale at fair value less cost to sell. For these assets held for sale, an impairment of $69 million was recorded in 2009 and included in the segment Divested Home Activities.

Effect of Acquisition Accounting

Our Formation

On September 29, 2006, Philips sold 80.1% of its semiconductor business to the Private Equity Consortium in a multi-step transaction. We refer to this acquisition as our Formation .

The Formation has been accounted for using the acquisition method. Accordingly, the $10,601 million purchase price has been pushed down within the NXP group and allocated to the fair value of assets acquired and liabilities assumed.

The carrying value of the net assets acquired and liabilities assumed, as of the Formation date on September 29, 2006, amounted to $3,302 million. This resulted in an excess of the purchase price over the carrying value of $7,299 million. The excess of the purchase price was allocated to intangible assets, step-up on tangible assets and liabilities assumed, using the estimated fair value of these assets and liabilities.

An amount of $3,096 million, being the excess of the purchase price over the estimated fair value of the net assets acquired, was allocated to goodwill. This goodwill is not amortized, but is tested for impairment at least annually.

Other Significant Acquisitions

Since its Formation, NXP has acquired various companies and businesses. These acquisitions have been accounted for using the acquisition method, and the respective purchase prices have been pushed down within the NXP group and allocated to the fair value of the assets acquired and the liabilities assumed. This has also resulted in an allocation to goodwill for the excess of the purchase price over the estimated fair value of the net assets acquired. The related goodwill is not amortized but included in the annual impairment test. Adjusting the carrying value of the assets acquired in the Formation and subsequent acquisitions to their fair value has had an adverse effect on our operating income for various reporting periods, stemming from amortization charges on intangible assets and higher depreciation charges on tangible fixed assets that are the result of acquisition accounting effects.

The cumulative net effect resulting from the application of acquisition accounting is recorded in the financial statements with the term PPA effect . This effect is calculated taking into account the fact that any divestments and impairments in any particular reporting period reduce the amortization and depreciation charges going forward. Impairment losses are not part of the PPA effect.

Divestments

2011

On July 4, 2011, we sold our Sound Solutions business (formerly included in our SP segment) to Knowles Electronics for $855 million in cash. The transaction resulted in a gain of $414 million, net of post-closing settlements, transaction-related costs, including working capital settlements, cash divested and taxes, which is included in income from discontinued operations. The consolidated financial statements have been reclassified for all periods presented to reflect the Sound Solutions business as a discontinued operation.

2010

On December 20, 2010, we completed the sale of our 55% shareholding in the NuTune joint venture. This joint venture represented the combination of our can tuner modules operation with those of Technicolor (formerly Thomson S.A.).

In September 2010, we sold all of the Virage Logic Corporation (Virage Logic) shares that we held.

On February 8, 2010, we completed the transaction to sell the television systems and set-top-box business lines, which were included in our former business segment Home, to Trident Microsystems, Inc. in exchange for outstanding common stock of Trident. The transaction consisted of the sale of our television systems and set-top-box business lines, together with an additional net payment of $54 million (of which $7 million was paid subsequent to the closing date) to Trident, for a 60% shareholding in Trident, valued at $177 million based on the quoted market price at the transaction date. Trident was listed on the NASDAQ in the United States at that time. Currently, we hold approximately 57% of the outstanding common stock of Trident. Our ownership interest was diluted as a result of Trident s issuance of share capital. On January 4, 2012, Trident filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code, and was subsequently delisted from the NASDAQ.

2009

On November 16, 2009, we completed our strategic alliance with Virage Logic and obtained approximately 9.8% of Virage Logic s outstanding common stock. This transaction included the transfer of our advanced CMOS horizontal intellectual property and development team in exchange for the rights to use Virage Logic s intellectual property and services. Virage Logic is a provider of both functional and physical semiconductor intellectual property for the design of complex integrated circuits. The shares of Virage Logic are listed on the NASDAQ Global Market. Considering the terms and conditions agreed between the parties, we accounted for our investment in Virage Logic at cost.

Research and Development

The divestment of our Home Activities in 2010 resulted in a reduction of our research and development expenses. These divested activities accounted for $239 million in 2009 and $16 million until February 8, 2010. This reduction in research and development expenses is in addition to our cost savings from the Redesign Program.

Statement of Operations Items

Revenue

Our revenue is primarily derived from sales of our semiconductor and other components to OEMs and similar customers, as well as from sales to distributors. Our revenue also includes sales from wafer foundry and packaging services to our divested businesses, which are reported under our segment Manufacturing Operations.

Cost of Revenue

Our cost of revenue consists primarily of the cost of semiconductor wafers and other materials, and the cost of assembly and test. Cost of revenue also includes personnel costs and overhead related to our manufacturing and manufacturing engineering operations, related occupancy and equipment costs, manufacturing quality, order fulfillment and inventory adjustments, including write-downs for inventory obsolescence, gains and losses due to conversion of accounts receivable and accounts payable denominated in currencies other than the functional currencies of the entities holding the positions, gains and losses on cash flow hedges that hedge the foreign currency risk in anticipated transactions and subsequent balance sheet positions, and other expenses.

Gross Profit

Gross profit is our revenue less our cost of revenue, and gross margin is our gross profit as a percentage of our revenue. Our revenue includes sales from wafer foundry and packaging services to our divested businesses, which are reported under our segment Manufacturing Operations. In accordance with the terms of our divestment agreements, because the sales to our divested businesses are at a level approximately equal to their associated cost of revenue, there is not a significant contribution to our gross profit from these specific sales and hence they are dilutive to our overall company gross margin. As these divested businesses develop or acquire their own foundry and packaging capabilities, our revenue from these sources is expected to decline, and, therefore, the dilutive impact on gross profit is expected to decrease over time.

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Research and Development Expenses

Research and development expenses consist primarily of personnel costs for our engineers engaged in the design, development and technical support of our products and related developing technologies and overhead. These expenses include third-party fees paid to consultants, prototype development expenses and computer services costs related to supporting computer tools used in the engineering and design process.

Selling Expenses

Our sales and marketing expense consists primarily of compensation and associated costs for sales and marketing personnel including field application engineers and overhead, revenue commissions paid to our independent sales representatives, costs of advertising, trade shows, corporate marketing, promotion, travel related to our sales and marketing operations, related occupancy and equipment costs and other marketing costs.

General and Administrative Expenses

Our general and administrative expense consists primarily of compensation and associated costs for management, finance, human resources and other administrative personnel, outside professional fees, allocated facilities costs and other corporate expenses. General and administrative expenses also include amortization and impairment charges for intangibles assets other than goodwill, impairment charges for goodwill and impairment charges for assets held for sale.

Other Income (Expense)

Other income (expense) primarily consists of gains and losses related to divestment of activities and subsidiaries, as well as gains and losses related to the sale of long-lived assets and other non-recurring items.

Operating Income (Loss)

Operating income (loss) from operations is our gross profit less our operating expenses (which consist of selling expenses, general and administrative expenses, research and development expenses and write-offs of acquired in-process research and development activities), plus other income (expense).

Extinguishment of Debt

Extinguishment of debt is the gain or loss arising from the exchange or repurchase of our notes, net of write downs for the proportionate costs related to the initial bond issuances.

Other Financial Income (Expense)

Other financial income (expense) consists of interest earned on our cash, cash equivalents and investment balances, interest expense on our debt (including amortization of debt issuance costs), results on the sale of securities, gains and losses due to foreign exchange rates, other than those included in cost of revenue, and certain other miscellaneous financing costs and income.

Benefit (Provision) for Income Taxes

We have significant net deferred tax assets resulting from net operating loss carry forwards, tax credit carry forwards and deductible temporary differences that reduce our taxable income. Our ability to realize our deferred tax assets depends on our ability to generate sufficient taxable income within the carry back or carry forward periods provided for in the tax law for each applicable tax jurisdiction. The main component of the provision for income taxes relates to the tax expense in jurisdictions where we are in a tax paying position and have not recorded a valuation allowance, and withholding taxes.

Results Relating to Equity-Accounted Investees

Results relating to equity-accounted investees consist of our equity in all gains and losses of joint ventures and alliances that are accounted for under the equity method.

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Income (Loss) from Discontinued Operations

For businesses classified as discontinued operations, the results of operations are reclassified from their historical presentation to income (loss) from discontinued operations on the consolidated statements of operations. Any gain (loss) on the sale of a discontinued operation is also included.

Net Income (Loss)

Net income (loss) is the aggregate of operating income (loss), financial income (expense), benefit (provision) for income taxes, results relating to equity-accounted investees, gains or losses resulting from a change in accounting principles, extraordinary income (loss) and gains or losses related to discontinued operations.

Use of Certain Non-GAAP Financial Measures

Comparable revenue growth is a non-GAAP financial measure that reflects the relative changes in revenue between periods adjusted for the effects of foreign currency exchange rate changes and material acquisitions and divestments, combined with reclassified product lines (which we refer to as consolidation changes). Our revenue is translated from foreign currencies into our reporting currency, the U.S. dollar, at monthly exchange rates during the respective years. As such, revenue as reported is impacted by significant foreign currency movements year over year. In addition, revenue as reported is also impacted by material acquisitions and divestments. We believe that an understanding of our underlying revenue performance on a comparable basis year over year is enhanced after these effects are excluded.

Net debt is a non-GAAP financial measure and represents total debt (short-term and long-term debt) after deduction of cash and cash equivalents. Management believes this measure is a good reflection of our net leverage.

We understand that, although comparable revenue growth and net debt are used by investors and securities analysts in their evaluation of companies, these concepts have limitations as an analytical tool, and they should not be considered in isolation or as a substitute for analysis of our results of operations as reported under U.S. GAAP. Comparable revenue growth should not be considered as an alternative to nominal revenue growth, or any other measure of financial performance calculated and presented in accordance with U.S. GAAP. Calculating comparable revenue growth involves a degree of management judgment and management estimates and you are encouraged to evaluate the adjustments we make to nominal revenue growth and the reasons we consider them appropriate. Comparable revenue growth may be defined and calculated differently by other companies, thereby limiting its comparability with comparable revenue growth used by such other companies.

Net debt should not be used as an alternative to any other measure in accordance with U.S. GAAP.

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Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenue

The following table presents revenue by segment for the years ended December 31, 2011 and 2010.

