As filed with the Securities and Exchange Commission on April 7, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark one)

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

For the fiscal year ended December 31, 2008

OR

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

For the fiscal year ended December 31, 2008

OR

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

OR

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

Commission file number 333-142287

NXP B.V.

(Exact name of Registrant as specified in charter)

The Netherlands

(Jurisdiction of incorporation or organization)

High Tech Campus 60, Eindhoven 5656 AG, The Netherlands

(Address of principal executive office)

Jean Schreurs, SVP and Senior Corporate Counsel, High Tech Campus 60, 5656 AG, Eindhoven, The Netherlands,
Phonenumber: +31 40 2728686 / jean.schreurs@nxp.com
(Name, title, address, telephone, e-mail 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
None	

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

None

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

Floating Rate Senior Secured Notes due 2013
Floating Rate Senior Secured Notes due 2013
$7^{7}/_{8}$% Senior Secured Notes due 2014
$8^{5}/_{8}$% Senior Notes due 2015
$9^{1}/_{2}$% Senior Notes due 2015

(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, 2008
Ordinary shares, par value EUR 455 per share	**40 shares**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

o Yes x 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

o Yes x No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes o No

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

Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

US GAAPx International Financial Reporting Standards as issued by the International Accounting Standards Board o Other o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Exchange Act).

o Yes x No

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In this report amounts are expressed in euros (“euros” or “EUR”) or in US dollars (“dollars”, “US $” or “$”).

Introduction

Specific portions of NXP’s Annual Report 2008 to Shareholders (the “2008 Annual Report”) are incorporated by reference in this report on Form 20-F to the extent noted herein. The 2008 Annual Report (except as noted below) is attached hereto as Exhibit 15(b) and is furnished to the Securities and Exchange Commission (SEC) for information only. The 2008 Annual Report is not filed with the SEC except for such specific portions that are expressly incorporated by reference in this Annual Report on Form 20-F.

The Company uses the U.S. dollar as its reporting currency as from January 1, 2008. For consolidation purposes, the financial statements of the entities, including the Company, with a functional currency other than the U.S. dollar, are translated into U.S. dollars. Assets and liabilities are translated using the exchange rates on the respective balance sheet dates. Items in the statement of operations and cash flow statement are translated at average rates of exchange in the periods involved. The resulting translation adjustments are recorded as a separate component of other comprehensive income (loss) within business’

and shareholder's equity. Cumulative translation adjustments are recognized as income or expense upon partial or complete disposal or substantially complete liquidation of a foreign entity.

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

			US$ 1 per EUR	
	period end	**average (1)**	**high**	**low**
January 1 - September 28, 2006	1.2807	1.2481	1.1855	1.2855
September 29, - December 31, 2006	1.3118	1.2887	1.2765	1.3148
2007	1.4742	1.3721	1.3033	1.4810
2008	1.4061	1.4768	1.2749	1.5801

(1) The average rates are the accumulated average rates based on monthly quotations.

In presenting and discussing the NXP Group's financial position, operating results and cash flows, management uses certain non-US GAAP financial measures such as comparable growth; net debt and cash flow before financing activities. These non-US GAAP financial measures should not be viewed in isolation as alternatives to the equivalent US GAAP measure and should be used in conjunction with the most directly comparable US GAAP measure(s). Unless otherwise indicated in this document, a discussion of the non-US GAAP measures included in this document and a reconciliation of such measures to the most directly comparable US GAAP measure(s) is contained on pages 95, 97 and 98 under the heading 'Reconciliation non-US GAAP information' in the 2008 Annual Report and is incorporated herein by reference. We also present "Effects of PPA" or discuss our financial results on a basis that excludes the effects of "Purchase Price Accounting" (or "PPA"). Presentations of our financial results on a basis that excludes "Effects of PPA" exclude the effect of the purchase accounting that was applied to our acquisition in 2006 by KASLION Acquisition B.V. and on subsequent acquisition activities. This effect is primarily the changes in amortization and depreciation charges associated with the fair value of assets and liabilities acquired, net of the tax effect of such changes. A presentation of our financial results that excludes Effects of PPA is not made in accordance with US GAAP, however we have presented such information because we believe that it facilitates the comparison of our financial results between periods without the changes to amortization and depreciation charges that result from acquisition activities. For more information on purchase accounting and its effect on our financial results, see "Effect of purchase accounting" on pages 20 and 21 of the 2008 Annual Report, which pages are herein incorporated by reference.

Forward-looking statements

Pursuant to provisions of the United States Private Securities Litigation Reform Act of 1995, NXP is providing the following cautionary statement. This document, including the portions of the 2008 Annual Report incorporated herein, contains certain forward-looking statements with respect to the financial condition, results of operations and business of NXP and certain of the plans and objectives of NXP with respect to these items (including, but not limited to, restructuring cost and cost savings), in particular, among other statements, certain statements in Item 4 "Information on the Company" with regard to management objectives, market trends, market standing, product volumes and business risks, the statements in Item 8 "Financial Information" relating to legal proceedings, the statements in Item 5 "Operating and Financial Review and Prospects" with regard to Management's current expectations for the short term under the heading "Outlook" and with regard to trends in results of operations, margins, overall market trends, risk management, exchange rates and statements in Item 11 "Quantitative and Qualitative Disclosures about Market Risks" relating to risk caused by derivative positions, interest rate fluctuations and other financial exposure are forward-looking in nature.

When used in this document, 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 which 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, the 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 the following:
market demand and semiconductor industry conditions, our ability to successfully introduce new technologies and products, the demand for the goods into which our products are incorporated, our ability to generate sufficient cash or raise sufficient capital to meet both our debt service and research and development and capital investment requirements, our ability to accurately estimate demand and match our production capacity accordingly 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 to develop products for use in our customers' equipment and products, our ability to successfully establish a brand identity, our ability to successfully hire and retain key management and senior product architects; and, our ability to maintain good relationships with our suppliers.

Except for any ongoing obligation to disclose material information as required by the United States federal securities laws, we do not have any intention or obligation to update forward-looking statements after we distribute this document. In addition, this document contains information concerning the semiconductor industry, our market segments and business units 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 segments and product areas will develop. We have based these assumptions on information currently available to us. 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, our future results of operations and financial condition, and the market price of the notes, could be materially adversely affected.

Part I

Item 1. Identity of directors, senior management and advisors

Not applicable.

Item 2. Offer statistics and expected timetable

Not applicable.

Item 3. Key information

A. Selected financial data

The following table summarizes, for the periods indicated, the Company's summary historical combined and financial data. We prepare our financial statements in accordance with U.S. GAAP. For periods ended on or before September 28, 2006, our selected historical combined financial data principally reflects the historical financial position, results of operations and cash flows of the semiconductors businesses that were previously included as a segment of Philips.

The summary historical combined financial data as of December 31, 2005 and 2004, and for the years ended December 31, 2005 and 2004 and for the period January 1, 2006 through September 28, 2006 have been derived from the combined financial statements of the Predecessor periods. The summary historical consolidated financial data as of December 31, 2006, 2007 and 2008 and for the period September 29, 2006 through December 31, 2006 and for the years ended December 31, 2007 and 2008 have been derived from the audited consolidated financial statements.

Prior to January 1, 2008, the Company published its combined and consolidated financial statements in euro's, but are now published in U.S. dollars. The Company has retroactively applied this change to all periods presented below.

Selected financial data for the years ended December 31 (unless indicated otherwise):

	PREDECESSOR			SUCCESSOR		
in millions of USD, except ratio data	**2004**	**2005**	**January 1-September 28 2006**	**September 29-December 31 2006**	**2007**	**2008**
Income statement data (1):						
Sales	5,991	5,918	4,705	1,533	6,321	**5,443**
Income (loss) from operations	291	127	173	(1,004)	(778)	**(2,646)**
Financial income and expenses-net	(116)	(78)	(27)	(94)	(181)	**(614)**
Net income (loss)	17	(125)	6	(794)	(650)	**(3,600)**
Balance sheet data:						
Cash and cash equivalents	102	131	204	1,232	1,041	**1,796**
Total assets	5,520	4,748	5,216	12,944	13,816	**10,685**
Total debt (2)	1,948	1,758	730	5,836	6,078	**6,367**
Business' / Shareholder's equity	1,984	1,335	2,532	4,834	4,528	**1,075**
Cash flow data:						
Net cash provided by (used for) operating activities	1,215	983	584	376	533	**(622)**
Net cash (used for) provided by investing activities	(733)	(445)	(570)	(237)	(678)	**1,015**
Net cash provided by (used for) financing activities	(557)	(507)	60	905	(22)	**316**

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	PREDECESSOR			SUCCESSOR		
	2004	**2005**	**January 1-September 28 2006**	**September 29-December 31 2006**	**2007**	**2008**
Key Ratios:						
Income (loss) from operations	291	127	173	(1,004)	(778)	**(2,646)**
as a % of sales	4.9	2.1	3.7	(65.5)	(12.3)	**(48.6)**
Ratio net debt * : group equity	—(3)	—(3)	—(3)	48:52	51:49	**78:22**

(1) Per-share amounts are not provided since they are not meaningful in light of the ownership by KASLION Acquisition B.V. of 100% of our issued and outstanding capital stock.

(2) Total debt includes external debt and, for Predecessor periods, amounts due to Philips.

(3) Information on net debt and business' equity of predecessor period (period before September 29, 2006) is not meaningful.

Definitions:

Net debt*	:	long-term and short-term debt net of cash and cash equivalents
Group equity	:	shareholder's equity and minority interests
Net debt: group equity ratio*	:	the % distribution of net debt over group equity plus net debt

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* See pages 95, 97 and 98 of the 2008 Annual Report incorporated herein by reference for a reconciliation of non-US GAAP measures to the most directly comparable US GAAP measure(s) and pages 22 and 23 of the 2008 Annual Report, incorporated herein by reference, for a discussion of these non-US GAAP measures.

D. Risk factors

The information required by this Item is incorporated by reference herein from the following portions of the 2008 Annual Report:

- The text on pages 68 through 85 under the heading "Risks related to our business";
- The text on pages 86 through 88, under the heading "Risks related to our capital Structure";

The factors and the cautionary statements contained in the section entitled "Introduction" on page 3 should be considered in connection with any forward-looking statements contained in NXP's Annual Report on Form 20-F. Forward-looking statements can be identified generally as those containing words such as "anticipate," "believe," "estimate," "forecast," "expect," "intend," "plan" and "project," and similar expressions. From time to time, NXP may also provide oral or written forward-looking statements in other materials NXP releases to the public. The cautionary statements contained in "Introduction" are deemed to apply to these statements.

The risks described are not the only ones that NXP faces. Some risks are not yet known to NXP and some that NXP does not currently believe to be material could later turn out to be material. All of these risks could materially affect NXP's business, its revenues, operating income, net income, net assets and liquidity and capital resources.

Item 4. Information on the Company

The information required by this Item is incorporated herein by reference to page 5, entitled "Structure" and "Business Overview" and pages 8 through 18 of the 2008 Annual Report.

