

NXP Semiconductors N.V.  
Form 20-F  
March 03, 2017  
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As filed with the Securities and Exchange Commission on March 3, 2017

**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**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

**For the fiscal year ended December 31, 2016**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**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 \_\_\_\_\_**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**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)**

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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.**

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

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

**None**

**(Title of class)**

**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, 2016 |
|--|----------------------------------|
| <b>Ordinary shares, par value EUR 0.20 per share</b> | <b>346,002,862 shares</b>        |

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

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

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

Large accelerated filer                     
  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                     
  International Financial Reporting Standards as issued                     
  Other

by the International Accounting Standards Board

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    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 80.



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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**

On October 27, 2016, NXP entered into a purchase agreement (the **Purchase Agreement**) with Qualcomm River Holdings B.V. ( **Buyer** ), a wholly-owned, indirect subsidiary of Qualcomm Incorporated. Pursuant to the Purchase Agreement, Buyer commenced a tender offer to acquire all of the issued and outstanding common shares of NXP for \$110 per share in cash, for estimated total cash consideration of \$38 billion. The tender offer is not subject to any financing condition. An Extraordinary General Meeting of NXP's shareholders was convened on January 27, 2017, in connection with the offer where the shareholders of NXP approved all resolutions brought before them, with 95% of the votes cast in favor of each such resolution. In light of the foregoing, the tender offer is now conditioned on the tender of 80% of the outstanding shares of NXP. Buyer, with NXP's prior written consent (not to be unreasonably withheld, conditioned or delayed), may reduce the required threshold to a percentage not less than 70% of the outstanding shares. Pending the receipt of certain regulatory approvals, as well as satisfaction of other customary closing conditions, the proposed transaction is expected to close by the end of calendar 2017.

The Purchase Agreement contains certain termination rights for NXP and Buyer. If the Purchase Agreement is terminated under certain circumstances, including termination by NXP to enter into a superior proposal for an alternative acquisition transaction or a termination following a change of recommendation by the NXP Board, NXP will be obligated to pay to Buyer a termination compensation equal to \$1.25 billion in cash. If the Purchase Agreement is terminated under certain circumstances, including circumstances relating to the failure to obtain antitrust approvals or failure to complete in all material respects certain internal reorganization steps and related dispositions with respect to NXP, Buyer will be obligated to pay to NXP a termination compensation equal to \$2 billion in cash.

On June 14, 2016, NXP announced an agreement to divest its Standard Products ( **SP** ) business to a consortium of financial investors consisting of Beijing JianGuang Asset Management Co., Ltd ( **JAC Capital** ) and Wise Road Capital LTD ( **Wise Road Capital** ). On February 6, 2017 we divested SP, receiving \$2.75 billion in cash proceeds.

NXP B.V. and NXP Funding LLC, subsidiaries of NXP, delivered notice on February 7, 2017 that it will pre-pay (i) all its outstanding floating-rate term loan due March 2017 ( **Term Loan E** ) in an aggregate principal amount of \$388 million, (ii) all its outstanding floating-rate term loan due January 2020 ( **Term Loan D** ) in an aggregate principal amount of \$387 million and (iii) all its outstanding floating-rate term loan due December 2020 ( **Term Loan F** ) in an aggregate principal amount of \$1,436 million, in each case, together with accrued interest and applicable fees. The funds for these pre-payments will come from the proceeds of the previously announced completion of the divestiture of the Standard Products business of NXP.

Additionally, on February 7, 2017, NXP B.V., together with NXP Funding LLC, delivered notice to holders of its 5.75% Senior Notes due 2021 (the Notes ) that it will redeem on March 9, 2017, \$500 million of the outstanding aggregate principal amount of these Notes, which represents all of the outstanding aggregate principal amount of the Notes, as permitted under Article 3 of the indenture dated February 14, 2013 and paragraph 5 of the Notes. The funds for this redemption will come from available surplus cash.

**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.

On December 7, 2015, we acquired Freescale Semiconductor, Ltd. ( Freescale ) for a total consideration of \$11.6 billion (the Merger ). The results of their operations and the estimated fair value of the assets acquired and liabilities assumed in the business combination are included in our financial statements from the date of acquisition forward.

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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.

| (\$ in millions unless otherwise stated)   | As of and for the years ended December 31, |         |         |         |         |
|--|--|---------|---------|---------|---------|
|  | 2016                                       | 2015    | 2014    | 2013    | 2012    |
| <b>Consolidated Statements of Operations:</b>  |  |         |         |         |         |
| Revenue  | 9,498                                      | 6,101   | 5,647   | 4,815   | 4,358   |
| Gross profit <sup>(1)</sup>  | 4,069                                      | 2,787   | 2,640   | 2,177   | 1,988   |
| Total operating expenses <sup>(2)</sup>  | (4,228)                                    | (2,035) | (1,601) | (1,535) | (1,605) |
| Other income (expense) <sup>(3)</sup>  | 9  | 1,263   | 10      | 9       | 29      |
| Operating income (loss)  | (150)                                      | 2,015   | 1,049   | 651     | 412     |
| Financial income (expense)   | (453)                                      | (529)   | (410)   | (274)   | (437)   |
| Income (loss) from continuing operations attributable to stockholders                        | 200  | 1,526   | 539     | 348     | (116)   |
| Income (loss) from discontinued operations attributable to stockholders                      |  |         |         |         | 1       |
| Net income (loss) attributable to stockholders   | 200  | 1,526   | 539     | 348     | (115)   |
| <b>Per share data:</b>   |  |         |         |         |         |
| <i>Basic earnings per common share attributable to stockholders in \$</i>                    |  |         |         |         |         |
| - Income (loss) from continuing operations   | 0.59                                       | 6.36    | 2.27    | 1.40    | (0.46)  |
| - Income (loss) from discontinued operations   |  |         |         |         |         |
| - Net income (loss)  | 0.59                                       | 6.36    | 2.27    | 1.40    | (0.46)  |
| <i>Diluted earnings per common share attributable to stockholders in \$</i>                  |  |         |         |         |         |
| - Income (loss) from continuing operations   | 0.58                                       | 6.10    | 2.17    | 1.36    | (0.46)  |
| - Income (loss) from discontinued operations   |  |         |         |         |         |
| - Net income (loss)  | 0.58                                       | 6.10    | 2.17    | 1.36    | (0.46)  |
| Weighted average number of shares of common stock outstanding during the year (in thousands) |  |         |         |         |         |
| Basic  | 338,477                                    | 239,764 | 237,954 | 248,526 | 248,064 |
| Diluted <sup>(4)</sup>   | 347,607                                    | 250,116 | 248,609 | 255,050 | 248,064 |
| <b>Consolidated balance sheet data<sup>(5)</sup>:</b>  |  |         |         |         |         |
| Cash and cash equivalents  | 1,894                                      | 1,614   | 1,185   | 670     | 617     |
| Total assets   | 24,898                                     | 26,354  | 6,850   | 6,402   | 6,393   |
| Net assets   | 11,156                                     | 11,803  | 801     | 1,546   | 1,284   |
| Working capital <sup>(6)</sup>   | 3,386                                      | 2,820   | 1,340   | 939     | 765     |
| Total debt <sup>(7), (8)</sup>   | 9,187                                      | 9,212   | 3,956   | 3,274   | 3,446   |
| Total stockholders' equity   | 10,935                                     | 11,515  | 538     | 1,301   | 1,049   |
| Common stock   | 71   | 68      | 51      | 51      | 51      |
| <b>Other operating data:</b>   |  |         |         |         |         |
| Capital expenditures   | (389)                                      | (341)   | (329)   | (215)   | (251)   |
| Depreciation and amortization <sup>(9)</sup>   | 2,205                                      | 517     | 405     | 514     | 533     |

**Consolidated statements of cash flows data:**

|   |                |       |       |       |       |
|---|----------------|-------|-------|-------|-------|
| Net cash provided by (used for):                        |                |       |       |       |       |
| Operating activities                                    | <b>2,303</b>   | 1,330 | 1,468 | 891   | 722   |
| Investing activities                                    | <b>(627)</b>   | (430) | (387) | (240) | (243) |
| Financing activities                                    | <b>(1,392)</b> | (449) | (554) | (598) | (574) |
| Net cash provided by (used for) continuing operations   | <b>284</b>     | 451   | 527   | 53    | (95)  |
| Net cash provided by (used for) discontinued operations |                |       |       |       | (45)  |

- (1) Gross profit in 2016 includes a charge of \$448 million (2015: \$149 million), resulting from the purchase accounting effect on the inventory acquired from Freescale.
- (2) Total operating expenses in 2016 include charges related to the acquisition of Freescale as follows - \$1,430 million for the amortization of acquisition-related intangibles, which includes an impairment charge of \$89 million relative to In-process research and development (IPR&D) that was acquired from Freescale, and \$53 million of merger and integration related costs. In 2015, total operating expenses include charges related to the acquisition of Freescale as follows - \$226 million in restructuring charges, \$105 million for the amortization of acquisition-related intangibles, \$49 million of stock based compensation charges related to employees terminated as a result of the Merger and \$42 million of merger related costs.
- (3) Other income (expense) in 2015 includes the recognition of the gains from the sale of our Bipolar business on November 9, 2015 and the sale of our RF Power business on December 7, 2015. See the section on *Other Material Transactions* in Part I, Item 4, B, Business Overview.
- (4) Due to our net loss from continuing operations attributable to stockholders in 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) Consolidated balance sheet data in 2016 and 2015 includes the impact of purchase accounting on the assets acquired and liabilities assumed in connection with our acquisition of Freescale.
- (6) Working capital is calculated as current assets less current liabilities (excluding short-term debt).
- (7) On December 7, 2015, in connection with the Merger, NXP entered into a \$2.7 billion secured term loan ( Term Loan B ). Proceeds from among others the Term Loan B were used to (i) pay the cash consideration in connection with the Merger, (ii) effect the repayment of certain amounts under Freescale s outstanding credit facility and (iii) pay certain transaction costs.

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

| (\$ in millions)                | 2016         | 2015         | 2014         | 2013         | 2012         |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Long-term debt                  | 8,766        | 8,656        | 3,936        | 3,234        | 3,141        |
| Short-term debt                 | 421          | 556          | 20           | 40           | 305          |
| <b>Total debt</b>               | <b>9,187</b> | <b>9,212</b> | <b>3,956</b> | <b>3,274</b> | <b>3,446</b> |
| Less: cash and cash equivalents | (1,894)      | (1,614)      | (1,185)      | (670)        | (617)        |
| <b>Net debt</b>                 | <b>7,293</b> | <b>7,598</b> | <b>2,771</b> | <b>2,604</b> | <b>2,829</b> |

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

(9) Depreciation and amortization includes the effect of purchase accounting related to acquisitions. The effect of purchase accounting in depreciation and amortization was \$1,782 million (which includes an impairment charge of \$89 million relative to IPR&D that was acquired from Freescale) in 2016, \$252 million in 2015, \$164 million in 2014, \$246 million in 2013 and \$273 million in 2012.

As used in this Annual Report, euro , or means the single unified currency of the European Monetary Union.

U.S. dollar , USD , U.S. \$ or \$ means the lawful currency of the 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, 2016. The averages set forth in the table below have been computed using the noon buying rate on the next to last business day of each fiscal month during the periods indicated.

|                | Year ended December 31, |        |        |        |        |
|----------------|-------------------------|--------|--------|--------|--------|
|                | 2016                    | 2015   | 2014   | 2013   | 2012   |
| Average \$ per | 1.1065                  | 1.1150 | 1.3297 | 1.3281 | 1.2859 |

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 10, 2016:

| Month       | High      | Low    |
|-------------|-----------|--------|
|             | (\$ per ) |        |
| <b>2016</b> |           |        |
| August      | 1.1334    | 1.1078 |
| September   | 1.1271    | 1.1158 |
| October     | 1.1212    | 1.0866 |
| November    | 1.1121    | 1.0560 |
| December    | 1.0758    | 1.0375 |
| <b>2017</b> |           |        |
| January     | 1.0794    | 1.0416 |

On February 10, 2017, the noon buying rate was \$1.0650 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.

**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.*

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**Risks related to our business**

*There are risks and uncertainties associated with the pending offer by Qualcomm River Holdings B.V. ( Buyer ), an indirect, wholly owned subsidiary of QUALCOMM Incorporated, to purchase all of NXP s outstanding common shares.*

As described elsewhere in this Annual Report, on October 27, 2016, Buyer and NXP entered into a definitive agreement (the Purchase Agreement ) under which Buyer will, subject to the satisfaction or waiver of the conditions in the Purchase Agreement, acquire NXP. Pursuant to the Purchase Agreement, Buyer has commenced a tender offer (the Offer ) to acquire all of the issued and outstanding common shares of NXP for \$110.00 per share in cash. There are a number of risks and uncertainties relating to this transaction, including the following:

disruptions from the announcement of the proposed transaction, whether completed or not, may harm our relationships with our employees, customers, distributors, suppliers or other business partners or negatively affect our operating results and business generally;

various conditions to the closing of the transaction may not be satisfied or waived;

80% of NXP s outstanding shares (which may be reduced to 70% by the Buyer (with NXP s prior written consent (not to be unreasonably withheld, conditioned or delayed))) must be tendered in the Offer as a closing condition to the transaction;

the occurrence of any event, change or other circumstances that could give rise to the termination of the Purchase Agreement, which, among other things, may cause our share price to decline to the extent that the current price of our common shares reflects an assumption that the transaction will be completed;

the failure to complete the transaction may result in negative publicity and a negative impression of us in the investment community;

we may be subject to legal proceedings related to the transaction contemplated by the Purchase Agreement;

failure to obtain all regulatory approvals related to the transaction, may delay the closing or result in the imposition of conditions, limitations or restrictions that could, under certain circumstances, cause Buyer to abandon the transaction;

the Purchase Agreement may be terminated in circumstances that would require us to pay Buyer termination compensation in the amount of \$1.25 billion;

developments beyond our control, including but not limited to changes in domestic or global economic conditions that may affect the timing or success of the transaction;

the attention of our employees and management may be diverted due to activities related to the transaction;

our ability to attract, recruit, retain and motivate current and prospective employees who may be uncertain about their future roles and relationships with us following the completion of the transaction may be adversely affected; and

the Purchase Agreement restricts us from engaging in certain actions without Buyer's approval, which could prevent us from pursuing certain business opportunities outside the ordinary course of business that arise prior to the closing of the transaction.

***The semiconductor industry is highly cyclical.***

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

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

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

Despite indications of recovery and aggressive measures taken by governments and central banks, there is a significant risk that the global economy could fall into recession again. If economic conditions remain uncertain or deteriorate, our business, financial condition and results of operations could be materially adversely affected.



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

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

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

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

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

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

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

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

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

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

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

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

Goodwill and other identifiable intangible assets are recorded at fair value on the date of an acquisition. As a result of our acquisition of Freescale, we recognized goodwill of \$7.4 billion and intangible assets of \$8.5 billion. We review our goodwill and other intangible assets balance for impairment upon any indication of a potential impairment, and in the case of goodwill, at a minimum of once a year. Impairment may result from, among other things, a sustained decrease in share price, deterioration in performance, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of or affect the products and services we sell, challenges to the validity of certain registered intellectual property, reduced sales of certain products incorporating 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 stockholders equity.

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

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

As a result, we are subject to environmental, labor and health and safety laws and regulations in each jurisdiction in which we operate. We are also required to obtain environmental permits and other authorizations or licenses from governmental authorities for certain of our operations 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.

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

negative economic developments in economies around the world and the instability of governments and international trade arrangements, such as the expected withdrawal of the United Kingdom from the European Union, the sovereign debt crisis in certain European countries and potential increase of barriers to

international trade;

social and political instability in a number of countries around the world, including continued hostilities and civil unrest in the Middle East. The instability may have a negative effect on our business, financial condition and operations via our customers and volatility in energy prices and the financial markets;

potential terrorist attacks;

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

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

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

volatility in foreign currency exchange rates, in particular with respect to the U.S. dollar, and transfer restrictions, in particular in 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.

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

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

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

We have, from time to time, experienced attempted cyber-attacks of varying degrees to obtain access to our computer systems and networks. As of the date of this Annual Report, no such attacks have succeeded in obtaining access to our critical systems. However, such attacks may be successful in the future. Cyber-attacks could result in the misappropriation of our proprietary information and technology, the compromise of personal and confidential information of our employees, customers or suppliers or interrupt our business. In the current environment, there are numerous and evolving risks to cybersecurity and privacy, including criminal hackers, state-sponsored intrusions, industrial espionage, employee malfeasance, and human or technological error. Computer hackers and others routinely attempt to breach the security of technology products, services, and systems, and those of customers, suppliers, and some of those attempts may be successful. Such breaches could result in, for example, unauthorized access to, disclosure, modification, misuse, loss, or destruction of our, our customer, or other third party data or systems, theft of sensitive or confidential data including personal information and intellectual property, system disruptions, and denial of service. In the event of such breaches, we, our customers or other third parties could be exposed to potential liability, litigation, and regulatory action, as well as the loss of existing or potential customers, damage to our reputation, and other financial loss. In addition, the cost and operational consequences of responding to breaches and implementing remediation measures could be significant. As these threats continue to develop and grow, we have been adapting the security measures and we continue to increase the amount we allocate to implement, maintain and/or update security systems to protect data and infrastructure. As a global enterprise, we could also be impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, privacy and data protection. Additionally, cyber-attacks or other catastrophic events resulting in disruptions to or failures in power, information technology, communication systems or other critical infrastructure could result in interruptions or delays to us, our customers, or other third party operations or services, financial loss, potential liability, and damage our reputation and affect our relationships with our customers and suppliers.

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

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

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

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

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

Our success and future revenue growth depends, in part, on our ability to protect our proprietary technology, our products, our proprietary designs and fabrication processes, and other intellectual property against misappropriation by others. We primarily rely on patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our intellectual property. We may have difficulty obtaining patents and other intellectual property rights to protect our proprietary products, technology and intellectual property, and the patents and other intellectual property rights we receive may be insufficient to provide us with meaningful protection or commercial advantage. We may not be able to obtain patent protection or secure other intellectual property rights in all the countries in which we operate, and under the laws of such countries, patents and other intellectual property rights may be or become unavailable or limited in scope. Even if new patents are issued, the claims allowed may not be sufficiently broad to effectively protect our proprietary technology, processes and other intellectual property. In addition, any of our existing patents, and any future patents issued to us may be challenged, invalidated or circumvented. The protection offered by intellectual property rights may be inadequate or weakened for reasons or circumstances that are out of our control. Further, our proprietary technology, designs and

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processes and other intellectual property may be vulnerable to disclosure or misappropriation by employees, contractors and other persons. It is possible that competitors or other unauthorized third parties may obtain, copy, use or disclose our proprietary technologies, our products, designs, processes and other intellectual property despite our efforts to protect our intellectual property. While we hold a significant number of patents, there can be no assurances that additional patents will be issued or that any rights granted under our patents will provide meaningful protection against misappropriation of our intellectual property. Our competitors may also be able to develop similar technology independently or design around our patents. We may not have foreign patents or pending applications corresponding to all of our primary patents and applications. Even if foreign patents are granted, effective enforcement in foreign countries may not be available. In particular, intellectual property rights are difficult to enforce in some countries, since the application and enforcement of the laws governing such rights may not have reached the same level as compared to other jurisdictions where we operate, such as the United States, Germany and the Netherlands. Consequently, operating in some countries may subject us to an increased risk that unauthorized parties may attempt to copy or otherwise use our intellectual property or the intellectual property of our suppliers or other parties with whom we engage. There is no assurance that we will be able to protect our intellectual property rights or have adequate legal recourse in the event that we seek legal or judicial enforcement of our intellectual property rights under the laws of such countries. Any inability on our part to adequately protect our intellectual property may have a material adverse effect on our business, financial condition and results of operations.

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

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

***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 ). We have also established Advanced Semiconductor Manufacturing Corporation Limited ( ASMC ) together with a number of Chinese partners. Furthermore, together with Advanced Semiconductor Engineering Inc. ( ASE ), we established the assembly and test joint venture ASEN Semiconductors Co. Ltd. ( ASEN ). In 2015, we established WeEn Semiconductors, a Bipolar joint

venture in China with JianGuang Asset Management Co, Ltd. See Part I, Item 4B.- *Business Overview*, Other Significant Transactions .

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

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

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



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representatives, such as work councils which may prevent or complicate our efforts to sell or restructure our businesses. In some cases, particularly with respect to our European operations, there may be laws or other legal impediments affecting our ability to carry out such sales or restructuring.

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

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

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

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

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

***Our working capital needs are difficult to predict.***

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

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

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

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

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

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

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

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

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

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

We depend on our key management to run our business and on our senior engineers to develop new products and technologies. Our success will depend on the continued service of these individuals. Although we have several share based compensation plans in place, we cannot be sure that these plans will help us in our ability to retain key personnel, especially considering the fact that the stock options under some of our plans become exercisable upon a

change of control (in particular, when a third party, or third parties acting in concert, obtains, whether directly or indirectly, control of us). The loss of any of our key personnel, whether due to departures, death, ill health or otherwise, could have a material adverse effect on our business. The market for qualified employees, including skilled engineers and other individuals with the required technical expertise to succeed in our business, is highly competitive and the loss of qualified employees or an inability to attract, retain and motivate the additional highly skilled employees required for the operation and expansion of our business could hinder our ability to successfully conduct research activities or develop marketable products. The foregoing risks could have a material adverse effect on our business.

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

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

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

As is the case with other large semiconductor companies, we receive subsidies and grants from governments in some countries. These programs are subject to periodic review by the relevant governments, and if any of these programs are curtailed or discontinued, this could have a material adverse effect on our business, financial condition and results of operations. As the availability of government funding is outside our control, we cannot guarantee that we will continue to benefit from government support or that sufficient alternative funding will be available if we lose such support. Moreover, if we terminate any activities or operations, including strategic

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alliances or joint ventures, we may face adverse actions from the local governmental agencies providing such subsidies to us. In particular, such government agencies could seek to recover such subsidies from us and they could cancel or reduce other subsidies we receive from them. This could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

We sponsor defined benefit pension plans in a number of countries and a significant number of our employees are covered by our defined benefit pension plans. As of December 31, 2016, we had recognized a net accrued benefit liability of \$392 million, representing the unfunded benefit obligations of our defined pension plans. The funding status and the liabilities and costs of maintaining these defined benefit pension plans may be impacted by financial market developments. For example, the accounting for such plans requires determining discount rates, expected rates of compensation and expected returns on plan assets, and any changes in these variables can have a significant impact

on the projected benefit obligations and net periodic pension costs. Negative performance of the financial markets could also have a material impact on funding requirements and net periodic pension costs. Our defined benefit pension plans may also be subject to demographic trends. Accordingly, our costs to meet pension liabilities going forward may be significantly higher than they are today, which could have a material adverse impact on our financial condition.

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

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

Recent examples include the Organization for Economic Co-operation and Development's recommendations on base erosion and profit shifting, the European Commission's Anti-Tax Avoidance Directive and the Corporate Tax Package released in October 2016 which includes a Common Consolidated Corporate Tax Base. These initiatives include recommendations and proposals that, if enacted in countries in which we and our affiliates do business, could adversely affect us and our affiliates.

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

The stock market in recent years has experienced significant price and volume fluctuations that have often been unrelated to the operating performance of companies. The market price for our common stock has varied between a high of \$107.54 on October 20, 2016 and a low of \$61.61 on February 9, 2016 in the twelve-month period ending on December 31, 2016. Although the pending Offer may reduce the volatility of the market price of our common stock in the near term, volatility may revert to historical levels for many reasons, including in response to the risks described in this section, including the risks associated with the Offer, or for reasons unrelated to our operations, such as reports by industry analysts, investor perceptions or negative announcements by our customers, competitors, peer companies or suppliers regarding their own performance, or announcements by our competitors of significant contracts, strategic partnerships, joint ventures, joint marketing relationships or capital commitments, the passage of legislation or other regulatory developments affecting us or our industry, as well as industry conditions and general financial, economic and political instability. In the past, following periods of market volatility, shareholders have instituted securities class action litigation. If we were involved in securities litigation, it could have a substantial cost and divert resources and the attention of executive management from our business regardless of the outcome of such litigation.

***The Merger with Freescale may not be accretive and may cause dilution to our earnings per share, which may harm the market price of our shares of common stock***

We entered into the Merger with the expectation that it will be accretive to earnings per share in the near term. This expectation is based on preliminary estimates which may materially change. We could also encounter additional transaction and integration-related costs or other factors such as the failure to realize all of the benefits anticipated in the Merger. All of these factors could cause dilution to our earnings per share or decrease or delay the expected accretive effect of the Merger and cause a decrease in the price of our shares of common stock.

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

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

In the future, we may issue additional shares of common stock in connection with acquisitions and other investments, 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.

Our guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible

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

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

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

### **Risks related to our corporate structure**

#### ***United States civil liabilities may not be enforceable against us.***

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

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

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

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

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

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

We are a Dutch public company with limited liability (*naamloze vennootschap*). Our corporate affairs are governed by our articles of association and by the laws governing companies incorporated in the Netherlands. The rights of stockholders and the responsibilities of members of our board of directors may be different from the rights and obligations of stockholders in companies governed by the laws of U.S. jurisdictions. In the performance of its duties, our board of directors is required by Dutch law to consider the interests of our company, its stockholders, its employees and other stakeholders, in all cases with due observation of the principles of reasonableness and fairness. It is possible that some of these parties will have interests that are different from, or in addition to, your interests as a stockholder. See Part II, Item 16G. *Corporate Governance*.

***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

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regulations with regard to such matters, we are exempt from certain provisions of the Exchange Act that are applicable to U.S. public companies, including: (i) the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act (ii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time and (iii) the rules under the Exchange Act requiring the filing with the Commission of quarterly reports on Form 10-Q containing unaudited financial and other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events. In addition, foreign private issuers are required to file their Annual Report on Form 20-F by 120 days after the end of each fiscal year while U.S. domestic issuers that are large accelerated filers are required to file their Annual Report on Form 10-K within 60 days after the end of each fiscal year. Foreign private issuers are also exempt from the Regulation Fair Disclosure, aimed at preventing issuers from making selective disclosures of material information. As a result of the above, even though we are contractually obligated and intend to make interim reports available to our stockholders, copies of which we are required to furnish to the Securities and Exchange Commission (the SEC) on a Form 6-K, and even though we are required to furnish reports on Form 6-K disclosing whatever information we have made or are required to make public pursuant to Dutch law or distribute to our stockholders and that is material to our company, you may not have the same protections afforded to investors in companies that are not foreign private issuers.

***We are a foreign private issuer 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 thereunder rather than relying on the corporate governance requirements of the NASDAQ Global Select Market. For an overview of our corporate governance principles, see Item 16G.- *Corporate Governance* of our 2015 Annual Report, including the section describing the differences between the corporate governance requirements applicable to common stock listed on the NASDAQ Global Select Market and the Dutch corporate governance requirements. Accordingly, you may not have the same protections afforded to stockholders of companies that are not foreign private issuers.

## **Risks related to our indebtedness**

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

As of December 31, 2016, we had outstanding indebtedness with an aggregate principal amount of \$9,361 million. Our substantial indebtedness could have a material adverse effect on our business by:

increasing our vulnerability to adverse economic, industry or competitive developments;

requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;

exposing us to the risk of increased interest rates because certain of our indebtedness, including our loans under the RCF Agreement and the Term Loans, bear interest at a variable rate;

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

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

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

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

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

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

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

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business, competitive,

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legislative, regulatory and other factors beyond our control. Our business may not generate sufficient cash flow from operations, or future borrowings under the RCF Agreement or from other sources may not be available to us in an amount sufficient to enable us to repay our indebtedness, or to fund our other liquidity needs, including our working capital and capital expenditure requirements, and we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness.

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

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

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

***Increases in interest rates could adversely affect our results of operations.***

An increase in prevailing interest rates could adversely affect our financial condition. LIBOR (the interest rate index on which our variable rate debt is based) fluctuates on a regular basis. At December 31, 2016, we had \$2,211 million aggregate principal amount of variable interest rate indebtedness under our Term Loan agreements, which are subject to LIBOR floors. Any increased interest expense associated with increases in interest rates affects our cash flow and our ability to service our debt. Therefore, if the LIBOR rate exceeds the LIBOR floors on our Term Loan agreements, our cash interest obligation would increase and could adversely affect our financial condition, results of operations and cash flows. At December 31, 2016, a 100 basis point increase in LIBOR rates from their then current levels would result in an increase in our interest expense of \$22 million per year. Our RCF Agreement, which was undrawn at December 31, 2016, also has a variable interest rate.

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

In the event the conditional conversion feature of the 2019 Cash Convertible Senior Notes is triggered, holders thereof will be entitled to convert the 2019 Cash Convertible Senior Notes solely into cash at any time during specified periods at their option. If one or more holders elect to convert their 2019 Cash Convertible Senior Notes, we would be

required to pay cash to settle any such conversion, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their 2019 Cash Convertible Senior Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding aggregate principal of the 2019 Cash Convertible Senior Notes as a current rather than long-term liability, which may adversely affect our net working capital.

***The accounting for the 2019 Cash Convertible Senior Notes results in recognized interest expense significantly greater than the stated interest rate of the 2019 Cash Convertible Senior Notes and may result in volatility to our Consolidated Statements of Operations.***

We will settle conversions of the 2019 Cash Convertible Senior Notes entirely in cash. Accordingly, the conversion option that is part of the 2019 Cash Convertible Senior Notes is accounted for as a derivative pursuant to applicable accounting standards relating to derivative instruments and hedging activities. In general, this resulted in an initial valuation of the conversion option, which was bifurcated from the debt component of the 2019 Cash Convertible Senior Notes, resulting in an original issue discount. The original issue discount is amortized and recognized as a component of interest expense over the term of the 2019 Cash Convertible Senior Notes, which results in an effective interest rate reported in our Consolidated Statements of Operations significantly in excess of the stated coupon of 1.0%. This accounting treatment reduces our earnings, but does not affect the amount of cash interest paid to holders of Notes or our cash flows.

For each financial statement period after issuance of the 2019 Cash Convertible Senior Notes, a hedge gain or loss is reported in our Consolidated Statements of Operations to the extent the valuation of the conversion option changes from the previous period. The cash convertible note hedge transactions we entered into in connection with the 2019 Cash Convertible Senior Notes are also accounted for as derivative instruments, generally offsetting the gain or loss associated with changes to the valuation of the conversion option.



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Although we do not expect there to be a material net impact to our Consolidated Statements of Operations as a result of issuing the 2019 Cash Convertible Senior Notes and entering into the cash convertible note hedge transactions, we cannot assure you that these transactions will be completely offset, which may result in volatility to our Consolidated Statements of Operations.

### **Item 4. Information on the Company**

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

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

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

On August 5, 2010, we made an initial public offering of 34 million shares of our common stock and listed our common stock on the NASDAQ Global Select Market.

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

Our corporate seat is in Eindhoven, the Netherlands. Our principal executive office is at High Tech Campus 60, 5656 AG Eindhoven, the Netherlands, and our telephone number is +31 40 2729999. Our registered agent in the United States is Freescale Semiconductor, Inc., 6501 William Cannon Dr. West, Austin, Texas 78735, United States of America, phone number +1 512 8952000.

On March 2, 2015, NXP announced that the company had entered into a definitive agreement under which it would merge with Freescale Semiconductor, Ltd. (Freescale) (the Merger). The Merger was consummated on December 7, 2015. As a result, Freescale's results of operations are included in NXP's Consolidated Statements of Operations as from December 7, 2015.

NXP accounted for the Merger under the acquisition method of accounting in accordance with Financial Accounting Standards Board Accounting Standards Topic 805, Business Combinations, with NXP treated as the accounting acquirer, see further discussion below.

On June 14, 2016, NXP announced an agreement to divest its Standard Products business to a consortium of financial investors consisting of Beijing JianGuang Asset Management Co., Ltd (JAC Capital) and Wise Road Capital LTD (Wise Road Capital). On February 6, 2017 we divested SP, receiving \$2.75 billion in cash proceeds.

On October 27, 2016, NXP entered into a purchase agreement (the Purchase Agreement) with Qualcomm River Holdings B.V. (Buyer), a wholly-owned, indirect subsidiary of Qualcomm Incorporated. Pursuant to the Purchase Agreement, Buyer commenced a tender offer to acquire all of the issued and outstanding common shares of NXP for \$110 per share in cash, for estimated total cash consideration of \$38 billion. The tender offer is not subject to any financing condition. An Extraordinary General Meeting of NXP's shareholders was convened on January 27, 2017, in connection with the offer where the shareholders of NXP approved all resolutions brought before them, with 95% of the votes cast in favor of each such resolution. In light of the foregoing, the tender offer is now conditioned on the tender of 80% of the outstanding shares of NXP, and Buyer, with NXP's prior written consent (not to be unreasonably withheld, conditioned or delayed), may reduce the required threshold to a percentage not less than 70% of the

outstanding shares. Pending the receipt of certain regulatory approvals, as well as satisfaction of other customary closing conditions, the proposed transaction is expected to close by the end of calendar 2017.

The Purchase Agreement contains certain termination rights for NXP and Buyer. If the Purchase Agreement is terminated under certain circumstances, including termination by NXP to enter into a superior proposal for an alternative acquisition transaction or a termination following a change of recommendation by the NXP Board, NXP will be obligated to pay to Buyer a termination compensation equal to \$1.25 billion in cash. If the Purchase Agreement is terminated under certain circumstances, including circumstances relating to the failure to obtain antitrust approvals or failure to complete in all material respects certain internal reorganization steps and related dispositions with respect to NXP, Buyer will be obligated to pay to NXP a termination compensation equal to \$2 billion in cash.

## ***B. Business Overview***

### **Semiconductor Market Overview**

Semiconductors perform a broad variety of functions within electronic products and systems, including processing data, sensing, storing information and converting or controlling electronic signals. Semiconductors vary significantly depending upon the specific function or application of the end product in which the semiconductor is used and the customer who is deploying it. Semiconductors also vary on a number of technical characteristics including the degree of integration, level of customization, programmability and the process technology utilized to manufacture the semiconductor. Advances in semiconductor technology have increased the functionality and performance of semiconductors, improving their features and power consumption characteristics while reducing their size and cost. These advances have resulted in growth of semiconductors and electronic content across a diverse array of products. The semiconductor market totaled \$339 billion in 2016.

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### **Business Combinations**

On October 27, 2016, we announced that we had entered into an agreement to be purchased by a subsidiary of QUALCOMM Incorporated ( Qualcomm ). Pursuant to the agreement, a subsidiary of Qualcomm commenced a tender offer to acquire all of the issued and outstanding common shares of NXP for \$110 per share in cash. Pending the receipt of certain regulatory approvals, as well as satisfaction of other customary closing conditions, the proposed transaction is expected to close by the end of calendar 2017.

On December 7, 2015, we completed the Merger with Freescale in a stock and cash transaction.

In connection with the Merger, each outstanding share of Freescale common stock was converted into 0.3521 shares of NXP common stock and \$6.25 in cash, without interest. NXP issued 110 million shares of common stock to former holders of Freescale common stock, representing 32% of the 342 million total shares of outstanding NXP common stock after the Merger. NXP was determined to be the accounting acquirer. Freescale's financial results from the Merger date through December 31, 2016, are included in our Consolidated Statement of Operations, as discussed herein.

The Merger created a market leader in automotive, broad based microcontroller and security semiconductor solutions, with a highly complementary product portfolio. The Merger enables NXP to better serve a broader array of customers in strategic markets.

### **Other Significant Transactions**

On June 14, 2016, we announced an agreement to divest our Standard Products business to a consortium of financial investors consisting of Beijing JianGuang Asset Management Co., Ltd ( JAC Capital ) and Wise Road Capital LTD ( Wise Road Capital ). On February 6, 2017 we divested SP, receiving \$2.75 billion in cash proceeds.

On December 7, 2015, we divested our RF Power business to JAC Capital.

On November 9, 2015, we completed setting up WeEn Semiconductors, a Bipolar Power joint venture in China with JAC Capital. WeEn Semiconductors, in which JAC Capital owns 51% and we own 49%, combines our advanced technology from our former Bipolar Power business line with JAC Capital's strong connections in the Chinese manufacturing network and distribution channels to lower manufacturing costs and boost profit margins of high end electronic products in China.

### **Our Company**

We are a global semiconductor company and a long-standing supplier in the industry, with over 50 years of innovation and operating history. For the year ended December 31, 2016, we generated revenue of \$9,498 million, compared to \$6,101 million for the year ended December 31, 2015.

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

Our product solutions are used in a wide range of end-market applications including: automotive, personal security and identification, wireless and wireline infrastructure, mobile communications, multi-market industrial, consumer

and computing. We engage with leading global original equipment manufacturers (OEM) and sell products in all major geographic regions.

### **Reporting Segments**

NXP is organized into two market oriented reportable segments, High Performance Mixed Signal ( HPMS ) and Standard Products ( SP ). Corporate and Other represents the remaining portion (or segment ) to reconcile to the Consolidated Financial Statements. You can find a description of each of our reportable segments below. We also have a manufacturing group that manages our manufacturing and supply chain activities.

### **Markets, applications and products**

HPMS products consist of highly differentiated application-specific semiconductors and system solutions, which accounted for 87% of our total product revenue in 2016. We believe the HPMS market is an attractive market due to the growth in excess of the overall semiconductor market, the high barriers to entry, the loyalty of the customer base, the relative pricing stability and lower long-term capital intensity.

SP products consists primarily of discrete semiconductor devices that can be incorporated in many different types of electronics equipment, are typically sold to a wide variety of customers, and accounted for 13% of our total product revenue in 2016. NXP SP products are differentiated by our ability to consistently deliver cost effective, high unit volumes, which meet stringent quality levels and are a reflection of our long history of operational supply chain and continuously improved manufacturing processes. As a result we have been successful in improving the overall profitability of our SP segment.

**Table of Contents****High Performance Mixed Signal**

The HPMS segment consists of the following four business lines: Automotive, Secure Identification Solutions, Secure Connected Devices and Secure Interfaces and Infrastructure.

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

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

The below table provides an overview of the key applications per each business line, the leading market positions and our key customers.

|                         | <b>Automotive</b>             | <b>Secure Identification Solutions</b> | <b>Secure Connected Devices</b> | <b>Secure Interfaces and Infrastructure</b> |
|-------------------------|-------------------------------|--|---------------------------------|---|
| <b>Key applications</b> | Car access & immobilizers     | Secure identity                        | Secure transactions             | Wireless base stations                      |
|                         | In vehicle networking         | Tagging                                | Mobile handset                  | Networking                                  |
|                         | Car entertainment             |  | Tablet                          | Satellite & CATV infra                      |
|                         | ADAS                          |  | Personal computer               | Radar                                       |
|                         | Telematics                    |  | Smart buildings                 | Radar                                       |
|                         | ABS                           |  | White goods & home appliances   | Power supplies                              |
|                         | Transmission/throttle control |  | Medical/Personal Healthcare     | Lighting                                    |
|                         |                               |  | Industrial/ IoT                 | Mobile Handsets                             |
|                         |                               |  |                                 | Pachinko machines                           |

|  |   |                                     |                         |                                      |
|--|---|-------------------------------------|-------------------------|--------------------------------------|
|  | Automotive<br>Lighting                              |                                     | Consumer/TV/Set top box |                                      |
|  | Gateways  |                                     |                         |                                      |
|  | Battery<br>Management                               |                                     |                         |                                      |
|  | Sensors   |                                     |                         |                                      |
| <b>Selected market<br/>leading<br/>positions</b>   | #1 in Automotive<br>semiconductors                  | #1 e-Government                     | #1 I broad based MCU    | #1 in RF Power                       |
|  | #1 Can/LIN/<br>Flex Ray<br>in-vehicle<br>networking | #1 Transport & Access<br>management | #1 NFC                  | #1 in<br>communication<br>processors |
|  | #1 passive<br>keyless entry/<br>immobilizers        | #1 Banking                          |                         |                                      |
|  | #1 car radio  |                                     |                         |                                      |
|  | #1 Chassis &<br>Safety                              |                                     |                         |                                      |
|  | #1 Powertrain                                       |                                     |                         |                                      |
|  | #2 automotive<br>MCU                                |                                     |                         |                                      |
|  | #2 audio<br>amplifiers                              |                                     |                         |                                      |
| <b>Key OEM and<br/>electronic<br/>manufacturing<br/>services (EMS)<br/>end customers</b> | Autoliv   | Avery Dennison                      | Amazon                  | Apple                                |
|  | Bosch   | China Vision Microelectronic        | Apple                   | Arris                                |
|  | Continental   | Chutian Dragon                      | BBK                     | Cisco                                |
|  | Delphi  | Gemalto                             | Bosch                   | Ericsson                             |
|  | Denso   | Giesecke                            | Continental             | Huawei                               |
|  | Fujitsu Ten   | Hengbao                             | Huawei                  | NEC                                  |
|  | Hyundai   | Linxens                             | LG                      | Nokia                                |
|  | TRW   | Oberthur                            | Samsung                 | Philips                              |
|  | Valeo   | Smartrac                            | Visteon                 | Samsung                              |

Visteon

Wuhan/Tianyu Info

ZLG Electronics

ZTE

The table above provides a list of our key OEM, ODM and electronic manufacturing services end customers in alphabetical order, based on 2016 revenue, of which some of whom are supplied by distributors. Key distributors across these applications are Arrow, Avnet, Edom, Vitec and WPG.

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

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

Semiconductor content per vehicle continues to increase due to government regulation for improved safety and emissions, the standardization of higher-end options across a greater number of vehicle classes as well as consumer demand for greater fuel efficiency, advanced safety and multimedia applications. Automotive safety features are evolving from passive safety systems to active safety systems with ADAS such as radar, vision, vehicle-to-vehicle and vehicle-to-infrastructure (V2X) systems. We believe regulatory actions

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and consumer demand in both the developed and emerging markets should drive the increase in applications such as ADAS, secure connectivity, electronic safety and stability control. Semiconductor content per vehicle is also increasing to address applications such as engine management, fuel economy improvement, driver comfort, convenience and user interface. In addition, with the increase in overall semiconductor content in modern automobiles, the demand for secure in-vehicle networking continues to increase as various subsystems communicate within the automobile and with external devices and networks. Data integrity and security hardware features for safeguarding memory, communication and system data are also increasing in importance.

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

In Car Entertainment, we are the market leader with the broadest portfolio of products offerings addressing both audio and visual head-end unit applications. Our leadership in audio processing for mid-to-high-end car radio is driven by excellent reception performance as well as high-levels of integration of terrestrial, satellite and digital multi-band tuners. Within the low-end and after-market car radio, our leadership is a result of highly integrated, single-chip radio solutions that offer our customers ease of implementation and lower total cost of ownership. In digital reception, we have developed multi-standard radios based on our software-defined radio implementation. In addition, we provide class-AB and class-D audio amplifiers and power analog products for car entertainment. Our i.MX applications processors, which are developed and brought to market by our Microcontroller and Processor teams, are highly integrated ARM-based application processors with integrated audio, video and graphics capability.

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

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

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

In Powertrain, we offer power management solutions which provide the intelligence engine management systems that reduce emissions and improve fuel efficiency. In December 2013, we announced a joint venture with Datang Telecom, targeting the China domestic hybrid and electrical car market. This joint venture became active in April 2014.

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



We employ our proprietary processes for automotive-grade, high-voltage, RF and non-volatile processes as well as our technology standards and leading edge security IP developed by our Secure Identification Solutions business, to deliver our automotive solutions. We design our products to be compliant with all key global relevant automotive quality standards (such as ISO/TS16949 and VDA6.3).

For the full year 2016, we had High Performance Mixed Signal revenue of \$3,379 million in automotive applications, compared to \$1,342 million in 2015, which represents a 151.8% year over year increase. According to Strategy Analytics, the total market for automotive semiconductors was \$31.0 billion in 2015, and projects it will grow at a compounded annual growth rate of 6.3% between 2015 and 2019.

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

Nearly all of SIS products consist of multi-functional solutions comprised of passive RF connectivity devices facilitating information transfer from the user document to reader infrastructure; secure, tamper-proof microcontroller devices in which information is securely encrypted ( secure element ); and secure real-time operating system software products to facilitate the encryption-decryption of data, and the interaction with the reader infrastructure systems. Our solutions are developed to assure extreme levels of security of user information, undergoing stringent and continued global governmental and banking certification processes, as well as delivering the highest level of device performance enabling significant throughput and productivity to our customers.

In the banking sector NXP is the market leader in the contact, contactless and dual-interface bank card market. We have innovated and deployed multi-application banking solutions which support a combination of payment, transit and access solutions all leveraging a single physical bank card. In the transit and access market, NXP's MIFARE products are ubiquitous throughout the world, having been deployed in over 750 cities, facilitating the mass transit requirements of over one billion people per day. Additionally our transit and access products are deployed in application such as employee identification for facility access and security. We are also focused on deploying our technology into new emerging market applications such as interactive gaming, theme-park attendee management and

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supply chain and inventory product management to support high velocity supply chain management. In the eGovernment sector, NXP is a market leader providing solutions for chip-based cross-border passports, drivers-licenses, health cards and other government sponsored identification documents. We have also worked with emerging market government agencies to facilitate government sponsored identity cards which also serve as payment platforms helping the mass-population of under-banked.

For the full year 2016, we had High Performance Mixed Signal revenue of \$737 million in SIS, compared to \$973 million in 2015, which represents a 24.3% year over year decline. According to ABI Research, the market size for secure identification ICs was \$3.5 billion in 2015, and is expected to grow at a compounded annual rate of 6% to \$4.6 billion in 2019.

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

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

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

We have a strong position in multi-purpose 32-bit ARM-based microcontrollers serving a broad array of applications. Our portfolio is highly scalable, and is coupled with our extensive software and design tools. This enables our customers to design-in and deploy our MCUs families, leveraging a consistent software development environment. Due to the scalability of our portfolio we are able to help future-proof our customer's products as their systems evolve, becoming more complex or requiring greater processing capabilities over time. We believe we have the broadest ARM portfolio in the industry.

Our i.MX family of processors are designed in conjunction with a broad suite of additional products including power management solutions, audio codecs, touch sensors and accelerometers to provide full systems solutions across a wide range of operating systems and applications. Our i.MX 6 family of applications processors integrates one, two or four ARM Cortex-A9 cores running up to 1.2 GHz and includes five devices: the single-core i.MX 6Solo and i.MX 6SoloLite, dual-core i.MX 6Dual and i.MX 6DualLite, and quad-core i.MX 6Quad processors. Together, these products provide a family of applications processors featuring software, power and pin compatibility across single, dual and quad core implementations. Software support includes Linux and Android implementations.

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

Post-merger NXP has a broad and diverse portfolio of connectivity assets, IP and application knowledge which we believe enables us to fulfill our customer's connectivity requirements for IoT applications, including smart lighting, smart energy, wireless remote controls & switches and healthcare monitoring.

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

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

Our personal healthcare revenue is generated by our hearing aid products, which leverage our proprietary, ultra-low power Coolflux brand of DSP devices, our low power audio IC design capabilities and our magnetic induction radio technology. We design customer-specific ICs for major hearing aid OEMs, and many of these customers fund our product development efforts.

Our overall High Performance Mixed Signal revenue in the SCD business was \$2,146 million in 2016, compared to \$1,261 million in 2015, which represents a 70.2% year over year growth. We estimate the worldwide market for Microcontrollers 32-bit was \$6.5 billion in 2015, and we expect a compounded annual growth rate of 10.3% between 2015 and 2019.

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

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

NXP is a significant participant in the communications infrastructure market. Our communications processors are programmable semiconductors that perform tasks related to control and management of digital data, as well as network interfaces. They are designed to

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

We are major supplier in the highly fragmented interface and system management products. 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 including UARTs, Bridges-devices, I<sup>2</sup>C, SPI, LED-lighting controllers, low power real-time clocks and watch ICs, HDMI switches and transceivers, and display port multiplexers. Our core competency is the ability to deliver products that manage high speed data and system voltage over the same interface. We generate a large part of our revenue by selling products to a very broad customer base, which we serve through our distribution channel. We have successfully engaged with leading OEMs to drive semi-custom products which in turn allow us to refine and accelerate our innovation and product roadmaps. We are engaged in development activities and standard setting initiatives with many of the innovation leaders in each of these markets. Key growth drivers will be the adoption rate of new high-speed interface standards such as USB type-C.

We are also active in high efficiency AC-DC power conversion ICs for notebook personal computers. 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.

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

Both Freescale and NXP prior to the Merger were the main suppliers into the HPRF power amplifier market. As a result of the Merger, NXP was required to sell its HPRF business. On December 7, 2015 NXP completed the divestment of its RF Power business to JAC Capital.