	For the year ended December 31,					
	2010			2011		
($ in millions, unless otherwise stated)	Revenue	% nominal growth	% comparable growth	Revenue	% nominal growth	% comparable growth
High Performance Mixed Signal	2,846	41.5	43.4	**2,906**	**2.1**	**0.9**
Standard Products	848	49.6	52.0	**925**	**9.1**	**7.4**
Manufacturing Operations	525	62.0	(13.3)	**316**	**(39.8)**	**(42.7)**
Corporate and Other	136	(17.6)	(12.7)	**47**	**(65.4)**	**4.5**
Divested Home Activities	47					
Total	4,402	25.1	36.1	**4,194**	**(4.7)**	**(3.2)**

The following table summarizes the calculation of comparable revenue growth and provides the reconciliation from nominal revenue growth, the most directly comparable financial measure presented in accordance with U.S. GAAP, for the years presented:

	For the year ended December 31,	
(in %)	2010	2011
Nominal revenue growth	25.1	**(4.7)**
Effects of foreign currency exchange rate changes(1)	1.7	**(1.2)**
Consolidation changes(2)	9.3	**2.7**
Comparable revenue growth(3)	36.1	**(3.2)**

(1) Reflects the currency effects that result from the translation of our revenue from foreign currencies into our reporting currency, the U.S. dollar, at the monthly exchange rates during the respective years.

(2) Reflects the relative changes in revenue between periods arising from the effects of material acquisitions and divestments and reclassified product lines. For an overview of our significant acquisitions and divestments, see Part I Item 5. Operating and Financial Review and Prospects A. Operating results Factors Affecting Comparability Effect of Acquisition Accounting .

(3) Comparable revenue growth reflects the relative changes in revenue between periods adjusted for the effects of foreign currency exchange rate changes, material acquisitions and divestments and reclassified product lines. Our revenue is translated from foreign currencies into our reporting currency, the U.S. dollar, at the monthly exchange rates during the respective years. As a result of significant currency movements throughout the year and the impact of material acquisitions and divestments on comparable revenue figures, we believe that an understanding of our revenue performance is enhanced after these effects are excluded.

Revenue was $4,194 million in 2011 compared to $4,402 million in 2010, a nominal decline of 4.7%, and a comparable decline of 3.2%. The decline in revenue was primarily due to lower revenues from Manufacturing Operations as contractual obligations to provide manufacturing services for previously divested businesses expired. Revenue from Corporate and Others, which we no longer treat as a separate segment (see Item 4. Information on the Company Reporting Segments) was also lower due to the divestment of the NuTune business in 2010 for which there was no corresponding revenue in 2011. Revenue for the NuTune business in 2010 amounted to $91 million. Furthermore, revenue in 2010 included $47 million related to our Divested Home Activities. This decline in revenue was partially offset by increased revenue from our two market oriented segments, HPMS and SP, which, on a combined basis, increased by $137 million or 3.7% in 2011 compared to 2010. This increase was led by our Identification business within HPMS and strong performance across our SP portfolio.

Gross Profit

Our gross profit increased to $1,906 million in 2011, or 45.4% of our revenue, from $1,823 million in 2010, or 41.4% of our revenue. Our gross profit as a percentage of our revenue was impacted by the dilutive effect of product sales at cost to divested businesses by our Manufacturing

Operations. The increase in gross profit in 2011 was largely due to our higher revenues in HPMS and SP and our better product mix. Though our average factory utilization for the full year 2011 declined to 85% compared to 96% in 2010, cost efficiencies resulting from the Redesign Program had a positive impact on our gross profit. The PPA effects that were included in our gross profit amounted to $27 million in 2011, compared to $21 million in 2010. Also included in our gross profit were restructuring and other incidental items, which amounted to an aggregate cost of

$55 million in 2011 and were mainly related to the closure of production facilities and related headcount reductions. The restructuring and other incidental items included in our gross profit in 2010 amounted to an aggregate cost of $31 million and was mainly related to process and product transfer costs and other restructuring related costs of the Redesign Program.

Research and Development Expenses

Our research and development expenses were $635 million in 2011, or 15.1% of our revenue, compared to $568 million in 2010, or 12.9% of our revenue, in 2010. Research and development expenses increased due to additional investments in HPMS applications and higher restructuring and other incidental costs of $30 million. In 2011, the cost of these restructuring and other incidental items was $24 million and was mainly related to headcount reductions. In 2010, the restructuring and other incidental items reflected income of $6 million due to the release of certain restructuring liabilities.

Research and development expenses in 2011 also increased as a result of acquisition of Jennic Limited in 2010. These increases were partially offset by the absence of research and development expenses incurred in 2010 related to the Divested Home Activities of $16 million.

Selling Expenses

Our selling expenses were $285 million in 2011, or 6.8% of our revenue, compared to $265 million in 2010, or 6.0% of our revenue. The increase in selling expenses was mainly due to investments made in resources for our Identification business.

General and Administrative Expenses

General and administrative expenses amounted to $633 million in 2011, or 15.1% of our revenue, compared to $701 million in 2010, or 15.9% of our revenue. The decrease in general and administrative expenses was due to lower annual performance based incentive costs, lower PPA effects and lower restructuring and other incidental items. The PPA effects included in general and administrative expense amounted to $274 million in 2011, compared to $281 million in 2010. Also included in general and administrative expenses are the restructuring and other incidental items which amounted to an aggregate cost of $57 million in 2011 compared to an aggregate cost of $68 million in 2010. The restructuring and other incidental items in 2011 were mainly related to actions taken to reduce headcount and IT system reorganization costs. The restructuring and other incidental items in 2010 were mainly related to certain divestment and acquisition related costs, IT system reorganization costs and other restructuring costs.

Other Income (Expense)

Other income and expense was a gain of $4 million in 2011, compared to a loss of $16 million in 2010. Included are incidental items, amounting to an aggregate cost of $13 million in 2011, compared to $19 million in 2010. The gains resulting from various transactions in 2011 were partially offset by the loss on sale of various tangible fixed assets. The loss in 2010 was mainly related to the divestment of a major portion of our former Home segment, partially offset by gains on sale of certain tangible fixed assets.

Restructuring Charges

In 2011, we had restructuring charges of $66 million which were mainly related to future closure of ICN 4 wafer fabrication facility in Nijmegen, the Netherlands and actions to reduce headcount. These charges were partially offset by a release of restructuring liabilities of $8 million related to earlier defined programs, including the Redesign Program. Furthermore, we incurred $32 million of restructuring related costs (mainly relating to personnel lay-off costs) in 2011 which were directly charged to our operating income. In 2010, we had restructuring charges of $7 million mainly related to the divestment of a major portion of our former Home segment. These charges were more than offset by a release of restructuring liabilities of $40 million related to prior announced restructuring projects. In addition, we incurred $53 million of restructuring related costs in 2010 (excluding product transfer cost charged to cost of sales) which were directly charged to operating income.

Net restructuring and restructuring related costs that affected our operating income in 2011 were $90 million compared to $20 million in 2010.

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Operating Income (Loss)

The following tables present operating income (loss) by segment for the years ended December 31, 2011 and 2010, which includes the effects of PPA, restructuring and other incidental items and impairment charges:

	For the year ended December 31, 2011		
($ in millions)	**Operating income (loss)**	**Effects of PPA**	**Restructuring and Other Incidental Items**
High Performance Mixed Signal	**339**	**(218)**	**(44)**
Standard Products	**141**	**(57)**	**(6)**
Manufacturing Operations	**(60)**	**(26)**	**(29)**
Corporate and Other	**(63)**		**(73)**
Total	**357**	**(301)**	**(152)**

	For the year ended December 31, 2010		
($ in millions)	**Operating income (loss)**	**Effects of PPA**	**Restructuring and Other Incidental Items**
High Performance Mixed Signal	387	(222)	12
Standard Products	91	(54)	(2)
Manufacturing Operations	(57)	(25)	(35)
Corporate and Other	(117)	(1)	(55)
Divested Home Activities	(31)		(30)
Total	273	(302)	(110)

The table below depicts the PPA effects per line item in the statement of operations.

	For the year ended December 31,	
($ in millions)	**2010**	**2011**
Gross profit	(21)	**(27)**
General and administrative expenses	(281)	**(274)**
Operating income (loss)	(302)	**(301)**

The PPA effect on the Company s gross profit refers to additional depreciation charges on tangible fixed assets, resulting from the step-up in fair values, as well as the charge to cost of sales of the remaining book value of intangible assets in case of sale of those assets. The amortization charges related to intangible assets are primarily reflected in general and administrative expenses.

Financial Income (Expense)

	For the year ended December 31,	
($ in millions)	**2010**	**2011**
Interest income	2	**5**
Interest expense	(320)	**(312)**
Foreign exchange rate results	(331)	**128**
Net gain (loss) on extinguishment of debt	57	**(32)**
Other	(36)	**(46)**

Total	(628)	**(257)**

Financial income (expense) (including the extinguishment of debt) was a net expense of $257 million in 2011, compared to a net expense of $628 million in 2010. In 2011, financial income (expense) included a gain of $128 million as a result of changes in foreign exchange rates mainly applicable to remeasurement of our U.S. dollar-denominated notes and short-term loans, which reside in a euro functional currency entity, compared to a loss of $331 million in 2010. Extinguishment of debt in 2011 amounted to a loss of $32 million compared to a gain of $57 million in 2010. The net interest expense amounted to $307 million in 2011 compared to $318 million in 2010. The reduction in net interest costs was related to lower gross debt during 2011, compared to gross debt as at end of 2010.

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Benefit (Provision) for Income Taxes

The provision for income taxes was $21 million for the year ended December 31, 2011, compared to $24 million for the year ended December 31, 2010, and the effective income tax rates were 21.0% and negative 6.8% respectively. The change in the effective tax rate for the year ended December 31, 2011 compared to the same period in the previous year was primarily due to a decrease in losses recorded in jurisdictions where a full valuation allowance was recognized. The effective tax rate for the year ended December 31, 2011, also included a benefit from a reversal of a provision and a decrease in unrecognized tax benefits.

Results Relating to Equity-accounted Investees

Results relating to the equity-accounted investees amounted to a loss of $77 million in 2011, compared to a loss of $86 million in 2010. The loss in 2011 and 2010 was mainly related to our investment in Trident.