Organizational structure

NXP B.V. was incorporated in The Netherlands as a Dutch private company with limited liability (*besloten vennootschap*) on December 21, 1990 as a wholly-owned subsidiary of Royal Philips Electronics N.V. On September 29, 2006, we changed our name from Philips Semiconductors International B.V. to NXP B.V. Our corporate seat is in Eindhoven, The Netherlands. Our registered office is at High Tech Campus 60, 5656 AG, Eindhoven, The Netherlands, and our phone number is +31 40 2729999. Our registered agent in the United States is NXP Semiconductors USA, Inc., 1109 McKay Drive, CA 95131 San Jose, United States of America, phone number +1 408 4343000.

NXP B.V. is the parent company of NXP Semiconductors Group, which includes NXP B.V. and its consolidated subsidiaries. A list of our significant subsidiaries, including name, country of incorporation or residence and proportion of ownership interest and voting power is provided on Exhibit 8 hereto, which is incorporated into this Item by reference.

Property, plant and equipment

NXP owns and leases manufacturing facilities, research facilities, warehouses and office facilities in numerous countries over the world.

NXP has 13 production sites in 12 countries. NXP believes that its plants are well maintained and, in conjunction with its capital expenditures for new property, plant and equipment, are generally adequate to meet its needs for the foreseeable future. For the net book value of its property, plant and equipment and developments therein, reference is made to note 20 "Property, plant and equipment" on page 166 of the 2008 Annual Report, which is incorporated herein by reference.

The geographic allocation of assets as of December 31, as shown in the table below, is generally indicative of the location of manufacturing facilities:

In millions of USD		**Successor**	
	2006	**2007**	**2008**
China	401	404	361
Netherlands	8,865	9,361	7,131
Taiwan	576	809	675
United States	198	187	189
Singapore	643	743	557
Germany	479	565	501
South Korea	54	75	152
Other countries	1,728	1,672	1,119
Total assets	12,944	13,816	10,685

The headquarters in Eindhoven are leased. The information as shown in note 31, entitled "Contractual obligations" on pages 183 and 184 of the 2008 Annual Report, partly related to the rental of buildings, is incorporated herein by reference.

For environmental issues affecting the Company's properties, reference is made to "Loss contingencies" in note 24 to the financial statements on page 170 of the 2008 Annual Report, which is incorporated herein by reference.

Capital expenditures in progress are generally expected to be financed through internally generated cash flows. For a description of the geographic spread of revenues and capital expenditures, reference is made to note 5 "Information by segment and main countries" on page 139 of the 2008 Annual Report, which is incorporated herein by reference.

For a description of the Company's principal acquisitions and divestitures, reference is made to note 7 on pages 147 through 149 of the 2008 Annual Report incorporated herein by reference.

Statements contained herein regarding competitive position are derived from internal data and studies, or from other sources management believes to be reliable.

Item 4A. Unresolved Staff Comments

Not applicable.

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Item 5. Operating and financial review and prospects

A. Operating Results / D. Trend Information

The following portions of the 2008 Annual Report are incorporated herein by reference:

- Page 19 ("Basis of Presentation");
- Pages 20 and 21 ("Effect of purchase accounting");
- Pages 22 and 23 ("Use of certain non-US GAAP financial measures"), except for the paragraphs on page 22 under the headings "Earnings before Interest, Tax and Amortization (EBITA)", "Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)", "Adjusted EBITA" and "Adjusted EBITDA" (and such headings are also not incorporated by reference);
- Pages 24 through 26 ("Management Summary");
- The text on page 27 under the heading "Performance of the Group 2008 compared to 2007");
- Pages 29 through 35, except for the graphical presentations of results contained therein;
- Pages 37 through 48, except for the graphical presentations of results contained therein;
- Pages 50 through 56;
- Pages 95, 97 and 98;
- Page 99.

A discussion of Critical accounting policies on pages 89 through 94 of the 2008 Annual Report is incorporated by reference herein.

B. Liquidity and Capital Resources

The following portions of the 2008 Annual Report are incorporated herein by reference:

- Pages 59 through 64 ("Liquidity and Capital Resources");
- Page 67, the partial paragraph at the beginning of page 68 and the two paragraphs of text under the headings "US Sarbanes-Oxley Act" and "NXP Business Code of Conduct");
- The last section of text on page 68, the first risk on page 69 and the first risk on page 71 under the heading "Risks related to our business";
- Pages 86 through 88 under the heading "Risks related to our capital structure";
- Notes 35 and 36 to the Financial Statements on pages 191 through 194.

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

The information required by this item is provided on pages 14, 15, 31, 32, 46, 130, 141 and 152 of the 2008 Annual Report, each of which has been incorporated by reference herein.

E. Off-Balance Sheet Arrangements

The following portions of the 2008 Annual Report are incorporated herein by reference:

- Pages 65 and 66;
- Notes 31 and 32 to the Financial Statements on pages 183 through 185.

F. Tabular Disclosure of Contractual Obligations

The information required by this item is provided on page 65 and 66 of the 2008 Annual Report, which has been incorporated herein by reference.

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Item 6. Directors, senior management and employees

A. Directors and senior management

The information required by this Item is set forth on pages 100 through 104 of the 2008 Annual Report, which are incorporated herein by reference.

B. Compensation

The remuneration of the members of the Board of Management is determined by the Supervisory Board upon a recommendation of its Nominating and Compensation Committee. The total remuneration of members of the Board of Management include a variable part, which is determined annually by the Supervisory Board, taking into account the financial results and other factors. The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders. Other than our independent Chairman, Sir Peter Bonfield, the members of the Supervisory Board do not receive any compensation for their service.

The aggregate remuneration paid in 2008 to, or for the benefit of, the members of the Board of Management was USD 18.9 million (2007: USD 4.5 million; 2006: USD 0.9 million).
When pension rights are granted to the member of the Board of Management, necessary payments (if insured) and all necessary provisions are made in accordance with the applicable accounting principles.

In 2008, the present members of the Board of Management were granted 98,041,400 stock options representing depository receipts in NXP's parent company KASLION Acquisition B.V. at a weighted average exercise price of USD 1.90 (2007: 184,947,600 stock options were granted). No stock options were granted to the members of the Supervisory Board.

The registrant does not report to its shareholders, or otherwise make public, the information specified in this Item for individually named directors and officers.

C. Board practices

Members of the Board of Management and the Supervisory Board, other than its Chairman, are appointed and dismissed by the General Meeting of Shareholders and hold office until they are removed or replaced by the General Meeting of Shareholders. The Chairman of the Supervisory Board is appointed and dismissed jointly by KASLION Holding B.V. and Koninklijke Philips Electronics N.V. and holds office until being removed or replaced by these companies acting jointly. Members of the Management Team, other than members of the Board of Management, are appointed and dismissed by the Board of Management and hold office until they are removed or replaced by the Board of Management.

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Information on the members of the Operating Committee, the Audit Committee and the Nomination and Compensation Committee is provided on pages 103 and 104 of the 2008 Annual Report, which is incorporated herein by reference. The terms of reference under which the Supervisory Board and its Operating Committee, the Audit Committee and the Nomination and Compensation Committee operate are described on pages 105 through 108 of the 2008 Annual Report, which are incorporated herein by reference. No member of our Supervisory Board has a service contract with the Company or any subsidiary providing for benefits upon termination of employment.

D. Employees

Information required by this Item is set forth under the heading "Employment" on pages 57 and 58 of the 2008 Annual Report, which is incorporated herein by reference.

E. Share ownership

Information required by this Item is set forth on pages 107 and 146 of the 2008 Annual Report, which are incorporated herein by reference. Members of the Supervisory Board do not own (rights to) shares in NXP or its parent company KASLION. The aggregate (indirect) share ownership of the members of the Board of Management represents less than 1% of the outstanding ordinary shares in the Company.

For a discussion of the stock options and equity rights of NXP's parent company KASLION, see note 33 "Shareholder's equity" and note 34 "Share-based compensation" of "Notes to the Consolidated Financial Statements" on pages 185 through 191 of the 2008 Annual Report, which are incorporated herein by reference.

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Item 7. Major shareholders and related party transactions

A. Major shareholders

All of the Company's issued and outstanding capital stock is held by KASLION Acquisition B.V. KASLION's address is High Tech Campus 60, 5656 AG, Eindhoven, The Netherlands. On September 29, 2006 all of the Company's issued and outstanding shares were acquired by KASLION from Royal Philips Electronics N.V.

The following table sets forth information regarding beneficial ownership of the equity securities of KASLION as of April 7, 2009 by each person who is known by us to beneficially own more than 5% of the equity securities of KASLION.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Unless otherwise indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned. KASLION has only ordinary shares of its capital stock outstanding. Holders of ordinary shares are entitled to vote. Percentage ownership is based on 4,305,030,000 ordinary shares of KASLION outstanding, as of April 7, 2009.

	Ordinary Shares of KASLION Beneficially Owned(1)	
Name and Address of Beneficial Owner	**Number**	**Percent**
KASLION Holding B.V. High Tech Campus 60 5656 AG Eindhoven The Netherlands	3,438,717,000	79.88%
Koninklijke Philips Electronics, N.V. Breitner Center Amstelplein 2 1096 BC Amsterdam, The Netherlands	854,313,000	19.84%
Stichting Management Co-Investment NXP High Tech Campus 60 5656 AG Eindhoven The Netherlands	12,000,000	0.28%

(1) Includes shares held in the beneficial owner's name or jointly with others, or in the name of a bank, nominee or trustee for the beneficial owner's account.

B. Related party transactions

The information required by this Item is provided in note 6 to the Financial Statements ("Related-party transactions") on pages 145 through 147 of the 2008 Annual Report, incorporated herein by reference. As of December 31, 2008 there were no personal loans or guarantees outstanding to members of the Board of Management, the Management Team or the Supervisory Board.

Item 8. Financial information

See Item 18 "Financial Statements".

Item 9. The offer and listing

The Company's Floating Rate Senior Secured Notes due 2013 (U.S. dollar-denominated), Floating Rate Senior Secured Notes due 2013 (euro-denominated); 77/8% Senior Secured Notes due 2014, 85/8% Senior Notes due 2015 and 91/2% Senior Notes due 2015, each of which is co-issued by NXP Funding LLC, the Company's wholly-owned subsidiary, and guaranteed by certain wholly-owned subsidiaries of the Company, are listed on the Alternative Securities Market of the Irish Stock Exchange.

Item 10. Additional information

B. Articles of association

The information required by this section is incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287).

C. Material contracts

The information required by this Item is incorporated by reference to Exhibit 10 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287) to the first three paragraphs on page 11 of the 2008 Annual Report under the heading "Mobile & Personal", which is incorporated by reference herein, and to Exhibit 4(31) hereto.

D. Exchange controls

Cash dividends payable on ordinary shares of NXP B.V. and cash interest payments to holders of debt securities of NXP B.V. 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.

