NXP Semiconductors N.V.
Form 20-F
March 01, 2013
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As filed with the Securities and Exchange Commission on March 1, 2013

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, 2012

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, 2012
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). x 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 3D. *Risk Factors* and Part I, Item 5G. *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 set forth under *Use of Certain Non-U.S. GAAP Financial Measures* contained in this report under Part I, Item 5A. *Operating Results*.

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 82.

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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.

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The selected historical consolidated financial data should be read in conjunction with the discussion under Part I, Item 5A. *Operating Results* and the Consolidated Financial Statements and the accompanying Notes included elsewhere in this Annual Report.

	As of and for the years ended December 31,				
($ in millions unless otherwise stated)	**2012**	**2011**	**2010**	**2009[1]**	**2008[1]**
Consolidated Statements of Operations:					
Revenue	**4,358**	4,194	4,402	3,519	5,104
Operating income (loss)	**412**	357	273	(931)	(2,643)
Financial income (expense)-net	**(437)**	(257)	(628)	682	(614)
Income (loss) from continuing operations attributable to stockholders	**(116)**	(44)	(515)	(199)	(3,593)
Income (loss) from discontinued operations attributable to stockholders	**1**	434	59	32	36
Net income (loss) attributable to stockholders	**(115)**	390	(456)	(167)	(3,557)
Per share data[2][3]:					
Basic and diluted earnings per common share attributable to stockholders in $					
- Income (loss) from continuing operations	**(0.46)**	(0.17)	(2.25)	(0.93)	(19.94)
- Income (loss) from discontinued operations		1.74	0.26	0.15	0.20
- Net income (loss)	**(0.46)**	1.57	(1.99)	(0.78)	(19.74)
Weighted average number of shares of common stock outstanding during the year (in thousands)[4]					
- Basic and diluted	**248,064**	248,812	229,280	215,252	180,210
Consolidated balance sheet data:					
Cash and cash equivalents	**617**	743	898	1,026	1,781
Total assets	**6,439**	6,612	7,637	8,579	10,213
Net assets	**1,284**	1,357	1,219	1,041	1,182
Working capital[5]	**765**	969	811	870	1,355
Total debt[6]	**3,492**	3,799	4,551	5,283	6,367
Total stockholders equity	**1,049**	1,145	986	843	969
Common stock	**51**	51	51	42	42
Other operating data:					
Capital expenditures	**(251)**	(221)	(258)	(92)	(356)
Depreciation and amortization[7]	**533**	591	684	887	1,924
Consolidated statements of cash flows data:					
Net cash provided by (used for):					
Operating activities	**722**	175	361	(701)	(638)
Investing activities	**(243)**	(202)	(269)	63	1,046
Financing activities	**(574)**	(926)	(157)	(109)	299
Net cash provided by (used for) continuing operations	**(95)**	(953)	(65)	(747)	707
Net cash provided by (used for) discontinued operations	**(45)**	809	(5)		2

(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) The Company has not paid any dividends during the periods presented.

(4) Due to our net losses from continuing operations attributable to stockholders in the periods from 2008 to 2012, 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).

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(6) As adjusted for our cash and cash equivalents our net debt was calculated as follows:

($ in millions)	2012	2011	2010	2009	2008
Long-term debt	**3,185**	3,747	4,128	4,673	5,964
Short-term debt	**307**	52	423	610	403
Total debt	**3,492**	3,799	4,551	5,283	6,367
Less: cash and cash equivalents	**(617)**	(743)	(898)	(1,026)	(1,781)
Net debt	**2,875**	3,056	3,653	4,257	4,586

Net debt is a non-GAAP financial measure. See *Use of Certain Non-GAAP Financial Measures* under Part I, 5A. *Operating Results*.

(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 $273 million in 2012, $301 million in 2011, $302 million in 2010, $371 million in 2009 and $658 million in 2008. In 2012, depreciation and amortization included $2 million (2011: $5 million; 2010: $40 million) related to disposals that occurred in connection with our restructuring activities and $2 million (2011: $1 million; 2010: $6 million) relating to other incidental items. For a detailed list of the acquisitions and a discussion of the effect of acquisition accounting, see the *Effect of Acquisition Accounting* section in Part I, Item 5 A. *Operating Results*. 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 o United 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, 2012. 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,				
	2012	2011	2010	2009	2008
Average $ per	**1.2859**	1.3931	1.3261	1.3935	1.4726

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 February 22, 2013:

Month	High	Low
	($ per	)
2012		
August	**1.2583**	**1.2149**
September	**1.3142**	**1.2566**
October	**1.3133**	**1.2876**
November	**1.3010**	**1.2715**
December	**1.3260**	**1.2930**
2013		
January	**1.3584**	**1.3047**

On February 22, 2013, the noon buying rate was $1.3166 per 1.00.

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 denominated 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 the *Fluctuations in Foreign Rates May Have An Adverse Effect On Our Financial Results* section in Part I, Item 3D. *Risk Factors* and the *Foreign Currency Risks* section in Part I, Item 11. *Quantitative and Qualitative Disclosures About Market Risk*.

B. *Capitalization and Indebtedness*

Not applicable.

C. *Reasons for the Offer and Use of Proceeds*

Not applicable.

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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 Consolidated 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 5G. 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 2013, the International Monetary Fund projected global world output growth of 3.3% and 3.5% in 2012, and 2013, respectively, a decrease of 0.4% from its 3.9% estimated growth for 2013 released in January 2012. Official forecasts have been fluctuating as of late and negative economic trends may become worse, in particular amidst concerns that the euro crisis may further deepen. 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.

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.

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 senior secured revolving credit facility that we entered into on April 27, 2012 (the Secured Revolving Credit Facility) or 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 the joinder and amendment to the secured term credit agreement that we entered into on December 10, 2012 (the 2020 Term Loan and, together with the 2017 Term Loans and the 2019 Term Loan, the Term Loans) and under our 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) and U.S. dollar-denominated 5.75% senior notes due 2021 (the 2021 Dollar Fixed Rate Senior Notes and, together with the Euro Floating Rate Secured Notes, the Dollar Floating Rate Secured Notes and the 2018 Dollar Fixed

Rate Secured Notes, the 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 by 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 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, the Term Loans, or the 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.

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, the Term Loans, the 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 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. 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 and adjoining countries. Such legislation requires that, starting the calendar year

beginning January 1, 2013, reporting companies that determine that conflict minerals are necessary to the functionality or production of a product they manufactured or contracted to be manufactured over a calendar year to file a Conflict Minerals Report as an exhibit to a Form SD report. The Conflict Minerals Report is required to set out the due diligence efforts and procedures exercised on the source and chain of custody of such conflict minerals, in accordance with a nationally or internationally recognized due diligence framework, and a description of the company s products containing such conflict minerals. The implementation of these requirements could increase our legal

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compliance costs and 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.

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 continued hostilities in the Middle East, including the threat of war. 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;
- potential terrorist attacks in the US and Europe;
- epidemics and pandemics, which may adversely affect our workforce, as well as our local suppliers and customers in particular in Asia;
- adverse changes in governmental policies, especially those affecting trade and investment;
- our customers or other groups of stakeholders might impose requirements that are more stringent than the laws in the countries in which we are active;
- 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 system or 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, the Term Loans and the indentures related to the Notes, which may restrict our ability to pursue our business strategies.

Restrictive covenants in our Secured Revolving Credit Facility, the Term Loans and the indentures related to the 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, 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, 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 if a default otherwise occurs, the lenders under our Secured Revolving Credit Facility could elect to terminate their commitments thereunder, 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 and thereby prevent us from making payments on our debt. Any such actions could force us into bankruptcy or liquidation.

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 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).

If any of our strategic partners in industry groups or in any of the other alliances we engage with were to encounter financial difficulties or change their business strategies, they may no longer be able or willing to participate in these groups or alliances, which could have a material adverse effect on our business, financial condition and results of operations. We do not control some of these strategic partnerships, joint ventures and alliances in which we participate. We may also have certain obligations, including some limited funding

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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 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. During the fourth quarter of 2012 we announced a restructuring initiative designed to improve operational efficiency and to competitively position the company for sustainable growth.

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.

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Our working capital needs are difficult to predict.

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

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

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

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

We manufacture, in our own factories as well as subcontracted, 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.

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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. 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, 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, we are subject to the ongoing investigation and assisting the regulatory authorities in this 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 benefit of $26 million, before tax, within financial income and expense in the 2012 statement of operations. We continue to hold or convert a part of our cash in euros as a hedge for euro expenses and euro interest payments. We are exposed to fluctuations in exchange rates when we convert U.S. dollars to euro. 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, 2012, we had recognized a net accrued benefit liability of $257 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.

Effective January 1, 2013 certain new limitations will apply to the tax deductibility of interest expense in the Netherlands. A Netherlands company that is considered to be financed with excessive debt, may not be entitled to deduct interest expense on such excessive debt. Existing debt is not grandfathered under these rules. The measurement of whether there is excessive debt is based on mechanical tests that focus on the amount of equity of the company in relation to the acquisition cost of and capital invested in Netherlands and foreign subsidiaries of the Netherlands consolidated group. When the equity of the company is below a certain minimum threshold, the company may be considered to have excessive debt. Certain safe harbor rules apply when new operational businesses are acquired by the company. The application of this limitation on tax deductibility of interest expense 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.

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 resulting from acquisitions. Tax assets can also result from the generation of tax losses in certain legal entities. Tax authorities may challenge these tax assets. In addition, the value of the tax assets resulting from tax losses carried forward depends on having sufficient taxable profits in the future.