Income (Loss) on Discontinued Operations

The income on discontinued operations, net of taxes was $434 million in 2011 compared to $59 million in 2010. This related entirely to the results of our Sound Solutions business, which was sold during 2011.

Net Income (Loss)

Our net income in 2011 was $436 million, compared to a net loss of $406 million in 2010. The improvement in our net income was mainly related to:

- an increase in our operating income which amounted to $357 million in 2011 compared to $273 million in 2010;
- foreign exchange results included in financial income (expense) of a gain of $128 million in 2011 compared to a loss of $331 million in 2010;
- and income from discontinued operations amounting to a gain of $434 million in 2011 compared to a gain of $59 million in 2010.

Non-controlling Interests

The share of non-controlling interests was a profit of $46 million in 2011, compared to a profit of $50 million 2010. This was related to the third-party share in the results of consolidated companies, predominantly SSMC.

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Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue

The following table presents revenue by segment for the years ended December 31, 2010 and 2009.

	For the year ended December 31,					
	2009			2010		
($ in millions, unless otherwise stated)	Revenue	% nominal growth	% comparable growth	Revenue	% nominal growth	% comparable growth
High Performance Mixed Signal	2,011	(19.9)	(18.2)	2,846	41.5	43.4
Standard Products	567	(25.0)	(23.6)	848	49.6	52.0
Manufacturing Operations	324		(29.0)	525	62.0	(13.3)
Corporate and Other	165	(24.7)	(58.3)	136	(17.6)	(12.7)
Divested Home Activities	452	(10.0)	(22.7)	47		
Total	3,519	(31.1)	(22.6)	4,402	25.1	36.1

The following table summarizes the calculation of comparable revenue growth and provides the reconciliation from nominal revenue growth, the most directly comparable financial measure presented in accordance with U.S. GAAP, for the years presented:

	For the year ended December 31,	
(in %)	2009	2010
Nominal revenue growth	(31.1)	25.1
Effects of foreign currency exchange rate changes[1]	1.3	1.7
Consolidation changes[2]	7.2	9.3
Comparable revenue growth[3]	(22.6)	36.1

(1) Reflects the currency effects that result from the translation of our revenue from foreign currencies into our reporting currency, the U.S. dollar, at the monthly exchange rates during the respective years.

(2) Reflects the relative changes in revenue between periods arising from the effects of material acquisitions and divestments and reclassified product lines. For an overview of our significant acquisitions and divestments, see Part I Item 5. Operating and Financial Review and Prospects A. Operating results Factors Affecting Comparability Effect of Acquisition Accounting .

(3) Comparable revenue growth reflects the relative changes in revenue between periods adjusted for the effects of foreign currency exchange rate changes, material acquisitions and divestments and reclassified product lines. Our revenue is translated from foreign currencies into our reporting currency, the U.S. dollar, at the monthly exchange rates during the respective years. As a result of significant currency movements throughout the year and the impact of material acquisitions and divestments on comparable revenue figures, we believe that an understanding of our revenue performance is enhanced after these effects are excluded.

Revenue was $4,402 million in 2010 compared to $3,519 million in 2009, a nominal increase of 25.1%, and a comparable increase of 36.1%. This increase in revenue was due to the overall market recovery, our ability to ramp up production to meet higher demand and our share gains across a wide range of our business lines.

The increase in our total revenue was partly offset by the divestment of a major portion of our former Home segment to Trident on February 8, 2010. Revenue of these Divested Home Activities amounted to $47 million in 2010 compared to $452 million in 2009. However, NXP agreed to continue supplies for the related divested activities and these amounted to $244 million in 2010, compared to nil in 2009 and are reported under the Manufacturing Operations segment. Furthermore, revenue in 2010 compared to 2009 was also affected by unfavorable currency effects of $51 million.

Gross Profit

Our gross profit increased to $1,823 million in 2010, or 41.4% of our revenue, from $898 million in 2009, or 25.5% of our revenue. Our gross profit as a percentage of our revenue was impacted by the dilutive effect of our Manufacturing Operations segment. The PPA effects that were included in our gross profit amounted to $21 million in 2010, compared to $69 million in 2009. Also included in our gross profit were restructuring and other incidental items, which amounted to an aggregate cost of $31 million in 2010 and were mainly related to process and product transfer costs and other restructuring costs as part of the Redesign Program. The restructuring and other incidental items included in our gross profit in 2009 amounted to an aggregate cost of $158 million and were largely related to process and product transfer costs and our exit of certain product lines in connection with our Redesign Program.

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The increase in gross profit in 2010 was largely due to higher revenue and was supported by the cost reductions that we achieved as a result of the ongoing Redesign Program. Our factory utilization also improved from 60% in 2009 to 96% in 2010. The divestment of a major portion of our former Home segment to Trident also had an impact on our gross profit. These Divested Home Activities achieved a gross profit of $16 million until February 8, 2010, compared to a gross profit of $130 million for the full year of 2009.

Research and Development Expenses

Our research and development expenses were $568 million in 2010, or 12.9% of our revenue, compared to $764 million in 2009, or 21.7% of our revenue, in 2009. In 2010, research and development expenses included restructuring and other incidental items amounting to an aggregate income of $6 million. These were mainly due to the release of certain restructuring liabilities. The restructuring and other incidental items in 2009 amounted to an aggregate cost of $69 million and were mainly related to restructuring costs and merger and acquisition related costs.

The decline in research and development expenses was largely due to the divestment of a major portion of our former Home segment to Trident. Research and development expense for the Divested Home Activities amounted to $16 million in 2010 (until February 8, 2010) compared to $239 million in 2009. Further reductions in our research and development expenses were achieved as a result of our transaction with Virage Logic and our ongoing Redesign Program. However, these reductions were partly offset by higher investments in HPMS applications.

Selling Expenses

Our selling expenses were $265 million in 2010, or 6.0% of our revenue, in 2010, compared to $271 million in 2009, or 7.7% of our revenue. We made additional investments in resources in our sales and marketing organization to execute our HPMS strategy. We have created application marketing teams that focus on delivering solutions and systems reference designs that leverage our broad portfolio of products and better serve our customers with HPMS solutions. The additional investment of resources in our sales and marketing organizations was offset by the effect of the divestment of a major portion of our former Home segment to Trident. Furthermore, selling expenses included certain restructuring and other incidental items, which amounted to an aggregate income of $2 million in 2010, compared to an aggregate cost of $9 million in 2009.

General and Administrative Expenses

General and administrative expenses amounted to $701 million in 2010, or 15.9% of our revenue, compared to $781 million in 2009, or 22.2% of our revenue. The PPA effects included in general and administrative expense amounted to $281 million in 2010, compared to $302 million in 2009. Furthermore, 2009 included an impairment charge related to assets held for sale amounting to $69 million related to the divestment of a major portion of our former Home segment. Also included in general and administrative expenses are the restructuring and other incidental items which amounted to an aggregate cost of $68 million in 2010 compared to an aggregate cost of $88 million in 2009. The restructuring and other incidental items in 2010 and 2009 were mainly related to certain divestment and acquisition related costs, IT system reorganization costs and other restructuring costs.

Other Income (Expense)

Other income and expense was a loss of $16 million in 2010, compared to a loss of $13 million in 2009. Included are incidental items, amounting to an aggregate cost of $19 million in 2010, compared to $20 million in 2009. The loss in 2010 was mainly related to the divestment of a major portion of our former Home segment, partly offset by gains on sale of certain tangible fixed assets. The loss in 2009 was related to the losses on the sale of various smaller businesses and gains on disposal of various tangible fixed assets.

Restructuring Charges

In 2010, we had restructuring charges of $7 million, mainly related to the divestment of a major portion of our former Home segment. Charges in previous years were mainly related to the ongoing Redesign Program of the Company and amounted to $112 million in 2009, compared to $610 million in 2008. These charges were offset by a release of restructuring liabilities of $40 million in 2010 compared to $92 million in 2009 and $16 million in 2008 and related to prior announced restructuring projects. In addition, we incurred $53 million of restructuring related costs in 2010 (excluding product transfers) which were directly charged to our operating income, compared to $83 million in 2009.

In the aggregate, the net restructuring charges that affected our operating income for 2010 were $20 million, compared to $103 million in 2009 and $594 million in 2008.

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Operating Income (Loss)

The following tables present operating income (loss) by segment for the years ended December 31, 2010 and 2009, which includes the effects of PPA, restructuring and other incidental items and impairment charges:

	For the year ended December 31, 2010		
($ in millions)	Operating income (loss)	Effects of PPA	Restructuring and Other Incidental Items
High Performance Mixed Signal	387	(222)	12
Standard Products	91	(54)	(2)
Manufacturing Operations	(57)	(25)	(35)
Corporate and Other	(117)	(1)	(55)
Divested Home Activities	(31)		(30)
Total	273	(302)	(110)

	For the year ended December 31, 2009			
($ in millions)	Operating income (loss)	Effects of PPA	Restructuring and Other Incidental Items	Impairment Charges
High Performance Mixed Signal	(187)	(218)	(84)	
Standard Products	(120)	(61)	(15)	
Manufacturing Operations	(175)	(83)	(101)	
Corporate and Other	(188)	(2)	(127)	
Divested Home Activities	(261)	(7)	(17)	(69)
Total	(931)	(371)	(344)	(69)

The table below depicts the PPA effects per line item in the statement of operations.

	For the year ended December 31,	
($ in millions)	2009	2010
Gross profit	(69)	(21)
General and administrative expenses	(302)	(281)
Operating income (loss)	(371)	(302)

The PPA effect on the Company s gross profit refers to additional depreciation charges on tangible fixed assets, resulting from the step-up in fair values, as well as the charge to cost of sales of the remaining book value of intangible assets in case of sale of those assets. The amortization charges related to intangible assets are reflected in general and administrative expenses.

Financial Income (Expense)

	For the year ended December 31,	
($ in millions)	2009	2010
Interest income	4	2
Interest expense	(363)	(320)
Foreign exchange rate results	39	(331)
Gain on extinguishment of debt	1,020	57

Other	(18)	(36)
Total	682	(628)

Financial income and expense (including the extinguishment of debt) was a net expense of $628 million in 2010, compared to a net income of $682 million in 2009. Financial income and expense included a loss of $331 million in 2010, as a result of a change in foreign exchange rates mainly applicable to remeasurement of our U.S. dollar-denominated notes and short-term loans, which reside in a euro functional currency entity, compared to a gain of $39 million in 2009. Extinguishment of debt in 2010 amounted to a gain of $57 million compared to a gain of $1,020 million in 2009. The net interest expense amounted to $318 million in 2010 compared to $359 million in 2009.

