

NXP Semiconductors N.V.
Form 20-F
March 01, 2019

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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, 2018

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.

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

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

None

(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, 2018
Ordinary shares, par value EUR 0.20 per share	328,702,719 shares

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

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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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of “large accelerated filer”, “accelerated filer”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 on Form 20-F for the fiscal year ended December 31, 2018 (the “Annual Report”) contains forward-looking statements that contain risks and uncertainties. Our actual results may differ significantly from future results as a result of factors such as those set forth in Part I, Item 3.D. Risk Factors and Part I, Item 5.G. Safe Harbor.

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

In presenting and discussing our financial position, operating results and cash flows, management uses certain non-U.S. GAAP financial measures. These non-U.S. GAAP financial measures should not be viewed in isolation or as alternatives to the equivalent U.S. GAAP measures and should be used in conjunction with the most directly comparable U.S. GAAP measures. A discussion of non-U.S. GAAP measures included in this Annual Report and a reconciliation of such measures to the most directly comparable U.S. GAAP measures are set forth under “Use of Certain Non-U.S. GAAP Financial Measures” contained in this Annual Report under Part I, Item 5.A. 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 76.

This Annual Report includes market data and certain other statistical information and estimates that are based on reports and other publications from industry analysts, market research firms, and other independent sources, as well as management’s own good faith estimates and analyses. NXP believes these third-party reports to be reputable, but has not independently verified the underlying data sources, methodologies or assumptions. The reports and other publications referenced are generally available to the public and were not commissioned by NXP. Information that is based on estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances reflected in this information.

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 December 6, 2018, NXP B.V., together with NXP Funding LLC, issued \$1 billion of 4.875% Senior Unsecured Notes due March 1, 2024, \$500 million of 5.350% Senior Unsecured Notes due March 1, 2026 and \$500 million of 5.550% Senior Unsecured Notes due December 1, 2028. NXP used a portion of the net proceeds from the offering of these notes to repay the Bridge Loan, as described below. NXP intends to use the remaining proceeds for general corporate purposes, which may include the repurchase of additional shares of its stock.

On September 19, 2018, NXP B.V., together with NXP Funding LLC, entered into a \$1 billion senior unsecured bridge term credit facility agreement under which an aggregate principal amount of \$1 billion of term loans (the “Bridge Loan”) was borrowed. The Bridge Loan was to mature on September 18, 2019 and the interest at a LIBOR rate plus an applicable margin of 1.5 percent. NXP used the net proceeds of the Bridge Loan for general corporate purposes as well as to finance a portion of its announced equity buy-back program. On December 6, 2018, the Bridge Loan was repaid in full, as described above.

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

On July 26, 2018, NXP received notice from Qualcomm Incorporated (“Qualcomm”) that Qualcomm had terminated, effective immediately, the purchase agreement between NXP and an affiliate of Qualcomm following the inability to obtain the required approval for the transaction from the State Administration for Market Regulation (SAMR) of the People’s Republic of China prior to the end date stipulated by the parties under the purchase agreement.

On July 26, 2018, NXP received \$2 billion in termination compensation per the terms of the purchase agreement. Effective July 26, 2018, the board of directors of NXP, as authorized by its annual general meeting of shareholders (the “AGM”), authorized the repurchase of \$5 billion of the Company’s stock. In October 2018, the board of directors of NXP authorized the additional repurchase of shares up to a maximum of 20% (approximately 69 million shares) of the number of shares issued. As of year-end 2018, NXP repurchased 54.4 million shares, for a total of approximately \$5 billion, of which a number of 17,300,143 shares has been cancelled, and as of year-end, NXP has a number of 292.8 million shares outstanding.

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

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 July 26, 2018, we received \$2 billion termination compensation from Qualcomm per the terms of the purchase contract.

On February 6, 2017, we divested our Standard Products (“SP”) business, receiving \$2.6 billion in cash proceeds, net of cash divested. Prior to February 6, 2017, the results of the SP business were included in the reportable segment SP.

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 5.A. 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,				
	2018	2017 ⁽¹⁾	2016	2015	2014
Consolidated Statements of Operations:					
Revenue ⁽²⁾	9,407	9,256	9,498	6,101	5,647
Gross profit ⁽³⁾	4,851	4,619	4,069	2,787	2,640
Total operating expenses ⁽⁴⁾	(4,142)	(4,092)	(4,228)	(2,035)	(1,601)
Other income (expense) ⁽⁵⁾	2,001	1,575	9	1,263	10
Operating income (loss)	2,710	2,102	(150)	2,015	1,049
Financial income (expense)	(335)	(366)	(453)	(529)	(410)
Net income (loss) attributable to stockholders	2,208	2,215	200	1,526	539
Earnings per share data:					
Net income per common share attributable to					
stockholders in \$					
Basic	6.78	6.54	0.59	6.36	2.27
Diluted	6.72	6.41	0.58	6.10	2.17
Weighted average number of shares of common					
stock outstanding during the year (in thousands)					
Basic	325,781	338,646	338,477	239,764	237,954
Diluted	328,606	345,802	347,607	250,116	248,609
Cash dividends declared per share ⁽⁶⁾	0.50	-	-	-	-
Cash dividends declared per share in EUR ⁽⁶⁾	0.43	-	-	-	-
Consolidated balance sheet data⁽⁷⁾:					
Cash and cash equivalents	2,789	3,547	1,894	1,614	1,185
Total assets	21,530	24,049	24,898	26,354	6,850
Net assets	10,690	13,716	11,156	11,803	801
Working capital ⁽⁸⁾	2,947	4,077	3,386	2,820	1,340
Total debt ^{(9), (10)}	7,354	6,565	9,187	9,212	3,956
Total stockholders' equity	10,505	13,527	10,935	11,515	538
Common stock	67	71	71	68	51
Other operating data:					
Capital expenditures	(611)	(552)	(389)	(341)	(329)
Depreciation and amortization ⁽¹¹⁾	1,987	2,173	2,205	517	405
Consolidated statements of cash flows data:					
Net cash provided by (used for):					
Operating activities	4,369	2,447	2,303	1,330	1,468
Investing activities	(522)	2,072	(627)	(430)	(387)
Financing activities ⁽¹²⁾	(4,597)	(2,886)	(1,392)	(449)	(554)
Net cash provided by (used for) continuing operations	(750)	1,633	284	451	527

- (1) Reflects the results of the SP business up to the February 6, 2017 divestment.
- (2) Under the modified retrospective method, revenue amounts before January 1, 2018 have not been adjusted for the impact of adopting ASC 606.
- (3) 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.
- (4) 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 share-based compensation charges related to employees terminated as a result of the Merger and \$42 million of merger related costs.
- (5) Other income (expense) in 2018 includes the termination compensation received from Qualcomm (\$2 billion). Other income (expense) in 2017 includes the recognition of the gain on the sale of our SP business (\$1,597 million). 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 Significant Transactions in Part I, Item 4. B. Business Overview.
- (6) Reflects the interim dividends declared on September 11, 2018 and November 29, 2018. The interim dividend declared on November 29, 2018 was paid on January 7, 2019.

- (7) Consolidated balance sheet data as of 2015 includes the impact of purchase accounting on the assets acquired and liabilities assumed in connection with our acquisition of Freescale.
- (8) Working capital is calculated as current assets less current liabilities (excluding short-term debt).
- (9) On December 6, 2018, NXP entered into 3 new senior unsecured notes, which are due in 2024 (\$1 billion), 2026 (\$500 million) and 2028 (\$500 million). NXP used the net proceeds for general corporate purposes as well as the repayment of the \$1 billion senior unsecured bridge term credit facility agreement (the “Bridge Loan”), which was entered into on September 19, 2018 for general corporate purposes as well as to finance parts of the announced equity buy-back program. In April 2018, NXP fully repaid the \$750 million senior unsecured notes on the due date. In addition, NXP fully repaid the \$500 million senior unsecured notes due in 2023. In February 2017, NXP repaid all term loans, including Term Loan B (defined below), with the funds from the proceeds of the divestment of the SP business. Additionally, \$500 million was repaid on the 2021 unsecured senior notes in March 2017. On December 7, 2015, in connection with the Merger, NXP entered into a \$2.7 billion secured term loan (“Term Loan B”). Proceeds from Term Loan B, among others, 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.
- (10) As adjusted for our cash and cash equivalents our net debt was calculated as follows:

(\$ in millions)	2018	2017	2016	2015	2014
Long-term debt	6,247	5,814	8,766	8,656	3,936
Short-term debt	1,107	751	421	556	20
Total debt	7,354	6,565	9,187	9,212	3,956
Less: cash and cash equivalents	(2,789)	(3,547)	(1,894)	(1,614)	(1,185)
Net debt	4,565	3,018	7,293	7,598	2,771

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

- (11) Depreciation and amortization includes the effect of purchase accounting related to acquisitions in certain years. The effect of purchase accounting in depreciation and amortization was \$1,535 million in 2018, \$1,741 million in 2017, \$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 and \$164 million in 2014.
- (12) Financing activities includes the repurchases of NXP common stock in 2018 (\$5,006 million) and the distribution of cash dividends (\$74 million).

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, 2018. 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,				
	2018	2017	2016	2015	2014
Average \$ per €	1.1794	1.1310	1.1065	1.1150	1.3297

The following table shows the high and low noon buying rates for U.S. dollars per euro for each of the six months in the six-month period ended February 22, 2019:

Month	High (\$ per €)	Low
2018		
August	1.1720	1.1332
September	1.1773	1.1566
October	1.1594	1.1332
November	1.1459	1.1281
December	1.1456	1.1300
2019		
January	1.1524	1.1322

On February 22, 2019, the noon buying rate was \$1.1342 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 3.D. 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 5.G. Safe Harbor, contained elsewhere in this Annual Report.

Risks related to our business

The semiconductor industry is highly cyclical.

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

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

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

There is a significant risk that the global economy could fall into recession again. If economic conditions remain uncertain or deteriorate, our business, financial condition and results of operations could be materially adversely affected.

It is difficult for us, our customers and suppliers to forecast demand trends. We may be unable to accurately predict the extent or duration of cycles or their effect on our financial condition or result of operations and can give no assurance as to the timing, extent or duration of the current or future business cycles. A recurrent decline in demand or

the failure of demand to return to prior levels could place pressure on our results of operations. The timing and extent of any changes to currently prevailing market conditions is uncertain and supply and demand may be unbalanced at any time.

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

The semiconductor industry is highly competitive and characterized by constant and rapid technological change, short product lifecycles, significant price erosion and evolving standards. Accordingly, the success of our business depends to a significant extent on our ability to develop new technologies and products that are ultimately successful in the market. The costs related to the research and development necessary to develop new technologies and products are significant and any reduction of our research and development budget could harm our competitiveness. Meeting evolving industry requirements and introducing new products to the market in a timely manner and at prices that are acceptable to our customers are significant factors in determining our competitiveness and success. Commitments to develop new products must be made well in advance of any resulting sales, and technologies and standards may change during development, potentially rendering our products outdated or uncompetitive before their introduction. If we are unable to successfully develop new products, our revenue may decline substantially. Moreover, some of our competitors are well-established entities, are larger than us and have greater resources than we do. If these competitors increase the resources they devote to developing and marketing their products, we may not be able to compete effectively. Any consolidation among our competitors could enhance their product offerings and financial resources, further strengthening their competitive position. In addition, some of our competitors operate in narrow business areas 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.

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

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

Goodwill and other identifiable intangible assets are recorded at fair value on the date of an acquisition. As a result of our acquisition of Freescale in 2015, we recognized goodwill of \$7.4 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 intellectual property and a variety of other factors. The amount of any quantified impairment must be expensed immediately as a charge to results of operations. Depending on future circumstances, it is possible that we may never realize the full value of our intangible assets. Any future determination of impairment of goodwill or other identifiable intangible assets could have a material adverse effect on our financial position, results of operations and stockholders' equity.

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

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

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

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

- negative economic developments in economies around the world and the instability of governments and international trade arrangements, such as the expected withdrawal of the United Kingdom from the European Union, the sovereign debt crisis in certain European countries and the increase of barriers to international trade, such as the recent imposition of tariffs on imports by the United States;
- social and political instability in a number of countries around the world, including continued hostilities and civil unrest in the Middle East. The instability may have a negative effect on our business, financial condition and operations via our customers and volatility in energy prices and the financial markets;
- potential terrorist attacks;
- epidemics and pandemics, which may adversely affect our workforce, as well as our local suppliers and customers, in particular in Asia;
- adverse changes in governmental policies, especially those affecting trade and investment;
- our customers or other groups of stakeholders might impose requirements that are more stringent than the laws in the countries in which we are active;
- volatility in foreign currency exchange rates, in particular with respect to the U.S. dollar, and transfer restrictions, in particular in China; and
- threats that our operations or property could be subject to nationalization and expropriation.