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 and significant increases in the prices of raw materials used for our manufacturing process. For instance, the nuclear incident following the tsunami in Japan impacted the supply chains of our customers and suppliers. Furthermore, any disaster affecting our customers (or their respective customers) may significantly negatively impact the demand for our products and our revenues.

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

The Private Equity Consortium is able to influence or has control over 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 stockholders.

The consortium of funds advised by Kohlberg Kravis Roberts & Co. L.P. (KKR), Bain Capital Partners, LLC (Bain), Silver Lake Technology Management Company, L.L.C. (Silver Lake), Apax Partners LLP (Apax) and AlpInvest Partners N.V. (AlpInvest), and collectively, the Private Equity Consortium , controls us and, following a secondary offering of shares by certain selling shareholders which settled on February 7, 2013, beneficially owns 42% of our common stock. The Private Equity Consortium will continue to be able to influence or control matters requiring approval by our stockholders, including 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 other holders of our common stock, particularly if we encounter financial difficulties or are unable to pay our debts when due. The concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their shares as part of such a takeover and might ultimately affect the market price of our common stock.

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 preemptive 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, foreign private issuers are required to file their Annual Report on Form 20-F by 120 days after the end of each fiscal year while U.S. domestic issuers that are large accelerated filers are required to file their Annual Report on Form 10-K within 60 days after the end of each fiscal year. Foreign private issuers are also exempt from the Regulation Fair Disclosure, aimed at preventing issuers from making selective disclosures of material information. As a result of the above, even though we are contractually obligated and intend to make interim reports available to our stockholders, copies of which we are required to furnish to the Securities and Exchange Commission (the SEC) on a Form 6-K, and even though we are required to 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.

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.

As per January 1, 2013, the new Management and Supervision Act (the Supervision Act) has come into effect in the Netherlands. The Supervision Act provides for certain changes in Dutch company law. As a result of the Supervision Act, Dutch company law no longer contains restrictions on the powers of directors to represent the company in case of a conflict of interest, but provides that a member of the board of directors may not participate in the discussion and decision-making of the board about the conflicted subject. If all members of the board of directors have a conflict of interest, the resolution concerned will be adopted by the general meeting of shareholders, unless the articles of association provide otherwise. Our articles of association do not contain such alternative arrangements. If an executive director or a non-executive director does not comply with the provisions on conflicts of interest, the resolution concerned is subject to nullification (*vernietigbaar*) and the director concerned may be held liable towards us.

In addition, the Supervision Act introduces a limitation on the number of supervisory positions that managing/executive and supervisory/non-executive directors of so called large entities may hold. We qualify as a large entity. Aside from the new restrictions on the number of supervisory positions, the Supervision Act also contains a required gender balance. This means that for large entities the seats in a managing, supervisory or one tier board are to be divided among individuals, and the balanced participation is deemed to exist if at least 30% of the seats are taken by men and at least 30% by women. Pursuant to the Supervision Act, if we do not comply with the gender diversity rules, we will be required to explain this in our annual report.

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.

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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.

As of February 7, 2013, there were 251,751,500 shares of our common stock outstanding, of which approximately 51% were freely tradable on the NASDAQ Global Select Market following the sale of shares of our common stock by the Private Equity Consortium on February 7, 2013.

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 such release and the factors described under Forward-Looking Statements . Our guidance is not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our independent registered public accounting firm nor any other independent expert or outside party compiles 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 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.

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 7A. *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. On February 4, 2013, certain of our stockholders offered 30 million shares of our common stock, priced at $30.35 per share. We did not receive any proceeds from this secondary offering either. The settlement date for the offering was February 7, 2013.

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.

NXP Repositioning

Since our separation from Philips in 2006, we have significantly repositioned our business and market strategy. Further, between 2008 and 2011, we executed our Redesign Program to better align our costs with our more focused business scope, and in November 2012 we announced the introduction of our OPEX Reduction Program focusing specifically on selling, general and administrative expenses and aimed at finding ways to run our company more efficiently in our cyclical industry. Key elements of our repositioning are:

- ***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. In addition, we 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. In July 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. To further strengthen our High Performance Mixed Signal position, we have made a number of acquisitions in recent years, such as the acquisition on July 21, 2010 of Jennic Ltd., a developer of low power RF solutions for wireless applications. On April 12, 2012 we acquired Catena Holding B.V., a design and IP company, specialized in radio frequency communication, analog, mixed signal and digital signal processing.

- ***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. We have 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 an 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.

During the fourth quarter of 2012 NXP adopted a cost savings and restructuring initiative designed to improve operational efficiency and to competitively position the Company for sustainable growth. This initiative primarily relates to a worldwide workforce reduction of approximately 650 employees, with the majority of the headcount reductions in Europe and the U.S. For additional information regarding our restructuring initiatives please refer to Note 14 to the Consolidated Financial Statements included in Part III, Item 18 of this Report.

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 application areas such as: 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 declining.

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 software solutions for mobile phones (the NXP Software business). Revenue recorded in Corporate and Other is primarily generated by 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 applications such as: automotive, identification, wireless infrastructure, lighting, industrial, mobile, consumer and computing. We engage with leading original equipment manufacturers (OEMs) worldwide and 62% of our revenue in 2012 was derived from Asia Pacific (excluding Japan).

Since our separation from Koninklijke Philips Electronics N.V. (Philips) in 2006, we have significantly repositioned our business to focus on High Performance Mixed Signal solutions and have implemented a restructuring program and taken other restructuring initiatives aimed at achieving a world-class cost structure and streamlined processes. As of December 31, 2012, we had 25,358 full-time equivalent employees located in over 25 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, 2012, we generated revenue of $4,358 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 80% of our total product revenue in 2012. We believe that High Performance Mixed Signal is an attractive market in terms of growth, barriers to entry, relative business and pricing stability and capital intensity. The second of our product categories, Standard Products, accounted for 20% of our total product revenue in 2012, 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.

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 car radio 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, healthcare products and our microcontrollers. Our high-speed interface design skills are applied in our interface products business, and our 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 in our mobile audio and hearing aid business, and our microcontroller based products. In addition, our digital processing knowledge is used to design High Performance Mixed Signal solutions that leverage other suppliers digital processing products.

In 2012, we organized the High Performance Mixed Signal segment in four Business Units named: Automotive, Identification, Infrastructure & Industrial and Portable & Computing. The below table provides an overview of the key applications per Business Unit, the leading market positions and our key customers.

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	Automotive	Identification	Infrastructure & Industrial	Portable & Computing
Key applications	Car access & immobilizers In vehicle networking Car entertainment Telematics ABS Transmission/throttle control Automotive Lighting	Secure identity Secure transactions Tagging & authentication	Wireless base stations Satellite & CATV infra Radar Power supplies Lighting Personal Healthcare TV & Set-top boxes Mobile Handsets	Mobile handset Tablet Monitor Personal computer Smart metering White goods & home appliances Pachinko machines Medical Industrial Consumer
Selected market leading positions	#1 Can/LIN/ Flex Ray in-vehicle networking #1 passive keyless entry/ immobilizers #1 car radio #3 magnetic sensors	#1 e-Government #1 Transport & Access management #2 Banking #1 NFC	#2 in RF Power #1 in silicon tuners	#2 Standard Logic # 3 in interface
Key OEM customers	Alpine Becker Bosch Clarion Continental Delphi Hyundai Panasonic Valeo Visteon	Bundesdrucker Giesecke Gemalto HTC KEBT Oberthur ORGA Samsung Smartrac Sony	Ericsson Huawei Lite-on LGE Motorola NSN Philips Samsung TCL ZTE	Apple Bosch Continental Cisco Foxconn HP Huawei Nintendo Philips Samsung

The customers listed above represent our key OEM and electronic manufacturing services customers based on 2012 revenue. Key distributors across these applications are Arrow, Avnet, Vitec and WPG. These distributors represent our top four distributors in terms of revenue in 2012 in the High Performance Mixed Signal segment.

***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. We also hold a number 3 position[1,2] in the automotive magnetic field sensors market based on worldwide revenues for 2011 and have an emerging business in telematics and car solid state lighting drivers.

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)

For the full year 2012, we had High Performance Mixed Signal revenue of $939 million in automotive applications, compared to $930 million in 2011, which represents a 1% year over year increase. According to Strategy Analytics, the total market for automotive semiconductors was $23.7 billion in 2011, and projects it will grow at a compounded annual growth rate of 9.5% between 2011 and 2015. According to Strategy Analytics estimates we were the fifth largest supplier of automotive semiconductors worldwide in 2011, with a market share of 6.4%.

***Identification*.** Based on our 2012 revenue, we are number 1 in the overall identification chip market, and are especially well positioned in the faster growing contactless identification IC market.

We address all segments of the market, except for the commodity SIM market. We are the largest supplier world-wide of IC s for e-government, transportation and access management and NFC. For example, we supply to approximately 85% of worldwide e-passport

1 Source: Gartner, Inc., Market Share, Semiconductor Applications, Worldwide, 2011, March 27, 2012.

2 The Gartner Report(s) described herein, (the Gartner Report(s)) represent(s) data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. (Gartner), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Filing) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

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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 a rapidly growing 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.

For the full year 2012, we had High Performance Mixed Signal revenue of $986 million in identification applications, compared to $698 million in 2011, which represents a 41.3% year over year growth. According to ABI Research, the market size for identification ICs was $2.2 billion in 2011, and is expected to grow at a compounded annual rate of 20% to $4.6 billion in 2015.