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E. Taxation

United States Taxation

This section describes the material United States federal income tax consequences to a United States holder (as defined below) of owning the notes. It applies to you only if you hold your notes as capital assets for tax purposes. This section does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a bank,
- a life insurance company,
- a tax-exempt organization,
- a person that owns notes that are a hedge or that are hedged against interest rate or currency risks,
- a person liable for the alternative minimum tax,
- a person that owns notes as part of a straddle or conversion transaction for tax purposes,
- a person whose functional currency for tax purposes is not the U.S. dollar.

If you purchase or have purchased notes at a price other than the initial offering price, which for this purpose will equal the first price to the public (not including bond houses, brokers or similar person or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the notes is sold for money, the rules regarding the taxation of amortizable bond premium or market discount may also apply to you. You should consult your tax advisor regarding this possibility.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings and court decisions, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis.

If a partnership holds the notes, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the notes should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the notes.

Please consult your own tax advisor concerning the consequences of owning these notes in your particular circumstances under the Internal Revenue Code and the laws of any other taxing jurisdiction.

You are a United States holder if you are a beneficial owner of a note and you are:

- a citizen or resident of the United States,
- a corporation (or any other entity treated as a corporation for U.S. 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 whose income is subject to United States federal income tax regardless of its source, or
- a trust if (1) a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust or (2) it has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

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Payments of Interest

You will be taxed on any interest on your note, whether payable in U.S. dollars or euro, as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for tax purposes.

Interest paid by the Company on the notes is income from sources outside the United States subject to the rules regarding the foreign tax credit allowable to a United States holder. Under the foreign tax credit rules, interest paid or accrued in taxable years beginning before January 1, 2007, with certain exceptions, will be "passive" or "financial services" income, while interest paid or accrued in taxable years beginning after December 31, 2006 will, depending on your circumstances, be "passive" or "general" income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit. Special sourcing rules may apply to any holder that actually or constructively owns 10% or more of the voting power of shares of the Company and to certain other persons related to such holders.

Cash Basis Taxpayers. If you are a taxpayer that uses the cash receipts and disbursements method of accounting for tax purposes and you receive an interest payment that is denominated in, or determined by reference to, euro, you must recognize income equal to the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether you actually convert the payment into U.S. dollars.

Accrual Basis Taxpayers. If you are a taxpayer that uses an accrual method of accounting for tax purposes, you may determine the amount of income that you recognize with respect to an interest payment denominated in, or determined by reference to, euro by using one of two methods. Under the first method, you will determine the amount of income accrued based on the average exchange rate in effect during the interest accrual period or, with respect to an accrual period that spans two taxable years, that part of the period within the taxable year.

If you elect the second method, you would determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period, or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. Additionally, under this second method, if you receive a payment of interest within five business days of the last day of your accrual period or taxable year, you may instead translate the interest accrued into U.S. dollars at the exchange rate in effect on the day that you actually receive the interest payment. If you elect the second method it will apply to all debt instruments that you hold at the beginning of the first taxable year to which the election applies and to all debt instruments that you subsequently acquire. You may not revoke this election without the consent of the Internal Revenue Service.

When you actually receive an interest payment, including a payment attributable to accrued but unpaid interest upon the sale or retirement of your note, denominated in, or determined by reference to, euro for which you accrued an amount of income, you will recognize ordinary income or loss measured by the difference, if any, between the exchange rate that you used to accrue interest income and the exchange rate in effect on the date of receipt, regardless of whether you actually convert the payment into U.S. dollars.

Purchase, Sale and Retirement of the Notes

Your tax basis in your note will generally be the U.S. dollar cost, as defined below.

If you purchase your note with euro, the U.S. dollar cost of your note will generally be the U.S. dollar value of the purchase price on the date of purchase. However, if you are a cash basis taxpayer, or an accrual basis taxpayer if you so elect, and your note is traded on an established securities market, as defined in the applicable Treasury Regulations, the U.S. dollar cost of your note will be the U.S. dollar value of the purchase price on the settlement date of your purchase.

You will generally recognize gain or loss on the sale or retirement of your note equal to the difference between the amount you realize on the sale or retirement and your tax basis in your note. Such gain or loss will generally be treated as United States source gain or loss. If your note is sold or retired for an amount in euro, the amount you realize will be the U.S. dollar value of such amount on the date the note is disposed of or retired, except that in the case of a note that is traded on an established securities market, as defined in the applicable Treasury regulations, a cash basis taxpayer, or an accrual basis taxpayer that so elects, will determine the amount realized based on the U.S. dollar value of the euro on the settlement date of the sale.

You will recognize capital gain or loss when you sell or retire your note, except to the extent:

- attributable to accrued but unpaid interest, or

- attributable to changes in U.S. dollar/euro exchange rates as described below.

Capital gain of a noncorporate United States holder that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year.

You must treat any portion of the gain or loss that you recognize on the sale or retirement of a note as ordinary income or loss to the extent attributable to changes in U.S. dollar/euro exchange rates. However, you take exchange gain or loss into account only to the extent of the total gain or loss you realize on the transaction.

Exchange of Amounts in Other Than U.S. Dollars

If you receive euro as interest on your note or on the sale or retirement of your note, your tax basis in the euro will equal its U.S. dollar value when the interest is received or at the time of the sale or retirement. If you purchase euro, you generally will have a tax basis equal to the U.S. dollar value of the euro on the date of your purchase. If you sell or dispose of euro, including if you use it to purchase notes or exchange it for U.S. dollars, any gain or loss recognized generally will be ordinary income or loss.

The Netherlands Taxation

The following summary of the Netherlands tax consequences is based on the current tax law and jurisprudence of the Netherlands as applicable to holders of Floating Rate Senior Secured Notes due 2013, Floating Rate Senior Secured Notes due 2013, $7^{7}/_{8}$% Senior Secured Notes due 2014, $8^{5}/_{8}$% Senior Notes due 2015 and / or $9^{1}/_{2}$% Senior Notes due 2015 (together "Note" or "Notes"). For informational purposes we note that a convention has been concluded between the United States of America and the Kingdom of the Netherlands for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes in income. The information given below is neither intended as tax advice nor purports to describe all of the tax considerations that may be relevant to a

noteholder who has a substantial interest (‘aanmerkelijk belang’) in the Issuer. Noteholders are advised to consult their tax counsel with respect to the tax consequences of purchasing, holding and/or selling the Notes.

A) All payments by the Issuer in respect of the Notes can be made without withholding or deduction for or on account of any taxes, duties or charges of any nature whatsoever that are or may be withheld or assessed by the Netherlands Tax Authorities or any political subdivision thereof or therein.

B) A corporate noteholder, that derives income from a Note or that realizes a gain on the disposal, deemed disposal, exchange or redemption of the Note, will not be subject to any Netherlands taxes on such income or capital gains, unless:

(i) the noteholder is, or is deemed to be a resident of the Netherlands; or
(ii) the noteholder has (an interest in) an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands, to which enterprise or part of an enterprise the Note is attributable; or
(iii) the holder has a substantial interest, as defined in Netherlands tax law, in the share capital of the Issuer and the substantial interest does not form part of the business assets of the holder. For the purposes of this clause (iii), a substantial interest is generally present if a corporation directly or indirectly, owns or has certain other rights over, shares constituting five per cent. or more of the Issuer’s aggregate issued share capital or, if the Issuer has several classes of shares, of the issued share capital of any class of shares or, if the Issuer has issued profit certificates, of profit certificates entitling him to at least five per cent of the annual profit or to at least five per cent of the liquidation proceeds.

An individual noteholder, who derives or is deemed to derive income from a Note or who realizes a gain on the disposal, deemed disposal, exchange or redemption of the Note, will not be subject to any Netherlands taxes on such income or capital gains, unless the conditions as mentioned under (i) or (ii) above are met, or unless:

(iv) the individual noteholder has elected to be taxed as a resident of the Netherlands; or
(v) the individual noteholder is entitled to a share in the profits of an enterprise that has its place of management in the Netherlands, other than by way of securities or through an employment contract, and to which enterprise the Note is attributable; or
(vi) such income or gain ‘results from other activities performed in the Netherlands’ (‘*resultaat uit overige werkzaamheden*’) as defined in the Personal Income Tax Act 2001 (‘*Wet Inkomstenbelasting 2001’*). Such definition includes but is not limited to the case where the individual holder of a Note or a Note coupon or any of his spouse, his partner, a person deemed to be his partner, or other persons sharing such person’s house or household, or certain other of such person’s relatives has a substantial interest in the Issuer or any other corporate entity that legally or de facto, directly or indirectly, has the disposition of the proceeds of the Notes. For the purposes of this clause (vi), a substantial interest is generally present if such individual alone or together with his spouse or partner, as the case may be, directly or indirectly, owns, or has certain other rights over, shares constituting five per cent. or more of a company’s aggregate issued share capital or, if a company has several classes of shares, of the issued share capital of any class of shares or, if a company has issued profit certificates, of profit certificates entitling him to at least five per cent. of the annual profit or to at least five per cent of the liquidation proceeds.

C) No gift, estate or inheritance taxes will arise in the Netherlands in respect of the transfer or deemed transfer of a Note by way of a gift by, or on the death of, a noteholder who is not a resident or deemed resident of the Netherlands, provided that:

(i) such Note is not attributable to an enterprise, owned by the donor or the deceased or in which the donor or the deceased has, at the time of the gift, or had, at the time of his death an interest and that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands; and
(ii) such Note is not attributable to an enterprise that has its place of management in the Netherlands in which the donor or deceased is or was entitled to share in the profits, other than by way of securities or through an employment contract; and
(iii) in the case of a gift of such Note by an individual holder who at the date of the gift was neither resident nor deemed to be resident in the Netherlands, such individual holder does not die within 180 days after the date of the gift while being resident or deemed to be resident in the Netherlands.

D) There will be no registration tax, capital tax, transfer tax, customs duty, stamp duty, property transfer tax or any other similar tax or duty due in the Netherlands in respect of or in connection with the issue, transfer and/or delivery of the Notes or the execution, delivery and/or enforcement by legal proceedings of the relevant documents or the performance of Issuer’s obligations thereunder and under the Notes.

E) No value added tax will be due in the Netherlands in respect of payments in consideration of the issue of the Notes, and/or in respect of payments of interest and principal on a Note, and/or in respect of the transfer of a Note, and/or in connection with the documents or in connection with the arrangements contemplated thereby, other than value added tax on the fees attributable to services which are not expressly exempt from value added tax, such as management, administrative, notarial and similar activities, safekeeping of the Notes and the handling and verifying of documents.

Additional remark to A)
We inform you that on June 7, 2005, the last necessary approval for the EU Savings Directive (“Directive”) was granted by the EU’s council of Economic and Finance Ministers. Therefore, the Directive has come into effect on July 1, 2005. The Directive requires the disclosure of information by paying agents in EU member states and certain other countries and territories. These paying agents are required to provide to the Tax Authorities of other EU member states details of payments of interest and other similar income paid to individual beneficial owners resident

in that other EU member state. Austria, Belgium, Luxembourg and certain other countries and territories will instead of disclosure impose a withholding tax on such payments. [As from July 1, 2005 the withholding tax will amount to 15%. On July 1, 2008 and July 1, 2011, the percentages will be increased to 20% respectively 35%.