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Benefit (Provision) for Income Taxes

Provision for income taxes for 2010 was $24 million, compared to $10 million in 2009, and our effective income tax expense rate was negative 6.8% in 2010, compared to negative 4.0% in 2009. The increase of the effective tax rate was primarily attributable to an increase of the prior year adjustments. The main component of the income tax expense related to the tax expense in tax jurisdictions in which we are in a tax paying position and in which we have not recorded a valuation allowance.

Results Relating to Equity-accounted Investees

Results relating to the equity-accounted investees amounted to a loss of $86 million in 2010, compared to a profit of $74 million in 2009. The loss in 2010 was related to our investment in Trident. The profit in 2009 was due to the release of translation differences related to the sale of our 20% share in the ST-NXP Wireless joint venture.

Income (Loss) on Discontinued Operations

The income on discontinued operations, net of taxes was $59 million in 2010 compared to $32 million in 2009. This related entirely to the results of our Sound Solutions business, which is intended to be sold in 2011.

Net Income (Loss)

Our net loss in 2010 was $406 million, compared to a net loss of $153 million in 2009. The improvement of $1,204 million in operating income achieved in 2010 was offset by the following factors which led to a higher net loss in 2010 compared to 2009:

- gains resulting from debt extinguishment amounted to $57 million in 2010 compared to $1,020 million in 2009;

- foreign exchange results included in the financial income and expenses amounted to a loss of $331 million in 2010 compared to a profit of $39 million in 2009;

- results related to equity-accounted investees amounted to a loss of $86 million in 2010 compared to a profit of $74 million in 2009.

Non-controlling Interests

The share of non-controlling interests amounted to a profit of $50 million in 2010, compared to a profit of $14 million 2009. This was mostly related to the third-party share in the results of consolidated companies, predominantly SSMC.

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Year Ended December 31, 2011 Compared to Year Ended December 31, 2010 by Segment

Revenue

The following table presents the reconciliation from nominal revenue growth to comparable revenue growth for the year ended December 31, 2011, compared to the year ended December 31, 2010.

(in %)	Nominal Growth	Consolidation Changes(1)	Currency Effects(2)	Comparable Growth(3)
High Performance Mixed Signal	2.1		(1.2)	0.9
Standard Products	9.1		(1.7)	7.4
Manufacturing Operations	(39.8)	(2.9)		(42.7)
Corporate and Other	(65.4)	69.9		4.5
Total Group	(4.7)	2.7	(1.2)	(3.2)

(1) Reflects the relative changes in revenue between periods arising from the effects of material acquisitions and divestments and reclassified product lines. For an overview of our significant acquisitions and divestments, see Part I Item 5. Operating and Financial Review and Prospects A. Operating Results Factors Affecting Comparability Effect of Acquisition Accounting .

(2) Reflects the currency effects that result from the translation of our revenue from foreign currencies into our reporting currency, the U.S. dollar, at the monthly exchange rates during the respective years.

(3) Comparable revenue growth reflects the relative changes in revenue between periods adjusted for the effects of foreign currency exchange rate changes, material acquisitions and divestments and reclassified product lines. Our revenue is translated from foreign currencies into our reporting currency, the U.S. dollar, at the monthly exchange rates during the respective years. As a result of significant currency movements throughout the year and the impact of material acquisitions and divestments on comparable revenue figures, we believe that an understanding of our revenue performance is enhanced after these effects are excluded.

High Performance Mixed Signal

($ in millions)	For the year ended December 31, 2010	2011
Revenue	2,846	**2,906**
% nominal growth	41.5	**2.1**
% comparable growth	43.4	**0.9**
Gross profit	1,525	**1,573**
Operating income (loss)	387	**339**
Effects of PPA	(222)	**(218)**
Total restructuring charges	15	**(43)**
Total other incidental items	(3)	**(1)**

Revenue

Revenue was $2,906 million in 2011 compared to $2,846 million in 2010, an increase of 2.1% on a nominal basis and 0.9% on a comparable basis. This increase was mainly driven by higher revenue in our Identification business and high-performance RF products. Partially offsetting these increases were lower revenue through the distribution channel, soft market conditions in the TV front end tuner business and the interface products business.

Gross Profit

Gross profit in 2011 was $1,573 million, or 54.1% of revenue, compared to $1,525 million in 2010, or 53.6% of revenue. The improvement in gross margin in 2011 resulted primarily from higher-margin product mix, as compared to 2010, partially offset by higher restructuring and other incidental items. The PPA effects that were included in gross profit amounted to $18 million in 2011, compared to $13 million in 2010. Also included in our gross profit were restructuring and other incidental items of $20 million, mainly related to actions taken for headcount reductions. The $3 million of restructuring and other incidental items included in our gross profit in 2010 was mainly related to the release of certain restructuring liabilities.

Operating Expenses

Operating expenses amounted to $1,234 million in 2011, or 42.5% of revenue, compared to $1,133 million in 2010, or 39.8% of revenue. The increase in operating expenses was mainly due to the additional investments in research and development activities and in selling expenses in our Identification business. Operating expenses in 2011 also included costs related to actions taken for headcount reductions. Included in our operating expenses in 2011 were PPA effects of $200 million, compared to PPA effects of $209 million in 2010.

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Operating Income (Loss)

Operating income amounted to $339 million in 2011, compared to operating income of $387 million in 2010. The decline was mainly due to higher investments in research and development expenses and higher restructuring and other incidental costs. These higher operating expenses were partially offset by gross profit improvements. Included in operating income are PPA effects of $218 million in 2011, compared to PPA effects of $222 million in 2010. Restructuring and other incidental items amounted to an aggregate cost of $44 million mainly related to the actions taken to reduce headcount. In 2010, restructuring and other incidental items amounted to an aggregate income of $12 million mainly related to the release of certain restructuring liabilities.

Standard Products

	For the year ended December 31,	
($ in millions)	**2010**	**2011**
Revenue	848	**925**
% nominal growth	49.6	**9.1**
% comparable growth	52.0	**7.4**
Gross profit	280	**336**
Operating income (loss)	91	**141**
Effects of PPA	(54)	**(57)**
Total restructuring charges	(1)	**(6)**
Total other incidental items	(1)	

Revenue

Revenue was $925 million in 2011, compared to $848 million in 2010, an increase of 9.1% on a nominal basis and 7.4% on a comparable basis. The increase in revenue across the SP product portfolio was mainly within our General Application business. Revenue growth slowed in the fourth quarter of 2011 due to reduced demand resulting from uncertain economic situation.

Gross Profit

Gross profit in 2011 was $336 million, or 36.3% of revenue, compared to $280 million in 2010, or 33.0% of revenue. The increase in gross profit was mainly due to higher revenues supported by favorable prices. The PPA effects included in gross profit amount to $1 million in 2011 compared to no PPA effects in 2010. Restructuring and other incidental items were $5 million in 2011 compared to $2 million in 2010.

Operating Expenses

Operating expenses amounted to $198 million in 2011, or 21.4% of revenue, compared to $189 million in 2010, or 22.3% of revenue. The increase in operating expenses was mainly driven by increased research and development expenses. Operating expenses in 2011 included PPA effects of $56 million, compared to PPA effects of $54 million in 2010.

Operating Income (Loss)

Operating income amounted to $141 million in 2011, compared to operating income of $91 million in 2010. The increase in operating income was mainly driven by higher revenues resulting in higher gross profit partially offset by higher operating expenses. Included are PPA effects of $57 million in 2011, compared to PPA effects of $54 million in 2010. The restructuring and other incidental items in 2011 of $6 million were primarily restructuring costs, compared to $2 million in 2010.

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Manufacturing Operations

The main function of our Manufacturing Operations segment is to supply products to our HPMS and SP segments. Revenues derived from, and costs of production associated with those supplies, are accounted for within those respective segments. However, we also derive external revenue and costs of sales from providing wafer foundry and packaging services to our divested businesses in order to support their separation and, on a limited basis, their ongoing operations.

Revenue

Revenue of our segment Manufacturing Operations was $316 million in 2011 compared to $525 million in 2010. The decline in revenue was primarily due to the expiration of contractual obligations to provide manufacturing services for previously divested businesses. As these divested businesses develop or acquire their own foundry and packaging capabilities, our revenue from these sources is expected to further decline.

Our gross profit as a percentage of our revenue was impacted by the dilutive effect of product sales at cost to divested businesses.

Operating Expenses

Operating expenses amounted to $20 million in 2011 compared to $37 million in 2010. Operating expenses in 2011 were mainly related to PPA effects. In 2010, operating expenses included, in addition to PPA effects, costs related to process technology development.

Corporate and Other

We no longer treat Corporate and Other as a separate segment. See Item 4. Information on the Company Reporting Segments .

Revenue

Revenue in 2011 was $47 million compared to $136 million in 2010. The decline in revenue was due to the divestment of NuTune business in 2010 for which there was no corresponding revenue in 2011. Revenue for NuTune business in 2010 amounted to $91 million.

Operating Expenses

Operating expenses amounted to $101 million in 2011 compared to $154 million in 2010. The decline in operating expenses in 2011 was primarily due to lower annual performance based incentive costs and due to divestment of NuTune business. In 2011, restructuring and other incidental items amounted to $73 million compared to $64 million in 2010. These were mainly related to restructuring and IT system reorganization costs.

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Year Ended December 31, 2010 Compared to Year Ended December 31, 2009 by Segment

Revenue

The following table presents the reconciliation from nominal revenue growth to comparable revenue growth for the year ended December 31, 2010, compared to the year ended December 31, 2009.

(in %)	Nominal Growth	Consolidation Changes(1)	Currency Effects(2)	Comparable Growth(3)
High Performance Mixed Signal	41.5		1.9	43.4
Standard Products	49.6		2.4	52.0
Manufacturing Operations	62.0	(75.3)		(13.3)
Corporate and Other	(17.6)	4.8	0.1	(12.7)
Total Group	25.1	9.3	1.7	36.1

(1) Reflects the relative changes in revenue between periods arising from the effects of material acquisitions and divestments and reclassified product lines. For an overview of our significant acquisitions and divestments, see Part I Item 5. Operating and Financial Review and Prospects A. Operating Results Factors Affecting Comparability Effect of Acquisition Accounting .