Infrastructure and Industrial. We have a leading market position in high-performance radio frequency solutions, are the market leader in silicon tuners, have a broad portfolio in lighting drivers and strong positions in selected niche segments of the AC-DC power conversion and personal healthcare markets. In addition, we have an emerging business in low power connectivity and mobile audio. Our overall revenue in these businesses was $604 million in 2012 versus $617 million in 2011, which represents a decline of 2.1% year over year.

Our leading high-performance radio frequency business mainly provides RF front-end solutions for markets, such as mobile base stations, wireless connectivity, satellite and CATV infrastructure and receivers, industrial applications, and to a lesser extent addresses the military and aerospace markets. We have a leading position in RF Power Amplifiers and significant sales 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 and monolithic microwave ICs (MMICs). 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 wireless communications LNAs and infrastructure MMICs. The market for RF Power Amplifiers, is estimated to be $1.3 billion in 2012.

We are the leader in silicon tuners for televisions and set-top boxes. 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, DVB-C2 and DOCSIS 3.0, and the adoption of multi-tuner applications. The market for silicon tuners was$0.3 billion in 2011, and is expected to grow at a compounded annual growth rate of 2.7% between 2011 and 2015.

In lighting, we have a broad driver portfolio serving all main segments in general lighting applications. 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. 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. We have doubled our sales in LED drivers from 2011 to 2012.

We are a key player 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.

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.

In addition, we have two emerging product development areas, one focused on the mobile audio market and the other on the low power connectivity market. Our mobile audio business focuses on smart speaker drivers and leverages many of the same core technologies and competencies as our personal healthcare business. In 2012 we started shipping to a key smart phone OEMs. Our low power connectivity business started in 2010 through the acquisition of Jennic, which brought us a portfolio of 802.15.4-based low power connectivity ICs with a broad range of both the Zigbee standard-based as well as proprietary protocol stacks. With this portfolio we target the emerging Internet of Things market, starting with application solutions for smart lighting, smart energy, wireless remote controls & switches and healthcare monitoring.

Portable and Computing. We are a leader in digital logic, a top three supplier in the fragmented interface market and have a strong portfolio in 32-bit ARM microcontrollers. Our overall High Performance Mixed Signal revenue in these businesses was $753 million in 2012, compared to $661 million in 2011, which represents a 13.9% year over year growth.

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In microcontrollers, we have a strong position in multi-purpose 32-bit ARM microcontrollers serving a broad array of 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 having been a launching partner for several low power 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. Our ARM Cortex M0-based products achieve 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, expanding the addressable market for 32-bit ARM microcontrollers at the expense of 8-bit ARM microcontrollers. Gartner estimates the worldwide market for Microcontrollers 32-bit to be $5.0 billion in 2011, and expects a compounded annual growth rate of 7.6% between 2011 and 2015[3]. The interface products market is highly fragmented with niche markets around each of the established interface standards, where overall we are the 3rd ranked player[1] in 2011 for worldwide shipments of Interface ICs. Our products address many interface standards and we serve various applications across the mobile, computing, industrial, consumer and automotive markets. We have broad product portfolios in five 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 successfully engage with leading OEMs to drive our innovation roadmaps, we generate a large part of our revenue by subsequently selling these products to a very broad customer base, which we serve through our distribution channel. We are engaged in development activities and standard setting initiatives with many of the innovation leaders in each of these markets. Key growth drivers will be the adoption rate of new high-speed interface standards such as display port and USB, and application specific interface products for the mobile market. In 2012 we ramped up a major design win with one of the leading smart phone OEMs. According to Gartner, the worldwide Interface IC market is projected to grow at a 1.8% compounded annual rate between 2011 and 2015, from a revenue base of $1.6 billion in 2011[3].

We have a number 2 position in Standard Logic IC markets based on worldwide revenue for 2011[1], 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 worldwide Standard Logic market at $1.6 billion in 2011, and is estimated to grow with compound annual rate of 1% between 2011 and 2015[3].

Standard Products

Our Standard Products business supplies a broad range of standard semiconductor components, such as small signal discretes, power discretes, protection and signal conditioning devices and linear devices, which we largely produce in dedicated in-house high-volume manufacturing operations. Our portfolio consists of a large variety of catalog products, using widely-known production techniques, with characteristics that are largely standardized throughout the industry as well as leading discrete solutions especially in the field of ESD protection / EMI filtering and low loss rectification and power switching. Our 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 innovative products include 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.

[3] Source: Gartner, Inc., Semiconductor Forecast Database, 4Q12 Update, December 7, 2012.

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

Key applications	SS Transistors and Diodes SS MOS Power MOS Bipolar Power Transistors Thyristors Rectifiers Interface protection devices Voltage Regulators
Key product markets	All applications
Key OEM and electronic manufacturing services (EMS) customers	Apple Asustek Bosch Continental Delphi Delta Electronics Foxconn Nokia Philips Samsung

The customers listed above represent our key OEM and electronic manufacturing services customers based on 2012 revenue. Key distributors across these applications are Arrow, Avnet, Future and WPG. These distributors represent our top four distributors in terms of revenue in 2012 in the Standard Products segment.

In 2012, our Standard Products business generated net revenue of $832 million, compared to $925 million in 2011, which represents a 10.1% year over year decline. The market for discretes, excluding RF & Microwave, is expected to grow at a compounded annual rate of 3%, from $20 billion in 2011 to $22 billion in 2015.

We are the number two global supplier of small-signal discretes with one of the broadest product portfolios in the industry. We have a strong position 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 Automotive Power

MOSFET products in our Trench 6 manufacturing process. Finally, we have small bipolar power, thyristor and rectifier product lines, which are focused on specific applications, such as white goods and power supplies, and are sold as part of our overall High Performance Mixed Signal application solutions.

We have invested significantly into developing a competitive range of LDO s especially for use in mobile devices. In the coming year we will further enhance our portfolio in this area and complement it with state-of-the-art DC/DC devices as well. Our range of ICs also includes ESD protection and filtering solutions for standard interfaces in consumer products, computing, and mobile devices.

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 Entropic Communications, Sigma Designs, IDT 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 declining. 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), the supplies to ST-Ericsson have effectively been terminated except for a small number of identified products and the former agreement with Trident Microsystems was converted into two separate agreements with Entropic and Sigma after Trident s bankruptcy. The agreement with IDT is the result of the sale of our high-speed dataconverter activity to IDT.

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.

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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.

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. 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) Closure foreseen for 2013.
(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) Closure foreseen for 2013.

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.

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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.

Corporate and Other

We also sell software solutions for mobile phones through our NXP Software business.

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 1 billion 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 worldwide.

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 OEM customers are Apple, Bosch, Continental, Delphi, Gemalto, Giesecke/Devrient, Huawei, NSN, Panasonic and Samsung. 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 3 largest distribution partners are Arrow, Avnet and WPG.

Based on total revenue during 2012, excluding the revenue from Manufacturing Operations, our top 40 OEM customers, of which some are supplied via distributors, accounted for 49% of our total revenue, our ten largest OEM customers accounted for approximately 28% of our total revenue and no customer represented more than 7% of our total revenue. We generated approximately 27% of our total revenue through our 3 largest distribution partners, of which WPG was the only larger than 10% customer with 12% of total revenues, and another 20% 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.

Research and Development, Patents and Licenses, etc.

See the discussion set forth under Part I, Item 5C. *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, Renesas, ON Semiconductor Corporation, Power Integrations Inc., ROHM Co., Ltd., Silicon Laboratories Inc., STMicroelectronics and Texas Instruments Incorporated.

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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

The information set forth under the Litigation caption of Note 10 of our Notes to the Consolidated Financial Statements included in Part III, Item 18 of this Report is incorporated herein by reference. For additional discussion of certain risks associated with legal proceedings, see Part I, Item 3D. *Risk Factors* above.

Environmental Regulation

The information set forth under the Environmental remediation caption of Note 10 of our Notes to the Consolidated Financial Statements included in Part III, Item 18 of this Report is incorporated herein by reference. For additional discussion of certain risks associated with environmental regulation, see Part I, Item 3D. *Risk Factors* above.

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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 as Exhibit 21.1 under Part III, Item 19. *Exhibits* and is incorporated herein by reference.

CORPORATE STRUCTURE

The following chart reflects our corporate structure as of December 31, 2012.

(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 2011 and 2012, see the discussion set forth under *Share Based Compensation Plans* contained in this Report in Part I, Item 6B. *Compensation*.

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

NXP uses 56 sites in 29 countries with approximately 25,300 full-time employees, 8.9 million square feet of total owned and leased building space of which 6.0 million square feet is owned property.

The following table sets out our principal real property holdings as of December 31, 2012:

Location	Use	Owned/leased	Building space (square feet)
Eindhoven, the Netherlands	Headquarters	Leased	248,736
Hamburg, Germany	Manufacturing	Owned	798,336
Nijmegen, the Netherlands	Manufacturing	Owned	2,031,242
Singapore	Manufacturing	Owned	739,502
Bangkok, Thailand	Manufacturing	Owned	560,493
Cabuyao, Philippines	Manufacturing	Owned	444,059
Kaohsiung, Taiwan	Manufacturing	Owned	342,971
Manchester, United Kingdom	Manufacturing	Owned	273,266
Jilin, China(1)	Manufacturing	Leased	138,850
Hong Kong, China	Manufacturing	Leased	289,971
Guangdong, China	Manufacturing	Leased	889,374
Seremban, Malaysia	Manufacturing	Owned	316,471

(1) Leased by the Jilin joint venture.