H. Documents on display

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The Company's SEC filings are also publicly available through the SEC's website at http://www.sec.gov.

Item 11. Quantitative and qualitative disclosure about market risk

The information required by this Item is provided on pages 68 through 85 and in note 36 to the Financial Statements ("Other financial instruments, derivatives and currency risk") on pages 192 through 194 of the 2008 Annual Report, which are incorporated herein by reference.

Item 12. Description of securities other than equity securities

Not applicable.

Part II

Item 13. Defaults, dividend arrearages and delinquencies

None.

Item 14. Material modifications to the rights of security holders and use of proceeds

None.

Item 15. Controls and procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Annual Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Group. Internal control over financial reporting includes maintaining records that, in reasonable detail, accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework has been used as a basis to evaluate the effectiveness of our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) for the Group.

Management has assessed the effectiveness of internal control over financial reporting as of 31 December 2008, and has concluded that such internal control over financial reporting is effective.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.

Item 16A. Audit Committee Financial Expert

The Company does not have an Audit Committee financial expert as defined under the regulations of the US Securities and Exchange Commission serving on its Audit Committee. The information required by this Item is incorporated herein by reference to page 108 of the 2008 Annual Report under the heading "Audit Committee".

Item 16B. Code of Ethics

The Company recognizes that its businesses have responsibilities within the communities in which they operate. The Company has a Financial Code of Ethics which applies to the CEO (the principal executive officer) and CFO (the principal financial and principal accounting officer), and to the heads of the Corporate Control, Corporate Treasury, Corporate Fiscal and Corporate Internal Audit departments of the Company. The Company has published its Financial Code of Ethics within the investor section of its website located at www.nxp.com/investor/governance. No changes have been made to the Code of Ethics since its adoption and no waivers have been granted therefrom to the officers mentioned above in 2008.

Item 16C. Principal Accountant Fees and Services

The Company has instituted a comprehensive auditor independence policy that regulates the relation between the Company and its external auditors and is available on the Company's website (www.nxp.com/investor/governance). The policy includes rules for the pre-approval by the Audit Committee of all services to be provided by the external auditor. The policy also describes the prohibited services that may never be provided. Proposed services may be pre-approved at the beginning of the year by the Audit Committee (annual pre-approval) or may be pre-approved during the year by the Audit Committee in respect of a particular engagement (specific pre-approval). The annual pre-approval is based on a detailed, itemized list of services to be provided, designed to ensure that there is no management discretion in determining whether a service has been approved and to ensure the Audit Committee is informed of each service it is pre-approving. Unless pre-approval with respect to a specific service has been given at the beginning of the year, each proposed service requires specific pre-approval during the year. Any annually pre-approved services where the fee for the engagement is expected to exceed pre-approved cost levels or budgeted amounts will also require specific pre-approval. The term of any annual pre-approval is 12 months from the date of the pre-approval unless the Audit Committee states otherwise. During 2008, there were no services provided to the Company by the external auditors which were not pre-approved by the Audit Committee.

Audit Fees
The information required by this Item is incorporated by reference herein to pages 109 and 110 of the 2008 Annual Report.

Audit-Related Fees
The information required by this Item is incorporated by reference herein to pages 109 and 110 of the 2008 Annual Report.

Tax Fees
The information required by this Item is incorporated by reference herein to pages 109 and 110 of the 2008 Annual Report.

All Other Fees
The information required by this Item is incorporated by reference herein to pages 109 and 110 of the 2008 Annual Report.

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

Not applicable.

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

Not applicable.

Part III

Item 17. Financial statements

NXP is furnishing the Financial Statements pursuant to the instructions of Item 18 of Form 20-F.

Item 18. Financial statements

The following portions of the 2008 Annual Report as set forth on pages 112 through 205 are incorporated herein by reference:

"Combined and Consolidated statements of operations of the NXP Semiconductors Group"
"Consolidated balance sheets of the NXP Semiconductors Group"
"Combined and Consolidated statements of cash flows of the NXP Semiconductors Group"
"Combined and Consolidated statements of changes in business' and shareholder's equity of the NXP Semiconductors Group"
"Notes to the combined and consolidated financial statements of the NXP Semiconductors Group"
"Auditors' Reports"

Item 19. Exhibits

Index of exhibits

Exhibit 1	English translation of the Articles of Association of the Company (incorporated by reference to Exhibit 3.2 of the Company's Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 2 (b) (1)	Senior Secured Indenture, dated October 12, 2006, among NXP B.V., NXP Funding LLC, Guarantors named therein, Deutsche Bank Trust Company Americas as Trustee, Morgan Stanley Senior Funding Inc. as Global Collateral Agent and Mizuho Corporate Bank Ltd. As Taiwan Collateral Agent (incorporated by reference to Exhibit 4.1 to Registration Statement on Form F-4 of NXP B.V. (File No. 333-142287))
Exhibit 2 (b) (2)	Senior Unsecured Indenture, dated October 12, 2006, among NXP B.V., NXP Funding LLC, Guarantors named therein and Deutsche Bank Trust Company Americas as Trustee (incorporated by reference to Exhibit 4.2 to Registration Statement on Form F-4 of NXP B.V. (File No. 333-142287))
Exhibit 2 (b) (3)	Collateral Agency Agreement, dated September 29, 2006 among KASLION Acquisition B.V., NXP B.V., Guarantors named therein, Secured Parties as defined therein and from time to time parties thereto, Morgan Stanley Senior Funding Inc. as Global Collateral

	Agent and Mizuho Corporate Bank Ltd. As Taiwan Collateral Agent (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 2 (b) (4)	Registration Rights Agreement, dated October 12, 2006 among NXP B.V., NXP Funding LLC, Guarantors named therein and Morgan Stanley & Co. Incorporated, Deutsche Bank Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated as Placement Agents (incorporated by reference to Exhibit 4.4 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 2 (b) (5)	Indenture, dated April 2, 2009, among NXP B.V., NXP Funding LLC, the Guarantors named therein, Law Debenture Trust Company of New York, as trustee, Morgan Stanley Senior Funding Inc., as Global Collateral Agent and Mizuho Corporate Bank Ltd., as Taiwan Collateral Agent*
Exhibit 4 (1)	Secured Revolving Credit Facility, dated September 29, 2006 among KASLION Acquisition B.V., NXP B.V. and NXP Funding LLC as Borrowers, the Lenders as defined therein and from time to time parties thereto, Morgan Stanley Senior Funding Inc. as Administrative Agent and Global Collateral Agent, Morgan Stanley Bank International Limited, Deutsche Bank AG, London Branch and Merrill Lynch, Pierce, Fenner & Smith Incorporated as Joint Lead Arrangers and Joint Bookrunners, Deutsche Bank AG, London Branch, as Syndication Agent and Merrill Lynch Capital Corporation as Documentation Agent ((incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (2)	Shareholders agreement, dated September 29, 2006 among Koninklijke Philips Electronics N.V., NXP B.V., KASLION Holding B.V, KASLION Acquisition B.V. and Stichting Management Co-Investment NXP (incorporated by reference to Exhibit 10.2 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (3)	Lease agreement, dated September 26, 2002, among Philips Electronics Nederland B.V. and Philips Semiconductors B.V. for the real property at the Prof. Holstlaan in Eindhoven, The Netherlands, building "WDN" (incorporated by reference to Exhibit 10.3 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (4)	Lease agreement, dated April 4, 2001, among Spronsen Vastgoed B.V. and Philips Semiconductors for the real property at the Bijsterhuizen 11-36, Nijmegen, The Netherlands (incorporated by reference to Exhibit 10.4 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (5)	Lease agreement, dated March 18, 2004, among Cortona Estates B.V. and Philips Semiconductors B.V. for the real property at Oostkanaaldijk 110, Nijmegen, The Netherlands (incorporated by reference to Exhibit 10.5 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))

Exhibit 4 (6)	Lease agreement, dated April 7, 2005 among Philips Electronics Nederland B.V. and Philips Semiconductors for 60 workplaces and associated facility management on the High Tech Campus Eindhoven (HTCE), Eindhoven, The Netherlands (incorporated by reference to Exhibit 10.7 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (7)	Lease agreement, dated September 26, 2002, among Philips Electronics Nederland B.V. and Philips Semiconductors B.V. for the real property at the Prof. Holstlaan in Eindhoven, The Netherlands, building "WDE" (incorporated by reference to Exhibit 10.8 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (8)	Lease agreement, dated June 26, 2006, among the Freie und Hansestadt Hamburg and the Philips Semiconductors GmbH for the real property at Hamburg-Lokstedt, Flurstück 4014, der Gemarkung Lokstedt, Hamburg, Germany (incorporated by reference to Exhibit 10.9 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (9)	Lease agreement, dated September 8, 2006, among Philips GmbH and Philips Semiconductors Germany GmbH for the real property and associated facility management at the Philips Tower Hamburg, Lübeckertordamm 5, Hamburg, Germany (incorporated by reference to Exhibit 10.10 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (10)	Lease agreement, dated September 26, 2002, among Philips Electronics Nederland B.V. and Philips Semiconductors B.V. for the real property at the Prof. Holstlaan in Eindhoven, The Netherlands, building "WDO" (incorporated by reference to Exhibit 10.11 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (11)	Contract for Custom-Built Lease Factory, dated March 29, 2002, among China-Singapore Suzhou Industrial Park Development Co. Ltd. and Philips Semiconductors (Suzhou) Co., Ltd. for the real property at the North of West Suhong Road within the Suzhou Industrial Park, Jiangsu Province, China (incorporated by reference to Exhibit 10.12 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (12)	Lease agreement, dated September 20, 2006, among Suzhou High and New Technology Innovation Service Center. and Philips Semiconductors (Shanghai) Co., Ltd. for the real property at Zhuyuan Road within the Suzhou Industrial Park, Jiangsu Province, China (incorporated by reference to Exhibit 10.13 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (13)	Lease agreement, dated November 25, 2003, among Jilin Sino-Microelectronics, Co. and Jilin Philips Seminconductors for the real property, premises and related facilities at Shenzhen Street, Jilin Province, China (incorporated by reference to Exhibit 10.14 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (14)	Lease agreement, dated October 28, 2004, among Yupengnian Management (Shenzhen) Co., Ltd. and Philips (China) Investment Co., Ltd. Shenzhen branch for the real property of the entire 35th floor and suites 3806-3809 of Building 35 at Pengnian Square on Jiabin

Road, Luohu District, Shenzhen City, Guangdong Province, China (incorporated by reference to Exhibit 10.16 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))