We have an emerging business offering Smart Antennae solutions based on Low Noise Amplifier (LNA) technology. We engage and sell our Smart Antennae solutions to varied customers in the mobile, consumer electronics and cable television infrastructure markets.

Our overall revenue in these businesses was \$1,824 million in 2016 versus \$1,144 million in 2015, which represents an increase of 59.4% year over year.

## **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 standard logic 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.

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

|  |                              |
|--|------------------------------|
| <b>Key Products</b>  | SS Transistors and Diodes    |
|  | SS MOS                       |
|  | Power MOS                    |
|  | Interface protection devices |
|  | General Purpose Logic        |
| <b>Key OEM and<br/>electronic manufacturing services<br/>(EMS)<br/>end customers</b> | Apple                        |
|  | BBK                          |
|  | Bosch                        |
|  | Continental                  |
|  | Delphi                       |
|  | Delta Electronics            |
|  | Huawei                       |
|  | Lear                         |
|  | Samsung                      |
|  | Valeo                        |

The table above provides a list of our key OEM and electronic manufacturing services end customers in alphabetical order, based on 2016 revenue, of which some of whom are supplied by distributors. Key distributors across these applications are Arrow, Avnet, Future and WPG.

In 2016, our Standard Products business generated net revenue of \$1,220 million, compared to \$1,241 million in 2015, which represents a 1.7% year over year decline.

We are the number one 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 this market. The majority of our revenue in Power MOSFETs is to automotive customers.

We estimate that the market for discrettes, excluding RF & Microwave, was \$17 billion in 2015 and growth is expected with a CAGR of 4% to \$20 billion in 2019.

Additionally, the Standard Products segment also includes Standard Logic ICs. We have the number two position in Standard Logic IC markets based on worldwide revenue for 2015, which we deploy 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 continue to expand into the higher margin product range in this business by expanding, among others, our switches and translators (or custom logic) portfolio and optimizing our manufacturing. We estimate the worldwide Standard Logic market at \$1.4 billion in 2015, and is estimated to grow with compound annual rate of 1.1% between 2015 and 2019.

### **Corporate and Other**

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 the future, we expect to outsource an increased part of our internal demand for wafer foundry and packaging services to third-party manufacturing sources in order to increase our flexibility to accommodate increased demand mainly in our High Performance Mixed Signal and to a lesser extent in Standard Products businesses.

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

We primarily focus our internal and joint venture wafer manufacturing operations on running proprietary specialty process technologies that enable us to differentiate our products on key performance features, and we generally outsource wafer manufacturing in process technologies that are available at third-party wafer foundries when it is economical to do so. In addition, we increasingly

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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 90 nanometers to 3 microns for integrated circuits and 0.5 microns to greater than 4 microns for discrettes. 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. 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)<br>(Microns) | Technology/Products  |
|--|-----------|------------------|------------------------------------|--|
| <b>Front-end<sup>(1)</sup></b>                 |           |                  |                                    |  |
| Singapore <sup>(2)</sup>                       | 61.2%     | 8                | 0.14-0.25                          | CMOS   |
| Nijmegen, the Netherlands                      | 100%      | 8                | 0.14-0.80                          | CMOS, BiCMOS, LDMOS  |
| Hamburg, Germany <sup>(4)</sup>                | 100%      | 6 /8             | 0.5-3.0                            | Discrettes   |
| Manchester, United Kingdom <sup>(4)</sup>      | 100%      | 6                | 0.5                                | Power discrettes   |
| Oak Hill, Austin, US                           | 100%      | 8                | 0.25                               | CMOS, BiCMOS, Sensors,<br>LDMOS, HDTMOS,<br>PowerCMOS                      |
| Chandler, US                                   | 100%      | 8                | 0.25-0.50                          | CMOS, eNVM,<br>PowerCMOS   |
| Austin Technology and Manufacturing Center, US | 100%      | 8                | 0.09-0.18                          | CMOS, eNVM,<br>PowerCMOS,<br>Advanced CMOS, SoC                            |
| <b>Back-end<sup>(3)</sup></b>                  |           |                  |                                    |  |
| Kaohsiung, Taiwan                              | 100%      |                  |                                    | NFC, Automotive<br>Car-access,<br>Micro-controllers                        |
| Bangkok, Thailand                              | 100%      |                  |                                    | Automotive In-Vehicle<br>Networking and Sensors,<br>Banking and e-Passport |



|                                     |      |  |
|-------------------------------------|------|--|
|                                     |      | modules, Standard Logic  |
| Guangdong, China <sup>(4)</sup>     | 100% | Discrete devices and Standard Logic  |
| Seremban, Malaysia <sup>(4)</sup>   | 100% | Discrete devices and Standard Logic  |
| Cabuyao, Philippines <sup>(4)</sup> | 100% | Power discrete and Automotive Sensors  |
| Kuala Lumpur, Malaysia              | 100% | Micro-processors, Micro-controllers, Power Management, Analog and Mixed Signal, RF devices |
| Tianjin, China                      | 100% | Micro-controllers, Automotive MCU, Analog and Sensors                                      |

- (1) In front-end we entered into a joint venture with JAC Capital for the Bipolar products in which we currently hold a 49% interest. The Jilin front end fab transferred into this JV.
- (2) Joint venture with TSMC; we are entitled to 60% of the joint venture's annual capacity.
- (3) In back-end manufacturing we entered into a joint venture with ASE in Suzhou, China (ASEN), in which we currently hold a 40% interest.
- (4) These facilities were divested in connection with the sale of the Standard Products business to JAC Capital that closed on February 6, 2017.

We use a large number of raw materials in our front- and back-end manufacturing processes, including silicon wafers, chemicals, gases, lead frames, substrates, molding compounds and various types of precious and other metals. Our most important raw materials are the raw, or substrate, silicon wafers we use to make our semiconductors. We purchase these wafers, which must meet exacting specifications, from a limited number of suppliers in the geographic region in which our fabrication facilities are located. At our wholly owned fabrication plants, we use raw wafers ranging from 6 inches to 8 inches in size. Our SSMC wafer fab facility, which produces 8 inch wafers, is jointly owned by TSMC and ourselves. We are leveraging our experience in that fab facility in optimizing our remaining wholly owned Nijmegen and Hamburg wafer fabs. The Merger has added multiple 8 inch fabs for production of a wide portfolio of analog, mixed signal and processors products and this large scale and knowledge base will enable us to further optimize processes. Our other remaining fabs are small and are focused exclusively on manufacturing power discretetes. 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.

## **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.

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 end customers, some of whom are supplied by distributors, in alphabetical order, are Apple, BBK, Bosch, Continental, Delphi, Denso, Huawei, Samsung, TRW and ZTE. When we target new customers, we generally focus on companies that are leaders in their markets either in terms of market share or leadership in driving innovation. We also have a strong position with our distribution partners being a top three semiconductor supplier (other than microprocessors and memory ICs) through distribution worldwide. Our 3 largest distribution partners are Arrow, Avnet and WPG.

Our revenue is primarily the sum of our direct sales to original equipment manufacturers, or OEMs, plus our distributors' resale of NXP products. One distributor accounted for more than 10% of total 2016 revenue: Avnet accounted for 13% of our revenue in 2016, 14% in 2015 and 13% in 2014. WPG accounted for less than 10% of our revenue in 2016, 14% in 2015 and 13% in 2014. No other distributor accounted for more than 10% of our revenue in 2016, 2015 or 2014. No individual OEM for which we had direct sales to accounted for more than 10% of revenue in 2016, 2015 or 2014.

## **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.

Our key competitors (excluding those related to the Standard Products business which was divested on February 6, 2017) in alphabetical order include Analog Devices Inc., Broadcom, Cavium, Infineon, Intel, Linear Technology, Maxim Integrated Products, Microchip, Renesas, Power Integrations, Silicon Laboratories, STMicroelectronics and Texas Instruments.

The basis on which we compete varies across market segments and geographic regions. Our 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.

### **Legal Proceedings**

The information set forth under the *Litigation* caption of note 17 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 17 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, 2016.

- (1) For a more detailed description of our Long-Term Incentive Plans see the discussion set forth under *Share Based Compensation Plans* contained in this Report in Part I, Item 6B. *Compensation*.
- (2) As of December 31, 2016, we had \$1,150 million aggregate principal amount of 2019 Cash Convertible Senior Notes outstanding.
- (3) As of December 31, 2016, no borrowings were outstanding under the RCF Agreement.
- (4) As of December 31, 2016, we had \$2,211 million aggregate principal amount outstanding under the Term Loans.
- (5) As of December 31, 2016, we had \$6,000 million aggregate principal amount of Unsecured Notes outstanding.
- (6) This list of material subsidiaries includes the subsidiaries that are guarantors under our RCF Agreement and our Secured Term Credit Agreement. Other subsidiaries provide a guarantee under certain of our other outstanding indebtedness. See Item 5B. Liquidity and Capital Resources, under the captions 2016 Financing Activities, 2015 Financing Activities and 2014 Financing Activities.

**Table of Contents****D. Property, Plant and Equipment**

NXP uses 108 sites in 32 countries with 13.6 million square feet of total owned and leased building space of which 10.4 million square feet is owned property.

The following table sets out our principal real property holdings as of December 31, 2016:

| <b>Location</b>                           | <b>Use</b>    | <b>Owned/leased</b> | <b>Building space<br/>(square feet)</b> |
|---|---------------|---------------------|---|
| Eindhoven, the Netherlands                | Headquarters  | Leased              | 152,666                                 |
| Hamburg, Germany <sup>(1)</sup>           | Manufacturing | Owned               | 749,609                                 |
| Nijmegen, the Netherlands                 | Manufacturing | Owned               | 1,515,550                               |
| Singapore (SSMC) *                        | Manufacturing | Owned               | 757,852                                 |
| Bangkok, Thailand                         | Manufacturing | Owned               | 547,882                                 |
| Cabuyao, Philippines <sup>(2)</sup>       | Manufacturing | Owned               | 494,656                                 |
| Kaohsiung, Taiwan                         | Manufacturing | Owned               | 636,395                                 |
| Manchester, United Kingdom <sup>(2)</sup> | Manufacturing | Owned               | 264,340                                 |
| Guangdong, China <sup>(2)</sup>           | Manufacturing | Leased              | 927,569                                 |
| Tianjin, China                            | Manufacturing | Owned               | 447,624                                 |
| Seremban, Malaysia <sup>(2)</sup>         | Manufacturing | Owned               | 322,285                                 |
| Kuala Lumpur, Malaysia                    | Manufacturing | Owned               | 828,858                                 |
| Chandler, United States                   | Manufacturing | Owned               | 1,173,196                               |
| Austin (Oak Hill), United States          | Manufacturing | Owned               | 1,514,389                               |
| Austin (Ed Bluestein), United States      | Manufacturing | Owned               | 1,158,731                               |

\* Joint venture between TSMC and NXP.

(1) As of February 6, 2017, this property has been divested with the sale of the Standard Products business. NXP will lease part of this property from the former SP business.

(2) As of February 6, 2017, these properties have been divested with the sale of the Standard Products business. Areas which are not fully closed are not considered as buildings (eg. sport fields, parking space). If it is not possible to differentiate between production facility and offices in the same building all is considered manufacturing.

**Item 4A. Unresolved Staff Comments**

Not applicable.

**Item 5. Operating and Financial Review and Prospects  
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 methods, estimates, and judgments that we use in applying our accounting policies have a significant impact on the results that we report in our consolidated financial statements. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain. Our most critical accounting estimates include:

the valuation of inventory, which impacts gross margin;

the assessment of recoverability of goodwill, identified intangible assets and tangible fixed assets, which impacts gross margin or operating expenses when we record asset impairments or accelerate their depreciation or amortization;

revenue recognition, which impacts our results of operations;

the recognition of current and deferred income taxes (including the measurement of uncertain tax positions), which impacts our provision for income taxes;

the assumptions used in the determination of postretirement benefit obligations, which impacts operating expenses;

the assumptions used in the determination of share based compensation, which impacts gross margin and operating expenses; and

the recognition and measurement of loss contingencies, which impacts gross margin or operating expenses when we recognize a loss contingency or revise the estimates for a loss contingency.

In the following section, we discuss these policies further, as well as the estimates and judgments involved.

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### ***Inventories***

Inventories are valued at the lower of cost or market. We regularly review our inventories and write down our inventories for estimated losses due to obsolescence. This allowance is determined for groups of products based on sales of our products in the recent past and/or expected future demand. Future demand is affected by market conditions, technological obsolescence, new products and strategic plans, each of which is subject to change with little or no forewarning. In estimating obsolescence, we utilize information that includes projecting future demand.

The need for strategic inventory levels to ensure competitive delivery performance to our customers are balanced against the risk of inventory obsolescence due to rapidly changing technology and customer requirements.

The change in our reserves for inventories was primarily due to the normal review and accrual of obsolete or excess inventory. If actual future demand or market conditions are less favorable than those projected by our management, additional inventory write-downs may be required.

### ***Goodwill***

Goodwill is required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. Such events or changes in circumstances can be significant changes in business climate, operating performance or competition, or upon the disposition of a significant portion of a reporting unit. A significant amount of judgment is involved in determining if an indicator of impairment has occurred between annual test dates. This impairment review compares the fair value for each reporting unit containing goodwill to its carrying value. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions, including projected future cash flows, discount rates based on weighted average cost of capital and future economic and market conditions. We base our fair-value estimates on assumptions we believe to be reasonable. Actual cash flow amounts for future periods may differ from estimates used in impairment testing.

For the annual impairment assessment in 2016, we determined that for each of our reporting units, it was more likely than not that the fair value of the reporting units exceeded the carrying value. During the fourth quarter of each of the prior two fiscal years, we have completed our annual impairment assessments and concluded that goodwill was not impaired in any of these years.

### ***Impairment or disposal of identified intangible assets and tangible fixed assets***

We perform reviews of property, plant and equipment, and certain identifiable intangibles, excluding goodwill, to determine if facts and circumstances indicate that the useful life is shorter than what we had originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances exist, we assess the recoverability of the long-lived assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. In the event such cash flows are not expected to be sufficient to recover the recorded value of the assets, the assets are written down to their estimated fair values based on the expected discounted future cash flows attributable to the assets or based on appraisals. Impairment losses, if any, are based on the excess of the carrying amount over the fair value of those assets.

The assumptions and estimates used to determine future values and remaining useful lives of our intangible and other long-lived assets are complex and subjective. They can be affected by various factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our forecasts for specific product lines. In 2016, we recognized an impairment charge of \$89 million relative to IPR&D that was

acquired from Freescale . In 2015, we recognized disposals of intangibles relative to our sale of the Bipolar and RF Power Businesses. In 2014, no impairments or disposal of identified intangible assets and tangible fixed assets were required to be recognized.

***Revenue recognition***

The Company's revenue is derived from sales to distributors, made-to-order sales to Original Equipment Manufacturers ( OEMs ) and similar customers.

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or the service has been provided, the sales price is fixed or determinable, and collection is reasonably assured, based on the terms and conditions of the sales contract. For made-to-order sales, these criteria are met at the time the product is shipped and delivered to the customer and title and risk have passed to the customer. Acceptance of the product by the customer is generally not contractually required, since, for made-to-order customers, design approval occurs before manufacturing and subsequently delivery follows without further acceptance protocols. Payment terms used are those that are customary in the particular geographic market. When management has established that all aforementioned conditions for revenue recognition have been met and no further post-shipment obligations exist, revenue is recognized.

For sales to distributors, revenue is recognized upon sale to the distributor (sell-in accounting). We record reductions to sales associated with reserves for allowances for collectibility, discounts, price protection, product returns and distributor incentive programs at the time the related sale is recognized. The establishment of such reserves is dependent on a variety of factors, including contractual terms, analysis of historical data, current economic conditions, industry demand and both the current and forecasted pricing environments. The process of evaluating these factors is highly subjective and requires significant estimates, including, but not limited to, forecasted demand, returns, pricing assumptions and inventory levels. In future periods, additional provisions may be necessary due to a deterioration in the semiconductor pricing environment, reductions in anticipated demand for semiconductor products and/or lack of market acceptance for new products. If these factors result in a significant adjustment to our reserves, they could significantly impact our future operating results.



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Distributor reserves estimate the impact of credits granted to distributors under certain programs common in the semiconductor industry whereby distributors receive certain price adjustments to meet individual competitive opportunities, or are allowed to return or scrap a limited amount of product in accordance with contractual terms agreed upon with the distributor, or receive price protection credits when our standard published prices are lowered from the price the distributor paid for product still in its inventory. The Company's policy is to use a rolling historical experience rate, as well as a prospective view of products and pricing in the distribution channel for distributors who participate in our volume rebate incentive program, in order to estimate the proper provision for this program at the end of any given reporting period. We continually monitor the actual claimed allowances against our estimates, and we adjust our estimates as appropriate to reflect trends in pricing environments and inventory levels. Distributor reserves are also adjusted when recent historical data does not represent anticipated future activity.

***Income taxes***

Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts. Measurement of deferred tax assets and liabilities is based upon the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax liabilities for withholding taxes on dividends from subsidiaries are recognized in situations where the company does not consider the earnings indefinitely reinvested and to the extent that these withholding taxes are not expected to be refundable.

Deferred tax assets, including assets arising from loss carryforwards, are recognized, net of a valuation allowance, if based upon the available evidence it is more likely than not that the asset will be realized.

The income tax benefit from an uncertain tax position is recognized only if it is more likely than not that the tax position will be sustained upon examination by the relevant taxing authorities. The income tax benefit recognized is measured based on the largest benefit that is more than 50% likely to be realized upon resolution of the uncertainty. Unrecognized tax benefits are presented as a reduction to the deferred tax asset for related net operating loss carryforwards, unless these would not be available, in which case the uncertain tax benefits are presented together with the related interest and penalties as a liability, under accrued liabilities and other non-current liabilities based on the timing of the expected payment. Penalties are recorded as income tax expense, whereas interest is reported as financial expense in the statement of operations.

***Postretirement benefits***

The Company's employees participate in pension and other postretirement benefit plans in many countries. The costs of pension and other postretirement benefits and related assets and liabilities with respect to the Company's employees participating in defined-benefit plans are based upon actuarial valuations.

The projected defined-benefit obligation is calculated annually by qualified actuaries using the projected unit credit method. For the Company's major plans, the discount rate is derived from market yields on high quality corporate bonds. Plans in countries without a deep corporate bond market use a discount rate based on the local government bond rates.

In calculating obligation and expense, the Company is required to select actuarial assumptions. These assumptions include discount rate, expected long-term rate of return on plan assets and rates of increase in compensation costs determined based on current market conditions, historical information and consultation with and input from our actuaries. Changes in the key assumptions can have a significant impact to the projected benefit obligations, funding requirements and periodic pension cost incurred. A sensitivity analysis is provided in note 15, Postretirement Benefit

Plans .

The Company determines the fair value of plan assets based on quoted prices or comparable prices for non-quoted assets. For a defined-benefit pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement defined benefit plan it is the accumulated postretirement benefit obligation.

***Share-based compensation***

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

Our valuation models and generally accepted valuation techniques require us to make assumptions and to apply judgment to determine the fair value of our awards. These assumptions and judgments include estimating the volatility of our stock price, expected dividend yield, employee turnover rates and employee stock option exercise behaviors. Due to the lack of extensive history as a public company, the computation of the expected volatility assumptions used in the Black-Scholes calculations for grants was based on historical volatilities and implied volatilities of our peer group companies. When establishing the expected life assumption, we used the simplified method prescribed in ASC Topic 718 for companies that do not have adequate historical data. The risk-free interest rate is measured as the prevailing yield for a U.S. Treasury security with a maturity similar to the expected life assumption. We also estimate a forfeiture rate at the time of grant and revise this rate in subsequent periods if actual forfeitures or vesting differ from the original estimates.

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We evaluate the assumptions used to value our awards on a quarterly basis. If factors change and we employ different assumptions, share-based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellation of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned share-based compensation expense.

### ***Litigation and claims***

We are regularly involved as plaintiffs or defendants in claims and litigation relating to matters such as commercial transactions and intellectual property rights. In addition, our divestments sometimes result in, or are followed by, claims or litigation by either party. From time to time, we also are subject to alleged patent infringement claims. We rigorously defend ourselves against these alleged patent infringement claims. There can be no assurance that the Company's accruals will be sufficient to cover the extent of its potential exposure to losses. Historically, legal actions have not had a material adverse effect on the Company's business, results of operations or financial condition.

The estimated aggregate range of reasonably possible losses is based on currently available information in relation to the claims that have arisen and on the Company's best estimate of such losses for those cases for which such estimate can be made. For certain claims, the Company believes that an estimate cannot currently be made. The estimated aggregate range requires significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants (including the Company) in such claims whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the claims, and the attendant uncertainty of the various potential outcomes of such claims. Accordingly, the Company's estimate will change from time to time, and actual losses may be more than the current estimate.

### **Use of Certain Non-GAAP Financial Measures**

Net debt is a non-GAAP financial measure and represents total debt (short-term and long-term) after deduction of cash and cash equivalents. Management believes this measure is an appropriate 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 used as an alternative to any other measure in accordance with U.S. GAAP.

**Table of Contents****A. Operating Results****Year Ended December 31, 2016 Compared to Year Ended December 31, 2015****Results of Operations**

The following table presents the composition of operating income for the years ended December 31, 2016 and 2015.

| (\$ in millions, unless otherwise stated)             | 2016    | 2015  |
|---|---------|-------|
| Revenue   | 9,498   | 6,101 |
| % nominal growth                                      | 55.7    | 8.0   |
| Gross profit  | 4,069   | 2,787 |
| Research and development                              | (1,560) | (890) |
| Selling, general and administrative (SG&A)            | (1,141) | (922) |
| Amortization of acquisition-related intangible assets | (1,527) | (223) |
| Other income (expense)                                | 9       | 1,263 |
| Operating income (loss)                               | (150)   | 2,015 |

**Revenue**

The following table presents revenue by segment for the years ended December 31, 2016 and 2015.

| (\$ in millions, unless otherwise stated) | 2016    |                  | 2015    |                  |
|---|---------|------------------|---------|------------------|
|   | Revenue | % nominal growth | Revenue | % nominal growth |
| High Performance Mixed Signal ( HPMS )    | 8,086   | 71.3             | 4,720   | 12.2             |
| Standard Products ( SP )                  | 1,220   | (1.7)            | 1,241   | (2.7)            |
| Corporate and Other                       | 192     | 37.1             | 140     | (14.6)           |
| Total                                     | 9,498   | 55.7             | 6,101   | 8.0              |

Revenue increased by \$3,397 million to \$9,498 million in 2016 compared to \$6,101 million in 2015, a nominal increase of 55.7%, reflecting the inclusion of the operations of Freescale.

Our HPMS segment reported an increase in revenue of \$3,366 million to \$8,086 million in 2016 compared to \$4,720 million in 2015, resulting in 71.3% nominal growth. The increase was primarily due to incremental revenue from the acquired Freescale businesses from December 7, 2015, onward, partly offset by the divestment of RF Power on December 7, 2015.

Revenue for our SP segment decreased \$21 million to \$1,220 million in 2016, compared to \$1,241 million in 2015. The decrease was primarily attributable to the transfer of the Bipolar Power business line activities into a joint venture (WeEn Semiconductors) with JAC Capital in China.

Revenue for Corporate and Other amounted to \$192 million in 2016, compared to \$140 million in 2015 and mainly related to our manufacturing operations.

**Gross Profit**

The following table presents gross profit by segment for the years ended December 31, 2016 and 2015.

| (\$ in millions, unless otherwise stated) | 2016         |                      | 2015         |                      |
|---|--------------|----------------------|--------------|----------------------|
|   | Gross Profit | % of segment revenue | Gross Profit | % of segment revenue |
| HPMS                                      | 3,625        | 44.8                 | 2,367        | 50.1                 |
| SP  | 437          | 35.8                 | 417          | 33.6                 |
| Corporate and Other                       | 7            | 3.6                  | 3            | 2.1                  |
| Total                                     | 4,069        | 42.8                 | 2,787        | 45.7                 |

Gross profit in 2016 was \$4,069 million, or 42.8% of revenue compared to \$2,787 million, or 45.7% of revenue in 2015. The increase of \$1,282 million was primarily driven by the inclusion of the operating activity of Freescale partly offset by the effects of PPA, and to a lesser extent, stock based compensation expense. The decrease in the gross profit percentage was primarily driven by the effect of purchase accounting in our HPMS segment.

Our HPMS segment had a gross profit of \$3,625 million, or 44.8% of revenue in 2016, compared to \$2,367 million, or 50.1% of revenue in 2015. The decrease in the gross profit percentage of 5.3 points as a percentage of revenue was primarily driven by the effects of purchase accounting in two areas - inventory of \$448 million (2015: \$149 million) and property, plant and equipment of \$209 million (2015: \$15 million), both as a result of the acquisition of Freescale, and to a lesser extent, restructuring activity (\$12 million) and stock based compensation expense (\$42 million).

Gross profit in our SP segment was \$437 million, or 35.8% of revenue in 2016, compared to \$417 million, or 33.6% of revenue in 2015. The increase in the gross profit percentage of 2.2 points was a result of lower depreciation expense as a result of the fixed assets of the SP business being classified as held for sale and depreciation being discontinued on those fixed assets.

**Table of Contents****Operating Expenses**

The following table presents operating expenses by segment for the years ended December 31, 2016 and 2015.

| (\$ in millions, unless otherwise stated) | 2016               |                      | 2015               |                      |
|---|--------------------|----------------------|--------------------|----------------------|
|   | Operating expenses | % of segment revenue | Operating expenses | % of segment revenue |
| HPMS                                      | 3,937              | 48.7                 | 1,674              | 35.5                 |
| SP  | 168                | 13.8                 | 223                | 18.0                 |
| Corporate and Other                       | 123                |                      | 138                |                      |
| Total                                     | 4,228              | 44.5                 | 2,035              | 33.4                 |

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

| (\$ in millions, unless otherwise stated)             | 2016  | 2015  |
|---|-------|-------|
| Research and development                              | 1,560 | 890   |
| Selling, general and administrative                   | 1,141 | 922   |
| Amortization of acquisition-related intangible assets | 1,527 | 223   |
| Operating expenses                                    | 4,228 | 2,035 |

Operating expenses were \$4,228 million, or 44.5% of revenue in 2016, compared to \$2,035 million, or 33.4% of revenue in 2015, an increase of \$2,193 million, or an increase of 11.1 points as a percentage of revenue. The increase in operating expenses was primarily due to the acquisition of Freescale: the inclusion of their operating activity from December 7, 2015 onward and the related amortization of acquisition related intangibles of \$1,430 million (2015: \$105 million).

In our HPMS segment, operating expenses amounted to \$3,937 million, or 48.7% of revenue in 2016, compared to \$1,674 million, or 35.5% of revenue in 2015. The increase was primarily driven by the acquisition of Freescale: the inclusion of their operating activity from December 7, 2015 onward and the related amortization of acquisition related intangibles of \$1,430 million (2015: \$105 million), which includes an impairment charge of \$89 million (2015: nil) relative to IPR&D that was acquired from Freescale.

Operating expenses in our SP segment decreased to \$168 million, or 13.8% of revenue in 2016 compared to \$223 million or 18.0% of revenue in 2015. The decrease in operating expenses was primarily driven by a continued strong focus on cost controls and the effect of the divestment of the Bipolar activities.

**Restructuring Charges**

Total restructuring and restructuring related costs amounted to \$68 million in 2016, compared to \$264 million in 2015.

In 2016, the restructuring charges were for various specific targeted actions and were comprised of employee severance costs. In 2015, the restructuring charges mainly related to the acquisition of Freescale and were comprised of severance costs of \$239 million, and other exit costs of \$27 million.

***Other Income (Expense)***

The following table presents other income (expense) for the years ended December 31, 2016 and 2015.

| (\$ in millions, unless otherwise stated) | <b>2016</b> | <b>2015</b>  |
|---|-------------|--------------|
| Other income (expense)                    | <b>9</b>    | <b>1,263</b> |

Other income (expense) reflects income of \$9 million for 2016 compared to \$1,263 million of income in 2015. Included in 2015 is the gain on the sale of NXP's Bipolar Power business line and RF Power business to JAC Capital in the fourth quarter of 2015.

**Table of Contents****Financial Income (Expense)**

| (\$ in millions)                              | For the years ended December 31, |              |
|---|----------------------------------|--------------|
|   | 2016                             | 2015         |
| Interest income                               | 11                               | 6            |
| Interest expense                              | (408)                            | (227)        |
| Foreign exchange rate results                 | (15)                             | (193)        |
| Net gain (loss) on extinguishment of debt     | (32)                             |              |
| Change in fair value of the warrant liability |                                  | (31)         |
| Other   | (9)                              | (84)         |
| <b>Total</b>                                  | <b>(453)</b>                     | <b>(529)</b> |

Financial income (expense) was an expense of \$453 million in 2016, compared to an expense of \$529 million in 2015. The decrease in financial income (expense) is primarily attributable to (i) a more favorable impact of foreign exchange rate results, (ii) lower other financial income and expense related items than in 2015, offset by (iii) the increase in interest expense, net, as a result of the debt that we assumed in the acquisition of Freescale and by (iv) a \$32 million loss on the early extinguishment of debt due to certain financing activities completed during 2016. Beginning on January 1, 2016, as a result of the acquisition of Freescale, NXP concluded that the functional currency of the holding company was USD. With this change in functional currency, the U.S. dollar-denominated notes held by NXP no longer need to be re-measured, resulting in less foreign exchange rate results in our operations and the warrants were reclassified to stockholders' equity, and mark-to-market accounting was no longer applicable.

**Benefit (Provision) for Income Taxes**

The effective tax rate reflects the impact of tax incentives, a portion of our earnings being taxed in foreign jurisdictions at rates different than the Netherlands statutory tax rate and the mix of income and losses in various jurisdictions. We recorded a tax benefit of \$851 million in 2016, which reflects a benefit of 141.1% compared with a benefit of \$104 million (7.0%) for 2015.

ASC 740, *Income Taxes*, requires that we consider all available evidence in forming a judgement regarding the valuation allowance as of December 31, 2016, including events that occur subsequent to year end but prior to the issuance of the financial statements. As a result of the February 6, 2017 disposition of SP, we concluded that the valuation allowance should be reduced by \$395 million as of December 31, 2016, as the SP divestiture provided an objectively verifiable source of income against which tax losses can be utilized. As a result, we recognized an additional benefit of \$392 million in the benefit (provision) for income taxes in the consolidated statement of operations and an additional \$7 million in capital in excess of par value in the consolidated balance sheet in the fourth quarter. In the second quarter, the valuation allowance in the U.S. was reduced by \$107 million as a result of our determination that sufficient positive evidence existed to support a more likely than not determination that the U.S. deferred tax assets were realizable.

As a result, the significant change in our effective tax rate was primarily due to the reversals of valuation allowances in the Netherlands and Germany as a result of the SP divestiture, a reversal of the valuation allowance in the U.S. related to the Company's determination that sufficient positive evidence existed to support a more likely than not determination that the U.S. deferred tax assets were realizable, and the impact of purchase accounting as a result of the acquisition of Freescale, slightly offset by the impact of the inclusion of the operations of Freescale, which resulted in significant amortization expense for acquired intangibles, additional depreciation expense as a result of the fair value



adjustments on tangible assets and a significant impact to the mix of income and losses between jurisdictions. In addition, the tax expense related to transactions associated with internal restructurings resulting from the Freescale acquisition represented a higher percentage of earnings before tax for 2016 as compared to 2015.

As previously discussed, on February 6, 2017 we divested Standard Products, receiving \$2.75 billion in cash proceeds. In relation to the gain that will be realized, the Company currently estimates that we will incur approximately \$450 million of capital gains taxes that will come due in increments during 2017, 2018 and 2019. Cash payments for income taxes that are relative to our ongoing operations are expected to remain at approximately \$30 to \$35 million per quarter during 2017. In relation to the gain we expect additional cash payments for income taxes to be approximately \$30 million in the first quarter of 2017 and approximately \$90 million in each of the second, third and fourth quarters of 2017. For the years ended December 31, 2018 and 2019, we currently estimate in each year additional cash payments for income taxes relative to this gain of approximately \$75 million.

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

Results relating to the equity-accounted investees amounted to a gain of \$11 million in 2016, compared to a gain of \$9 million in 2015.

***Non-controlling Interests***

Non-controlling interests are related to the third party share in the results of consolidated companies, predominantly SSMC. Their share of non-controlling interests amounted to a profit of \$59 million in 2016, compared to a profit of \$73 million in 2015.

**Table of Contents****Year Ended December 31, 2015 Compared to Year Ended December 31, 2014****Results of Operations**

The following table presents the composition of operating income for the years ended December 31, 2015 and 2014.

| (\$ in millions, unless otherwise stated)             | 2015  | 2014  |
|---|-------|-------|
| Revenue   | 6,101 | 5,647 |
| % nominal growth                                      | 8.0   | 17.3  |
| Gross profit  | 2,787 | 2,640 |
| Research and development                              | (890) | (763) |
| Selling, general and administrative (SG&A)            | (922) | (686) |
| Amortization of acquisition-related intangible assets | (223) | (152) |
| Other income (expense)                                | 1,263 | 10    |
| Operating income                                      | 2,015 | 1,049 |

**Revenue**

The following table presents revenue by segment for the years ended December 31, 2015 and 2014.

| (\$ in millions, unless otherwise stated) | 2015    |                  | 2014    |                  |
|---|---------|------------------|---------|------------------|
|   | Revenue | % nominal growth | Revenue | % nominal growth |
| High Performance Mixed Signal ( HPMS )    | 4,720   | 12.2             | 4,208   | 19.1             |
| Standard Products ( SP )                  | 1,241   | (2.7)            | 1,275   | 11.4             |
| Corporate and Other                       | 140     | (14.6)           | 164     | 19.7             |
| Total                                     | 6,101   | 8.0              | 5,647   | 17.3             |

Revenue increased by \$454 million to \$6,101 million in 2015 compared to \$5,647 million in 2014, a nominal increase of 8.0%. The increase was driven by growth in our HPMS segment, offset by a decrease in SP and Corporate and Other.

Our HPMS segment saw an increase in revenue of \$512 million to \$4,720 million in 2015 compared to \$4,208 million in 2014. The increase was primarily driven by the acquisition of Freescale and the inclusion of their activity from December 7, 2015, onward, increased demand in Secure Connected Devices with the ramp up of mobile transactions in high-end smartphone and tablet platforms and increased demand in Automotive, driven mainly by car entertainment products. These increases were partially offset by the divestment of RF Power on December 7, 2015. Our Secure Identification Solutions business remained essentially flat year on year.

Revenue for our SP segment decreased by \$34 million to \$1,241 million in 2015, compared to \$1,275 million in 2014. The decrease was primarily due to decreased demand in general applications.

Revenue for Corporate and Other amounted to \$140 million in 2015, compared to \$164 million in 2014 and mainly related to our manufacturing operations.

**Gross Profit**

The following table presents gross profit by segment for the years ended December 31, 2015 and 2014.

| (\$ in millions, unless otherwise stated) | 2015         |                      | 2014         |                      |
|---|--------------|----------------------|--------------|----------------------|
|   | Gross Profit | % of segment revenue | Gross Profit | % of segment revenue |
| HPMS                                      | 2,367        | 50.1                 | 2,253        | 53.5                 |
| SP  | 417          | 33.6                 | 382          | 30.0                 |
| Corporate and Other                       | 3            | 2.1                  | 5            | 3.0                  |
| Total                                     | 2,787        | 45.7                 | 2,640        | 46.8                 |

Gross profit in 2015 was \$2,787 million, or 45.7% of revenue compared to \$2,640 million, or 46.8% of revenue in 2014, an increase of \$147 million. Our gross profit is heavily influenced by customer mix, product mix and manufacturing costs.

Our HPMS segment had a gross profit of \$2,367 million, or 50.1% of revenue in 2015, compared to \$2,253 million, or 53.5% of revenue in 2014. The decrease in the gross profit percentage of 3.4 points as a percentage of revenue was primarily driven by the impact of purchase accounting on inventory of \$149 million and property, plant and equipment of \$15 million, as a result of the merger with Freescale.

Gross profit in our SP segment was \$417 million, or 33.6% of revenue in 2015, compared to \$382 million, or 30.0% of revenue in 2014. The increase in the gross profit percentage of 3.6 points was primarily driven by a more beneficial product mix and improved manufacturing costs.

**Table of Contents****Operating Expenses**

The following table presents operating expenses by segment for the years ended December 31, 2015 and 2014.

| (\$ in millions, unless otherwise stated) | 2015               |                      | 2014               |                      |
|---|--------------------|----------------------|--------------------|----------------------|
|   | Operating expenses | % of segment revenue | Operating expenses | % of segment revenue |
| HPMS                                      | 1,674              | 35.5                 | 1,278              | 30.4                 |
| SP  | 223                | 18.0                 | 262                | 20.5                 |
| Corporate and Other                       | 138                |                      | 61                 |                      |
| Total                                     | 2,035              | 33.4                 | 1,601              | 28.4                 |

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

| (\$ in millions, unless otherwise stated)             | 2015  | 2014  |
|---|-------|-------|
| Research and development                              | 890   | 763   |
| Selling, general and administrative                   | 922   | 686   |
| Amortization of acquisition-related intangible assets | 223   | 152   |
| Operating expenses                                    | 2,035 | 1,601 |

Operating expenses were \$2,035 million, or 33.4% of revenue in 2015, compared to \$1,601 million, or 28.4% of revenue in 2014, an increase of \$434 million, or an increase of 5.0 points as a percentage of revenue. The increase in operating expenses was primarily due to the acquisition of Freescale: the inclusion of their activity from December 7, 2015 onward and the related amortization of acquisition related intangibles of \$105 million, the restructuring charge of \$226 million, the charge for the acceleration of share-based compensation costs of \$49 million for employees terminated in relation to the Merger and \$42 million of merger-related costs.

In our HPMS segment, operating expenses amounted to \$1,674 million, or 35.5% of revenue in 2015, compared to \$1,278 million, or 30.4% of revenue in 2014. The increase was primarily driven by the acquisition of Freescale the inclusion of their activity from December 7, 2015 onward and the related amortization of acquisition related intangibles of \$105 million, the restructuring charge of \$226 million and the charge for the acceleration of share-based compensation costs of \$49 million for employees terminated in relation to the Merger.

Operating expenses in our SP segment decreased to \$223 million, or 18.0% of revenue in 2015 compared to \$262 million or 20.5% of revenue in 2014. The decrease in operating expenses was mainly driven by a strong focus on cost control to compensate for the decrease in revenue.

Operating expenses in Corporate and Other increased by \$77 million to \$138 million in 2015 compared to \$61 million in 2014. The increase compared to the prior year period was primarily due to merger-related costs in connection with the acquisition of Freescale as noted above.

**Restructuring Charges**

Total restructuring and restructuring related costs amounted to \$264 million in 2015 compared to \$57 million in 2014.

In 2015, restructuring charges included employee severance costs of \$239 million, and other exit costs of \$27 million. The majority of these costs related to the acquisition of Freescale.

In 2014, we had restructuring charges, which related to a workforce reduction charge as a result of redundancy at our ICN 8 wafer fab in Nijmegen of \$16 million and at our wafer fab in Hamburg of \$5 million. The remaining restructuring and restructuring related costs were for the cumulative impact of specific targeted actions.

***Other Income (Expense)***

The following table presents other income (expense) for the years ended December 31, 2015 and 2014.

| (\$ in millions, unless otherwise stated) | <b>2015</b>  | <b>2014</b> |
|---|--------------|-------------|
| Other income (expense)                    | <b>1,263</b> | <b>10</b>   |

Other income (expense) reflects income of \$1,263 million for 2015 compared to \$10 million of income in 2014. Included in 2015 is the gain on the sale of NXP's Bipolar Power business line and RF Power business to JAC Capital in the fourth quarter average of 2015. We established a 49% owned joint venture (JV) with JAC Capital to combine NXP's advanced technology from its Bipolar Power business line with JAC Capital's connections in the Chinese manufacturing network and distribution channels. The results of the Bipolar Power business were previously consolidated in the reportable segment SP. The new joint venture will be reported in Corporate and Other going forward. The results of the RF Power business were previously consolidated in the reportable segment HPMS.

**Table of Contents****Financial Income (Expense)**

| (\$ in millions)                              | For the years ended December 31, |              |
|---|----------------------------------|--------------|
|   | 2015                             | 2014         |
| Interest income                               | 6                                | 3            |
| Interest expense                              | (227)                            | (158)        |
| Foreign exchange rate results                 | (193)                            | (246)        |
| Net gain (loss) on extinguishment of debt     |                                  | (3)          |
| Change in fair value of the warrant liability | (31)                             | (2)          |
| Other   | (84)                             | (64)         |
| <b>Total</b>                                  | <b>(529)</b>                     | <b>(410)</b> |

Financial income (expense) was an expense of \$529 million in 2015, compared to an expense of \$410 million in 2014. In 2015, financial income (expense) included a loss of \$193 million as a result of changes in foreign exchange rates mainly applicable to the re-measurement of our U.S. dollar-denominated notes and short-term loans, which reside in a euro functional currency entity, compared to a loss of \$246 million in 2014. Net interest expense amounted to \$221 million in 2015 compared to \$155 million in 2014. The increase in net interest expense was due to interest on our outstanding Term Loans, the Cash Convertible Senior Notes and the Secured Notes that we assumed in the acquisition of Freescale, together with the amortization of related debt issuance costs and the accretion of the debt discount on the newly issued Term Loan B and on the Cash Convertible Senior Notes. Starting in 2016, we expect to incur significantly higher aggregate interest expense due to the full annual effect of the borrowings we incurred to acquire Freescale, including the impact of purchase accounting on such debt. The related debt issuance costs will be charged to interest expense using the effective interest method over the respective borrowing terms. The change in fair value of the warrant liability, an expense of \$31 million, resulted from the mark-to-market adjustment on the Warrant liability due to the increase in NXP's share price over the 12-month period (2014: \$2 million). In 2015, other included expenses of \$71 million related to the financing activities for the acquisition of Freescale. As of January 1, 2016, as a result of the acquisition of Freescale, NXP has concluded that the functional currency of the holding company is USD. Beginning from January 1, 2016, the warrants will now be classified in stockholders' equity, and mark-to-market accounting will no longer be applicable. In addition our U.S. dollar-denominated notes and short-term loans will no longer need to be re-measured.

**Benefit (Provision) for Income Taxes**

The effective tax rate was (7.0)% for 2015 compared with 6.3% for 2014. Our effective tax rate reflects the impact of our earnings being taxed in foreign jurisdictions at rates below the Netherlands statutory rate of 25.0%, and the relative mix of income and losses in these foreign jurisdictions including those where a full valuation allowance is recorded, in addition to tax incentives in certain jurisdictions. We recognized a benefit from income taxes of \$104 million in 2015 compared with a provision for income taxes of \$40 million in 2014. In 2015 we recognized a benefit from income taxes compared to a tax expense in 2014 due to increased tax benefits for R&D tax allowances & incentives, tax benefits from a change in the valuation allowance and the impact of purchase accounting on intangible assets in relation to the acquisition of Freescale.

**Results Relating to Equity-accounted Investees**

Results relating to the equity-accounted investees amounted to a gain of \$9 million in 2015, compared to a gain of \$8 million in 2014.

*Non-controlling Interests*

Non-controlling interests are related to the third party share in the results of consolidated companies, predominantly SSMC. Their share of non-controlling interests amounted to a profit of \$73 million in 2015, compared to a profit of \$68 million in 2014.

**B. Liquidity and Capital Resources**

**Liquidity and Capital Resources**

As of December 31, 2016, our cash balance was \$1,894 million, of which \$316 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 2016, a dividend of \$325 million was distributed, of which \$126 million was distributed to the joint venture partner.

Taking into account the available undrawn amount under the RCF Agreement, we had access to \$2,494 million of liquidity as of December 31, 2016.

Our capital expenditures were \$389 million in 2016, compared to \$341 million in 2015.

The total amount of cash used for financing activities amounted to \$1,392 million.

As of December 31, 2016, we had an undrawn availability of \$600 million remaining under the RCF Agreement.

For the year ended December 31, 2016, we incurred total net interest expense of \$397 million compared to \$221 million during 2015. The weighted average interest rates on our debt instruments as of December 31, 2016 and December 31, 2015 were 3.7% and 3.9%, respectively.

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We repurchased 15.5 million shares of our common stock pursuant to our share buyback program during 2016 at a weighted average price of \$82.36 per share.

Our sources of liquidity include cash on hand, cash flow from operations and amounts available under the RCF Agreement. We believe that, based on our current level of operations as reflected in our results of operations for the year ended December 31, 2016, these sources of liquidity will be sufficient to fund our operations, capital expenditures, and debt service for at least the next twelve months.

From time to time, we engage in discussions with third parties regarding potential acquisitions of, or investments in, businesses, technologies and product lines, such as our recent acquisition Freescale. Any such transaction could require significant use of our cash and cash equivalents, or require us to arrange for new debt and equity financing to fund the transaction. Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions. In the future, we may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay principal, premium, if any, and interest on our indebtedness. Our business may not generate sufficient cash flow from operations, or we may not have enough capacity under the RCF Agreement, or from other sources in an amount sufficient to enable us to repay our indebtedness, including the RCF Agreement, the Unsecured Notes or to fund our other liquidity needs, including working capital and capital expenditure requirements. In any such case, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. See Part I, Item 3D. *Risk Factors*. The Purchase Agreement restricts us from engaging in certain actions without Buyer's approval, including material acquisitions outside the ordinary course of business.

### ***Cash Flow from Operating Activities***

In 2016 our operating activities provided \$2,303 million in cash. This was primarily the result of net income of \$259 million, adjustments to reconcile the net income of \$1,673 million and changes in operating assets and liabilities of \$371 million. The net income includes non-cash items, such as depreciation and amortization of \$2,205 million, share-based compensation of \$338 million, amortization of the discount on debt and debt issuance costs of \$50 million, a loss on extinguishment of debt of \$32 million and changes in deferred taxes of \$925 million.

In 2015 our operating activities provided \$1,330 million in cash. This was primarily the result of net income of \$1,599 million and changes in operating assets and liabilities of \$56 million. Net income includes non-cash items, such as the gain on the sale of assets of \$1,263 million, depreciation and amortization of \$517 million and share-based compensation of \$216 million.

In 2014 our operating activities provided \$1,468 million in cash. This was primarily the result of net income of \$607 million and changes in operating assets and liabilities of \$82 million. Net income includes non-cash items, such as depreciation and amortization, of \$778 million.

### ***Cash Flow from Investing Activities***

Net cash used for investing activities amounted to \$627 million in 2016 and principally consisted of cash outflows for purchases of interests in business (net of cash) of \$202 million, capital expenditures of \$389 million and \$59 million for the purchase of identified intangible assets, mainly related to the purchase of licenses, partly offset by proceeds of \$20 million from the sale of business (net of cash).

Net cash used for investing activities amounted to \$430 million in 2015 and principally consisted of cash outflows for purchases of interests in business (net of cash) of \$1,692 million, capital expenditures of \$341 million and \$12 million



for the purchase of identified intangible assets, mainly related to the purchase of software offset by proceeds of \$1,605 million from the sale of business (net of cash).

Net cash used for investing activities amounted to \$387 million in 2014 and principally consisted of cash outflows for capital expenditures of \$329 million and \$36 million for the purchase of identified intangible assets, mainly related to the purchase of software.

***Cash Flow from Financing Activities***

Net cash used for financing activities was \$1,392 million in 2016, \$449 million in 2015 and \$554 million in 2014. The cash flows related to financing transactions in 2016, 2015 and 2014 are primarily related to the financing activities described below under the captions *2016 Financing Activities*, *2015 Financing Activities* and *2014 Financing Activities*, respectively.

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

|   | <b>Year ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2016</b>                    | <b>2015</b> | <b>2014</b> |
| Net (repayments) borrowings under revolving credit facility |                                |             | (150)       |
| Proceeds from the sale of warrants                          |                                |             | 134         |
| Cash paid for Notes hedge derivatives                       |                                |             | (208)       |
| Dividends paid to non-controlling interests                 | (126)                          | (51)        | (50)        |
| Cash proceeds from exercise of stock options                | 115                            | 51          | 145         |
| Purchase of treasury shares                                 | (1,280)                        | (475)       | (1,435)     |
| Excess tax benefits from share-based compensation plans     | 5                              |             |             |

**2016 Financing Activities***2020 Term Loan*

On September 22, 2016, NXP entered into a new \$1,440 million aggregate principal amount Senior Secured Term Loan Facility due December 7, 2020. Concurrently, NXP repaid the \$1,440 million principal amount Senior Secured Term Loan Facility due December 7, 2020.