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

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

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

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

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

We have, from time to time, experienced attempted cyber-attacks of varying degrees to obtain access to our computer systems and networks. To date, none have resulted in any material adverse impact to our business or operations. Such incidents, whether or not successful, could result in the misappropriation of our proprietary information and technology, the compromise of personal and confidential information of our employees, customers or suppliers or interrupt our business. In the current environment, there are numerous and evolving risks to cybersecurity and privacy, including criminal hackers, state-sponsored intrusions, industrial espionage, employee malfeasance, and human or technological error. Computer hackers and others routinely attempt to breach the security of technology products, services, and systems, and those of customers, suppliers, and some of those attempts may be successful. Such breaches could result in, for example, unauthorized access to, disclosure, modification, misuse, loss, or destruction of our, our customer, or other third party data or systems, theft of sensitive or confidential data including personal information and intellectual property, system disruptions, and denial of service. In the event of such breaches, we, our customers or other third parties could be exposed to potential liability, litigation, and regulatory action, as well as the loss of existing or potential customers, damage to our reputation, and

other financial loss. In addition, the cost and operational consequences of responding to breaches and implementing remediation measures could be significant. As these threats continue to develop and grow, we have been adapting the security measures and we continue to increase the amount we allocate to implement, maintain and/or update security systems to protect data and infrastructure. As a global enterprise, we could also be impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, privacy and data protection. Additionally, cyber-attacks or other catastrophic events resulting in disruptions to or failures in power, information technology, communication systems or other critical infrastructure could result in interruptions or delays to us, our customers, or other third party operations or services, financial loss, potential liability, and damage our reputation and affect our relationships with our customers and suppliers.

In addition, we may be subject to theft, loss, or misuse of personal data about our employees, customers, or other third parties, which could increase our expenses, damage our reputation, or result in legal or regulatory proceedings. The theft, loss, or misuse of personal data collected, used, stored, or transferred by us to run our business could result in significantly increased business and security costs or costs related to defending legal claims. Global privacy legislation, enforcement, and policy activity in this area are rapidly expanding and creating a complex regulatory compliance environment. Costs to comply with and implement these privacy-related and data protection measures could be significant. In addition, even our inadvertent failure to comply with federal, state, or international privacy-related or data protection laws and regulations could result in proceedings against us by governmental entities or others.

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

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

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

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

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

Our success and future revenue growth depends, in part, on our ability to protect our proprietary technology, our products, our proprietary designs and fabrication processes, and other intellectual property against misappropriation by others. We primarily rely on patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our intellectual property. We may have difficulty obtaining patents and other intellectual property rights to protect our proprietary products, technology and intellectual property, and the patents and other intellectual property rights we receive may be insufficient to provide us with meaningful protection or commercial advantage. We may not be able to obtain patent protection or secure other intellectual property rights in all the countries in which we operate, and under the laws of such countries, patents and other intellectual property

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

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

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

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

As part of our strategy, we have historically entered into a number of long-term strategic partnerships with other leading industry participants, and may do so again in the future. For example, we have entered into a joint venture with Taiwan Semiconductor Manufacturing Company Limited ("TSMC") called Systems on Silicon Manufacturing Company Pte. Ltd. ("SSMC"). See Part I, Item 4.A. History and Development of the Company - 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 representatives, such as work councils which may prevent or complicate our efforts to sell or restructure our businesses. In some cases, particularly with respect to our European operations, there may be laws or other legal impediments affecting our ability to carry out such sales or restructuring.

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

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

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

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

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

Our working capital needs are difficult to predict.

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

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

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

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

We manufacture, in our own factories as well as with third parties, our products using processes that are highly complex, require advanced and costly equipment and must continuously be modified to improve yields and performance. Difficulties in the production process can reduce yields or interrupt production, and, as a result of such

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

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

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

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

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

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

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

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

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

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

As is the case with other large semiconductor companies, we receive subsidies and grants from governments in some countries. These programs are subject to periodic review by the relevant governments, and if any of these programs are curtailed or discontinued, this could have a material adverse effect on our business, financial condition and results of operations. As the availability of government funding is outside our control, we cannot guarantee that we will continue to benefit from government support or that sufficient alternative funding will be available if we lose such support. Moreover, if we terminate any activities or operations, including strategic alliances or joint ventures, we may face adverse actions from the local governmental agencies providing such subsidies to us. In particular, such government agencies could seek to recover such subsidies from us and they could cancel or reduce other subsidies we receive from them. This could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

We sponsor defined benefit pension plans in a number of countries and a significant number of our employees are covered by our defined benefit pension plans. As of December 31, 2018, we had recognized a net accrued benefit liability of \$416 million, representing the unfunded benefit obligations of our defined pension plans. The funding status and the liabilities and costs of maintaining these defined benefit pension plans may be impacted by financial market developments. For example, the accounting for such plans requires determining discount rates, expected rates of compensation and expected returns on plan assets, and any changes in these variables can have a significant impact on the projected benefit obligations and net periodic pension costs. Negative performance of the financial markets could also have a material impact on funding requirements and net periodic pension costs. Our defined benefit pension plans may also be subject to demographic trends. Accordingly, our costs to meet pension liabilities going forward may be significantly higher than they are today, which could have a material adverse impact on our financial condition.

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

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

Recent examples include the Organization for Economic Co-operation and Development's recommendations on base erosion and profit shifting, the European Commission's Anti-Tax Avoidance Directive, the Corporate Tax Package released in October 2016 which includes a Common Consolidated Corporate Tax Base, the Tax Cuts and Jobs Act enacted by the United States in 2017 and the changes in the Dutch corporate income tax law enacted in 2018. These initiatives include recommendations and proposals that, if enacted in countries in which we and our affiliates do

business, could adversely affect us and our affiliates.

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

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

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

Additionally, in December of 2017, the United States enacted a budget reconciliation act amending the Internal Revenue Code of 1986 (the “Tax Cuts and Jobs Act”) and, in 2018, the U.S. Treasury Department issued regulations to clarify certain provisions of the Tax Cuts and Jobs Act. The Tax Cuts and Jobs Act contains provisions affecting the tax treatment of both U.S. companies (such as certain of our subsidiaries) and non-U.S. companies that could materially affect us. The Tax Cuts and Jobs Act includes provisions that reduce the U.S. corporate tax rate, impose a base erosion minimum tax on income of a U.S. corporation determined without regard to certain otherwise deductible payments made to certain foreign affiliates, impose a global intangible low-income tax on foreign earnings made by U.S. corporations’ foreign subsidiaries, and impose a one-time transition tax on certain historic earnings and profits of U.S.-owned foreign subsidiaries. The Tax Cuts and Jobs Act also includes provisions that provide a deduction for certain foreign-derived intangible income. The U.S. Treasury Department has issued temporary and proposed regulations providing guidance on the application of many of the provisions of the Tax Cuts and Jobs Act. However, there may continue to be a substantial delay before all such regulations are promulgated and/or finalized, increasing the uncertainty as to the ultimate effect of the statutory amendments on us. It is also possible that there will be technical corrections legislation proposed with respect to the Tax Cuts and Jobs Act, the effect of which cannot be predicted. For further information regarding the impact of the Tax Cuts and Jobs Act on us, please see Part I, Item 5.A. Operating Results.

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

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

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

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

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

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

As with other companies engaged in similar activities or that own or operate real property, we face inherent risks of environmental liability at our current and historical manufacturing facilities. Certain environmental laws impose strict, and in certain circumstances, joint and several liability on current or previous owners or operators of real property for the cost of investigation, removal or remediation of hazardous substances as well as liability for related damages to natural resources. Certain of these laws also assess liability on persons who arrange for hazardous substances to be

sent to disposal or treatment facilities when such facilities are found to be contaminated. While we do not expect that any contamination currently known to us will have a material adverse effect on our business, we cannot assure you that this is the case or that we will not discover new facts or conditions or that environmental laws or the enforcement of such laws will not change such that our liabilities would be increased significantly. In addition, we could also be held liable for consequences arising out of human exposure to hazardous substances or other environmental damage. In summary, we cannot assure you that our costs of complying with current and future environmental and health and safety laws, or our liabilities arising from past or future releases of, or exposures to, regulated materials, will not have a material adverse effect on our business, financial conditions and results of operations.

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

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

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

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

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

The stock market in recent years has experienced significant price and volume fluctuations that have often been unrelated to the operating performance of companies. The market price for our common stock has varied between a high of \$125.71 on February 22, 2018 and a low of \$67.71 on December 24, 2018 in the twelve-month period ending on December 31, 2018. The market price of our common stock is likely to continue to be volatile and subject to significant price and volume fluctuations for many reasons, including in response to the risks described in this section, changes in our dividend or share repurchase policies, or for reasons unrelated to our operations, such as reports by industry analysts, investor perceptions or negative announcements by our customers, competitors, peer companies or suppliers regarding their own performance, or announcements by our competitors of significant contracts, strategic partnerships, joint ventures, joint marketing relationships or capital commitments, the passage of legislation or other regulatory developments affecting us or our industry, as well as industry conditions and general financial, economic and political instability. In the past, following periods of market volatility, shareholders have instituted securities class action litigation. If we were involved in securities litigation, it could have a substantial cost and divert resources and the attention of executive management from our business regardless of the outcome of such litigation.

We may have fluctuations in the amount and frequency of our stock repurchases.

The amount, timing, and execution of our stock repurchases may fluctuate based on our priorities for the use of cash for other purposes—such as investing in our business, including operational spending, capital spending, and acquisitions, and returning cash to our stockholders as dividend payments—and because of changes in cash flows, tax laws, and the market price of our common stock.

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

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

that we deem appropriate.

In the future, we may issue additional shares of common stock in connection with acquisitions and other investments. The amount of our common stock issued in connection with any such transaction could constitute a material portion of our then outstanding common stock.

There can be no assurance that we will continue to declare cash dividends.

Our board of directors has adopted a dividend policy pursuant to which we currently pay a cash dividend on our ordinary shares on a quarterly basis. The declaration and payment of any dividend is subject to the approval of our board and our dividend may be discontinued or reduced at any time. There can be no assurance that we will declare cash dividends in the future in any particular amounts, or at all.

Future dividends, if any, and their timing and amount, may be affected by, among other factors: management's views on potential future capital requirements for strategic transactions, including acquisitions; earnings levels; contractual restrictions; cash position and overall financial condition; and changes to our business model. The payment of cash dividends is restricted by applicable law, contractual restrictions and our corporate structure.

Our actual operating results may differ significantly from our guidance.

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

Our guidance is based upon a number of assumptions and estimates that, while presented with numerical specificity, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to represent that actual results could not fall outside of the suggested ranges. The principal reason that we release this data is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons.

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

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

Risks related to our corporate structure

United States civil liabilities may not be enforceable against us.

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

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

In order to obtain a judgment which is enforceable in the Netherlands, the claim must be relitigated before a competent court of the Netherlands; the relevant Netherlands court has discretion to attach such weight to a judgment

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

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

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

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

We are a Dutch public company with limited liability (naamloze vennootschap). Our corporate affairs are governed by our articles of association and by the laws governing companies incorporated in the Netherlands. The rights of stockholders and the responsibilities of members of our board of directors may be different from the rights and obligations of stockholders in companies governed by the laws of U.S. jurisdictions. In the performance of its duties, our board of directors is required by Dutch law to consider the interests of our company, its stockholders, its employees and other stakeholders, in all cases with due observation of the principles of reasonableness and fairness. It is possible that some of these parties will have interests that are different from, or in addition to, your interests as a stockholder. 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 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 (“Nasdaq”) we rely on home country governance requirements and certain exemptions thereunder rather than relying on the corporate governance requirements of Nasdaq. For an overview of our corporate governance principles, see Part II, Item 16.G. Corporate Governance, including the section describing the differences between the corporate governance requirements applicable to common stock listed on Nasdaq and the Dutch corporate governance requirements. Accordingly, you may not have the same protections afforded to stockholders of companies that are not foreign private issuers.

Risks related to our indebtedness

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

As of December 31, 2018, we had outstanding indebtedness with an aggregate principal amount of \$7,400 million. Our substantial indebtedness could have a material adverse effect on our business by:

- increasing our vulnerability to adverse economic, industry or competitive developments;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;
- exposing us to the risk of increased interest rates in the event we have borrowings under our \$600 million revolving credit facility agreement (the “RCF Agreement”) because loans under the RCF Agreement bear interest at a variable rate;
- making it more difficult for us to satisfy our obligations with respect to our indebtedness and any failure to comply with the obligations of any our debt instruments, including restrictive covenants and borrowing conditions, could result in an event default under the indentures governing our notes and agreements governing other indebtedness;

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restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
limiting our ability to obtain additional financial for working capital, capital expenditures, restructurings, product development, research and development, debt service requirements, investments, acquisitions and general corporate or other purposes; and
limiting our flexibility in planning for, or reacting to, changes in our business or market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged and who therefore, may be able to take advantage of opportunities that our leverage prevents us from exploiting.

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

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

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

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business, competitive, legislative, regulatory and other factors beyond our control. Our business may not generate sufficient cash flow from operations, or future borrowings under the RCF Agreement or from other sources may not be available to us in an amount sufficient to enable us to repay our indebtedness, or to fund our other liquidity needs, including our working capital and capital expenditure requirements, and we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness.

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

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

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

review for a downgrade, could affect our market value and/or increase our corporate borrowing costs.

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

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

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

Corporate Information

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

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

On August 5, 2010, we made an initial public offering of 34 million shares of our common stock and listed our common stock on Nasdaq.

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 NXP USA, Inc., 6501 William Cannon Dr. West, Austin, Texas 78735, United States of America, phone number +1 512 9338214.