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

Manufacturing in Singapore (SSMC) leases the land 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. The building has 739,502 square feet of floor space and is owned by us.

We lease 889,374 square feet of manufacturing space through our subsidiary, NXP Semiconductors Guangdong Ltd., at Tian Mei High Tech, Industrial Park, Huang Jiang Town, Dongguan City, Guangdong, 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.

Item 4A. Unresolved Staff Comments

Not applicable.

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. For additional information refer to *Reporting Segments* within Part I, Item 4A. *History and Development of the Company*.

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Recent Developments

Management Change

Effective January 7, 2013, Hans Rijns and Dave French became jointly responsible for research and development. Mr Rijns has been appointed chief technology officer and has combined that role with his current position of senior vice president and head of research. Mr French has been appointed executive vice president of research and development in combination with his role as general manager of High-Performance Mixed-Signal portable and computing.

Private offering of 5.75% senior notes due 2021 to institutional investors

On February 1, 2013, we announced the pricing of a private offering to institutional investors of $500 million aggregate principal amount of U.S. dollar-denominated 5.75% senior notes due 2021 by our wholly-owned subsidiaries NXP B.V. and NXP Funding LLC. This offering closed on February 14, 2013. We will use the net proceeds of this private offering to repay amounts outstanding under our Second 2017 Term Loan.

Secondary offering of common shares

On February 4, 2013, we announced a secondary offering of 30,000,000 shares of our common stock to be sold by certain of our principal stockholders, pursuant to our shelf registration statement on Form F-3, at a price to the public of $30.35 per share. The offering was settled and closed on February 7, 2013. Subsequent to the settlement and closing, the consortium of funds advised by KKR, Bain, Silver Lake, APAX and Alpinvest collectively beneficially owns 42% of our shares of common stock as of that date. NXP did not receive any proceeds from the sale of shares in the offering.

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, 2012, 2,726,000 shares were held in treasury under this program.

Factors Affecting Comparability

Economic Situation

In 2012, amidst a renewed global economic slowdown, the semiconductor market faced an uncertain economic and demand environment which negatively impacted our more cyclically exposed or economically sensitive businesses. 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, Item 3D. *Risk Factors*.

Restructuring Programs

During the fourth quarter of 2012, we announced a cost savings and restructuring initiative designed to improve operational efficiency and to competitively position the Company for sustainable growth. In aforementioned quarter, we recognized a restructuring charge of $98 million associated with a restructuring initiative (including but not limited to the OPEX Reduction Program). The components of the restructuring initiative were: $55 million in selling, general and administrative (SG&A) costs to assist in driving such costs down to 12 percent of revenue; $23 million in R&D to refocus resources; and $20 million in cost of goods sold, mainly related to the consolidation of MOS technologies from our German fabrication facility to the company s 8-inch Dutch facility.

Since our separation from Philips, we have taken significant steps to reposition our businesses and operations through a number of acquisitions, divestments and restructurings. Between 2008 and 2011, we executed a restructuring program to refocus and resize our business in response to a challenging economic environment. As a result, costs were reduced significantly, driven by lower costs in manufacturing, research and development and selling, general and administrative activities.

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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 2012, a benefit of $26 million, before tax, (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 gain within financial income (expense) in the statement of operations.

Capital Structure

In 2012 we entered into the 2019 and the 2020 Term Loan, dated February 16, 2012 and December 10, 2012, respectively and concluded the Senior Secured Revolving Credit Facility (the proceeds of which were used to settle and close the pre-existing revolving credit facility).

In 2012, through a combination of individually negotiated buybacks and debt redemptions described in B.Liquidity and Capital Resources, we were able to reduce the book value of our total debt to $3,492 million consisting of short-term debt of $307 million and long-term debt of $3,185 million reflecting a reduction of $307 million from the prior year.

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

2012

On July 19, 2012, we sold the High Speed Data Converter business (a product line of the High Performance Mixed Signal segment) to Integrated Device Technology (IDT). The positive deal result of $19 million, as included in other income (expense), is calculated as the excess of the selling price of $31 million over the carrying value of the business transferred less any transaction-related direct costs.

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.).

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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. On January 4, 2012, Trident filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code, and was subsequently delisted from the NASDAQ. The U.S. Bankruptcy Court approved the plan of liquidation under Chapter 11 of the Bankruptcy Code and entered an order confirming such plan on December 13, 2012. An initial distribution to shareholders took place on December 21, 2012. In view of the aforementioned distribution, NXP B.V. returned its shares in Trident.

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.

Research and Development

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, General and Administrative

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. 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 identified intangibles assets, 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 debt.

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 and write downs of proportionate debt issuance costs upon the extinguishment of debt), 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.

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 in 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

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 net debt is used by investors and securities analysts in their evaluation of companies, this concept has limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of our results of operations as reported under U.S. GAAP.

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, 2012 Compared to Year Ended December 31, 2011

Results of Operations

The following table presents the composition of operating income (loss) for the years ended December 31, 2012 and 2011.

($ in millions, unless otherwise stated)	2012	2011
Revenue	**4,358**	4,194
% nominal growth	**3.9**	(4.7)
Gross profit	**1,988**	1,906
Research and development	**(628)**	(635)
Selling, general and administrative (SG&A)	**(977)**	(918)
Other income (expense)	**29**	4
Operating income (loss)	**412**	357

Revenue

The following table presents revenue by segment for the years ended December 31, 2012 and 2011.

($ in millions, unless otherwise stated)	For the year ended December 31,			
	2012		2011	
	Revenue	% nominal growth	Revenue	% nominal growth
High Performance Mixed Signal	**3,282**	**12.9**	2,906	2.1
Standard Products	**832**	**(10.1)**	925	9.1
Manufacturing Operations	**211**	**(33.2)**	316	(39.8)
Corporate and Other	**33**	**(29.8)**	47	(65.4)
Total	**4,358**	**3.9**	4,194	(4.7)

Revenue was $4,358 million in the full year of 2012 compared to $4,194 million for the full year of 2011. Revenue of our two market oriented segments, HPMS and SP, increased $283 million or 7.4% compared to the full year of 2011 despite an uncertain economic and demand environment. This increase was partly offset by a decline in revenue from our Manufacturing Operations segment and Corporate and Other.

Our HPMS segment revenue grew 13% in 2012 to $3,282 million compared to $2,906 million in 2011. Within HPMS we saw robust growth within our Identification business, which was up 41% to $986 million, primarily driven by the accelerated ramp of our mobile transactions solutions and volume increases associated with our security identity product line. Our Portable & Computing business grew 14 percent year-on-year to $753 million as a result of increased volumes associated with specific design wins in the mobility market. Revenue from our Auto business grew one-percent versus 2011 to $939 million with weakness in the European area offsetting very favorable results in North America and Asia. Our Industrial & Infrastructure business revenue declined 2 percent to $604 million versus the prior year primarily as a result of weak demand throughout most of the year for high-performance RF devices, even though design win momentum continues to be strong. We also faced price declines across most of our product lines and unfavorable foreign currency effects.

Revenue for our SP segment decreased $93 million to $832 million in 2012, compared to $925 million in 2011. The decrease was primarily due to lower sales volumes in our small signal diode, integrated discrete and power business resulting from weakening demand with our distribution partners and the overall automotive market. Our SP segment was also impacted by competitive pricing pressure in 2012 compared to 2011.

Revenue from our Manufacturing Operations segment was $211 million in 2012 compared to $316 million in 2011. 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 further declining.

Revenue in Corporate and Other during 2012 was $33 million compared to $47 million in 2011. This decrease was primarily due to lower NXP Software sales.

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Gross Profit

The following table presents gross profit by segment for the years ended December 31, 2012 and 2011.

($ in millions, unless otherwise stated)	2012 Gross Profit	2012 % of segment revenue	2011 Gross Profit	2011 % of segment revenue
HPMS	**1,745**	**53.2**	1,573	54.1
SP	**238**	**28.6**	336	36.3
Manufacturing Operations	**(22)**	**(10.4)**	(48)	(15.2)
Corporate and Other	**27**	**81.8**	45	95.7
Total	**1,988**	**45.6**	1,906	45.4

Gross profit in 2012 increased $82 million to $1,988 million, or 45.6% of revenue, compared to $1,906 million or 45.4% of revenue in 2011. The increase was mainly attributable to volume increases, the reversal of partial accounts receivable valuation allowance of $51 million as a result of collection of accounts receivable amounts following a legal award, lower restructuring and related costs of $14 million and lower PPA effects of $7 million. This was partially offset by price declines and unfavorable foreign currency effects. Our gross profit as a percentage of our revenue was also impacted by the dilutive effect of product sales at cost to divested businesses by our Manufacturing Operations.

Our HPMS segment had a gross profit of $1,745 million or 53.2% of revenue in 2012, compared to $1,573 million or 54.1% in 2011. The improvement in gross profit was primarily attributed to higher revenue in the segment and to the reversal of partial accounts receivable valuation allowance of $51 million as a result of collection of accounts receivable amounts following a legal award, partially offset by price declines, and unfavorable foreign currency. Also included in our 2012 gross profit were restructuring and related costs of $1 million compared to 2011, where gross profit was reduced by $20 million due to actions taken to reduce headcount.

Our SP segment gross profit in 2012 was $238 million or 28.6% of revenue compared to $336 million or 36.3% of revenue in 2011. The decrease in gross profit was primarily due to lower revenue, higher product cost due to underutilized capacity capitalized in prior periods and price reductions. Restructuring and related costs were $15 million in 2012 mainly related to headcount restructuring, compared to $5 million in 2011.