Exhibit 4 (15)	Lease agreement, dated September 26, 2003, among Venture Introducing Company of Huangjiang Township of Dongwan City and Philips Semiconductors (Guandong) Co. Ltd. for the real property of Premises Nos. 1 and 2, Residence Building Nos. 1 and 2 and the underlying land at North District of the Tiankui Industrial Park, Huangjiang Township, Guangdong Province, China (incorporated by reference to Exhibit 10.16 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (16)	Lease agreement, dated May 12, 2000, among Export Development Park Management Office of Ministry of Economy and Philips Building Electronics Industries (Taiwan) Ltd. for the real property and premises inside the Nantzu Industrial District, Kaohsiung, Taiwan (incorporated by reference to Exhibit 10.17 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (17)	Lease agreement, dated April 1, 2004, among Kaohsiung Fukuo Garment Co. and Philips Building Electronics Industries (Taiwan) Ltd. for the real property and premises at the South Inner Circle Road, Nantzu District, Kaohsiung, Taiwan (incorporated by reference to Exhibit 10.18 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (18)	Land Lease agreement, dated June 10, 2000, among Manufacturing and Export Zone Administrative Department, Ministry of the Economy and Philips Building Electronics Industries (Taiwan) Ltd. for the real property inside the Nantzu Industrial District, Kaohsiung, Taiwan (incorporated by reference to Exhibit 10.19 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (19)	Land Lease agreement, dated October 12, 1998, among Manufacturing and Export Zone Administrative Department, Ministry of the Economy and Philips Building Electronics Industries (Taiwan) Ltd. for the real property inside the Nantzu Industrial District, Kaohsiung, Taiwan (incorporated by reference to Exhibit 10.20 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (20)	Land Lease agreement, August 1, 2004, among Manufacturing and Export Zone Administrative Department, Ministry of the Economy and Philips Building Electronics Industries (Taiwan) Ltd. for the real property inside the Nantzu Industrial District, Kaohsiung, Taiwan (incorporated by reference to Exhibit 10.21 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (21)	Land Lease agreement, dated August 16, 2005, among Export Zone Administrative Department, Ministry of the Economy and Philips Building Electronics Industries (Taiwan) Ltd. for the real property inside the Nantzu Industrial District, Kaohsiung, Taiwan (incorporated by reference to Exhibit 10.22 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (22)	Land Lease agreement, dated July 8, 2004, among Manufacturing and Export Zone Administrative Department, Ministry of the Economy and Philips Building Electronics Industries (Taiwan) Ltd. for the real property inside the Nantzu Industrial District, Kaohsiung, Taiwan (incorporated by reference to Exhibit 10.23 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (23)	Land Lease agreement, dated July, 8, 2004, among Manufacturing and Export Zone Administrative Department, Ministry of the Economy and Philips Building Electronics Industries (Taiwan) Ltd. for the real property inside the Nantzu Industrial District, Kaohsiung, Taiwan (incorporated by reference to Exhibit 10.24 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (24)	Land Lease agreement, dated August 16, 2005, among Manufacturing and Export Zone Administrative Department, Ministry of the Economy and Philips Building Electronics Industries (Taiwan) Ltd. for the real property inside the Nantzu Industrial District, Kaohsiung, Taiwan (incorporated by reference to Exhibit 10.25 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))

Exhibit 4 (25)	Land Lease agreement, dated January 10, 2005, among Manufacturing and Export Zone Administrative Department, Ministry of the Economy and Philips Building Electronics Industries (Taiwan) Ltd. for the real property inside the Nantzu Industrial District, Kaohsiung, Taiwan (incorporated by reference to Exhibit 10.26 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (26)	Land Lease agreement, dated December 20, 2005, among Manufacturing and Export Zone Administrative Department, Ministry of the Economy and Philips Building Electronics Industries (Taiwan) Ltd. for the real property inside the Nantzu Industrial District, Kaohsiung, Taiwan (incorporated by reference to Exhibit 10.27 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (27)	Land Lease agreement, dated January 10, 2005, among Manufacturing and Export Zone Administrative Department, Ministry of the Economy and Philips Building Electronics Industries (Taiwan) Ltd. for the real property inside the Nantzu Industrial District, Kaohsiung, Taiwan (incorporated by reference to Exhibit 10.28 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))

Exhibit 4 (28)	Land Lease agreement, dated May 20, 1999, among Manufacturing and Export Zone Administrative Department, Ministry of the Economy and Philips Building Electronics Industries (Taiwan) Ltd. for the real property inside the Nantzu Industrial District, Kaohsiung, Taiwan (incorporated by reference to Exhibit 10.29 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (29)	Land Lease agreement, dated November 1, 2005, among Manufacturing and Export Zone Administrative Department, Ministry of the Economy and Philips Building Electronics Industries (Taiwan) Ltd. for the real property inside the Nantzu Industrial District, Kaohsiung, Taiwan (incorporated by reference to Exhibit 10.30 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (30)	Lease agreement, dated September 5, 2006, among Thai Summit Tower Co., Ltd. and Philips Semi-conductor SMO (Thailand) Co., Ltd. for the real property at No. 1768 on New Phetburi Road, Khwaeng Bangkapi, Khet Houei Khwuang, Bangkok, Thailand (Thai Summit Tower) (incorporated by reference to Exhibit 10.31 of the Company's Registration Statement on Form F-4, filed on April 23, 2007 (File No. 333-142287))
Exhibit 4 (31)	Sale and Contribution agreement, dated April 10, 2008 among STMicroelectronics N.V. and NXP B.V.
Exhibit 8	List of Significant Subsidiaries.
Exhibit 12 (a)	Certification of R. Clemmer filed pursuant to 17 CFR 240. 13a-14(a).
Exhibit 12 (b)	Certification of K. Sundström filed pursuant to 17 CFR 240. 13a-14(a).
Exhibit 13 (a)	Certification of R. Clemmer furnished pursuant to 17 CFR 240. 13a-14(b).
Exhibit 13 (b)	Certification of K. Sundström furnished pursuant to 17 CFR 240. 13a-14(b).
Exhibit 15 (b)	The 2008 Annual Report of NXP B.V. is furnished to the Securities and Exchange Commission for information only and is not filed except for such specific portions that are expressly incorporated by reference in this Report on Form 20-F.

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* Pursuant to Exhibit Instruction 2(b)(i) of Form 20-F, this document has been omitted as an exhibit hereto. The registrant agrees to furnish a copy of this document to the Securities and Exchange Commission upon request.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

NXP B.V.
(Registrant)

/s/ Rick Clemmer	/s/ Karl Sundström
Rick Clemmer (President, Chairman of the Board of Management and the Management Team)	Karl Sundström (Executive Vice-President and Chief Financial Officer)

Date: April 7, 2009

DE BRAUW
BLACKSTONE
WESTBROEK

Sale and Contribution Agreement

relating to

a joint venture in the field of
semiconductors for cellular communication

between

STMicroelectronics N.V.

and

NXP B.V.

dated 10 April 2008

P.O. Box 75084
1070 AB Amsterdam
The Netherlands

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Schedules

Schedule 1 Definitions

Sale and Contribution Agreement

THIS AGREEMENT IS MADE BETWEEN:

(1) **STMicroelectronics N.V.**, a public company with limited liability incorporated under the laws of the Netherlands, with corporate seat in Amsterdam, the Netherlands, and address at WTC Schiphol Airport, Schiphol Boulevard 265, 1118 BH Schiphol Airport, Amsterdam, the Netherlands, ("**ST**");

and

(2) **NXP B.V.**, a private company with limited liability incorporated under the laws of the Netherlands, with corporate seat in Eindhoven, the Netherlands, and address at High Tech Campus 60, 5656 AG Eindhoven, the Netherlands, ("**NXP**").

WHEREAS:

(A) ST and NXP wish to establish a joint venture (the "**Joint Venture**") in the field of semiconductors for cellular communication, being (i) in the case of ST those parts of its Mobile, Multimedia and Communications Groups, relating to the Baseband, RF, Power Management Unit, Multimedia, Bluetooth, FM Radio, WiFi and UWB, (as further specified in Schedule 2, "**ST's Relevant Businesses**"); and, (ii) in the case of NXP, those parts of its Mobile and Personal Business Unit relating to the businesses Baseband, RF, Power Management Unit, Multimedia,

Bluetooth, FM Radio, GPS, USB and UWB, (as further specified in Schedule 3 "**NXP's Relevant Businesses**" and together with ST's Relevant Businesses, the "**Business**") on and subject to the terms and conditions set out in this Agreement, (the "**Transaction**");

(B) The Parties signed a confidentiality agreement on 3 October 2007, regarding the disclosure to each other and each other's representatives and advisors, of information in connection with the Transaction (the "**Confidentiality Agreement**"), as well as a non-binding Memorandum of Understanding, dated 22 January 2008 ("**MoU**") setting forth certain principal terms and the process of due diligence and negotiation of transaction documents;

(C) Pursuant to the MoU, the Parties have given each other and their respective representatives and advisors access to each other's Data Room, as well as the opportunity to attend a management presentation, to make joint customer visits and to request such additional information as deemed necessary;

(D) Pursuant to the MoU, ST and NXP have negotiated the main terms and conditions of certain of the transaction documents under which the Joint Venture is intended to be established and the relationship between the shareholders in the Joint Venture is intended to be regulated (the "**Transaction Documents**");

(E) The relevant corporate approvals required prior to the signing of the Transaction Documents have been obtained by each Party;

(F) The Parties wish to set out in this Sale and Contribution Agreement (the "**Agreement**"), which forms part of the Transaction Documents, the terms and conditions for the establishment of the Joint Venture.

IT IS AGREED AS FOLLOWS:

1 INTERPRETATION

In this Agreement, unless the context otherwise requires, the provisions in this Clause 1 apply throughout:

1.1 Definitions

Capitalised words, including those used in the preamble of this Agreement, shall have the meaning as defined in Schedule 1.

1.2 References to persons and companies

References to:

1.2.1 a person include any individual, company, partnership or unincorporated association (whether or not having separate legal personality); and

1.2.2 a company include any company, corporation or any body corporate, wherever incorporated.

1.3 Headings and references to Clauses, Schedules, Parts and Paragraphs

1.3.1 Headings have been inserted for convenience of reference only and do not affect the interpretation of any of the provisions of this Agreement.

1.3.2 A reference in this Agreement to a Clause or Schedule is to the relevant Clause of or Schedule to this Agreement; to a Part is to the relevant Part of the relevant Schedule; and to a Paragraph is to the relevant Paragraph of (the relevant Part of) the relevant Schedule.

1.4 ST / NXP / ST's Relevant Businesses / NXP's Relevant Businesses

1.4.1 Any reference in this Agreement to the term "**ST shall**", shall be interpreted as meaning that ST shall and/or shall procure that the relevant other members of the ST Group shall perform the relevant obligation.

1.4.2 Any reference in this Agreement to a liability or obligation of ST's Relevant Businesses shall be deemed to include an obligation on the part of ST to procure that the relevant liability is discharged or obligation is performed, on and subject to the terms and conditions set out in this Agreement.

1.4.3 Any reference in this Agreement to the term "**NXP shall**", shall be interpreted as meaning that NXP shall and/or shall procure that the relevant other members of the NXP Group shall

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perform the relevant obligation.