Business Combinations

On October 27, 2016, NXP entered into a purchase agreement (the “purchase agreement”) with Qualcomm River Holdings B.V. (“Buyer”), a wholly-owned, indirect subsidiary of QUALCOMM Incorporated (“Qualcomm”). Pursuant to the purchase agreement, Buyer commenced a tender offer to acquire all of the issued and outstanding common shares of NXP for \$110 per share in cash, for estimated total cash consideration of \$38 billion. On February 20, 2018, NXP

entered into an amendment (the “purchase agreement amendment”) to the purchase agreement with Buyer. Pursuant to the purchase agreement amendment, Buyer agreed to revise the terms of its tender offer to acquire all of the issued and outstanding common shares of NXP and increase the offer price from \$110 per share to \$127.50 per share, for estimated total cash consideration of \$44 billion. On April 19, 2018, NXP and Buyer further amended the purchase agreement to extend the date that either Buyer or NXP would have the right to terminate the purchase agreement to July 25, 2018, subject to the terms of the purchase agreement.

On July 26, 2018, NXP received notice from Qualcomm that it had terminated, effective immediately, the purchase agreement, as amended, between NXP and Buyer following the inability to obtain the required approval for the transaction from the State Administration for Market Regulation (SAMR) of the People’s Republic of China prior to the end date stipulated by the parties under the purchase agreement. On July 26, 2018, NXP received \$2 billion termination compensation per the terms of the purchase agreement.

On December 7, 2015, NXP acquired Freescale in a stock and cash transaction for a total consideration of \$11.6 billion. In connection with the merger, each outstanding share of Freescale common stock was converted into 0.3521 shares of NXP common stock and \$6.25 in cash, without interest. NXP issued 110 million shares of common stock to former holders of Freescale common stock, representing 32% of the 342 million total shares of outstanding NXP common stock after the merger. Freescale’s financial results from the merger date through December 31, 2017, are included in NXP’s Consolidated Statement of Operations, as discussed herein. 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.

Other Significant Transactions

On July 10, 2018, NXP completed the sale of its 40% equity interest of Suzhou ASEN Semiconductors Co., Ltd. to J&R Holding Limited, receiving \$127 million in cash proceeds.

In June 2018, NXP completed the sale of 24% of its equity interest in WeEn to Tianjin Ruixin Semiconductor Industry Investment Centre LLP, receiving \$32 million in cash proceeds. At December 31, 2018, due to the intended sale of the remaining interest in WeEn, NXP transferred the remaining holding to other current assets.

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

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

See Part I, Item 5.B Liquidity and Capital Resources for a discussion of our principal capital expenditures.

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 \$469 billion in 2018.

Our Company

We are a global semiconductor company and a long-standing supplier in the industry, with over 50 years of innovation and operating history. For the year ended December 31, 2018, we generated revenue of \$9,407 million, compared to \$9,256 million for the year ended December 31, 2017.

We provide leading High Performance Mixed Signal (HPMS) and, until February 6, 2017, Standard Product (SP) solutions that leverage our combined portfolio of intellectual property, deep application knowledge, process technology and manufacturing expertise in the domains of cryptography—security, high-speed interface, radio frequency (RF), mixed-signal analog-digital (mixed A/D), power management, digital signal processing and embedded system design.

Our product solutions are used in a wide range of end-market applications including: automotive, personal security and identification, wireless and wireline infrastructure, mobile communications, multi-market industrial, consumer and computing. We engage with leading global original equipment manufacturers (OEM) and sell products in all major geographic regions.

Reporting Segments

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

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

Markets, applications and products

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

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

High Performance Mixed Signal

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

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

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

Key applications	Automotive	Secure Identification Solutions	Secure Connected Devices	Secure Interfaces and Infrastructure
	<ul style="list-style-type: none"> • Car access & immobilizers • In vehicle networking • Car entertainment • ADAS • Telematics • ABS • Transmission/throttle control • Automotive Lighting • Gateways • Battery Management 	<ul style="list-style-type: none"> • Secure identity • Tagging 	<ul style="list-style-type: none"> • Secure transactions • Smartphone • Tablet • Personal computer • Smart buildings • White goods & home appliances • Medical/Personal Healthcare • Industrial/ IoT • Consumer/TV/Set top box 	<ul style="list-style-type: none"> • Wireless base stations • Networking • Satellite & CATV infra • Radar • Power supplies • Lighting • Smartphone • Personal computer • Pachinko machines

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	<ul style="list-style-type: none"> • Sensors 			
Selected market leading positions	<ul style="list-style-type: none"> • #1 in Automotive semiconductors • #1 Can/LIN/ Flex Ray in-vehicle networking • #1 passive keyless entry/ immobilizers • #1 automotive applications processors • #1 car radio • #1 Chassis & Safety • #2 Powertrain • #2 automotive MCU • #2 audio amplifiers 	<ul style="list-style-type: none"> • #1 e-Government • #1 Transport & Access management • #2 Banking 	<ul style="list-style-type: none"> • #1 NFC/Secure Element • #3 I broad based MCU 	<ul style="list-style-type: none"> • #1 in RF Power • #2 in communication processors
Key OEM and electronic manufacturing services (EMS) end customers	<ul style="list-style-type: none"> • Autoliv • Bosch • Continental • Delphi • Denso • Fujitsu Ten • Lear • TRW • Valeo • Visteon 	<ul style="list-style-type: none"> • Avery Dennison • Bundesdruckerei • China Vision Microelectronic • Chutian Dragon • Eastcompeace • Gemalto • Giesecke • HID • Linxens • Smartrac 	<ul style="list-style-type: none"> • Amazon • Apple • BBK • Bosch • Huawei • LG • Reliance • Samsung • Visteon • ZLG Electronics 	<ul style="list-style-type: none"> • Apple • Arris • Cisco • Ericsson • Huawei • Fujitsu • NEC • Nokia • Samsung • ZTE

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

Seasonal trends

Historically, our net revenue has typically been higher in the second half of the year than in the first half of the year.

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.

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

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

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

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

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

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

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

For the electrification of vehicles, we have introduced a portfolio of battery cell controllers suitable for a wide range of automotive battery management systems, designed to deliver industry leading measurement accuracy and scalable, coherent functional safety mechanism up to ASIL-D. The new Battery Cell Controllers combined with NXP's

comprehensive portfolio of world-class automotive microcontrollers, power management system basis chips and communication transceivers are a perfect solution for car makers to electrify their entire fleet across 12V, 48V, Plug-in Hybrid and electrical vehicles.

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

We employ both proprietary in-house processes with automotive-grade, high-voltage, RF and non-volatile capabilities as well as advanced submicron foundry processes. We also deploy specialty IP such as leading edge security IP developed by our Secure Identification Solutions business, to enhance our automotive solutions. We design our products to be compliant with all key global relevant automotive quality standards (such as ISO/TS16949, AEC-Q-100 and VDA6.3).

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

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

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

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

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

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

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

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

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

becoming more complex or requiring greater processing capabilities over time. We believe we have the broadest ARM portfolio in the industry.

Our i.MX family of processors are designed in conjunction with a broad suite of additional products including power management solutions, audio codecs, touch sensors and accelerometers to provide full systems solutions across a wide range of operating systems and applications. Our i.MX 8 family of applications processors is a feature and performance scalable multi-core platform that includes single, dual and quad-core families based on the Arm Cortex architecture for advanced graphics, imaging, machine vision, audio, voice, video, and safety-critical applications. Together, these products provide a family of applications processors featuring software, power and pin compatibility across single, dual and quad core implementations. Software support includes Linux and Android implementations.

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

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

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

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

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

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

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

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

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

We are a major supplier in interface, power, authentication and high-performance analog products. Our products address many interface and power standards and we serve various applications across the mobile, computing, industrial, consumer and automotive markets. We have broad product portfolios including I²C/PC, GPIO, LED controllers, real-time clocks, signal and load switches, signal integrity products, wired and wireless charging solutions, DC-DC, AC-DC converters and authentication products. We generate our revenue by selling products to a very broad customer base, which we serve through our distribution channel. We have successfully engaged with leading OEMs to drive custom and semi-custom products which in turn allow us to refine and accelerate our innovation and product roadmaps. We are engaged in development activities and standard setting initiatives with many of the innovation leaders in each of these markets.

Key growth drivers will be the adoption of fast wired USB-C and fast Qi wireless charging in mobile applications. Our value proposition is to provide differentiating and complete NXP end-to-end fast-charging solutions, for both wired and wireless charging. In AC-DC conversion application, we are a market leader in resonant power conversion below 300W. Our differentiation is based on our high-voltage power process technologies and engineering capabilities in designing high-efficiency power conversion products. In the computing market, we have industry-leading linear redriver products for 10-20Gbps signal integrity applications. In the audio market, we are a market leader in smart

phones, as well as hearing instruments and hearables. We add value by combining low-power IC design and audio enhancement software for our customers. Our extensive I2C and GPIO portfolios serve very fragmented market segments, generating long-lived revenue with long-tail customers of varied applications. NXP is co-author to I3C and will lead in I3C product innovation.

Combined with NXP processors and complete with differentiating software, our analog, interface and power solutions provide customers with differentiating and complete solutions in focused IOT verticals, such as smart home and Industry 4.0.

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

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

We also have a business offering Smart Antenna solutions focused on high-performance RF amplifiers. This business utilizes RF technologies optimized for various applications in the smartphone, consumer, industrial and infrastructure markets.

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

Standard Products

Until February 6, 2017, our SP business supplied a broad range of standard semiconductor components, such as small signal discretes, power discretes, protection and signal conditioning devices and standard logic devices, which were largely produced in dedicated in-house high-volume manufacturing operations. Our portfolio consisted of a large variety of catalog products, using widely-known production techniques, with characteristics that were largely standardized throughout the industry as well as leading discrete solutions especially in the field of ESD protection / EMI filtering and low loss rectification and power switching. Our SP products were often sold as separate components, but in many cases, were used in conjunction with our HPMS solutions, often within the same subsystems. Further, we were able to leverage customer engagements where we provided standard products devices, as discrete components, within a system to identify and pursue potential HPMS opportunities.

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

Manufacturing

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

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

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

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

Our front-end manufacturing facilities use a broad range of production processes and proprietary design methods, including CMOS, bipolar, bipolar CMOS (“BiCMOS”) and double-diffused metal on silicon oxide semiconductor (“DMOS”) technologies. Our wafer fabs produce semiconductors with line widths ranging from 90 nanometers to 3 microns for integrated circuits and 0.5 microns to greater than 4 microns for discretes. This broad technology portfolio enables us to meet increasing demand from customers for system solutions, which require a variety of

technologies.

Our back-end manufacturing facilities test and package many different types of products using a wide variety of processes. To optimize flexibility, we use shared technology platforms for our back-end assembly operations. Most of our assembly and test activities are maintained in-house.

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

Site	Ownership	Wafer sizes used	Line widths used (vm) (Microns)	Technology/Products
Front-end				
Singapore ⁽¹⁾	61.2	% 8"	0.14-0.25	CMOS
Nijmegen, the Netherlands	100	% 8"	0.14-0.80	CMOS, BiCMOS, LDMOS
Oak Hill, Austin, US	100	% 8"	0.25	CMOS, BiCMOS, Sensors, LDMOS, HDTMOS, PowerCMOS
Chandler, US	100	% 8"	0.25-0.50	CMOS, eNVM, PowerCMOS
Austin Technology and Manufacturing				
Center, US	100	% 8"	0.09-0.18	CMOS, eNVM, PowerCMOS, Advanced CMOS, SoC
Back-end⁽²⁾				
Kaohsiung, Taiwan	100	% —	—	NFC, Automotive Car-access, Micro-controllers
Bangkok, Thailand	100	% —	—	Automotive In-Vehicle Networking and Sensors, Banking and e-Passport modules, Standard Logic
Kuala Lumpur, Malaysia	100	% —	—	Micro-processors, Micro-controllers, Power Management, Analog and Mixed Signal, RF devices
Tianjin, China	100	% —	—	Micro-controllers, Analog and Sensors

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

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

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

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

Sales, Marketing and Customers

We market our products and solutions worldwide to a variety of OEMs, ODMs, contract manufacturers and distributors. We generate demand for our products by delivering HPMS solutions to our customers, and supporting

their system design-in activities by providing application architecture expertise and local field application engineering support.

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

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Our sales and marketing strategy focuses on key defined verticals in Automotive, Mobile, Industrial and IoT and Communication Infrastructure, deepening our relationship with our top OEMs and electronic manufacturing service customers, expanding our reach to our mass market customers, startups and our distribution partners and becoming their preferred supplier, which we believe assists us in reducing sales volatility in challenging markets. We have long-standing customer relationships with most of our customers. Our 10 largest OEM end customers, some of whom are supplied by distributors, in alphabetical order, are Apple, Aptiv, Bosch, Continental, Denso, Ericsson, Huawei, LG, Samsung and Visteon. We also have a strong position with our distribution partners being a top three semiconductor supplier (other than microprocessors and memory ICs) through distribution worldwide. Our 3 largest distribution partners are Arrow, Avnet and Nexty.

Our revenue is primarily the sum of our direct sales to OEMs plus our distributors' resale of NXP products. Avnet accounted for 14% of our revenue in 2018, 15% in 2017 and 13% in 2016. Arrow accounted for 10% of our revenue in 2018 and less than 10% of our revenue in 2017 and 2016. No other distributor accounted for greater than 10% of our revenue. With 11% of total revenue, Continental was the only OEM for which we had direct sales to that accounted for more than 10% of revenue in 2018 and 2017. In 2016, this percentage was below 10%.

See note 22 "Segments and Geographical Information" to the Consolidated Financial Statements for a breakdown of total revenue by segment and geographic market for the last three financial years.