Operating Expenses

The following table presents operating expenses by segment for the years ended December 31, 2012 and 2011.

($ in millions, unless otherwise stated)	2012 Operating expenses	2012 % of segment revenue	2011 Operating expenses	2011 % of segment revenue
HPMS	**1,238**	**37.7**	1,234	42.5
SP	**204**	**24.5**	197	21.3
Manufacturing Operations	**17**	**8.1**	24	7.6
Corporate and Other	**146**		98	
Total	**1,605**	**36.8**	1,553	37.0

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

($ in millions, unless otherwise stated)	2012	2011
Research and development	**628**	635
Selling, general and administrative	**977**	918

Operating expenses	**1,605**	1,553

Operating expenses amounted to $1,605 million, or 36.8% of revenue in 2012 compared to $1,553 million, or 37.0% of revenue in 2011. The increase in 2012 was primarily related to increased restructuring and related costs of $36 million, bonus of $30 million, and stock based compensation of $20 million. This was partially offset by lower PPA effects of $21 million, reduced research and development expenses due to our ongoing efforts to focus our resources towards our most profitable and growing businesses, the absence of $11 million of operating expenses after selling our high speed data converter business during 2012 and favorable foreign currency effects.

In our HPMS segment operating expenses amounted to $1,238 million, or 37.7% of revenue in 2012 compared to $1,234 million or 42.5% of revenue in 2011. The increase was driven by higher salary and benefit cost including bonus of $27 million and stock based compensation of $18 million. This was partially offset by reduced research and development expenses due to our ongoing efforts to focus our resources towards our most profitable and growing businesses, the absence of $11 million of operating expenses after selling our high speed data converter business during 2012 and favorable foreign currency.

Operating expenses in our SP segment were $204 million, or 24.5% of revenue in 2012 compared to $197 million or 21.3% of revenue in 2011. The increase in operating expenses was mainly driven by increased headcount and benefit related expenses including bonus of $3 million and stock based compensation of $2 million, investments in product and process innovation, and higher restructuring and other items of $3 million. This was partially offset by lower consultancy cost and PPA effects.

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Operating expenses in our Manufacturing Operations segment amounted to $17 million in 2012 compared to $24 million in 2011 and were mainly related to PPA effects in both years.

Operating expenses in Corporate and Other were $146 million in 2012 compared to $98 million in 2011. The increase was primarily due to a restructuring charge of $62 million recognized during 2012 primarily to support the announced cost savings and restructuring initiative compared to $29 million recognized for restructuring initiatives in 2011.

Other Income (Expense)

The following table presents other income (expense) for the years ended December 31, 2012 and 2011.

($ in millions, unless otherwise stated)	**2012**	**2011**
Other income (expense)	**29**	4

Other income (expense) reflects income of $29 million for 2012 compared to $4 million of income in 2011, primarily due to a gain of $19 million on the sale of our high speed data converter business during the third quarter of 2012 and the absence of $10 million loss on the sale of assets in 2011.

Restructuring Charges

Net restructuring and restructuring related costs that affected our operating income in 2012 were $111 million compared to $90 million in 2011.

In 2012, we had net restructuring charges of $99 million, recorded in the liabilities, which were mainly associated with a restructuring initiative during the fourth quarter of 2012, designed to improve operational efficiency and to competitively position the company for sustainable growth. In addition, we incurred $12 million of restructuring related costs in 2012 which were directly charged to our operating income. In 2011, we had restructuring charges of $66 million which were mainly related to the future closure of our 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 previous restructuring programs. Furthermore, we incurred $32 million of restructuring related costs in 2011 which were directly charged to our operating income. For additional information, see Note 14 to the Consolidated Financial Statements included in Part III, Item 18.

Operating Income (Loss)

The following table presents operating income (loss) by segment for the years ended December 31, 2012 and 2011.

	2012		**2011**	
($ in millions, unless otherwise stated)	**Operating income (loss)**	**% of segment revenue**	**Operating income (loss)**	**% of segment revenue**
HPMS	**527**	**16.1**	339	11.7
SP	**37**	**4.4**	141	15.2
Manufacturing Operations	**(36)**	**(17.1)**	(60)	(19.0)
Corporate and Other	**(116)**		(63)	
Total	**412**	**9.5**	357	8.5

The table below summarizes the PPA effects for the years ended December 31, 2012 and 2011 on operating income (loss) by segment.

($ in millions, unless otherwise stated)	**2012**	**2011**
HPMS	**(198)**	(218)
SP	**(52)**	(57)
Manufacturing Operations	**(23)**	(26)

Total	**(273)**	(301)

The table below depicts the PPA effects within the Statement of Operations for the years ended December 31, 2012 and 2011.

	For the years ended December 31,	
($ in millions)	**2012**	**2011**
Gross profit	**(20)**	(27)
Selling, general and administrative	**(253)**	(274)
Operating income (loss)	**(273)**	(301)

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PPA effects reflect the amortization in the period related to fair value adjustments resulting from acquisition accounting and other acquisition adjustments charged to the income statement applied to the formation of NXP on September 29, 2006 and all subsequent acquisitions. 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. The amortization charges related to long-lived intangible assets are reflected in general and administrative expenses.

Financial Income (Expense)

	For the years ended December 31,	
($ in millions)	**2012**	**2011**
Interest income	**4**	5
Interest expense	**(270)**	(312)
Foreign exchange rate results	**28**	128
Net gain (loss) on extinguishment of debt	**(161)**	(32)
Other	**(38)**	(46)
Total	**(437)**	(257)

Financial income (expense) (including the extinguishment of debt) was an expense of $437 million in 2012, compared to an expense of $257 million in 2011. Extinguishment of debt in 2012 amounted to a loss of $161 million compared to a loss of $32 million in 2011. In 2012, financial income (expense) included a gain of $28 million as a result of changes in foreign exchange rates mainly applicable to re-measurement of our U.S. dollar-denominated notes and short term loans, which reside in a euro functional currency entity, compared to a gain of $128 million in 2011. The net interest expense amounted to $266 million in 2012 compared to $307 million in 2011. This mainly related to lower average debt outstanding in 2012, compared to 2011.

Benefit (Provision) for Income Taxes

The provision for income taxes was $1 million for the year ended December 31, 2012, compared to $21 million for the year ended December 31, 2011, and the effective income tax rates were negative 4.0% and positive 21%, respectively. The change in the effective tax rate for the year ended December 31, 2012 compared to the same period in the previous year was primarily due to an increase in losses recorded in jurisdictions where a full valuation allowance was recognized and in addition the year 2012 included more benefits for the effect of tax incentives in certain jurisdictions.

Results Relating to Equity-accounted Investees

Results relating to the equity-accounted investees amounted to a loss of $27 million, compared to a loss of $77 million in 2011. The loss in 2012 primarily reflects extra provisions to the amount of $46 million for litigations, claims and proceedings which were offset by gains related to our investments in Trident, ASMC and ASEN. In 2011 the loss was mainly related to our investment in Trident.

Income (Loss) on Discontinued Operations

The income of discontinued operations, net of taxes was $1 million in 2012, compared to a gain of $434 million in 2011. This related entirely to the results of our Sound Solutions business, which was sold during 2011.

Non-controlling Interests

Non-controlling interests are related to the third party share in the results of consolidated companies, predominantly, SSMC. The share of non-controlling interests amounted to a profit of $63 million in 2012, compared to a profit of $46 million in 2011.

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

Results of Operations

The following table presents the composition of operating income (loss) for the years ended December 31, 2011 and 2010.

($ in millions, unless otherwise stated)	2011	2010
Revenue	**4,194**	4,402
% nominal growth	**(4.7)**	25.1
Gross profit	**1,906**	1,823
Research and development	**(635)**	(568)
Selling, general and administrative (SG&A)	**(918)**	(966)
Other income (expense)	**4**	(16)
Operating income (loss)	**357**	273

Revenue

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

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

Revenue was $4,194 million in 2011 compared to $4,402 million in 2010, a nominal decline of 4.7%. 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 *Reporting Segments* within Part I, Item 4A. *History and Development of the Company*) 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.

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

SP segment revenue was $925 million in 2011, compared to $848 million in 2010, an increase of 9.1% on a nominal 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.

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 further declining.

Revenue within Corporate and Other 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.

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Gross Profit

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

	2011		2010	
($ in millions, unless otherwise stated)	Gross Profit	% of segment revenue	Gross Profit	% of segment revenue
HPMS	**1,573**	**54.1**	1,525	53.6
SP	**336**	**36.3**	280	33.0
Manufacturing Operations	**(48)**	**(15.2)**	(24)	(4.6)
Corporate and Other	**45**		26	
Divested Home Activities			16	
Total	**1,906**	**45.4**	1,823	41.4

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 higher revenues in HPMS and SP, better product mix, cost efficiencies and lower process and product transfer costs of $14 million. Partially offsetting these increases were higher costs associated with our restructuring initiatives of $25 million.

HPMS segment 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 related costs of $25 million.

SP segment 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.