*2022 Senior Unsecured Notes*

On August 11, 2016, NXP B.V., together with NXP Funding LLC, issued U.S. dollar-denominated 3.875% Senior Unsecured Notes with an aggregate principal amount of \$1,000 million, due September 1, 2022. The interest is payable semi-annually on March 1 and September 1 of each year, beginning on March 1, 2017. The Notes were issued at par and were recorded at their fair value of \$1,000 million on the accompanying Consolidated Balance Sheet. NXP used the net proceeds from the offering of the Notes to redeem the remaining \$960 million aggregate principal amount of its outstanding Senior Secured Notes due 2022 and to pay for certain costs and expenses related thereto.

*2021 Additional Senior Unsecured Notes*

On August 1, 2016, NXP B.V., together with NXP Funding LLC, issued an aggregate principal amount of \$500 million of 4.125% Senior Unsecured Notes due 2021 (the Additional Notes). The Additional Notes were issued at a price of 101.875% and are of the same class as the existing 4.125% Senior Notes due 2021 originally issued on May 23, 2016. NXP used the net proceeds from the offering of the Additional Notes to redeem \$200 million aggregate principal amount of its outstanding Senior Notes due 2016 and used the remainder of the proceeds for general corporate purposes.

*2021 and 2023 Senior Unsecured Notes*

On May 23, 2016, NXP B.V. together with NXP Funding LLC issued U.S. dollar-denominated 4.125% and 4.625% Senior Unsecured Notes with aggregate principal amounts of \$850 million, due June 1, 2021 and \$900 million, due June 1, 2023. The interest is payable semi-annually on June 1 and December 1 of each year, beginning on December 1, 2016. These Notes were issued at par and were recorded at their fair value of \$850 million and \$900 million, respectively, on the accompanying Consolidated Balance Sheet. NXP used the net proceeds from the offering of the Notes and cash on hand to repay \$1,250 million aggregate principal amount of its existing Secured Term Loan B due 2020 and \$500 million aggregate principal amount of its outstanding Senior Secured Notes due 2021.

*2016 Senior Unsecured Notes*

On February 23, April 27 and August 1, 2016, NXP B.V., together with NXP Funding LLC, issued redemption notices for an aggregate principal amount of \$200 million, \$100 million and \$200 million, respectively, of its outstanding 3.5% Senior Unsecured Notes due 2016. The funds from this redemption came from available surplus cash.

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**Table of Contents****2015 Financing Activities***RCF Agreement*

On December 7, 2015, NXP B.V. and NXP Funding LLC, entered into a \$600 million revolving credit facility agreement (the RCF Agreement ). There are currently no borrowings under this facility.

*Secured Bridge Term Credit Agreement*

On December 7, 2015, NXP B.V. and NXP Funding LLC, entered into a \$1,000 million secured bridge term credit facility agreement (the Secured Bridge Term Credit Agreement ). The Secured Bridge Term Credit Agreement was repaid in full on December 16, 2015.

*Secured Notes*

In connection with the Merger, the Indenture, dated as of May 31, 2013 (the 2021 Freescale Indenture ), by and among Freescale Semiconductor, Inc. (the Freescale Issuer ), an indirect, wholly-owned subsidiary of Freescale, Freescale Semiconductor Holdings II, Ltd., Freescale Semiconductor Holdings III, Ltd., Freescale Semiconductor Holdings IV, Ltd., Freescale Semiconductor Holdings V, Inc. and SigmaTel LLC (the Freescale Indenture Guarantors ) and The Bank of New York Mellon Trust Company, N.A., as trustee (the 2021 Freescale Trustee ), governing Freescale's 5.00% Senior Secured Notes due 2021 (the 2021 Freescale Notes ) and the Indenture, dated as of November 1, 2013 (the 2022 Freescale Indenture ) and, together with the 2021 Freescale Indenture, the Freescale Indentures ), by and among the Freescale Issuer, the Freescale Indenture Guarantors and Wells Fargo Bank, National Association, as trustee (the 2022 Freescale Trustee ), together with the 2021 Freescale Trustee, the Freescale Trustees ), governing Freescale's 6.00% Senior Secured Notes due 2022 (the 2022 Freescale Notes ) and, together with the 2021 Freescale Notes, the Secured Notes ) were amended and restated on December 7, 2015 (the A&R Freescale Indentures ). In accordance with the A&R Freescale Indentures, among other things, (x) certain amendments previously approved by the holders of the Freescale Notes as part of the consents solicitations that launched on March 23, 2015 and closed on April 2, 2015 became operative and (y) the NXP B.V., NXP Funding LLC, NXP Semiconductors Netherlands B.V., NXP Semiconductors UK Limited, NXP Semiconductors USA, Inc., NXP Semiconductors Germany GmbH, NXP Semiconductors Hong Kong Limited, NXP Semiconductors Philippines Inc., NXP Semiconductors Singapore Pte. Ltd., NXP Semiconductors Taiwan Ltd. and NXP Manufacturing (Thailand) Ltd. entered into and acceded to the A&R Freescale Indentures as additional guarantors.

*2020 Senior Unsecured Notes and 2022 Senior Unsecured Notes*

On June 9, 2015 our subsidiary, NXP B.V. together with NXP Funding LLC issued U.S dollar-denominated 4.125% and 4.625% Senior Unsecured Notes with an aggregate principal amounts of \$600 million due 2020 and \$400 million due 2022, respectively (the 2020 Senior Unsecured Notes and the 2022 Senior Unsecured Notes ). The 2020 Senior Unsecured Notes bear interest at a rate of 4.125% per year, while the 2022 Senior Unsecured Notes bear interest at a rate of 4.625% per year, payable semi-annually on June 15 and December 15 of each year, beginning on December 15, 2015. The 2020 Senior Unsecured Notes will mature on June 15, 2020. The 2022 Senior Unsecured Notes will mature on June 15, 2022. The 2020 Senior Unsecured Notes and the 2022 Senior Unsecured Notes were issued at par and were recorded at their fair value of \$600 million and \$400 million, respectively, on the accompanying Consolidated Balance Sheet.

*Term Loan B*

On December 7, 2015, NXP B.V. and NXP Funding LLC, in connection with the Merger entered into a \$2,700 million secured term credit agreement (the Secured Term Credit Agreement ). The term loan under the Secured Term Credit Agreement was issued at 99.25% of par and was recorded at a fair value of \$2,680 million on the accompanying Consolidated Balance Sheet.

The net proceeds of the 2020 Senior Unsecured Notes and 2022 Senior Unsecured Notes, together with the net proceeds of the Term Loan B, the Secured Bridge Term Credit Agreement, cash-on-hand and/or other available financing resources, were used to (i) pay the cash consideration in connection with the acquisition of Freescale, (ii) effect the repayment of certain amounts under Freescale's outstanding credit facility and (iii) pay certain transaction costs.

## **2014 Financing Activities**

### *2017 Term Loan*

On February 18, 2014, our subsidiary, NXP B.V. together with NXP Funding LLC entered into a new \$400 million aggregate principal amount Senior Secured Term Loan Facility due March 4, 2017 (the 2017 Term Loan ). Concurrently, NXP repaid the \$486 million principal amount Senior Secured Term Loan Facility due March 4, 2017. A \$100 million draw-down under our existing Revolving Credit Facility and \$5 million of cash on hand were used to settle the combined transactions, as well as pay the related call premium of \$5 million and accrued interest of \$4 million.

### *2019 Cash Convertible Senior Notes*

On November 24, 2014, NXP issued 2019 Cash Convertible Senior Notes with an aggregate principal amount of \$1,150 million, which mature December 1, 2019. The 2019 Cash Convertible Senior Notes were issued at par and were recorded at their fair value of \$1,150 million on the accompanying Consolidated Balance Sheet. We used the net proceeds of \$1,134 million (i) to fund the cost of

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entering into the cash convertible note hedge transactions (the cost of which were partially offset by the proceeds that NXP received from entering into warrant transactions) with certain hedge counterparties, as described below, (ii) to repay up to 225 million in respect of intercompany loans to our subsidiary NXP B.V., (iii) to fund the repurchase of \$150 million of our common stock in privately negotiated transactions conducted concurrently with the pricing of the 2019 Cash Convertible Senior Notes, and (iv) for general corporate purposes, including additional share repurchases and potential acquisitions.

In connection with the pricing of the 2019 Cash Convertible Senior Notes, NXP entered into separate privately negotiated cash convertible note hedge and warrant transactions with counterparties that include the initial purchasers of the 2019 Cash Convertible Senior Notes or their respective affiliates (the hedge counterparties). The cash convertible note hedge transactions will be cash settled upon exercise and are expected generally to offset any cash payments NXP is required to make in excess of the principal amount of the 2019 Cash Convertible Senior Notes upon conversion. The warrant transactions will be net share settled upon exercise and could therefore have a dilutive effect with respect to NXP's common stock to the extent that the market price per share of NXP's common stock exceeds the strike price of the warrants. The strike price of the warrant transactions will initially be \$133.32 per share, which represents a premium of 75% over the last reported sale price of NXP's common stock on November 24, 2014, and is subject to certain adjustments under the terms of the warrant transactions.

## **Debt Position**

### ***Short-term Debt***

As of December 31, 2016, our short-term debt amounted to \$421 million.

As of December 31, 2015, our short-term debt of \$556 million included other short-term bank borrowings of \$6 million, related to a local bank loan in China.

**Table of Contents****Long-term Debt**

As of December 31, 2016, we had outstanding debt of:

| (\$ in millions)  | Accrual/release<br>Original<br>Issuance/Debt<br>Discount and Debt Exchanges/<br>Debt Exchanges/<br>Repurchases/New<br>Borrowings |                  |                       |                       | December 31,<br>2016 |
|---|--|------------------|-----------------------|-----------------------|----------------------|
|   | December 31,<br>2015   | Issuance<br>Cost | Other <sup>(17)</sup> | Other <sup>(17)</sup> |                      |
| U.S. dollar-denominated secured term credit agreement due March 2017 <sup>(1)</sup>           | 386  | 2                | (388)                 |                       |                      |
| U.S. dollar-denominated secured term credit agreement due January 2020 <sup>(2)</sup>         | 382  | 1                | (4)                   |                       | <b>379</b>           |
| U.S. dollar-denominated secured term credit agreement due December 2020 <sup>(3)</sup>        | 2,632  | 23               | (1,264)               | 14                    | <b>1,405</b>         |
| U.S. dollar-denominated 3.75% senior unsecured notes due June 2018 <sup>(4)</sup>             | 746  | 2                |                       |                       | <b>748</b>           |
| U.S. dollar-denominated 4.125% senior unsecured notes due June 2020 <sup>(5)</sup>            | 594  | 1                |                       |                       | <b>595</b>           |
| U.S. dollar-denominated 5.75% senior unsecured notes due February 2021 <sup>(6)</sup>         | 496  | 1                |                       |                       | <b>497</b>           |
| U.S. dollar-denominated 5.00% senior secured notes due May 2021 <sup>(7)</sup>                | 519  |                  | (500)                 | (19)                  |                      |
| U.S. dollar-denominated 6.00% senior secured notes due January 2022 <sup>(8)</sup>            | 1,022  |                  | (960)                 | (62)                  |                      |
| U.S. dollar-denominated 4.125% senior unsecured notes due June 2021 <sup>(9)</sup>            |  | (1)              | 1,350                 |                       | <b>1,349</b>         |
| U.S. dollar-denominated 4.625% senior unsecured notes due June 2022 <sup>(10)</sup>           | 396  | 1                |                       |                       | <b>397</b>           |
| U.S. dollar-denominated 4.625% senior unsecured notes due June 2023 <sup>(11)</sup>           |  | (7)              | 900                   |                       | <b>893</b>           |
| U.S. dollar-denominated 3.875% senior unsecured notes due June 2023 <sup>(12)</sup>           |  | (7)              | 1,000                 |                       | <b>993</b>           |
| U.S. dollar-denominated 5.75% senior unsecured notes due March 2023 <sup>(13)</sup>           | 496  |                  |                       |                       | <b>496</b>           |
| U.S. dollar-denominated 1.00% cash convertible senior notes due December 2019 <sup>(14)</sup> | 972  | 42               |                       |                       | <b>1,014</b>         |

|                                      |       |    |     |       |              |
|--------------------------------------|-------|----|-----|-------|--------------|
|                                      | 8,641 | 58 | 526 | (459) | <b>8,766</b> |
| RCF Agreement <sup>(15)</sup>        |       |    |     |       |              |
| Other long-term debt <sup>(16)</sup> | 15    |    |     | (15)  |              |
| Total long-term debt                 | 8,656 | 58 | 526 | (474) | <b>8,766</b> |

- (1) On February 18, 2014, we entered into the 2017 Term Loan for an aggregate principal amount of \$400 million at a rate of interest of LIBOR plus 2.00% with a floor of 0.75%.
- (2) On November 27, 2013, we entered into the 2020 Term Loan for an aggregate principal amount of \$400 million at a rate of interest of LIBOR plus 2.50% with a floor of 0.75%.
- (3) On September 22, 2016, we entered into a new Term Loan F for an aggregate principal amount of \$1,440 million at a rate of interest of LIBOR plus 2.50% with a floor of 0.00%.
- (4) On May 20, 2013, we issued \$750 million aggregate principal amount of 3.75% Senior Unsecured Notes due 2018.
- (5) On June 9, 2015, we issued \$600 million aggregate principal amount of 4.125% Senior Unsecured Notes due 2020.
- (6) On February 14, 2013, we issued \$500 million aggregate principal amount of 5.75% Senior Unsecured Notes due 2021.
- (7) On December 7, 2015, we entered into the A&R Indenture governing the 2021 Freescale Notes, Freescale's 5.00% Senior Secured Notes due 2021. The notes were fully redeemed in 2016.
- (8) On December 7, 2015, we entered into the A&R Indenture governing the 2022 Freescale Notes, Freescale's 6.00% Senior Secured Notes due 2022. The notes were fully redeemed in 2016.
- (9) On May 23, 2016, and August 1, 2016, we issued \$850 million and \$500 million, respectively, aggregate principal amount of 4.125% Senior Unsecured Notes due 2021.
- (10) On June 9, 2015, we issued \$400 million aggregate principal amount of 4.625% Senior Unsecured Notes due 2022.
- (11) On May 23, 2016, we issued \$900 million aggregate principal amount of 4.625% Senior Unsecured Notes due 2023.
- (12) On August 11, 2016, we issued \$1,000 million aggregate principal amount of 3.875% Senior Unsecured Notes due 2022.
- (13) On March 15, 2013, we issued \$500 million aggregate principal amount of 5.75% Senior Unsecured Notes due 2023.
- (14) On November 24, 2014, we issued \$1,150 million aggregate principal amount of 1.00% Cash Convertible Senior Notes due 2019.
- (15) On December 7, 2015, we entered into a \$600 million Revolving Credit Facility agreement due 2020.
- (16) Other long-term debt consists primarily of capital lease obligations.
- (17) Other mainly relates to the reclassification of the current portion of long-term debt and the purchase price accounting step-up of the Freescale Notes.



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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 *Liquidity and Capital Resources* section in Part I, Item 5A. *Operating Results* and Part II, Item 10C. *Material Contracts*.

***Certain Terms of the 2019 Cash Convertible Senior Notes***

We have issued \$1,150 million aggregate principal amount of 2019 Cash Convertible Senior Notes, which bear interest at 1.00% per annum and mature on December 1, 2019, unless earlier converted, repurchased or redeemed. The 2019 Cash Convertible Senior Notes pay interest on June 1 and December 1 of each year, beginning on June 1, 2015. The 2019 Cash Convertible Senior Notes are senior unsecured obligations of NXP Semiconductor N.V. and will be settled solely in cash upon conversion. We may not redeem the 2019 Cash Convertible Senior Notes prior to their maturity date other than following the occurrence of certain tax law changes as set forth in the indenture governing the 2019 Cash Convertible Senior Notes (the *Convertible Notes Indenture*). Upon the occurrence of certain events which constitute a *fundamental change* under the *Convertible Notes Indenture*, such as certain change of control, the holders of 2019 Cash Convertible Senior Notes may require us to repurchase for cash all or part of their 2019 Cash Convertible Senior Notes at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest.

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

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

Concurrently with the issuance of the 2019 Cash Convertible Senior Notes, we entered into cash convertible note hedge and warrant transactions. For further information on the cash convertible note hedge and warrant transactions, please see *Financial Instruments*.

***Cash Convertible Note Hedge Transactions and Warrant Transactions***

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

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

the price of our common stock and of the 2019 Cash Convertible Senior Notes.

Separately, we sold warrants to the Option Counterparties for \$134 million giving them the right to purchase from us, subject to customary anti-dilution adjustments, 11.18 million shares of NXP's common stock, with a strike price of \$133.32 per share. The warrants will have a dilutive effect with respect to our common stock to the extent that the market price per share of our common stock exceeds the strike price of the warrants on or prior to the expiration date of the warrants.

*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 global team of highly skilled semiconductor and embedded software design engineers with expertise in RF, analog, power management, interface, security and digital processing. As of December 31, 2016, we had 8,520 employees in research and development, of which 8,151 support our High Performance Mixed Signal businesses and 369 support our Standard Products businesses. Our research and development expenses were \$1,560 million in 2016 (of which 95% related to our High Performance Mixed Signal businesses) and \$890 million in 2015.

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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 markets, such as the Internet of Things and automotive solid state lighting. Finally, we invest a few percent of our total research and development expenditures in research activities that develop fundamental new technologies or product categories that could contribute significantly to our company growth in the future.

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

## **Intellectual Property**

The creation and use of intellectual property is a key aspect of our strategy to differentiate ourselves in the marketplace. We seek to protect our proprietary technologies by obtaining patents, trademarks, domain names, retaining trade secrets and defending, enforcing and utilizing our intellectual property rights, where appropriate. We believe this strategy allows us to preserve the advantages of our products and technologies, and helps us to improve the return on our investment in research and development. We have a broad portfolio of 9,000 patent families (each patent family including all patents and patent applications originating from the same invention). To protect certain confidential technical information and software, we rely on copyright and trade secret law and enter into confidentiality agreements as applicable. In situations where we believe that a third party has infringed on our intellectual property, we enforce our rights through all available legal means to the extent that we determine the benefits of such actions to outweigh any costs and risks involved.

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

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

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

## ***D. Trend Information***

Within the overall umbrella of Secure Connections for a Smarter World, NXP addresses four key macro growth trends: Intelligent Devices, Mobility, Hyper-connectivity and Security that drive applications such as the Connected Car, Portable & Wearable and the Internet of Things, with Security being a requirement across all applications. Our innovative solutions are used in a wide range of applications. Many electronic payment and government ID services are enabled by our secure identification solutions and with the transition of those services to new form factors in secure connected devices, there is strong market demand for embedded security solutions such as mobile payment,

cyber-security and authentication. Fast innovation in smart phones & tablets drives demand for our secure interface and power solutions while always-on requirements in secure connected devices further drive demand for our advanced mobile audio, sensing and connectivity solutions, with advanced magnetic induction radios for implantable medical devices such as hearing aids as an example. Cities, buildings and industrial production systems all want to become smart, connected and secure; they provide fertile new markets for our broad range of microcontrollers smart grid, intelligent logistics and industrial security solutions. Next generation networks which deliver the increasing demand for data are enabled by our new high-performance RF power amplifier products allow wireless network operators to expand network capacity with fewer base stations and Digital Networks. Our new high-performance RF power amplifier products allow wireless network operators to expand network capacity with fewer base stations. The automotive industry brings fast trends in advanced driver assistance, seamless consumer electronics experience and energy efficiency, and we respond to those by delivering solutions for secure car access, car entertainment and in-vehicle networking. In addition, we leverage our core competencies to innovate in the transition to highly and eventually fully automated cars with ground breaking solutions in secure vehicle-to-infrastructure & vehicle-to-vehicle and radar.

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 2016, compared to 69% of our revenue in 2015. In particular, Greater China represented 42% of our revenue in 2016, compared to 53% of our revenue in 2015.

***E. Off-balance Sheet Arrangements***

As of December 31, 2016, we had no material off-balance sheet arrangements.

**Table of Contents****F. Tabular Disclosure of Contractual Obligations**

Presented below is a summary of our contractual obligations as of December 31, 2016.

| (\$ in millions)  | Total  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022<br>and<br>thereafter |
|---|--------|-------|-------|-------|-------|-------|---------------------------|
| Long-term and short-term debt <sup>(1)</sup>            | 9,361  | 406   | 768   | 1,167 | 2,370 | 1,850 | 2,800                     |
| Capital lease obligations                               | 15     | 15    |       |       |       |       |                           |
| Operating leases  | 113    | 33    | 23    | 17    | 12    | 5     | 23                        |
| Interest on the notes <sup>(2)</sup>                    | 1,514  | 338   | 319   | 306   | 267   | 156   | 128                       |
| Long-term purchase contracts                            | 550    | 397   | 43    | 48    | 14    | 14    | 34                        |
| Total contractual cash obligations <sup>(2)(3)(4)</sup> | 11,553 | 1,189 | 1,153 | 1,538 | 2,663 | 2,025 | 2,985                     |

(1) The amounts noted herein represent contractual payments of principal only.

(2) The cash interest on the notes was determined on the basis of LIBOR interest rates for floating rate instruments and on the basis of contractual agreed interest rates for other debt instruments.

(3) As of December 31, 2016, we had reserves of \$158 million recorded for uncertain tax positions, including interest and penalties. We are not including this amount in the long-term contractual obligations table presented because of the difficulty in making reasonably reliable estimates of the timing of cash settlements, if any, with the respective taxing authorities.

(4) 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 \$1.1065 per 1.00, in effect at December 31, 2016. As a result, the actual payments will vary based on any change in exchange rate.

Our debt instruments had accrued interest of \$48 million as of December 31, 2016 (December 31, 2015: \$46 million).

In addition to the above obligations, we enter into a variety of agreements in the normal course of business, containing provisions that certain penalties may be charged if we do not fulfill our commitments. It is not possible to predict with certainty the maximum potential amount of future payments under these or similar provisions due to the conditional nature of our obligations and the unique facts and circumstances involved in each particular case. Historically, payments pursuant to such provisions have not been material and we believe that any future payments required pursuant to such provisions would not have a material adverse effect on our consolidated financial condition. However, such payments may be material to our consolidated statement of operations for a specific period.

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. The expected cash outflows in 2016 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:

our ability to complete merger and acquisition-related activity and risks and uncertainties associated with the pending offer by Qualcomm River Holdings B.V., a wholly-owned subsidiary of QUALCOMM Incorporated, to purchase all of NXP's outstanding common shares;

the diversion of management time on transaction-related issues;

the outcome of regulatory reviews of the transaction;

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;



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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;

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, 2016, of the persons who serve as members of our board of directors.

| <b>Name</b>        | <b>Age</b> | <b>Position</b>   |
|--------------------|------------|---|
| Richard L. Clemmer | 65         | Executive director, president and chief executive officer |



|                    |    |   |
|--------------------|----|---|
| Sir Peter Bonfield | 72 | Non-executive director and chairman of the board      |
| Johannes P. Huth   | 56 | Non-executive director and vice-chairman of the board |
| Kenneth A. Goldman | 67 | Non-executive director                                |
| Dr. Marion Helmes  | 51 | Non-executive director                                |
| Josef Kaeser       | 59 | Non-executive director                                |
| Ian Loring         | 50 | Non-executive director                                |
| Eric Meurice       | 60 | Non-executive director                                |
| Peter Smitham      | 74 | Non-executive director                                |
| Julie Southern     | 57 | Non-executive director                                |
| Gregory Summe      | 60 | Non-executive director                                |
| Rick Tsai          | 65 | Non-executive director                                |

**Richard L. Clemmer (1951, American).** Mr. Clemmer became executive director, president and chief executive officer on January 1, 2009. Prior to that, from December 2007, Mr. Clemmer was a member of the supervisory board of NXP B.V. and a senior advisor of Kohlberg Kravis Roberts & Co. Prior to joining NXP, he was the President and CEO of Agere Systems, served as Chairman of u-Nav Microelectronics Corporation, and was executive vice president and chief financial officer at Quantum Corporation. Prior to that, Mr. Clemmer worked for Texas Instruments Incorporated as senior vice president and semiconductor group chief financial officer. Mr. Clemmer also serves on the 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 Taiwan Semiconductor Manufacturing Company Limited, Mentor Graphics Corporation and serves as Chairman of Global Logic Inc. Sir Peter is Chair of Council and Senior Pro-Chancellor at Loughborough University, Chairman of the Board, East West Institute UK and Board Director, East West Institute USA and Board Mentor at CMi in Belgium. He is also Advisor to Longreach LLP in Hong Kong, Alix Partners UK LLP in London and G3 Good Governance Ltd in London.

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**Johannes P. Huth (1960, German).** Mr. Huth has been appointed as a non-executive director and vice-chairman of our board of directors in August 2010. Prior to that, Mr. Huth was a member and chairman of our supervisory board and a member and vice-chairman of NXP B.V.'s supervisory board from September 29, 2006. Mr. Huth joined Kohlberg Kravis Roberts & Co. LLP in May 1999 and is a Member of KKR and Head of KKR's operations in Europe, the Middle East and Africa. He is also a member of the Firm's Management Committee and several of the Firm's Investment Committees. Prior to joining KKR, he was a member of the Management Committee of Investcorp and jointly responsible for Investcorp's operations in Europe. From 1986 to 1991, he worked at Salomon Brothers, where he was a Vice President in the Mergers and Acquisitions departments in London and New York. Mr. Huth currently is also member of the Supervisory Board of GEG German Estate Group AG, member of the Board of SoftwareOne AG and member of the Board of Cognita Ltd. He is the Chairman of the Trustees of Impetus Private Equity Foundation, a charitable organization set up by the Private Equity industry focused on providing support to charities involved with young people not in education, employment or training. He is Vice-Chair of the Board of Trustees of the Design Museum, trustee of the Staedel Museum in Frankfurt and trustee of The Education Endowment Foundation. He is a Visiting Fellow of Oxford University and a Fellow of the Royal Society of Arts. He earned a BSc with Highest Honors from the London School of Economics and an MBA from the University of Chicago. Mr. Huth is also a member of the Global Advisory Board of the Booth School of Business at the University of Chicago.

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

**Dr. Marion Helmes (1965, German).** Dr. Helmes has been appointed a non-executive director of our board of directors in October 2013. Dr. Helmes was the Speaker of the Management Board of Celesio AG until July 2014; in addition she was CFO of Celesio from January 2012 until July 2014. Prior to joining Celesio, she was member of the board of management and CFO of Q-Cells SE and from 1997 until 2010 she held various management roles at ThyssenKrupp, including CFO of ThyssenKrupp Stainless and CFO of ThyssenKrupp Elevator. Dr. Helmes is currently also non-executive director, Vice-Chairman, member of the Presiding Committee, member of the Compensation Committee and member of the Audit and Finance Committee of ProSiebenSat.1 Media SE. Dr. Helmes is currently also non-executive director, Member of the Nomination Committee and Chairman of the Audit Committee of Bilfinger SE and also non-executive director, Member of the Nomination Committee and the Audit Committee of British American Tobacco plc.

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

**Ian Loring (1966, American).** Mr. Loring has been appointed a non-executive director of our board of directors in August 2010. Mr. Loring became a member of our supervisory board and the supervisory board of NXP B.V. on September 29, 2006 and is a managing director of Bain Capital Partners, LLC. Prior to joining Bain Capital Partners in 1996, Mr. Loring worked at Berkshire Partners and has previously also worked at Drexel Burnham Lambert. Mr. Loring played a leading role in Bain Capital's media, technology and telecommunications investments such as Warner Music Group, ProSiebenSat.1 Media, Advertising Directory Solutions, iHeart Media (formerly Clear Channel Communication Inc.), and Blue Coat Systems, Inc. He serves as a director of The Weather Company, BMC Software, Inc., Viewpoint, Inc. and Vertafore, Inc.

**Eric Meurice (1956, French).** Mr. Meurice has been appointed as a non-executive director of the board of directors effective April 1, 2014. Mr. Meurice was the CEO and Chairman of the management board of ASML Holding NV (The Netherlands), a leading provider of manufacturing equipment and technology to the semiconductor industry from 2004 to 2013. Under his watch, ASML became the largest Lithography vendor in the world, leading to a significant equity investment and funding commitment by its customers. Before joining ASML, he was Executive Vice President of Thomson Television, where he completed the merger of his division with TCL Corporation, one of the largest Chinese consumer electronics company. Before 2001, he served as head of Dell Computers' Western, Eastern Europe and EMEA emerging market businesses. He gained extensive technology experience in the semiconductor industry between 1984 and 1994, first at Intel, in the micro-controller group, and then at ITT Semiconductors, a provider then of digital video and audio DSP integrated circuits. Mr. Meurice is an independent director of IPG Photonics, a US

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based Laser supplier, since June 2014 and of UMICORE, a Belgium based materials specialist, since April 2015. He served on the board of Verigy LTD (former HP test division), until its acquisition by Advantest in 2011. From July 1, 2013 to April 1, 2014 he was non-executive director of ARM Holdings plc (UK, semiconductor intellectual property supplier).

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

**Ms. Julie Southern (1959, British).** Ms. Southern has been appointed a non-executive director of our board of directors in October 2013. She was with Virgin Atlantic Limited (UK) from 2000 to May 2013. From 2010 to 2013 Ms. Southern was chief commercial officer and from 2000 to 2010 she was chief financial officer of Virgin Atlantic. Prior to joining Virgin Atlantic, she was group finance director at Porsche Cars Great Britain and finance and operations director at W H Smith H J Chapman & Co Ltd. Prior to that, she was chartered accountant at Price Waterhouse Coopers. Ms. Southern currently holds non-executive directorships at Rentokil-Initial Plc, Cineworld PLC and DFS PLC and is Chair of the respective Audit Committees. At the same time, Ms. Southern is a non-executive director and Chair of the Remuneration Committee for Stagecoach Group plc.

**Gregory L. Summe (1956 American).** Mr. Summe has been appointed as a non-executive director of our board of directors effective December 7, 2015, Mr. Summe is the Managing Partner of Glen Capital Partners, an investment fund, which he founded in 2013. Mr. Summe was the managing director and vice chairman of Global Buyout at The Carlyle Group, a leading global private equity firm, from September 2009 to May 2014. Prior to joining Carlyle, he was the chairman and chief executive officer of PerkinElmer, Inc., a designer, manufacturer and deliverer of advanced technology solutions addressing health and safety concerns, a company he led from 1998 to September 2009. He also served as a senior advisor to Goldman Sachs Capital Partners, from 2008 to 2009 and also was a director of Freescale from September 2010 until its merger with NXP in December 2015; Mr. Summe served as Chairman of the Freescale board since May 2014 and was also Chairman of the Compensation and Leadership Committee of the Freescale board. Prior to joining PerkinElmer, Mr. Summe was with AlliedSignal, now Honeywell International, an inventor and manufacturer of technologies addressing global macro trend challenges such as safety, security, and energy, serving as the president of General Aviation Avionics, president of the Aerospace Engines Group and president of the Automotive Products Group. Before joining AlliedSignal, he was the general manager of Commercial Motors at General Electric and was a partner with the consulting firm of McKinsey & Company, Inc. Mr. Summe holds B.S. and M.S. degrees in electrical engineering from the University of Kentucky and the University of Cincinnati, and an M.B.A. with distinction from the Wharton School at the University of Pennsylvania. He is in the Engineering Hall of Distinction at the University of Kentucky. Mr. Summe also serves on the boards of directors of LMI Aerospace, Inc. and the State

Street Corporation. Mr. Summe previously served on the board of directors of Automatic Data Processing, Inc., Biomet Inc., Veyance Technologies, Inc., Export Trading Group Ltd, Euromax Holdings Inc. and TRW Corp.

**Dr. Rick Tsai (1951, Taiwan/Republic of China).** Dr. Tsai has been appointed as a non-executive director of our board of directors effective July 1, 2014. Dr. Tsai served as Chairman and Chief Executive Officer of Chunghwa Telecom Co., Ltd., Taiwan's largest integrated telecom service provider, from January, 2014 to December 2016. Prior to joining Chunghwa Telecom, Dr. Tsai served as the Chairman and Chief Executive Officer of TSMC Solar and TSMC: Solid State Lighting from 2011 to 2014. From 2001 to 2011, he held the following successive positions in TSMC: President and Chief Operation Officer, President and Chief Executive Officer and President of New Business. Prior to joining TSMC, Dr. Tsai was based in the United States and worked for Hewlett-Packard for several years. Dr. Tsai received a B.S. degree in physics from the National Taiwan University, Taipei, Taiwan and a Ph.D. degree in material science and engineering from Cornell University, Ithaca N.Y. Dr. Tsai also serves as a member of the board of directors of Lam Research Corporation and member of the board and Audit Committee of USI Corporation.

**Table of Contents****Management Team**

Set forth below are the names, ages as of December 31, 2016, and positions of the executive officers who together with our chief executive officer, Mr. Clemmer, constitute our management team.

| <b>Name</b>        | <b>Age</b> | <b>Position</b>   |
|--------------------|------------|---|
| Richard L. Clemmer | 65         | Executive director, president and chief executive officer             |
| Daniel Durn        | 50         | Executive vice president and chief financial officer                  |
| Tareq Bustami      | 47         | Senior Vice President and general manager Digital Networking business |
| Guido Dierick      | 57         | Executive vice president and general counsel                          |
| Paul Hart          | 40         | Senior Vice President and general manager Radio Frequency business    |
| Peter Kelly        | 59         | Executive vice president strategy, M&A and integration                |
| Steve Owen         | 56         | Executive vice president sales & marketing                            |
| David Reed         | 58         | Executive vice president and general manager operations               |
| Frans Scheper      | 54         | Executive vice president and general manager Standard Products        |
| Keith Shull        | 65         | Executive vice president and chief human resources officer            |
| Kurt Sievers       | 47         | Executive vice president and general manager HPMS Automotive          |
| Ruediger Stroh     | 54         | Executive vice president and general manager HPMS Identification      |

**Daniel Durn (1966, American).** Mr. Durn is executive vice president and chief financial officer of NXP and member of the management team. He joined NXP in 2015, having served as CFO of Freescale up until the Merger. Prior to Freescale, he was CFO and executive vice president of finance and administration at Globalfoundries, the industry's second largest semiconductor foundry, head of M&A and strategy at Advanced Technology Investment Company (ATIC) and also served as vice president in technology investment banking at Goldman, Sachs & Company and was a member of their merger leadership group.

**Tareq Bustami (1969, American).** Mr. Bustami is senior vice president and general manager of the Digital Networking business at NXP. He joined NXP in 2015, having served as general manager at Freescale up until the merger with NXP. He has more than 20 years of semiconductor experience focused on the networking industry. He rejoined Freescale in 2012 to lead product strategy, product definition and marketing operations for Digital Networking. Previously, he ran product marketing for LSI's networking multicore family of processors. He began his career at Freescale where he led product marketing for the company's PowerQUICC III family.

**Guido Dierick (1959, Dutch).** Mr. Dierick is executive vice president, general counsel, secretary of our board of directors and member of the management team. Since 2000 he has been responsible for legal and intellectual property matters at NXP. He previously was employed by Philips from 1982 and worked in various legal positions.

**Paul Hart (1976, American).** Mr. Hart is senior vice president and general manager of the Radio Frequency business. He joined NXP in 2015, having served as general manager at Freescale up until the merger with NXP. He has 15 years of experience in the high power RF field, focusing on technology development and customer enablement. He joined Motorola Semiconductor as an RF engineer in 2001 and transferred to Freescale in 2006.

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

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

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

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**Frans Scheper (1962, Dutch).** Mr. Scheper has been executive vice president and general manager for the Standard Products business since November, 2009, and has been a member of the management team since January, 2010. He has previously served as general manager of the general applications (discretes) business line within the multimarket business and served in various positions at Philips since 2000.

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

**Kurt Sievers (1969, German).** Mr. Sievers is executive vice president, member of the management team and general manager of the Automotive business for NXP. He has previously managed our High Performance Mixed Signal businesses focused on the automotive application markets and the automotive safety and comfort business line and served in various positions at Philips since 1995.

**Ruediger Stroh (1962, German).** Mr. Stroh is executive vice president, member of the management team and general manager of the Security & Connectivity business for NXP. Before joining NXP in May, 2009, he led LSI Corporation's Storage Peripherals business, overseeing silicon solutions for hard disk and solid state drives addressing consumer and enterprise markets. Previously, he headed Agere System Inc's storage division and served as chief executive officer for a number of start-up companies. Mr. Stroh began his career at Siemens AG where he held multiple management positions before joining Infineon Technologies AG.

## ***B. Compensation***

In accordance with Dutch law, our stockholders have adopted a compensation policy for the board of directors. The remuneration of our non-executive directors is determined at the general meeting of shareholders and the remuneration of our executive directors is resolved upon by our board of directors, with due observance of our compensation policy. Our chief executive officer is our only executive director. The executive director does not participate in the discussions of our board of directors on his compensation, nor does the chief executive officer vote on such a matter. To the extent the stockholders at a future stockholder meeting do not adopt the proposal of the board, the board must prepare a new proposal. After adoption of a proposal, only subsequent amendments will require stockholder approval. Furthermore, any proposed share or option-based director compensation (including any performance conditions relating to such compensation) must be submitted by our board to the general meeting of stockholders for its approval, detailing the number of shares or options over shares that may be awarded to the directors and the criteria that apply to such award or any modification of such rights.

### ***Compensation Policy and Objectives***

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



the year, and assessed after the year once the financial performance of the year is known by, respectively, our nominating and compensation committee, our executive director or the other members of our management team. The compensation package for our board of directors, including our chief executive officer, the other members of our management team and our NXP leadership is benchmarked on a regular basis against other companies in the high-tech and semiconductors industry.

### ***Summary Compensation Table***

The following table summarizes the total compensation paid to our chief executive officer and to each member of our board of directors, in each of the years presented. Any amounts that are paid to individuals in Euros are presented in U.S. dollars, where the average exchange rate for the year was used for conversion. In addition to this Form 20-F which is completed on the basis of U.S GAAP and the SEC requirements for Form 20-F, NXP Semiconductors N.V. has statutory filing requirements in the Netherlands. As a result, NXP is also required to submit to its shareholders on an annual basis audited financial statements completed on the basis of International Financial Reporting Standards (IFRS). The table below provides information under both bases of accounting to enable the reader of our financial statements to have the holistic view of all compensation related information for these individuals under applicable requirements for NXP. Specific IFRS related disclosures have been indicated as such <sup>(12)</sup>.

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| Position                | Year                | Base Salary and/or Directors Fees (\$) | Performance Annual Incentive (\$ 1) | Performance and Restricted Share Units (# 2) | Stock Options (# 3) | Grant Date Fair Value of Share and Option Awards (\$ 4) | Cost of Share and Option Awards (IFRS) (\$ 5) | Other Compensation (\$ 6) | Pension Costs (\$) | Pension Allowance (\$ 7) | Total Compensation (\$) |
|-------------------------|---------------------|--|-------------------------------------|--|---------------------|---|---|---------------------------|--------------------|--------------------------|-------------------------|
| Chief Executive Officer | 2016 <sup>10)</sup> | 1,263,580                              | 546,815                             | 139,266                                      | 30,751              | 14,500,097  | 12,749,940                                    | 1,033,574                 | 18,100             | 572,394                  | 17,902,861              |
|                         | 2015 <sup>10)</sup> | 1,273,330                              | 1,530,511                           | 71,918                                       | 165,877             | 10,500,021  | 13,184,688                                    | 1,117,837                 | 13,927             | 577,052                  | 15,003,505              |
|                         | 2014 <sup>10)</sup> | 1,514,520                              | 1,756,844                           | 120,755                                      | 161,675             | 11,471,923  | 13,312,485                                    | 1,336,479                 | 781,479            |                          | 16,802,948              |
| Chairman of the Board   | 2016                | 398,788                                |                                     | 2,019  |                     | 200,043   | 224,478                                       |                           |                    |                          | 523,267                 |
|                         | 2015                | 312,625                                |                                     | 2,740  |                     | 200,020   | 272,796                                       |                           |                    |                          | 585,415                 |
|                         | 2014                | 370,705                                |                                     | 3,117  |                     | 200,049   | 225,775                                       |                           |                    |                          | 596,529                 |
| Independent Director    | 2016                | 94,500                                 |                                     | 2,019  |                     | 200,043   | 224,478                                       |                           |                    |                          | 218,999                 |
|                         | 2015                | 91,000                                 |                                     | 2,740  |                     | 200,020   | 272,796                                       |                           |                    |                          | 263,756                 |
|                         | 2014                | 91,000                                 |                                     | 3,117  |                     | 200,049   | 225,775                                       |                           |                    |                          | 261,841                 |
| Independent Director    | 2016                | 109,167                                |                                     | 2,019  |                     | 200,043   | 224,478                                       |                           |                    |                          | 333,667                 |
|                         | 2015                | 101,000                                |                                     | 2,740  |                     | 200,020   | 272,796                                       |                           |                    |                          | 373,556                 |
|                         | 2014                | 101,000                                |                                     | 3,117  |                     | 200,049   | 225,775                                       |                           |                    |                          | 329,941                 |
| Independent Director    | 2016                | 96,250                                 |                                     | 2,019  |                     | 200,043   | 224,478                                       |                           |                    |                          | 220,747                 |
|                         | 2015                | 91,000                                 |                                     | 2,740  |                     | 200,020   | 246,763                                       |                           |                    |                          | 239,783                 |
|                         | 2014                | 91,000                                 |                                     | 3,117  |                     | 200,049   | 144,145                                       |                           |                    |                          | 238,211                 |
| Independent Director    | 2016                | 96,250                                 |                                     | 2,019  |                     | 200,043   | 224,478                                       |                           |                    |                          | 220,747                 |
|                         | 2015                | 91,000                                 |                                     | 2,740  |                     | 200,020   | 272,796                                       |                           |                    |                          | 239,783                 |
|                         | 2014                | 91,000                                 |                                     | 3,117  |                     | 200,049   | 225,775                                       |                           |                    |                          | 238,211                 |
| Independent Director    | 2016                | 85,000                                 |                                     | 2,019  |                     | 200,043   | 224,478                                       |                           |                    |                          | 219,539                 |
|                         | 2015                | 85,000                                 |                                     | 2,740  |                     | 200,020   | 272,796                                       |                           |                    |                          | 237,556                 |
|                         | 2014                | 85,000                                 |                                     | 3,117  |                     | 200,049   | 225,775                                       |                           |                    |                          | 237,941                 |
| Independent Director    | 2016                | 105,416                                |                                     | 2,019  |                     | 200,043   | 203,373                                       |                           |                    |                          | 308,838                 |
|                         | 2015                | 99,000                                 |                                     | 2,740  |                     | 200,020   | 196,817                                       |                           |                    |                          | 298,577                 |
|                         | 2014                | 69,914                                 |                                     | 3,117  |                     | 200,049   | 35,503  |                           |                    |                          | 208,580                 |
| Independent Director    | 2016                | 94,500                                 |                                     | 2,019  |                     | 200,043   | 35,624  |                           |                    |                          | 230,186                 |
|                         | 2015                |  |                                     |  |                     |   |   |                           |                    |                          |                         |
|                         | 2014                |  |                                     |  |                     |   |   |                           |                    |                          |                         |
| Independent Director    | 2016                | 96,250                                 |                                     | 2,019  |                     | 200,043   | 35,624  |                           |                    |                          | 231,936                 |
|                         | 2015                |  |                                     | 1,947  |                     | 167,929   | 56,535  |                           |                    |                          | 124,401                 |
|                         | 2014                |  |                                     |  |                     |   |   |                           |                    |                          |                         |
| Independent Director    | 2016                |  |                                     |  |                     |   |   |                           |                    |                          |                         |
|                         | 2015                |  |                                     |  |                     |   |   |                           |                    |                          |                         |
|                         | 2014 <sup>11)</sup> | 36,438                                 |                                     |  |                     |   | (125,473)                                     |                           |                    |                          | (89,035)                |
| Independent Director    | 2016                |  |                                     |  |                     |   |   |                           |                    |                          |                         |
|                         | 2015                |  |                                     |  |                     |   |   |                           |                    |                          |                         |
|                         | 2014 <sup>11)</sup> | 32,603                                 |                                     |  |                     |   | (20,383)                                      |                           |                    |                          | 12,220                  |
| Independent Director    | 2016                | 96,250                                 |                                     | 2,019  |                     | 200,043   | 224,478                                       |                           |                    |                          | 220,747                 |
|                         | 2015                | 91,000                                 |                                     | 2,740  |                     | 200,020   | 246,763                                       |                           |                    |                          | 239,783                 |
|                         | 2014                | 91,000                                 |                                     | 3,117  |                     | 200,049   | 144,145                                       |                           |                    |                          | 238,211                 |
| Independent Director    | 2016                | 85,000                                 |                                     | 2,019  |                     | 200,043   | 203,373                                       |                           |                    |                          | 219,539                 |
|                         | 2015                | 85,000                                 |                                     | 2,740  |                     | 200,020   | 196,817                                       |                           |                    |                          | 218,577                 |

|      |           |           |       |            |            |           |         |         |      |
|------|-----------|-----------|-------|------------|------------|-----------|---------|---------|------|
| 2014 | 42,500    |           | 3,117 | 200,049    | 35,503     |           |         |         |      |
| 2016 | 2,620,951 | 546,815   |       | 16,700,570 | 14,799,280 | 1,033,574 | 18,100  | 572,394 | 21,4 |
| 2015 | 2,319,955 | 1,530,511 |       | 12,468,130 | 15,492,363 | 1,117,837 | 13,927  | 577,052 | 18,0 |
| 2014 | 2,616,680 | 1,756,844 |       | 13,272,364 | 14,654,800 | 1,336,479 | 781,479 |         | 19,7 |

- 1) The annual incentive amount is related to the performance in the year reported, which is then paid to the individual in the subsequent year. See Item 6.B Compensation for additional information regarding the incentive plan. The amounts reported are the amounts that have been accrued as annual incentive bonus for our chief executive officer for our performance in the respective years. The actual annual incentive amount for 2016 may differ and will be paid in 2017 based on achievement of the predetermined targets.
- 2) Represents the number of Performance and Restricted share units granted to the individual in the year reported. See Item 6.B Compensation and Note 8 Share-based Compensation to the Consolidated Financial Statements in Item 18 Financial Statements for additional information regarding our long-term incentive plans.

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- 3) Represents the number of Stock Options granted to the individual in the year reported. See Item 6.B Compensation and Note 8 Share-based Compensation to the Consolidated Financial Statements in Item 18 Financial Statements for additional information regarding our long-term incentive plans.
- 4) Amounts reflect the aggregate grant date fair value of Performance and Restricted share units and Stock Option awards granted in accordance with FASB ASC Topic 718. These amounts do not represent the actual amounts paid to or realized by the individuals in the year reported. See Note 8 Share-based Compensation to the Consolidated Financial Statements in Item 18, Financial Statements of this Form 20-F for the fiscal year ended December 31, 2016 for additional information.
- 5) Amounts reflect the costs of Performance and Restricted share units and Stock Options in accordance with IFRS 2. These amounts do not represent the actual amounts paid to or realized by the individuals in the year reported, but represent amounts charged to the income of the year. Total costs (IFRS) includes this item, not the grant date fair value of the awards.
- 6) Amounts primarily relate to additional arrangements for our CEO such as housing compensation and relocation allowances, medical insurance, accident insurance, school fee reimbursement and company car arrangements are broadly in line with those for the NXP executives globally.
- 7) Due to legislative changes in the Netherlands, effective January 1, 2015 a new pension arrangement applies to our chief executive officer (as to other employees working under a Dutch employment contract). Refer to below explanation under the heading Pensions.
- 8) Peter Smitham and Mr. Gregory L. Summe were appointed as non-executive directors of the Company effective December 7, 2015.
- 9) Eric Meurice was appointed effective April 1, 2014 and Mr. Rick Tsai was appointed effective July 1, 2014. Mr. Michel Plantevin and Mr. Jean-Pierre Saad resigned as non-executive directors of the Company on May 20, 2014.
- 10) In 2016, Mr. Clemmer received 13,105 performance share units that had financial performance conditions, no performance share units that had markets performance conditions and 126,161 restricted share units. In 2015, Mr. Clemmer received 71,918 performance share units that had financial performance conditions, no performance share units that had markets performance conditions and no restricted share units

In 2014, Mr. Clemmer received 70,116 performance share units that had financial performance conditions, 50,639 performance share units that had markets performance conditions and no restricted share units

- 11) As a result of the resignation by Mr. Michel Plantevin and Mr. Jean-Pierre Saad as noted in Note 9, 20,111 awards were forfeited resulting in a reversal of the related costs in accordance with IFRS 2.
- 12) During 2016, NXP decided to expand its disclosures of compensation information, specifically in the areas of the cost for compensation charged to the income statement (IFRS), including Performance and Restricted Share Units and Stock Options, for our chief executive officer and the other members of our board of directors. In our previous filings, the required disclosures were not explicitly displayed as prescribed by IAS 24 paragraph 17 and section 383c Book 2 Title 9 of the Dutch Civil Code. Therefore, the expanded disclosure over the years 2014, 2015 and 2016 are presented in the above table. In connection with the disclosure requirements of IAS 24 paragraph 17, we consider the board of directors as our key management personnel.