Research and Development, Patents and Licenses, etc.

See the discussion set forth under Part I, Item 5.C. Research and Development, Patents and Licenses, etc.

Competition

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

Our key competitors in alphabetical order include Analog Devices Inc., Broadcom, Infineon, Intel, Marvell, Maxim Integrated Products, Microchip, Renesas, Power Integrations, Silicon Laboratories, STMicroelectronics and Texas Instruments.

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

Legal Proceedings

The information set forth under the "Litigation" caption of note 16 of our notes to the Consolidated Financial Statements included in Part III, Item 18 of this Annual Report is incorporated herein by reference. For additional discussion of certain risks associated with legal proceedings, see Part I, Item 3.D. Risk Factors.

Environmental Regulation

The information set forth under the "Environmental remediation" caption of note 16 of our notes to the Consolidated Financial Statements included in Part III, Item 18 of this Annual Report is incorporated herein by reference. For additional discussion of certain risks associated with environmental regulation, see Part I, Item 3.D. Risk Factors.

C. Organizational Structure

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

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CORPORATE STRUCTURE

The following chart reflects our corporate structure as of December 31, 2018.

- (1) As of December 31, 2018, we had \$1,150 million aggregate principal amount of 2019 Cash Convertible Senior Notes outstanding.
- (2) As of December 31, 2018, no borrowings were outstanding under the RCF Agreement.
- (3) As of December 31, 2018, we had \$6,250 million aggregate principal amount of unsecured notes outstanding.
- (4) This list of material subsidiaries includes the subsidiaries that are guarantors of our outstanding unsecured notes. Other subsidiaries provide a guarantee under certain of our other outstanding indebtedness. See Part I, Item 5.B. Liquidity and Capital Resources, under the captions 2018 Financing Activities, 2017 Financing Activities and 2016 Financing Activities.

D. Property, Plant and Equipment

NXP uses 97 sites in 30 countries with 11.0 million square feet of total owned and leased building space of which 9.7 million square feet is owned property.

The following table sets out our principal real property holdings as of December 31, 2018:

Location	Use	Building space	
		Owned/leased	(square feet)
Eindhoven, the Netherlands	Headquarters	Leased	163,188
Nijmegen, the Netherlands	Manufacturing	Owned	1,515,550
Singapore (SSMC) *	Manufacturing	Owned	971,936
Bangkok, Thailand	Manufacturing	Owned	547,882
Kaohsiung, Taiwan	Manufacturing	Owned	636,400
Tianjin, China	Manufacturing	Owned	447,624
Kuala Lumpur, Malaysia	Manufacturing	Owned	828,858
Chandler, United States	Manufacturing	Owned	1,173,196
Austin (Oak Hill), United States	Manufacturing	Owned	1,511,861
Austin (Ed Bluestein), United States	Manufacturing	Owned	1,158,731

*Joint venture between TSMC and NXP.

Areas which are not fully closed are not considered as buildings (eg. sport fields, parking space). If it is not practicable 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.

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 2018, 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 2018, we had no impairments. In 2017, we recognized impairment charges of \$23 million, of which \$16 million (2016: \$89 million) relative to IPR&D that was acquired from Freescale.

Revenue recognition

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

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

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

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

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

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 14, "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. 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.

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 related to our past and current business operations. The claims can cover a broad range of topics, including intellectual property, reflecting the Company’s identity as a global manufacturing and technology business. The Company vigorously defends itself against improper claims, including those asserted in litigation. Due to the unpredictable nature of litigation, 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 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.

A. Operating Results

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Results of Operations

The following table presents the composition of operating income for the years ended December 31, 2018 and 2017.

(\$ in millions, unless otherwise stated)	2018	2017
Revenue	9,407	9,256
% nominal growth	1.6	(2.5)
Gross profit	4,851	4,619
Research and development	(1,700)	(1,554)
Selling, general and administrative (SG&A)	(993)	(1,090)
Amortization of acquisition-related intangible assets	(1,449)	(1,448)
Other income (expense)	2,001	1,575
Operating income (loss)	2,710	2,102

Revenue

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

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

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

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

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

Gross Profit

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

	2018		2017	
		% of segment		% of segment
(\$ in millions, unless otherwise stated)	Gross Profit	revenue	Gross Profit	revenue
HPMS	4,822	53.4	4,527	51.8
SP	-	-	45	38.1
Corporate and Other	29	7.5	47	12.0
Total	4,851	51.6	4,619	49.9

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

Our HPMS segment had a gross profit of \$4,822 million, or 53.4% of revenue in 2018, compared to \$4,527 million, or 51.8% of revenue in 2017. The increase of \$295 million was primarily driven by incremental revenue generated in 2018 as well as lower depreciation related to the purchase accounting from the Freescale acquisition.

Operating Expenses

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

	2018		2017	
	Operating expenses	% of revenue	Operating expenses	% of revenue
(\$ in millions, unless otherwise stated)				
HPMS	4,014	44.5	3,871	44.3
SP	-	-	14	11.9
Corporate and Other	128	33.2	207	52.7
Total	4,142	44.0	4,092	44.2

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

(\$ in millions, unless otherwise stated)	2018	2017
Research and development	1,700	1,554
Selling, general and administrative	993	1,090
Amortization of acquisition-related intangible assets	1,449	1,448
Operating expenses	4,142	4,092

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

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

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

Restructuring Charges

Total restructuring and restructuring related costs amounted to \$6 million in 2018, compared to \$1 million in 2017.

Other Income (Expense)

The following table presents other income (expense) for the years ended December 31, 2018 and 2017.

(\$ in millions, unless otherwise stated)	2018	2017
Other income (expense)	2,001	1,575

Other income (expense) reflects income of \$2,001 million for 2018, compared to \$1,575 million of income in 2017. Included in 2018 is the break-up fee received from Qualcomm, whereas the 2017 amount included the realized gain of \$1,597 million on the sale of the SP business to JAC Capital.

Financial Income (Expense)

(\$ in millions)	For the years ended December 31,	
	2018	2017
Interest income	48	27
Interest expense	(273)	(310)
Foreign exchange rate results	(14)	(30)
Net gain (loss) on extinguishment of debt	(26)	(41)
Other	(70)	(12)
Total	(335)	(366)

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

Benefit (Provision) for Income Taxes

We recorded an income tax expense of \$176 million in 2018, which reflects an effective tax rate of 7.4% compared to a benefit of \$483 million (27.8%) in 2017. The effective tax rate reflects the impact of tax incentives, a portion of our earnings being taxed in foreign jurisdictions at rates different than the Netherlands statutory tax rate, adjustments of prior years' income taxes and the mix of income and losses in various jurisdictions. The impact of these items results in offsetting factors that attribute to the change in the effective tax rate between the two periods, with the significant drivers outlined below:

- The U.S. Tax Cuts and Jobs Act is the primary driver for the change between the two periods as a result of the one-time benefit of \$734 million we received in 2017, which only had an impact of an additional income tax benefit of \$3 million in 2018.
- The Netherlands tax incentives increased in 2018 due to the fact that NXP reached an agreement with the Dutch tax authorities relative to the application of the Dutch innovation box regime to the taxable income attributable to the Netherlands. In addition to this, in 2018, NXP received a break-up fee from Qualcomm of \$2,000 million which helped drive a higher income before tax in 2018 than in 2017, even though in 2017 NXP had realized a gain of \$1,597 million on the divestment of SP business.
- The adjustments to prior years' income taxes increased in 2018 as a result of the aforementioned agreement which is effective from January 1, 2017. As such, the Company was able to refine its estimate of the Dutch tax liability, recognizing an additional income tax benefit of \$67 million in 2018.
- The other differences in 2018 relate primarily to a tax benefit on the liquidation of a former investment of \$45 million.

On a go-forward basis, cash payments for corporate income taxes that are relative to our on-going operations are expected to remain at \$30-35 million per quarter during 2019. Our future cash payments for income taxes will also be impacted by the following non-recurring events, resulting in additional payments of \$349 million in total, with \$298 million being paid in 2019 and \$51 million being paid in 2020.

Results Relating to Equity-accounted Investees

Results relating to equity-accounted investees amounted to a gain of \$59 million in 2018, which includes a net gain realized of \$51 million resulting from the sale of ASEN in July 2018. In 2017, results relating to equity-accounted investees amounted to a gain of \$53 million, including a gain of \$31 million resulting from the sale of ASMC in April 2017.

Non-controlling Interests

Non-controlling interests are related to the third-party share in the results of consolidated companies, predominantly SSMC. Their share of non-controlling interests amounted to a profit of \$50 million in 2018, compared to a profit of \$57 million in 2017.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Results of Operations

The following table presents the composition of operating income for the years ended December 31, 2017 and 2016.

(\$ in millions, unless otherwise stated)	2017	2016
Revenue	9,256	9,498
% nominal growth	(2.5)	55.7
Gross profit	4,619	4,069
Research and development	(1,554)	(1,560)
Selling, general and administrative (SG&A)	(1,090)	(1,141)
Amortization of acquisition-related intangible assets	(1,448)	(1,527)
Other income (expense)	1,575	9
Operating income (loss)	2,102	(150)

Revenue

The following table presents revenue by segment for the years ended December 31, 2017 and 2016.

	2017		2016	
		%		%
	Revenue	nominal	Revenue	nominal
(\$ in millions, unless otherwise stated)				
High Performance Mixed Signal ("HPMS")	8,745	8.1	8,086	71.3
Standard Products ("SP")	118	(90.3)	1,220	(1.7)
Corporate and Other	393	104.7	192	37.1

Total	9,256	(2.5)	9,498	55.7
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Revenue decreased by \$242 million to \$9,256 million in 2017 compared to \$9,498 million in 2016, a nominal decrease of 2.5%, reflecting the divestment of the SP business.

Our HPMS segment reported an increase in revenue of \$659 million to \$8,745 million in 2017 compared to \$8,086 million in 2016, resulting in 8.1% nominal growth. The increase was primarily due to increased demand in Automotive and Secure Connected Devices and to a lesser extent in Secure Interface & Infrastructure offset by lower sales in Secure Identification Solutions due to a combination of lower overall market demand and average sales price compression.

Revenue for our SP segment was \$118 million in 2017, compared to \$1,220 million in 2016. The decrease was attributable to the divestment of the SP business on February 6, 2017. As of the divestment date, revenue derived from services to the former SP activities (Nexperia) in order to support their separation and, on a limited basis, their ongoing operations, is included in the Corporate & Other segment. As the Nexperia business develops or acquires its own foundry and packaging capabilities, our revenue from this source is expected to decline.

Revenue for Corporate and Other amounted to \$393 million in 2017, compared to \$192 million in 2016 and mainly related to our manufacturing operations, including revenue derived from services to Nexperia.

Gross Profit

The following table presents gross profit by segment for the years ended December 31, 2017 and 2016.

(\$ in millions, unless otherwise stated)	2017		2016	
	Gross Profit	% of revenue	Gross Profit	% of revenue
HPMS	4,527	51.8	3,625	44.8
SP	45	38.1	437	35.8
Corporate and Other	47	12.0	7	3.6
Total	4,619	49.9	4,069	42.8

Gross profit in 2017 was \$4,619 million, or 49.9% of revenue compared to \$4,069 million, or 42.8% of revenue in 2016. The increase of \$550 million was primarily driven by the absence of the impact of purchase accounting on inventory recognized in 2016, as a result of the acquisition of Freescale, in addition to the continued improvement of our operational performance and improved product mix, partly offset by the impact of the divestment of SP.

Our HPMS segment had a gross profit of \$4,527 million, or 51.8% of revenue in 2017, compared to \$3,625 million, or 44.8% of revenue in 2016. The increase in the gross profit percentage of 7.0 points as a percentage of revenue was primarily driven by the absence of the impact of purchase accounting on inventory (\$448 million) in 2016, in addition to the continued improvement of our operational performance and improved product mix.

Gross profit in our SP segment was \$45 million, or 38.1% of revenue in 2017, compared to \$437 million, or 35.8% of revenue in 2016. The decrease in gross profit was a result of the divestment of the SP business on February 6, 2017.

Operating Expenses

The following table presents operating expenses by segment for the years ended December 31, 2017 and 2016.

(\$ in millions, unless otherwise stated)	2017		2016	
	Operating expense	% of revenue	Operating expense	% of revenue
HPMS	3,871	44.3	3,937	48.7
SP	14	11.9	168	13.8
Corporate and Other	207	52.7	123	64.1
Total	4,092	44.2	4,228	44.5

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

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(\$ in millions, unless otherwise stated)	2017	2016
Research and development	1,554	1,560
Selling, general and administrative	1,090	1,141
Amortization of acquisition-related intangible assets	1,448	1,527
Operating expenses	4,092	4,228

Operating expenses were \$4,092 million, or 44.2% of revenue in 2017, compared to \$4,228 million, or 44.5% of revenue in 2016, a decrease of \$136 million. The decrease in operating expenses was primarily the result of realized synergies from the acquisition of Freescale, lower expenses related to the amortization of acquisition-related intangible assets, in addition to the impact of the divestment of SP, with only one month of operating activities in the current period.

In our HPMS segment, operating expenses amounted to \$3,871 million, or 44.3% of revenue in 2017, compared to \$3,937 million, or 48.7% of revenue in 2016. The decrease was primarily the result of realized synergies from the acquisition of Freescale and lower expenses related to the amortization of acquisition-related intangible assets.