(2) Reflects the currency effects that result from the translation of our revenue from foreign currencies into our reporting currency, the U.S. dollar, at the monthly exchange rates during the respective years.

(3) Comparable revenue growth reflects the relative changes in revenue between periods adjusted for the effects of foreign currency exchange rate changes, material acquisitions and divestments and reclassified product lines. Our revenue is translated from foreign currencies into our reporting currency, the U.S. dollar, at the monthly exchange rates during the respective years. As a result of significant currency movements throughout the year and the impact of material acquisitions and divestments on comparable revenue figures, we believe that an understanding of our revenue performance is enhanced after these effects are excluded.

High Performance Mixed Signal

($ in millions)	For the year ended December 31, 2009	2010
Revenue	2,011	2,846
% nominal growth	(19.9)	41.5
% comparable growth	(18.2)	43.4
Gross profit	785	1,525
Operating income (loss)	(187)	387
Effects of PPA	(218)	(222)
Total restructuring charges	(53)	15
Total other incidental items	(31)	(3)

Revenue

Revenue was $2,846 million in 2010 compared to $2,011 million in 2009, an increase of 41.5% on a nominal basis and 43.4% on a comparable basis. This increase in revenue was largely attributable to the global economic recovery, generally supported by our share gains across a wide range of our business lines. Revenue increased across all of our focus areas. In particular, revenue in the Automotive and Identification business increased by over 50% compared to 2009. In specific consumer and PC markets, the demand during the second half year of 2010 was not as strong as in the first half of the year.

Gross Profit

Gross profit in 2010 was $1,525 million, or 53.6% of revenue, compared to $785 million in 2009, or 39.0% of revenue. The PPA effects that were included in gross profit amounted to $13 million in 2010, compared to $2 million in 2009. Also included in our gross profit were restructuring and other incidental items, which amounted to an aggregate income of $3 million in 2010 and were mainly related to release of certain restructuring liabilities. The restructuring and other incidental items included in our gross profit in 2009 amounted to an aggregate cost of

$61 million and were mainly related to process and product transfer costs and restructuring costs as part of the Redesign Program. The improvement in gross margin in 2010 resulted primarily from cost savings achieved from the ongoing Redesign Program as well as higher revenue and higher factory utilization. Moreover, revenue in 2010 benefited from a higher-margin product mix, as compared to 2009, which has also led to improvements in our gross profit.

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Operating Expenses

Operating expenses amounted to $1,133 million in 2010, or 39.8% of revenue, compared to $979 million in 2009, or 48.7% of revenue. Included in our operating expenses in 2010 were PPA effects of $209 million, compared to PPA effects of $216 million in 2009. The increase in operating expenses was largely due to the increased investment in research and development activities and also due to the set-up of application marketing teams to better serve our customers.

Operating Income (Loss)

Income from operations amounted to $387 million in 2010, compared to a loss from operations of $187 million in 2009. Included are PPA effects of $222 million in 2010, compared to PPA effects of $218 million in 2009. Restructuring and other incidental items amounted to an aggregate income of $12 million mainly related to the release of certain restructuring liabilities. In 2009, restructuring and other incidental items amounted to an aggregate cost of $84 million and were mainly related to process and product transfer costs and restructuring costs as part of the Redesign Program. The improvement in income from operations was mainly due to higher gross profits partly offset by higher operating expenses.

Standard Products

	For the year ended December 31,	
($ in millions)	**2009**	**2010**
Revenue	567	848
% nominal growth	(25.0)	49.6
% comparable growth	(23.6)	52.0
Gross profit	74	280
Operating income (loss)	(120)	91
Effects of PPA	(61)	(54)
Total restructuring charges	(9)	(1)
Total other incidental items	(6)	(1)

Revenue

Revenue was $848 million in 2010, compared to $567 million in 2009, an increase of 49.6% on a nominal basis and 52% on a comparable basis. This increase in revenue was to a significant extent attributable to the global economic recovery and the replenishment of inventories by customers and our ability to successfully ramp up production to meet the related increase in demand. Next to that, we also succeeded in improving our product/technology mix and in gaining market share in specific segments. Finally, due to supply shortages in all SP segments, there was limited to no price erosion in 2010, compared to an average annual price erosion of mid-to high single digits over the past cycles.

Gross Profit

Gross profit in 2010 was $280 million, or 33.0% of revenue, compared to $74 million in 2009, or 13.1% of revenue. There was no PPA effect included in 2010 or in 2009. Restructuring and other incidental items amounted to an aggregate cost of $2 million in 2010 compared to $14 million in 2009 and were mainly related to restructuring costs. The increase in gross profit was mainly due to the higher volumes supported by favorable prices and higher factory utilization.

Operating Expenses

Operating expenses amounted to $189 million in 2010, or 22.3% of revenue, compared to $194 million in 2009, or 34.2% of our revenue. Operating expenses in 2010 included PPA effects of $54 million, compared to PPA effects of $61 million in 2009.

Operating Income (Loss)

Income from operations amounted to $91 million in 2010, compared to a loss of $120 million in 2009. Included are PPA effects of $54 million in 2010, compared to PPA effects of $61 million in 2009. The increase in income from operations was mainly due to higher gross profits driven by higher factory utilization. The restructuring and other incidental items in 2010 amounted to an aggregate cost of $2 million, compared to an aggregate cost of $15 million in 2009, and were primarily related to restructuring costs.

Manufacturing Operations

The main function of our Manufacturing Operations segment is to supply products to our HPMS and SP segments; however, we also derive external revenue and costs of sales from providing wafer foundry and packaging services to our divested businesses in order to support their separation and, on a limited basis, their ongoing operations. As these divested businesses develop or acquire their own foundry and packaging capabilities, our revenue from these sources are expected to decline.

Revenue

Revenue of our Manufacturing Operations segment was $525 million in 2010 compared to $324 million in 2009. The increase in revenue was mainly due to supplies made to Trident after the divestment of a major portion of our former Home segment in 2010. These supplies amounted to $244 million in 2010. The revenue from providing wafer foundry and packaging services to our divested businesses declined, which was in line with our expectation.

Operating Expenses

Operating expenses amounted to $37 million in 2010 compared to $74 million in 2009. Operating expenses in 2010 and 2009 were mainly related to the real estate and facility management costs and the management fee allocated to our Manufacturing Operations segment.

Corporate and Other

We no longer treat Corporate and Other as a separate segment. See Item 4. Information on the Company Reporting Segments .

Revenue

Revenue in 2010 was $136 million compared to $165 million in 2009 and were mainly related to NuTune which was divested in December 2010 and consequently deconsolidated. The revenue of NuTune amounted to $91 million in 2010 compared to $110 million in 2009.

Operating Expenses

Operating expenses amounted to $154 million in 2010 compared to $178 million in 2009. In 2010, restructuring and other incidental items amounted to an aggregate cost of $64 million compared to $118 million in 2009. These were mainly related to restructuring, IT system reorganization costs and divestment activities.

Divested Home Activities

On February 8, 2010, we divested a major portion of our former Home segment to Trident. The remaining part of the former Home segment has been moved into the HPMS segment and Corporate and Other. Revenue for the Divested Home Activities amounted to $47 million until February 8, 2010 compared to $452 million in 2009.

B. ***Liquidity and Capital Resources.***

Liquidity and Capital Resources

At the end of 2011 our cash balance was $743 million. Taking into account the available undrawn amount of the Secured Revolving Credit Facility, we had access to $1,385 million of liquidity as of December 31, 2011.

We started 2011 with a cash balance of $898 million and during the year our cash decreased by $155 million. The Redesign Program resulted in a cash outflow of $71 million and the fluctuations in exchange rates negatively influenced the cash balance by $21 million.

Capital expenditures were $221 million in line with our guidance of 5% of revenues over the semiconductors business cycle. In 2011, we received cash amounts of $855 million from the sale of our Sound Solutions business and $26 million from the sales of property, plant and equipment and assets held for sale, which were mainly related to our sites in Southampton in the United Kingdom and San Jose in the United States of America.

On a going-forward basis we expect our capital expenditures to be in the range of 5% of revenues. In addition, we expect capital expenditures as a percent of revenues from our business segments (HPMS and SP) to be generally consistent with our expected capital expenditures for 2012.

Since December 31, 2010, the book value of our total debt has been reduced from $4,551 million to $3,799 million as of December 31, 2011.

Several cash buybacks and debt redemptions partially offset by the entry into new term loans and the issuance of new notes resulted in a total debt reduction of $752 million. In 2011, the reduction in total debt included a decrease of $371 million in our short-term debt, of which $400 million consisted of a repayment under our Secured Revolving Credit Facility.

The total amount of cash used for financing activities amounted to $926 million.

At the end of 2011, we had a capacity of $642 million remaining under the Secured Revolving Credit Facility, net of outstanding bank guarantees, based on the end of year exchange rate. However, the amount of this availability varies with fluctuations between the euro and the U.S. dollar as the total amount of the facility, 500 million, is denominated in euro and the amounts drawn are denominated in U.S. dollar.

At the end of September 2012, the Secured Revolving Credit Facility is expected to be replaced by the Forward Start Revolving Credit Facility of 458 million.

For the year ended December 31, 2011, we incurred total net interest expense of $307 million and the weighted average interest rate on our debt instruments as of the end of December 2011 was 7.4% compared to $318 million and 7% respectively in 2010.

At December 31, 2011, our cash balance was $743 million, of which $261 million was held by SSMC, our joint venture company with TSMC. Under the terms of our joint venture agreement with TSMC, a portion of this cash can be distributed by way of a dividend to us, but 38.8% of the dividend will be paid to our joint venture partner. In 2011 a dividend of $170 million was distributed, of which $66 million was paid to the joint venture partner.

Through a share buyback program treasury shares were purchased for $57 million during 2011.

Our sources of liquidity include cash on hand, cash flow from operations and amounts available under the Secured Revolving Credit Facility. We believe that, based on our current level of operations as reflected in our results of operations for the year ended December 31, 2011, these sources of liquidity will be sufficient to fund our operations, capital expenditures, and debt service for at least the next twelve months.