***Base Salary***

We currently pay our chief executive officer an annual base salary of 1,142,000, the chairman of our board of directors an annual fixed fee of 275,000 and the other members of our board of directors an annual fixed fee of \$85,000 gross. Since the annual meeting of shareholders of June 2, 2016, members of our Audit Committee receive an additional annual fixed fee of \$15,000 (2014 through 2016: \$6,000) gross and the chairman receives an additional

annual fixed fee of \$15,000 (2014 through 2016: \$10,000); members of our Nominating & Compensation Committee receive an additional annual fixed fee of \$12,000 (2014 through 2016: \$6,000) gross and the chairman receives an additional annual fixed fee of \$13,000 (2014 through 2016: \$8,000). For the year ended December 31, 2016, the current and former members of our management team as a group (in total 12 members) received a total aggregate Base salary of 5,889,544, compared to a total aggregate Base salary of 7,303,951 (in total 19 members) in 2015 and 5,704,410 (in total 14 members) in 2014.

### ***Annual Incentive***

Each year, our chief executive officer, the other members of our management team and our other executives can qualify to earn a variable cash incentive, subject to whether certain specific and challenging performance targets have been met. For our chief executive officer, the on-target cash incentive percentage is set at 75% of the base salary, with the maximum cash incentive set at 150% of the annual base salary. The cash incentive pay-out in any year relates to the achievements of the preceding financial year in relation to agreed targets.

To support the performance culture, the Annual Incentive plan is based on EBIT at group level and business / support level, as well as market share targets. Any targets are set by the board of directors, at the proposal of its nominating & compensation committee. NXP market share is based on the World Semiconductors Trade Statistics (WSTS), an industry association in which NXP participates. WSTS collects the revenue (billings) of all major semiconductor companies and calculates the size of the total market (TAM) based on this input. We have set a target for market share growth and will measure our performance against this commonly recognized source of market share data. We calculate our market share by dividing our revenue by the total market size adjusted for sectors NXP is not active in (TAM focus) and incidental adjustments for material deviations.

Over the year 2016, our chief executive officer realized a target achievement of 57.7% and thus an amount of 494,201 has been accrued as an annual incentive bonus for our chief executive officer for our performance in 2016. Over the year 2015, our chief executive officer realized a target achievement of 161.5%, and thus an amount of 1,383,248 was accrued in 2015 (paid in 2016) as an annual incentive bonus for our performance in 2015 (over the year 2014, the target achievement was 154%, and thus an amount of 1,324,720 was accrued in 2014 (paid in 2015)). The total annual incentive bonus amount paid in 2016 to members of our management team, including our chief executive officer, is 2,443,300. In 2015, an amount of 5,518,340 has been paid to members of our management team, including our chief executive officer, and in 2014, an amount of 5,047,102 has been paid.

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**Table of Contents*****Share Based Compensation Plans***

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

In the period from 2007 until our initial public offering in August 2010, we granted stock options ( MEP Options ) to the members of our management team and to approximately 135 of our other executives under the Management Equity Stock Option Plan ( MEP ). The MEP Options became fully exercisable upon the Private Equity Consortium ceasing to hold 30% of our shares of common stock on September 18, 2013. Current employees owning MEP Options may exercise such MEP Options during the period of five years as of September 18, 2013, subject to these employees remaining employed by us and subject to the applicable laws and regulations. As of December 31, 2016, a total of 2,534,272 MEP Options were granted and outstanding to a group of 11 (current) NXP executives (which includes our chief executive officer and other members of the management team). These MEP Options can be exercised at exercise prices which vary from 2.00 to 40.00 per MEP Option.

Since 2010, we have maintained annual Long Term Incentive Plans, under which performance stock, restricted stock and stock options may be granted to the members of our board of directors, management team, our other executives, selected other key employees/talents of NXP and selected new hires. Under these Long Term Incentive Plans, equity incentives may be granted on, or the first NASDAQ trading day after NXP publishes its quarterly financials. In view of the merger with Freescale, a specific grant under the 2015 plan was made to Freescale employees who joined NXP on December 7, 2015. Performance stock units and restricted stock units vest over a period of one to four years, subject to relevant performance criteria relating to operating income being met in the case of performance stock units, and stock options vest over four years. Beginning with the 2014 LTIP plans, performance stock units granted to the members of our management team, including the CEO, vest over a period of four years, and restrictive stock units granted to the non-executive directors in our board vest over a period of one year. In view of the previously announced tender offer by Qualcomm to acquire all the issued and outstanding NXP shares, in October 2016, the board of directors, advised by its nominating & compensation committee, resolved to only grant restricted stock units under the 2016 Long term Incentive Plan.

The size of the annual equity pool available for Long Term Incentive Plan 2010 awards from November 2, 2010 up to the fourth quarter of 2011 was for an aggregate of up to 7,200,000 common shares in our share capital. On December 31, 2016, grants to 69 participants were outstanding, in total representing some 520,224 shares of common stock, consisting of 520,224 stock options.

The size of the annual equity pool available for Long Term Incentive Plan 2011 awards from November 1, 2011 up to the fourth quarter of 2012 was for an aggregate of up to 8.6 million (including 1.4 million which remained from the 2010 LTIP pool) common shares in our share capital. On December 31, 2016, grants to 222 participants were outstanding, in total representing 1,012,256 shares of common stock, consisting of 1,012,256 stock options.

The size of the annual equity pool available for Long Term Incentive Plan 2012 awards from October 25, 2012 up to the fourth quarter of 2013 was for an aggregate of up to 9.3 million (including 2.1 million which remained from the 2011 LTIP pool) common shares in our share capital. On December 31, 2016, grants to 441 participants were outstanding, in total representing 1,390,410 shares of common stock, consisting of 1,390,410 stock options.

The size of the annual equity pool available for Long Term Incentive Plan 2013 awards from October 24, 2013 up to the fourth quarter of 2014 is for an aggregate of up to 6.7 million (including 0.4 million which remained from the 2012 LTIP pool) common shares in our share capital. On December 31, 2016, grants to 159 participants were

outstanding, in total representing 1,211,569 shares of common stock, consisting of 240,775 performance stock units, 40,860 restricted stock units and 929,934 stock options

The size of the annual equity pool available for Long Term Incentive Plan 2014 awards from October 23, 2014 up to the fourth quarter of 2015 is for an aggregate of up to 7.5 million (including 2.2 million which remained from the 2013 LTIP pool) common share in our share capital. On December 31, 2016 grants to 2,095 participants were outstanding, in total representing 1,568,915 shares of common stock, consisting of 234,575 performance stock units, 623,829 restricted stock units and 710,511 stock options.

The size of the annual equity pool available for Long Term Incentive Plan 2015 awards from October 29, 2015 up to the fourth quarter of 2016 is for an aggregate of up to 5.2 million (including 4.2 million which remained from the 2014 LTIP pool) common share in our share capital. On December 31, 2016 grants to 6,118 participants were outstanding, in total representing 2,943,761 shares of common stock, consisting of 258,547 performance stock units, 1,464,138 restricted stock units and 1,221,076 stock options.

In view of the Merger, NXP exchanged on December 7, 2015 the outstanding Freescale equity into 4,924,043 restricted stock units and 2,871,861 stock options. On December 31, 2016 grants to 3,685 participants were outstanding, in total representing 3,611,528 shares of common stock, consisting of 2,227,287 restricted stock units and 1,384,241 stock options.

The size of the annual equity pool available for Long Term Incentive Plan 2016 awards from October 27, 2016 up to the fourth quarter of 2017 is for an aggregate of up to 5.6 million (including 4.3 million which remained from the 2015 LTIP pool) common share in our share capital. On December 31, 2016 grants to 6,111 participants were outstanding, in total representing 2,564,765 shares of common stock, consisting of 2,564,765 restricted stock units. In light of the announced tender offer by Qualcomm on all the NXP shares, only restricted stock units were granted under the 2016 Long term Incentive Plan.

As of December 31, 2016, under the above equity plans, a total amount of 9,702,924 stock options, 733,897 performance stock units and 6,920,879 restricted stock units were outstanding, in total representing 17,357,700 shares of common stock.

Shares to be delivered under any equity program may be newly issued, for up to 10% of our share capital, or they may come out of treasury stock or be purchased from time to time upon the decision of our board of directors.

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As of December 31, 2016, the following stock options, restricted stock units, performance stock units and shares of common stock were outstanding with members of our board of directors:

**Richard L. Clemmer, CEO and president**

As of December 31, 2016, our chief executive officer held 925,399 shares of common stock and had been granted the following (vested and unvested) stock options and (unvested) performance stock units, which were outstanding:

| Series        | Number of Stock Options | Exercise Price (in \$) | Stock Options Vested | Number of Stock Options per vesting schedule |          |          |
|---------------|-------------------------|------------------------|----------------------|--|----------|----------|
|               |                         |                        |                      | 10/29/17                                     | 10/29/18 | 10/29/19 |
| 2016/February | 30,751                  | 76.31                  | 7,687                | 7,688  | 7,688    | 7,688    |

| Series       | Number of Stock Options | Exercise Price (in \$) | Stock Options Vested | Number of Stock Options per vesting schedule |          |          |
|--------------|-------------------------|------------------------|----------------------|--|----------|----------|
|              |                         |                        |                      | 10/29/17                                     | 10/29/18 | 10/29/19 |
| 2015/October | 165,877                 | 73.00                  | 41,469               | 41,469                                       | 41,469   | 41,470   |

| Series       | Number of Stock Options | Exercise Price (in \$) | Stock Options Vested | Number of Stock Options per vesting schedule |          |
|--------------|-------------------------|------------------------|----------------------|--|----------|
|              |                         |                        |                      | 10/23/17                                     | 10/23/18 |
| 2014/October | 161,675                 | 64.18                  | 80,837               | 40,419                                       | 40,419   |

| Series       | Number of Stock Options | Exercise Price (in \$) | Stock options Vested | Stock Options per vesting schedule |
|--------------|-------------------------|------------------------|----------------------|------------------------------------|
|              |                         |                        |                      | 10/24/17                           |
| 2013/October | 344,635                 | 39.58                  | 258,476              | 86,159                             |

| Series       | Number of Stock Options (all vested) | Exercise Price (in \$) |
|--------------|--------------------------------------|------------------------|
| 2012/October | 410,000                              | 23.49                  |

| Series        | Number of Stock Options (all vested) | Exercise Price (in \$) |
|---------------|--------------------------------------|------------------------|
| 2011/November | 410,000                              | 16.84                  |

| Series        | Number of Stock Options (all vested) | Exercise Price (in \$) |
|---------------|--------------------------------------|------------------------|
| 2010/November | 360,252                              | 13.27                  |



| <i>Series</i> | <b>Number of Stock<br/>Options (all vested)</b> | <b>Exercise<br/>Price (in )</b> |
|---------------|---|---------------------------------|
| 2009/1        | 51,400  | 2.00                            |
| 2009/2        | 1,400,000                                       | 15.00                           |
| 2009/3        | 234,000   | 30.00                           |
| 2009/4        | 374,252   | 40.00                           |
| <b>Total</b>  | <b>2,059,652</b>                                |                                 |

| <b>Series</b> | <b>Number of<br/>Restricted<br/>Stock Units</b> | <b>Number of Restricted Stock Units per vesting schedule</b> |                 |                 |
|---------------|---|--|-----------------|-----------------|
|               |   | <b>10/27/17</b>  | <b>10/27/18</b> | <b>10/27/19</b> |
| 2016/October  | 126,161   | 42,053   | 42,053          | 42,054          |

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| Series | Number of<br>Performance<br>Stock<br>Units | Number of Performance Stock Units per vesting schedule |          |               |               |
|--------|--|--|----------|---------------|---------------|
|        |  | 10/29/17   | 10/29/18 | 10/29/19      | 10/29/20      |
|        |  | 2016/February  | 13,105   | Maximum 6,552 | Maximum 9,828 |

| Series | Number of<br>Performance<br>Stock<br>Units | Number of Performance Stock Units per vesting schedule |          |                |                |
|--------|--|--|----------|----------------|----------------|
|        |  | 10/23/17   | 10/23/18 | 10/23/19       | 10/23/20       |
|        |  | 2015/October   | 71,918   | Maximum 35,958 | Maximum 53,938 |

| Series | Number of<br>Performance<br>Stock<br>Units | Number of Performance Stock Units per vesting schedule |          |                |
|--------|--|--|----------|----------------|
|        |  | 10/23/17   | 10/23/18 | 10/23/19       |
|        |  | 2014/October   | 52,587   | Maximum 35,038 |

| Series | Number of<br>Performance<br>Stock<br>Units | Number of Performance Stock Units<br>per<br>vesting schedule |         |
|--------|--|--|---------|
|        |  | 11/1/17  | 11/1/18 |
|        |  | 2014/October   | 33,760  |

**Other members of our board of directors**

As of December 31, 2016, the other members of our board of directors held the following number of shares of common stock:

Sir Peter Bonfield: 32,611 from vested stock units

Mr. Goldman: 21,433 from vested stock units

Mr. Huth: 12,560 from vested stock units

Dr. Helmes: 9,914 from vested stock units

Mr. Kaeser: 33,915 from vested stock units

Mr. Loring: 40,912 from vested stock units

Ms. Southern: 6,940 from vested stock units

Mr. Meurice: 5,857 from vested stock units

Dr. Tsai: 5,857 from vested stock units

Mr. Summe: 4,381 from the exchange of Freescale stock units

To each of the non-executive members of our board of directors, the following restricted stock units had been granted and were outstanding as of December 31, 2016:

| Series       | Number of<br>Restricted<br>Stock Units | Number of<br>Stock Units<br>per<br>vesting schedule<br>10/27/17 |
|--------------|--|---|
| 2016/October | 2,019                                  | 2,019   |

### *Pensions*

It has been our long-standing practice that our chief executive officer and eligible members of the management team under a Dutch employment contract participate in the executives' pension plan, which we established in the Netherlands and which consists of a combination of a career average and a defined-contribution plan. Due to legislative changes in the Netherlands, effective January 1, 2015 a new pension arrangement applies to our employees working under Dutch employment contracts, including our chief executive officer. Since January 1, 2015, pension plans which allow pension accrual based on a pensionable salary exceeding an amount of 100,000 (threshold is adapted by the fiscal authorities each year, 2016: 101,519) are, for fiscal purposes, considered to be non-qualifying schemes.

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

Pension Plan in the Netherlands, which is a Collective Defined Contribution plan with an age-dependent fixed contribution percentage up to a maximum pensionable salary of 100,000 (2016: 101,519). The Pension Plan has a target retirement age of 67 and a target accrual rate of 1.85%;

Introduction of a Benefit Allowance of 12.3% of the pensionable salary above 101,519 (2016) for all current and new employees

Compensation of remaining loss in pension accrual, compared to 2014, as an individual Retirement allowance

Individual compensation (Retirement allowance) will be protected for 5 years (up to end 2019) and then reduced to 75%, 50%, 25% in the following 3 years (2020-2021-2022). No individual compensation after year 8 (January 2023 onwards)

The total pension cost of the Company related to these revised pension arrangements (including the temporary Retirement Allowance for the remaining 7 years) is at a comparable level over a period of time to the pension cost under the former Executive Pension Plan.

The changed pension arrangements as per January 1, 2015 resulted for our chief executive officer into a decrease in pension, retirement or similar benefits from 589,262 (\$781,479) in 2014 to 12,491 (\$13,927) in 2015, and an increase in Pension Allowances from nil in 2014 to 517,535 (\$577,052) in 2015. As said, a similar approach was followed for the other MT members in The Netherlands as other lower ranked management members.

In 2016, we paid for our chief executive officer a total pension plan contribution of 16,358 (\$18,100) in 2016 ( 12,491 (\$13,927) in 2015 and 589,262 (\$781,479) in 2014) and an aggregated amount of 517,319 (\$572,394) as Retirement Allowance and individual Allowance in 2016 ( 517,535 (\$577,052) in 2015).

### ***Additional Arrangements***

Our chief executive officer has a contract of employment until December 31, 2017, and most of the other members of our management team and our executives have a contract of employment for an indefinite term. The main elements of any new employment contract that we will enter into with a member of the board of directors will be made public no later than the date of the public notice convening the general meeting of stockholders at which the appointment of such member of the board of directors will be proposed. Non-executive directors of our board do not have a contract of employment.

In addition to the main conditions of employment, a number of additional arrangements apply to our chief executive officer and other members of the management team; these arrangements do not apply to the non-executive members of our board of directors. These additional arrangements, such as housing compensation and relocation allowances, medical insurance, accident insurance, school fee compensation and company car arrangements are broadly in line with those for the NXP executives globally. In the event of disablement, our chief executive officer and other

members of the management team are entitled to benefits in line with those for other NXP executives. In the event of our chief executive officer's death while in the service of NXP, any unvested equity awards (including any NXP stock options, performance stock units and restricted stock units) will vest. In line with regulatory requirements, the Company's policy forbids personal loans, guarantees or similar arrangements to members of our board, and consequently no loans, guarantees or similar arrangements were granted to such members since 2010, nor were any such loans outstanding as of December 31, 2016. The contract of employment entered into with our chief executive officer as of January 1, 2009, provides that if our chief executive officer terminates his employment within six months of a change of control, then he will be entitled to two years' base salary (gross) plus twice the amount of his target annual bonus (gross).

Unless the law provides otherwise, the members of our board of directors are expected to be reimbursed by us for various costs and expenses, such as reasonable costs of defending claims, as formalized in the articles of association. Under certain circumstances, described in the articles of association, such as an act or failure to act by a member of our board of directors that can be characterized as intentional (*opzettelijk*), intentionally reckless (*bewust roekeloos*) or seriously culpable (*ernstig verwijtbaar*), there will be no entitlement to this reimbursement.

### ***C. Board Practices***

#### **Management Structure**

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

#### ***Powers, Composition and Function***

The number of executive and non-executive directors is determined by the board of directors. The board of directors consists of one executive director and eleven non-executive directors. The executive director, Mr. Clemmer, has been appointed as our chief executive officer.

The appointment of the directors will be made by our general meeting of stockholders upon a binding nomination of the board of directors. A resolution to appoint a director nominated by the board of directors is adopted by a simple majority of the votes cast. The

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nomination shall state whether the director is proposed to be an executive or non-executive director. The general meeting of stockholders may at all times overrule the binding nature of such a nomination by a resolution adopted by at least a two thirds majority of the votes cast, provided such majority represents more than half of our issued share capital. The board of directors may then make a new nomination. If a nomination has not been made or has not been made in due time, this shall be stated in the notice and the general meeting of stockholders shall be free to appoint a director at its discretion. The latter resolution of the general meeting of stockholders must also be adopted by at least two thirds majority of the votes cast, provided such majority represents more than half of our issued share capital.

Under our articles of association and Dutch corporate law, the members of the board of directors are collectively responsible for the management, general and financial affairs and policy and strategy of our company. Our executive director will be responsible for the day-to-day management of the Company and for the preparation and execution of board resolutions, to the extent these tasks are not delegated to a committee of the board of directors. Our chief executive officer or all directors acting jointly may represent our company with third parties.

A conflict of interest between the Company and one or more of our directors is not expected to have any impact on the authority of directors to represent the Company. Under our board regulations, a conflict needs to be reported to the board of directors and the board of directors shall resolve on the consequences, if any. Dutch law, in case of a conflict, does not allow the directors concerned to participate in discussions or vote on such matters.

Our non-executive directors will supervise the executive director and our general affairs and provide general advice to the executive director. Furthermore the non-executive directors will perform such acts that are delegated to them pursuant to our articles of association or by our board regulation. One of the non-executive directors has been appointed as chairman of the board and another non-executive director has been appointed as vice-chairman of the board of directors.

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

Our directors are appointed for one year and will be re-electable each year at the general meeting of stockholders. The members of our board of directors may be suspended or dismissed at any time by the general meeting of stockholders. A resolution to suspend or dismiss a director will have to be adopted by at least a two thirds majority of the votes cast, provided such majority represents more than half of our issued share capital and unless the proposal to suspend or dismiss a member of the board of directors is made by the board of directors itself, in which case resolutions shall be adopted by a simple majority of votes cast. Dutch law facilitates the suspension of executive directors by the board.

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

The board of directors has adopted board regulations governing its performance, its decision making, its composition, the tasks and working procedure of the committees and other matters relating to the board of directors, the chief executive officer, the non-executive directors and the committees established by the board of directors. In accordance with our board regulations, resolutions of our board of directors will be adopted by a simple majority of votes cast in a meeting at which at least the majority of its members is present or represented. Each member of the board of directors has the right to cast one vote. In a tie vote, the proposal will be rejected.

### ***Board Committees***

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

***Audit Committee.*** Our audit committee consists of five independent non-executive directors, Messrs. Goldman, Kaeser, Summe, and Dr. Helmes and Ms. Southern; all five members are independent directors under the Dutch corporate governance rules and under the NASDAQ and SEC audit committee structure and membership requirements. Mr. Goldman, who is appointed as chairman of the audit committee, qualifies as an audit committee financial expert as such term is defined in Item 407(d)(5) of Regulation S-K and as determined by our board of directors. Our audit committee assists the board of directors in supervising, monitoring and advising the board of directors on financial reporting, risk management, compliance with relevant legislation and regulations and our business code of conduct. It will oversee the preparation of our financial statements, our financial reporting process, our system of internal business controls and risk management, our internal and external audit process and our internal and external auditor's qualifications, independence and performance. Our audit committee also reviews our annual and interim financial statements and other public disclosures, prior to publication. At least once per year, the non-executive directors who are part of the audit committee reports their findings to the plenary board of directors. Our audit committee also recommends to our stockholders the appointment of external auditors. The external auditor attends most meetings of the audit committee. The findings of the external auditor, the audit approach and the risk analysis are also discussed at these meetings.

***Nominating and Compensation Committee.*** Our nominating and compensation committee consists of four non-executive directors, Sir Peter Bonfield and Messrs. Huth, Meurice and Smitham; all four members are independent directors under the Dutch corporate

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governance rules and under the NASDAQ and SEC compensation committee structure and membership requirements. Mr. Meurice is appointed as chairman of this committee. The nominating & compensation committee determines selection criteria and appointment procedures for members of our board of directors, periodically assesses the scope and composition of our board of directors and evaluates the performance of its individual members. It is responsible for recommending to the board of directors the compensation package for our executive directors, with due observance of the remuneration policy adopted by the general meeting of stockholders. It reviews employment contracts entered into with our executive directors, makes recommendations to our board of directors with respect to major employment-related policies and oversees compliance with our employment and compensation-related disclosure obligations under applicable laws.

**Limitation of Liability and Indemnification Matters**

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

At present, there is no pending litigation or proceeding involving any member of the board of directors, officer, employee or agent where indemnification will be required or permitted. We are not aware of any threatened litigation or proceedings that might result in a claim for such indemnification.

Insofar as indemnification of liabilities arising under the Securities Act of 1933, as amended, may be permitted to members of the board of directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is therefore unenforceable.

**D. Employees**

As of December 31, 2016 we had 40,400 full-time equivalent employees. The following table indicates the % of full time equivalent employees per geographic area:

|                   | % as of December 31, |      |
|-------------------|----------------------|------|
|                   | 2016                 | 2015 |
| Europe and Africa | 18                   | 20   |
| Americas          | 15                   | 16   |
| Greater China     | 28                   | 27   |
| Asia Pacific      | 39                   | 37   |
| Total             | 100                  | 100  |



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

***E. Share Ownership***

Information with respect to share ownership of members of our board of directors is included in Part I, Item 7. *Major Shareholders and Related Party Transactions* and notes 18 and 20 to our Consolidated Financial Statements, which are incorporated herein by reference. Information with respect to the grant of shares and stock options to employees is included in note 9 to our Consolidated Financial Statements which are incorporated herein by reference. In order to maintain a strong alignment between the interests of NXP's management and our shareholders, we have adopted an equity ownership policy for the President/CEO and the other members of our management team. The number of shares to be maintained by the members of our management team increases each time our shares are being delivered upon the vesting of stock options or other rights to our shares. The management team members are required to maintain a certain number of our shares until the time that he or she is no longer employed by us.

**Table of Contents****Item 7. Major Shareholders and Related Party Transactions****A. Major Shareholders**

The following table shows the amount and percentage of our common stock beneficially owned as of December 31, 2016, December 31, 2015 and December 31, 2014 by (i) each person who is or was known by us to own beneficially more than 5% of our common stock, (ii) each current member of our board of directors, and (iii) all members of the board and named executive officers as a group. A person is a beneficial owner of a security if that person has or shares voting or investment power over the security or if he has the right to acquire beneficial ownership within 60 days. Unless otherwise noted, these persons may be contacted at our executive offices and, unless otherwise noted, have to our knowledge sole voting and investment power over the shares listed.

|                                    | Common Stock Beneficially Owned as of December 31 |       |            |       |            |       |
|------------------------------------|---|-------|------------|-------|------------|-------|
|                                    | 2016  |       | 2015       |       | 2014       |       |
|                                    | Number  | %*    | Number     | %*    | Number     | %*    |
| T. Rowe <sup>(1)</sup>             | 32,862,425  | 9.50  |            |       | 1,715,115  | 0.68  |
| FMR LLC <sup>(2)</sup>             | 12,618,417  | 3.65  | 22,525,068 | 6.51  | 22,796,838 | 9.05  |
| Blackstone Funds                   |   |       | 33,275,028 | 9.62  |            |       |
| Wellington Management Company, LLP |   |       |            |       | 18,843,170 | 7.48  |
| Richard L. Clemmer                 | 4,553,772   | 1.32  | 4,188,683  | 1.21  | 3,410,762  | 1.36  |
| Sir Peter Bonfield                 | 32,611  | 0.01  | 30,487     | 0.01  | 25,312     | 0.01  |
| Johannes P. Huth                   | 12,560  | 0.004 | 8,135      | 0.002 | 98,351     | 0.04  |
| Kenneth Goldman                    | 21,433  | 0.006 | 33,526     | 0.01  | 28,351     | 0.011 |
| Dr. Marion Helmes                  | 9,914   | 0.003 | 6,487      | 0.002 | 1,685      | 0.001 |
| Josef Kaeser                       | 33,915  | 0.01  | 30,487     | 0.01  | 25,312     | 0.01  |
| Ian Loring                         | 40,912  | 0.01  | 36,486     | 0.01  | 28,351     | 0.011 |
| Eric Meurice                       | 5,857   | 0.002 | 3,117      | 0.001 |            |       |
| Julie Southern                     | 6,940   | 0.002 | 4,127      | 0.001 | 1,072      | 0.001 |
| Rick Tsai                          | 5,857   | 0.002 | 3,117      | 0.001 |            |       |
| Peter Smitham                      |   |       |            |       |            |       |
| Gregory L. Summe                   | 4,381   | 0.001 | 4,381      | 0.001 |            |       |
| All directors as a group           | 4,728,152   | 1.37  | 4,349,033  | 1.26  | 3,619,196  | 1.44  |

\* Percentage computations are based on 346,002,862 shares of our common stock issued and outstanding as of December 31, 2016 and December 31, 2015 and 251,751,500 as of December 31, 2014.

- (1) Information about the number of common shares owned by T. Rowe Price Associates, Inc. ( T. Rowe ) on December 31, 2016, is based solely on a Schedule 13G filed by T. Rowe with the SEC on February 7, 2017, reporting share ownership as of December 31, 2016. T. Rowe's address is 100 E. Pratt Street, Baltimore, Maryland 21202. T. Rowe beneficially owned an aggregate of 32,862,425 common shares, has sole power to vote 10,917,873 shares and the sole power to dispose of 32,847,258 shares of our common stock.
- (2) Information about the number of common shares owned by FMR LLC ( FMR ) on December 31, 2016, is based solely on a Schedule 13G filed by FMR LLC and Abigail P. Johnson with the SEC on February 14, 2017, reporting share ownership as of December 31, 2016. The address of FMR is 245 Summer Street, Boston, Massachusetts 02210. FMR, along with certain of its subsidiaries and affiliates, and other companies, beneficially owned an aggregate of 12,618,417 common shares, has sole power to vote 1,654,656 shares and the sole power to dispose of 12,618,417 shares of our common stock. Abigail P. Johnson is a Director, the Chairman, and the Chief

Executive Officer of FMR. Members of the Johnson family, including Abigail P. Johnson, are the predominant owners, directly or through trusts, of Series B voting common shares of FMR, representing 49% of the voting power of FMR. The Johnson family group and all other Series B shareholders have entered into a shareholders voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR.

No shareholders held different voting rights.

As described elsewhere in this Annual Report, on October 27, 2016, Qualcomm River Holdings B.V., an indirect, wholly-owned subsidiary of QUALCOMM Incorporated, and NXP entered into a definitive agreement which will result, subject to the satisfaction or waiver of the conditions in the agreement, in a change in control of NXP.

### ***B. Related Party Transactions***

The transactions NXP has with related parties are not deemed to be material, individually or in the aggregate. See Part III, Item 18. *Financial Statements*, note 20 *Related-party Transactions*.

### ***C. Interests of Experts and Counsel***

Not applicable.

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**Item 8. Financial Information**

**A. Consolidated Statements and Other Financial Information**

**Consolidated Statements**

See Part III, Item 18. *Financial Statements*.

**Dividend Policy**

We currently retain all of our earnings for use in the operation and expansion of our business, to repurchase or redeem capital stock, and in the repayment of our debt. We have never declared or paid any cash dividends on our common stock and may not pay any cash dividends in the foreseeable future. Whether or not dividends will be paid in the future will depend on, among other things, our results of operations, financial condition, level of indebtedness, cash requirements, covenants in our financings, contractual restrictions and other factors that our board of directors and our stockholders may deem relevant. If, in the future, our board of directors decides not to allocate profits to our reserves (making such profits available to be distributed as dividends), any decision to pay dividends on our common stock will be at the discretion of our stockholders. In addition, under the terms of the Purchase Agreement, we must obtain consent in advance from Buyer to declare, set aside or pay any dividend on our common stock.

**B. Significant Changes**

Not applicable.

**Table of Contents****Item 9. The Offer and Listing****A. Offer and Listing Details**

The following table shows the high and low closing sales prices of the common stock on the stock market of NASDAQ as reported in the Official Price List for the following periods:

| Most recent six months |       |               |       |               |       |              |       |                |       |             |       |
|------------------------|-------|---------------|-------|---------------|-------|--------------|-------|----------------|-------|-------------|-------|
| January 2017           |       | December 2016 |       | November 2016 |       | October 2016 |       | September 2016 |       | August 2016 |       |
| High                   | Low   | High          | Low   | High          | Low   | High         | Low   | High           | Low   | High        | Low   |
| 98.79                  | 96.00 | 99.00         | 97.10 | 99.55         | 96.59 | 104.49       | 98.66 | 102.01         | 81.40 | 88.94       | 81.85 |

On February 10, 2017, the closing sales price of the common stock on the stock market of NASDAQ was \$101.99.

|                         | 2016   |       | 2015   |       | 2014  |       |
|-------------------------|--------|-------|--------|-------|-------|-------|
|                         | High   | Low   | High   | Low   | High  | Low   |
| 1 <sup>st</sup> quarter | 84.44  | 64.00 | 108.03 | 72.38 | 59.91 | 42.94 |
| 2 <sup>nd</sup> quarter | 94.49  | 75.04 | 112.25 | 95.33 | 66.44 | 55.72 |
| 3 <sup>rd</sup> quarter | 102.01 | 76.05 | 99.28  | 79.26 | 73.01 | 60.50 |
| 4 <sup>th</sup> quarter | 104.49 | 96.59 | 97.95  | 73.00 | 77.85 | 53.90 |

|      | High   | Low   |
|------|--------|-------|
| 2016 | 104.49 | 64.00 |
| 2015 | 112.25 | 72.38 |
| 2014 | 77.85  | 42.94 |
| 2013 | 45.95  | 25.29 |
| 2012 | 26.97  | 16.01 |

**B. Plan of Distribution**

Not applicable.

**C. Markets**

The shares of common stock of the Company are listed on the stock market of the NASDAQ Global Select Market in New York under the ticker symbol `NXPI`.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**Item 10. Additional Information**

***A. Share Capital***

Not applicable.

***B. Memorandum and Articles of Association***

The information required by this section is incorporated by reference to Exhibit 3.2 of Amendment No. 7 to the Company's Registration Statement on Form F-1, filed on August 5, 2010 (File No. 333-166128).

***C. Material Contracts***

Other than the material contracts described below, we have not entered into any material contracts other than in the ordinary course of business.

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**2016**

On May 23, 2016, we entered into the Senior Indenture between NXP B.V. and NXP Funding LLC as Issuers, each of the guarantors party thereto and Deutsche Bank Trust Company Americas as Trustee in connection with the issuance of 4.125% and 4.625% Senior Unsecured Notes with aggregate principal amounts of \$850 million, due June 1, 2021 and \$900 million, due June 1, 2023. On August 1, 2016, NXP B.V., together with NXP Funding LLC, issued an additional aggregate principal amount of \$500 million of 4.125% Senior Unsecured Notes due 2021 under this agreement.

On June 14, 2016, we entered into an agreement with Beijing JianGuang Asset Management Co., Ltd ( JAC Capital ) and Wise Road Capital LTD ( Wise Road Capital ) to divest our Standard Products business. On February 6, 2017 we divested SP, receiving \$2.75 billion in cash proceeds.

On June 13, 2016, we entered into amendments to the Shareholder Agreements with certain former Freescale shareholders (the Sponsors ) to amend the transfer restrictions for the Sponsors in relation to NXP shares received in the Merger.

On August 11, 2016, we entered into the Senior Indenture among NXP B.V. and NXP Funding LLC as Issuers, each of the guarantors party thereto and Deutsche Bank Trust Company Americas as Trustee in connection with the issuance of \$1,000 million aggregate principal amount of 3.875% Senior Unsecured Notes due 2022.

On September 22, 2016, we entered in the 2016 New Term Loan Joinder Agreement by and among the Tranche F Lenders defined therein, NXP B.V. and NXP Funding LLC as Borrowers and Credit Suisse AG as Administrative Agent in connection with the entry into Term Loan F for an aggregate principal amount of \$1,440 million

On October 27, 2016, NXP entered into a purchase agreement (the Purchase Agreement ) with Qualcomm River Holdings B.V. ( Buyer ), a wholly-owned, indirect subsidiary of Qualcomm Incorporated. Pursuant to the Purchase Agreement, Buyer commenced a tender offer to acquire all of the issued and outstanding common shares of NXP for \$110 per share in cash, for estimated total cash consideration of \$38 billion. The tender offer is not subject to any financing condition. An Extraordinary General Meeting of NXP s shareholders was convened on January 27, 2017, in connection with the offer where the shareholders of NXP approved all resolutions brought before them, with 95% of the votes cast in favor of each such resolution. In light of the foregoing, the tender offer is now conditioned on the tender of 80% of the outstanding shares of NXP, and Buyer, with NXP s prior written consent (not to be unreasonably withheld, conditioned or delayed), may reduce the required threshold to a percentage not less than 70% of the outstanding shares. Pending the receipt of certain regulatory approvals, as well as satisfaction of other customary closing conditions, the proposed transaction is expected to close by the end of calendar 2017.

The Purchase Agreement contains certain termination rights for NXP and Buyer. If the Purchase Agreement is terminated under certain circumstances, including termination by NXP to enter into a superior proposal for an alternative acquisition transaction or a termination following a change of recommendation by the NXP Board, NXP will be obligated to pay to Buyer a termination compensation equal to \$1.25 billion in cash. If the Purchase Agreement is terminated under certain circumstances, including circumstances relating to the failure to obtain antitrust approvals or failure to complete in all material respects certain internal reorganization steps and related dispositions with respect to NXP, Buyer will be obligated to pay to NXP a termination compensation equal to \$2 billion in cash.

**2015**

On March 1, 2015, we entered into a Merger Agreement, by and among the Company, Freescale and Nimble Acquisition Limited ( Merger Sub ), a Bermuda exempted limited liability company and Sub, providing for the merger of Sub with and into Freescale (the Merger ), with Freescale surviving the Merger as a wholly-owned, indirect subsidiary of the Company.

Concurrently with the execution and delivery of the Merger Agreement, Freescale Holdings L.P. ( Freescale LP ), the largest holder of Freescale Common Shares, the Company and certain limited partners of Freescale LP, entered into a support agreement (the Support Agreement ) whereby Freescale LP committed, among other things, subject to the terms and conditions of the Support Agreement, to vote all of its Freescale Common Shares (representing 64% of the Freescale Common Shares outstanding as of the date of the Support Agreement) for the adoption of (and not to participate in any litigation challenging) the Merger Agreement.

On December 7, 2015, we entered into the Bermuda Merger Agreement, by and among the Company, Freescale and Merger Sub, consummating the Merger. As per the same date, we entered into Shareholders Agreements with the Sponsors, containing transfer restrictions for the Sponsors in relation to NXP shares received in the Merger and the requirement for NXP to use its best efforts to cause to be declared effective by the SEC a registration statement on Form F-1 or Form F-3 or such other available form covering the NXP ordinary shares requested to be included by certain of the Sponsors.

In connection with the Merger, we also entered into the following financing agreements:

2020 Senior Unsecured Notes and 2022 Senior Unsecured Notes: On June 2, 2015, NXP B.V. and NXP Funding LLC entered into an indenture in relation to \$600 million aggregate principal amount of 2020 Senior Unsecured Notes and \$400 million aggregate principal amount of 2022 Senior Unsecured Notes that they issued.

RCF Agreement: NXP B.V. and NXP Funding LLC, as Borrowers, the several lenders party thereto, the Collateral Agent, Morgan Stanley Senior Funding Inc., as RCF Administrative Agent, the joint lead arrangers, the joint bookrunners and the co-managers, each as detailed therein, entered on December 7, 2015 into a \$600 million RCF Agreement. All present and future obligations of the Borrowers arising under and pursuant to the terms of the RCF Agreement are guaranteed pursuant to RCF



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Guaranty Agreement by and among NXP B.V., NXP Funding LLC, NXP Semiconductors Netherlands B.V. and NXP Semiconductors Taiwan Ltd. (collectively, the NXP Credit Guarantors ) and Freescale Semiconductor Holdings V, Inc. and Freescale Semiconductor Inc. (collectively, the Freescale Credit Guarantors ) dated as of December 7, 2015;

Term Loan B: The Borrowers, the several lenders party thereto, Morgan Stanley Senior Funding LLC, as Collateral Agent, Credit Suisse AG, as Term Loan Administrative Agent, the joint lead arrangers, the joint bookrunners and the co-managers, each as detailed therein, entered into a \$2,700 million New Secured Term Credit Agreement. All present and future obligations of the Borrowers arising under and pursuant to the terms of the New Secured Term Credit Agreement are guaranteed pursuant to the Term Loan Guaranty Agreement by and among each of the NXP Credit Guarantors and each of the Freescale Credit Guarantors dated as of December 7, 2015;

Secured Bridge Term Credit Agreement: The Borrowers, the Collateral Agent, Credit Suisse AG, as Bridge Loan Administrative Agent, and the lenders party thereto, entered on December 7, 2015 into a Secured Bridge Term Credit Agreement. All present and future obligations of the Borrowers arising under and pursuant to the terms of the Secured Bridge Term Credit Agreement are guaranteed pursuant to the Bridge Loan Guaranty Agreement by and among each of the NXP Credit Guarantors and each of the Freescale Credit Guarantors dated as of December 7, 2015. Amounts outstanding under the Secured Bridge Term Credit Agreement were repaid in full on December 16, 2015; and

Secured Notes: NXP B.V., NXP Funding LLC, NXP Semiconductors Netherlands B.V., NXP Semiconductors UK Limited, NXP Semiconductors USA, Inc., NXP Semiconductors Germany GmbH, NXP Semiconductors Hong Kong Limited, NXP Semiconductors Philippines Inc., NXP Semiconductors Singapore Pte. Ltd., NXP Semiconductors Taiwan Ltd. and NXP Manufacturing (Thailand) Ltd. entered into and acceded to the A&R Freescale Indentures as additional guarantors.

On May 28, 2015, we entered into an agreement to sell our RF Power business to JAC Capital, and on December 7, 2015 we completed this divestment.

### ***D. Exchange Controls***

Cash dividends payable on our ordinary shares and cash interest payments to holders of our debt securities may be remitted from the Netherlands to nonresidents without legal restrictions imposed by the laws of the Netherlands, except that (i) such payments must be reported to the Dutch Central Bank for statistical purposes only and (ii) the transfer of funds to jurisdictions subject to general economic sanctions adopted in connection with policies of the United Nations, European Commission or similar measures imposed directly by the Government of the Netherlands may be restricted.

### ***E. Taxation***

#### **Certain Tax Considerations-Holder of Common Stock**

##### **Summary of Dutch Tax Considerations**

The following summary describes the material Dutch tax consequences of the ownership and disposition of our shares of common stock as of the date hereof and is intended as general information only. This summary does not contain a detailed description of all the Dutch tax law consequences applicable to you as a holder of shares of common stock in the Company in light of your particular circumstances and does not address the effects of any non-Dutch tax laws. For Dutch tax purposes, a holder of our shares may include an individual who or an entity that does not have the legal title of the shares, but to whom nevertheless the shares are attributed based either on such individual or entity holding a beneficial interest in the shares or based on specific statutory provisions, including statutory provisions pursuant to which shares are attributed to an individual who is, or who has directly or indirectly inherited from a person who was, the settlor, grantor or similar originator of a trust, foundation or similar entity that holds the shares.

If you are considering the purchase, ownership or disposition of our shares, you should consult your own tax advisors concerning the Dutch tax consequences to you in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.

The following summary is based on the Dutch tax law as applied and interpreted by Dutch tax courts and as published and in effect on the date hereof, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect. For the purpose of this paragraph, Dutch taxes means taxes of whatever nature levied by or on behalf of the Netherlands or any of its subdivisions or taxing authorities. The Netherlands means the part of the Kingdom of the Netherlands located in Europe and does not include Bonaire, St. Eustatius and Saba. Any reference hereafter made to a treaty for the avoidance of double taxation concluded by the Netherlands includes the Tax Regulation for the Kingdom of the Netherlands (*Belastingregeling voor het Koninkrijk*), the Tax Regulation for the country of the Netherlands (*Belastingregeling voor het land Nederland*) and the Agreement between the Taipei Representative Office in the Netherlands and the Netherlands Trade and Investment Office in Taipei for the avoidance of double taxation.

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### ***Withholding Tax***

A stockholder is generally subject to Dutch dividend withholding tax at a rate of 15 percent on dividends distributed by us, if any. Generally, we are responsible for the withholding of such dividend withholding tax at source; the dividend withholding tax is for the account of the stockholder.

Dividends distributed by us include, but are not limited to:

distributions of profits in cash or in kind, whatever they be named or in whatever form;

proceeds from the liquidation of the Company, or proceeds from the repurchase of shares by the Company, in excess of the average paid-in capital recognized for Dutch dividend withholding tax purposes;

the par value of shares issued to a stockholder or an increase in the par value of shares, to the extent that no contribution, recognized for Dutch dividend withholding tax purposes, has been made or will be made; and

partial repayment of paid-in capital, that is (i) not recognized for Dutch dividend withholding tax purposes, or (ii) recognized for Dutch dividend withholding tax purposes, to the extent that we have net profits (*zuivere winst*), unless (a) the general meeting of stockholders has resolved in advance to make such repayment and (b) the par value of the shares concerned has been reduced with an equal amount by way of an amendment to our articles of association. The term net profits includes anticipated profits that have yet to be realized.

Notwithstanding the above, no withholding is required in the event of a repurchase of shares, if certain conditions are fulfilled.

Furthermore, subject to certain exceptions under Dutch domestic law, we may not be required to transfer to the Dutch tax authorities the full amount of Dutch dividend withholding tax withheld in respect of dividends distributed by us, if we have received a profit distribution from a qualifying foreign subsidiary (including a subsidiary resident on Bonaire, St. Eustatius or Saba), which distribution is exempt from Dutch corporate income tax and has been subject to a foreign withholding tax of at least 5 percent. The amount that does not have to be transferred to the Dutch tax authorities can generally not exceed the lesser of (i) 3 percent of the dividends distributed by us and (ii) 3 percent of the profit distributions that we received from qualifying foreign subsidiaries in the calendar year in which we distribute the dividends (up to the moment of such dividend distribution) and in the two previous calendar years. Further limitations and conditions apply. We will, upon request, provide stockholders with information regarding the Dutch dividend withholding tax that was retained by us.

If a stockholder is resident in a country other than the Netherlands under the provisions of a treaty for the avoidance of double taxation between the Netherlands and such country, such stockholder may, depending on the terms of such treaty, be entitled to an exemption from, reduction in or refund of Dutch dividend withholding tax on dividends distributed by us.

If a stockholder is subject to Dutch corporate income tax and is entitled to the participation exemption in relation to the benefits derived from the shares held by it and such shares are attributable to an enterprise carried out in the Netherlands, such stockholder will generally be entitled to an exemption from Dutch dividend withholding tax on

dividends distributed by us.

If a stockholder (i) is resident in another member state of the European Union or an appointed state of the European Economic Area, i.e. Iceland, Norway and Liechtenstein, according to the tax laws of that state and, under the terms of a double taxation agreement concluded by that state with a third state, is not considered to be resident for tax purposes outside the European Union, Iceland, Norway or Liechtenstein; and (ii) owns an interest in us to which the Dutch participation exemption would be applicable if the stockholder were resident in the Netherlands; such stockholder will generally be eligible for an exemption from Dutch dividend withholding tax on dividends distributed by us.

Furthermore, if a stockholder:

- (a) is an entity which is resident for Dutch tax purposes in a member state of the European Union, Iceland, Norway or Liechtenstein or which is a qualifying stockholder resident elsewhere;
- (b) is not subject to a tax levied by reference to its profits in its country of residence; and
- (c) would not have been subject to Dutch corporate income tax had the stockholder been resident in the Netherlands for Dutch tax purposes;

such stockholder will be eligible for a full refund of Dutch dividend withholding tax on dividends distributed by us, unless such stockholder is comparable to an exempt investment institution (*vrijgestelde beleggingsinstelling*) or fiscal investment institution (*fiscale beleggingsinstelling*), as described respectively in article 6a and 28 of the Dutch corporate income tax act 1969 ( *Wet op de vennootschapsbelasting 1969*). For purposes of (a) above, a qualifying stockholder is an entity that (i) is resident for Dutch tax purposes in a jurisdiction which has an arrangement for the exchange of tax information with the Netherlands and (ii) holds its shares as a portfolio investment, i.e. such shares are not held with a view to the establishment or maintenance of lasting and direct economic links between the stockholder and the company and the shares do not allow the stockholder to participate effectively in the management or control of the company.

A stockholder who is considered to be resident in the United States and is entitled to the benefits of the convention between the United States and the Netherlands for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, dated December 18, 1992, as amended most recently by the Protocol signed March 8, 2004 (the Treaty ), will be entitled to a reduction in the Dutch withholding tax by way of an exemption, reduction or refund, as follows:

if the U.S. stockholder is an exempt pension trust, as described in article 35 of the Treaty, or an exempt organization, as described in article 36 of the Treaty, the U.S. stockholder will be exempt from Dutch dividend withholding tax;

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if the U.S. stockholder is a company which holds directly at least 10 percent of the voting power in the company, the U.S. stockholder will be subject to Dutch withholding tax at a rate not exceeding 5 percent;

if the U.S. stockholder is a company which holds directly at least 80 percent of the voting power in the company and certain other conditions are met, the U.S. stockholder will be exempt from Dutch dividend withholding tax; and

in all other cases, the U.S. stockholder will be subject to Dutch dividend withholding tax at a rate of 15 percent. According to Dutch domestic anti-dividend stripping rules, no credit against Dutch (corporate) income tax, exemption from, reduction in or refund of, Dutch dividend withholding tax will be granted if the recipient of the dividend paid by us is not considered to be the beneficial owner ( *uiteindelijk gerechtigde* ) of such dividends as meant in these rules.