Operating expenses in our SP segment decreased to \$14 million, or 11.9% of revenue in 2017, compared to \$168 million or 13.8% of revenue in 2016. The decrease in operating expenses was a result of the divestment of the SP business on February 6, 2017.

Operating expenses in Corporate and Other amounted to \$207 million, or 52.7% of revenue in 2017, compared to \$123 million or 64.1% of revenue in 2016. The increase in operating expenses was a result of incurred expenses associated with the proposed acquisition by QUALCOMM Incorporated and increased legal costs in connection with potential and current legal proceedings. The decrease in operating expenses as a percentage of revenue is driven by the increase in revenue as a result of the services we now provide to Nexperia.

Restructuring Charges

Total restructuring and restructuring related costs amounted to \$1 million in 2017, compared to \$68 million in 2016.

In 2016, the restructuring charges were for various specific targeted actions and were comprised of employee severance costs.

Other Income (Expense)

The following table presents other income (expense) for the years ended December 31, 2017 and 2016.

(\$ in millions, unless otherwise stated)	2017	2016
Other income (expense)	1,575	9

Other income (expense) reflects income of \$1,575 million for 2017 compared to \$9 million of income in 2016. Included in 2017 is the realized gain of \$1,597 million on the sale of the SP business in 2017.

Financial Income (Expense)

(\$ in millions)	For the years ended December 31,	
	2017	2016
Interest income	27	11
Interest expense	(310)	(408)
Foreign exchange rate results	(30)	(15)
Net gain (loss) on extinguishment of debt	(41)	(32)
Other	(12)	(9)
Total	(366)	(453)

Financial income (expense) was an expense of \$366 million in 2017, compared to an expense of \$453 million in 2016. The change in financial income (expense) is primarily attributable to (i) the decrease in interest expense, net, as a result of repayment of debt in 2017, offset by (ii) a less favorable impact of foreign exchange rate results and by (iii) higher debt extinguishment cost related to repayment of debt.

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 \$483 million in 2017, which reflects a benefit of 27.8% compared with a benefit of \$851 million (141.1%) for 2016.

On December 22, 2017, the President of the United States signed into law what is informally called the Tax Cuts and Jobs Act, a comprehensive U.S. tax reform package that, effective January 1, 2018, among other things, lowered the corporate income tax rate from 35% to 21%, moved the country towards a territorial tax system with a one-time mandatory tax on previously deferred foreign earnings of foreign subsidiaries and introduced a 30% limitation on deductibility of interest. Under the accounting rules, companies are required to recognize the effects of changes in tax laws and tax rates on deferred tax assets and liabilities in the period in which the new legislation is enacted. The effects of the Tax Cuts and Jobs Act on NXP include three major categories (i) re-measurement of deferred taxes, (ii) reassessment of the realizability of deferred tax assets and (iii) recognition of liabilities for taxes on mandatory deemed repatriation. As described further below, we recorded an income tax benefit of \$734 million in the year ended

December 31, 2017. As we do not have all the necessary information to analyze all income tax effects of the Tax Cuts and Jobs Act, this is a provisional amount which we believe represents a reasonable estimate of the accounting implications of this tax reform. We will continue to evaluate the Tax Cuts and Jobs Act and adjust the provisional amounts as additional information is obtained. The ultimate impact of tax reform may differ from our provisional amounts due to changes in our interpretations and assumptions, as well as additional regulatory guidance that may be issued.

We expect to complete our detailed analysis no later than the fourth quarter of 2018. Below is a brief description of each of the three categories of effects from U.S. tax reform and its impact on the Company:

- i. A deferred tax benefit of \$565 million related to the revaluation of NXP USA's net deferred tax liabilities due to the reduction of the U.S. corporate tax rate from 35% to 21%. The Company believes that the disallowed interest available per end of full year 2017 can still be carried forward and therefore continued to recognize a deferred tax asset of \$156 million in this respect.
- ii. A deferred tax benefit of \$277 million for the reversal of net deferred tax liabilities previously accrued related to NXP USA's cumulative undistributed foreign earnings. The Company believes this is a reasonable estimate of the impact of the Tax Cuts and Jobs Act but considers the release of this deferred tax liability as provisional pending further interpretation and guidance regarding whether future distribution from pre-1987 earnings and profits (E&P) will be subject to U.S. income tax.
- iii. A deferred tax expense of \$108 million for the mandatory repatriation "Toll Tax". The Company expects to utilize part of its unused foreign tax credit carryforwards that existed at the end of 2016 to fully cover the Toll Tax. Additional work is necessary to do a more detailed analysis of post-1986 earnings and profits (E&P) and creditable foreign-taxes of U.S.-owned subsidiaries. Further, the Toll Tax is based in part on the amount of those earnings held in cash and other specific assets, which may be further defined by regulatory guidance.

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 \$360 million of capital gains taxes

that will come due in increments during 2017-2019. Cash payments for income taxes that are relative to our ongoing operations are expected to remain at \$35 to \$40 million per quarter during 2018. In relation to the gain we made additional cash payments in 2017 of \$270 million. For the period 2018-2019, we currently estimate additional cash payments relative to this gain of \$90 million.

In the fourth quarter of 2017, the Company recorded an adjustment to recognize tax expense in the amount of \$121 million related to the first three quarters of 2017. The adjustment relates to transfer pricing and purchase accounting. Other than the amount related to goodwill (see note 13), the adjustment did not impact financial statements for the years ended December 31, 2016 or 2015.

Results Relating to Equity-accounted Investees

Results relating to the equity-accounted investees amounted to a gain of \$53 million in 2017, which includes \$31 million gain resulting from the sale of ASMC in April 2017. In 2016, results relating to the equity-accounted investees amounted to a gain of \$11 million.

Non-controlling Interests

Non-controlling interests are related to the third party share in the results of consolidated companies, predominantly SSMC. Their share of non-controlling interests amounted to a profit of \$57 million in 2017, compared to a profit of \$59 million in 2016.

B. Liquidity and Capital Resources

Liquidity and Capital Resources

We derive our liquidity and capital resources primarily from our cash flows from operations. We continue to generate strong positive operating cash flows. As of December 31, 2018, our cash balance was \$2,789 million, a decrease of \$758 million compared to December 31, 2017 (\$3,547 million). Taking into account the available undrawn amount of the Secured Revolving Credit Facility (the "RCF Agreement") of \$600 million, we had access to \$3,389 million of liquidity as of December 31, 2018.

We currently use cash to fund operations, meet working capital requirements, for capital expenditures and for potential common stock repurchases, dividends and strategic investments. Based on past performance and current expectations, we believe that our current available sources of funds (including cash and cash equivalents, RCF Agreement, plus anticipated cash generated from operations) will be adequate to finance our operations, working capital requirements, capital expenditures and potential dividends for at least the next year. Our capital expenditures were \$611 million in 2018, compared to \$552 million in 2017. On July 26, 2018, subsequent to the termination of the purchase agreement, the board of directors of NXP authorized the repurchase of an additional \$5 billion of the Company's stock. During October 2018, the board of directors of NXP authorized the additional repurchase of approximately 15 million shares. The extended authorization, effective November 1, 2018, is above the completed \$5 billion share repurchase program announced on July 26, 2018. As of year-end 2018, NXP repurchased 54.4 million shares, for a total of approximately \$5 billion. Under Dutch tax law, the repurchase of a company's shares by an entity domiciled in the Netherlands results in a taxable event. The tax on the repurchased shares is attributed to the shareholders, with NXP making the payment on the shareholders' behalf. As such, the tax on the repurchased shares is accounted for within stockholders' equity.

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

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

Our total debt amounted to \$7,354 million as of December 31, 2018, an increase of \$789 million compared to December 31, 2017 (\$6,565 million). On April 2, 2018, we fully redeemed the \$500 million of outstanding principal amount of our 5.75% Senior Notes due 2023 using available surplus cash. Additionally, on April 9, 2018, we fully redeemed the \$750 million of outstanding principal amount of our 3.75% Senior Notes due 2018 using available surplus cash. On September 19, 2018, we entered into a \$1 billion senior unsecured bridge term credit facility agreement under which an aggregate principal amount of \$1 billion (the "Bridge Loan") was borrowed. On December 6, 2018, NXP entered into 3 new senior unsecured notes, which are due in 2024 (\$1 billion), 2026 (\$500 million) and 2028 (\$500 million). A portion of the net proceeds from the December 6, 2018 notes offering was used to repay the \$1 billion Bridge Loan in December 2018.

At December 31, 2018, our cash balance was \$2,789 million, of which \$140 million was held by SSMC, our consolidated joint venture company with TSMC. Under the terms of our joint venture agreement with TSMC, a portion of this cash can be distributed by way of a dividend to us, but 38.8% of the dividend will be paid to our joint venture partner. In 2018, a dividend of \$139 million has been declared by SSMC, of which \$54 million was distributed to the joint venture partner.

From time to time, we engage in discussions with third parties regarding potential acquisitions of, or investments in, businesses, technologies and product lines. Any such transaction could require significant use of our cash and cash equivalents, or require us to arrange for new debt and equity financing to fund the transaction. Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions. In the future, we may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay principal, premium, if any, and interest on our indebtedness. Our business may not generate sufficient cash flow from operations, or we may not have enough capacity under the RCF Agreement, or from other sources in an amount sufficient to enable us to repay our indebtedness, including the RCF Agreement, the unsecured notes or to fund our other liquidity needs, including working capital and capital expenditure requirements. In any such case, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. See Part I, Item 3.D. Risk Factors.

Cash Flow from Operating Activities

In 2018 our operating activities provided \$4,369 million in cash. This was primarily the result of net income of \$2,258 million, adjustments to reconcile the net income of \$2,114 million and changes in operating assets and liabilities of (\$3) million. Net income includes offsetting non-cash items, such as depreciation and amortization of \$1,987 million, share-based compensation of \$314 million, amortization of the discount on debt and debt issuance costs of \$52 million, a loss on extinguishment of debt of \$26 million, results relating to equity-accounted investees of (\$54) million and changes in deferred taxes of (\$211) million.

In 2017 our operating activities provided \$2,447 million in cash. This was primarily the result of net income of \$2,272 million, adjustments to reconcile the net income of \$113 million and changes in operating assets and liabilities of \$62 million. Net income includes offsetting non-cash items, such as depreciation and amortization of \$2,173 million, the gain on the sale of assets of (\$1,615) million, share-based compensation of \$281 million, amortization of the discount on debt and debt issuance costs of \$52 million, a loss on extinguishment of debt of \$41 million and changes in deferred taxes of (\$797) million.

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.

Cash Flow from Investing Activities

Net cash used for investing activities amounted to \$522 million in 2018 and principally consisted of the cash outflows for capital expenditures of \$611 million and \$50 million for the purchase of identified intangible assets, partly offset by proceeds of \$159 million from the sale of businesses (net of cash).

Net cash provided by investing activities amounted to \$2,072 million in 2017 and principally consisted of the cash inflow from proceeds from the sale (net of cash) of the SP business, partly offset by the cash outflows for capital expenditures of \$552 million and \$66 million for the purchase of identified intangible assets, mainly related to the purchase of licenses.

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).

Cash Flow from Financing Activities

Net cash used for financing activities was \$4,597 million in 2018, \$2,886 million in 2017 and \$1,392 million in 2016. The cash flows related to financing transactions in 2018, 2017 and 2016 are primarily related to the financing activities described below under the captions 2018 Financing Activities, 2017 Financing Activities and 2016 Financing Activities, respectively.

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

	Year ended December 31,		
	2018	2017	2016
Dividends paid to non-controlling interests	(54)	(89)	(126)
Dividends paid to common stockholders	(74)	-	-
Cash proceeds from exercise of stock options	39	233	115
Purchase of treasury shares	(5,006)	(286)	(1,280)
Cash paid for terminated acquisition adjustment event	(60)	-	-
Cash paid on behalf of shareholders for tax on repurchased shares	(142)	-	-
Excess tax benefits from share-based compensation plans	-	-	5

2018 Financing Activities

2024, 2026 and 2028 Senior Unsecured Notes

On December 6, 2018, NXP B.V., together with NXP Funding LLC, issued \$1 billion of 4.875% Senior Unsecured Notes due March 1, 2024, \$500 million of 5.35% Senior Unsecured Notes due March 1, 2026 and \$500 million of 5.55% Senior Unsecured Notes due 2028. NXP used a portion of the net proceeds of the offering of these notes to repay in full the Bridge Loan, as described below. The remaining proceeds will be used for general corporate purposes, which may include the repurchase of additional shares of NXP's common stock.

2019 Bridge Loan

On September 19, 2018, NXP B.V., together with NXP Funding LLC, entered into a \$1 billion senior unsecured bridge term credit facility agreement under which an aggregate principal amount of \$1 billion of term loans (the "Bridge Loan") was borrowed. The Bridge Loan was to mature on September 18, 2019 and the interest at a LIBOR rate plus an applicable margin of 1.5 percent. NXP used the net proceeds of the Bridge Loan for general corporate purposes as well as to finance parts of the announced equity buy-back program. On December 6, 2018, the Bridge Loan was repaid in full, as described above.

2018 Senior Notes

On March 8, 2018, NXP B.V., together with NXP Funding LLC, delivered notice that it would repay to holders of its 3.75% Senior Notes due 2018 (the "2018 Notes") \$750 million of the outstanding aggregate principal amount of the 2018 Notes, which represented all of the outstanding aggregate principal amount of the 2018 Notes. The repayment occurred in April 2018 using available surplus cash.