Operating Expenses

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

	2011		2010	
($ in millions, unless otherwise stated)	Operating expenses	% of segment revenue	Operating expenses	% of segment revenue
HPMS	**1,234**	**42.5**	1,133	39.8
SP	**197**	**21.3**	192	22.6
Manufacturing Operations	**24**	**7.6**	37	7.0
Corporate and Other	**98**		154	
Divested Home Activities			18	
Total	**1,553**	**37.0**	1,534	34.8

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

($ in millions, unless otherwise stated)	2011	2010
Research and development	635	568
Selling, general and administrative	918	966
Operating expenses	1,553	1,534

Operating expenses were $1,553 million in 2011, or 37.0% of revenue, compared to $1,534 million in 2010, or 34.8% of revenue. The increase in 2011 was primarily due to investments in HPMS applications in research and development and selling activities for our Identification business and higher restructuring and related costs of $40 million. This was partially offset by lower divestment and acquisition related costs of $24 million, lower annual performance based incentive costs and lower PPA effects of $7 million.

HPMS segment 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 increased selling expenses in our Identification business. Operating expenses in 2011 also included costs related to actions taken for headcount reductions partially offset by lower PPA effects of $9 million.

SP segment operating expenses amounted to $197 million in 2011, or 21.3% of revenue, compared to $192 million in 2010, or 22.6% of revenue. The increase in operating expenses was mainly driven by increased research and development expenses.

Operating expenses in our Manufacturing Operations segment amounted to $24 million in 2011 compared to $37 million in 2010. The decline was primarily due to lower costs related to process technology development.

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Operating expenses within Corporate and Other amounted to $98 million in 2011 compared to $154 million in 2010. The decline was primarily due to lower annual performance based incentive costs and lower divestments and acquisition related costs of $24 million.

Other Income (Expense)

The following table presents other income (expense) for the years ended December 31, 2011 and 2010.

($ in millions, unless otherwise stated)	**2011**	**2010**
Other income (expense)	4	(16)

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 incurred restructuring charges of $66 million which were mainly related to the future closure of the 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 previous restructuring initiatives. Furthermore, we incurred $32 million of restructuring related 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 previous restructuring initiatives. 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.

Operating Income (Loss)

The following table presents operating income (loss) by segment for the years ended December 31, 2011 and 2010.

	2011		**2010**	
($ in millions, unless otherwise stated)	**Operating income (loss)**	**% of segment revenue**	**Operating income (loss)**	**% of segment revenue**
HPMS	339	11.7	387	13.6
SP	141	15.2	91	10.7
Manufacturing Operations	(60)	(19.0)	(57)	(10.9)
Corporate and Other	(63)		(117)	-
Divested Home Activities			(31)	(66.0)
Total	357	8.5	273	6.2

The table below summarizes the PPA effects for the years ended December 31, 2011 and 2010 on operating income (loss) by segment.

($ in millions, unless otherwise stated)	**2011**	**2010**
HPMS	(218)	(222)
SP	(57)	(54)
Manufacturing Operations	(26)	(25)
Corporate and Other		(1)

Total	(301)	(302)

The table below depicts the PPA effects within the Statement of Operations for the years ended December 31, 2011 and 2010.

($ in millions)	For the years ended December 31, 2011	2010
Gross profit	(27)	(21)
Selling, general and administrative	(274)	(281)
Operating income (loss)	(301)	(302)

PPA effects reflect the amortization in the period related to fair value adjustments resulting from acquisition accounting and other acquisition adjustments charged to the income statement applied to the formation of NXP on September 29, 2006 and all subsequent acquisitions. 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. The amortization charges related to long-lived intangible assets are reflected in general and administrative expenses.

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Financial Income (Expense)

($ in millions)	For the years ended December 31, 2011	2010
Interest income	5	2
Interest expense	(312)	(320)
Foreign exchange rate results	128	(331)
Net gain (loss) on extinguishment of debt	(32)	57
Other	(46)	(36)
Total	(257)	(628)

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.

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.

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.

B. *Liquidity and Capital Resources*

Liquidity and Capital Resources

At the end of 2012 our cash balance was $617 million. Taking into account the available undrawn amount of the Secured Revolving Credit Facility, we had access to $1,197 million of liquidity as of December 31, 2012.

We started 2012 with a cash balance of $743 million and during the year our cash decreased by $126 million.

Capital expenditures were $251 million in 2012, approximately in line with our guidance of 5% of revenues over the semiconductors business cycle, compared to $221 million in 2011.

On a going-forward basis we expect our capital expenditures to be approximately 5% of revenues.

Since December 31, 2011, the book value of our total debt has been reduced from $3,799 million to $3,492 million as of December 31, 2012.

Several cash buybacks and debt redemptions partially offset by the entry into new term loans resulted in a total debt reduction of $307 million.

The total amount of cash used for financing activities amounted to $574 million.

At the end of 2012, we had a capacity of $580 million remaining under our 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, 620 million, is denominated in euro and the amounts drawn are denominated in U.S. dollars.

For the year ended December 31, 2012, we incurred total net interest expense of $266 million and the weighted average interest rate on our debt instruments as of the end of December 2012 was 5.4% compared to $307 million and 7.4% respectively in 2011.

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As of December 31, 2012, our cash balance was $617 million, of which $288 million was held by SSMC, our consolidated joint venture company with TSMC. Under the terms of our joint venture agreement with TSMC, a portion of this cash can be distributed by way of a dividend to us, but 38.8% of the dividend will be paid to our joint venture partner. In 2012, a dividend of $100 million was distributed, of which $39 million was paid to the joint venture partner.

The Company s cash balance is subject to certain restrictions in select countries that cannot be repatriated. The amount of cash that cannot be repatriated is inconsequential to our total liquidity.

We repurchased $40 million of our common stock pursuant to our share buyback program during 2012.

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, 2012, 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 we may not have enough capacity under our Secured Revolving Credit Facility, or from other sources in an amount sufficient to enable us to repay our indebtedness, including the Secured Revolving Credit Facility, the Term Loans, the Secured Notes and 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 3D. *Risk Factors*.

Cash Flow from Operating Activities

In 2012, we generated $722 million of cash from operating activities compared to $175 million in 2011. The operating cash flows are directly impacted by the net loss of $52 million (2011: a gain of $2 million). The net loss includes non-cash items such as depreciation and amortization of $533 million (2011: $591 million) and the decrease in operating assets and liabilities of $28 million (2011: increase of $458 million).

Furthermore, the net loss includes losses related to equity-accounted investees of $27 million (2011: $77 million), losses related to stock-based compensation of $52 million (2011: $31 million), losses related to extinguishment of debt of $161 million (2011: $32 million) and other losses of $22 million (2011: $18 million).

Furthermore, the net loss includes gains on sale of assets of $20 million (2011: a loss of $10 million) and a gain related to exchange differences of $28 million (2011: $128 million).

In 2011, we generated $175 million of cash from operating activities. This was mainly driven by an increase in working capital needs for inventories and receivables and accounts payable.

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.

Cash Flow from Investing Activities

Net cash used for investing activities amounted to $243 million in 2012, compared to net cash used of $202 million in 2011. Our capital expenditures increased to $251 million in 2012 compared to $221 million in 2011.

Net cash used for investing activities in 2012 also included $29 million for the purchase of identified intangible assets, mainly related to the purchase of software, proceeds from sale of interests in our data converters business of $26 million and $12 million of proceeds related to the partial recovery of our equity investments in Trident.

Net cash used for investing activities in 2011 was $202 million and included $11 million of proceeds from the disposal of assets held for sale, related to the sale of our Southampton assets, and proceeds from the disposal of property, plant and equipment of $15 million, mainly related to the sale of our San José 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.

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Cash Flow from Financing Activities

Net cash used for financing activities in 2012 was $574 million compared to $926 million in 2011. Cash flows related to financing transactions in 2012 and 2011 are primarily related to the financing activities described below under the captions *2012 Financing Activities and 2011 Financing Activities,* respectively. In addition to the financing activities described below, net cash used for financing activities in 2012 also includes the use of $40 million for dividends paid to non-controlling interests and $40 million used for the purchase of treasury shares partially offset by $14 million of proceeds from the exercise of stock options. The 2011 period also reflects the use of $67 million to pay dividends to non-controlling interests and $57 million used for the purchase of treasury shares partially offset by $10 million of proceeds from the exercise of stock options.

Net cash used for financing activities in 2011 was $926 million compared to $157 million in 2010. Cash flows related to financing transactions in 2012 and 2011 are primarily related to the financing activities described below under the captions *2011 Financing Activities and 2010 Financing Activities,* respectively. The 2011 period also reflects the use of $67 million to pay dividends to non-controlling interests and $57 million used for the purchase of treasury shares partially offset by $10 million of proceeds from the exercise of stock options.

2012 Financing Activities

2019 Term Loan

On February 16, 2012, our subsidiary, NXP B.V. together with NXP Funding LLC entered into a new $475 million aggregate principal amount Senior Secured Term Loan Facility due March 19, 2019. The Term Loan was issued with an original issue discount at 98.5% of par and was recorded at its fair value of $468 million on the accompanying Interim Consolidated Balance Sheet. The net proceeds of this issuance, together with a $330 million draw-down under our existing Revolving Credit Facility and approximately $52 million of cash on hand, were used to redeem $510 million of the U.S. dollar-denominated 9 1/2% Senior Notes due October 2015, 203 million of the euro-denominated 8 5/8% Senior Notes due October 2015, and pay related call premiums of $36 million and accrued interest of $31 million.

2017 Revolving Credit Facility

On April 27, 2012, NXP B.V. and NXP Funding LLC concluded a new Senior Secured Revolving Credit Agreement (RCA) under which it borrowed $330 million to settle and close its existing Revolving Credit Facility. It subsequently reduced its outstanding drawings to $230 million as of December 31, 2012.