1.4.4 Any reference in this Agreement to a liability or obligation of NXP's Relevant Businesses shall be deemed to include an obligation on the part of NXP to procure that the relevant liability is discharged or obligation is performed, on and subject to the terms and conditions set out in this Agreement.

1.5 Other references

1.5.1 Whenever used in this Agreement, the words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation".

1.5.2 Any reference in this Agreement to any gender shall include all genders, and words importing the singular shall include the plural and vice versa.

1.6 Information

References to books, records or other information include books, records or other information in any form including paper, electronically stored data, magnetic media, film and microfilm.

1.7 Legal terms

In respect of any jurisdiction other than the Netherlands, a reference to any Netherlands legal term shall be construed as a reference to the term or concept which most nearly corresponds to it in that jurisdiction.

2 TRANSACTION STRUCTURE

Subject to satisfaction (or waiver under Clause 3.4) of the Closing Conditions, the Parties shall take the following actions to effect the Transaction:

2.1 ST contribution

2.1.1 ST shall contribute the ST Relevant Businesses as follows:

(a) ST shall establish a new company as a wholly owned subsidiary of ST (as further defined in Schedule 10, "**Dutchco**"). ST shall make the following contributions to Dutchco:

(i) certain of ST's Relevant Businesses (as further specified in Schedule 10); and

(ii) USD 1,520,000,000 (one billion five hundred and twenty million US dollar) together with (ii) an amount in EURO equal to 80% of the net present value of the R&D Tax Credits at Closing, taking into account a 10% discount rate, (being an agreed amount of EUR19,672,277 (nineteen million six hundred and seventy-two thousand two hundred and seventy-seven euro)), in cash, to fund the cash payment to be made by the Company pursuant to Clause 2.3.1(b) (the "**Cash Payment**");

(b) ST shall establish a new company as a wholly owned subsidiary of ST (as further defined in Schedule 10, "**Swiss Opco**") and ST shall subscribe for newly issued shares in the capital of Swiss Opco. The payment obligation for the shares of Swiss

Opco shall be satisfied by way of a contribution to Swiss Opco of that part of ST's Relevant Businesses that is carried out by the Geneva branch of ST (as further defined in Schedule 10);

(c) The Parties shall establish a new company (as further defined in Schedule 10, the "**Company**") and ST shall subscribe for newly issued shares in the capital of the Company (the "**ST JV Shares**"). The payment obligation for the ST JV Shares shall be satisfied by way of a contribution to the Company of:

(i) certain parts of ST's Relevant Businesses (as further specified in Schedule 10);

(ii) all shares of Dutchco; and

(iii) all shares of Swiss Opco; and

2.1.2 ST shall make an interest-free convertible loan to Dutchco in an amount of USD 350,000,000 (three hundred and fifty million US dollar), to fund working capital requirements and allow for certain cash flexibility for the Group (the "**Working Capital Loan**"), provided that ST shall convert the Working Capital Loan to equity (as an informal capital contribution and thus against no issuance of shares) prior to the earlier of (a) the occurrence of the filing for bankruptcy, application for a moratorium on payments, or liquidation of the Company (or any material Affiliate of the Company) and (b) if NXP is a shareholder of the Company upon the expiry of 12 (twelve) months from the Closing Date;

the foregoing in accordance with ST's Disentanglement Plan and Schedule 10.

2.2 NXP contribution

NXP shall establish two new companies (as further defined in Schedule 10, "**WH1**" and "**WH2**") and:

2.2.1 to WH1 it shall transfer its Dutch Relevant Businesses and the NXP Relevant IP related thereto, excluding legal title to any NXP Relevant Registered IP; and

2.2.2 to WH2 it shall transfer its non-Dutch Relevant Businesses and the NXP Relevant IP related thereto, excluding legal title to any NXP Relevant Registered IP and excluding certain other parts of NXP's Relevant Business;

the foregoing in accordance with NXP's Disentanglement Plan and Schedule 10.

2.3 Transfer by NXP to the Joint Venture

2.3.1 At Closing, NXP shall transfer the following:

(a) to the Company, all the shares of WH1 in return for Shares of the Company representing a shareholding of 20% (twenty per cent) in the Company; and

(b) to Dutchco, all the shares of WH2 in return for the Cash Payment; and

2.3.2 after Closing, but on the Closing Date, NXP shall transfer to Swiss Opco legal title to the NXP Relevant Registered IP and those certain other parts of NXP's Relevant Businesses as referred to in Clause 2.2.2;

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the foregoing in accordance with NXP's Disentanglement Plan and Schedule 10.

2.4 No Transfer of Liabilities other than Assumed Liabilities

2.4.1 ST undertakes to the Company and NXP to procure that ST's Relevant Businesses are contributed to the Company or the relevant Group Company free of Liabilities, with the exception only of the ST Assumed Liabilities which shall be contributed together with ST's Relevant Businesses, subject to Clause 2.4.3 and Clause 6.5 through Clause 6.10 to the extent (i) they are ST Assumed Financial Liabilities that must transfer along with the Relevant Businesses following mandatory law, such as certain of the Unfunded Defined Benefit Liabilities, or because they are part of an ST Entity provided that in such case these Liabilities cannot be redeemed or reimbursed prior to Closing, or (ii) they are deemed ST Assumed Business Liabilities in accordance with Paragraph 4.2 of Schedule 2.

2.4.2 NXP undertakes to the Company and ST to procure that NXP's Relevant Businesses are contributed to the Company or the relevant Group Company free of Liabilities, with the exception only of the NXP Assumed Liabilities which shall be contributed together with NXP's Relevant Businesses, subject to Clause 2.4.3 and Clause 6.5 through Clause 6.10, to the extent (i) they are NXP Assumed Financial Liabilities that must transfer along with the Relevant Businesses following mandatory law, such as certain of the Unfunded Defined Benefit Liabilities, or because they are part of an NXP Entity provided that in such case these Liabilities cannot be redeemed or reimbursed prior to Closing, or (ii) they are deemed NXP Assumed Business Liabilities in accordance with Paragraph 3.2 of Schedule 3.

2.4.3 Each Party undertakes, in respect of each Assumed Financial Liability relating to its Relevant Businesses, to fully fund in Cash any such Assumed Financial Liability in accordance with the Draft Assumed Financial Liability Statement referred to in Clause 4.10 prior to contributing the Relevant Businesses at Closing. Notwithstanding the foregoing sentence, each Party shall not fund in Cash the following Financial Liabilities: (a) those inter-company debts between the relevant Party's Contributed Company listed for NXP in or used by ST for the purposes of disentanglement in accordance with Schedule 10 of the ST Disentanglement Plan [*note: awaiting clarification from ST/A&O regarding the cross reference to Schedule 10 of the Disentanglement Plan*], and (b) the ST VAT Claims or the NXP VAT Claims. In relation to the ST VAT Claims and NXP VAT Claims, it is assumed that these ST VAT Claims and NXP VAT Claims will be repaid by the relevant Affiliates of the Company if, when and to the extent this Affiliate obtains a refund for these VAT Claims. If and to the extent this refund is not made, them each of ST and NXP undertakes to compensate the relevant Affiliate for the amount of the ST VAT Claim and the NXP VAT Claim respectively. Each Party, to the extent it is able to do so through its nominated Directors (under, and as defined in, the Shareholders Agreement), shall ensure that the Company or its relevant Affiliate make its best efforts to execute the VAT refund process in an expeditious manner.

2.4.4 Subject to Clause 2.4.3 and Clauses 6.5 through 6.10 and the R&Ws, as of the Effective Time, the Company or relevant other Group Company shall assume, pay when due, satisfy, discharge, perform and fulfil, to the extent relating to the Relevant Businesses, all

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Assumed Liabilities.

2.4.5 The Retained Liabilities, identified for NXP in Paragraph 3.4 of Schedule 3 and for ST in Paragraph 3.4 of Schedule 2 shall remain for the account of the relevant member of the NXP Group and ST Group after Closing and be subject to Clause 6.10 and the relevant provisions of Schedule 2 and Schedule 3.

2.5 Adjustment to consideration

If any payment is made by NXP to ST, or from ST to NXP, in respect of any claim (i) for any breach of this Agreement (including, for the avoidance of doubt, a breach of the R&Ws), (ii) pursuant to an indemnity under this Agreement or (iii) for acquiring the T3G Shares as set forth in Clause 4.12, the amount of such payment shall deemed to be an adjustment of the consideration in Shares to be paid by the Company to NXP or ST, as the case may be, for the transfer of their respective Relevant Businesses.

3 CLOSING CONDITIONS

3.1 Conditions

Closing is conditional upon satisfaction (or waiver under Clause 3.4) of the following Closing Conditions:

3.1.1 the Closing Anti-trust Approvals shall have been obtained or, alternatively, any waiting periods under the laws applicable to such approvals shall have expired or been terminated;

3.1.2 the completion of NXP's procedure in respect of the Transaction in compliance with section 25 of the Dutch Works Council Act ("**WCA**"), such completion to include:

(a) the receipt by NXP from its Dutch works council ("**NXP's Works Council**") of:

(i) an unconditional positive advice; or

(ii) an advice with conditions acceptable to each of the Parties and if required in accordance with Clause 3.3.3; or

(b) a resolution of NXP's board in respect of the Transaction that deviates from NXP's Works Council's advice and:

(i) against which NXP's Works Council has not timely lodged an appeal with the Enterprise Chamber of the Amsterdam Court of Appeal (*'Ondernemingskamer'*); or

(ii) against which NXP's Works Council has timely lodged an appeal with the Enterprise Chamber of the Amsterdam Court of Appeal which appeal is subsequently dismissed by such court and if required in accordance with Clauses 3.3.5 and 3.3.6.

3.1.3 the completion of the information and consultation procedure of ST's French works council(s) ("**ST's Works Council(s)**"), with respect to the Transaction, in compliance with French law, including ST's Works Council's request (if any) for assistance by an expert;

3.1.4 there not being a breach by NXP of its obligations under Clause 4 that would be reasonably likely to have a Material Adverse Effect;

3.1.5 there not being a breach by ST of its obligations under Clause 4 that would be reasonably likely to have a Material Adverse Effect;

3.1.6 the R&Ws given by each of ST and NXP shall be true and accurate, in each case as at the time set for Closing under Clause 5.2 (or, if applicable, Clause 5.4), as though made as at such time (unless any such R&W is made only as of a specific date, in which event such R&W shall be true and accurate as of such specified date), except where the breach of any R&W has not had and is not reasonably likely to have a Material Adverse Effect;

3.1.7 no Governmental Authority of competent jurisdiction shall have issued or granted any order (whether temporary, preliminary or permanent) or otherwise taken any affirmative action that has the effect of making the consummation of the Transaction illegal in any jurisdiction in which the Business or the Parties have any material business or operations or which has the effect of prohibiting or otherwise preventing the consummation of the Transaction; and

3.1.8 each of the Ancillary Agreements being in Agreed Terms, save to the extent that any terms not thus agreed (i) have already been included in the relevant Term Sheet or (ii) would not, by their absence, be reasonably expected to have a material financially adverse effect on ST or NXP, as the case may be, or materially hinder the Relevant Businesses from continuing their business in the Company (or as Affiliate(s) of the Company) as of Closing. Any such material terms which have not been already included in the relevant Term Sheet shall be negotiated between the Parties in good faith, in order to come to full Agreed Terms prior to Closing in accordance with Clause 4.2.