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 future borrowings under our Secured Revolving Credit Facility or Forward Start Revolving Credit Facility, as the case may be, or from other sources may not be available to us in an amount sufficient to enable us to repay our indebtedness, including the Secured Revolving Credit Facility or Forward Start Revolving Credit Facility, as the case may be, the Term Loans, the Super Priority Notes, the Secured Notes, 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. See Part I Item 3. Key Information D. Risk Factors .

Cash Flows

The condensed consolidated statements of cash flows are presented as follows:

($ in millions)	For the year ended December 31, 2009	2010	2011
Cash flow from operating activities:			
Net income (loss)	(153)	(406)	**436**
Adjustments to reconcile net income (loss) to net cash provided by operating activities	(548)	767	**(261)**
Net cash provided by (used for) operating activities	(701)	361	**175**
Net cash (used for) provided by investing activities	63	(269)	**(202)**
Net cash (used for) provided by financing activities	(109)	(157)	**(926)**
Net cash provided by (used for) continuing operations	(747)	(65)	**(953)**

Net cash provided by (used for) discontinued operations		(5)	**809**
Net cash provided by (used for) continuing and discontinued operations	(747)	(70)	**(144)**
Effect of changes in exchange rates on cash positions	(8)	(63)	**(21)**
Cash and cash equivalents at beginning of period	1,796	1,041	**908**
Cash and cash equivalents at end of period	1,041	908	**743**
Less cash and cash equivalents at end of period-discontinued operations	15	10	
Cash and cash equivalents at end of period-continuing operations	1,026	898	**743**

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Cash Flow from Operating Activities

In 2011 we generated $175 million of cash from operating activities compared to $361 million in 2010.This decrease was mainly driven by an increase in working capital needs for inventories and receivables and by a higher decrease in accounts payables.

Payments related to the Redesign Program amounted to $71 million in 2011, compared to $223 million in 2010. Cash interest payments were $301 million in 2011, compared to $278 million in 2010. Various capital markets transactions resulted in an improved debt maturity profile, which however resulted in higher interest coupons and higher cash interest payments in 2011.

In 2010 we had a positive cash inflow of $361 million from operating activities mainly driven by our operational performance in the year through higher revenues and cost savings as a result of our Redesign Program.

In 2009, net cash used for operating activities was $701 million. This was mainly driven by our operational performance in the year with lower revenues and an increase in operational working capital. The redesign payments amounted to $385 million.

Cash Flow from Investing Activities

Net cash used for investing activities amounted to $202 million in 2011, compared to net cash used of $269 million in 2010. Our capital expenditures decreased to $221 million in 2011 compared to $258 million in 2010.

In 2011 the proceeds from the disposal of assets held for sale amounted to $11 million and was related to the sale of our Southampton assets. Proceeds from the disposal of property, plant and equipment amounted to $15 million mainly related to the sales of our San Jose buildings.

Net cash used for investing activities in 2010 was $269 million. Included are gross capital expenditures of $258 million, proceeds from the sale of property, plant and equipment of $31 million and $8 million from the disposal of assets held for sale. The cash payments related to the sale of our businesses in 2010 (Trident and NuTune) amounted to $60 million. Due to the acquisition of Virage Logic by Synopsis in 2010 we sold our shares to Virage Logic for a consideration of $25 million in 2010.

Net cash provided by investing activities in 2009 was $63 million. Included are gross capital expenditures of $92 million, proceeds from disposals of property, plant and equipment of $21 million, proceeds from the sale of DSPG securities of $20 million, proceeds of $92 million related to the sale of the 20% shareholding in the ST-NXP Wireless joint-venture and proceeds related to a cash settlement with Philips of $21 million.

Cash Flow from Financing Activities

In 2011 we used $926 million for financing activities compared to $157 million in 2010.

In 2011 we received net proceeds from the issuance of long-term debt of $1,578 million. This includes proceeds from the issuance of the Floating Rate Secured Notes due in 2016 (principal amount $615 million) and the issuance of the 2017 Term Loans (principal amount $500 million each). Various open market transactions, debt redemptions and debt exchanges resulted in the repurchase of $1,997 million of long-term debt. On July 4, 2011 NXP completed an agreement with Dover Corporation pursuant to which Dover Corporation s Knowles Electronics business acquired our Sound Solutions business. Proceeds from the sale of the Sound Solutions business were used to fully repay the $600 million borrowed under the Secured Revolving Credit Facility and to redeem euro-denominated Senior Notes 2015 for a principal amount of 32 million, U.S. dollar-denominated Senior Notes 2015 for a principal amount of $96 million and U.S. dollar-denominated Senior Secured Notes 2018 for a principal amount of $78 million.

The purchase of treasury shares resulted in cash outflows of $57 million during 2011, whereas the exercise of stock options resulted in cash proceeds of $10 million.

In April 2011, a dividend payment of $170 million was made by SSMC, our joint venture company with TSMC, of which $66 million was distributed to TSMC (38.8% of the total dividend). The remaining amount of $104 million was paid to NXP.

The net cash used for financing activities in 2010 amounted to $157 million. Cash used for financing activities mainly consisted of the buyback of $1,383 million of our debt in the market and the repayment of $200 million on our revolving credit facility. Cash provided by financing activities mainly consisted of $448 million proceeds through the initial public offering of the Company s stock and the issuance of a new long-term bond of $1,000 million due in 2018 with net cash proceeds of $974 million.

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Net cash used for financing activities in 2009 amounted to $109 million. The net cash outflow from financing activities in 2009 mainly consisted of a $286 million outflow related to our offer to repurchase the Secured Notes or the Unsecured Notes for cash and the net inflow of $200 million from drawing under the Secured Revolving Credit Facility.

Cash Flow from Discontinued Operations

On July 4, 2011, we executed an agreement with Dover Corporation pursuant to which Dover Corporation s Knowles Electronics business acquired our Sound Solutions business. The divestiture of our Sound Solutions business resulted in net cash provided by investing activities through discontinued operations of $791 million in 2011.

Debt Position

Short-term Debt

In 2011 the other short-term bank borrowings amounted to $35 million and related to a local bank loan in China. In 2010 we borrowed locally $18 million in China for one of our subsidiaries in order to repay the entrusted loan to Sound Solutions Beijing which subsidiary was sold on July 4, 2011, as part of our Sound Solutions business transaction with Knowles Electronics.

We entered into the Secured Revolving Credit Facility on September 29, 2006 for an amount of 500 million in order to finance our working capital requirements and general corporate purposes. As of December 31, 2011, the full amount is available to us, since no amount was drawn after redeeming all outstanding balances during the year (as of December 31, 2010, an U.S. dollar equivalent of $400 million was drawn).

On May 10, 2010, we entered into a 458 million Forward Start Revolving Credit Facility, which becomes available, subject to specified conditions, on September 28, 2012, and matures on September 28, 2015, to replace our existing Secured Revolving Credit Facility. The conditions to the utilization of the Forward Start Revolving Credit Facility include specified closing conditions, as well as conditions (i) that our consolidated net debt does not exceed $3,750 million as of June 30, 2012 (and if it exceeds $3,250 million on such date, the commitments under the Forward Start Revolving Credit Facility will be reduced by 50%), and (ii) that we issue on or before September 28, 2012, securities with gross proceeds of $500 million, having a maturity at least 180 days after the maturity of the Forward Start Revolving Credit Facility, the proceeds of which are to be used to refinance debt (other than debt under the Secured Revolving Credit Facility) that matures before the maturity of the Forward Start Revolving Credit Facility.

	As of December 31,	
($ in millions)	**2010**	**2011**
Revolving credit facility	400	
Other short-term bank borrowings	18	**35**
Current portion of long-term debt	5	**17**
Total short-term debt	423	**52**

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Long-term Debt

As of December 31, 2011, the euro-denominated notes and U.S. dollar-denominated notes represented 13% and 87% respectively of the total principal amount of the notes outstanding. The fixed rate notes and floating rate notes represented 51% and 49% respectively of the total principal amount of the notes outstanding at December 31, 2011.

($ in millions)	December 31, 2010	Currency Effects	Accrual of Debt Discount	Debt Exchanges/ Repurchases/ New Borrowings	Other[7]	December 31, 2011
Euro-denominated 10% super priority notes due July 2013[1][2]	26	(1)	4			**29**
U.S. dollar-denominated 10% super priority notes due July 2013[2]	178		15			**193**
Euro-denominated floating rate senior secured notes due October 2013[1][3]	852	8		(676)		**184**
U.S. dollar-denominated floating rate senior secured notes due October 2013[3]	766			(708)		**58**
U.S. dollar-denominated 7 7/8% senior secured notes due October 2014	362			(362)		
Euro-denominated 8 5/8% senior notes due October 2015[1]	314	(6)		(45)		**263**
U.S. dollar-denominated 9 1/2% senior notes due October 2015	606			(96)		**510**
U.S. dollar-denominated floating senior secured notes due November 2016 [4]				606		**606**
U.S. dollar-denominated secured term credit agreement due April 2017 [5]				494	(5)	**489**
U.S. dollar-denominated secured term credit agreement due April 2017 [6]				479	(5)	**474**
U.S. dollar-denominated 9 3/4% senior secured notes due August 2018	1,000			(78)		**922**
	4,104	1	19	(386)	(10)	**3,728**
Other long-term debt	24	(1)		1	(5)	**19**
Total long-term debt	4,128		19	(385)	(15)	**3,747**

(1) Converted into U.S. dollars at $1.2938 per 1.00, the exchange rate in effect at December 31, 2011.
(2) Balance at December 31, 2011 is at the amortized cost of debt issued, which differs from the principal amount outstanding. The principal amounts outstanding at December 31, 2011 were $37 million of euro-denominated 10% super priority notes due July 2013 and $221 million of U.S. dollar-denominated 10% super priority notes due July 2013.
(3) Interest accrues at a rate of three-month EURIBOR plus 2.75%.
(4) Interest accrues at a rate of LIBOR plus 5.50%.
(5) On March 4, 2011, we entered into the First 2017 Term Loan for an initial $500 million at a rate of interest of LIBOR plus 3.25% with a floor of 1.25%.
(6) On November 18, 2011, we entered into the Second 2017 Term Loan for a second tranche of $500 million at a rate of interest of LIBOR plus 4.25% with a floor of 1.25%.
(7) Other mainly includes the reclassification of the current portion of 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. See also Item 5. Operating and Financial Review and Prospects A. Operating Results Recent Developments and Item 10. Additional Information C. Material contracts .