2023 Senior Notes

On March 2, 2018, NXP B.V., together with NXP Funding LLC, delivered notice that it would repay to holders of its 5.75% Senior Notes due 2023 (the "2023 Notes") \$500 million of the outstanding aggregate principal amount of the 2023 Notes, which represented all of the outstanding aggregate principal amount of the 2023 Notes. The repayment occurred in April 2018 using available surplus cash.

2017 Financing Activities

2017 and 2020 Term Loans

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

2021 Senior Unsecured Notes

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

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.

Debt Position

Short-term Debt

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

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

Long-term Debt

As of December 31, 2018, we had outstanding debt of:

(\$ in millions)	Accrual/release				December 31, 2018
	December 31, 2017	Original Debt	Debt Issuance/Debt	Exchanges/Repurchases/ New Borrowings	
		Discount and Debt Issuance Cost		Other ⁽¹¹⁾	
U.S. dollar-denominated 4.125% senior unsecured notes due June 2020 ⁽¹⁾	597	1			598
U.S. dollar-denominated 4.125% senior unsecured notes due June 2021 ⁽²⁾	1,349				1,349
U.S. dollar-denominated 4.625% senior unsecured notes due June 2022 ⁽³⁾	397	1			398
U.S. dollar-denominated 4.625% senior unsecured notes due June 2023 ⁽⁴⁾	894	1			895
U.S. dollar-denominated 3.875% senior unsecured notes due June 2023 ⁽⁵⁾	994	1			995
U.S. dollar-denominated 5.75% senior unsecured notes due March 2023 ⁽⁶⁾	497	3	(500)		-
U.S. dollar-denominated 4.875% senior unsecured notes due March 2024 ⁽⁷⁾	-	(6)	1,000		994
U.S. dollar-denominated 5.35% senior unsecured notes due March 2026 ⁽⁷⁾	-	(3)	500		497
U.S. dollar-denominated 5.55% senior unsecured notes due December 2028 ⁽⁷⁾	-	(4)	500		496
U.S. dollar-denominated 1.00% cash convertible senior notes due December 2019 ⁽⁸⁾	1,059	46		(1,105)	-
RCF Agreement ⁽⁹⁾	5,787	40	1,500	(1,105)	6,222
Other long-term debt ⁽¹⁰⁾	-				-
	27	-	-	(2)	25

Total long-term debt	5,814	40	1,500	(1,107)	6,247
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- (1) On June 9, 2015, we issued \$600 million aggregate principal amount of 4.125% Senior Unsecured Notes due 2020.
- (2) On May 23, 2016, and August 1, 2016, we issued \$850 million and \$500 million, respectively, aggregate principal amount of 4.125% Senior Unsecured Notes due 2021.
- (3) On June 9, 2015, we issued \$400 million aggregate principal amount of 4.625% Senior Unsecured Notes due 2022.
- (4) On May 23, 2016, we issued \$900 million aggregate principal amount of 4.625% Senior Unsecured Notes due 2023.
- (5) On August 11, 2016, we issued \$1,000 million aggregate principal amount of 3.875% Senior Unsecured Notes due 2022.
- (6) On March 15, 2013, we issued \$500 million aggregate principal amount of 5.75% Senior Unsecured Notes due 2023. On April 2, 2018, we fully redeemed the \$500 million of outstanding principal.
- (7) On December 6, 2018, we issued \$1,000 million aggregate principal amount of 4.875% Senior Unsecured Notes due 2024, \$500 million aggregate principal amount of 5.35% Senior Unsecured Notes due 2026 and \$500 million aggregate principal amount of 5.55% Senior Unsecured Notes due 2028.
- (8) On November 24, 2014, we issued \$1,150 million aggregate principal amount of 1.00% Cash Convertible Senior Notes due 2019.
- (9) On December 7, 2015, we entered into a \$600 million Revolving Credit Facility agreement due 2020.
- (10) Other long-term debt consists primarily of capital lease obligations.
- (11) Other mainly relates to the reclassification of the current portion of long-term debt and the purchase price accounting step-up of the Freescale Notes.

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 Part I, Item 5.B. Liquidity and Capital Resources and Part II, Item 10.C. 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.

Cash Convertible Note Hedge Transactions and Warrant Transactions

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

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

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

relevant event is reasonably likely to occur. Any such adjustment may increase our delivery obligations upon expiration and settlement of the warrants or our obligations upon their cancellation, termination or unwinding, which would be settled using shares of our stock.

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 HPMS semiconductor solutions where we see significant opportunities for growth. We target applications that require stringent overall system and subsystem performance. As new and challenging applications proliferate, we believe that many of these applications will benefit from our solutions. We have assembled a global team of highly skilled semiconductor and embedded software design engineers with expertise in RF, analog, power management, interface, security and digital processing. As of December 31, 2018, we had 8,452 employees in research and development.

To outpace market growth we invest in research and development to extend or create leading market positions, with an emphasis on fast growing sizable market segments, such as automotive advanced driver-assistance systems (ADAS), in-vehicle networks and power management as well as Edge computing to support the successful deployment in the Internet of Things with our cross-over processing technology, but also in emerging markets, such as massive MIMO in RF Power and millimeter wave for 5G. Finally, we invest a few percent of our total research and development expenditures in research activities that develop fundamental new technologies or product categories that could contribute significantly to our company growth in the future.

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

Intellectual Property

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

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

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

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

D. Trend Information

NXP Semiconductors enables secure connections and infrastructure for a smarter world, providing solutions that make lives easier, better and safer. Building on our expertise in processing, connectivity and security, we are driving innovation in the areas of autonomous and safe driving, end-to-end security and privacy and smart connected solutions markets. Our innovative solutions are used in a wide range of applications. The automotive industry is seeing a transformational change centered around three megatrends: autonomous driving, safe driving and clean driving. We are responding to those changes by delivering innovative solutions for secure vehicle-to-infrastructure and

vehicle-to-vehicle communication, radar, secure car access, car entertainment, in-vehicle networking and battery management solutions. The increasing number of interconnected devices (e.g., cars, smartphones, wearables, TVs, smart speakers, etc.) needing real-time analysis and secure processing is exponentially increasing the amount of processing power needed both on the edge and in the end nodes. They provide fertile new markets for our broad range of microcontrollers, application processors, connectivity and security solutions. Innovation in smartphones and 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. 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. Next generation networks which deliver increasing demand for data are enabled by our new high-performance RF solutions.

Currently we see the first quarter of 2019 having worse than seasonal revenue trends. Unfortunately, we do not have any unique insights to forecast the duration or depth of the slowdown but with most third-party economists continuing to forecast global GDP at just under a 3 percent range, you would have to believe, the second half of 2019 will be stronger than the first half.

Overall, we believe that we are strategically positioned to capture rapid growth in emerging markets through our strong position in Greater China (China, Hong Kong and Taiwan), which represented 39% of our revenue in 2018, compared to 41% of our revenue in 2017, and in Asia Pacific, which represented 29% of our revenue in 2018, compared to 27% of our revenue in 2017.

Please also refer to Item 5.A. Operating Results of this Annual Report on Form 20-F for further discussion of trend information.

E. Off-balance Sheet Arrangements

As of December 31, 2018, we had no material off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

Presented below is a summary of our contractual obligations as of December 31, 2018.

							2024 and
(\$ in millions)	Total	2019	2020	2021	2022	2023	thereafter
Long-term and short-term debt ⁽¹⁾	7,400	1,150	600	1,350	1,400	900	2,000
Capital lease obligations	27	2	1	1	2	2	19
Operating leases	156	43	35	24	13	11	30
Interest on the notes ⁽²⁾	1,328	281	270	230	193	124	230
Long-term purchase contracts	333	230	71	18	3	1	10
Total contractual cash obligations ⁽²⁾⁽³⁾⁽⁴⁾	9,244	1,706	977	1,623	1,611	1,038	2,289

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

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

(3) As of December 31, 2018, we had reserves of \$179 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 \$1.1794 per €1.00, in effect at December 31, 2018. As a result, the actual payments will vary based on any change in exchange rate.

Our debt instruments had accrued interest of \$31 million as of December 31, 2018 (December 31, 2017: \$35 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 2019 and subsequent years are uncertain and may change as a consequence of statutory funding requirements as well as changes in actual versus currently assumed discount rates, estimations of compensation increases and returns on pension plan assets.

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 3.D. Risk Factors and elsewhere in this Annual Report, the following:

- market demand and semiconductor industry conditions;
- our ability to successfully introduce new technologies and products;
- the demand for the goods into which our products are incorporated;
- trade disputes between the U.S. and China, potential increase of barriers to international trade and resulting disruptions to our established supply chains;
- 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;

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- our ability to accurately estimate demand and match our production capacity accordingly or obtain supplies from third-party producers;
- our access to production from third-party outsourcing partners, and any events that might affect their business or our relationship with them;
- our ability to secure adequate and timely supply of equipment and materials from suppliers;
- our ability to avoid operational problems and product defects and, if such issues were to arise, to rectify them quickly;
- our ability to form strategic partnerships and joint ventures and successfully cooperate with our alliance partners;
- 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 Annual Report, except as required by law.

In addition, this Annual 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 Annual Report. 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, 2018, of the persons who serve as members of our board of directors.

Name	Age	Position
Richard L. Clemmer	67	Executive director and chief executive officer
Sir Peter Bonfield	74	Non-executive director and chairman of the board
Johannes P. Huth	58	Non-executive director and vice-chairman of the board
Kenneth A. Goldman	69	Non-executive director
Josef Kaeser	61	Non-executive director
Eric Meurice	62	Non-executive director
Peter Smitham	76	Non-executive director
Julie Southern	59	Non-executive director
Gregory L. Summe	62	Non-executive director

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Richard L. Clemmer (1951, American). Mr. Clemmer became executive director, president and chief executive officer on January 1, 2009. Prior to that, from December 2007, Mr. Clemmer was a member of the supervisory board of NXP B.V. and a senior advisor of Kohlberg Kravis Roberts & Co. Prior to joining NXP, he was the President and CEO of Agere Systems, served as Chairman of u-Nav Microelectronics Corporation, and was executive vice president and chief financial officer at Quantum Corporation. Prior to that, Mr. Clemmer worked for Texas Instruments Incorporated as senior vice president and semiconductor group chief financial officer. Mr. Clemmer also serves on the boards of NCR Corporation and RMG Technologies Inc., a private start-up focused on network security.

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¶ Sir Peter Bonfield CBE FREng (1944, British). Sir Peter has been appointed a non-executive director and the chairman of our board of directors in August 2010. Prior to that, Sir Peter was the chairman of the supervisory board of NXP B.V. from September 29, 2006. Sir Peter served as chief executive officer and chairman of the executive committee for British Telecom plc from 1996 to 2002 and prior to that was chairman and chief executive officer of ICL plc (now Fujitsu Services Holdings Ltd.). Sir Peter also worked in the semiconductor industry during his tenure as a divisional director at Texas Instruments Incorporated, for whom he held a variety of senior management positions around the world. Sir Peter currently holds a non-executive directorship at Taiwan Semiconductor Manufacturing Company Limited. Sir Peter is Chair of Council and Senior Pro-Chancellor at Loughborough University, Board Director at East West Institute USA and Board Mentor at CMi in Belgium. He is also Advisor to Longreach LLP in Hong Kong, Alix Partners UK LLP in London and The Hampton Group in London.

¶ Johannes P. Huth (1960, German). Mr. Huth has been appointed a non-executive director and vice-chairman of our board of directors in August 2010. Prior to that, Mr. Huth was a member and chairman of our supervisory board and a member and vice-chairman of NXP B.V.'s supervisory board from September 29, 2006. Mr. Huth joined Kohlberg Kravis Roberts & Co. LLP in May 1999 and is a Member of KKR and Head of KKR's operations in Europe, the Middle East and Africa. He is also a member of the Firm's senior management and several of the Firm's Investment Committees. Prior to joining KKR, he was a member of the Management Committee of Investcorp and jointly responsible for Investcorp's operations in Europe. From 1986 to 1991, he worked at Salomon Brothers, where he was a Vice President in the Mergers and Acquisitions departments in London and New York. Mr. Huth currently is also the chairman of Henslodt GmbH and a member of the Supervisory Board of GEG German Estate Group AG and member of the Board of SoftwareOne AG. He is Vice-Chair of the Board of Trustees of the Design Museum, trustee of the Staedel Museum in Frankfurt, trustee of The Education Endowment Foundation, and a member of the Global Advisory Board of the University of Chicago Booth School of Business. He is a Visiting Fellow of Oxford University and a Fellow of the Royal Society of Arts and member of the Conseil d'Administration of Les Arts Decoratifs in Paris. He earned a BSc with Highest Honors from the London School of Economics and an MBA from the University of Chicago.

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

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

¶ Eric Meurice (1956, French). Mr. Meurice has been appointed a non-executive director of the board of directors effective April 1, 2014. Mr. Meurice was the CEO and Chairman of the management board of ASML Holding NV, a leading provider of manufacturing equipment and technology to the semiconductor industry from 2004 to 2013.