***Taxes on Income and Capital Gains***

The description of taxation set out in this section of the Report does not apply to any stockholder who is an individual for whom the income or capital gains derived from our shares of common stock are attributable to employment activities, the income from which is taxable in the Netherlands.

A stockholder will not be subject to Dutch taxes on income or capital gains in respect of the ownership and disposal of our shares, other than Dutch dividend withholding tax as described above, except if:

- (i) the stockholder is, or is deemed to be, resident in the Netherlands for Dutch (corporate) income tax purposes;
- (ii) the stockholder derives profits from an enterprise, whether as entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net worth of such enterprise other than as an entrepreneur or a stockholder, which enterprise is, in whole or in part, carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) in the Netherlands, to which permanent establishment or a permanent representative the shares are attributable;
- (iii) the stockholder is an individual and derives benefits from miscellaneous activities (*resultaat uit overige werkzaamheden*) carried out in the Netherlands in respect of the shares, including, without limitation, activities which are beyond the scope of active portfolio investment activities;
- (iv) the stockholder is an individual and has a substantial interest (*aanmerkelijk belang*) or a fictitious substantial interest (*fictief aanmerkelijk belang*) in the company, which is not attributable to the assets of an enterprise;
- (v) the stockholder is not an individual and (a) the stockholder has a substantial interest or a fictitious substantial interest in the company, (b) the main purpose, or one of the main purposes of the shareholding is the avoidance of the levy of Dutch income tax or dividend withholding tax on someone other than the stockholder, and (c) there is an artificial arrangement or series of arrangements;

(vi) the stockholder is not an individual and is entitled to a share in the profits of an enterprise or a co-entitlement to the net-worth of an enterprise, other than by way of the holding of securities, which enterprise is effectively managed in the Netherlands and to which enterprise the shares are attributable; or

(vii) the stockholder is an individual and is entitled to a share in the profits of an enterprise, other than by way of the holding of securities, which enterprise is effectively managed in the Netherlands and to which enterprise the shares are attributable.

Generally, a stockholder has a substantial interest if such stockholder, alone or together with its partner, directly or indirectly (a) owns, or holds certain rights on, shares representing five percent or more of the total issued and outstanding capital of the company, or of the issued and outstanding capital of any class of shares of the company; (b) holds rights to, directly or indirectly, acquire shares, whether or not already issued, representing five percent or more of the total issued and outstanding capital of the company, or of the issued and outstanding capital of any class of shares of the company; or (c) owns, or holds certain rights on, profit participating certificates that relate to five percent or more of the annual profit of the company or to five percent or more of the liquidation proceeds of the company. A stockholder will also have a substantial interest if its partner or one of certain relatives of the stockholder or of its partner has a substantial interest.

Generally, a stockholder has a fictitious substantial interest in the company if, without having an actual substantial interest in the company (i) an enterprise has been contributed to the company in exchange for shares on an elective non-recognition basis; (ii) the shares have been obtained under inheritance law or matrimonial law, on a non-recognition basis, while the disposing stockholder had a substantial interest in the company; (iii) the shares have been acquired pursuant to a share merger, legal merger or legal demerger, on an elective non-recognition basis, while the stockholder prior to this transaction had a substantial interest in an entity that was party thereto; or (iv) the shares held by the stockholder, prior to dilution, qualified as a substantial interest and, by election, no gain was recognized upon disqualification of these shares.

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### ***Gift Tax and Inheritance Tax***

No Dutch gift or inheritance tax is due in respect of any gift of the shares by, or inheritance of the shares on the death of, a stockholder, except if:

- (i) at the time of the gift or death of the stockholder, the stockholder is resident, or is deemed to be resident, in the Netherlands;
- (ii) the stockholder passes away within 180 days after the date of the gift of the shares and is not, or not deemed to be, at the time of the gift, but is, or deemed to be, at the time of its death, resident in the Netherlands; or
- (iii) the gift of the shares is made under a condition precedent and the stockholder is resident, or is deemed to be resident, in the Netherlands at the time the condition is fulfilled.

For purposes of Dutch gift or inheritance tax, an individual who is of Dutch nationality will be deemed to be resident in the Netherlands if the individual has been resident in the Netherlands at any time during the ten years preceding the date of the gift or his/her death. For purposes of Dutch gift tax, any individual, irrespective of its nationality, will be deemed to be resident in the Netherlands if he has been resident in the Netherlands at any time during the 12 months preceding the date of the gift.

### ***Other Taxes and Duties***

No other Dutch taxes, including turnover tax and taxes of a documentary nature, such as capital tax, stamp or registration tax or duty, are payable by or on behalf of a stockholder by reason only of the purchase, ownership and disposal of the shares.

### ***Residency***

A stockholder will not become resident, or deemed resident in the Netherlands for tax purposes by reason only of holding the shares.

### **United States Federal Income Tax Considerations**

The following summary describes the material United States federal income tax consequences of the ownership and disposition of our shares as of the date hereof. The summary set forth below is applicable only to United States Holders (as defined below) (i) who are residents of the United States for purposes of the Treaty, (ii) whose shares do not, for purposes of the Treaty, form part of the business property of a permanent establishment, or pertain to a fixed base, in the Netherlands, and (iii) who otherwise qualify for the full benefits of the Treaty. Except where noted, this summary deals only with shares held as capital assets. As used herein, the term **United States Holder** means a beneficial owner of a share that is for United States federal income tax purposes:

an individual citizen or resident of the United States;

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a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to United States federal income taxation regardless of its source; or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

a dealer in securities or currencies;

a financial institution;

a regulated investment company;

a real estate investment trust;

an insurance company;

a tax-exempt organization;

a person holding our shares as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;

a trader in securities that has elected the mark-to-market method of accounting for your securities;

a person liable for alternative minimum tax;

a person who owns or is deemed to own 10% or more of our voting stock;

a person holding our shares in connection with a trade or business conducted outside of the United States;

a partnership or other pass-through entity for United States federal income tax purposes; or



a person whose functional currency is not the United States dollar.

The summary below is based upon the provisions of the United States Internal Revenue Code of 1986, as amended (the Code), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified, perhaps retroactively, so as to result in United States federal income tax consequences different from those discussed below.

If a partnership (or other entity treated as a partnership for United States federal income tax purposes) holds our shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or a partner of a partnership holding our shares, you should consult your tax advisors.

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This summary does not contain a detailed description of all the United States federal income tax consequences to you in light of your particular circumstances and does not address the Medicare tax on net investment income or the effects of any state, local or non-United States tax laws. If you are considering the purchase, ownership or disposition of our shares, you should consult your own tax advisors concerning the United States federal income tax consequences to you in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.

***Taxation of Dividends***

The gross amount of distributions on the shares (including any amounts withheld in respect of Dutch withholding taxes to the extent such amounts are actually transferred to the Dutch tax authorities, as described under *Certain Tax Considerations Holder of Common Stock Summary of Dutch Tax Considerations Withholding Tax* above) will be taxable as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Such amounts taxable as dividends (including any portion thereof withheld and paid over to the Dutch tax authorities) will be includable in your gross income as ordinary income on the day actually received by you or on the day received by your nominee or agent that holds the shares on your behalf. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

With respect to non-corporate United States investors, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States which the United States Treasury Department determines to be satisfactory for these purposes and which includes an exchange of information provision. The United States Treasury Department has determined that the Treaty meets these requirements. We believe we are currently eligible for the benefits of the Treaty. A foreign corporation is also treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares that are readily tradable on an established securities market in the United States. United States Treasury Department guidance indicates that our shares, which are listed on the NASDAQ Global Select Market, are considered readily tradable on an established securities market in the United States. There can be no assurance that our shares will be considered readily tradable on an established securities market in later years.

Non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from a risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. For this purpose, the minimum holding period requirement will not be met if a share has been held by a holder for 60 days or less during the 121-day period beginning on the date which is 60 days before the date on which such share becomes ex-dividend with respect to such dividend, appropriately reduced by any period in which such holder is protected from risk of loss. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of these rules to your particular circumstances.

The maximum rate of withholding tax on dividends paid to you pursuant to the Treaty is 15 percent. You may be required to properly demonstrate to the Company and the Dutch tax authorities your entitlement to the reduced rate of withholding under the Treaty. Subject to certain conditions and limitations, Dutch withholding taxes on dividends may be treated as foreign taxes eligible for credit against your United States federal income tax liability. However, amounts withheld to reflect Dutch withholding taxes will not be creditable to the extent that we are allowed to reduce the amount of the withholding tax that is actually transferred to the Dutch tax authorities, as described under *Certain Tax Considerations Holder of Common Stock Summary of Dutch Tax Considerations Withholding Tax* above. For

purposes of calculating the foreign tax credit, dividends paid on the shares will be treated as income from sources outside the United States and will generally constitute passive category income. Further, in certain circumstances, if you:

have held shares for less than a specified minimum period during which you are not protected from risk of loss, or

are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on the shares. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain recognized on a sale or exchange. However, we do not expect to determine earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

#### ***Passive Foreign Investment Company***

Based on the composition of our income and valuation of our assets, including goodwill, we do not believe we were a passive foreign investment company (a PFIC ) for the 2016 taxable year, and we do not expect to become one in the future, although there can be no assurance in this regard. If, however, we are or become a PFIC, you could be subject to additional United States federal income taxes on gain recognized with respect to the shares and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules. Non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

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### ***Taxation of Capital Gains***

For United States federal income tax purposes, you will recognize taxable gain or loss on any sale or exchange of a share in an amount equal to the difference between the amount realized for the share and your tax basis in the share. Such gain or loss will generally be capital gain or loss. Capital gains of non-corporate United States Holders (including individuals) derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as United States source gain or loss.

### ***Information Reporting and Backup Withholding***

In general, information reporting will apply to dividends in respect of our shares and the proceeds from the sale, exchange or redemption of our shares that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. Backup withholding may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the Internal Revenue Service.

### ***F. Dividends and Paying Agents***

Not applicable.

### ***G. Statement by Experts***

Not applicable.

### ***H. Documents on Display***

It is possible to read and copy documents referred to in this Report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 450 Fifth Street, NW, Washington, D.C. 20549.

Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges.

The Company's SEC filings are also publicly available through the SEC's website at [www.sec.gov](http://www.sec.gov).

### ***I. Subsidiary Information***

Not applicable.

## **Item 11. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to changes in interest rates and foreign currency exchange rates because we finance certain operations through fixed and variable rate debt instruments and denominate our transactions in a variety of foreign currencies. Changes in these rates may have an impact on future cash flow and earnings. We manage these risks through normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments.

We do not enter into financial instruments for trading or speculative purposes.

By using derivative instruments, we are subject to credit and market risk. The fair market value of the derivative instruments is determined by using valuation models whose inputs are derived using market observable inputs, including interest rate yield curves, as well as foreign exchange and commodity spot and forward rates, and reflects the asset or liability position as of the end of each reporting period. When the fair value of a derivative contract is positive, the counterparty owes us, thus creating a receivable risk for us. We are exposed to counterparty credit risk in the event of non-performance by counterparties to our derivative agreements. We minimize counterparty credit (or repayment) risk by entering into transactions with major financial institutions of investment grade credit rating. Our exposure to market risk is not hedged in a manner that completely eliminates the effects of changing market conditions on earnings or cash flow.

### **Interest Rate Risk**

Effective February 10, 2017, we have repaid all outstanding Term Loans (see note 24, "Subsequent Events", to the Consolidated Financial Statements included in Part III, Item 18 of this Report for additional information), substantially reducing our interest rate risk going forward. Our RCF Agreement has a \$600 million borrowing capacity with floating rate interest, but there are currently no borrowings under this facility. At December 31, 2016, without taking into account the aforementioned repayment of the Term Loans, a hypothetical increase in LIBOR based interest rates of 100 basis points would have caused our interest expense on our floating rate debt to increase by \$22 million on an annualized basis.

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Additional information regarding our notes is provided in notes 2, Significant Accounting Policies, and 16, Debt, of our notes to the Consolidated Financial Statements included in Part III, Item 18 of this Report is incorporated herein by reference.

**Foreign Currency Risks**

We are also exposed to market risk from changes in foreign currency exchange rates, which could affect operating results as well as our financial position and cash flows. We monitor our exposures to these market risks and generally employ operating and financing activities to offset these exposures where appropriate. If we do not have operating or financing activities to sufficiently offset these exposures, from time to time, we may employ derivative financial instruments such as swaps, collars, forwards, options or other instruments to limit the volatility to earnings and cash flows generated by these exposures. Derivative financial instruments are only used for hedging purposes and not for trading or speculative purposes. Counterparties to our derivatives contracts are all major banking institutions. In the event of financial insolvency or distress of a counterparty to our derivative financial instruments, we may be unable to settle transactions if the counterparty does not provide us with sufficient collateral to secure its net settlement obligation to us, which could have a negative impact on our results. The Company measures all derivative financial instruments based on fair values derived from market prices of the instruments or from option pricing models, as appropriate and record these as assets or liabilities in the balance sheet. Changes in the fair values are recognized in the statement of operations immediately unless cash flow hedge accounting is applied. A summary of our foreign currency accounting policies is provided in note 2, Significant Accounting Policies, of our notes to the Consolidated Financial Statements included in Part III, Item 18 of this Report is incorporated herein by reference.

At December 31, 2016 our net liability related to foreign currency option and forward contracts designated as hedges of foreign currency risk on certain operating expenditure transactions was negligible. If our forecasted operating expenditures for currencies in which we hedge were to decline by 20% and foreign exchange rates were to change unfavorably by 20% in our hedged foreign currency, we would incur a negligible loss.

Financial assets and liabilities held by consolidated subsidiaries that are not denominated in the functional currency of those entities are subject to the effects of currency fluctuations and may affect reported earnings. As a global company, we face exposure to adverse movements in foreign currency exchange rates. We may hedge currency exposures associated with certain assets and liabilities denominated in nonfunctional currencies and certain anticipated nonfunctional currency transactions. As a result, we could experience unanticipated gains or losses on anticipated foreign currency cash flows, as well as economic loss with respect to the recoverability of investments.

Our primary foreign currency exposure relates to the U.S. dollar to euro exchange rate. However, our foreign currency exposures also relate, but are not limited, to the Chinese Yuan, the Japanese Yen, the Pound Sterling, the Malaysian Ringgit, the Singapore Dollar, the Taiwan Dollar and the Thailand Baht.

**Equity Price Risk*****Cash Convertible Senior Notes***

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

related warrants are also determined by the price of our common stock.

**Item 12. Description of Securities Other than Equity Securities**

Not applicable.

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**PART II**

**Item 13. *Defaults, Dividend Arrearages and Delinquencies***

None

**Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds***

None

**Item 15. *Controls and Procedures*  
*Disclosure Controls and Procedures***

As of the end of the period covered by this Report, our management, with the participation of our chief executive officer and chief financial officer, conducted an evaluation pursuant to Rule 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as amended (the Exchange Act ) of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our chief executive officer and chief financial officer concluded that as of the end of the period covered by this Report such disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in reports we filed or submitted under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and included controls and procedures designed to ensure that information required to be disclosed in such reports was accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

***Management's Report on Internal Control over Financial Reporting***

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

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

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016 based on the criteria established in *Internal Control - Integrated Framework (2013)* by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment our management concluded that our internal control over financial reporting was effective as of December 31, 2016.



NXP acquired Freescale Semiconductor on December 7, 2015 and integration continues to be ongoing. For the year ended December 31, 2016 management incorporated the internal controls of the acquired entity into its evaluation of internal control over financial reporting, whereas for the year ended December 31, 2015 management's assessment and conclusion on the effectiveness of internal control over financial reporting, excluded the entity. During 2016, other than the aforementioned, there have not been any changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

***Attestation Report of the Independent Registered Public Accounting Firm***

For the year ended December 31, 2016 an attestation report regarding internal control over financial reporting of the Company's independent registered public accounting firm is required. The attestation is included in Part III, Item 18. *Financial Statements*.

**Item 16A. Audit Committee Financial Expert**

Mr. Goldman, chairman of our audit committee, qualifies as an audit committee financial expert as such term is defined in Item 407(d)(5) of Regulation S-K and as determined by our board of directors. Our board of directors has determined that Mr. Goldman is an independent director under the NASDAQ Global Select Market Corporate Governance Rules.

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### **Item 16B. Code of Ethics**

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

The NXP Code of Conduct is available on our website at [www.nxp.com/investor/governance](http://www.nxp.com/investor/governance). We will disclose on this website any amendments to, or waivers from, our Code of Business Conduct and Ethics (to the extent applicable to any principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions). The information contained on our website or that can be accessed through our website neither constitutes part of this Report on Form 20-F nor is incorporated by reference herein.

### **Item 16C. Principal Accountant Fees and Services**

The Company has instituted a comprehensive auditor independence policy that regulates the relation between the Company and its external auditors and is available on our website ([www.nxp.com/investor](http://www.nxp.com/investor)). The policy includes rules for the pre-approval by the audit committee of all services to be provided by the external auditor. The policy also describes the prohibited services that may not be provided. Proposed services may be pre-approved at the beginning of the year by the audit committee (annual pre-approval) or may be pre-approved during the year by the audit committee in respect of a particular engagement (specific pre-approval). The annual pre-approval is based on a detailed, itemized list of services to be provided, designed to ensure that there is no management discretion in determining whether a service has been approved and to ensure the audit committee is informed of each service it is pre-approving. Unless pre-approval with respect to a specific service has been given at the beginning of the year, each proposed service requires specific pre-approval during the year. Any annually pre-approved services where the fee for the engagement is expected to exceed pre-approved cost levels or budgeted amounts will also require specific pre-approval. The term of any annual pre-approval is 12 months from the date of the pre-approval unless the audit committee states otherwise. During 2016, there were no services provided to the Company by the external auditors which were not pre-approved by the audit committee.

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

Our Consolidated Financial Statements included in this Report have been audited by KPMG Accountants N.V., an independent registered public accounting firm. These financial statements have been approved by the board of directors.

The aggregate fees billed for professional services rendered for the fiscal periods 2016 and 2015 were as follows:

#### **Aggregate fees KPMG**

| (\$ in millions) | 2016 | 2015 |
|------------------|------|------|
| Audit fees       | 3.8  | 4.9  |
| Other fees       | 0.1  | 0.1  |
|                  | 3.9  | 5.0  |

Audit fees consist of fees for the examination of both the consolidated and statutory financial statements and for 2015 include fees paid by Freescale to KPMG prior to the acquisition. Audit fees also include fees that only our independent registered accounting firm can reasonably provide such as comfort letters and review of documents filed with the SEC. Other fees consist of fees for professional services by our independent registered public accounting firm for permissible non-audit services.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Table of Contents****Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table provides a summary of shares repurchased by the Company in 2016:

| <b>Period begin</b> | <b>Period end</b> | <b>Period</b> | <b>Total Number<br/>of Shares<br/>Purchased</b> | <b>Average Price<br/>Paid per Share</b> | <b>Total Number of<br/>Shares Purchased<br/>as Part of Publicly<br/>Announced Plans or<br/>Programs</b> | <b>Maximum<br/>Number of Shares<br/>that May Yet<br/>Be<br/>Purchased<br/>Under<br/>the Plans or<br/>Programs</b> |
|---------------------|-------------------|---------------|---|---|---|---|
| January 1           | February 7        | January       | 1,701,372                                       | 75.69                                   | 1,701,372   | 16,900,178  |
| February 8          | March 6           | February      | 2,220,591                                       | 67.98                                   | 2,220,591   | 14,679,587  |
| March 7             | April 3           | March         | 225,509   | 81.33                                   | 225,509   | 14,454,078  |
| April 4             | May 8             | April         | 1,675,063                                       | 81.61                                   | 1,675,063   | 12,779,015  |
| May 9               | June 5            | May           | 326,400   | 87.19                                   | 216,147   | 12,562,868  |
| June 6              | July 3            | June          | 2,328,764                                       | 85.99                                   | 2,328,764   | 10,234,104  |
| July 4              | August 7          | July          | 2,957,291                                       | 84.26                                   | 2,957,291   | 7,276,813   |
| August 8            | September 4       | August        | 2,890,078                                       | 87.67                                   | 2,890,078   | 4,386,735   |
| September 5         | October 2         | September     | 606,382   | 86.81                                   | 606,382   | 3,780,353   |
| October 3           | November 6        | October       | 515,609   | 100.82                                  | 515,609   | 3,264,744   |
| November 7          | December 4        | November      | 55,110  | 98.85                                   | 55,110  | 3,209,634   |
| December 5          | December 31       | December      | 35,699  | 97.99                                   | 35,699  | 3,173,935   |
| <b>Total 2016</b>   |                   |               | <b>15,537,868</b>                               | <b>82.36</b>                            | <b>15,427,615</b>   |   |

From time to time, last in September 2015, the General Meeting of Shareholders authorized the Board of Directors to repurchase shares of our common stock. On that basis, the Board of Directors resolved to repurchase shares to cover in part employee stock options and equity rights under its long term incentive plans. The purchases identified in the table were all pursuant to this authorization.

**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable.

**Item 16G. Corporate Governance**  
*The Dutch Corporate Governance Code*

Since our initial public offering in August 2010, we have been required to comply with the Dutch corporate governance code. The Dutch corporate governance code, as revised, became effective on January 1, 2009, and applies to all Dutch companies listed on a government-recognized stock exchange, whether in the Netherlands or elsewhere. The code is based on a "comply or explain" principle. Accordingly, companies are required to disclose in their Annual Reports filed in the Netherlands whether or not they are complying with the various rules of the Dutch corporate governance code that are addressed to the board of directors or, if any, the supervisory board of the company and, if

they do not apply those provisions, to give the reasons for such non-application. The code contains principles and best practice provisions for managing boards, supervisory boards, stockholders and general meetings of stockholders, financial reporting, auditors, disclosure, compliance and enforcement standards.

The Dutch corporate governance code provides that if a company indicates to what extent it applies the best practice provisions, such company will be deemed to have applied the Dutch corporate governance code.

The following discussion summarizes the primary differences between our corporate governance structure and best practice provisions of the Dutch corporate governance code:

Best practice provisions II.2.4 and II.2.5 state that stock options granted to members of our board shall, in any event, not be exercised in the first three years after the date of granting and shares granted to board members without financial consideration shall be retained for a period of at least five years or until at least the end of the employment, if this period is shorter. Under our equity incentive schemes, part of the stock options granted to our chief executive officer are exercisable one year after the date of grant, and members of our board who received restrictive shares and performance shares are not required to retain these shares for at least five years. Although a deviation from the Corporate Governance Code, we hold the view that the combination of equity incentives granted to our chief executive officer, in relation to his obligation laid down in the NXP Executive Equity Ownership Policy of October 2013 to maintain at least 20% of the after tax number of NXP shares delivered upon the vesting of any performance stock units granted as of October 2013, as well as the applicable strict vesting and performance criteria, will enhance the goal of promoting long-term investments in the Company. The same is true for the equity grants made to other members of our board, which also have very strict vesting criteria with the purpose of creating long-term commitment to the Company.

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Pursuant to best practice provision IV.1.1, a general meeting of stockholders is empowered to cancel binding nominations of candidates for the board, and to dismiss members of the board by a simple majority of votes of those in attendance, although the company may require a quorum of at least one third of the voting rights outstanding. If such quorum is not represented, but a majority of those in attendance vote in favor of the proposal, a second meeting may be convened and its vote will be binding, even without a one-third quorum. Our articles of association currently state that the general meeting of stockholders may at all times overrule a binding nomination by a resolution adopted by at least a two-thirds majority of the votes cast, if such majority represents more than half of the issued share capital. Although a deviation from provision IV.1.1 of the Dutch Corporate Governance Code, we hold the view that these provisions will enhance the continuity of the Company's management and policies.

Effective January 1, 2012, Dutch law does not allow directors to vote on a matter with regard to which they have an interest.

### ***The NASDAQ Global Select Market Corporate Governance Rules***

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 are exempt from certain corporate governance requirements that would otherwise apply in accordance with the listing requirements of the NASDAQ Global Select Market. These exemptions and home country rules relied on by us are described below:

We are exempt from NASDAQ's quorum requirements applicable to meetings of stockholders. Pursuant to Dutch corporate law, the validity of a resolution by the general meeting of stockholders does not depend on the proportion of the capital or stockholders represented at the meeting (i.e. quorum), unless the law or articles of association of a company provide otherwise. Our articles of association provide that a resolution proposed to the general meeting of stockholders by the board of directors shall be adopted by a simple majority of votes cast, unless another majority of votes or quorum is required under Dutch law or our articles of association. All other resolutions shall be adopted by a two thirds majority of the votes cast, provided such majority represents at least half of the issued share capital, unless another majority of votes or quorum is required under Dutch law. To this extent, our practice varies from the requirement of Listing Rule 5620(c), which requires an issuer to provide in its bylaws for a quorum, and that such quorum may not be less than one-third of the outstanding voting stock.

We are exempt from NASDAQ's requirements regarding the solicitation of proxies and provision of proxy statements for meetings of stockholders. We inform stockholders of meetings in a public notice. We prepare a proxy statement and solicit proxies from the holders of our listed stock. Our practice in this regard, however, differs from the typical practice of U.S. corporate issuers in that the advance record date for determining the holders of record entitled to attend and vote at our stockholder meetings is determined by Dutch law (currently 28 days prior to the meeting). As an administrative necessity, we establish a mailing record date in advance of each meeting of stockholders for purposes of determining the stockholders to which the proxy statement and form of proxy will be sent. However, only stockholders of record on the specified record date are entitled to attend and vote, directly or by proxy, at the meeting.

NASDAQ requires stockholder approval prior to the issuance of securities when a stock option or purchase plan is to be established or materially amended or other equity compensation arrangement made or materially amended, pursuant to which stock may be acquired by officers, directors, employees or consultants. Under Dutch

law and the Dutch corporate governance code, stockholder approval is only required for equity compensation plans (or changes thereto) for members of the board, and not for equity compensation plans for other groups of employees. However, we note that under Dutch law, the stockholders have the power to issue shares or rights to subscribe for shares at the general meeting of the stockholders unless such power has been delegated to the board. On June 2, 2015, our general meeting of stockholders has empowered our board of directors to issue additional shares and grant rights to subscribe for shares of common stock, up to 10% of the issued share capital which authorization can be used for general purposes and an additional 10% if the shares of common stock are issued or rights are granted in connection with an acquisition, merger or (strategic) alliance, and to restrict or exclude pre-emptive rights pertaining to (the right to subscribe for) shares for a period of 18 months from June 2, 2015 until December 2, 2016.

As a foreign private issuer, we are exempt from NASDAQ's requirement that compensation committees be comprised exclusively of independent directors provided that we describe the home country practice followed in lieu of such requirement and disclose the reasons for not having such an independent compensation committee. Under Dutch law and the Dutch corporate governance code, the general meeting of stockholders must adopt a policy in respect of the remuneration of the board. In accordance with our articles of association and our board rules, the remuneration of the executive directors is determined by the board of directors upon the recommendation of our nominating and compensation committee. Accordingly, applicable laws, regulations and corporate governance rules and practices do not require independence of the members of our nominating and compensation committee. Currently, all three members of our nominating and compensation committee are independent directors under the Dutch corporate governance rules and under the NASDAQ and SEC compensation committee structure and membership requirements.

We are exempt from NASDAQ's requirement to have independent director oversight of director nominations. In accordance with Dutch law, our articles of association require that our directors will be appointed by the general meeting of stockholders upon the binding nomination of the board. In accordance with our board rules, the nominating and compensation committee will recommend the nomination of directors to our board.

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NASDAQ requires us to adopt a nominations committee charter or a board resolution addressing the nominations process. In accordance with the Dutch corporate governance code, we have adopted the committee's charter.

However, the nominations process has been set out in our articles of association and board rules.

Moreover, we will not distribute Annual Reports to all of our stockholders in accordance with NASDAQ rules. Dutch law requires that the external auditors be appointed at the general meeting of stockholders and not by the audit committee. Our audit committee, which consists of members of our board of directors, shall only make a recommendation to the stockholders through the board of directors for the appointment and compensation of the independent registered public accounting firm and shall oversee and evaluate the work of our independent registered public accounting firm.

**Item 16H. Mine Safety Disclosures**

Not applicable.



**Table of Contents****PART III****Item 17. Financial Statements**

Not applicable.

**Item 18. Financial Statements**

See pages F-1 to F-[ ]

**Item 19. Exhibits****Exhibit****Number****Description of Document**

- | <b>Number</b> | <b>Description of Document</b>  |
|---------------|---|
| 2.1#          | Sale and Purchase Agreement, dated as of December 22, 2010, between NXP Semiconductors N.V., NXP B.V., the Dover Corporation, Knowles Electronics, LLC and EFF Acht Beteiligungsverwaltung GmbH (incorporated by reference to Exhibit 2.1 of the Form 20-F of NXP Semiconductors N.V. filed on March 13, 2012)  |
| 3.1           | Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of Amendment No. 7 to the Registration Statement on Form F-1 of NXP Semiconductors N.V., filed on August 2, 2010 (File No. 333-166128))  |
| 3.2           | Articles of Association of NXP Semiconductors N.V. (incorporated by reference to Exhibit 3.2 of Amendment No. 7 to the Registration Statement on Form F-1 of NXP Semiconductors N.V., filed on August 2, 2010 (File No. 333-166128))  |
| 4.1           | Secured Term Credit Agreement dated March 4, 2011, as amended by (i) the Joinder and Amendment Agreement dated as of November 18, 2011, (ii) the New Term Loan Joinder Agreement dated as of February 16, 2012, (iii) the New Term Loan Joinder Agreement dated as of December 10, 2012, (iv) the 2013 New Term Loan Joinder Agreement dated as of November 27, 2013, and (v) the 2014 New Term Loan Joinder Agreement dated as of February 18, 2014, among NXP B.V. and NXP Funding LLC as borrowers, Barclays Bank PLC as Administrative Agent, Morgan Stanley Senior Funding, Inc. as Global Collateral Agent, Mizuho Corporate Bank, Ltd. as Taiwan Collateral Agent, and the lenders party thereto. (incorporated by reference to Exhibit 4.8 of the Form 20-F of NXP Semiconductors N.V. filed on March 13, 2012) |
| 4.2           | Secured Revolving Credit Agreement dated April 27, 2012, as amended by an Incremental Joinder Agreement dated as of October 29, 2012, among NXP Semiconductors N.V., NXP B.V. and NXP Funding LLC as borrower, Morgan Stanley Senior Funding, Inc. as Global Collateral Agent and Administrative Agent, Mizuho Corporate Bank, Ltd. as Taiwan Collateral Agent and the lenders party thereto. (incorporated by reference to Exhibit 4.10 of the Form 20-F of NXP Semiconductors N.V. filed on March 1, 2013)  |

- 4.3 Senior Unsecured Indenture dated as of February 14, 2013 among NXP B.V. and NXP Funding LLC as Issuers, each of the Guarantors named on the signature page thereto as borrower and Deutsche Bank Trust Company Americas as Trustee (incorporated by reference to Exhibit 4.13 of Form 20-F of NXP Semiconductors N.V. filed on March 13, 2012)
- 4.4 Senior Unsecured Indenture dated as of March 12, 2013 among NXP B.V. and NXP Funding LLC as Issuers, each of the Guarantors named on the signature pages thereto and Deutsche Bank Trust Company Americas as Trustee (incorporated by reference to Exhibit 4.7 of the Form-20F of NXP Semiconductors N.V. filed on February 28, 2014)
- 4.5 Senior Unsecured Indenture dated as of May 20, 2013 among NXP B.V. and NXP Funding LLC as Issuers, each of the Guarantors named on the signature pages thereto and Deutsche Bank Trust Company Americas as Trustee (incorporated by reference to Exhibit 4.8 of the Form-20F of NXP Semiconductors N.V. filed on February 28, 2014)
- 4.6 Senior Unsecured Indenture dated as of September 24, 2013 among NXP B.V. and NXP Funding LLC as Issuers, each of the Guarantors named on the signature page thereto and Deutsche Bank Trust Company Americas as Trustee (incorporated by reference to Exhibit 4.9 of the Form-20F of NXP Semiconductors N.V. filed on February 28, 2014)
- 4.7 Senior Unsecured Indenture dated as of November 24, 2014 among NXP Semiconductors N.V. as Issuer and Deutsche Bank Trust Company Americas as Trustee (incorporated by reference to Exhibit 4.7 of the Form 20-F of NXP Semiconductors N.V. filed on March 6, 2015)
- 4.8 Support Agreement, dated as of March 1, 2015, by and among NXP Semiconductors N.V., Freescale Holdings L.P. and certain limited partners of Freescale Holdings L.P. (incorporated by reference to Exhibit 2 of the Form 6-K of NXP Semiconductors N.V. filed on March 3, 2015)
- 4.9 Commitment Letter, dated as of March 1, 2015, by and among NXP B.V., Credit Suisse Securities (USA) LLC and Credit Suisse AG, Cayman Islands Branch (incorporated by reference to Exhibit 3 of the Form 6-K of NXP Semiconductors N.V. filed on March 3, 2015)

**Table of Contents****Exhibit**

| <b>Number</b> | <b>Description of Document</b>  |
|---------------|---|
| 4.10          | Senior Unsecured Indenture dated June 9, 2015 among NXP B.V. and NXP Funding LLC as Issuers, each of the Guarantors named on the signature pages thereto and Deutsche Bank Trust Company Americas as Trustee (incorporated by reference to Exhibit 4.10 of the Form 20-F of NXP Semiconductors N.V. filed on February 26, 2016)   |
| 4.11          | Secured Term Credit Agreement dated as of December 7, 2015 among NXP B.V. and NXP Funding LLC as Borrowers, the several lenders from time to time parties thereto, Morgan Stanley Senior Funding, Inc. as Collateral Agent, Credit Suisse AG as Administrative Agent, Credit Suisse Securities (USA) LLC, Morgan Stanley Senior Funding, Inc., Barclays Bank PLC, Deutsche Bank Securities Inc. and Bank of America, N.A. as Joint Lead Arrangers and Joint Bookrunners, and Goldman Sachs Lending Partners LLC, Citigroup Global Markets Limited and Coöperative Centrale Raiffeisen-Boerenleenbank B.A. as Co-Managers (incorporated by reference to Exhibit 2 of the Form 6-K of NXP Semiconductors N.V. filed on December 7, 2015)  |
| 4.12          | Term Loan Guaranty Agreement dated as of December 7, 2015 among the guarantors listed on the signature pages thereto, Credit Suisse AG as Administrative Agent and Morgan Stanley Senior Funding, Inc. as Collateral Agent (incorporated by reference to Exhibit 3 of the Form 6-K of NXP Semiconductors N.V. filed on December 7, 2015)  |
| 4.13          | RCF Agreement dated as of December 7, 2015 among NXP B.V. and NXP Funding LLC as Borrowers, the several lenders from time to time parties thereto, Morgan Stanley Senior Funding, Inc. as Collateral Agent, Morgan Stanley Senior Funding, Inc., as Administrative Agent, Citibank, N.A. as Letter of Credit Issuer, Credit Suisse Securities (USA) LLC, Morgan Stanley Senior Funding, Inc., Barclays Bank PLC, Deutsche Bank Securities Inc. and Bank of America N.A. as Joint Lead Arrangers and Joint Bookrunners, and Goldman Sachs Lending Partners LLC, Citigroup Markets Limited and Coöperative Centrale Raiffeisen-Boerenleenbank B.A. as Co-Managers (incorporated by reference to Exhibit 4 of the Form 6-K of NXP Semiconductors N.V. filed on December 7, 2015) |
| 4.14          | RCF Guaranty Agreement dated as of December 7, 2015 among NXP B.V., NXP Funding LLC and each of the the subsidiary guarantors listed on the signature pages thereto, Morgan Stanley Senior Funding, Inc. as Collateral Agent and Morgan Stanley Senior Funding, Inc. as Administrative Agent (incorporated by reference to Exhibit 5 of the Form 6-K of NXP Semiconductors N.V. filed on December 7, 2015)  |
| 4.15          | Secured Bridge Term Credit Agreement dated as of December 7, 2015 among NXP B.V. and NXP Funding LLC as Borrowers, the lenders from time to time parties thereto, Morgan Stanley Senior Funding, Inc. as Collateral Agent and Credit Suisse AG as Administrative Agent (incorporated by reference to Exhibit 6 of the Form 6-K of NXP Semiconductors N.V. filed on December 7, 2015)  |
| 4.16          | Bridge Loan Guaranty Agreement dated as of December 7, 2015 among NXP B.V., NXP Funding LLC and each of the subsidiary guarantors listed on the signature pages thereto, Morgan Stanley Senior Funding, Inc. as Collateral Agent and Credit Suisse AG as Administrative Agent (incorporated by reference to Exhibit 7 of the Form 6-K of NXP Semiconductors N.V. filed on December 7, 2015)   |
| 4.17          | Supplemental Guaranty dated as of December 7, 2015 to the guarantee dated as of March 4, 2011 among NXP B.V., each of the Guarantors listed on the signature pages thereto, Barclays Bank PLC as Administrative Agent, Morgan Stanley Senior Funding, Inc. as Global Collateral Agent and Mizuho Corporate Ban, Ltd. as Taiwan Collateral Agent (incorporated by reference to Exhibit 10.4 of the Form  |

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8-K of Freescale Semiconductor, Ltd. filed on December 7, 2015)

- 4.18 Amended and Restated 2021 Freescale Indenture dated as of December 7, 2015 among Freescale Semiconductor, Inc., the Guarantors listed on the signature pages thereto and the Bank of New York Mellon Trust Company, N.A. as Trustee (incorporated by reference to Exhibit 8 of the Form 6-K of NXP Semiconductors N.V. filed on December 7, 2015)
- 4.19 Amended and Restated 2022 Freescale Indenture dated as of December 7, 2015 among Freescale Semiconductor, Inc., the Guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association as Trustee (incorporated by reference to Exhibit 9 of the Form 6-K of NXP Semiconductors N.V. filed on December 7, 2015)
- 4.20 Senior Indenture dated as of May 23, 2016, between NXP B.V. and NXP Funding LLC as Issuers, each of the guarantors party thereto and Deutsche Bank Trust Company Americas as Trustee (incorporated by reference to Exhibit 2 of the Form 6-K of NXP Semiconductors N.V. filed on August 2, 2016)
- 4.21 Senior Indenture dated as of August 11, 2016, among NXP B.V. and NXP Funding LLC as Issuers, each of the guarantors party thereto and Deutsche Bank Trust Company Americas as Trustee
- 4.22 2016 New Term Loan Joinder Agreement dated as of September 22, 2016, by and among the Tranche F Lenders defined therein, NXP B.V. and NXP Funding LLC as Borrowers and Credit Suisse AG as Administrative Agent
- 10.1 Intellectual Property Transfer and License Agreement dated as of September 28, 2006 between Koninklijke Philips Electronics N.V. and NXP B.V. (incorporated by reference to Exhibit 10.1 of the Amendment No. 3 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 30, 2010 (File No. 333-166128))
- 10.2 Intellectual Property Transfer and License Agreement dated as of November 16, 2009 among NXP B.V., Virage Logic Corporation and VL C.V. (incorporated by reference to Exhibit 10.2 of the Amendment No. 3 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 30, 2010 (File No. 333-166128))

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| <b>Number</b> | <b>Description of Document</b>  |
|---------------|---|
| 10.3          | Shareholders agreement dated as of March 30, 1999, as amended among EBD Investments Pte. Ltd., Koninklijke Philips Electronics N.V. and Taiwan Semiconductor Manufacturing Company Ltd. (incorporated by reference to Exhibit 10.4 of the Amendment No. 3 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 30, 2010 (File No. 333-166128))  |
| 10.4          | Lease Agreement dated as of December 23, 2004 between Jurong Town Corporation and Systems on Silicon Manufacturing Company Pte. Ltd. for the property at No. 70 Pasir Ris Drive 1, Singapore (incorporated by reference to Exhibit 10.8 of the Amendment No. 2 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 10, 2010 (File No. 333-166128))   |
| 10.5          | Lease Agreement dated September 26, 2003 between Huangjiang Investment Development Company and NXP Semiconductors (Guangdong) Company Ltd. for the property at Tian Mei High Tech Industrial Park, Huang, Jiang Town, Dongguan City, China (incorporated by reference to Exhibit 10.9 of the Amendment No. 2 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 10, 2010 (File No. 333-166128)) |
| 10.6          | Building Lease Contract dated as of May 12th, 2000 between the Export Processing Zone Administration (Ministry of Economic Affairs) and NXP Semiconductors Taiwan Ltd. (incorporated by reference to Exhibit 10.10 of the Amendment No. 2 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 10, 2010 (File No. 333-166128))  |
| 10.7          | Agreement with regard to the Lease of Standard Plant Basements dated as of July 1, 2011 between the Export Processing Zone Administration (Ministry of Economic Affairs) and NXP Semiconductors Taiwan Ltd. (incorporated by reference to Exhibit 4.8 of the Form-20F of NXP Semiconductors N.V. filed on February 28, 2014)  |
| 10.8          | Agreement with regard to the Lease of Additional Land dated as of July 1, 2008 between the Export Processing Zone Administration (Ministry of Economic Affairs) and NXP Semiconductors Taiwan Ltd. (incorporated by reference to Exhibit 10.14 of the Amendment No. 2 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 10, 2010 (File No. 333-166128))  |
| 10.9          | Agreement with regard to the Lease of a Dangerous Goods Warehouse dated as of November 27, 2009 between the Export Processing Zone Administration (Ministry of Economic Affairs) and NXP Semiconductors Taiwan Ltd. (incorporated by reference to Exhibit 10.15 of the Amendment No. 2 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 10, 2010 (File No. 333-166128))                       |
| 10.10         | Agreement with regard to the Lease of Land at Property Number AL012 dated as of July 1, 2008 between the Export Processing Zone Administration (Ministry of Economic Affairs) and NXP Semiconductors Taiwan Ltd. (incorporated by reference to Exhibit 10.18 of the Amendment No. 2 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 10, 2010 (File No. 333-166128))                          |
| 10.11         | Agreement with regard to the Lease of Land at Property Number AL020 dated as of July 1, 2008 between the Export Processing Zone Administration (Ministry of Economic Affairs) and NXP Semiconductors Taiwan Ltd. (incorporated by reference to Exhibit 10.19 of the Amendment No. 2 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 10, 2010 (File No. 333-166128))                          |
| 10.12         | Agreement with regard to the Lease of Land at Property Number AL020 dated as of July 1, 2008 between the Export Processing Zone Administration (Ministry of Economic Affairs) and NXP   |

- Semiconductors Taiwan Ltd. (incorporated by reference to Exhibit 10.19 of the Amendment No. 2 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 10, 2010 (File No. 333-166128))
- 10.13 Agreement with regard to the Lease of Land at Property Number CL102 dated as of July 1, 2008 between the Export Processing Zone Administration (Ministry of Economic Affairs) and NXP Semiconductors Taiwan Ltd. (incorporated by reference to Exhibit 10.21 of the Amendment No. 2 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 10, 2010 (File No. 333-166128))
- 10.14 Agreement with regard to the Lease of Land dated as of September 30, 2008 between the Export Processing Zone Administration (Ministry of Economic Affairs) and NXP Semiconductors Taiwan Ltd. (incorporated by reference to Exhibit 10.22 of the Amendment No. 2 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 10, 2010 (File No. 333-166128))
- 10.15 Agreement with regard to the Lease of Land at Property Number CL102 dated as of July 1, 2008 between the Export Processing Zone Administration (Ministry of Economic Affairs) and NXP Semiconductors Taiwan Ltd. (incorporated by reference to Exhibit 10.21 of the Amendment No. 2 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 10, 2010 (File No. 333-166128))

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| <b>Number</b> | <b>Description of Document</b>  |
|---------------|---|
| 10.16         | Agreement with regard to the Lease of Land dated as of September 30, 2008 between the Export Processing Zone Administration (Ministry of Economic Affairs) and NXP Semiconductors Taiwan Ltd. (incorporated by reference to Exhibit 10.22 of the Amendment No. 2 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 10, 2010 (File No. 333-166128))   |
| 10.17         | Management Equity Stock Option Plan Terms and Conditions dated August 2010 (incorporated by reference to Exhibit 10.19 of the Form-20F of NXP Semiconductors N.V. filed on March 13, 2012)  |
| 10.18         | Management Equity Stock Option Plan Terms and Conditions dated January 2011 (incorporated by reference to Exhibit 10.20 of the Form-20F of NXP Semiconductors N.V. filed on March 13, 2012)   |
| 10.19         | Long Term Incentive Plan 2010 Terms and Conditions with regard to the Stock Option Plan, the Performance Stock Unit Plan, Restricted Stock Unit Plan and Share Plan (incorporated by reference to Exhibit 10.21 of the Form-20F of NXP Semiconductors N.V. filed on March 13, 2012)   |
| 10.20         | NXP Global Equity Incentive Program (incorporated by reference to Exhibit 10.26 of the Amendment No. 3 to the Registration Statement on Form F-1 of NXP Semiconductors N.V. filed on June 30, 2010 (File No. 333-166128))   |
| 10.21         | Long Term Incentive Plan 2011 Terms and Conditions with regard to the Stock Option Plan, the Performance Stock Unit Plan, Restricted Stock Unit Plan and Share Plan (incorporated by reference to Exhibit 4.8 of the Form-20F of NXP Semiconductors N.V. filed on March 13, 2012)   |
| 10.22         | Agreement and Plan of Merger, dated as of March 1, 2015, by and among NXP Semiconductors N.V., Freescale Semiconductor, Ltd. and Nimble Acquisition Limited (incorporated by reference to Exhibit 1 of the Form 6-K of NXP Semiconductors N.V. filed on March 3, 2015) Long Term Incentive Plan 2012/3 Terms and Conditions with regard to the Stock Option Plan, the Performance Stock Unit Plan, Restricted Stock Unit Plan and Share Plan (incorporated by reference to Exhibit 10.22 of the Form-20F of NXP Semiconductors N.V. filed on March 1, 2013). Long Term Incentive Plan 2013/4 Terms and Conditions with regard to the Stock Option Plan, the Performance Stock Unit Plan and Restricted Stock Unit Plan (incorporated by reference to Exhibit 10.22 of the Form-20F of NXP Semiconductors N.V. filed on February 28, 2014). Long Term Incentive Plan 2014/5 Terms and Conditions with regard to the Stock Option Plan, the Performance Stock Unit Plan, the Restricted Stock Unit Plan and the Keep Restricted Stock Unit Plan (incorporated by reference to Exhibit 10.22 of the Form-20F of NXP Semiconductors N.V. filed on February 28, 2014). Long Term Incentive Plan 2015/6 Terms and Conditions with regard to the Stock Option Plan, the Performance Stock Unit Plan and the Restricted Stock Unit Plan (incorporated by reference to Exhibit 10.22 of the Form 20-F of NXP Semiconductors N.V. filed on February 26, 2016). Long Term Incentive Plan 2016/7 Terms and Conditions with regard to the Restricted Stock Unit Plan |
| 10.23         | Employee Stock Purchase Plan Terms and Conditions (incorporated by reference to Exhibit 4.1 of the Form S-8 of NXP Semiconductors N.V. filed on August 8, 2013)   |
| 10.24         | Agreement and Plan of Merger, dated as of March 1, 2015, by and among NXP Semiconductors N.V., Freescale Semiconductor, Ltd. and Nimble Acquisition Limited (incorporated by reference to Exhibit 1 of the Form 6-K of NXP Semiconductors N.V. filed on March 3, 2015)  |
| 10.25         | Shareholders agreement dated as of December 7, 2015 among NXP Semiconductors N.V., P4 Sub L.P. 1, Permira IV L.P. 2, Permira Investments Limited and P4 Co-Investment L.P. (incorporated by   |

reference to Exhibit 10.25 of the Form 20-F of NXP Semiconductors N.V. filed on February 26, 2016)