3.2 Responsibility for satisfaction

3.2.1 To the maximum extent permitted under applicable Law, each of the Parties shall take all such actions within its power as are necessary to ensure satisfaction of and compliance with the Closing Conditions for which it is responsible, being Clauses 3.1.1, 3.1.3, 3.1.5, 3.1.7 (to the extent relating to ST's Relevant Businesses) and 3.1.8 for ST and Clauses 3.1.1, 3.1.2, 3.1.4, 3.1.7 (to the extent relating to NXP's Relevant Businesses) and 3.1.8 for NXP.

3.2.2 Without prejudice to the generality of Clause 3.2.1, with respect to the Closing Conditions set out in Clause 3.1.1 (Closing Anti-trust Approvals) and 3.1.2 (NXP's Works Council), each of the Parties shall fulfil its obligations and exercise its rights in good faith in relation to a Closing Condition. Although Parties acknowledge that each Party may protect its legitimate interests in relation to such Closing Condition while exercising such rights in good faith no Party shall act in a manner which would unduly frustrate the satisfaction thereof.

3.2.3 Without prejudice to the generality of Clauses 3.2.1 and 3.2.2, ST and NXP shall, either jointly or in close consultation with each other:

(a) as soon as practicable, and in any event not later than fifteen (15) Business Days after the Signing Date, prepare and file with the competent Governmental Authorities

the notices and applications necessary to satisfy the Closing Condition set out in Clause 3.1.1;

(b) supply as promptly as practicable any additional information and documentary material that may be requested by any competent Governmental Authority in connection with the Closing Condition set out in Clause 3.1.1 and otherwise cooperate with and provide all necessary information and assistance reasonably required by any Governmental Authority in connection with the Closing Condition set out in Clause 3.1.1; and

(c) use their best efforts to cause the expiration or termination of any applicable waiting period under any applicable Law and the fulfilment (whether explicit or implicit) of the Closing Condition set out in Clause 3.1.1 as soon as practicable, including by agreeing to (i) take any action that may be required in order to obtain an unconditional clearance (including by agreeing to perform any disposition of assets or businesses that may be required by any relevant Governmental Authority) or (ii) duly and promptly complying with any condition that any relevant Governmental Authority may impose to clear this Agreement and the Transaction, provided that the foregoing provisions of this Clause 3.2.3(c) shall not require ST or NXP to agree to or take any action or comply with any condition which would, indirectly or in the aggregate, be material to ST or NXP, as the case may be, in the context of this Transaction.

3.2.4 In the event that any administrative or judicial action or proceeding is instituted (or threatened to be instituted) by a Governmental Authority or any other person challenging (any part of) the Transaction, each Party shall co-operate in all respects with the other Party and use its reasonable best efforts to defend, contest and resist any such action or proceeding and to have vacated, lifted, reversed or overturned any order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts the consummation of the Transaction.

3.3 Works Councils

3.3.1 ST shall use its reasonable best efforts to:

(a) take any such reasonable action as is required to complete the information and consultation procedure with ST's Works Council and obtain a written opinion from ST's Works Council; and

(b) promptly co-operate with and (as promptly as practicable) provide all necessary information and assistance reasonably required by ST's Works Council.

3.3.2 NXP shall use its reasonable best efforts to:

(a) take any such reasonable action as is required to obtain an unconditional positive advice or an advice with conditions from NXP's Works Council which are accepted by each of the Parties in accordance with Clause 3.3.3, subject to Clauses 3.3.5 and 3.3.6 below; and

(b) (promptly) co-operate with and (as promptly as practicable) provide all necessary

information and assistance reasonably required by NXP's Works Council.

3.3.3 Each Party shall provide the other Party with the necessary information concerning assets and Employees within ten (10) Business Days following the date of this Agreement in order to enable such Party to comply with its obligations under Clauses 3.3.1 and 3.3.2.

3.3.4 If any conditions or arrangements in relation to the Group are introduced by NXP's Works Council in its advice as referred to in Clause 3.3.2, these conditions shall not be accepted by NXP, unless with the prior written consent of ST. Once approval for these conditions, that might include arrangements that are binding upon the Company and /or the Group Companies, have been given by each of ST and NXP, the Parties shall negotiate on the changes (if any) to the Transaction Documents which are appropriate under the circumstances, bearing in mind the intent and purpose of the terms and conditions set forth in the Transaction Documents. The Parties agree and acknowledge that such negotiations should take place in good faith and as far as reasonably possible should be consistent with the understandings of the parties reflected in the Transaction Documents.

3.3.5 If, after Clauses 3.3.2(a), 3.3.2(b) and 3.3.3 have been complied with, NXP's Works Council still has not rendered an unconditional positive advice or an advice with conditions acceptable to each of the Parties, then NXP shall, unless otherwise agreed by ST, after receipt of the advice, inform NXP's Works Council in writing of:

(i) the resolution of the board of NXP in respect of the Transaction;

and if and insofar as such resolution deviates from the advice:

(ii) the grounds and motives for such deviation.

3.3.6 If Clause 3.3.3 applies, Closing shall be postponed for a period equal to one calendar month after the day on which NXP informed NXP's Works Council in writing of its board resolution as set out in Clause 3.3.5, provided that, if NXP's Works Council has appealed to the Enterprise Chamber of the Amsterdam Court of Appeal (*Ondernemingskamer*) in respect of such board resolution, Closing shall be postponed until three (3) Business Days after NXP has received a court order from the Enterprise Chamber of the Amsterdam Court of Appeal dismissing such appeal and allowing the Parties to effect the Closing.

3.3.7 For the purpose of this Clause 3.3 and Clause 3.1.2, the use of the defined term "NXP" shall include the Dutch Affiliate for which NXP's Works Council has been established.

3.4 (Non-)Satisfaction/Waiver

3.4.1 Within two (2) Business Days of becoming aware of the same, ST shall give notice to NXP or vice versa, as applicable, of (i) the satisfaction of the Closing Conditions set out in Clause 3.1 for which it is responsible, as set out in Clause 3.2.1, or of (ii) any fact or circumstance which could result in a Closing Condition not being satisfied.

3.4.2 The Closing Conditions set out in Clauses 3.1.1, 3.1.2, and 3.1.8 may only be waived by written agreement between ST and NXP.

3.4.3 The Closing Conditions set out in Clauses 3.1.3, 3.1.4, and 3.1.6 (in relation to a breach by NXP of any R&Ws), may only be waived by ST.

3.4.4 The Closing Condition set out in Clauses 3.1.5, and 3.1.6 (in relation to a breach by ST of any R&Ws), may only be waived by NXP.

3.5 Long stop date

If the Closing Conditions are not satisfied (or waived under Clause 3.4) on or before the date falling twelve (12) months after the date hereof NXP or ST may, in its sole discretion, terminate this Agreement (other than Clauses 1, 10 and 11.2 through 11.15) by notice to the other, and no Party shall have any claim against the other save for any claim arising from breach of any obligation contained in Clause 3.1.8, 3.3 or 3.4 provided that no such termination notice may be given by a Party which is in default of its obligations under this Agreement.

4 PRE-CLOSING COVENANTS

4.1 Other Transaction Documents

Subject to Clause 4.2, ST and NXP shall negotiate in good faith definitive terms for each of the following Transaction Documents:

4.1.1 business sale, and share sale and purchase agreements (each a "**Local Transfer Agreement**") in respect of their Relevant Businesses;

4.1.2 two umbrella transitional services agreements (each a "**TSA**") and service level agreements (each an "**SLA**"):

(a) for the provision of transitional services by ST to the Company;

(b) for the provision of transitional services by NXP to the Company;

4.1.3 operational agreements between the Company on the one hand and one of more of the Parties and/or any of their respective Affiliates on the other (each an "**Operational Agreement**"), including:

(a) four Manufacturing Agreements:

(i) for the provision of manufacturing services by ST to the Company;

(ii) for the provision of manufacturing services by the Company to ST;

(iii) for the provision of manufacturing services by NXP to the Company; and

(iv) for the provision of manufacturing services by the Company to NXP.

(b) one IP Transfer and Licence Agreement:

(i) for the transferring and licensing of IP by ST to the Company;

(ii) for the transferring and licensing of IP by NXP to the Company;

(iii) for the licensing of IP by the Company to ST (including the licensing of UWB and GPS); and

(iv) for the licensing of IP by the Company to NXP.

(c) one R&D Services Agreement:

(i) for the provision of R&D services by ST to the Company;

(ii) for the provision of R&D services by the Company to ST (including for UWB and GPS);

(iii) for the provision of R&D services by NXP to the Company; and

(iv) for the provision of R&D services by the Company to NXP.

(d) one Near Field Communication Technology License Agreement between NXP and the Company.

4.2 Binding Term Sheets

It is recorded that in respect of some of the Transaction Documents the Parties have negotiated term sheets, which are attached hereto in agreed form under Schedule 4 (the "**Term Sheets**"). As of Signing, the Parties shall negotiate in good faith definitive agreements in respect of the Term Sheets. If, notwithstanding Clause 3.1.8, Closing occurs but the Parties have not negotiated definitive agreements in respect of one or more of the Term Sheets, the Parties shall continue to negotiate in good faith definitive agreements in respect thereof and, unless otherwise agreed in writing, subject to and as of Closing, until signing of such definitive agreements the relevant Term Sheets (as supplemented by such further terms as may have been agreed to prior to Closing) shall be binding.

4.3 Disentanglement

4.3.1 Each Party, in preparation for the transfer of its Relevant Businesses to the Company and the unwinding of the Newco-structure of WH2, has negotiated a Disentanglement Plan (attached in draft form as Schedule 5 (ST Disentanglement Plan) and Schedule 6 (NXP Disentanglement Plan)), which is not final as at the date of Signing. The Parties undertake to discuss in good faith the definitive terms of the Disentanglement Plans (including the roadmaps setting out the various steps to unwind the Newco-structure of WH2) in accordance with the principles laid down in the drafts attached hereto and to finalise these definitive terms prior to Closing.

4.3.2 Each Party shall take the actions, and procure the taking of such actions, as set out in its Disentanglement Plan (the "**Disentanglement**"), including the effecting of the Local Transfer Documents, attached as Schedule 11, provided that:

(a) a Party shall not be in breach of its obligations under this Clause 4.3 to the extent that its Relevant Businesses, as a result of the Party not having taken or not having procured the taking of such actions, are not materially hindered from continuing their business in the Company (or as Affiliates of the Company) as of Closing. For the avoidance of doubt, NXP not obtaining the Dutch tax ruling and ST not obtaining the Dutch and Swiss tax rulings, shall be deemed a material hindrance of the continuity of the business for the purpose of this Clause, provided that each of NXP and ST acknowledge that time is of the essence and that each of them shall file a ruling request with the relevant authorities within ten (10) Business Days after the date of this Agreement and shall further diligently pursue obtaining the required rulings;

(b) deviations from or supplements to the template Local Transfer Documents may be necessary pursuant to mandatory local formalities to effect the transfer; and

(c) ST may not be able to obtain the French tax ruling on time and, as a result, may not be ready to transfer the French assets and liabilities at Closing to the Group. This will not delay Closing provided that such business is conducted as from the Effective Time for the account and the benefit of the Group.