Certain Terms and Covenants of the Notes

We are not required to make mandatory redemption payments or sinking fund payments with respect to the Super Priority Notes, the Secured Notes or the Unsecured Notes.

The Indentures governing the Super Priority Notes, the Existing Secured Notes and the Existing Unsecured Notes contain covenants that, among other things, limit our ability and that of our restricted subsidiaries to incur additional indebtedness, create liens, pay dividends, redeem capital stock, 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. As of December 31, 2011, and as of the date of filing of this annual report on Form 20-F, we are in compliance with our restrictive covenants contained in the Indentures.

The Super Priority Notes, the 2017 Term Loans, the Secured Notes and the Unsecured Notes are fully and unconditionally guaranteed jointly and severally, on a senior basis by certain of our current and future material wholly owned subsidiaries.

Pursuant to various security documents related to the Super Priority Notes, the 2017 Term Loans the Secured Notes and the Secured Revolving Credit Facility, we have granted first priority liens and security interests over substantially all of our assets, including the assets of our material wholly owned subsidiaries (other than, in the case of the Super Priority Notes and the Secured Notes, our shares).

Critical Accounting Estimates

The preparation of financial statements and related disclosures in accordance with U.S. GAAP requires our management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and the accompanying notes. Our 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 these estimates under different assumptions or conditions. If actual results differ significantly from management s estimates, there could be a material adverse effect on our results of operations, financial condition and liquidity.

Summarized below are those of our accounting policies where management believes the nature of the estimates or assumptions involved is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change.

Inventories

Inventories are stated at the lower of cost or market. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, taking into account the stage of completion. The cost of inventories is determined using the first-in, first-out (FIFO) method. In determining the value of our inventories, estimates are made of material, labor and overhead consumed. In addition, our estimated yield has a significant impact on the valuation. We estimate yield based on historical experience.

An allowance is made for 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. If actual demand or market conditions are less favorable than forecasted or customer demands are below projections, additional inventory write-downs may be necessary.

Impairment of Long-Lived Assets

Goodwill. We review goodwill for impairment on an annual basis in the fourth quarter of each year, or more frequently if there are events or circumstances that indicate the carrying amount may not be recoverable. To assess for impairment we determine the fair value of each reporting unit that carries goodwill. If the carrying value of the net assets including goodwill in the reporting unit exceeds the fair value, we perform an additional assessment to determine the implied fair value of the goodwill. If the carrying value of the goodwill exceeds this implied fair value, we record an impairment for the difference between the carrying value and the implied fair value.

The determination of the fair value of the reporting unit requires us to make significant judgments and estimates including projections of future cash flows from the business. These estimates and required assumptions include estimated revenue and revenue growth rates, operating margins used to calculate projected future cash flows, estimated future capex investments, future economic and market conditions, determination of market comparables and the estimated weighted average cost of capital (WACC).

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A sensitivity analysis, in which long-term growth rates become approximately zero and the WACC increased by 200 basis points, indicates that for all reporting units, the fair value exceeds the book value substantially.

We base our estimates on assumptions we believe to be reasonable but any such estimates are unpredictable and inherently uncertain. Actual future results may differ from these estimates. In addition, we make judgments and assumptions in allocating assets and liabilities to each of our reporting segments.

We cannot predict certain future events that might adversely affect the reported value of goodwill, which was $2,231 million at December 31, 2011.

Long-Lived Assets other than Goodwill. We review long-lived assets other than goodwill for impairment when events or circumstances indicate that carrying amounts may not be recoverable. A potential impairment exists when management has determined that cash flows to be generated by those assets are less than their carrying value. Management must make significant judgments and apply a number of assumptions in estimating the future cash flows. The estimated cash flows are determined based on, among other things, our strategic plans, long-range forecasts, estimated growth rates and assumed profit margins.

If the initial assessment based on undiscounted projected cash flows indicates a potential impairment, the fair value of the assets is determined. We generally estimate fair value based on discounted cash flows. The discount rates applied to the estimated cash flows are generally based on the business segment specific WACC, which ranged between 10% and 14% in 2011. An impairment loss is recognized for the difference between the carrying value and the estimated fair value. An indication of impairment exists, similar to goodwill, based on the unfavorable developments in the economic climate.

In 2011 and 2010, there were no impairment losses recorded on long-lived assets. Any changes in future periods related to the estimated cash flows from these assets could result in an additional impairment in future periods. With regard to certain real estate that has been classified as held-for-sale, an impairment loss was recorded of $69 million in 2009.

At December 31, 2011, we had $1,171 million of other intangible assets and $1,063 million of remaining long-lived assets.

Restructuring

The provision for restructuring relates to the estimated costs of initiated reorganizations that have been approved by our management team and that 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.

Management uses estimates to determine the amount of the restructuring provision. Our estimates are based on our anticipated personnel reductions and average associated costs. These estimates are subject to judgment and may need to be revised in future periods based on additional information and actual costs.

Revenue Recognition

Our revenue is primarily derived from sales to OEMs and similar customers and from sales to distributors.

We apply the guidance in SEC Staff Accounting Bulletin Topic 13 Revenue Recognition and recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or the service has been provided, the sales price is fixed or determinable, and collection is reasonably assured, based on the terms and conditions of the sales contract. For made to order sales, these criteria are met at the time the product is shipped and delivered to the customer and title and risk have passed to the customer. Examples of delivery conditions typically meeting these criteria are Free on board point of delivery and Costs, insurance paid point of delivery . Generally, the point of delivery is the customer s warehouse. Acceptance of the product by the customer is generally not contractually required, since, for made-to-order customers, after design approval, manufacturing commences and subsequently delivery follows without further acceptance protocols. Payment terms used are those that are customary in the particular geographic market.

When we have established that all aforementioned conditions for revenue recognition have been met and no further post-shipment obligations exist, revenue is recognized.

For sales to distributors, the same recognition principles apply and similar terms and conditions as for sales to other customers are applied. However, for some distributors, contractual arrangements are in place that allow these distributors to return a product if certain conditions are met. These conditions generally relate to the time period during which 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 we have announced a product s pending discontinuance. Long notice periods associated with these announcements prevent significant amounts of product from being returned, however. We do not enter into repurchase agreements with OEMs or distributors. For sales where return rights exist, we have determined, based on historical data, that only a very small percentage of the sales to this type of distributor is actually returned. In accordance with this historical data, a pro rata portion of the sales to these distributors is not recognized but deferred until the return period has lapsed or the other return conditions no longer apply. Revenue is recorded net of sales taxes, customer discounts, rebates and other contingent discounts granted to distributors.

Royalty income, which is generally earned based upon a percentage of revenue or a fixed amount per product sold, is recognized on an accrual basis. Government grants, other than those relating to purchases of assets, are recognized as income as qualified expenditures are made.

Income Taxes

Income taxes in the consolidated financial statements are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and any tax loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We operate in numerous countries where our income tax returns are subject to audits and adjustments. Because we operate globally, the nature of the audit items is often very complex. We employ internal and external tax professionals to minimize audit adjustment amounts where possible. We have applied the guidance within ASC 740 Income Taxes and recognize the effect of income tax positions only if these positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is more than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We record penalties and interest related to unrecognized tax benefits in income tax expense and financial income (expense), respectively.

We have significant deferred tax assets primarily related to net operating losses in the Netherlands, France, Germany, the USA and other countries. At December 31, 2011, tax loss carry forwards amounted to $2,699 million and tax credit carry forwards, which are available to offset future tax, if any, amounted to $90 million. The realization of deferred tax assets is not assured and is dependent on the generation of sufficient taxable income in the future. We have exercised judgment in determining whether it is more likely than not that we will realize the benefit of these net operating losses and other deductible temporary differences, based upon estimates of future taxable income in the various jurisdictions and any feasible tax planning strategies. A valuation allowance is provided to reduce the amount of deferred tax assets when it is considered more likely than not that a portion or all of the deferred tax assets will not be realized.

Benefit Accounting

We account for the cost of pension plans and postretirement benefits other than pensions in accordance with ASC 715 Compensation-Retirement Benefits .

Our employees participate in pension and other postretirement benefit plans in many countries. The costs of pension and other postretirement benefits and related assets and liabilities with respect to our employees participating in defined-benefit plans have been based upon actuarial valuations. If the projected benefit obligation exceeds the fair value of plan assets, we recognize in the consolidated balance sheet a liability that equals the excess. If the fair value of plan assets exceeds the projected benefit obligation, we recognize in our balance sheet an asset that equals the excess. Pension costs in respect of defined-benefit pension plans primarily represent the increase in the actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets.

In calculating obligation and expense, we are required to select certain actuarial assumptions. These assumptions include discount rate, expected long-term rate of return on plan assets and rates of increase in compensation costs. Our assumptions are determined based on current market conditions, historical information and consultation with and input from our actuaries. Changes in the key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic pension cost incurred. A sensitivity analysis is provided in note 24 to the consolidated financial statements contained elsewhere in this annual report.

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Share-Based Compensation

We record share-based compensation arrangements in accordance with ASC 718, Compensation-Stock Compensation . The cost of share-based payment arrangements is recorded in the statement of operations on a straight line basis over the vesting period, taking into account estimated levels of forfeitures that are trued-up annually. Actual forfeitures levels may deviate from estimated levels as a result of not meeting the requisite service period or the performance targets attached to the grant.

Share-based compensation plans for employees were introduced in 2007. Subsequent to becoming a listed company in August 2010, the Company introduced additional share-based compensation plans for eligible employees since November 2010.

Post-IPO Plan

After we became a publicly listed company in August 2010, share-based payments programs were launched in November 2010 and 2011. Under these programs performance stock, stock options and restricted shares were granted to eligible employees. 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 with the Black-Scholes-Merton formula, using the following assumptions:

an expected life of 6.25 years, calculated in accordance with the guidance provided in SEC Staff bulletin No. 110 for plain vanilla options using the simplified method, given that our equity shares have been publicly traded for only a limited period of time and we do not yet have sufficient historical exercise data;

a risk-free interest rate of 1.67% in 2010 and ranging from 1.2% to 2.78% in 2011;

no expected dividend payments; and

a volatility of 45% based on the volatility of a set of peer companies. Peer company data has been used given the short period of time our shares have been publicly traded.