Under his watch, ASML became the largest Lithography vendor in the world, leading to a significant equity investment and funding commitment by its customers. Before joining ASML, he was Executive Vice President of Thomson Television, where he completed the merger of his division with TCL Corporation, one of the largest Chinese consumer electronics companies. Before 2001, he served as head of Dell Computers' Western, Eastern Europe and EMEA emerging market businesses. He gained extensive technology experience in the semiconductor industry between 1984 and 1994, first at Intel, in the micro-controller group, and then at ITT Semiconductors, a provider then of digital video and audio DSP integrated circuits. Mr. Meurice is a director of IPG Photonics, a US-based Laser supplier, since June 2014, of UMICORE, a Belgium based materials specialist, since April 2015, of Meyer Burger, a Swiss Solar cell manufacturing equipment supplier, since May 2018, and of SOITEC, a French based leader of Semiconductor materials, since July 2018. He served on the board of Verigy LTD (former HP test division), until its acquisition by Advantest in 2011. From July 1, 2013 to April 1, 2014 he was non-executive director of ARM Holdings plc (UK, semiconductor intellectual property supplier).

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

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

Gregory L. Summe (1956, American). Mr. Summe has been appointed a non-executive director of our board of directors effective December 7, 2015. Mr. Summe is the Managing Partner of Glen Capital Partners, a Boston based hedge fund, which he founded in 2014. Mr. Summe was the managing director and vice chairman of Global Buyout at The Carlyle Group, a leading global private equity firm, from 2009 to 2014. Prior to joining Carlyle, he was the chairman and chief executive officer of PerkinElmer, Inc., a global leader in Health Sciences, a company he led from 1998 to May 2009. He also served as a senior advisor to Goldman Sachs Capital Partners, from 2008 to 2009. He was a director of Freescale Semiconductor from 2010 until its merger with NXP in 2015 and served as Chairman of the Freescale board since 2014 and Chairman of the Compensation and Leadership Committee. Prior to PerkinElmer, Mr. Summe was with AlliedSignal, now Honeywell International, serving as the president of General Aviation Avionics, president of the Aerospace Engines Group and president of the Automotive Products Group. Before joining AlliedSignal, he was the general manager of Commercial Motors at General Electric and was a partner with the consulting firm of McKinsey & Company, Inc. Mr. Summe holds B.S. and M.S. degrees in electrical engineering from the University of Kentucky and the University of Cincinnati, and an M.B.A. with distinction from the Wharton School at the University of Pennsylvania. He is in the Engineering Hall of Distinction at the University of Kentucky. Mr. Summe also serves on the board of directors of the State Street Corporation, where he is the chairman of the Nomination & Governance and Strategy committees and two private companies, Ohana Biosciences, and Pella Corporation.

Management Team

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

Name	Age	Position
Richard L. Clemmer	67	Executive director and chief executive officer
Kurt Sievers	49	President
Peter Kelly	61	Executive vice president and chief financial officer
Steve Owen	58	Executive vice president sales & marketing
David Reed	60	Executive vice president technology and operations
Keith Shull		Executive vice president and chief human resources

✦Kurt Sievers (1969, German). Mr. Sievers is president and member of the management team, overseeing all business lines. He has previously managed our High Performance Mixed Signal businesses focused on the automotive application markets and the automotive safety and comfort business line and served in various positions at Philips since 1995.

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

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

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

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

Jennifer Wuamett (1965, American). Ms. Wuamett is executive vice president, general counsel, secretary of our board of directors and a member of the management team, and has served in this role since September 2018. Previously, Ms. Wuamett served as Senior Vice President and Deputy General Counsel at NXP. Prior to that, she was Freescale's Senior Vice President, General Counsel and Secretary and has served in various positions at Freescale and Motorola.

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.

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 ⁽¹¹⁾.

Year	Base Salary and/or Directors Fees	Annual Incentive	Performance and Restricted Stock Options		Grant Date	Cost of Share and Option Awards	Other Compensation	Pension Costs	Pension Allowance	Total Compensation	Total Compensation (IFRS)
			Units	Options	Fair Value of Share and Option Awards	(IFRS)					
	(\$)	(\$ 1)	(# 2)	(# 3)	(\$ 4)	(\$ 5)	(\$ 6)	(\$)	(\$ 7)	(\$ 4)	(\$)
2018 ⁹⁾	1,369,730	1,388,390	646,483	-	72,924,573	26,810,424	1,056,105	12,549	627,304	77,378,651	77,378,651
2017 ⁹⁾	1,291,625	774,006	136,364	-	15,902,770	13,791,056	947,065	19,414	584,841	19,519,721	19,519,721
2016 ⁹⁾	1,263,580	546,815	139,266	30,751	14,500,097	12,749,940	1,033,574	18,100	572,394	17,934,560	17,934,560
2018	336,348	-	2,379	-	195,554	195,984	-	-	-	531,902	531,902
2017	323,031	-	1,715	-	200,003	200,583	-	-	-	523,034	523,034
2016	398,788	-	2,019	-	200,043	224,478	-	-	-	598,831	598,831
2018	97,000	-	2,379	-	195,554	195,984	-	-	-	292,554	292,554
2017	97,000	-	1,715	-	200,003	200,583	-	-	-	297,003	297,003
2016	94,500	-	2,019	-	200,043	224,478	-	-	-	294,543	294,543
2018	110,000	-	2,379	-	195,554	195,984	-	-	-	305,554	305,554
2017	115,000	-	1,715	-	200,003	200,583	-	-	-	315,003	315,003

ve	2016	109,167	-	2,019	-	200,043	224,478	-	-	-	309,210
	2018 ¹⁰⁾	50,000	-	-	-	-	(36,165)	-	-	-	50,000
ve	2017	100,000	-	1,715	-	200,003	200,583	-	-	-	300,003
	2016	96,250	-	2,019	-	200,043	224,478	-	-	-	296,293
r	2018	100,000	-	2,379	-	195,554	195,984	-	-	-	295,554
ve	2017	100,000	-	1,715	-	200,003	200,583	-	-	-	300,003
	2016	96,250	-	2,019	-	200,043	224,478	-	-	-	296,293
)	2018 ¹⁰⁾	42,500	-	-	-	-	(36,165)	-	-	-	42,500
ve	2017	85,000	-	1,715	-	200,003	200,583	-	-	-	285,003
	2016	85,000	-	2,019	-	200,043	224,478	-	-	-	285,043
e	2018	101,667	-	2,379	-	195,554	195,984	-	-	-	297,221
ve	2017	110,000	-	1,715	-	200,003	200,583	-	-	-	310,003
	2016	105,416	-	2,019	-	200,043	203,373	-	-	-	305,459
	2018	101,334	-	2,379	-	195,554	195,984	-	-	-	296,888
ve	2017	97,000	-	1,715	-	200,003	200,583	-	-	-	297,003
	2016	94,500	-	2,019	-	200,043	35,624	-	-	-	294,543
	2018	104,000	-	2,379	-	195,554	195,984	-	-	-	299,554
ve	2017	100,000	-	1,715	-	200,003	200,583	-	-	-	300,003
	2016	96,250	-	2,019	-	200,043	35,624	-	-	-	296,293
rn	2018	105,000	-	2,379	-	195,554	195,984	-	-	-	300,554
ve	2017	100,000	-	1,715	-	200,003	200,583	-	-	-	300,003
	2016	96,250	-	2,019	-	200,043	224,478	-	-	-	296,293
	2018	2,517,579	1,388,390			74,489,005	28,305,966	1,056,105	12,549	627,304	80,090,932
	2017	2,518,656	774,006			17,902,800	15,796,886	947,065	19,414	584,841	22,746,782
	2016	2,535,951	546,815			16,500,527	14,595,907	1,033,574	18,100	572,394	21,207,361

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 Part I, 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 2018 will be paid in

2019 based on achievement of the predetermined targets.

- 2) Represents the number of Performance and Restricted share units granted to the individual in the year reported. See Part I, Item 6.B. Compensation and note 8 Share-based Compensation to the Consolidated Financial Statements in Part III, Item 18. Financial Statements for additional information regarding our long-term incentive plans.
- 3) Represents the number of Stock Options granted to the individual in the year reported. See Part I, Item 6.B. Compensation and note 8 Share-based Compensation, to the Consolidated Financial Statements in Part III, Item 18. Financial Statements for additional information regarding our long-term incentive plans.

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- 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 Part III, Item 18. Financial Statements 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, relocation allowances, medical insurance, accident insurance, company car arrangements, each broadly in line with those for the NXP executives globally, as well as executive protection and residential security.
- 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) Dr. Marion Helmes' and Mr. Ian Loring's director term expired at the annual meeting of shareholders on June 22, 2018, and both did not stand for re-election to the board of directors.
- 9) In 2018, Mr. Clemmer received no performance share units that had financial performance conditions, 452,538 performance share units that had market performance conditions and 193,945 restricted share units. In 2017, Mr. Clemmer received no performance share units that had financial performance conditions or market performance conditions and 136,364 restricted share units.

In 2016, Mr. Clemmer received 13,105 performance share units that had financial performance conditions, no performance share units that had market performance conditions and 126,161 restricted share units.

- 10) As a result of not standing for re-election by Dr. Helmes and Mr. Loring as noted in note 8, 1,715 awards for Dr. Helmes and for Mr. Loring, respectively, were forfeited resulting in a reversal of the related costs in accordance with IFRS2.
- 11) 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 connection with the disclosure requirements of IAS 24 paragraph 17, we consider the board of directors as our key management personnel.

Base Salary

As of September 1, 2018, we pay our chief executive officer an annual base salary of €1,200,000, the chairman of our board of directors an annual fixed fee of €275,000 and the other members of our board of directors an annual fixed fee of \$85,000 gross. Members of our Audit Committee receive an additional annual fixed fee of \$15,000 gross and the chairman receives an additional annual fixed fee of \$15,000; members of our Nominating & Compensation Committee receive an additional annual fixed fee of \$12,000 gross and the chairman receives an additional annual fixed fee of \$13,000. For the year ended December 31, 2018, the current and former members of our management team as a group (in total 11 members) received a total aggregate Base salary of €4,729,989, compared to a total aggregate Base salary of €5,320,294 (in total 12 members) in 2017 and €5,889,544 (in total 12 members) in 2016.

Annual Incentive

Each year, our chief executive officer, the other members of our management team and our other executives can qualify to earn a variable cash incentive, subject to whether certain specific and challenging performance targets have been met. For our chief executive officer, the on-target cash incentive percentage is set at 150% of the base salary as of September 1, 2018. The cash incentive pay-out in any year relates to the achievements of the preceding financial year in relation to agreed targets.

To support the performance culture, the Annual Incentive plan 2018 is based on EBIT at group level and business / support level, as well as revenue targets; as of 2019, the Annual Incentive Plan will be based on revenue and market share targets, as well as on gross margin. Any targets are set by the board of directors, at the proposal of its nominating & compensation committee. Because 2018 has been such an unusual year with so many changes, the board of directors' nominating and compensation committee has decided that the Annual Incentive plan 2018 for the first half year will be paid out at on target percentage.

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

Share Based Compensation Plans

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

Since 2010, we have maintained annual Long Term Incentive Plans, under which performance stock, restricted stock and stock options may be granted to the members of our board of directors, management team, our other executives, selected other key employees/talents of NXP and selected new hires. Under these Long Term Incentive Plans, equity incentives may be granted on, or the first Nasdaq trading day after NXP publishes its quarterly financials. In view of the merger with Freescale, a specific grant under the 2015 plan was made to Freescale employees who joined NXP on December 7, 2015. Performance stock units and restricted stock units vest over a period of one to four years, subject to relevant performance criteria being met in the case of performance stock units, and stock options vest over four years. Beginning with the 2014 LTIP plans, restrictive stock units granted to the non-executive directors in our board vest over a period of one year. In view of the previously announced tender offer by Qualcomm to acquire all the issued and outstanding NXP shares, in October 2016, the board of directors, advised by its nominating & compensation committee, resolved to only grant restricted stock units under the 2016 Long term Incentive Plan. The same decision was taken on the 2017 Long term Incentive Plan. As of July 26, 2018, we granted performance stock units (“PSU’s”) awards with a performance measure of Relative Total Shareholder Return (“Relative TSR”). Each PSU, which cliff vests on the third anniversary of the date of grant, entitles the grant recipient to receive from 0 to 2 common shares for each of the target units awarded based on the Relative TSR of the Company's share price as compared to a set of peer companies. In addition to the PSU's, we also granted restricted stock units as of July 26, 2018. Awards granted generally will become fully vested upon a termination event occurring within one year following a change in control, as defined. A termination event is defined as either termination of employment or services other than for cause or constructive termination of resulting from a significant reduction in either the nature or scope of duties and responsibilities, a reduction in compensation or a required relocation.

The size of the annual equity pool available for Long Term Incentive Plan 2010 awards from November 2, 2010 up to the fourth quarter of 2011 was for an aggregate of up to 7,200,000 common shares in our share capital. On December 31, 2018, grants to 30 participants were outstanding, in total representing some 51,440 shares of common stock, consisting of 51,440 stock options.

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

The size of the annual equity pool available for Long Term Incentive Plan 2012 awards from October 25, 2012 up to the fourth quarter of 2013 was for an aggregate of up to 9.3 million (including 2.1 million which remained from the 2011 LTIP pool) common shares in our share capital. On December 31, 2018, grants to 117 participants were outstanding, in total representing 252,199 shares of common stock, consisting of 252,199 stock options.

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

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

302,536 stock options.

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

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

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

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

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

As of December 31, 2018, under the above equity plans, a total amount of 2,104,088 stock options, 1,701,482 performance stock units and 6,511,564 restricted stock units were outstanding, in total representing 10,317,134 shares of common stock.