On October 24, 2012, NXP B.V. and NXP Funding LLC agreed with certain participating banks to increase the borrowing capacity under the RCA subject to an effective date of October 29, 2012. The borrowing capacity under the RCA was increased by 120 million (approximately $155 million) up to a total amount of 620 million ($818 million). The RCA will expire on March 1, 2017 and will be used for general corporate purposes.

2013 Super Priority Notes

During 2012, NXP B.V. and NXP Funding LLC redeemed all Euro denominated Super Priority Notes 2013 for a principal amount of 29 million and all USD denominated Super Priority Notes 2013 for a principal amount of $221 million.

2020 Term Loan

On December 10, 2012, our subsidiary, NXP B.V. together with NXP Funding LLC entered into a new $500 million aggregate principal amount Senior Secured Term Loan Facility due January 11, 2020. The Term Loan was issued with an original issue discount at 99.5% of par and was recorded at its fair value of $498 million on the accompanying Consolidated Balance Sheet. The net proceeds of this issuance, together with a $100 million draw-down under our existing Revolving Credit Facility and approximately $12 million of cash on hand, were used to settle our tender offer for $500 million of the U.S. dollar-denominated 9 3/4% Senior Notes due 2018, and pay related call premiums of $86 million, accrued interest of $18 million and debt issuance costs of $6 million.

2011 Financing Activities

2016 Floating Rate Notes

During the fourth quarter 2011, NXP, in a two-step private exchange transaction, issued an additional $615 million principal amount of U.S. dollar-denominated senior secured floating rate notes due 2016. These notes were exchanged for $333 million principal amount of existing U.S. dollar-denominated floating rate notes due 2013 and 202 million principal amount of existing euro-denominated floating rate notes due 2013.

2017 Term Loans

On March 4, 2011, our subsidiary, NXP B.V. together with NXP Funding LLC entered into a $500 million aggregate principal amount Senior Secured Term Loan Facility due April 3, 2017, which was drawn in the second quarter of 2011, on April 5, 2011. The First 2017 Term Loan was issued with an original issue discount at 99.5% of par and was recorded at its fair value of $497 million on the accompanying Consolidated Balance Sheet. The net proceeds of this issuance, together with available borrowing capacity under the Secured Revolving Credit Facility of $200 million, were used to redeem all $362 million of outstanding 2014 Dollar Fixed Rate Notes, $100 million of 2013 Dollar Floating Rate Secured Notes and 143 million of 2013 Euro Floating Rate Secured Notes as well as pay related call premiums of $14 million and accrued interest of $16 million.

During the fourth quarter 2011, NXP entered into a second $500 million Senior Secured Term Loan Facility due 2017. The Second 2017 Term Loan was issued with an original issue discount at 96% of par and was recorded at its fair value of $480 million on the accompanying Consolidated Balance sheet. NXP redeemed $275 million of its U.S. dollar-denominated Senior Secured Floating Rate Notes due 2013 and 150 million of its Euro-denominated Senior Secured Floating Rate Notes due 2013.

2012 Revolving Credit Facility

In the third quarter of 2011, the utilized borrow capacity of $600 million under the Secured Revolving Credit Facility was repaid, mainly from the proceeds of $855 million related to the divestment of NXP s Sound Solutions business.

Senior Notes 2015/2018

In the third quarter of 2011, as a result of various open market transactions we repurchased 32 million principal amount of Euro denominated Senior Notes due in 2015, $96 million principal amount of US dollar denominated Senior Notes due in 2015 and $78 million principal amount of US dollar denominated Senior Secured Notes due in 2018.

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.

2010 Financing Activities

Senior Secured Notes, due 2018 and Initial Public Offering

In 2010 we issued $1,000 million principal amount of U.S. dollar-denominated 9 3/4% Senior Notes due October 2018 and received net cash proceeds of $974 million. In addition, in 2010, we completed an initial public offering of the Company on the NASDAQ Global Select Market and raised $448 million of net proceeds. These funds, together with cash on hand were used to retire $1,383 million of our debt and to pay $200 million on our Secured Revolving Credit Facility. The debt repayments consists of 206 million principal amount of Euro-denominated Floating Rate Senior Secured Notes due in 2013, 61 million principal amount of Euro-denominated 8 5/8 % Senior Notes due in 2015, $483 million principal amount of U.S. dollar-denominated 7 7/8% Senior Secured Notes due in 2014, $435 million principal amount of U.S. dollar-denominated Floating Rate Senior Secured Notes due in 2013 and $183 million principal amount of U.S. dollar-denominated 9 1/2 % Senior Notes due in 2015.

Forward Start Revolving Credit Facility

On May 10, 2010, we entered into a 458 million forward start revolving credit facility to refinance our existing secured revolving credit facility. This facility would have become available to NXP on September 28, 2012. On April 27, 2012 NXP concluded the RCA, which settled and closed the existing Revolving Credit Facility.

Cash Flow from Discontinued Operations

Net cash used for discontinued operations in 2012 was $45 million reflecting a payment of $45 million to Dover Corporation related to outstanding commitments on the sale of the Sound Solution business.

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 from discontinued operations of $791 million in 2011.

Debt Position

Short-term Debt

In 2012, our short-term debt of $307 million included other short-term bank borrowings of $36 million, related to a local bank loan in China, and the current portion of our Senior Secured notes due 2013 of $245 million which is due within one year and is classified within short-term debt.

In 2011, short-term debt of $52 million consisted of other short-term bank borrowings of $35 million, related to a local bank loan in China and $17 million related to the current portion of long-term debt.

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Long-term Debt

As of December 31, 2012, the euro-denominated notes and U.S. dollar-denominated notes represented 6% and 94% respectively of the total principal amount of the notes outstanding. The fixed rate notes and floating rate notes represented 13% and 87% respectively of the total principal amount of the notes outstanding at December 31, 2012.

($ in millions)	December 31, 2011	Currency Effects	Accrual of Debt Discount	Debt Exchanges/ Repurchases/New Borrowings	Other[8]	December 31, 2012
Euro-denominated 10% super priority notes due July 2013[1]	29	(1)	3	(31)		
U.S. dollar-denominated 10% super priority notes due July 2013	193		12	(205)		
Euro-denominated floating rate senior secured notes due October 2013[1][2]	184	3			(187)	
U.S. dollar-denominated floating rate senior secured notes due October 2013[2]	58				(58)	
Euro-denominated 8 5/8% senior notes due October 2015[1]	263	6		(269)		
U.S. dollar-denominated 9 1/2% senior notes due October 2015	510			(510)		
U.S. dollar-denominated floating senior secured notes due November 2016 [3]	606		2			**608**
U.S. dollar-denominated secured term credit agreement due April 2017 [4]	489		1	(5)		**485**
U.S. dollar-denominated secured term credit agreement due April 2017 [5]	474		3	(5)		**472**
U.S. dollar-denominated 9 3/4% senior secured notes due August 2018	922			(500)		**422**
U.S. dollar-denominated secured term credit agreement due March 2019 [6]			1	464	(5)	**460**
U.S. dollar-denominated secured term credit agreement due April 2020 [7]				498	(5)	**493**
	3,728	8	22	(563)	(255)	**2,940**
Revolving Credit Facility				230		**230**
Other long-term debt	19			(5)	1	**15**
Total long-term debt	3,747	8	22	(338)	(254)	**3,185**

(1) Converted into U.S. dollars at $1.3190 per 1.00, the exchange rate in effect at December 31, 2012.
(2) Interest accrues at a rate of three-month EURIBOR plus 2.75%.
(3) Interest accrues at a rate of LIBOR plus 5.50%.
(4) 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%.
(5) 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%.
(6) On February 16, 2012 we entered into the 2019 Term Loan for an initial $475 million at a rate of interest of LIBOR plus 4% with a floor of 1.25%.
(7) On December 10, 2012, we entered into the 2020 Term Loan for an initial $500 million at a rate of interest of LIBOR plus 3.5% with a floor of 1.25%.
(8) Other mainly includes the reclassification of the current portion of long-term debt.

On February 1, 2013, we announced the pricing of a private offering to institutional investors of $500 million aggregate principal amount of U.S. dollar-denominated 5.75% senior notes due 2021 by our wholly-owned subsidiaries NXP B.V. and NXP Funding LLC. This offering closed on February 14, 2013. We will use the net proceeds of this private offering to repay amounts outstanding under our Second 2017 Term Loan.

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 the discussion in the *Recent Developments* section in Part I, Item 5A. *Operating Results* and Part II, Item 10C. *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 Secured Notes.

The Indentures governing the Existing Secured 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, 2012, 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 Term Loans and the Secured 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 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.

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.

The 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 are as follows: Inventories, Goodwill, Impairment or disposal of identified intangible assets and tangible fixed assets, Revenue recognition, Income taxes, Postretirement benefits and Share-based compensation.

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.

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, 2012, we had approximately 3,500 employees in research and development, of which approximately 3,200 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, Beijing), the United States (San Jose, Tempe), France (Caen, Suresnes), Germany (Hamburg, Dresden), Austria (Gratkorn), the Netherlands (Nijmegen, Eindhoven), Hong Kong, Singapore, the United Kingdom (Manchester, Sheffield), Switzerland (Zurich) and Belgium (Leuven). Our research and development expenses were $628 million in 2012 (of which 86% related to our High Performance Mixed Signal businesses), $635 million in 2011 and $568 million in 2010.

To outpace market growth we invest in research and development to extend or create leading market positions, with an emphasis on fast growing sizable market segments, such as identification and smart mobile, and emerging segments, such as the Internet of Things, automotive telematics and automotive solid state lighting. Finally, we invest around 4% of our total research and development expenditures in research activities that develop fundamental new technologies or product categories that could contribute significantly to our company growth in the future.