Changes in the assumptions can materially affect the fair value estimate. See also Item 6. Management B. Compensation Shared Based Compensation Plans , for more information in relation to our Post-IPO Plan.

Pre-IPO Plans

Under the pre-IPO plans, including the Management Equity Stock Option Plan, stock options were issued to certain employees of the Company. In accordance with the Management Equity Stock Option Plan, the members of our management team and certain other executives that were granted stock options will be allowed to exercise, from time to time, their vested options. The proportion of options available for exercise cannot exceed the proportion of the aggregate number of shares of common stock sold by our co-investors, including the Private Equity Consortium, to the total number of shares of common stock owned by such co-investors. The exercise prices of stock options granted in 2007 and 2008 range from 20.00 to 50.00.

Also, equity rights were granted to certain non-executive employees under the global equity incentive program (the Global Equity Incentive Program) giving the right to acquire our shares of common stock for no consideration after the rights have vested, upon a change of control (in particular, the Private Equity Consortium no longer jointly holding 30% of our common stock).

Since none of our stock options, equity rights or shares of common stock were traded on any stock exchange until August 2010, and exercise is dependent upon certain conditions, employees can receive no value nor derive any benefit from holding these options or rights without the fulfillment of the conditions for exercise. We concluded that the fair value of the share-based payments could best be estimated by the use of a binomial option-pricing model because such model takes into account the various conditions and subjective assumptions that determine the estimated value. In addition to the estimated value of the Company based on projected cash flows, the assumptions used were:

expected life of the options and equity rights was calculated as the difference between the grant dates and an exercise triggering event occurring not before the end of 2011. For the options granted under the Pre-IPO plans, expected lives varying from 4.25 to 3 years were assumed;

risk-free interest rate varying from 4.1% to 1.6%;

expected asset volatility varying from 27% to 38% (based on the average volatility of comparable companies over an equivalent period from valuation date to exit date);

dividend pay-out ratio of nil;

lack of marketability discounts between 35% and 26%; and the Business Economic Value of NXP, based on projected discounted cash flows as derived from our business plan for the next 3 years, extrapolated until 2021 and using 3% terminal growth rates (the discount factor was based on a weighted average cost of capital of 12.4%).

Because the stock options and equity rights were not traded, an option-based approach (the Finnerty model) was used to calculate an appropriate discount for lack of marketability. The expected life of the stock options and equity rights was estimated based on the time period private equity investors typically take to liquidate a portfolio investment. The volatility assumption was based on the average volatility of comparable companies over an equivalent period from valuation to exit date.

In May 2009, we executed a stock option exchange program for stock options granted up until that date and which were estimated to be deeply out of the money. Under this stock option exchange program, stock options with new exercise prices, different volumes and, in certain cases, revised vesting schedules, were granted to eligible individuals, in exchange for their existing stock options. By accepting the new stock options all existing stock options (vested and unvested) owned by the eligible individuals were cancelled. The number of employees eligible for and affected by the stock option exchange program was approximately 120. Since May 2009, stock options have been granted to eligible individuals under the revised stock options program. The exercise prices of these stock options ranged from 2.00 to 40.00. No modifications occurred with respect to the equity rights of the non-executive employees. No further options or rights will be granted under the pre-IPO plans. See also Item 6. Management B. Compensation Share Based Compensation Plans , for more information in relation to our Pre-IPO Plans.

In accordance with the provisions of Topic 718, the unrecognized portion of the compensation costs of the cancelled stock options continues to be recognized over the remaining requisite vesting period. For the replacement stock options, the compensation costs are determined as the difference between the fair value of the cancelled stock options immediately before the grant date of the replacement stock options and the fair value of these replacement stock options at the grant date. This incremental compensation cost will be recognized in accordance with the vesting schedule over the next 2 years.

Legal Proceedings

In accordance with ASC 450 Contingencies , we account for probable losses that may result from ongoing legal proceedings based on our best estimate of what such losses could be or, when such best estimate cannot be made, we record the minimum potential loss contingency. Estimates require the application of considerable judgment, and are refined each accounting period as additional information becomes known. We are often initially unable to develop a best estimate of loss and therefore the minimum amount, which could be zero, is recorded until a better estimate can be developed. As information becomes known, the minimum loss amount can be increased, resulting in additional loss provisions, or a best estimate can be made, which may or may not result in additional loss provisions. There can be no assurances that our recorded reserves will be sufficient to cover the extent of our costs and potential liability.

For a summary of the material legal proceedings to which we are subject, see note 31 to our consolidated financial statements included in Part III, Item 18 of this Report.

C. *Research and Development, Patents and Licenses, etc.*

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 High Performance Mixed Signal 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 team of highly skilled semiconductor and embedded software design engineers with expertise in RF, analog, power management, interface, security and digital processing. As of December 31, 2011, we had approximately 3,200 employees in research and development, of which over 2,100 support our High Performance Mixed Signal businesses and approximately 300 support our Standard Products businesses. Our engineering design teams are located in India (Bangalore), China (Shanghai), the United States (San Jose, San Diego, Tempe, Bellevue), France (Caen, Suresnes, Sophia Antipolis), Germany (Hamburg, Dresden), Austria (Gratkorn), the Netherlands (Nijmegen, Eindhoven), Hong Kong, Singapore, the United Kingdom (Manchester), Switzerland (Zurich) and Belgium (Leuven). Our research and development expenses were $635 million in 2011 (of which 87% related to our High Performance Mixed Signal businesses), $568 million in 2010 and $764 million in 2009.

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Largely as a result of our scale and the level of our investments in research and development, we have achieved a significant number of market leadership positions and are able to extend those positions. In High Performance Mixed Signal markets where we already have a strong number one market leadership position, such as can/LIN/-FlexRay in-vehicle networking, e-passports and most of our other identification businesses, we invest in research and development to extend our market position and to outpace market growth. In High Performance Mixed Signal markets where we are the leader, but with a smaller market share lead over our competition, such as car access and immobilizers, car radio, TV front-end and radio frequency identification, and in High Performance Mixed Signal markets where we are not the market share leader, we are investing in research and development to grow significantly faster than the market and improve our relative market position. In addition, we are investing to build or expand leading positions in a number of promising, high growth markets such as AC-DC power conversion, CFL and LED lighting drivers, 32-bit ARM microcontrollers, hearing aids and integrated mobile audio solutions. Finally, we invest around 3% of our total research and development expenditures in research activities that develop fundamental new technologies or product categories that could contribute significantly to our company growth in the future. Examples of current developments include biosensors and MEMS oscillators.

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 seeking patents, 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. Our portfolio of approximately 14,000 patents and patent applications, as well as our royalty-free licenses to patents held by Philips, give us the benefit of one of the largest patent portfolio positions in the High Performance Mixed Signal and Standard Products markets. To protect confidential technical information that is not subject to patent protection, we rely on trade secret law and frequently enter into confidentiality agreements with our employees, customers, suppliers and partners. In situations where we believe that a third party has infringed on our intellectual property, we enforce our rights through all available legal means to the extent that we determine the benefits of such actions to outweigh any costs involved. For more information on the intellectual property arrangements we have entered into with Philips, see Part I Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Intellectual Property Transfer and License Agreement contained elsewhere in this annual report.

We have engaged occasionally in licensing, selling and other activities aimed at generating income and other benefits from our intellectual property assets. We believe that there is an opportunity to generate additional income and other benefits from our intellectual property assets. This is a process that will take time before meaningful benefits can be reaped. We are in the early phases of developing the program.

While our patents and trade secrets constitute valuable assets, we do not view any one of them as being material to our operations as a whole. Instead, we believe it is the combination of our patents and trade secrets that creates an advantage for our business.

In addition to our own patents and trade secrets, we have entered into licensing, broad-scope cross licensing and other agreements authorizing us to use patents, trade secrets, confidential technical information, software and related technology owned by third parties and/or operate within the scope of patents owned by third parties. We are party to process technology partnerships, such as our collaboration with TSMC and the Interuniversitair Microelektronica Centrum VZW, through which we jointly develop complex semiconductor-related process technology. We also maintain research partnerships with universities across the world, particularly in Europe, China and India.

We own a number of trademarks and, where we consider it desirable, we develop names for our new products and secure trademark protection for them.

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D. Trend Information.

We focus our business development efforts on what we believe to be the fastest-growing product opportunities and geographic markets.

We address four key macro growth trends in electronics: energy efficiency, mobility and connected mobile devices, security and healthcare. Examples of recent development activities targeting the need for greater energy efficiency are our CFL and LED lighting products, green chip high-efficiency AC-DC power conversion ICs for notebook adaptors, and optimized reference designs for smart metering. Our new high-performance RF power amplifier products allow wireless network operators to expand network capacity with fewer base stations, our secure microcontrollers enable many new forms of mobile electronic payments, and our innovative magnetic induction radio enables implantable medical devices such as hearing aids.

We believe that we are strategically positioned to capture rapid growth in emerging markets through our strong position in Asia Pacific (excluding Japan), which represented 57% of our revenue in 2011, compared to 58% of our revenue in 2010, compared to a peer average of 49% of revenue in 2010. In particular, Greater China represented 38% of our revenue in 2011, compared to 37% of our revenue in 2010.

E. Off-balance Sheet Arrangements.

As of December 31, 2011, we had no off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations.

Presented below is a summary of our contractual obligations as at December 31, 2011

	$000,000	$000,000	$000,000	$000,000	$000,000	$000,000	$000,000
($ in millions)	**Total**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017 and thereafter**
Long-term debt	**3,742**	**10**	**475**	**13**	**783**	**616**(1)	**1,845**(2)
Capital lease obligations	**25**	**8**	**8**	**6**	**1**	**1**	**1**
Short-term debt (3)	**35**	**35**					
Operating leases	**171**	**31**	**26**	**25**	**24**	**15**	**50**
Interest on the notes (4)	**1,445**	**289**	**283**	**248**	**252**	**184**	**189**
Long-term purchase contracts	**206**	**94**	**64**	**32**	**9**	**2**	**5**
Total contractual cash obligations (4)(5)	**5,624**	**467**	**856**	**324**	**1,069**	**818**	