- 10.26 Shareholders agreement dated as of December 7, 2015 among NXP Semiconductors N.V., Carlyle Partners IV Cayman, L.P., CPIV Coinvestment Cayman, L.P., Carlyle Asia Partners II, L.P., CAP II Co-Investment, L.P., CEP II Participations S.a.r.l. SICAR, Carlyle Japan Partners, L.P. and CJP Co-Investment, L.P. (incorporated by reference to Exhibit 10.26 of the Form 20-F of NXP Semiconductors N.V. filed on February 26, 2016)
- 10.27 Shareholders agreement dated as of December 7, 2015 among NXP Semiconductors N.V., Blackstone Capital Partners (Cayman) V L.P., Blackstone Capital Partners (Cayman) V-A L.P., BCP (Cayman) V-S L.P., BCP V Co-Investors (Cayman) L.P., Blackstone Firestone Transaction Participation Partners (Cayman) L.P., Blackstone Firestone Principal Transaction Partners (Cayman) L.P., Blackstone Family Investment Partnership (Cayman) V L.P., Blackstone Family Investment Partnership (Cayman) V-SMD L.P. and Blackstone Participation Partnership (Cayman) V L.P. (incorporated by reference to Exhibit 10.27 of the Form 20-F of NXP Semiconductors N.V. filed on February 26, 2016)
- 10.28 Shareholders agreement dated as of December 7, 2015 among NXP Semiconductors N.V., TPG Partners IV AIV, L.P., TPG Partners V AIV, L.P., and TPG FOF V-B, L.P. (incorporated by reference to Exhibit 10.28 of the Form 20-F of NXP Semiconductors N.V. filed on February 26, 2016)



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| <b>Number</b> | <b>Description of Document</b>   |
|---------------|--|
| 10.29         | Amendment, dated as of June 13, 2016, to the Shareholders Agreement dated as of December 7, 2015 among the Company and Blackstone Capital Partners (Cayman) V L.P., Blackstone Capital Partners (Cayman) V-A L.P., BCP (Cayman) V-S L.P., BCP V Co-Investors (Cayman) L.P., Blackstone Firestone Transaction Participation Partners (Cayman) L.P., Blackstone Firestone Principal Transaction Partners (Cayman) L.P., Blackstone Family Investment Partnership (Cayman) V L.P., Blackstone Family Investment Partnership (Cayman) V-SMD L.P. and Blackstone Participation Partnership (Cayman) V L.P. (incorporated by reference to Exhibit 1 of the Form 6-K of NXP Semiconductors N.V. filed on June 14, 2016) |
| 10.30         | Amendment, dated as of June 13, 2016, to the Shareholders Agreement dated as of December 7, 2015 among the Company and Carlyle Partners IV Cayman, L.P., CPIV Coinvestment Cayman, L.P., Carlyle Asia Partners II, L.P., CAP II Co-Investment, L.P., CEP II Participations S.a.r.l. SICAR, Carlyle Japan Partners, L.P. and CJP Co-Investment, L.P. (incorporated by reference to Exhibit 2 of the Form 6-K of NXP Semiconductors N.V. filed on June 14, 2016)   |
| 10.31         | Amendment, dated as of June 13, 2016 to the Shareholders Agreement dated as of December 7, 2015 among the Company and P4 Sub L.P. 1, Permira IV L.P. 2, Permira Investments Limited and P4 Co-Investment L.P. (incorporated by reference to Exhibit 3 of the Form 6-K of NXP Semiconductors N.V. filed on June 14, 2016)   |
| 10.32         | Amendment, dated as of June 13, 2016 to the Shareholders Agreement dated as of December 7, 2015 among the Company and TPG Partners IV AIV, L.P., TPG Partners V AIV, L.P., TPG FOF V-A, L.P. and TPG FOF V-B, L.P. (incorporated by reference to Exhibit 4 of the Form 6-K of NXP Semiconductors N.V. filed on June 14, 2016)  |
| 10.33         | Sale and Purchase Agreement, dated June 14, 2016, between NXP B.V., Beijing Jianguang Asset Management Co., Ltd. and Wise Road Capital LTD   |
| 10.34         | Purchase Agreement, dated October 27, 2016, by and between Qualcomm River Holdings B.V. and NXP Semiconductors N.V. (incorporated by reference to Exhibit 2 of the Form 6-K of NXP Semiconductors N.V. filed on October 27, 2016)  |
| 12.1          | Certification of R.L. Clemmer filed pursuant to 17 CFR 240. 13a-14(a)  |
| 12.2          | Certification of D. Durn filed pursuant to 17 CFR 240. 13a-14(a)   |
| 13.1          | Certification of R.L. Clemmer furnished pursuant to 17 CFR 240. 13a-14(b)  |
| 13.2          | Certification of D. Durn furnished pursuant to 17 CFR 240. 13a-14(b)   |
| 21.1          | List of Significant Subsidiaries of the Registrant   |
| 23            | Consent of KPMG Accountants N.V.   |

# Confidential treatment previously requested and granted

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|                                    |  |
|------------------------------------|--|
| <b>32 bit ARM microcontrollers</b> | Microcontroller based on a 32-bit processor core developed and licensed by ARM Technologies.   |
| <b>AC-DC</b>                       | Conversion of alternating current to direct current.   |
| <b>Analog</b>                      | A form of transmission that is a continuous wave of an electrical signal that varies in frequency and/or amplitude in response to variations of physical phenomena such as human speech or music.  |
| <b>Back-end</b>                    | The packaging, assembly and testing stages of the semiconductors manufacturing process, which takes place after electronic circuits are imprinted on silicon wafers in the front-end process.  |
| <b>BiCMOS</b>                      | A process technology that combines bipolar and CMOS processes, typically by combining digital CMOS circuitry with higher voltage or higher speed bipolar circuitry.  |
| <b>Bipolar</b>                     | A process technology used to create semiconductors for applications involving the use of higher power levels than are possible with a CMOS chip. Due to the geometry of a bipolar circuit, these devices are significantly larger than CMOS devices. The speed of the most advanced bipolar devices exceeds those attainable with CMOS, but only at very large electrical currents. As a result, the number of bipolar devices that can be integrated into a single product is limited.                        |
| <b>Bluetooth low energy</b>        | Bluetooth low energy (BLE) is a wireless computer network technology that, in comparison with classic Bluetooth, requires considerably less power and provides a similar communication range. BLE has been included in the majority of smart phones for the past couple of years, with its initial application as the communication between the smart phone and other personal devices like fitness trackers and head-sets. Recently also other applications like communication with light bulbs are emerging. |
| <b>CAN</b>                         | Controller Area Network. A network technology used in automotive network architecture.   |
| <b>CATV</b>                        | An abbreviation for cable television.  |
| <b>Car access and immobilizers</b> | An automobile technology segment focused on keyless entry and car immobilization applications. An automobile immobilizer is an electronic device fitted to an automobile which prevents the engine from running unless the correct key (or other token) is present.  |
| <b>Chip</b>                        | Semiconductor device.  |
| <b>CMOS</b>                        | Complementary Metal Oxide Semiconductor. The most common integrated circuit fabrication technology in the semiconductor industry. The technology is used to make integrated circuits where small size and high speed are important. As a result of the very small feature sizes that can be attained through CMOS technology, however, the ability of these integrated circuits to cope with high electrical currents and voltages is limited.   |

|                                |  |
|--------------------------------|--|
| <b>Coolflux DSP</b>            | A low power digital signal processor designed for mobile audio applications.   |
| <b>Digital</b>                 | A form of transmission where data is represented by a series of bits or discrete values such as 0 and 1.   |
| <b>Diode</b>                   | A semiconductor that allows currents to flow in one direction only.  |
| <b>Discrete semiconductors</b> | Unlike integrated circuits, which contain up to tens of millions of transistors, discrete semiconductors are single devices, usually with two terminals (diodes) or three terminals (transistors). These are either applied as peripheral components on printed circuit boards, or used for special purposes such as very high power applications. |
| <b>DMOS</b>                    | Diffused Metal on Silicon Oxide Semiconductor. A process technology used to manufacture integrated circuits that can operate at high voltage.  |
| <b>DSP</b>                     | Digital signal processor. A specialized microprocessor optimized to process sequences of numbers or symbols which represent signals.   |
| <b>EMI filtering</b>           | Electromagnetic interference (or EMI, also called radio frequency interference or RFI when in high frequency or radio frequency) is disturbance that affects an electrical circuit due to either electromagnetic induction or electromagnetic radiation emitted from an external source.   |

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|                                      |   |
|--------------------------------------|---|
| <b>eNVM</b>                          | Embedded non-volatile memory (eNVM) offers broad areas of applications for MCU<br><br>(microcontroller) in Automotive, Mobility, and Security markets with key advantages such as dense board designs with reduced number of parts, reduced system costs, reduced noise, higher system speed due to fast code access, in-system on-board re-programmability of code and data storage, lower power dissipation, improved reliability, and real-time control application. |
| <b>e-passport</b>                    | A passport with secure data source chip used in providing personalized information.   |
| <b>ESD</b>                           | Electrostatic discharge. The sudden and momentary electric current that flows between two objects caused by direct contact or induced by an electrostatic field. This term is used in the context of electronics to describe momentary unwanted currents that may cause damage to electronic equipment.   |
| <b>Fab (or wafer fab)</b>            | A semiconductor fabrication facility in which front-end manufacturing processes take place.   |
| <b>Fabless semiconductor company</b> | A semiconductor company that does not have any internal wafer fab manufacturing capacity but instead focuses on designing and marketing its products, while outsourcing manufacturing to an independent foundry.  |
| <b>FlexRay</b>                       | A new communications protocol designed for the high data transmission rates required by advanced automotive control systems.  |
| <b>Foundry</b>                       | A semiconductor manufacturer that manufactures chips for third parties.   |
| <b>Front-end</b>                     | The wafer processing stage of the semiconductors manufacturing process in which electronic circuits are imprinted onto raw silicon wafers. This stage is followed by the packaging, assembly and testing stages, which together comprise the back-end process.  |
| <b>HDMI</b>                          | High-Definition Multimedia Interface. A compact audio/video interface for transmitting uncompressed digital data  |
| <b>HDTMOS</b>                        | High cell density TMOS (HDTMOS) is an advancement in power MOSFET technology that reduces power dissipation. This results in lower thermal generation and a reduction in the component's total part count.  |
| <b>HPRF power amplifier</b>          | High power RF (HPRF) system mainly consists of RF power amplifiers and waveguide distribution system. RF power amplifiers produce RF energy and waveguides transmit this RF energy to the accelerator modules.  |
| <b>HSPA+</b>                         | Evolved High-Speed Packet Access, or HSPA+, is a technical standard for wireless, broadband telecommunication with higher speeds for the end user that are comparable to the newer LTE networks.  |
| <b>I<sup>2</sup>C</b>                | A multi-master serial single-ended computer bus that is used to attach low-speed peripherals to a motherboard, embedded system or mobile phone.   |
| <b>IC</b>                            | Integrated Circuit. A miniaturized electronic circuit that has been manufactured in the surface of a thin substrate of semiconductor material.  |
| <b>ICN 6,8</b>                       |   |

NXP wafer fab facilities located in Nijmegen, Netherlands, processing 6 or 8 diameter wafers. As of end December 2014, only ICN 8 is still in use.

**i.MX**

i.MX applications processors are multicore ARM-based solutions for multimedia and display applications with scalability, high performance and low power capabilities.

**In-process research and development**

The value allocated to incomplete research and development projects in acquisitions treated as purchases.

**IoT**

The Internet of Things (IoT) is the network of physical objects devices, vehicles, buildings and other items which are embedded with electronics, software, sensors and network connectivity, which enables these objects to collect and exchange data. The Internet of Things allows objects to be sensed and controlled remotely across existing network infrastructure, creating opportunities for more direct integration of the physical world into computer-based systems.

**LDMOS**

Laterally Diffused Metal Oxide Semiconductor. A transistor used in RF/microwave power amplifiers.

**LED**

Light Emitting Diode. A semiconductor device which converts electricity into light.

**LIBOR**

London Interbank Offered Rate. The benchmark rate at which interbank term deposits within the leadings banks in London would be charged if borrowing from other banks.

**LIN**

Local Interconnect Network. A network technology used in automotive network architecture.

**LNA**

Low-Noise Amplifier. An electronic amplifier used to amplify very weak signals.

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|                             |  |
|-----------------------------|--|
| <b>LTE</b>                  | Long Term Evolution (LTE) is a 4G wireless broadband technology standard for wireless communication of high-speed data for mobile phones and data terminals, increasing the capacity and speed using a different radio interface together with core network improvements.  |
| <b>Memory</b>               | Any device that can store data in machine readable format. Usually used synonymously with random access memory and read only memory.   |
| <b>Microcontroller</b>      | A microprocessor combined with memory and interface integrated on a single circuit and intended to operate as an embedded system.  |
| <b>Micron</b>               | A metric unit of linear measure which equals one millionth of a meter. A human hair is about 100 microns in diameter.  |
| <b>MIFARE</b>               | Trademarked name, owned by NXP, for the most widely used contactless smart card, or proximity card, technology, for payment in transportation systems.   |
| <b>Mixed-signal</b>         | The mixed-signal part of an application solution refers to the devices and sub-system solutions that translate real world analog signals and phenomena such as radio frequency communication and power signals, sound, light, temperature, pressure, acceleration, humidity and chemical characteristics into digital or power signals that can be fed into the central microprocessing or storage devices at the heart of an application system solution. |
| <b>MOS</b>                  | Metal Oxide Semiconductor. A metal insulator semiconductor structure in which the insulating layer is an oxide of the substrate material.  |
| <b>MOSFET</b>               | Metal Oxide Semiconductor Field Effect Transistor. A device used for amplifying or switching electronic signals.   |
| <b>Nanometer</b>            | A metric unit of linear measure which equals one billionth of a meter. There are 1,000 nanometers in 1 micron.   |
| <b>NFC</b>                  | Near field communication. A technology which allows devices to establish a secure point-to-point wireless connection at very close ranges (within several centimeters), and which is being increasingly adopted in mobile devices and point-of-sale terminals or other devices.  |
| <b>ODM</b>                  | Original Design Manufacturer. A company which manufactures a product which ultimately will be branded by another firm for sale.  |
| <b>OEM</b>                  | Original Equipment Manufacturer. A manufacturer that designs and manufactures its products for the end consumer market.  |
| <b>Power MOS</b>            | A specific type of metal oxide semiconductor designed to handle large amounts of power.  |
| <b>Process technologies</b> | The technologies used in front-end processes to convert raw silicon wafers into finished wafers containing hundreds or thousands of chips.   |
| <b>QorIQ</b>                | QorIQ processing platforms are complete system on chip (SoC) processors for networking applications across carrier, enterprise, military and industrial markets.   |
| <b>Rectifier</b>            | An electrical device that converts alternating current to direct current.  |
| <b>RF</b>                   |  |

Radio Frequency. A high frequency used in telecommunications. The term radio frequency refers to alternating current having characteristics such that, if the current is input to an antenna, an electromagnetic (EM) field is generated suitable for wireless broadcasting and/or communications.

**Radio Frequency Identification**

An RF chip used for identification.

**Semiconductors**

Generic term for devices such as transistors and integrated circuits that control the flow of electrical signals. The most common semiconductor material for use in integrated circuits is silicon.

**Silicon**

A type of semiconducting material used to make wafers. Silicon is widely used in the semiconductor industry as a base material.

**SoC**

A system on a chip or system on chip (SoC) is an integrated circuit (IC) that integrates all components of a computer or other electronic system into a single chip. It may contain digital, analog, mixed-signal, and often radio-frequency functions all on a single chip substrate.

**Solid State Lighting**

A type of lighting that uses semiconductor light-emitting diodes (LEDs), organic light-emitting diodes (OLED), or polymer light-emitting diodes (PLED) as sources of illumination rather than electrical filaments, plasma or gas.

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|                      |   |
|----------------------|---|
| <b>SPI</b>           | Serial Peripheral Interface Bus. A synchronous serial data link standard that operates in full duplex mode.   |
| <b>SS MOS</b>        | Small signal power discrete including a metal oxide semiconductor field effect transistor.  |
| <b>SS Transistor</b> | A small signal transistor.  |
| <b>Substrate</b>     | The base material made from silicon on which an integrated circuit is printed.  |
| <b>TD-LTE</b>        | Time-division Long-Term Evolution (TD-LTE), is a 4G telecommunications technology and standard. It is one of two variants of the Long Term Evolution (LTE) technology standard.   |
| <b>TD-SCDMA</b>      | Time Division Synchronous Code Division Multiple Access (TD-SCDMA) is a 3G format of choice for the national standard of 3G mobile telecommunication in China.  |
| <b>Telematics</b>    | The science of sending, receiving and storing information via telecommunication devices.  |
| <b>UART</b>          | Universal Asynchronous Receiver/Transmitter. An integrated circuit used for serial communications over a computer or peripheral device serial port.   |
| <b>USB</b>           | Universal Serial Bus. A standard that provides a serial bus standard for connecting devices, usually to a computer.   |
| <b>Wafer</b>         | A disk made of a semiconducting material, such as silicon, usually either 100, 125, 150, 200 or 300 millimeters in diameter, used to form the substrate of a chip. A finished wafer may contain several thousand chips.                       |
| <b>White goods</b>   | A term which refers to large household appliances such as refrigerators, stoves, dishwashers and other similar items.   |
| <b>Yield</b>         | The ratio of the number of usable products to the total number of manufactured products.  |
| <b>ZigBee</b>        | ZigBee is a technology of data transfer in wireless networks. It has low energy consumption and is designed for multi-channel control systems, alarm systems, and lighting control. It also has other various home and industry applications. |



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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

NXP Semiconductors N.V.

(Registrant)

/s/ RICHARD L. CLEMMER

Richard L. Clemmer  
Chief Executive Officer

(Principal Executive Officer)

Date: March 3, 2017

/s/ DANIEL DURN

Daniel Durn  
Chief Financial Officer

(Principal Financial and Accounting Officer)

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**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

The following financial statements and related schedules, together with the report of independent registered public accounting firms thereon, are filed as part of this Annual Report:

**Consolidated Financial Statements**

|   |     |
|---|-----|
| <u>Report of Independent Registered Public Accounting Firm, KPMG Accountants N.V.</u>                       | F-2 |
| <u>Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014</u>           | F-3 |
| <u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014</u> | F-4 |
| <u>Consolidated Balance Sheets as of December 31, 2016 and 2015</u>   | F-5 |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014</u>           | F-6 |
| <u>Consolidated Statements of Changes in Equity for the years ended December 31, 2016, 2015 and 2014</u>    | F-8 |
| <u>Notes to the Consolidated Financial Statements</u>   | F-9 |

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

NXP Semiconductors N.V.:

We have audited the accompanying consolidated balance sheets of NXP Semiconductors N.V. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, cash flows, and changes in equity for each of the years in the three-year period ended December 31, 2016. We also have audited NXP Semiconductors N.V.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). NXP Semiconductors N.V.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NXP Semiconductors N.V. and subsidiaries as of December 31, 2016 and 2015, and the results of

their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion, NXP Semiconductors N.V. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG Accountants N.V.  
Amstelveen, the Netherlands  
March 3, 2017

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**Table of Contents****NXP Semiconductors N.V.****Consolidated Statements of Operations**

| (\$ in millions, unless otherwise stated)  | For the years ended December 31, |              |              |
|--|----------------------------------|--------------|--------------|
|  | 2016                             | 2015         | 2014         |
| Revenue  | 9,498                            | 6,101        | 5,647        |
| Cost of revenue  | (5,429)                          | (3,314)      | (3,007)      |
| <b>Gross profit</b>  | <b>4,069</b>                     | <b>2,787</b> | <b>2,640</b> |
| Research and development   | (1,560)                          | (890)        | (763)        |
| Selling, general and administrative  | (1,141)                          | (922)        | (686)        |
| Amortization of acquisition-related intangible assets  | (1,527)                          | (223)        | (152)        |
| Other income (expense)   | 9                                | 1,263        | 10           |
| <b>Operating income (loss)</b>   | <b>(150)</b>                     | <b>2,015</b> | <b>1,049</b> |
| Financial income (expense):  |                                  |              |              |
| Extinguishment of debt   | (32)                             |              | (3)          |
| Other financial income (expense)   | (421)                            | (529)        | (407)        |
| <b>Income (loss) before income taxes</b>   | <b>(603)</b>                     | <b>1,486</b> | <b>639</b>   |
| Benefit (provision) for income taxes   | 851                              | 104          | (40)         |
| Results relating to equity-accounted investees   | 11                               | 9            | 8            |
| <b>Net income (loss)</b>   | <b>259</b>                       | <b>1,599</b> | <b>607</b>   |
| Less: Net income (loss) attributable to non-controlling interests                                    | 59                               | 73           | 68           |
| <b>Net income (loss) attributable to stockholders</b>  | <b>200</b>                       | <b>1,526</b> | <b>539</b>   |
| <b>Earnings per share data:</b>  |                                  |              |              |
| <i>Net income (loss) per common share attributable to stockholders in \$:</i>                        |                                  |              |              |
| Basic  | 0.59                             | 6.36         | 2.27         |
| Diluted  | 0.58                             | 6.10         | 2.17         |
| <i>Weighted average number of shares of common stock outstanding during the year (in thousands):</i> |                                  |              |              |
| Basic  | 338,477                          | 239,764      | 237,954      |
| Diluted  | 347,607                          | 250,116      | 248,609      |

See accompanying notes to the consolidated financial statements.

**Table of Contents****NXP Semiconductors N.V.****Consolidated Statements of Comprehensive Income**

| (\$ in millions, unless otherwise stated)                                   | For the years ended December 31, |       |       |
|---|----------------------------------|-------|-------|
|   | 2016                             | 2015  | 2014  |
| <b>Net income (loss)</b>  | <b>259</b>                       | 1,599 | 607   |
| <b>Other comprehensive income (loss), net of tax:</b>                       |                                  |       |       |
| Change in net investment hedge  |                                  | (190) | (214) |
| Change in fair value cash flow hedges *                                     |                                  |       | 2     |
| Change in foreign currency translation adjustment                           | (124)                            | 131   | 140   |
| Change in net actuarial gain (loss)   | (27)                             | 31    | (66)  |
| Change in net unrealized gains (losses) available-for-sale securities       | 4                                | (1)   | 1     |
| <b>Total other comprehensive income (loss)</b>                              | <b>(147)</b>                     | (29)  | (137) |
| <b>Total comprehensive income (loss)</b>                                    | <b>112</b>                       | 1,570 | 470   |
| Less: Comprehensive income (loss) attributable to non-controlling interests | 59                               | 73    | 68    |
| <b>Total comprehensive income (loss) attributable to stockholders</b>       | <b>53</b>                        | 1,497 | 402   |

\* Reclassification adjustments included in Cost of revenue in the Consolidated Statements of Operations.  
See accompanying notes to the consolidated financial statements.

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**NXP Semiconductors N.V.**  
**Consolidated Balance Sheets**

| (\$ in millions, unless otherwise stated) | As of December 31, |               |
|---|--------------------|---------------|
|   | 2016               | 2015          |
| <b>Assets</b>                             |                    |               |
| <b>Current assets:</b>                    |                    |               |
| Cash and cash equivalents                 | 1,894              | 1,614         |
| Accounts receivables, net                 | 1,033              | 1,047         |
| Assets held for sale                      | 1,104              | 15            |
| Inventories, net                          | 1,113              | 1,879         |
| Other current assets                      | 254                | 257           |
| Total current assets                      | 5,398              | 4,812         |
| <b>Non-current assets:</b>                |                    |               |
| Other non-current assets                  | 962                | 602           |
| Property, plant and equipment, net        | 2,352              | 2,922         |
| Identified intangible assets, net         | 7,343              | 8,790         |
| Goodwill                                  | 8,843              | 9,228         |
| Total non-current assets                  | 19,500             | 21,542        |
| <b>Total assets</b>                       | <b>24,898</b>      | <b>26,354</b> |
| <b>Liabilities and equity</b>             |                    |               |
| <b>Current liabilities:</b>               |                    |               |
| Accounts payable                          | 973                | 1,014         |
| Liabilities held for sale                 | 198                |               |
| Restructuring liabilities - current       | 129                | 197           |
| Accrued liabilities                       | 712                | 781           |
| Short-term debt                           | 421                | 556           |
| Total current liabilities                 | 2,433              | 2,548         |
| <b>Non-current liabilities:</b>           |                    |               |
| Long-term debt                            | 8,766              | 8,656         |
| Restructuring liabilities                 | 22                 | 43            |
| Deferred tax liabilities                  | 1,659              | 2,293         |
| Other non-current liabilities             | 862                | 1,011         |
| Total non-current liabilities             | 11,309             | 12,003        |
| <b>Equity:</b>                            |                    |               |
| Non-controlling interests                 | 221                | 288           |

## Stockholders' equity:

Preferred stock, par value 0.20 per share:

Authorized: 645,754,500 (2015: 645,754,500 shares)

Issued: none

Common stock, par value 0.20 per share:

Authorized: 430,503,000 shares (2015: 430,503,000 shares)

Issued and fully paid: 346,002,862 shares (2015: 346,002,862 shares)

Capital in excess of par value

Treasury shares, at cost:

10,609,980 shares (2015: 3,998,982 shares)

Accumulated other comprehensive income (loss)

Accumulated deficit

Total Stockholders' equity

Total equity

**Total liabilities and equity**

|  |                |         |
|--|----------------|---------|
|  | <b>71</b>      | 68      |
|  | <b>15,679</b>  | 15,150  |
|  | <b>(915)</b>   | (342)   |
|  | <b>34</b>      | 181     |
|  | <b>(3,934)</b> | (3,542) |
|  | <b>10,935</b>  | 11,515  |
|  | <b>11,156</b>  | 11,803  |
|  | <b>24,898</b>  | 26,354  |

See accompanying notes to the consolidated financial statements.



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## NXP Semiconductors N.V.

## Consolidated Statements of Cash Flows

| (\$ in millions, unless otherwise stated)   | For the years ended December 31, |         |       |
|---|----------------------------------|---------|-------|
|   | 2016                             | 2015    | 2014  |
| <i>Cash flows from operating activities:</i>  |                                  |         |       |
| <b>Net income (loss)</b>  | <b>259</b>                       | 1,599   | 607   |
| Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities: |                                  |         |       |
| Depreciation and amortization   | 2,205                            | 517     | 405   |
| Share-based compensation  | 338                              | 216     | 133   |
| Excess tax benefits from share-based compensation plans   | (5)                              |         |       |
| Change in fair value of warrant liability   |                                  | 31      | 2     |
| Amortization of discount on debt  | 34                               | 39      | 3     |
| Amortization of debt issuance costs   | 16                               | 11      | 13    |
| Net (gain) loss on sale of assets   | (11)                             | (1,263) | (10)  |
| (Gain) loss on extinguishment of debt   | 32                               |         | 3     |
| Results relating to equity-accounted investees  | (11)                             | (9)     | (8)   |
| Changes in deferred taxes   | (925)                            | (168)   | 1     |
| <i>Changes in operating assets and liabilities:</i>   |                                  |         |       |
| (Increase) decrease in receivables and other current assets   | (51)                             | (78)    | (111) |
| (Increase) decrease in inventories  | 568                              | 82      | (42)  |
| Increase (decrease) in accounts payable and accrued liabilities                                     | (156)                            | 127     | 222   |
| Decrease (increase) in other non-current assets   | 5                                | 30      | 13    |
| Exchange differences  | 15                               | 193     | 246   |
| Other items   | (10)                             | 3       | (9)   |
| <b>Net cash provided by (used for) operating activities</b>   | <b>2,303</b>                     | 1,330   | 1,468 |
| <i>Cash flows from investing activities:</i>  |                                  |         |       |
| Purchase of identified intangible assets  | (59)                             | (12)    | (36)  |
| Capital expenditures on property, plant and equipment   | (389)                            | (341)   | (329) |
| Proceeds from disposals of property, plant and equipment  | 1                                | 7       | 4     |
| Proceeds from disposals of assets held for sale   |                                  |         | 6     |
| Purchase of interests in businesses, net of cash acquired   | (202)                            | (1,692) | (8)   |
| Proceeds from sale of interests in businesses, net of cash divested                                 | 20                               | 1,605   | 1     |
| Proceeds from return of equity investment   |                                  | 1       |       |
| Other   | 2                                | 2       | (25)  |
| <b>Net cash provided by (used for) investing activities</b>   | <b>(627)</b>                     | (430)   | (387) |
| <i>Cash flows from financing activities:</i>  |                                  |         |       |
| Net (repayments) borrowings of short-term debt  | (6)                              | (2)     | (17)  |
| Amounts drawn under the revolving credit facility   | 200                              |         | 800   |
| Repayments under the revolving credit facility  | (200)                            |         | (950) |

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|   |                |              |              |
|---|----------------|--------------|--------------|
| Repurchase of long-term debt                                | (3,295)        | (3,586)      | (92)         |
| Principal payments on long-term debt                        | (38)           | (32)         | (15)         |
| Proceeds from the issuance of long-term debt                | 3,259          | 3,680        | 1,150        |
| Cash paid for debt issuance costs                           | (26)           | (32)         | (16)         |
| Proceeds from the sale of warrants                          |                |              | 134          |
| Cash paid for Notes hedge derivatives                       |                |              | (208)        |
| Dividends paid to non-controlling interests                 | (126)          | (51)         | (50)         |
| Cash proceeds from exercise of stock options                | 115            | 51           | 145          |
| Purchase of treasury shares                                 | (1,280)        | (475)        | (1,435)      |
| Hold-back payments on prior acquisitions                    |                | (2)          |              |
| Excess tax benefits from share-based compensation plans     | 5              |              |              |
| <b>Net cash provided by (used for) financing activities</b> | <b>(1,392)</b> | <b>(449)</b> | <b>(554)</b> |
| Effect of changes in exchange rates on cash positions       | (4)            | (22)         | (12)         |
| Increase (decrease) in cash and cash equivalents            | 280            | 429          | 515          |
| Cash and cash equivalents at beginning of period            | 1,614          | 1,185        | 670          |
| <b>Cash and cash equivalents at end of period</b>           | <b>1,894</b>   | <b>1,614</b> | <b>1,185</b> |

See accompanying notes to the consolidated financial statements.

**Table of Contents****NXP Semiconductors N.V.****Consolidated Statements of Cash Flows (Continued)**

| (\$ in millions, unless otherwise stated)                           | For the years ended December 31, |       |      |
|---|----------------------------------|-------|------|
|   | 2016                             | 2015  | 2014 |
| <i>Supplemental disclosures to the consolidated cash flows</i>      |                                  |       |      |
| <b>Net cash paid during the period for:</b>                         |                                  |       |      |
| Interest  | 348                              | 172   | 138  |
| Income taxes  | 67                               | 40    | 24   |
| <b>Net gain (loss) on sale of assets:</b>                           |                                  |       |      |
| Cash proceeds from the sale of assets                               | 21                               | 1,612 | 11   |
| Book value of these assets  | (10)                             | (349) | (10) |
| Non-cash gains (losses)   |                                  |       | 9    |
|   | 11                               | 1,263 | 10   |
| <b>Non-cash investing and financing information:</b>                |                                  |       |      |
| <i>Assets received in lieu of cash from the sale of businesses:</i> |                                  |       |      |
| Fair value of available-for-sale securities                         |                                  |       | 9    |
| Issuance of common stock for business combinations                  |                                  | 9,686 |      |
| Exchange of Term Loan B for Term Loan F                             | 1,422                            |       |      |
| Exchange of Term Loan A1 for Term Loan E                            |                                  |       | 400  |

See accompanying notes to the consolidated financial statements.

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## NXP Semiconductors N.V.

## Consolidated Statements of Changes in Equity

For the years ended December 31, 2016, 2015 and 2014

| (\$ in millions, unless otherwise stated)                                | Outstanding number of shares (in thousands) | Common stock | Capital in excess of par value | Treasury shares at cost | Accumulated other comprehensive income (loss) | Accumulated deficit | Total stockholder equity | Non-controlling interests | Total equity |
|--|---|--------------|--------------------------------|-------------------------|---|---------------------|--------------------------|---------------------------|--------------|
| Balance as of December 31, 2013  | 247,581                                     | 51           | 6,175                          | (167)                   | 347   | (5,105)             | 1,301                    | 245                       | 1,546        |
| Net income (loss)  |   |              |                                |                         |   | 539                 | 539                      | 68                        | 607          |
| Other comprehensive income   |   |              |                                |                         | (137)   |                     | (137)                    |                           | (137)        |
| Share-based compensation plans   |   |              | 125                            |                         |   |                     | 125                      |                           | 125          |
| Treasury shares  | (23,246)                                    |              |                                | (1,435)                 |   |                     | (1,435)                  |                           | (1,435)      |
| Shares issued pursuant to stock awards                                   | 8,245                                       |              |                                | 383                     |   | (238)               | 145                      |                           | 145          |
| Dividends non-controlling interests                                      |   |              |                                |                         |   |                     |                          | (50)                      | (50)         |
| Balance as of December 31, 2014  | 232,580                                     | 51           | 6,300                          | (1,219)                 | 210   | (4,804)             | 538                      | 263                       | 801          |
| Net income (loss)  |   |              |                                |                         |   | 1,526               | 1,526                    | 73                        | 1,599        |
| Other comprehensive income   |   |              |                                |                         | (29)  |                     | (29)                     |                           | (29)         |
| Share-based compensation plans   |   |              | 218                            |                         |   |                     | 218                      |                           | 218          |
| Treasury shares  | (5,336)                                     |              |                                | (475)                   |   |                     | (475)                    |                           | (475)        |
| Shares issued pursuant to stock awards                                   | 5,008                                       |              |                                | 315                     |   | (264)               | 51                       |                           | 51           |
| Issuance of common stock for business combination, net of issuance costs | 109,751                                     | 17           | 8,632                          | 1,037                   |   |                     | 9,686                    |                           | 9,686        |
| Dividends non-controlling interests                                      |   |              |                                |                         |   |                     |                          | (51)                      | (51)         |
| Changes in participation   |   |              |                                |                         |   |                     |                          | 3                         | 3            |
| Balance as of December 31, 2015  | 342,003                                     | 68           | 15,150                         | (342)                   | 181   | (3,542)             | 11,515                   | 288                       | 11,803       |
| Net income (loss)  |   |              |                                |                         |   | 200                 | 200                      | 59                        | 259          |
| Other comprehensive income   |   |              |                                |                         | (147)   |                     | (147)                    |                           | (147)        |
| Reclassification of Warrants   |   |              | 168                            |                         |   |                     | 168                      |                           | 168          |
| Share-based compensation plans   |   |              | 336                            |                         |   |                     | 336                      |                           | 336          |
| Excess tax benefits from share-based compensation plans                  |   |              | 21                             |                         |   |                     | 21                       |                           | 21           |
| Treasury shares  | (15,538)                                    |              |                                | (1,280)                 |   |                     | (1,280)                  |                           | (1,280)      |
| Shares issued pursuant to stock awards                                   | 8,927                                       |              |                                | 707                     |   | (592)               | 115                      |                           | 115          |
| Dividends non-controlling interests                                      |   |              |                                |                         |   |                     |                          | (126)                     | (126)        |
| Other  |   | 3            | 4                              |                         |   |                     | 7                        |                           | 7            |
| Balance as of December 31, 2016  | 335,392                                     | 71           | 15,679                         | (915)                   | 34  | (3,934)             | 10,935                   | 221                       | 11,156       |

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See accompanying notes to the consolidated financial statements.

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**NXP Semiconductors N.V.**

**Notes to the Consolidated Financial Statements**

**All amounts in millions of \$ unless otherwise stated**

**1 The Company**

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

On December 7, 2015, we acquired Freescale Semiconductor, Ltd. (**Freescale**). The results presented in the Consolidated Financial Statements and Notes to the Consolidated Financial Statements include Freescale's results of operations for the periods of December 7, 2015 through December 31, 2015 and 2016 (the **Post-Merger Period**).

On October 27, 2016, NXP entered into a purchase agreement (the **Purchase Agreement**) with Qualcomm River Holdings B.V. (**Buyer**), a wholly-owned, indirect subsidiary of Qualcomm Incorporated. Pursuant to the Purchase Agreement, Buyer commenced a tender offer to acquire all of the issued and outstanding common shares of NXP for \$110 per share in cash, for estimated total cash consideration of \$38 billion. The tender offer is not subject to any financing condition. An Extraordinary General Meeting of NXP's shareholders was convened on January 27, 2017, in connection with the offer where the shareholders of NXP approved all resolutions brought before them, with 95% of the votes cast in favor of each such resolution. In light of the foregoing, the tender offer is now conditioned on the tender of 80% of the outstanding shares of NXP, and Buyer, with NXP's prior written consent (not to be unreasonably withheld, conditioned or delayed), may reduce the required threshold to a percentage not less than 70% of the outstanding shares. Pending the receipt of certain regulatory approvals, as well as satisfaction of other customary closing conditions, the proposed transaction is expected to close by the end of calendar 2017.

The Purchase Agreement contains certain termination rights for NXP and Buyer. If the Purchase Agreement is terminated under certain circumstances, including termination by NXP to enter into a superior proposal for an alternative acquisition transaction or a termination following a change of recommendation by the NXP Board, NXP will be obligated to pay to Buyer a termination compensation equal to \$1.25 billion in cash. If the Purchase Agreement is terminated under certain circumstances, including circumstances relating to the failure to obtain antitrust approvals or failure to complete in all material respects certain internal reorganization steps and related dispositions with respect to NXP, Buyer will be obligated to pay to NXP a termination compensation equal to \$2 billion in cash.

On June 14, 2016, NXP announced an agreement to divest its Standard Products (**SP**) business to a consortium of financial investors consisting of Beijing JianGuang Asset Management Co., Ltd (**JAC Capital**) and Wise Road Capital LTD (**Wise Road Capital**). On February 6, 2017 we divested SP, receiving \$2.75 billion in cash proceeds.

**2 Significant Accounting Policies**

The Consolidated Financial Statements include the accounts of the Company together with its consolidated subsidiaries, including NXP B.V. and all entities in which the Company holds a direct or indirect controlling interest,

in such a way that the Company would have the power to direct the activities of the entity that most significantly impact the entity's economic performance and the obligation to absorb the losses or the right to receive benefits of the entity that could be potentially significant to the Company. Investments in companies in which the Company exercises significant influence but does not control, are accounted for using the equity method. The Company's share of the net income of these companies is included in results relating to equity-accounted investees in the consolidated statements of operations.

All intercompany balances and transactions have been eliminated in the Consolidated Financial Statements. Net income (loss) includes the portion of the earnings of subsidiaries applicable to non-controlling interests. The income (loss) and equity attributable to non-controlling interests are disclosed separately in the consolidated statements of operations and in the consolidated balance sheets under non-controlling interests.

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

*Use of estimates*

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

**Table of Contents*****Fair value measurements***

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

Level 1: Quoted prices for identical assets or liabilities in active markets.

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

Level 3: Significant inputs to the valuation model are unobservable.

***Foreign currencies***

The Company uses the U.S. dollar as its reporting currency. As of January 1, 2016, as a result of the acquisition of Freescale, NXP has concluded that the functional currency of the holding company is the U.S. dollar. Prior to January 1, 2016, the functional currency of the holding company (defined as NXP Semiconductors N.V. and NXP B.V.) was the euro. For consolidation purposes, the financial statements of the entities within the Company with a functional currency other than the U.S. dollar, are translated into U.S. dollars. Assets and liabilities are translated using the exchange rates on the applicable balance sheet dates. Income and expense items in the statements of operations, statements of comprehensive income and statements of cash flows are translated at monthly exchange rates in the periods involved.

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

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

|      |                   | <b>\$ per 1</b>              |             |            |
|------|-------------------|------------------------------|-------------|------------|
|      | <b>period end</b> | <b>average<sup>(1)</sup></b> | <b>high</b> | <b>low</b> |
| 2016 | 1.0474            | 1.1065                       | 1.0474      | 1.1423     |
| 2015 | 1.0915            | 1.1150                       | 1.0869      | 1.2155     |
| 2014 | 1.2155            | 1.3262                       | 1.2155      | 1.3857     |



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

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

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

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

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

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

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

On initial designation of the hedge relationship between the hedging instrument and hedged item, the Company documents this relationship, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80-125 percent.

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

The gross notional amounts of the Company's foreign currency derivatives were \$789 million at December 31, 2016 (2015: \$213 million).

The gross notional amounts by currency were as follows:

|                   | <b>2016</b> | <b>2015</b> |
|-------------------|-------------|-------------|
| Euro              | <b>459</b>  | 4           |
| Chinese renminbi  | <b>45</b>   | (28)        |
| Japanese yen      | <b>35</b>   | 26          |
| Malaysian ringgit | <b>73</b>   | 60          |
| Taiwan dollar     | <b>94</b>   | 78          |
| Thai baht         | <b>43</b>   | 30          |
| Other             | <b>40</b>   | 43          |
|                   | <b>789</b>  | 213         |

***Cash and cash equivalents***

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

***Receivables***

Receivables are carried at amortized cost, net of allowances for doubtful accounts and net of rebates and other contingent discounts granted to distributors. When circumstances indicate a specific customer's ability to meet its financial obligation to us is impaired, we record an allowance against amounts due and value the receivable at the

amount reasonably expected to be collected. For all other customers, we evaluate our trade accounts receivable for collectibility based on numerous factors including objective evidence about credit-risk concentration, collective debt risk based on average historical losses, and specific circumstances such as serious adverse economic conditions in a specific country or region.

***Inventories***

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

***Property, plant and equipment***

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method over the expected economic life of the asset. Depreciation of special tooling is also based on the straight-line method unless a depreciation method other than the straight-line method better represents the consumption pattern. Gains and losses on the sale of property, plant and equipment are included in other income and expense. Plant and equipment under capital leases are initially recorded at the lower of the fair value of the leased property or the present value of minimum lease payments. These assets and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

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**Table of Contents*****Goodwill***

We record goodwill when the purchase price of an acquisition exceeds the fair value of the net tangible and identified intangible assets acquired. We assign the goodwill to our reporting units based on the relative expected fair value provided by the acquisition. We perform an annual impairment assessment in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, which includes evaluating qualitative and quantitative factors to assess the likelihood of an impairment of a reporting unit's goodwill. We perform impairment tests using a fair value approach when necessary. The reporting unit's carrying value used in an impairment test represents the assignment of various assets and liabilities, excluding certain corporate assets and liabilities, such as cash, investments and debt.

***Identified intangible assets***

Licensed technology and patents are generally amortized on a straight-line basis over the periods of benefit. We amortize all acquisition-related intangible assets that are subject to amortization over their estimated useful life based on economic benefit. Acquisition-related in-process R&D assets represent the fair value of incomplete R&D projects that had not reached technological feasibility as of the date of acquisition; initially, these assets are not subject to amortization. Assets related to projects that have been completed are subject to amortization, while assets related to projects that have been abandoned are impaired and expensed to R&D. In the quarter following the period in which identified intangible assets become fully amortized, we remove the fully amortized balances from the gross asset and accumulated amortization amounts.

We perform a quarterly review of finite-lived identified intangible assets to determine whether facts and circumstances indicate that the useful life is shorter than we had originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances exist, we assess recoverability by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets. If an asset's useful life is shorter than originally estimated, we accelerate the rate of amortization and amortize the remaining carrying value over the new shorter useful life. We perform an annual impairment assessment in the fourth quarter of each year for indefinite-lived intangible assets, or more frequently if indicators of potential impairment exist, to determine whether it is more likely than not that the carrying value of the assets may not be recoverable. If necessary, a quantitative impairment test is performed to compare the fair value of the indefinite-lived intangible asset with its carrying value. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets.

***Research and development***

Costs of research and development are expensed in the period in which they are incurred, except for in-process research and development assets acquired in business combinations, which are capitalized and, after completion, are amortized over their estimated useful lives.

***Advertising***

Advertising costs are expensed when incurred.

***Debt issuance costs***

Direct costs incurred to obtain financings are capitalized and subsequently amortized over the term of the debt using the effective interest rate method. Upon extinguishment of any related debt, any unamortized debt issuance costs are

expensed immediately.

***Revenue recognition***

The Company's revenue is derived from sales to distributors, made-to-order sales to Original Equipment Manufacturers ( OEMs ) and similar customers.

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or the service has been provided, the sales price is fixed or determinable, and collection is reasonably assured, based on the terms and conditions of the sales contract. For made-to-order sales, these criteria are met at the time the product is shipped and delivered to the customer and title and risk have passed to the customer. Acceptance of the product by the customer is generally not contractually required, since, for made-to-order customers, design approval occurs before manufacturing and subsequently delivery follows without further acceptance protocols. Payment terms used are those that are customary in the particular geographic market. When management has established that all aforementioned conditions for revenue recognition have been met, revenue is recognized.

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For sales to distributors, revenue is recognized upon sale to the distributor (sell-in accounting). The same recognition principles apply and similar terms and conditions as for sales to other customers are applied. However, for some distributors contractual arrangements are in place, which allow these distributors to return products if certain conditions are met. These conditions generally relate to the time period during which a return is allowed and reflect customary conditions in the particular geographic market. Other return conditions relate to circumstances arising at the end of a product life cycle, when certain distributors are permitted to return products purchased during a pre-defined period after the Company has announced a product's pending discontinuance. However, long notice periods associated with these announcements prevent significant amounts of product from being returned. Repurchase agreements with OEMs or distributors are not entered into by the Company.

Distributor reserves estimate the impact of credits granted to distributors under certain programs common in the semiconductor industry whereby distributors receive certain price adjustments to meet individual competitive opportunities, or are allowed to return or scrap a limited amount of product in accordance with contractual terms agreed upon with the distributor, or receive price protection credits when our standard published prices are lowered from the price the distributor paid for product still in its inventory. The Company's policy is to use a rolling historical experience rate, as well as a prospective view of products and pricing in the distribution channel for distributors who participate in our volume rebate incentive program, in order to estimate the proper provision for this program at the end of any given reporting period. We continually monitor the actual claimed allowances against our estimates, and we adjust our estimates as appropriate to reflect trends in pricing environments and inventory levels. Distributor reserves are also adjusted when recent historical data does not represent anticipated future activity.

For sales where return rights exist, the Company has determined, based on historical data, that only a very small percentage of the sales of this type to distributors is actually returned. In accordance with this historical data, a pro rata portion of the sales to these distributors is not recognized but deferred until the return period has lapsed or the other return conditions no longer apply.

Revenue is recorded net of sales taxes, customer discounts, rebates and other contingent discounts granted to distributors. We include shipping charges billed to customers in revenue and include the related shipping costs in cost of revenue.

***Restructuring***

The provision for restructuring relates to the estimated costs of initiated restructurings that have been approved by Management. When such plans require discontinuance and/or closure of lines of activities, the anticipated costs of closure or discontinuance are recorded at fair value when the liability has been incurred. The Company determines the fair value based on discounted projected cash flows in the absence of other observable inputs such as quoted prices. The restructuring liability includes the estimated cost of termination benefits provided to former or inactive employees after employment but before retirement, costs to terminate leases and other contracts, and selling costs associated with assets held for sale and other costs related to the closure of facilities. One-time employee termination benefits are recognized ratably over the future service period when those employees are required to render services to the Company, if that period exceeds 60 days or a longer legal notification period. However, generally, employee termination benefits are covered by a contract or an ongoing benefit arrangement and are recognized when it is probable that the employees will be entitled to the benefits and the amounts can be reasonably estimated.

***Financial income and expense***

Financial income and expense is comprised of interest income on cash and cash equivalent balances, the interest expense on borrowings, the accretion of the discount or premium on issued debt, the gain or loss on the disposal of

financial assets, impairment losses on financial assets and gains or losses on hedging instruments recognized in the statement of operations. For periods prior to January 1, 2016, the mark-to-market of our warrant liability and foreign exchange results on our U.S. dollar denominated debt that resides in a Euro entity were also included. As of January 1, 2016, as a result of the acquisition of Freescale, NXP concluded that the functional currency of the holding company is USD. Beginning from January 1, 2016, the warrants are classified in stockholders' equity, and mark-to-market accounting is no longer applicable. In addition our U.S. dollar-denominated notes, term loans and RCF agreements are no longer re-measured.

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

### ***Income taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts. Measurement of deferred tax assets and liabilities is based upon the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax liabilities for income taxes or withholding taxes on dividends from subsidiaries are recognized in situations where the company does not consider the earnings indefinitely reinvested and to the extent that the withholding taxes are not expected to be refundable.

Deferred tax assets, including assets arising from loss carryforwards, are recognized, net of a valuation allowance, if based upon the available evidence it is more likely than not that the asset will be realized.

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The income tax benefit from an uncertain tax position is recognized only if it is more likely than not that the tax position will be sustained upon examination by the relevant taxing authorities. The income tax benefit recognized is measured based on the largest benefit that is more than 50 percent likely to be realized upon resolution of the uncertainty. The liability for unrecognized tax benefits and the related interest and penalties is recorded under accrued liabilities and other non-current liabilities in the balance sheet based on the timing of the expected payment. Penalties are recorded as income tax expense, whereas interest is reported as financial expense in the statement of operations.