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

As of December 31, 2018, the following stock options, restricted stock units, performance stock units and shares of common stock were outstanding with members of our board of directors:

Richard L. Clemmer, CEO

As of December 31, 2018, our chief executive officer held 776,213 shares of common stock and had been granted the following unvested stock options, restricted stock units and performance stock units, which were outstanding:

Series	Number of Stock Options	Exercise Price (in \$)	Stock Options Exercisable	Number of Stock Options per vesting schedule 10/29/19
2016/February	15,376	76.31	7,688	7,688
Series	Number of	Exercise		

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

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

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

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

Series	Number of Restricted Stock Units	Number of Restricted Stock Units per vesting schedule
		10/27/19

2016/October 42,054 42,054

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

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

	Number of	Number of
	Performance	Performance Stock
Series	Stock Units	Units per vesting schedule 10/23/19 10/23/20 Maximum Up to
2015/October	71,918	71,918 71,918

Other members of our board of directors

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

Sir Peter Bonfield: 34,404 from vested stock units

Mr. Goldman: 21,323 from vested stock units

Mr. Huth: 14,669 from vested stock units

Mr. Kaeser: 36,290 from vested stock units

Mr. Meurice: 7,650 from vested stock units

Mr. Smitham: 2,375 from vested stock units

Ms. Southern: 9,315 from vested stock units

Mr. Summe: 10,070 from vested stock units and acquisitions in the open market

To each of the non-executive members of our board of directors, the following restricted stock units had been granted and were outstanding as of December 31, 2018:

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

Pensions

It has been our long-standing practice that our chief executive officer and eligible members of the management team under a Dutch employment contract participate in the executives' pension plan, which we established in the Netherlands and which consisted of a combination of a career average and a defined-contribution plan. Since January 1, 2015, pension plans which allow pension accrual based on a pensionable salary exceeding an amount of €100,000 (threshold is adapted by the fiscal authorities each year, 2018: €105,075) are, for fiscal purposes, considered to be non-qualifying schemes.

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

- Pension Plan in the Netherlands, which is a Collective Defined Contribution plan with an age-dependent fixed contribution percentage up to a maximum pensionable salary of €100,000 (2018: €105,075). The Pension Plan has a target retirement age of 68 and a target accrual rate of 1.85%;
- Introduction of a Benefit Allowance of 12.3% of the pensionable salary above €105,075 (2018) for all current and new employees;
- Compensation of remaining loss in pension accrual, compared to 2014, as an individual Retirement allowance; and

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

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

In 2018, we paid for our chief executive officer a total pension plan contribution of €10,640 (\$12,549) (€17,165 (\$19,414) in 2017 and €16,358 (\$18,100) in 2016) and an aggregated amount of €531,863 (\$627,304) as Retirement Allowance and individual Allowance in 2018 (€517,092 (\$584,841) in 2017).

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 board of directors consists of one executive director and eight non-executive directors. The number of executive and non-executive directors is determined by the board of directors and our directors are appointed for one year and are re-electable each year at the general meeting of stockholders. 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 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.

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.

Additional Arrangements

Our chief executive officer has a contract of employment the term of which is linked to his board membership which expires the next annual general meeting of stockholders. Most of the other members of our management team and our executives have a contract of employment for an indefinite term. The main elements of any new employment contract that we will enter into with a member of the board of directors will be made public no later than the date of the public notice convening the general meeting of stockholders at which the appointment of such member of the board of directors will be proposed. Non-executive directors of our board do not have a contract of employment.

In addition to the main conditions of employment, a number of additional arrangements apply to our chief executive officer and other members of the management team; these arrangements do not apply to the non-executive members of our board of directors. These additional arrangements, such as housing compensation and relocation allowances, medical insurance, accident insurance, company car arrangements, are broadly in line with those for the NXP executives globally. In the event of disablement, our chief executive officer and other members of the management team are entitled to benefits in line with those for other NXP executives. In the event of our chief executive officer's death while in the service of NXP, any unvested equity awards (including any NXP stock options, performance stock units and restricted stock units) will vest. In line with regulatory requirements, the Company's policy forbids personal loans, guarantees or similar arrangements to members of our board, and consequently no loans, guarantees or similar arrangements were granted to such members since 2010, nor were any such loans outstanding as of December 31, 2018. The contract of employment entered into with our chief executive officer as of January 1, 2009, the terms of which have been extended from time to time, latest on September 1, 2018, provides that if our chief executive officer terminates his employment within six months of a change of control, then he will be entitled to two years' base salary (gross) plus twice the amount of his target annual bonus (gross).

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

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.** As of the 2018 annual general meeting of shareholders, our audit committee consists of four independent non-executive directors, Ms. Southern, Messrs. Goldman, Kaeser and Summe; all four members are independent directors under the Dutch corporate governance rules and under the Nasdaq and SEC audit committee structure and membership requirements. Ms. Southern, who was appointed as chairman of the audit committee on September 1, 2018, succeeding Mr. Goldman, qualifies as an "audit committee financial expert" as such term is defined in Item 16.A. Audit Committee Financial Expert and as determined by our board of directors. Our audit committee assists the board of directors in supervising, monitoring and advising the board of directors on financial reporting, risk management, compliance with relevant legislation and regulations and our Code of Conduct (the "Code"). It oversees the preparation of our financial statements, our financial reporting process, our system of internal business controls and risk management, our internal and external audit process and our internal and external auditor's qualifications, independence and performance. Our audit committee also reviews our annual and interim financial statements and other public disclosures, prior to publication. On a quarterly basis, 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, Smitham and Summe. All four members are independent directors under the Dutch corporate governance rules and under the Nasdaq and SEC compensation committee structure and membership requirements. Mr. Smitham was appointed as chairman of this committee on September 1, 2018, succeeding Mr. Meurice. The nominating & compensation committee determines selection criteria and appointment procedures for members of our board of directors, periodically assesses the scope and composition of our board of directors and evaluates the performance of its individual members. 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.

D. Employees

As of December 31, 2018 we had 30,000 full-time equivalent employees. The following table indicates the % of full-time equivalent employees per geographic area:

	% as of December 31, 2018 2017	
Europe and Africa	20	20
Americas	20	20
Greater China	25	24
Asia Pacific	35	36
Total	100	100

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

E. Share Ownership

Information with respect to share ownership of members of our board of directors is included in Part I, Item 6B. Directors, Senior Management and Employees - Compensation. Information with respect to the grant of shares and stock options to employees is included in note 8 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.

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, 2018, December 31, 2017 and December 31, 2016 by each person who is or was known by us to own beneficially more than 5% of our common stock.

	Common Stock Beneficially Owned as of December 31					
	2018		2017		2016	
	Number	%*	Number	%*	Number	%*
T. Rowe ⁽¹⁾	24,537,803	7.47	-	-	32,862,425	9.50
BlackRock, Inc. ⁽²⁾	20,587,515	6.26	19,595,928	5.66	-	-
Elliott Associates L/P.	-	-	16,437,756	4.75	-	-

*Percentage computations are based on 328,702,719 shares of our common stock issued and outstanding as of December 31, 2018, 346,002,862 shares of our common stock issued and outstanding as of December 31, 2017 and December 31, 2016.

- (1) Information about the number of common shares owned by T. Rowe Price Associates, Inc. (“T. Rowe”) on December 31, 2018, is based solely on a Schedule 13G filed by T. Rowe with the SEC on February 14, 2019. T. Rowe’s address is 100 E. Pratt Street, Baltimore, Maryland 21202. T. Rowe beneficially owned an aggregate of 24,537,803 common shares, has sole power to vote 9,341,218 shares and the sole power to dispose of 24,537,803 shares of our common stock.
- (2) Information about the number of common shares owned by BlackRock, Inc. (“Blackrock”) on December 31, 2018, is based solely on a Schedule 13G/A filed by Blackrock with the SEC on February 11, 2019. Blackrock’s address is 55 East 52nd Street, New York, NY 10055. Blackrock beneficially owned an aggregate of 24,537,803 common shares, has sole power to vote 9,341,218 shares and the sole power to dispose of 24,537,803 shares of our common stock.

No shareholders held different voting rights.

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 19 Related-party Transactions.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Consolidated Statements

See Part III, Item 18. Financial Statements.

Dividend Policy

Pursuant to the Company's articles of association, our board of directors may resolve to reserve profits or make interim distributions to shareholders. If the board 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. Distributions can only be made if the Company's shareholders' equity exceeds the sum of the paid-up and called-up part of the capital and the reserves which must be maintained by law. For interim distributions, this should be evidenced by an interim statement of assets and liabilities, which has been drawn up in accordance with the statutory requirements. Making use of its statutory authorization, our board of directors has approved a Quarterly Dividend Program that was introduced on September 11, 2018, under which NXP will pay a regular quarterly cash dividend. Additional future dividend payments will depend on factors such as our earnings levels, capital requirements, contractual restrictions, cash position, overall financial condition and any other factors deemed relevant by our board of directors.

B. Significant Changes

Not applicable.

Item 9. The Offer and Listing

A. Offer and Listing Details

The shares of common stock of the Company are listed on the stock market of Nasdaq in New York under the ticker symbol "NXPI".

B. Plan of Distribution

Not applicable.

C. Markets

See Part I, Item 9.A. Offer and Listing Details.

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 2, 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.

2018

See Part I, Item 4. Business Combinations for a description of the Purchase Agreement between NXP and Buyer, a wholly-owned, indirect subsidiary of Qualcomm, subsequent amendments to the Purchase Agreement and the termination of the Purchase Agreement.

See Part I, Item 5.B. Liquidity and Capital Resources – 2018 Financing Activities for a description of the \$1 billion senior unsecured bridge term credit facility agreement, the \$1 billion of 4.875% Senior Unsecured Notes due 2024, the \$500 million of 5.35% Senior Unsecured Notes due 2026 and the \$500 million of 5.55% Senior Unsecured Notes due 2028.

2017

See Part I, Item 4. Business Combinations for a description of the terminated Purchase Agreement with Buyer, a wholly-owned, indirect subsidiary of Qualcomm and tender offer commenced by Buyer to acquire all of our issued and outstanding common shares for a revised offer price of \$127.50 per share, less any applicable withholding taxes

and without interest to the holders thereof, payable in cash, for estimated total cash consideration of \$44 billion. The Purchase Agreement restricted NXP from engaging in certain actions outside the ordinary course of business without Buyer's approval.

2016

See Part I, Item 5.B. Liquidity and Capital Resources – 2016 Financing Activities for a description of the 2021 and 2023 Senior Unsecured Notes.

See Part I, Item 3. Key Information for a description of our divestment of the SP business.

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.

See Part I, Item 5.B. Liquidity and Capital Resources – 2016 Financing Activities for a description of the 2022 Senior Unsecured Notes.

See Part I, Item 5.B. Liquidity and Capital Resources – 2016 Financing Activities for a description of the 2020 Term Loan.

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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 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), the Tax Regulation the Netherlands Curaçao (Belastingregeling Nederland Curaçao), the Tax Regulation the Netherlands Saint Martin (Belastingregeling Nederland Sint Maarten) 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.

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 is resident (i) in an EU member state, or (ii) in a state that is a party to the Agreement on the European Economic Area ("EEA"; Iceland, Liechtenstein or Norway), or (iii) in a designated third state with which the Netherlands has agreed to an arrangement for the exchange of information on tax matters, it is entitled to a full or partial refund of Dutch dividend withholding tax incurred in respect of the Shares if the final tax burden in respect of the dividends distributed by the Company of a comparable Dutch resident stockholder is lower than the withholding tax incurred by the non-Dutch resident stockholder. The refund is granted upon request, and is subject to conditions and limitations. No entitlement to a refund exists if the disadvantage for the non-Dutch resident stockholder is entirely compensated in his state of residence under the provisions of a treaty for the avoidance of double taxation concluded between this state of residence and the Netherlands.

If a stockholder is (A) resident (i) in an EU member state, or (ii) in a state that is a party to the EEA, or (iii) in a third state with which the Netherlands has concluded a tax treaty for the avoidance of double taxation which contains a provision addressing dividends, according to the laws of that state, and (B) the stockholder is not considered a resident of another state under the terms of a tax treaty for the avoidance of double taxation concluded by that state with a third state with which the Netherlands has not concluded a tax treaty for the avoidance of double taxation which contains a provision addressing dividends, not being another EU member state or a state that is a party to the EEA, and (C) the stockholder owns an interest in the Company to which the participation exemption or the participation credit would be applicable if the stockholder was resident in the Netherlands, this stockholder will generally be eligible for an exemption from or refund of Dutch dividend withholding tax on dividends distributed by us, unless (D) the stockholder (i) holds the shares with the main purpose, or one of the main purposes, to avoid taxation due by another individual or entity, and (ii) holds the shares, or is deemed to hold the shares, as part of an artificial arrangement or transaction (or a series of artificial arrangements or composite of transactions).

Furthermore, if a stockholder:

- (a) is an entity which is resident for Dutch tax purposes in a member state of the European Union, a state that is a party to the EEA 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;
- 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 Annual 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 holds a substantial or fictitious substantial interest in the Company with the main purpose, or one of the main purposes, to avoid income tax due by an individual, and holds the shares, or is deemed to hold the shares, as part of an artificial arrangement or transaction (or a series of artificial arrangements or composite of transactions);
- (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.

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;
- 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.

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 Nasdaq, 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 2018 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 c