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

Intellectual Property

The creation and use of intellectual property is a key aspect of our strategy to differentiate ourselves in the marketplace. We seek to protect our proprietary technologies by obtaining patents, 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 10,000 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.

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We have engaged 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 but the program has been further developed and is well underway.

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 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, Singapore 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.

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: security, mobility and connected mobile devices, energy efficiency and healthcare. Many new forms of mobile electronic payment, authentication and cyber security are enabled by our secure microcontrollers. Growth of smart phones and tablets drive demand for interface solutions. Our new high-performance RF power amplifier products allow wireless network operators to expand network capacity with fewer base stations. Our innovative magnetic induction radio enables wireless connectivity with implantable medical devices such as hearing aids. Recent development activities targeting the need for greater energy efficiency include our LED lighting products and green chip high-efficiency AC-DC power conversion ICs for notebook adaptors.

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 62% of our revenue in 2012, compared to 57% of our revenue in 2011. In particular, Greater China represented 41% of our revenue in 2012, compared to 38% of our revenue in 2011.

E. Off-balance Sheet Arrangements

As of December 31, 2012, we had no off-balance sheet arrangements.

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F. Tabular Disclosure of Contractual Obligations

Presented below is a summary of our contractual obligations as at December 31, 2012

($ in millions)	Total	2013	2014	2015	2016	2017	2018 and thereafter
Long-term debt	3,440	265	21	23	628(1)	1,167(2)	1,336(3)
Capital lease obligations	18	7	7	2	1	1	
Short-term debt	36	36					
Operating leases	153	30	29	27	18	12	37
Interest on the notes (4)	923	189	181	180	180	97	96
Long-term purchase contracts	115	82	21	8	2	2	
Total contractual cash obligations (4)(5)	4,685	609	259	240	829	1,279	1,469

(1) On November 10, 2011, we entered into a new senior secured indenture under which we issued a total of $616 million floating rate senior secured notes due 2016.

(2) On March 4, 2011, we entered into the First 2017 Term Loan, for an initial $500 million and on November 18, 2011, we entered into the Second 2017 Term Loan for a second tranche of $500 million.

(3) On February 16, 2012 we entered into the 2019 Term Loan for an initial $475 million at a rate of interest of LIBOR plus 4% with a floor of 1.25% and on December 10, 2012, we entered into the 2020 Term Loan for an initial $500 million at a rate of interest of LIBOR plus 3.5% with a floor of 1.25%.

(4) The interest on the notes was determined on the basis of LIBOR and EURIBOR interest rates for floating rate instruments and on the basis of contractual agreed interest rates for other debt instruments. The euro-denominated interest amounts were converted into U.S. dollars based on the balance sheet rate as at December 31, 2012 of $1,3190 per 1.00.

(5) Certain of these obligations are denominated in currencies other than U.S. dollars, and have been translated from foreign currencies into U.S. dollars based on an aggregate average rate of $1.2887 per 1.00, in effect at December 31, 2012. As a result, the actual payments will vary based on any change in exchange rate.

As of December 31, 2012, accrued interest on debt amounted to $25 million.

Certain contingent contractual obligations, which are not reflected in the table above, include contractual agreements, such as supply agreements, containing provisions that certain penalties may be charged if we do not fulfill our commitments.

We sponsor pension plans in many countries in accordance with legal requirements, customs and the local situation in the countries involved. These are defined-benefit pension plans, defined contribution pension plans and multi-employer plans. Contributions to funded pension plans are made as necessary, to provide sufficient assets to meet future benefits payable to plan participants. These contributions are determined by various factors, including funded status, legal and tax considerations and local customs. We currently estimate contributions to funded pension plans will be $75 million in 2013, consisting of $4 million in employer contributions to defined-benefit pension plans and $71 million in employer contributions to defined-contribution pension plans and multi-employer plans. The expected cash outflows in 2013 and subsequent years are uncertain and may change as a consequence of statutory funding requirements as well as changes in actual versus currently assumed discount rates, estimations of compensation increases and returns on pension plan assets.

G. Safe Harbor

This Annual Report includes forward-looking statements. When used in this Annual Report, the words anticipate , believe , estimate , forecast , expect , intend , plan and project and similar expressions, as they relate to us, our management or third parties, identify forward-looking statements. Forward-looking statements include statements regarding our business strategy, financial condition, results of operations and market data, as well as any other statements that are not historical facts. These statements reflect beliefs of our management, as well as assumptions made by our management and information currently available to us. Although we believe that these beliefs and assumptions are reasonable, these statements are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. These factors, risks and uncertainties expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf and include, in addition to those listed under Part I, Item 3D. *Risk Factors* and elsewhere in this Report, the following:

market demand and semiconductor industry conditions;

our ability to successfully introduce new technologies and products;

the demand for the goods into which our products are incorporated;

our ability to generate sufficient cash, raise sufficient capital or refinance our debt at or before maturity to meet both our debt service and research and development and capital investment requirements;

our ability to accurately estimate demand and match our production capacity accordingly;

our ability to obtain supplies from third-party producers;

our access to production from third-party outsourcing partners, and any events that might affect their business or our relationship with them;

our ability to secure adequate and timely supply of equipment and materials from suppliers;

our ability to avoid operational problems and product defects and, if such issues were to arise, to rectify them quickly;

our ability to form strategic partnerships and joint ventures and successfully cooperate with our alliance partners;

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- our ability to win competitive bid selection processes;
- our ability to develop products for use in our customers equipment and products;
- our ability to successfully hire and retain key management and senior product engineers; and
- our ability to maintain good relationships with our suppliers.

We do not assume any obligation to update any forward-looking statements and disclaim any obligation to update our view of any risks or uncertainties described herein or to publicly announce the result of any revisions to the forward-looking statements made in this Report, except as required by law.

In addition, this Report contains information concerning the semiconductor industry and business segments generally, which is forward-looking in nature and is based on a variety of assumptions regarding the ways in which the semiconductor industry, our market and business segments will develop. We have based these assumptions on information currently available to us, including through the market research and industry reports referred to in this Report. Although we believe that this information is reliable, we have not independently verified and cannot guarantee its accuracy or completeness. If any one or more of these assumptions turn out to be incorrect, actual market results may differ from those predicted. While we do not know what impact any such differences may have on our business, if there are such differences, they could have a material adverse effect on our future results of operations and financial condition, and the trading price of our common stock.

Item 6. Directors, Senior Management and Employees

A. *Directors and Senior Management*

The following description sets forth certain information about management and management-related matters. We have a one-tier board structure.

Board of Directors

Set forth below are the names, ages and positions as of December 31, 2012, of the persons who serve as members of our board of directors.

Name	Age	Position
Richard L. Clemmer	61	Executive director, president and chief executive officer
Sir Peter Bonfield	68	Non-executive director and chairman of the board
Johannes P. Huth	52	Non-executive director and vice-chairman of the board
Vikram Bhatia	65	Non-executive director
Nicolas Cattelain	39	Non-executive director
Egon Durban	39	Non-executive director
Kenneth A. Goldman	63	Non-executive director
Josef Kaeser	55	Non-executive director
Ian Loring	46	Non-executive director
Michel Plantevin	56	Non-executive director
Roy MacKenzie *	41	Non-executive director

* Mr. MacKenzie was appointed to replace Richard Wilson, who resigned as non-executive director of the Company on May 30, 2012.

Richard L. Clemmer (1951, American). Mr. Clemmer became executive director, president and chief executive officer on January 1, 2009. Prior to that, from December 2007, Mr. Clemmer was a member of the supervisory board of NXP B.V. and a senior advisor of Kohlberg Kravis Roberts & Co. Prior to joining NXP, he drove the turnaround and re-emergence of Agere, a spin-off from Lucent and a leader in semiconductors for storage, wireless data, and public and enterprise networks. He also served as Chairman of u-Nav Microelectronics Corporation, a leading GPS technology provider, and held a five-year tenure at Quantum Corporation where he was executive vice president and chief financial officer. Prior to that, Mr. Clemmer worked for Texas Instruments Incorporated as senior vice president and semiconductor group chief financial officer. Mr. Clemmer also serves on the board of NCR Corporation.

Sir Peter Bonfield CBE FREng (1944, British). Sir Peter has been appointed as a non-executive director and as the chairman of our board of directors in August 2010. Prior to that, Sir Peter was the chairman of the supervisory board of NXP B.V. from September 29, 2006. Sir Peter served as chief executive officer and chairman of the executive committee for British Telecom plc from 1996 to 2002 and prior to that was chairman and chief executive officer of ICL plc (now Fujitsu Services Holdings Ltd.). Sir Peter also worked in the semiconductor industry during his tenure as a divisional director at Texas Instruments Incorporated, for whom he held a variety of senior management positions around the world. Sir Peter currently holds non-executive directorships at Telefonaktiebolaget LM Ericsson, Taiwan Semiconductor Manufacturing Company Limited, Mentor Graphics Corporation and Sony Corporation. Sir Peter is Chair of Council and Senior Pro-Chancellor at Loughborough University, Advisor to Apax Partners LLP, Senior Advisor to N M Rothschild (both in London) and Board Mentor at CMi in Belgium. He is also Advisor to Longreach LLP in Hong Kong and NVP LLP in New Jersey.

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Johannes P. Huth (1960, German). Mr. Huth has been appointed as a non-executive director and vice-chairman of our boa