The Company recognizes windfall tax benefits associated with share-based awards directly to stockholders' equity when realized. A windfall tax benefit occurs when the actual tax benefit realized by the Company upon an employee's disposition of a share-based award exceeds the deferred tax asset, if any, associated with the award that the Company had recorded. The Company records windfall tax benefits to stockholders' equity. A shortfall occurs when the actual tax benefit realized by the Company upon an employee's disposition of a share-based award is less than the deferred tax asset, if any, associated with the award that the Company has recorded. The Company records shortfall tax detriments when realized to stockholders' equity to the extent that previous windfall tax benefits exist (referred to as the APIC windfall pool), with any remainder recognized in income tax expense. When assessing whether a tax benefit relating to share-based compensation has been realized, the Company follows the tax law ordering method, under which current year share-based compensation deductions are assumed to be utilized before net operating loss carryforwards and other tax attributes.

***Postretirement benefits***

The Company's employees participate in pension and other postretirement benefit plans in many countries. The costs of pension and other postretirement benefits and related assets and liabilities with respect to the Company's employees participating in the various plans are based upon actuarial valuations.

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

The net liability or asset recognized in the balance sheet in respect of the postretirement plans is the present value of the projected benefit obligation less the fair value of plan assets at the balance sheet date. Most of the Company's plans are unfunded and result in a provision or a net liability.

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

Benefit plan costs primarily represent the increase in the actuarial present value of the obligation for benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets and net of employee contributions.

Actuarial gains and losses arise mainly from changes in actuarial assumptions and differences between actuarial assumptions and what has actually occurred. They are recognized in the statement of operations, over the expected average remaining service periods of the employees only to the extent that their net cumulative amount exceeds 10% of the greater of the present value of the obligation or of the fair value of plan assets at the end of the previous year (the corridor). Events which invoke a curtailment or a settlement of a benefit plan will be recognized in our statement of operations.



In calculating obligation and expense, the Company is required to select actuarial assumptions. These assumptions include discount rate, expected long-term rate of return on plan assets, assumed health care trend rates and rates of increase in compensation costs determined based on current market conditions, historical information and consultation with and input from our actuaries. Changes in the key assumptions can have a significant impact to the projected benefit obligations, funding requirements and periodic cost incurred.

Unrecognized prior-service costs related to the plans are amortized to the statements of operations over the average remaining service period of the active employees.

Contributions to defined-contribution and multi-employer pension plans are recognized as an expense in the statements of operations as incurred.

The Company determines the fair value of plan assets based on quoted prices or comparable prices for non-quoted assets. For a defined-benefit pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement defined benefit plan it is the accumulated postretirement benefit obligation.

The Company recognizes as a component of other comprehensive income, net of taxes, the gains or losses and prior service costs that arise during the year but are not recognized as a component of net periodic benefit cost. Amounts recognized in accumulated other comprehensive income, including the gains or losses and the prior services costs are adjusted as they are subsequently recognized as components of net periodic benefit costs.

For all of the Company's postretirement benefit plans, the measurement date is December 31, our year-end.

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**Table of Contents*****Share-based compensation***

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

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

***Earnings per share***

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

To determine diluted share count, we apply the treasury stock method to determine the dilutive effect of outstanding stock option shares, RSUs, PSUs and Employee Stock Purchase Plan ( ESPP ) shares. Under the treasury stock method, the amount the employee must pay for exercising share-based awards, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of excess tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

***Concentration of risk***

Financial instruments, including derivative financial instruments, that may potentially subject NXP to concentrations of credit risk, consist principally of cash and cash equivalents, short-term investments, long-term investments, accounts receivable and forward contracts.

We sell our products to OEMs and to distributors in various markets, who resell these products to OEMs, or their subcontract manufacturers. One of our distributors accounted for 13% of our revenue in 2016, 14% in 2015 and 13% in 2014 and one other distributor accounted for less than 10% of our revenue in 2016, 14% in 2015 and 13% in 2014. No other distributor accounted for greater than 10% of our revenue for 2016, 2015 or 2014. No individual OEM for which we had direct sales to accounted for more than 10% of our revenue for 2016, 2015 or 2014.

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

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

NXP purchased options and issued warrants to hedge potential cash payments in excess of the principal and contractual interest related to its 2019 Cash Convertible Senior Notes, which were issued during fiscal 2014. The 2019

Cash Convertible Senior Note hedges are adjusted to fair value each reporting period and unrealized gains and losses are reflected in NXP's Consolidated Statements of Operations. Because the fair value of the 2019 Cash Convertible Senior Notes embedded conversion derivative and the 2019 Cash Convertible Senior Notes hedges are designed to have similar offsetting values, there was no impact to NXP's Consolidated Statements of Operations relating to these adjustments to fair value.

The Company is using outside suppliers or foundries for a portion of its manufacturing capacity.

We have operations in Europe and Asia subject to collective bargaining agreements which could pose a risk to the Company in the near term but we do not expect that our operations will be disrupted if such is the case.

***Accounting standards adopted in 2016***

In April 2015, the FASB issued ASU No. 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. Under this standard, if a cloud computing arrangement includes a software license, the software license element of the arrangement should be accounted for consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the arrangement should be accounted for as a service contract. The new standard became effective for us on January 1, 2016. The adoption of this standard did not have a significant impact on our financial position or results of operations.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The new standard requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined and sets forth new disclosure requirements related to the adjustments. The new standard became effective for us on January 1, 2016. The adoption of this standard did not have a significant impact on our financial position or results of operations.

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In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740), which changes how deferred taxes are classified on our balance sheets and is effective for financial statements issued for annual periods beginning after December 15, 2016, with early adoption permitted. ASU 2015-17 requires all deferred tax assets and liabilities to be classified as non-current. The Company adopted this standard as of January 1, 2016 with prospective application. The adoption of this standard did not have a significant impact on our financial position. Prior periods were not retrospectively adjusted.

***New standards to be adopted after 2016***

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delayed the effective date of the new standard from January 1, 2017 to January 1, 2018. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. The standard permits the use of either the retrospective or cumulative effect transition method, and we are currently evaluating the method of adoption. The Company is still in the process of completing its analysis on the impact of this guidance, at this time, with the consideration that the Company currently recognizes distributor revenue based on sell-in accounting, the Company does not expect the adoption of Topic 606 to have a material impact on our financial position and results of operations.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). The new standard requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The new standard will be effective for us on January 1, 2018. The expected adoption method of ASU 2016-01 is being evaluated by the Company and the adoption is not expected to have a significant impact on our financial position or results of operations.

In February, 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new standard requires lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Existing sale-leaseback guidance, including guidance for real estate, is replaced with a new model applicable to both lessees and lessors. The new standard will be effective for us on January 1, 2019 with early adoption permitted. We are currently evaluating the potential impact that Topic 842 may have on our financial position and results of operations.

In March, 2016 the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. The new standard requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The standard also allows for the employer to repurchase more of an employee's shares for tax

withholding purposes without triggering liability accounting. In addition, the ASU allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The new standard will be effective for us on January 1 2017. The Company does not expect the adoption of this guidance to have a material impact on our financial position and results of operations.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients and ASU 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting. In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. These amendments provide additional clarification and implementation guidance on the previously issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606).

The amendments in ASU 2016-08 clarify how an entity should identify the specified good or service for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. ASU 2016-10 clarifies the following two aspects of ASU 2014-09: identifying performance obligations and licensing implementation guidance. ASU 2016-11 rescinds several SEC Staff Announcements that are codified in Topic 605, including, among other items, guidance relating to accounting for consideration given by a vendor to a customer, as well as accounting for shipping and handling fees and freight services. ASU 2016-12 provides clarification to Topic 606 on how to assess collectability, present sales tax, treat noncash consideration, and account for completed and modified contracts at the time of transition. In addition, ASU 2016-12 clarifies that an entity retrospectively applying the guidance in Topic 606 is not required to disclose the effect of the accounting change in the period of adoption. The effective date and transition requirements for these amendments are the same as the effective date and transition requirements of ASU 2014-09, which is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2017. The Company does not expect the adoption of this guidance to have a material impact on our financial position or results of operations.

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In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash flow, and other Topics. ASU 2016-15 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company does not expect the adoption of this guidance to have a material impact on our financial position or results of operations.

In October 2016, the FASB issued ASU 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory. Under ASU 2016-16, the selling (transferring) entity is required to recognize a current tax expense or benefit upon transfer of the asset. Similarly, the purchasing (receiving) entity is required to recognize a deferred tax asset or deferred tax liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. The new standard will be effective for us on January 1, 2017, due to the Company's decision to early adopt. The Company does not expect the adoption of this guidance to have a material impact on our financial position or results of operations.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 introduces a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated as a business. ASU 2017-01 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company does not expect the adoption of this guidance to have a material impact on our financial position or results of operations.

**3 Acquisitions and Divestments****2016**

There were no material divestments during 2016. On August 8, 2016, we acquired a business for \$200 million. The total purchase price has been preliminarily allocated to goodwill (\$14 million), other intangible assets (\$177 million), inventories (\$8 million) and tangible fixed assets (\$1 million). The other intangible assets relate to core technology (\$172 million) with an amortization period of 7 years and existing technology (\$5 million) with an amortization period of 2 years. The measurement period still remains open pending the completion of valuation procedures related to the acquired assets and assumed liabilities.

**2015**

On December 7, 2015, we acquired Freescale for a purchase price of \$11,639 million. Acquisition-related transaction costs (\$42 million) such as legal, accounting and other related expenses were recorded as a component of selling, general and administrative expense in our consolidated statements of operations.

Under the terms of the merger agreement, each holder of Freescale common shares received (i) 0.3521 of an NXP ordinary share and (ii) \$6.25 in cash per such common share.

The total purchase price amounts to \$11,639 million and consisted of the following:

|   |       |
|---|-------|
| Cash payment of \$6.25 per Freescale common share | 1,948 |
| Total value of NXP ordinary shares delivered      | 9,449 |

|   |               |
|---|---------------|
| Value of NXP restricted share units delivered to holders of Freescale restricted share units and performance-based restricted share units | 157           |
| Value of NXP stock options delivered to holders of Freescale stock options  | 85            |
| <b>Total purchase price</b>   | <b>11,639</b> |

The total purchase price has been allocated to the tangible and identified intangible assets acquired and liabilities assumed based on their estimated fair values as of the date of the merger, December 7, 2015. The fair value of acquired tangible and identified intangible assets is determined based on inputs that are unobservable and significant to the overall fair value measurement. As such, acquired tangible and identified intangible assets are classified as Level 3 assets. During 2016, we made certain adjustments to the preliminary allocation of the purchase price. A decrease of \$33 million was recorded to deferred taxes, an increase of \$3 million was recorded to accounts payable, accrued liabilities and other current liabilities, a decrease of \$5 million was recorded to inventories with a corresponding net decrease of \$25 million recorded to goodwill. Our valuation procedures related to the acquired assets and assumed liabilities was completed during the fourth quarter of 2016.

The identified intangible assets consist of existing technology and platform technology, In-Process Research & Development ( IPR&D ), order backlog, trade name and customer relationships. The useful lives range between one year and nineteen years.

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The allocation of the purchase price is as follows:

|   |         |
|---|---------|
| <i>Total purchase price</i>   | 11,639  |
| Estimated fair value of net tangible assets acquired and liabilities assumed: |         |
| Cash and cash equivalents   | 427     |
| Accounts receivable, net  | 511     |
| Inventories, net  | 1,280   |
| Other current assets  | 93      |
| Property, plant and equipment   | 1,827   |
| Other non-current assets  | 64      |
| Accounts payable, accrued liabilities and other current liabilities           | (714)   |
| Deferred taxes  | (2,292) |
| Other long-term liabilities   | (329)   |
| Long-term debt  | (5,091) |
|   | (4,224) |

Fair value (and useful lives) of identified intangible assets acquired:

|  |       |
|--|-------|
| Customer relationships (included in customer-related) (19 years) | 764   |
| Developed technology (included in technology-based) (5 years)    | 5,371 |
| Sales order backlog (included in marketing-related) (1 year)     | 190   |
| Trade name (included in marketing-related) (5 years)             | 81    |
| In-process research and development*                             | 2,017 |
| Other  | 41    |
|  | 8,464 |
| Goodwill   | 7,399 |

\* Acquired IPR&D is an intangible asset classified as an indefinite lived asset until the completion or abandonment of the associated research and development effort. IPR&D will be amortized over an estimated useful life to be determined at the date the associated research and development effort is completed, or expensed immediately when, and if, the project is abandoned. Acquired IPR&D is not amortized during the period that it is considered indefinite lived, but rather is subject to annual testing for impairment or when there are indicators for impairment.

Goodwill is primarily attributable to the anticipated synergies and economies of scale expected from the operations of the combined company and to the assembled workforce of Freescale. All of the goodwill has been allocated to NXP's HPMS segment. Goodwill is not deductible for income tax purposes.

The cash consideration paid in connection of the acquisition of Freescale, the repayment of certain amounts under Freescale's outstanding credit facility and Secured Notes and the payment of certain transaction costs in relation to the acquisition of Freescale were funded by cash on hand, the Secured Bridge Term Credit Agreement, the net proceeds of the 2020 Senior Unsecured Notes and 2022 Senior Unsecured Notes and the net proceeds of Term Loan B. See Note 16, Debt in the Consolidated Financial Statements.



**Pro forma financial information (unaudited)**

The following unaudited pro forma financial information presents combined consolidated results of operations for each of the fiscal years presented, as if Freescale had been acquired as of January 1, 2014:

|  | 2015   | 2014   |
|--|--------|--------|
| Revenue  | 9,850  | 9,904  |
| Net income (loss) attributable to stockholders                   | (84)   | (277)  |
| Net income (loss) per common share attributable to stockholders: |        |        |
| - Basic  | (0.25) | (0.81) |
| - Diluted  | (0.25) | (0.81) |

The pro forma information excludes the result of operations of NXP's RF Power business and includes adjustments to amortization and depreciation for identified intangible assets and property, plant and equipment acquired, adjustments to share-based compensation expense and interest expense for the additional indebtedness incurred to complete the acquisition. The pro forma result has been prepared for comparative purposes only and does not purport to be indicative of the revenue or operating results that would have been achieved had the acquisition actually taken place as of January 1, 2014 or of the results of future operations of the combined business. In addition, the result is not intended to be a projection of future results and does not reflect synergies that might be achieved from the combined operations.

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### **Other acquisitions**

In addition to the above mentioned acquisition of Freescale, we completed two other acquisitions qualifying as business combinations: the acquisition of Quintic's Bluetooth Low Energy ( BTLE ) and Wearable businesses, located in China and the USA, and the acquisition of Athena SCS Ltd. ( Athena ), located in the United Kingdom. Both acquisitions were not significant to our consolidated results of operations.

The aggregate purchase price consideration of \$102 million was allocated to goodwill (\$40 million), other intangible assets (\$68 million) and net liabilities assumed (\$6 million). The other intangible assets relate to core technology (\$29 million) with an amortization period varying up to 14 years, existing technology, (\$17 million) with an amortization period varying up to 5 years and in-process R&D (\$22 million).

The results of BTLE are consolidated in the Secure Connected Devices business line. The results of Athena are consolidated in the Secure Identification Solutions business line. Both business lines are part of the reportable segment HPMS.

### **Divestments**

In February 2015, we announced the establishment of a 49% owned joint venture (WeEn) with JianGuang Asset Management Co., Ltd. (JAC Capital) in China to combine NXP's advanced technology from its Bipolar Power business line with JAC Capital's connections in the Chinese manufacturing network and distribution channels. This transaction closed on November 9, 2015. The results of the Bipolar Power business were included in the reportable segment SP.

In May 2015, we announced an agreement with JianGuang Asset Management Co., Ltd. (JAC Capital) in China to sell NXP's RF Power Business. This transaction closed on December 7, 2015. The results of the RF Power business were consolidated in the reportable segment HPMS.

The gain on the sale of these businesses of \$1,257 million is included in other income (expense).

### **2014**

There were no significant acquisitions or divestments in 2014.

### **4 Assets Held for Sale**

On June 14, 2016, NXP announced an agreement to divest its Standard Products ( SP ) business to a consortium of financial investors consisting of Beijing JianGuang Asset Management Co., Ltd ( JAC Capital ) and Wise Road Capital LTD ( Wise Road Capital ). On February 6, 2017, we divested SP, receiving \$2.75 billion in cash proceeds. At December 31, 2016, the SP business segment met the criteria to be classified as held for sale. The results of the SP business segment are consolidated in the reportable segment SP.

The SP business segment presentation as held for sale does not meet the criteria to be classified as a discontinued operation at December 31, 2016 primarily due to the disposal of this business not representing a strategic shift that will have a major effect on the Company's operations and financial results.

The following table summarizes the carrying value of assets and liabilities held for sale which is primarily relative to the SP business:

|                                    | 2016  |
|------------------------------------|-------|
| Trade accounts receivable, net     | 3     |
| Other assets                       | 28    |
| Inventories, net                   | 208   |
| Property, plant and equipment, net | 396   |
| Identified intangible assets, net  | 133   |
| Goodwill                           | 336   |
| Assets held for sale               | 1,104 |
| Trade accounts payable             | (110) |
| Accrued and other liabilities      | (88)  |
| Liabilities held for sale          | (198) |

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**Table of Contents****5 Supplemental Financial Information***Statement of Operations Information****Depreciation, amortization and impairment***

Depreciation and amortization, including impairment charges, are as follows:

|  | <b>2016</b>  | <b>2015</b> | <b>2014</b> |
|--|--------------|-------------|-------------|
| Depreciation of property, plant and equipment          | <b>609</b>   | 262         | 219         |
| Amortization of internal use software                  | <b>24</b>    | 26          | 31          |
| Amortization of other identified intangible assets (*) | <b>1,572</b> | 229         | 155         |
|  | <b>2,205</b> | 517         | 405         |

(\*) Includes impairment charges relative to IPR&D, which was acquired as part of the acquisition of Freescale of \$89 million for 2016.

Depreciation of property, plant and equipment is primarily included in cost of revenue.

***Other income (expense)***

|                                  | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|----------------------------------|-------------|-------------|-------------|
| Result on disposal of businesses | <b>8</b>    | 1,257       | 6           |
| Result on disposal of properties | <b>1</b>    | 6           | 3           |
| Other income (expense)           |             |             | 1           |
|                                  | <b>9</b>    | 1,263       | 10          |

***Financial income (expense)***

|   | <b>2016</b>  | <b>2015</b> | <b>2014</b> |
|---|--------------|-------------|-------------|
| Interest income                               | <b>11</b>    | 6           | 3           |
| Interest expense                              | <b>(408)</b> | (227)       | (158)       |
| Total interest expense, net                   | <b>(397)</b> | (221)       | (155)       |
| Net gain (loss) on extinguishment of debt     | <b>(32)</b>  |             | (3)         |
| Foreign exchange rate results                 | <b>(15)</b>  | (193)       | (246)       |
| Change in fair value of the warrant liability |              | (31)        | (2)         |
| Miscellaneous financing costs/income, net     | <b>(9)</b>   | (84)        | (4)         |
| Total other financial income (expense)        | <b>(56)</b>  | (308)       | (255)       |

|       |       |       |       |
|-------|-------|-------|-------|
| Total | (453) | (529) | (410) |
|-------|-------|-------|-------|

From May 2011 until December 31, 2015, the Company applied net investment hedging. As of January 1, 2016, as a result of the acquisition of Freescale, NXP has concluded that the functional currency of the holding company is USD. Beginning from January 1, 2016, the warrants will now be classified in stockholders' equity, and mark-to-market accounting will no longer be applicable. In addition our U.S. dollar-denominated notes, term loans and RCF agreements will no longer need to be re-measured. The U.S. dollar exposure of the net investment in U.S. dollar functional currency subsidiaries of \$1.7 billion was hedged by certain U.S. dollar-denominated notes. As a result, a charge of \$190 million in 2015 and a charge of \$214 million in 2014 was recorded in other comprehensive income (loss) relating to the foreign currency result on the U.S. dollar-denominated notes that were recorded in a euro functional currency entity.

### *Equity-accounted investees*

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

|                                  | 2016 | 2015 | 2014 |
|----------------------------------|------|------|------|
| Company's share in income (loss) | 11   | 8    | 8    |
| Other results                    |      | 1    |      |
|                                  | 11   | 9    | 8    |

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The total carrying value of investments in equity-accounted investees is summarized as follows:

|        | 2016           |        | 2015           |        |
|--------|----------------|--------|----------------|--------|
|        | Shareholding % | Amount | Shareholding % | Amount |
| ASMC   | 27             | 21     | 27             | 21     |
| ASEN   | 40             | 56     | 40             | 46     |
| WeEn   | 49             | 62     | 49             | 59     |
| Others |                | 15     |                | 15     |
|        |                | 154    |                | 141    |

Investments in equity-accounted investees are included in Corporate and Other.

The fair value of NXP's shareholding in the publicly listed company ASMC based on the quoted market price at December 31, 2016 is \$35 million.

*Balance Sheet Information**Cash and cash equivalents*

At December 31, 2016 and December 31, 2015, our cash balance was \$1,894 million and \$1,614 million, respectively, of which \$316 million and \$485 million was held by SSMC, our consolidated joint venture company with TSMC. Under the terms of our joint venture agreement with TSMC, a portion of this cash can be distributed by way of a dividend to us, but 38.8% of the dividend will be paid to our joint venture partner. During 2016, a dividend of \$325 million (2015: \$130 million) has been paid by SSMC.

**6 Restructuring Charges**

At each reporting date, we evaluate our restructuring liabilities, which consist primarily of termination benefits, to ensure that our accruals are still appropriate. During 2016, we recognized \$52 million of employee severance costs in our restructuring liabilities, which was primarily related to specific targeted actions.

In December 2015, we began the implementation of the planned restructuring and cost reduction activities in connection with the acquisition of Freescale. We recognized \$216 million of employee severance costs and \$23 million of other exit costs related to this plan in 2015.

There were no material new restructuring projects in 2014.

The following table presents the changes in the position of restructuring liabilities in 2016 by segment:

|      | Balance         | Additions | Utilized | Released | Other changes <sup>(1)</sup> | Balance           |
|------|-----------------|-----------|----------|----------|------------------------------|-------------------|
|      | January 1, 2016 |           |          |          |                              | December 31, 2016 |
| HPMS | 234             | 52        | (131)    | (3)      | (4)                          | 148               |
| SP   | 6               |           | (2)      |          | (1)                          | 3                 |

## Corporate and Other

**240            52            (133)            (3)            (5)            151**

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

The total restructuring liability as of December 31, 2016 of \$151 million is classified in the balance sheet under current liabilities (\$129 million) and non-current liabilities (\$22 million).

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

The following table presents the changes in the position of restructuring liabilities in 2015 by segment:

|                     | <b>Balance<br/>January 1,<br/>2015</b> | <b>Additions</b> | <b>Utilized</b> | <b>Released</b> | <b>Other<br/>changes<sup>(1)</sup></b> | <b>Balance<br/>December 31,<br/>2015</b> |
|---------------------|--|------------------|-----------------|-----------------|--|--|
| HPMS                | 14                                     | 226              | (17)            | (1)             | 12                                     | 234                                      |
| SP                  | 5                                      | 8                | (6)             |                 | (1)                                    | 6  |
| Corporate and Other | 21                                     | 5                | (23)            | (1)             | (2)                                    |  |
|                     | 40                                     | 239              | (46)            | (2)             | 9                                      | 240                                      |

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

The total restructuring liability as of December 31, 2015 of \$240 million is classified in the balance sheet under current liabilities (\$197 million) and non-current liabilities (\$43 million).

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

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The components of restructuring charges less releases recorded in the liabilities in 2016, 2015 and 2014 are as follows:

|                                | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|--------------------------------|-------------|-------------|-------------|
| Personnel lay-off costs        | <b>52</b>   | 239         | 43          |
| Other exit costs               | <b>19</b>   | 27          | 1           |
| Release of provisions/accruals | <b>(3)</b>  | (2)         | (16)        |

|                           |           |     |    |
|---------------------------|-----------|-----|----|
| Net restructuring charges | <b>68</b> | 264 | 28 |
|---------------------------|-----------|-----|----|

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

|                                     | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|-------------------------------------|-------------|-------------|-------------|
| Cost of revenue                     | <b>18</b>   | 18          | 16          |
| Selling, general and administrative | <b>9</b>    | 155         | 3           |
| Research & development              | <b>41</b>   | 91          | 9           |

|                           |           |     |    |
|---------------------------|-----------|-----|----|
| Net restructuring charges | <b>68</b> | 264 | 28 |
|---------------------------|-----------|-----|----|

**7 Provision for Income Taxes**

In 2016, NXP generated a loss before income taxes of \$603 million (2015: an income of \$1,486 million; 2014: an income of \$639 million). The components of income (loss) before income taxes are as follows:

|             | <b>2016</b>    | <b>2015</b> | <b>2014</b> |
|-------------|----------------|-------------|-------------|
| Netherlands | <b>537</b>     | 1,528       | 398         |
| Foreign     | <b>(1,140)</b> | (42)        | 241         |
|             | <b>(603)</b>   | 1,486       | 639         |

The components of the benefit (provision) for income taxes are as follows:

|                 | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|-----------------|-------------|-------------|-------------|
| Current taxes:  |             |             |             |
| Netherlands     | <b>(7)</b>  | (13)        | (7)         |
| Foreign         | <b>(67)</b> | (51)        | (32)        |
|                 | <b>(74)</b> | (64)        | (39)        |
| Deferred taxes: |             |             |             |
| Netherlands     | <b>205</b>  | (4)         | 2           |
| Foreign         | <b>720</b>  | 172         | (3)         |



|  |            |     |     |
|--|------------|-----|-----|
|  | <b>925</b> | 168 | (1) |
|--|------------|-----|-----|

|  |            |     |      |
|--|------------|-----|------|
| Total benefit (provision) for income taxes | <b>851</b> | 104 | (40) |
|--|------------|-----|------|

A reconciliation of the statutory income tax rate in the Netherlands as a percentage of income (loss) before income taxes and the effective income tax rate is as follows:

| (in percentages)   | <b>2016</b>   | <b>2015</b> | <b>2014</b> |
|--|---------------|-------------|-------------|
| Statutory income tax in the Netherlands  | <b>25.0</b>   | 25.0        | 25.0        |
| Rate differential local statutory rates versus statutory rate of the Netherlands | <b>24.2</b>   | (4.3)       | (2.5)       |
| Net change in valuation allowance  | <b>72.6</b>   | (13.8)      | 2.4         |
| Prior year adjustments   | <b>0.1</b>    |             | 0.5         |
| Non-taxable income   | <b>1.7</b>    | (0.1)       | (0.3)       |
| Non-deductible expenses/losses   | <b>(7.0)</b>  | 4.0         | 5.6         |
| Sale of non-deductible goodwill  |               | 2.7         |             |
| Other taxes and tax rate changes   | <b>7.1</b>    | 1.0         |             |
| Tax effects of remitted and unremitted earnings and withholding taxes            | <b>(2.7)</b>  | 0.1         | 1.3         |
| Tax on gains related to internal corporate reorganization transactions           | <b>(10.3)</b> |             |             |
| Unrecognized tax benefits  | <b>(0.5)</b>  | 0.1         | 0.6         |
| Netherlands tax incentives   | <b>17.9</b>   | (18.5)      | (21.5)      |
| Foreign tax incentives   | <b>13.0</b>   | (3.2)       | (4.8)       |
| Effective tax rate   | <b>141.1%</b> | (7.0%)      | 6.3%        |

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The Company benefits from income tax holidays in certain jurisdictions which provide that we pay reduced income taxes in those jurisdictions for a fixed period of time that varies depending on the jurisdiction. The predominant income tax holiday is expected to expire at the end of 2024. The impact of this tax holiday decreased foreign taxes by \$24 million and \$29 million for 2016 and 2015, respectively. The benefit of this tax holiday on net income per share (diluted) was \$0.07 (2015: \$0.11).

**Deferred tax assets and liabilities**

The principal components of deferred tax assets and liabilities are presented below:

|  | <b>2016</b>    | <b>2015</b> |
|--|----------------|-------------|
| Operating loss and tax credit carryforwards                                    | <b>1,031</b>   | 963         |
| Accrued interest   | <b>432</b>     | 545         |
| Other accrued liabilities  | <b>107</b>     | 147         |
| Pensions   | <b>86</b>      | 87          |
| Stock Based Compensation   | <b>58</b>      | 73          |
| Restructuring  | <b>40</b>      | 61          |
| Receivables  | <b>36</b>      | 11          |
| Inventories (including purchase accounting basis difference)                   | <b>27</b>      | (109)       |
| Other assets   | <b>10</b>      | 9           |
| Long-term debt   |                | 179         |
| <b>Total Gross Deferred Tax Assets</b>   | <b>1,827</b>   | 1,966       |
| Valuation Allowance  | <b>(127)</b>   | (632)       |
| <b>Total Net Deferred Tax Assets</b>   | <b>1,700</b>   | 1,334       |
| Intangible assets (including purchase accounting basis difference)             | <b>(2,431)</b> | (2,952)     |
| Undistributed earnings of foreign subsidiaries                                 | <b>(367)</b>   | (359)       |
| Property, plant and equipment (including purchase accounting basis difference) | <b>(134)</b>   | (226)       |
| <b>Total Deferred Tax Liabilities</b>  | <b>(2,932)</b> | (3,537)     |
| <b>Net Deferred Tax Position</b>   | <b>(1,232)</b> | (2,203)     |

The classification of the deferred tax assets and liabilities in the Company's consolidated balance sheets is as follows:

|   | <b>2016</b>    | <b>2015</b> |
|---|----------------|-------------|
| Deferred tax assets within other current assets         |                | 26          |
| Deferred tax assets within other non-current assets     | <b>427</b>     | 69          |
| Deferred tax liabilities within accrued liabilities     |                | (5)         |
| Deferred tax liabilities within non-current liabilities | <b>(1,659)</b> | (2,293)     |
|   | <b>(1,232)</b> | (2,203)     |

The Company has significant deferred tax assets resulting from net operating loss carryforwards, tax credit carryforwards and deductible temporary differences that may reduce taxable income or taxes payable in future periods. Valuation allowances have been established for deferred tax assets based on a more likely than not threshold. The realization of our deferred tax assets depends on our ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction. The valuation allowance decreased by \$505 million during 2016 (2015: \$5 million increase).

ASC 740, *Income Taxes*, requires that we consider all available evidence in forming a judgement regarding the valuation allowance as of December 31, 2016, including events that occur subsequent to year end but prior to the issuance of the financial statements. As a result of the February 6, 2017 disposition of SP, NXP concluded that the valuation allowance should be reduced by \$395 million as of December 31, 2016, as the SP divestiture provided an objectively verifiable source of income against which tax losses can be utilized. As a result, the Company recognized an additional benefit of \$392 million in the benefit (provision) for income taxes in the consolidated statement of operations and an additional \$7 million in capital in excess of par value in the consolidated balance sheet in the fourth quarter. In the second quarter, the valuation allowance in the U.S. was reduced by \$107 million as a result of the Company's determination that sufficient positive evidence existed to support a more likely than not determination that the U.S. deferred tax assets were realizable.

At December 31, 2016 tax loss carryforwards of \$1,899 million (inclusive of \$270 million of U.S. state tax losses) will expire as follows:

|                               | <b>Balance</b>           |             |             |             | <b>Scheduled expiration</b> |             |                  |     |     | <b>later</b> | <b>unlimited</b> |
|-------------------------------|--------------------------|-------------|-------------|-------------|-----------------------------|-------------|------------------|-----|-----|--------------|------------------|
|                               | <b>December 31, 2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b>                 | <b>2021</b> | <b>2022-2026</b> |     |     |              |                  |
| <b>Tax loss carryforwards</b> | 1,899                    | 26          | 10          | 29          | 10                          | 1           | 947              | 290 | 586 |              |                  |

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The Company also has tax credit carryforwards of \$749 million (excluding the effect of unrecognized tax benefits), which are available to offset future tax, if any, and which will expire as follows:

|                                 | <b>Balance</b>      |             |             |             | <b>Scheduled expiration</b> |             |             |                  | <b>later</b> | <b>unlimited</b> |
|---------------------------------|---------------------|-------------|-------------|-------------|-----------------------------|-------------|-------------|------------------|--------------|------------------|
|                                 | <b>December 31,</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b>                 | <b>2020</b> | <b>2021</b> | <b>2022-2026</b> |              |                  |
| <b>Tax credit carryforwards</b> |                     | 749         | 1           | 8           | 12                          | 32          | 18          | 336              | 282          | 60               |

The net income tax payable (excluding the liability for unrecognized tax benefits) as of December 31, 2016 amounted to \$10 million (2015: \$26 million) and includes amounts directly payable to or receivable from tax authorities.

The Company does not indefinitely reinvest the undistributed earnings of its subsidiaries. Consequently, the Company has recognized a deferred income tax liability of \$367 million at December 31, 2016 (2015: \$359 million) for the additional income taxes and withholding taxes payable upon the future remittances of these earnings of foreign subsidiaries.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

|  | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|--|-------------|-------------|-------------|
| Balance as of January 1,                                   | <b>149</b>  | 125         | 143         |
| Assumed in the acquisition of Freescale                    |             | 121         |             |
| Decreases from activities which are held for sale          | <b>(7)</b>  |             |             |
| Increases from tax positions taken during prior periods    | <b>1</b>    | 1           |             |
| Decreases from tax positions taken during prior periods    | <b>(3)</b>  | (111)       | (21)        |
| Increases from tax positions taken during current period   | <b>10</b>   | 15          | 3           |
| Decreases relating to settlements with the tax authorities | <b>(4)</b>  | (2)         |             |
| Balance as of December 31,                                 | <b>146</b>  | 149         | 125         |

Of the total unrecognized tax benefits at December 31, 2016, \$125 million, if recognized, would impact the effective tax rate. All other unrecognized tax benefits, if recognized, would not affect the effective tax rate as these would be offset by compensating adjustments in the Company's deferred tax assets that would be subject to valuation allowance based on conditions existing at the reporting date.

The Company classifies interest related to unrecognized tax benefits as financial expense and penalties as income tax expense. The total related interest and penalties recorded during the year 2016 amounted to \$2 million (2015: \$7 million; 2014: \$3 million). As of December 31, 2016 the Company has recognized a liability for related interest and penalties of \$12 million (2015: \$14 million; 2014: \$7 million). It is reasonably possible that the total amount of unrecognized tax benefits may significantly increase/decrease within the next 12 months of the reporting date due to, for example, completion of tax examinations; however, an estimate of the range of reasonably possible change cannot be made.

The Company files income tax returns in the Netherlands, the USA and in various other foreign jurisdictions. Tax filings of our subsidiaries are routinely audited in the normal course of business by tax authorities around the world. Tax years that remain subject to examination by major tax jurisdictions (the Netherlands, Germany, USA, China, Taiwan, Thailand, Malaysia, the Philippines and India) vary by country, ranging from 2004 through 2016.

**8 Earnings per Share**

The computation of earnings per share (EPS) is presented in the following table:

|  | <b>2016</b>    | <b>2015</b> | <b>2014</b> |
|--|----------------|-------------|-------------|
| Net income (loss)  | <b>259</b>     | 1,599       | 607         |
| Less: Net income (loss) attributable to non-controlling interests  | <b>59</b>      | 73          | 68          |
| Net income (loss) attributable to stockholders   | <b>200</b>     | 1,526       | 539         |
| Weighted average number of shares outstanding (after deduction of treasury shares) during the year (in thousands)                        | <b>338,477</b> | 239,764     | 237,954     |
| Plus incremental shares from assumed conversion of:  |                |             |             |
| Options <sup>1)</sup>  | <b>5,582</b>   | 6,194       | 6,753       |
| Restricted Share Units, Performance Share Units and Equity Rights <sup>2)</sup>  | <b>3,548</b>   | 4,158       | 3,902       |
| Warrants <sup>3)</sup>   |                |             |             |
| Dilutive potential common share  | <b>9,130</b>   | 10,352      | 10,655      |
| Adjusted weighted average number of shares outstanding (after deduction of treasury shares) during the year (in thousands) <sup>1)</sup> | <b>347,607</b> | 250,116     | 248,609     |
| <i>EPS attributable to stockholders in \$:</i>   |                |             |             |
| Basic net income (loss)  | <b>0.59</b>    | 6.36        | 2.27        |
| Diluted net income (loss)  | <b>0.58</b>    | 6.10        | 2.17        |

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- 1) Stock options to purchase up to 1.4 million shares of NXP's common stock that were outstanding in 2016 (2015: 0.7 million shares; 2014: 0.5 million shares) were anti-dilutive and were not included in the computation of diluted EPS because the exercise price was greater than the average fair market value of the common stock or the number of shares assumed to be repurchased using the proceeds of unrecognized compensation expense and exercise prices was greater than the weighted average number of shares underlying outstanding stock options.
- 2) Unvested RSU's, PSU's and equity rights of 0.9 million shares that were outstanding in 2016 (2015: 0.5 million shares; 2014: 1.2 million shares) were anti-dilutive and were not included in the computation of diluted EPS because the number of shares assumed to be repurchased using the proceeds of unrecognized compensation expense was greater than the weighted average number of outstanding unvested RSU's, PSU's and equity rights or the performance goal has not been met.
- 3) Warrants to purchase up to 11.2 million shares of NXP's common stock at a price of \$133.32 per share were outstanding in 2016 (2015: 11.2 million shares at a price of \$133.32; 2014: nil). Upon exercise, the warrants will be net share settled. At the end of 2016 and 2015, the warrants were not included in the computation of diluted EPS because the warrants' exercise price was greater than the average fair market value of the common shares.

**9 Share-based Compensation**

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

|                                     | 2016       | 2015 | 2014 |
|-------------------------------------|------------|------|------|
| Cost of revenue                     | 49         | 15   | 10   |
| Research and development            | 123        | 45   | 20   |
| Selling, general and administrative | 166        | 156  | 103  |
|                                     | <b>338</b> | 216  | 133  |

**Long Term Incentive Plans (LTIP's)**

The LTIP was introduced in 2010 and is a broad-based long-term retention program to attract, retain and motivate talented employees as well as align stockholder and employee interests. The LTIP provides share-based compensation (awards) to both our eligible employees and non-employee directors. Awards that may be granted include performance shares, stock options and restricted shares. The number of shares authorized and available for awards at December 31, 2016 was 3.0 million.

A charge of \$331 million was recorded in 2016 for the LTIP (2015: \$206 million; 2014: \$123 million).

A summary of the activity for our LTIP's during 2016 is presented below.

**Stock options**

The options have a strike price equal to the closing share price on the grant date. The fair value of the options has been calculated using the Black-Scholes formula, using the following assumptions:

an expected life varying from 5.76 to 6.25 years, calculated in accordance with the guidance provided in SEC Staff bulletin No. 110 for plain vanilla options using the simplified method, since our equity shares have been publicly traded for only a limited period of time and we do not have sufficient historical exercise data;

a risk-free interest rate varying from 0.8% to 2.8% (2015: 0.8% to 2.8%; 2014: 0.8% to 2.8%);

no expected dividend payments; and

a volatility of 40-50% based on the volatility of a set of peer companies. Peer company data has been used given the short period of time our shares have been publicly traded.

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

|                                  | <b>Stock options</b> | <b>Weighted average<br/>exercise<br/>price in<br/>USD</b> | <b>Weighted average<br/>remaining contract<br/>term</b> | <b>Aggregate intrinsic<br/>value</b> |
|----------------------------------|----------------------|---|---|--------------------------------------|
| Outstanding at January 1, 2016   | <b>10,034,650</b>    | <b>38.53</b>  |   |                                      |
| Granted                          | <b>108,419</b>       | <b>80.44</b>  |   |                                      |
| Exercised                        | <b>2,734,739</b>     | <b>32.12</b>  |   |                                      |
| Forfeited                        | <b>239,678</b>       | <b>54.81</b>  |   |                                      |
| Outstanding at December 31, 2016 | <b>7,168,652</b>     | <b>41.07</b>  | <b>6.0</b>  | <b>408</b>                           |
| Exercisable at December 31, 2016 | <b>4,857,680</b>     | <b>30.97</b>  | <b>5.5</b>  | <b>326</b>                           |

The weighted average per share grant date fair value of stock options granted in 2016 was \$34.59 (2015: \$34.05; 2014: \$29.10).

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The intrinsic value of the exercised options was \$145 million (2015: \$112 million; 2014: \$129 million), whereas the amount received by NXP was \$88 million (2015: \$39 million; 2014: \$55 million).

At December 31, 2016, there was a total of \$56 million (2015: \$110 million) of unrecognized compensation cost related to non-vested stock options. This cost is expected to be recognized over a weighted-average period of 1.5 years (2015: 1.8 years).

**Performance share units**

Financial performance conditions

|                                  | Shares  | Weighted average grant<br>date fair value<br>in USD |
|----------------------------------|---------|---|
| Outstanding at January 1, 2016   | 775,324 | 49.68   |
| Granted                          | 32,716  | 82.53   |
| Vested                           | 398,951 | 30.00   |
| Forfeited                        | 375     | 49.60   |
| Outstanding at December 31, 2016 | 408,714 | 71.52   |

The weighted average grant date fair value of performance share units granted in 2016 was \$82.53 (2015: \$75.28; 2014: \$62.29).

Market performance conditions

|                                  | Shares    | Weighted average grant<br>date fair value<br>in USD |
|----------------------------------|-----------|---|
| Outstanding at January 1, 2016   | 1,905,269 | 26.85   |
| Granted                          |           |   |
| Vested                           | 1,580,086 | 27.28   |
| Forfeited                        |           |   |
| Outstanding at December 31, 2016 | 325,183   | 38.63   |

The fair value of the performance share units at the time of vesting was \$147 million (2015: \$66 million; 2014: \$70 million). At December 31, 2016, there was a total of \$12 million (2015: \$32 million) of unrecognized compensation cost related to non-vested performance share units. This cost is expected to be recognized over a weighted-average period of 1.8 years (2015: 1.9 years).

**Restricted share units**



|                                  | Shares    | Weighted average grant<br>date fair value in<br>USD |
|----------------------------------|-----------|---|
| Outstanding at January 1, 2016   | 8,237,861 | 78.03   |
| Granted                          | 2,739,672 | 98.16   |
| Vested                           | 3,688,422 | 75.61   |
| Forfeited                        | 368,232   | 76.00   |
| Outstanding at December 31, 2016 | 6,920,879 | 87.48   |

The weighted average grant date fair value of restricted share units granted in 2016 was \$98.16 (2015: \$79.22; 2014: \$63.42). The fair value of the restricted share units at the time of vesting was \$334 million (2015: \$209 million; 2014: \$110 million).

At December 31, 2016, there was a total of \$422 million (2015: \$432 million) of unrecognized compensation cost related to non-vested restricted share units. This cost is expected to be recognized over a weighted-average period of 1.6 years (2015: 1.6 years).

#### ***Management Equity Stock Option Plan ( MEP )***

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

No charge was recorded in 2016 (2015: no charge, 2014: no charge) for options granted under the MEP.

The following table summarizes the information about NXP's outstanding MEP Options and changes during 2016.

**Table of Contents****Stock options**

|                                  | Stock options | Weighted average exercise price in EUR | Weighted average remaining contractual term | Aggregate intrinsic value |
|----------------------------------|---------------|--|---|---------------------------|
| Outstanding at January 1, 2016   | 2,748,942     | 24.14                                  |   |                           |
| Granted                          |               |  |   |                           |
| Exercised                        | 214,670       | 29.64                                  |   |                           |
| Forfeited                        |               |  |   |                           |
| Expired                          |               |  |   |                           |
| Outstanding at December 31, 2016 | 2,534,272     | 23.67                                  | 1.7   | 177                       |
| Exercisable at December 31, 2016 | 2,534,272     | 23.67                                  | 1.7   | 177                       |

The intrinsic value of exercised options was \$13 million (2015: \$12 million; 2014: \$74 million), whereas the amount received by NXP was \$7 million (2015: \$4 million; 2014: \$86 million).

The number of vested options at December 31, 2016 was 2,534,272 (2015: 2,748,942 vested options) with a weighted average exercise price of 23.67 (2015: 24.14 weighted average exercise price).

At December 31, 2016, there was no unrecognized compensation cost related to non-vested stock options.

**10 Accounts Receivables, net**

Accounts receivable are summarized as follows:

|  | 2016  | 2015  |
|--|-------|-------|
| Accounts receivable from third parties | 1,035 | 1,048 |
| Allowance for doubtful accounts        | (2)   | (1)   |
|  | 1,033 | 1,047 |

**11 Inventories, net**

Inventories are summarized as follows:

|                 | 2016 | 2015  |
|-----------------|------|-------|
| Raw materials   | 52   | 66    |
| Work in process | 854  | 1,376 |
| Finished goods  | 207  | 437   |

1,113 1,879

The portion of finished goods stored at customer locations under consignment amounted to \$53 million as of December 31, 2016 (2015: \$69 million).

The amounts recorded above are net of an allowance for obsolescence of \$84 million as of December 31, 2016 (2015: \$84 million).

## 12 Property, Plant and Equipment, net

The following table presents details of the Company's property, plant and equipment, net of accumulated depreciation:

|  | Useful Life<br>(in years) | 2016    | 2015    |
|--|---------------------------|---------|---------|
| Land   |                           | 111     | 160     |
| Buildings  | 9 to 50                   | 1,153   | 854     |
| Machinery and installations                                    | 2 to 10                   | 3,006   | 4,156   |
| Other Equipment  | 1 to 5                    | 278     | 227     |
| Prepayments and construction in progress                       |                           | 118     | 108     |
|  |                           | 4,666   | 5,505   |
| Less accumulated depreciation                                  |                           | (2,314) | (2,583) |
| Property, plant and equipment, net of accumulated depreciation |                           | 2,352   | 2,922   |

Land with a book value of \$111 million (2015: \$160 million) is not depreciated.

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

**Table of Contents****13 Identified Intangible Assets**

The changes in identified intangible assets were as follows:

|   | <b>Total</b>   | <b>Other intangible<br/>assets</b> | <b>Software</b> |
|---|----------------|------------------------------------|-----------------|
| <i>Balance as of January 1, 2015:</i>   |                |                                    |                 |
| Cost                                    | 1,866          | 1,715                              | 151             |
| Accumulated amortization/impairment     | (1,293)        | (1,207)                            | (86)            |
| Book value                              | 573            | 508                                | 65              |
| <i>Changes in book value:</i>           |                |                                    |                 |
| Acquisitions/additions                  | 8,551          | 8,543                              | 8               |
| Transfer to assets held for sale        | (38)           | (38)                               |                 |
| Amortization                            | (255)          | (229)                              | (26)            |
| Translation differences                 | (41)           | (35)                               | (6)             |
| Total changes                           | 8,217          | 8,241                              | (24)            |
| <i>Balance as of December 31, 2015:</i> |                |                                    |                 |
| Cost                                    | 9,978          | 9,832                              | 146             |
| Accumulated amortization/impairment     | (1,188)        | (1,083)                            | (105)           |
| Book value                              | 8,790          | 8,749                              | 41              |
| <i>Changes in book value:</i>           |                |                                    |                 |
| Acquisitions/additions                  | <b>299</b>     | <b>289</b>                         | <b>10</b>       |
| Transfer to assets held for sale        | <b>(138)</b>   | <b>(138)</b>                       |                 |
| Amortization                            | <b>(1,507)</b> | <b>(1,483)</b>                     | <b>(24)</b>     |
| Impairment                              | <b>(89)</b>    | <b>(89)</b>                        |                 |
| Translation differences                 | <b>(12)</b>    | <b>(10)</b>                        | <b>(2)</b>      |
| Total changes                           | <b>(1,447)</b> | <b>(1,431)</b>                     | <b>(16)</b>     |
| <i>Balance as of December 31, 2016:</i> |                |                                    |                 |
| Cost                                    | <b>9,512</b>   | <b>9,397</b>                       | <b>115</b>      |
| Accumulated amortization/impairment     | <b>(2,169)</b> | <b>(2,079)</b>                     | <b>(90)</b>     |
| Book value                              | <b>7,343</b>   | <b>7,318</b>                       | <b>25</b>       |

Identified intangible assets as of December 31, 2016 and 2015 respectively were composed of the following:

|                     | <b>December 31, 2016</b>     |                                 | <b>December 31, 2015</b>     |                                 |
|---------------------|------------------------------|---------------------------------|------------------------------|---------------------------------|
|                     | <b>Gross carrying amount</b> | <b>Accumulated amortization</b> | <b>Gross carrying amount</b> | <b>Accumulated amortization</b> |
| IPR&D <sup>1)</sup> | <b>1,380</b>                 |                                 | 2,016                        |                                 |
| Marketing-related   | <b>81</b>                    | <b>(18)</b>                     | 119                          | (18)                            |
| Customer-related    | <b>1,146</b>                 | <b>(322)</b>                    | 1,287                        | (224)                           |

|                                     |              |                |       |         |
|-------------------------------------|--------------|----------------|-------|---------|
| Technology-based                    | <b>6,790</b> | <b>(1,739)</b> | 6,410 | (841)   |
|                                     | <b>9,397</b> | <b>(2,079)</b> | 9,832 | (1,083) |
| Software                            | <b>115</b>   | <b>(90)</b>    | 146   | (105)   |
| <b>Identified intangible assets</b> | <b>9,512</b> | <b>(2,169)</b> | 9,978 | (1,188) |

1) IPR&D is not subject to amortization until completion or abandonment of the associated research and development effort.

The estimated amortization expense for these identified intangible assets, excluding software, for each of the five succeeding years is:

|      |       |
|------|-------|
| 2017 | 1,423 |
| 2018 | 1,432 |
| 2019 | 1,472 |
| 2020 | 1,190 |
| 2021 | 462   |

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

The expected weighted average remaining life of identified intangibles is 5 years as of December 31, 2016.

**Table of Contents****14 Goodwill**

The changes in goodwill in 2016 and 2015 were as follows:

|  | <b>2016</b>  | <b>2015</b> |
|--|--------------|-------------|
| Balances as of January 1   |              |             |
| Cost   | 9,414        | 2,328       |
| Accumulated impairment   | (186)        | (207)       |
| Book value   | 9,228        | 2,121       |
| Changes in book value:   |              |             |
| Acquisitions   | <b>14</b>    | 7,464       |
| Purchase accounting adjustments related to Freescale acquisition | <b>(25)</b>  |             |
| Transfer to assets held for sale                                 | <b>(349)</b> | (179)       |
| Translation differences  | <b>(25)</b>  | (178)       |
| Total changes  | <b>(385)</b> | 7,107       |
| Balances as of December 31                                       |              |             |
| Cost   | <b>9,029</b> | 9,414       |
| Accumulated impairment   | <b>(186)</b> | (186)       |
| Book value   | <b>8,843</b> | 9,228       |

No goodwill impairment charges were required to be recognized in 2016 or 2015.

In 2016, goodwill includes \$14 million related to an acquisition of a business for \$200 million.

In 2015, goodwill includes the acquisitions of Freescale, Quintic's Bluetooth Low Energy and Wearable businesses and Athena SCS Ltd.

Transfer to assets held for sale in 2016 includes our SP business, which closed in the first quarter of 2017. In 2015, transfer to assets held for sale includes our RF Power Business and Bipolar Power business, which were subsequently divested.

The fair value of the reporting units substantially exceeds the carrying value of the reporting units.

See note 23, Segments and Geographical Information, for goodwill by segment and note 3, Acquisitions and Divestments.

**15 Postretirement Benefit Plans****Pensions**

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

The Company's employees in The Netherlands participate in a multi-employer plan, implemented for the employees of the Metal and Electrical Engineering Industry ( Bedrijfstakpensioenfonds Metalektro or PME ) in accordance with the mandatory affiliation to PME effective for the industry in which NXP operates. As this affiliation is a legal requirement for the Metal and Electrical Engineering Industry it has no expiration date. This PME multi-employer plan (a career average plan) covers 1,300 companies and 616,000 participants. The plan monitors its risk on an aggregate basis, not by company or participant and can therefore not be accounted for as a defined benefit plan. The pension fund rules state that the only obligation for affiliated companies will be to pay the annual plan contributions. There is no obligation for affiliated companies to fund plan deficits. Affiliated companies are also not entitled to any possible surpluses in the pension fund.

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

The contribution rate for the mandatory scheme will decrease from 26.1% (2016) to 25.8% (2017).

| <b>PME multi-employer plan</b>   | <b>2016</b>  | <b>2015</b> | <b>2014</b> |
|--|--------------|-------------|-------------|
| NXP's contributions to the plan  | <b>36</b>    | 37          | 48          |
| (including employees' contributions)   | <b>4</b>     | 4           | 4           |
| Average number of NXP's active employees participating in the plan   | <b>2,415</b> | 2,668       | 2,881       |
| NXP's contribution to the plan exceeded more than 5 percent of the total contribution (as of December 31 of the plan's year end) | <b>No</b>    | No          | No          |

The amount for pension costs included in the statement of operations for the year 2016 was \$102 million (2015: \$69 million; 2014: \$77 million) of which \$44 million (2015: \$21 million; 2014: \$21 million) represents defined-contribution plans and \$32 million (2015: \$32 million; 2014: \$41 million) represents the PME multi-employer plans.



**Table of Contents****Defined-benefit plans**

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

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

The total cost of defined-benefit plans amounted to \$26 million in 2016 (2015: \$16 million; 2014: \$15 million) consisting of \$27 million ongoing cost (2015: \$20 million; 2014: \$15 million) and a gain of \$1 million from special events resulting from restructurings, curtailments and settlements (2015: \$4 million; 2014: nil).

The table below provides a summary of the changes in the pension benefit obligations and defined-benefit pension plan assets for 2016 and 2015, associated with the Company's dedicated plans, and a reconciliation of the funded status of these plans to the amounts recognized in the consolidated balance sheets.

|  | 2016         | 2015         |
|--|--------------|--------------|
| <b>Projected benefit obligation</b>                      |              |              |
| Projected benefit obligation at beginning of year        | 561          | 447          |
| Service cost   | 17           | 12           |
| Interest cost  | 14           | 11           |
| Actuarial (gains) and losses                             | 53           | (18)         |
| Curtailments and settlements                             | (15)         | (16)         |
| Benefits paid  | (21)         | (14)         |
| Pension liabilities held-for-sale                        | (28)         |              |
| Benefit obligation assumed in acquisitions               |              | 177          |
| Exchange rate differences                                | (17)         | (38)         |
| <b>Projected benefit obligation at end of year</b>       | <b>564</b>   | <b>561</b>   |
| <b>Plan assets</b>                                       |              |              |
| Fair value of plan assets at beginning of year           | 190          | 157          |
| Actual return on plan assets                             | 3            | 7            |
| Employer contributions                                   | 21           | 10           |
| Curtailments and settlements                             | (15)         | (12)         |
| Benefits paid  | (21)         | (14)         |
| Pension assets held-for-sale                             | (2)          |              |
| Plan assets acquired in acquisitions                     |              | 56           |
| Exchange rate differences                                | (4)          | (14)         |
| <b>Fair value of plan assets at end of year</b>          | <b>172</b>   | <b>190</b>   |
| <b>Funded status</b>                                     | <b>(392)</b> | <b>(371)</b> |
| <b>Classification of the funded status is as follows</b> |              |              |
| - Prepaid pension cost within other non-current assets   |              | 4            |

|  |              |              |
|--|--------------|--------------|
| - Accrued pension cost within other non-current liabilities                      | (380)        | (368)        |
| - Accrued pension cost within accrued liabilities                                | (12)         | (7)          |
| <b>Total</b>   | <b>(392)</b> | <b>(371)</b> |
| <b>Accumulated benefit obligation</b>  |              |              |
| Accumulated benefit obligation for all Company-dedicated benefit pension plans   | 524          | 518          |
| <b>Plans with assets less than accumulated benefit obligation</b>                |              |              |
| Funded plans with assets less than accumulated benefit obligation                |              |              |
| - Fair value of plan assets  | 171          | 73           |
| - Accumulated benefit obligations  | 327          | 209          |
| - Projected benefit obligations  | 357          | 243          |
| Unfunded plans   |              |              |
| - Accumulated benefit obligations  | 195          | 196          |
| - Projected benefit obligations  | 204          | 204          |
| <b>Amounts recognized in accumulated other comprehensive income (before tax)</b> |              |              |
| Total AOCI at beginning of year  | 42           | 70           |
| - Net actuarial loss (gain)  | 54           | (21)         |
| - Exchange rate differences  | (5)          | (7)          |
| Total AOCI at end of year  | 91           | 42           |

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

|                               | 2016 | 2015 |
|-------------------------------|------|------|
| Discount rate                 | 2.0% | 2.5% |
| Rate of compensation increase | 1.9% | 2.2% |

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The weighted average assumptions used to calculate the net periodic pension cost were as follows:

|                                 | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|---------------------------------|-------------|-------------|-------------|
| Discount rate                   | <b>2.5%</b> | 2.6%        | 3.7%        |
| Expected returns on plan assets | <b>3.5%</b> | 4.2%        | 4.2%        |
| Rate of compensation increase   | <b>2.2%</b> | 1.8%        | 2.3%        |

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

Plans in countries without a deep corporate bond market use a discount rate based on the local sovereign rate and the plans maturity (Bloomberg Government Bond Yields).

Expected returns per asset class are based on the assumption that asset valuations tend to return to their respective long-term equilibria. The Expected Return on Assets for any funded plan equals the average of the expected returns per asset class weighted by their portfolio weights in accordance with the fund's strategic asset allocation.

The components of net periodic pension costs were as follows:

|   | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|---|-------------|-------------|-------------|
| Service cost                                      | <b>17</b>   | 12          | 10          |
| Interest cost on the projected benefit obligation | <b>14</b>   | 11          | 13          |
| Expected return on plan assets                    | <b>(6)</b>  | (6)         | (7)         |
| Amortization of net (gain) loss                   | <b>2</b>    | 3           | (1)         |
| Curtailments & settlements                        | <b>(1)</b>  | (6)         |             |
| Other   |             | 2           |             |
| <b>Net periodic cost</b>                          | <b>26</b>   | 16          | 15          |

A sensitivity analysis shows that if the discount rate increases by 1% from the level of December 31, 2016, with all other variables held constant, the net periodic pension cost would decrease by \$4 million. If the discount rate decreases by 1% from the level of December 31, 2016, with all other variables held constant, the net periodic pension cost would increase by \$3 million.

The estimated net actuarial loss (gain) and prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year (2017) are \$2 million and nil respectively.

**Plan assets**

The actual pension plan asset allocation at December 31, 2016 and 2015 is as follows:

|                   | <b>2016</b> | <b>2015</b> |
|-------------------|-------------|-------------|
| Asset category:   |             |             |
| Equity securities | <b>29%</b>  | 29%         |

|                     |             |      |
|---------------------|-------------|------|
| Debt securities     | <b>52%</b>  | 55%  |
| Insurance contracts | <b>7%</b>   | 6%   |
| Other               | <b>12%</b>  | 10%  |
|                     | <b>100%</b> | 100% |

We met our target plan asset allocation. The investment objectives for the pension plan assets are designed to generate returns that, along with the future contributions, will enable the pension plans to meet their future obligations. The investments in our major defined benefit plans largely consist of government bonds, Level 2 Corporate Bonds and cash to mitigate the risk of interest fluctuations. The asset mix of equity, bonds, cash and other categories is evaluated by an asset-liability modeling study for our largest plan. The assets of funded plans in other countries mostly have a large proportion of fixed income securities with return characteristics that are aligned with changes in the liabilities caused by discount rate volatility. Total pension plan assets of \$172 million include \$161 million related to the German and Japanese pension funds.

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The following table summarizes the classification of these assets.

|                     | 2016      |            |           | 2015    |          |           |
|---------------------|-----------|------------|-----------|---------|----------|-----------|
|                     | Level I   | Level II   | Level III | Level I | Level II | Level III |
| Equity securities   |           | <b>48</b>  |           |         | 49       |           |
| Debt securities     | <b>9</b>  | <b>72</b>  |           | 7       | 81       |           |
| Insurance contracts |           | <b>12</b>  |           |         | 12       |           |
| Other               | <b>5</b>  | <b>11</b>  | <b>4</b>  | 3       | 10       | 3         |
|                     | <b>14</b> | <b>143</b> | <b>4</b>  | 10      | 152      | 3         |

The Company currently expects to make \$11 million of employer contributions to defined-benefit pension plans and \$6 million of expected cash payments in relation to unfunded pension plans.

***Estimated future pension benefit payments***

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

|                 |     |
|-----------------|-----|
| 2017            | 21  |
| 2018            | 16  |
| 2019            | 17  |
| 2020            | 18  |
| 2021            | 20  |
| Years 2022-2026 | 128 |

***Postretirement health care benefits***

In addition to providing pension benefits, NXP provides retiree healthcare benefits in the US and the UK which are accounted for as defined-benefit plans.

The accumulated postretirement benefit obligation at the end of 2016 equals \$18 million (2015: \$54 million).

**16 Debt****Short-term debt**

|                                       | 2016       | 2015 |
|---------------------------------------|------------|------|
| Short-term bank borrowings            |            | 6    |
| Current portion of long-term debt (*) | <b>421</b> | 550  |
| <b>Total</b>                          | <b>421</b> | 556  |

(\*) Net of adjustment for debt issuance costs.

At December 31, 2015, short-term bank borrowings of \$6 million consisted of a local bank borrowing by our Chinese subsidiary. The applicable weighted average interest rate during 2015 was 2.5%.

**Table of Contents****Long-term debt**

The following table summarizes the outstanding long-term debt as of December 31, 2016 and 2015:

|  | Maturities | 2016         |                | 2015         |                |
|--|------------|--------------|----------------|--------------|----------------|
|  |            | Amount       | Effective rate | Amount       | Effective rate |
| Floating-rate term loan  | Mar, 2017  | 388          | 2.770          | 392          | 2.750          |
| Floating-rate term loan  | Jan, 2020  | 387          | 3.270          | 391          | 3.250          |
| Floating-rate term loan  | Dec, 2020  | 1,436        | 3.270          | 2,700        | 3.750          |
| Fixed-rate 3.5% senior unsecured notes   | Sep, 2016  |              |                | 500          | 3.500          |
| Fixed-rate 3.75% senior unsecured notes  | Jun, 2018  | 750          | 3.750          | 750          | 3.750          |
| Fixed-rate 4.125% senior unsecured notes   | Jun, 2020  | 600          | 4.125          | 600          | 4.125          |
| Fixed-rate 4.125% senior unsecured notes   | Jun, 2021  | 1,350        | 4.125          |              |                |
| Fixed-rate 5.75% senior unsecured notes  | Feb, 2021  | 500          | 5.750          | 500          | 5.750          |
| Fixed-rate 5% senior secured notes   | May, 2021  |              |                | 500          | 5.000          |
| Fixed-rate 3.875% senior unsecured notes   | Sep, 2022  | 1,000        | 3.875          |              |                |
| Fixed-rate 6% senior secured notes   | Jan, 2022  |              |                | 960          | 6.000          |
| Fixed-rate 4.625% senior unsecured notes   | Jun, 2022  | 400          | 4.625          | 400          | 4.625          |
| Fixed-rate 5.75% senior unsecured notes  | Mar, 2023  | 500          | 5.750          | 500          | 5.750          |
| Fixed-rate 4.625% senior unsecured notes   | Jun, 2023  | 900          | 4.625          |              |                |
| Fixed-rate 1% cash convertible notes   | Dec, 2019  | 1,150        | 1.000          | 1,150        | 1.000          |
| Floating-rate revolving credit facility  | Dec, 2020  |              |                |              |                |
| <b>Total principal</b>   |            | <b>9,361</b> |                | <b>9,343</b> |                |
| Liabilities arising from capital lease transactions  |            | <b>15</b>    |                | <b>31</b>    |                |
| Unamortized discounts, premiums and debt issuance costs  |            | <b>(61)</b>  |                | <b>(82)</b>  |                |
| Fair value of embedded cash conversion option  |            | <b>(128)</b> |                | <b>(167)</b> |                |
| Purchase accounting fair value adjustment Freescale Senior Secured Notes                                     |            |              |                | <b>81</b>    |                |
| <b>Total debt, including unamortized discounts, premiums, debt issuance costs and fair value adjustments</b> |            | <b>9,187</b> |                | <b>9,206</b> |                |
| <b>Current portion of long-term debt</b>   |            | <b>(421)</b> |                | <b>(550)</b> |                |
| <b>Long-term debt</b>  |            | <b>8,766</b> |                | <b>8,656</b> |                |

|           | Range of interest rates | Average rate of interest | Principal amount outstanding 2016 | Due in 2017 | Due after 2017 | Due after 2021 | Average remaining term (in years) | Principal amount outstanding 2015 |
|-----------|-------------------------|--------------------------|-----------------------------------|-------------|----------------|----------------|-----------------------------------|-----------------------------------|
| USD notes | 2.8%-5.8%               | 4.1%                     | 8,211                             | 406         | 7,805          | 2,800          | 4.2                               | 8,193                             |
|           | 1.0%-1.0%               | 1.0%                     | 1,150                             |             | 1,150          |                | 2.9                               | 1,150                             |

|   |            |             |              |            |              |              |                  |
|---|------------|-------------|--------------|------------|--------------|--------------|------------------|
| 2019 Cash Convertible Senior Notes                  |            |             |              |            |              |              |                  |
| Revolving Credit Facility <sup>(1)</sup>            |            |             |              |            |              |              |                  |
| Bank borrowings                                     |            |             |              |            |              |              |                  |
| Liabilities arising from capital lease transactions |            |             |              |            |              |              |                  |
|   | 2.5%-13.8% | <b>3.0%</b> | <b>15</b>    | <b>15</b>  |              | <b>1.3</b>   | 31               |
|   |            | <b>3.7%</b> | <b>9,376</b> | <b>421</b> | <b>8,955</b> | <b>2,800</b> | <b>4.1</b> 9,374 |

<sup>(1)</sup> We do not have any borrowings under the \$600 million Revolving Credit Facility as of December 31, 2016. As of December 31, 2016, the following principal amounts of long-term debt are due in the next 5 years:

|                   |              |
|-------------------|--------------|
| 2017              | 421          |
| 2018              | 768          |
| 2019              | 1,167        |
| 2020              | 2,370        |
| 2021              | 1,850        |
| Due after 5 years | 2,800        |
|                   | <b>9,376</b> |



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As of December 31, 2016, the book value of our outstanding long-term debt was \$8,766 million, less debt issuance costs of \$61 million and less original issuance/debt discount of \$128 million.

As of December 31, 2016, the fixed rate notes and floating rate notes represented 76% and 24% respectively of the total principal amount of the notes outstanding at December 31, 2016. The remaining tenor of secured debt is on average 4.1 years.

Accrued interest as of December 31, 2016 is \$48 million (December 31, 2015: \$46 million).

## **2016 Financing Activities**

### *2020 Term Loan*

On September 22, 2016, NXP entered into a new \$1,440 million aggregate principal amount Senior Secured Term Loan Facility due December 7, 2020. Concurrently, NXP repaid the \$1,440 million principal amount Senior Secured Term Loan Facility due December 7, 2020.

### *2022 Senior Unsecured Notes*

On August 11, 2016, NXP B.V., together with NXP Funding LLC, issued U.S. dollar-denominated 3.875% Senior Unsecured Notes with an aggregate principal amount of \$1,000 million, due September 1, 2022. The interest is payable semi-annually on March 1 and September 1 of each year, beginning on March 1, 2017. The Notes were issued at par and were recorded at their fair value of \$1,000 million on the accompanying Consolidated Balance Sheet. NXP used the net proceeds from the offering of the Notes to redeem the remaining \$960 million aggregate principal amount of its outstanding Senior Secured Notes due 2022 and to pay for certain costs and expenses related thereto.

### *2021 Additional Senior Unsecured Notes*

On August 1, 2016, NXP B.V., together with NXP Funding LLC, issued an aggregate principal amount of \$500 million of 4.125% Senior Unsecured Notes due 2021 (the Additional Notes). The Additional Notes were issued at a price of 101.875% and are of the same class as the existing 4.125% Senior Notes due 2021 originally issued on May 23, 2016. NXP used the net proceeds from the offering of the Additional Notes to redeem \$200 million aggregate principal amount of its outstanding Senior Notes due 2016 and used the remainder of the proceeds for general corporate purposes.

### *2021 and 2023 Senior Unsecured Notes*

On May 23, 2016, NXP B.V. together with NXP Funding LLC issued U.S. dollar-denominated 4.125% and 4.625% Senior Unsecured Notes with aggregate principal amounts of \$850 million, due June 1, 2021 and \$900 million, due June 1, 2023. The interest is payable semi-annually on June 1 and December 1 of each year, beginning on December 1, 2016. These Notes were issued at par and were recorded at their fair value of \$850 million and \$900 million, respectively, on the accompanying Consolidated Balance Sheet. NXP used the net proceeds from the offering of the Notes and cash on hand to repay \$1,250 million aggregate principal amount of its existing Secured Term Loan B due 2020 and \$500 million aggregate principal amount of its outstanding Senior Secured Notes due 2021.

### *2016 Senior Unsecured Notes*

On February 23, April 27 and August 1, 2016, NXP B.V., together with NXP Funding LLC, issued redemption notices for an aggregate principal amount of \$200 million, \$100 million and \$200 million, respectively, of its outstanding 3.5% Senior Unsecured Notes due 2016. The funds from this redemption came from available surplus cash.

*Certain terms and Covenants of the U.S. dollar-denominated notes*

The Company is not required to make mandatory redemption payments or sinking fund payments with respect to the notes. With respect to the Term Loans, the Company is required to repay \$18 million annually.

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

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Certain portions of long-term and short-term debt as of December 31, 2016 in the principal amount of \$2,211 million (2015: \$4,943 million) have been secured by collateral on substantially all of the Company's assets and of certain of its subsidiaries.

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

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

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

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

if the cost of providing security is not proportionate to the benefit accruing to the holders; and

if providing such security requires consent of a third party and such consent cannot be obtained after the use of commercially reasonable efforts; and

if providing such security would be prohibited by applicable law, general statutory limitations, financial assistance, corporate benefit, fraudulent preference, thin capitalization rules or similar matters or providing security would be outside the applicable pledgor's capacity or conflict with fiduciary duties of directors or cause material risk of personal or criminal liability after using commercially reasonable efforts to overcome such obstacles; and

if providing such security would have a material adverse effect (as reasonably determined in good faith by such subsidiary) on the ability of such subsidiary to conduct its operations and business in the ordinary course as otherwise permitted by the indenture; and

if providing such security or perfecting liens thereon would require giving notice (i) in the case of receivables security, to customers or (ii) in the case of bank accounts, to the banks with whom the accounts are maintained. Such notice will only be provided after the secured notes are accelerated.

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

#### *2019 Cash Convertible Senior Notes*

In November 2014, NXP issued \$1,150 million principal amount of its 2019 Cash Convertible Senior Notes (the Notes ). The 2019 Cash Convertible Senior Notes have a stated interest rate of 1.00%, matures on December 1, 2019 and may be settled only in cash. The indenture for the 2019 Cash Convertible Senior Notes does not contain any financial covenants. Contractual interest payable on the 2019 Cash Convertible Senior Notes began accruing in December 2014 and is payable semi-annually each December 1<sup>st</sup> and June 1<sup>st</sup>. The initial purchasers' transaction fees and expenses totaling \$16 million were capitalized as deferred financing costs and are amortized over the term of the 2019 Cash Convertible Senior Notes using the effective interest method.

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

the price of NXP's common stock reaches 130% of the conversion price on each applicable trading day during certain periods of time specified in the 2019 Cash Convertible Senior Notes;

specified corporate transactions occur; or

the trading price of the 2019 Cash Convertible Senior Notes falls below 98% of the product of (i) the last reported sales price of NXP's common stock and (ii) the conversion rate on the date.

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

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

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

As of December 31, 2016, none of the conditions allowing the holders of the 2019 Cash Convertible Senior Notes to convert the 2019 Cash Convertible Senior Notes into cash had been met.

The requirement that NXP must settle the conversion of the Notes in cash gives rise to a derivative instrument that must be bifurcated from the debt host. The embedded cash conversion option within the Cash Convertible Notes is required to be separated from the Cash Convertible Notes and accounted for separately as a derivative liability, with changes in fair value reported in our Consolidated Statements of Income in other (expense) income, net until the cash conversion option settles or expires. The initial fair value liability of the embedded cash conversion option simultaneously reduced the carrying value of the Cash Convertible Notes (effectively an original issuance discount). The embedded cash conversion option is measured and reported at fair value on a recurring basis, within Level 3 of the fair value hierarchy. The fair value of the embedded cash conversion option at December 31, 2016 was \$258 million (2015: \$241 million) which is recorded in other long-term liabilities in the accompanying balance sheet. For the year ended December 31, 2016, the change in the fair value of the embedded cash conversion option resulted in a loss of \$17 million (2015: a loss of \$38 million).

Concurrently with the pricing of the 2019 Cash Convertible Senior Notes, NXP entered into hedge transactions, or the Notes Hedges, with various parties whereby NXP has the option to receive the cash amount that may be due to the Notes holders at maturity in excess of the \$1,150 million principal amount of the notes, subject to certain conversion rate adjustments in the Notes Indenture. These options expire on December 1, 2019, and must be settled in cash. The aggregate cost of the Notes Hedges was \$208 million. The Notes Hedges are accounted for as derivative assets, and are included in Other assets in NXP's Consolidated Balance Sheet. As of December 31, 2016, the estimated fair value of the Notes Hedges was \$258 million (2015: \$241 million).

The Notes Embedded Conversion Derivative and the Notes Hedges are adjusted to fair value each reported period and unrealized gains and losses are reflected in NXP's Consolidated Statements of Operations. Because the fair values of the Notes Embedded Conversion Derivative and the Notes Hedges are designed to have similar offsetting values, there was no impact to NXP's Consolidated Statements of Operations relating to these adjustments to fair value during fiscal 2016 (2015: no impact).

In separate transactions, NXP also sold warrants, to various parties for the purchase of up to 11.18 million shares of NXP's common stock at a strike price of \$133.32 per share in a private placement pursuant to Section 4(2) of the Securities Act of 1933, as amended, or the Securities Act. The Warrants expire on various dates from March 2, 2020, through April 30, 2020, and will be net share settled. NXP received \$134 million in cash proceeds from the sale of the Warrants, which were at the time of issuance recorded in Other non-current liabilities. As of January 1, 2016, as of result of the acquisition of Freescale, NXP has concluded that the functional currency of the holding company is USD. Consequently, beginning from January 1, 2016, the Warrants with a carrying value of \$168 million were reclassified to stockholders' equity, and mark-to-market accounting is no longer applicable. The Warrants are included in diluted earnings per share to the extent the impact is dilutive. As of December 31, 2016, the Warrants were not dilutive.

The principal amount, unamortized debt discount and net carrying amount of the liability component of the 2019 Cash Convertible Senior Notes as of December 31, 2016 and 2015 was as follows:

| (in millions)   | As of December 31 |       |
|---|-------------------|-------|
|   | 2016              | 2015  |
| Principal amount of 2019 Cash Convertible Senior Notes          | <b>1,150</b>      | 1,150 |
| Unamortized debt discount of 2019 Cash Convertible Senior Notes | <b>136</b>        | 178   |
| Net liability of 2019 Cash Convertible Senior Notes             | <b>1,014</b>      | 972   |

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The effective interest rate, contractual interest expense and amortization of debt discount for the 2019 Cash Convertible Senior Notes for fiscal 2016 and 2015 were as follows:

| (in millions, except percentage) | 2016  | 2015  |
|----------------------------------|-------|-------|
| Effective interest rate          | 5.14% | 5.14% |
| Contractual interest expense     | 12    | 12    |
| Amortization of debt discount    | 40    | 38    |

As of December 31, 2016, the if-converted value of the 2019 Cash Convertible Senior Notes exceeded the principal amount of the Notes. The total fair value of the 2019 Cash Convertible Senior Notes was \$1,310 million.

**Impact of Conversion Contingencies on Financial Statements**

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

**17 Commitments and Contingencies***Lease Commitments*

At December 31, 2016 and 2015, there were no material capital lease obligations. Long-term operating lease commitments totaled \$113 million as of December 31, 2016 (2015: \$172 million). The long-term operating leases are mainly related to the rental of buildings and tools. These leases expire at various dates during the next 30 years. Future minimum lease payments under operating leases are as follows:

|   |            |
|---|------------|
| 2017  | 33         |
| 2018  | 23         |
| 2019  | 17         |
| 2020  | 12         |
| 2021  | 5          |
| Thereafter                                  | 23         |
| <b>Total future minimum leases payments</b> | <b>113</b> |

Rent expense amounted to \$68 million in 2016 (2015: \$70 million; 2014: \$63 million).

*Purchase Commitments*

The Company maintains purchase commitments with certain suppliers, primarily for raw materials, semi finished goods and manufacturing services and for some non-production items. Purchase commitments for inventory materials are generally restricted to a forecasted time-horizon as mutually agreed upon between the parties. This forecasted time-horizon can vary for different suppliers. As of December 31, 2016, the Company had purchase commitments of \$550 million, which are due through 2025.

***Litigation***

We are regularly involved as plaintiffs or defendants in claims and litigation relating to a variety of matters such as contractual disputes, personal injury claims, employee grievances and intellectual property litigation. In addition, our acquisitions, divestments and financial transactions sometimes result in, or are followed by, claims or litigation. Although the ultimate disposition of asserted claims cannot be predicted with certainty, it is our belief that the outcome of any such claims, either individually or on a combined basis, will not have a material adverse effect on our consolidated financial position. However, such outcomes may be material to our consolidated statement of operations for a particular period. The Company records an accrual for any claim that arises whenever it considers that it is probable that it is exposed to a loss contingency and the amount of the loss contingency can be reasonably estimated.



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Based on the most current information available to it and based on its best estimate, the Company also reevaluates at least on a quarterly basis the claims that have arisen to determine whether any new accruals need to be made or whether any accruals made need to be adjusted. Based on the procedures described above, the Company has an aggregate amount of approximately \$22 million accrued for legal proceedings pending as of December 31, 2016, compared to approximately \$28 million as of December 31, 2015. The accruals are included in Accrued liabilities and Other non-current liabilities. There can be no assurance that the Company's accruals will be sufficient to cover the extent of its potential exposure to losses, but historically, legal actions have not had a material adverse effect on the Company's business, results of operations or financial condition.

The Company also estimates the aggregate range of reasonably possible losses in excess of the amount accrued based on currently available information for those cases for which such estimate can be made. The estimated aggregate range requires significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants (including the Company) in such claims whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the claims, and the attendant uncertainty of the various potential outcomes of such claims. Accordingly, the Company's estimate will change from time to time, and actual losses may be more than the current estimate. As at December 31, 2016, the Company believes that for all litigation pending its aggregate exposure to loss in excess of the amount accrued could range between \$0 and approximately \$125 million.

Intellectual property litigation and infringement claims could cause us to incur significant expenses or prevent us from selling our products. The resolution of intellectual property litigation may require us to pay damages for past infringement or to obtain a license under the other party's intellectual property rights that could require one-time license fees or ongoing royalties, require us to make material changes to our products and/or manufacturing processes, require us to cross-license certain of our patents and other intellectual property and/or prohibit us from manufacturing or selling one or more products in certain jurisdictions, which could adversely impact our operating results in future periods.

In addition, the Company is currently assisting Motorola in the defense of eight personal injury lawsuits due to indemnity obligations included in the agreement that separated Freescale from Motorola in 2004. The multi-plaintiff lawsuits are pending in the Circuit Court of Cook County, Illinois. These claims allege a link between working in semiconductor manufacturing clean room facilities and birth defects in 53 individuals. The eight suits allege exposures that occurred between 1965 and 2006. Each suit seeks an unspecified amount of damages in compensation for the alleged injuries; however, each plaintiff will likely seek substantial compensatory and punitive damages from Motorola which, if proven and recovered, the Company considers to be material. A portion of any indemnity due to Motorola will be reimbursed to NXP if Motorola receives an indemnification payment from its insurance coverage. Motorola has denied liability for these alleged injuries based on numerous defenses. Motorola has potential insurance coverage for many of the years indicated above, but with differing types and levels of coverage, self-insurance retention amounts and deductibles. Motorola has no insurance coverage for a potential punitive damage award. We are in discussions with Motorola and their insurers regarding the availability of applicable insurance coverage for each of the individual cases.

***Environmental remediation***

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

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

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

As of December 31, 2016 we have recorded \$84 million for environmental remediation costs, which are primarily included in other non-current liabilities in the accompanying Consolidated Balance Sheet. This amount represents the undiscounted future cash flows of our estimated share of costs incurred in environmental cleanup sites without considering recovery of costs from any other party or insurer, since in most cases potentially responsible parties other than us may exist and be held responsible.

### **18 Stockholders Equity**

The share capital of the Company as of December 31, 2016 and 2015 consists of 1,076,257,500 authorized shares, including 430,503,000 authorized shares of common stock, and 645,754,500 authorized but unissued shares of preferred stock.

At December 31, 2016, the Company has issued and paid up 346,002,862 shares (2015: 346,002,862 shares) of common stock each having a par value of 0.20 or a nominal stock capital of 69 million.

**Table of Contents****Share-based awards**

The Company has granted share-based awards to the members of our board of directors, management team, our other executives, selected other key employees/talents of NXP and selected new hires to receive the Company's shares in the future. See note 9, Share-based Compensation.

**Treasury shares**

In connection with the Company's share repurchase programs, which originally commenced in 2011, and which were extended effective August 1, 2013 and February 6, 2014, and in accordance with the Company's policy to provide share-based awards from its treasury share inventory, shares which have been repurchased and are held in treasury for delivery upon exercise of options and under restricted and performance share programs, are accounted for as a reduction of stockholders' equity. Treasury shares are recorded at cost, representing the market price on the acquisition date. When issued, shares are removed from treasury shares on a first-in, first-out (FIFO) basis.

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

The following transactions took place resulting from employee option and share plans in 2016:

|   | <b>2016</b> |
|---|-------------|
| Total shares in treasury at beginning of year | 3,998,982   |
| Total cost                                    | 342         |
| Shares acquired under repurchase program      | 15,537,868  |
| Average price in \$ per share                 | 82.36       |
| Amount paid                                   | 1,280       |
| Shares delivered                              | 8,926,870   |
| Average price in \$ per share                 | 79.25       |
| Amount received                               | 115         |
| Total shares in treasury at end of year       | 10,609,980  |
| Total cost                                    | 915         |

**19 Accumulated Other Comprehensive Income (Loss)**

Total comprehensive income (loss) represents net income (loss) plus the results of certain equity changes not reflected in the Consolidated Statements of Operations. The after-tax components of accumulated other comprehensive income (loss) and their corresponding changes are shown below:

|                         | Net<br>investment<br>hedge | Currency<br>translation<br>differences | Change in fair<br>value<br>hedges | cash flow<br>Net actuarial<br>gain/(losses) | Unrealized<br>gains/losses<br>available-for sale<br>securities | Accumulated<br>Other<br>Comprehensive<br>Income<br>(loss) |
|-------------------------|----------------------------|--|-----------------------------------|---|--|---|
| As of December 31, 2014 | (331)                      | 627                                    | (2)                               | (85)  | 1  | 210   |
|                         | (190)                      | 131                                    | (2)                               | 28  | (1)  | (34)  |

|   |              |              |            |             |              |
|---|--------------|--------------|------------|-------------|--------------|
| Other comprehensive income (loss) before reclassifications                |              |              |            |             |              |
| Amounts reclassified out of accumulated other comprehensive income (loss) |              |              | 2          |             | 2            |
| Tax effects   |              |              |            | 3           | 3            |
| Other comprehensive income (loss)   | <b>(190)</b> | 131          |            | 31          | (1)          |
|   |              |              |            |             | <b>(29)</b>  |
| As of December 31, 2015   | (521)        | 758          | (2)        | (54)        | 181          |
| Reclassification  | <b>521</b>   | <b>(521)</b> |            |             |              |
| Other comprehensive income (loss) before reclassifications                |              | <b>(124)</b> |            | <b>(22)</b> | <b>6</b>     |
| Amounts reclassified out of accumulated other comprehensive income (loss) |              |              | <b>(1)</b> |             | <b>(1)</b>   |
| Tax effects   |              |              | <b>1</b>   | <b>(5)</b>  | <b>(2)</b>   |
| Other comprehensive income (loss)   |              | <b>(124)</b> |            | <b>(27)</b> | <b>4</b>     |
|   |              |              |            |             | <b>(147)</b> |
| As of December 31, 2016   |              | <b>113</b>   | <b>(2)</b> | <b>(81)</b> | <b>4</b>     |
|   |              |              |            |             | <b>34</b>    |

## **20 Related-party Transactions**

The Company's related parties are the members of the board of directors of NXP Semiconductors N.V., the members of the management team of NXP Semiconductors N.V., equity-accounted investees and Qualcomm Incorporated.

### ***Other***

We have a number of strategic alliances and joint ventures. We have relationships with certain of our alliance partners in the ordinary course of business whereby we enter into various sale and purchase transactions, generally on terms comparable to transactions with third parties. However, in certain instances upon divestment of former businesses where we enter into supply arrangements with the former owned business, sales are conducted at cost.

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The following table presents the amounts related to revenue and expenses incurred in transactions with these related parties:

|                                | 2016 | 2015 | 2014 |
|--------------------------------|------|------|------|
| Revenue                        | 59   | 8    | 11   |
| Purchase of goods and services | 116  | 85   | 103  |

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

|             | 2016 | 2015 |
|-------------|------|------|
| Receivables | 13   | 24   |
| Payables    | 29   | 24   |

**21 Fair Value of Financial Assets and Liabilities**

The following table summarizes the estimated fair value and carrying amount of our financial instruments measured on a recurring basis:

|                                      |                      | December 31, 2016 |                      | December 31, 2015 |                      |
|--------------------------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
|                                      | Fair value hierarchy | Carrying amount   | Estimated fair value | Carrying amount   | Estimated fair value |
| <b>Assets:</b>                       |                      |                   |                      |                   |                      |
| Notes hedges                         | 3 <sup>1)</sup>      | 258               | 258                  | 241               | 241                  |
| Other financial assets               | 2                    | 40                | 40                   | 47                | 47                   |
| Derivative instruments-assets        | 2                    | 3                 | 3                    | 2                 | 2                    |
| <b>Liabilities:</b>                  |                      |                   |                      |                   |                      |
| Short-term debt                      | 2                    | (15)              | (15)                 | (22)              | (22)                 |
| Short-term debt (bonds)              | 2                    | (406)             | (406)                | (534)             | (535)                |
| Long-term debt (bonds)               | 2                    | (7,752)           | (8,011)              | (7,669)           | (7,723)              |
| 2019 Cash Convertible Senior Notes   | 2                    | (1,014)           | (1,310)              | (972)             | (1,260)              |
| Other long-term debt                 | 2                    | (1)               | (1)                  | (15)              | (15)                 |
| Notes Embedded Conversion Derivative | 3 <sup>1)</sup>      | (258)             | (258)                | (241)             | (241)                |
| Warrants                             | 2                    |                   |                      | (168)             | (168)                |
| Derivative instruments-liabilities   | 2                    | (6)               | (6)                  | (4)               | (4)                  |

<sup>1)</sup> During the fourth quarter of 2016, the Notes hedges and the Notes Embedded Conversion Derivative were transferred from level 2 to level 3 of the fair value hierarchy.

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

***Other financial assets and derivatives***

For other financial assets and derivatives the fair value is based upon significant other observable inputs depending on the nature of the other financial asset and derivative.

***Notes hedges and Notes Embedded Conversion Derivative***

At December 31, 2016, the Notes hedges and the Notes Embedded Conversion Derivative are measured at fair value using level 3 inputs. The instruments are not actively traded and are valued at the measurement date using an option pricing model that uses observable inputs for the share price of NXP's common stock, the risk-free interest rate, dividend yield and the term, in combination with a significant unobservable input for volatility, that we determine based upon a hypothetical market place and is a factor of 32%-48%. The change in the fair value of the Notes hedges and Notes Embedded Conversion Derivative was solely the gain and loss, respectively for each instrument that was recognized.

***Debt***

The fair value is estimated on the basis of observable inputs other than quoted prices in active markets for identical liabilities for certain issues, or on the basis of discounted cash flow analyses. Accrued interest is included under accrued liabilities and not within the carrying amount or estimated fair value of debt.

***Warrants***

At the time of the issuance of the 2019 Cash Convertible Senior Notes, NXP entered into separate warrant transactions with various parties for the purchase of up to 11.18 million shares of NXP's common stock at a price of \$133.32 per share in a private placement. The warrants expire on various dates from March 2, 2020, through April 30, 2020, and will be net share settled. NXP received \$134 million in cash proceeds from the sale of the Warrants, which was recorded in other non-current liabilities. As of January 1, 2016, as a result of the acquisition of Freescale, NXP has concluded that the functional currency of

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the holding company is USD. Consequently, beginning from January 1, 2016, the warrants with a carrying value of \$168 million were reclassified to stockholders' equity, and mark-to-market accounting is no longer applicable. The warrants are included in diluted earnings per share to the extent the impact is dilutive. As of December 31, 2016, the warrants were not dilutive.

***Assets and liabilities recorded at fair value on a non-recurring basis***

We measure and record our non-marketable equity investments (non-marketable equity method and cost method investments) and non-financial assets, such as intangible assets and property, plant and equipment, at fair value when an impairment charge is required.

**22 Other Financial Instruments, Derivatives and Currency Risk**

We conduct business in diverse markets around the world and employ a variety of risk management strategies and techniques to manage foreign currency exchange rate and interest rate risks. Our risk management program focuses on the unpredictability of financial markets and seeks to minimize the potentially adverse effects that the volatility of these markets may have on our operating results. One way we achieve this is through the active hedging of risks through the selective use of derivative instruments.

Derivatives are recorded on our Consolidated Balance Sheets at fair value which fluctuates based on changing market conditions.

The Company does not purchase or hold financial derivative instruments for trading purposes.

***Currency risk***

The Company's transactions are denominated in a variety of currencies. The Company uses financial instruments to reduce its exposure to the effects of currency fluctuations. Accordingly, the Company's organizations identify and measure their exposures from transactions denominated in other than their own functional currency. We calculate our net exposure on a cash flow basis considering balance sheet items, actual orders received or made and anticipated revenue and expenses. The Company generally hedges foreign currency exposures in relation to transaction exposures, such as receivables/payables resulting from such transactions and part of anticipated sales and purchases. The Company generally uses forwards to hedge these exposures. As of January 1, 2016, as a result of the acquisition of Freescale, NXP has concluded that the functional currency of the holding company is USD. Beginning from January 1, 2016, our U.S. dollar-denominated notes and short term loans will no longer need to be re-measured. Prior to January 1, 2016, the U.S. dollar-denominated debt held by our Dutch subsidiary (which had at that time a euro functional currency) could have generated adverse currency results in financial income and expenses depending on the exchange rate movement between the euro and the U.S. dollar. This exposure was partially mitigated by the application of net investment hedge accounting, which had been applied since May 2011. The U.S. dollar exposure of the net investment in U.S. dollar functional currency subsidiaries was hedged by certain of our U.S. dollar denominated debt. The hedging relationship was assumed to be highly effective. Foreign currency gains or losses on this U.S. dollar debt that were recorded in a euro functional currency entity that were designated as, and to the extent they were effective, as a hedge of the net investment in our U.S. dollar foreign entities, were reported as a translation adjustment in other comprehensive income within equity, and offset in whole or in part the foreign currency changes to the net investment that were also reported in other comprehensive income. Absent the application of net investment hedging, these amounts would have been recorded as a loss within financial income (expense) in the statement of operations. No amount resulting from ineffectiveness of net investment hedge accounting was recognized in the statement of operations in 2015 and 2014.

## 23 Segments and Geographical Information

NXP is organized into two reportable segments, High Performance Mixed Signal ( HPMS ) and Standard Products ( SP ). Corporate and Other represents the remaining portion to reconcile to the Consolidated Financial Statements. Effective with the Merger, the operations of Freescale were primarily incorporated into the HPMS reportable segment.

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

Because the Company meets the criteria for aggregation set forth under ASC 280 Segment Reporting , and the operating segments have similar economic characteristics, the Company aggregates the results of operations of the Automotive, Secure Identification Solutions, Secure Connected Devices and Secure Interfaces and Infrastructure operating segments into one reportable segment, HPMS, and the Standard Products and General Purpose Logic operating segments into another reportable segment, SP.

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



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Detailed information by segment for the years 2016, 2015 and 2014 is presented in the following tables.

|                                    |              |             |             |
|------------------------------------|--------------|-------------|-------------|
| <b>Revenue</b>                     | <b>2016</b>  | <b>2015</b> | <b>2014</b> |
| HPMS                               | 8,086        | 4,720       | 4,208       |
| SP                                 | 1,220        | 1,241       | 1,275       |
| Corporate and Other <sup>(1)</sup> | 192          | 140         | 164         |
|                                    | <b>9,498</b> | 6,101       | 5,647       |
| <b>Operating income (loss)</b>     | <b>2016</b>  | <b>2015</b> | <b>2014</b> |
| HPMS                               | (302)        | 1,885       | 983         |
| SP                                 | 268          | 264         | 120         |
| Corporate and Other <sup>(1)</sup> | (116)        | (134)       | (54)        |
|                                    | <b>(150)</b> | 2,015       | 1,049       |

- <sup>(1)</sup> Corporate and Other is not a segment under ASC 280 Segment Reporting. Corporate and Other includes revenue related to Manufacturing Operations, unallocated expenses not related to any specific business segment and corporate restructuring charges.

| Goodwill assigned to segments      | Cost at January 1, |              | Transfer to asset held for sale | Translation differences and other changes | Cost at December 31, 2016 |
|------------------------------------|--------------------|--------------|---------------------------------|---|---------------------------|
|                                    | 2016               | Acquisitions |                                 |   |                           |
| HPMS                               | 8,769              | 14           | (6)                             | (49)                                      | 8,728                     |
| SP                                 | 373                |              | (343)                           | 2   | 32                        |
| Corporate and Other <sup>(1)</sup> | 272                |              |                                 | (3)                                       | 269                       |
|                                    | <b>9,414</b>       | <b>14</b>    | <b>(349)</b>                    | <b>(50)</b>                               | <b>9,029</b>              |

See note 3 for further information regarding the acquisition of Freescale.

|                                    | Accumulated impairment at January 1, 2016 | Translation differences and other changes | Accumulated impairment at December 31, 2016 |
|------------------------------------|---|---|---|
|                                    |   |   |   |
| SP                                 | (32)                                      |   | (32)  |
| Corporate and Other <sup>(1)</sup> |   |   |   |
|                                    | <b>(186)</b>                              |   | <b>(186)</b>                                |

(1) Corporate and Other is not a segment under ASC 280 Segment Reporting .

### **Geographical Information**

|                 | Revenue <sup>(1)</sup> |       |       | Property, plant and equipment |       |       |
|-----------------|------------------------|-------|-------|-------------------------------|-------|-------|
|                 | 2016                   | 2015  | 2014  | 2016                          | 2015  | 2014  |
| China           | 3,882                  | 3,135 | 2,756 | 251                           | 360   | 116   |
| Netherlands     | 285                    | 177   | 171   | 183                           | 161   | 169   |
| United States   | 906                    | 415   | 396   | 922                           | 1,115 | 5     |
| Singapore       | 984                    | 526   | 452   | 166                           | 186   | 200   |
| Germany         | 623                    | 392   | 450   | 52                            | 98    | 80    |
| Japan           | 550                    | 316   | 245   | 1                             | 2     | 1     |
| South Korea     | 369                    | 268   | 287   |                               | 1     | 1     |
| Malaysia        | 231                    | 41    | 47    | 378                           | 473   | 79    |
| Other countries | 1,668                  | 831   | 843   | 399                           | 526   | 472   |
|                 | <b>9,498</b>           | 6,101 | 5,647 | <b>2,352</b>                  | 2,922 | 1,123 |

(1) Revenue attributed to geographic areas is based on the customer's shipped-to location (except for intellectual property license revenue which is attributable to the Netherlands).

### **24 Subsequent Events**

NXP B.V. and NXP Funding LLC, subsidiaries of NXP, delivered notice on February 7, 2017 that it will pre-pay (i) all its outstanding floating-rate term loan due March 2017 ( Term Loan E ) in an aggregate principal amount of \$388 million, (ii) all its outstanding floating-rate term loan due January 2020 ( Term Loan D ) in an aggregate principal amount of \$387 million and (iii) all its outstanding floating-rate term loan due December 2020 ( Term Loan F ) in an aggregate principal amount of \$1,436 million, in each case, together with accrued interest and applicable fees. The funds for these pre-payments will come from the proceeds of the previously announced completion of the divestiture of the Standard Products business of NXP.

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Additionally, on February 7, 2017, NXP B.V., together with NXP Funding LLC, delivered notice to holders of its 5.75% Senior Notes due 2021 (the Notes ) that it will redeem on March 9, 2017, \$500 million of the outstanding aggregate principal amount of these Notes, which represents all of the outstanding aggregate principal amount of the Notes, as permitted under Article 3 of the indenture dated February 14, 2013 and paragraph 5 of the Notes. The funds for this redemption will come from available surplus cash.