4.4 Umbrella Agreements

4.4.1 ST shall use its reasonable best efforts to procure that, as of Closing, the Company and other members of the Group (as subsidiaries of ST) fall under and benefit from the ST Umbrella Agreements.

4.4.2 If (i) consent of a counterparty to a ST Umbrella Agreement is required for the aforesaid purpose but is not received prior to Closing; and (ii) one of the NXP Umbrella Agreements concerns substantially the same subject as such ST Umbrella Agreement, NXP shall notify the counterparty to such NXP Umbrella Agreement of the transfer of the Relevant Businesses pursuant to this Agreement. The Parties shall use reasonable best efforts to obtain a grace period of at least three (3) months as of the Closing Date allowing the NXP Relevant Businesses the continued enjoyment of such NXP Umbrella Agreement during such period.

4.4.3 In the event that a NXP Umbrella Agreement concerns a subject that is not covered by a ST Umbrella Agreement, NXP shall if so required by ST prior to Closing notify the counterparty to such NXP Umbrella Agreement of the transfer of the Relevant Businesses pursuant to this Agreement. The Parties shall use reasonable best efforts to obtain a grace period of at least three (3) months as of the Closing Date allowing the NXP Relevant Businesses the continued enjoyment of such NXP Umbrella Agreement during such period.

4.4.4 Copies of all notifications together with any responses from the counterparties of the ST Umbrella Agreements and the NXP Umbrella Agreements will be provided to the Company, ST and NXP upon dispatch or receipt, as the case may be.

4.4.5 The Parties shall use their reasonable best efforts to procure that, during the aforesaid grace periods the Company, or relevant other member of the Group, arranges with each such counterparty a new agreement, where applicable, with retroactive effect as of the Closing Date. Any and all costs in relation to the use of NXP Umbrella Agreements during such grace period and the entering into of any such new agreements shall be for the account of the Company or relevant other member of the Group.

4.5 Conduct of business

Subject to Clause 4.6, each of ST and NXP shall procure that between Signing and Closing each of their Relevant Businesses:

4.5.1 carries on business as a going concern in the ordinary course as carried on prior to Signing, save as consented to in writing by the other Party, such consent not be unreasonably withheld or delayed and save as contemplated in the Transaction Documents, including its Disentanglement Plan;

4.5.2 without prejudice to the generality of Clause 4.5.1, does not, without the prior written consent of the other Party, such consent not to be unreasonably withheld or delayed and

save as contemplated in the Transaction Documents, including its Disentanglement Plan:

(a) enter into any agreement or incur any commitment involving any capital expenditure in excess of USD 3,000,000 (three million US dollar) per item and USD 15,000,000 (fifteen million US dollar) in aggregate per calendar quarter, in each case exclusive of VAT;

(b) enter into or amend any contract or commitment which (a) is not in the ordinary course of business, or (b) involves or is likely to involve total annual expenditure in excess of USD 10,000,000 (ten million US dollar), exclusive of VAT;

(c) acquire or dispose of, or agree to acquire or dispose of, any material asset or material inventory involving consideration, expenditure or liabilities in excess of USD 3,000,000 (three million US dollar), exclusive of VAT, other than in the ordinary course of business;

(d) acquire or agree to acquire any share(s) or other interest in any person or company;

(e) incur any additional borrowings or incur any other indebtedness in each case in excess of USD 1,000,000 (one million US dollar) other than in the ordinary course of business;

(f) delay or cease any capital expenditure in respect of that Party's Relevant Businesses, as provided for in the budget made available to the other Party prior to Signing;

(g) create, allot or issue, or allow to be created, allotted or issued, any share capital of any company that is part of that Party's Relevant Businesses;

(h) repay, redeem or repurchase, or allow to be repaid, redeemed or repurchased, any share capital of any company that is part of that Party's Relevant Businesses;

(i) declare, make or pay any dividend or other distribution to any shareholders of any company that is part of that Party's Relevant Businesses; or

(j) make any change in the terms and conditions of employment of any of its directors or Senior Employees, other than in accordance with the applicable collective labour agreement or similar annual indexation increase or consistent with past practice, or employ or terminate the employment of any director or Senior Employee or make any arrangements with any unions or other employee representative bodies (including the entering into or, amending of or deviation from any collective labour agreement or social plan) enter into, adopt or make any material amendments or variations to retirement benefit plans and other long-term benefit plans of the Relevant Businesses.

4.6 Excused conduct

A Party shall not invoke Clause 4.5.2 against the other Party if, in the latter Party's reasonable opinion, adherence to its obligations under Clause 4.5.2 would have a Material Adverse Effect on its ability to continue to manage its Relevant Businesses or have a Material Adverse Effect on the value of its Relevant Businesses. Each Party shall inform the other Party of any such situation as

soon as reasonably practicable thereafter.

4.7 Acting vis-à-vis the other Party

It is further agreed that:

4.7.1 in applying and enforcing Clause 4.5.2, ST and NXP shall act vis-à-vis each other in accordance with the principles of reasonableness and fairness giving due consideration to all relevant circumstances; and

4.7.2 under certain circumstances a Party may not be able to timely request the consent of the other Party, or await a response from that Party to such request, if the circumstances require immediate action from the Party or management of that Party's Relevant Businesses, but that Party shall nevertheless inform the other Party of any such situation as soon as reasonably practicable thereafter.

4.8 Security

Without detracting from any R&Ws or indemnities set out in this Agreement, NXP shall procure vis-à-vis the Company or the relevant member of the Group, that the Collateral Agents (as such term is defined in each of (i) that certain Senior Secured Indenture among NXP B.V. and NXP Funding LLC (as issuers) and the Collateral Agents (as defined therein) dated 12 October 2006 and (ii) that certain Collateral Agency Agreement among Kaslion Acquisition B.V., NXP B.V. and the Collateral Agent (as defined therein) dated 29 September 2006) give written consent (under Section 12.05 of the aforesaid Indenture and Section 5.03 of the aforesaid Collateral Agency Agreement) to the release, at Closing, of all relevant Security on any assets forming part of NXP's Relevant Businesses.

4.9 European works council and trade unions

As early as possible in order to comply with Laws, but in any event prior to Closing:

4.9.1 each of ST and NXP shall consult with and notify, to the extent required, its European and/or other works council(s) regarding the Transaction; and

4.9.2 each of NXP and ST shall, to the extent required, consult with and notify the relevant trade unions regarding the Transaction;

each Party undertaking to keep the other informed throughout on the status of such consultations and notification.

4.10 Draft Assumed Financial Liabilities Statement

4.10.1 Prior to the date set for Closing, each of ST and NXP shall prepare and deliver to the other Party a draft statement, together with all related working papers, setting out the determination of, in respect of NXP's Relevant Businesses, the NXP Assumed Financial Liabilities Funding Requirement and, in respect of ST's Relevant Businesses, the ST Assumed Financial Liabilities Funding Requirement, as the case may be, in respect thereof (the "**Draft Assumed Liabilities Statements**").

4.10.2 The Draft Assumed Financial Liabilities Statements shall be in the form set out in Schedule 17 and shall be used to determine whether the Assumed Financial Liabilities that will be

contributed by each Party at Closing are fully funded in accordance with Clause 2.4.3 and whether, in relation to any NXP Entity or ST Entity, as the case may be, there is any Cash to be deducted from the amount of the Assumed Financial Liabilities. After Closing, the Draft Assumed Financial Liabilities Statements will be reviewed and amended to reflect the actual position as at the Effective Time as laid down in the Final Assumed Financial Liabilities Statements in accordance with Clause 6.8.

4.11 Repayment of expenditure by the Company to NXP

4.11.1 The Company undertakes to repay to NXP the part of the expenditure for capital equipment actually received by the NXP Relevant Businesses, in the period between the date hereof and the Effective Time, consistent with the Business Plan and Schedule 19 for which the costs are incurred by NXP, as reasonably evidenced by NXP to ST and the Company in writing, in accordance with and subject to the Clauses below (the "**NXP Interim Capex**").

4.11.2 In respect of the three-month period starting immediately at the date hereof NXP will be repaid up to an amount of USD 25,000,000 (twenty five million US dollar) (the "**NXP First Allocated Interim Capex**").

4.11.3 The expenditure for capital equipment actually received by the NXP Relevant Businesses incurred by NXP (i) in the period starting after this initial three-month period and ending at the later of the date of satisfaction of the Closing Conditions referred to in Clauses 3.1.1, 3.1.2, 3.1.3 and 3.1.7 and the date of obtaining the Dutch and Swiss tax rulings as referred to in Clause 4.3.2(a) (the "**NXP Second Allocated Interim Capex**") and (ii) in the period starting at the later of the date of satisfaction of the Closing Conditions referred to in Clauses 3.1.1, 3.1.2, 3.1.3 and 3.1.7 and the date of obtaining the Dutch and Swiss tax rulings as referred to in Clause 4.3.2(a) and ending at the Effective Time (the "**NXP Third Allocated Interim Capex**") shall be allocated *pro rata temporis* to these two periods.

4.11.4 The NXP Second Allocated Interim Capex as allocated pursuant to clause 4.11.3 will not be repaid. The NXP Third Allocated Interim Capex, as allocated pursuant to Clause 4.11.3 shall be repaid up to an amount calculated *pro rata temporis* to USD 25,000,000 (twenty five million US dollar) per quarter, if and to the extent that Closing is delayed for reasons not due, or attributable to NXP (for the avoidance of doubt, any delay caused by implementing the WH2 Newco-structure by NXP prior to Closing shall be deemed due and attributable to NXP).

4.11.5 Any repayment is subject to the assets acquired in connection with the capital expenditure being part of the NXP Relevant Businesses.

4.11.6 If the later of the date of satisfaction of the Closing Conditions referred to in Clauses 3.1.1, 3.1.2, 3.1.3 and 3.1.7 and the date of obtaining the Dutch and Swiss tax rulings as referred to in Clause 4.3.2(a) occurs within the first three months, the maximum amount to be repaid by Falcon shall not exceed an amount calculated *pro rata temporis* to USD 25,000,000 (twenty five million US dollar) per three-month period.

4.11.7 Any payment under this Clause 4.11 will be made in cash immediately upon Closing for that part of the capital expenditure that has been paid and for which evidence of the

payment of the relevant capital expenditure has been provided by NXP to ST or the Company, provided that, for the avoidance of doubt, payment shall be conditional on the assets acquired being part of NXP's Relevant Businesses as referred to in Clause 4.11.5. For the part of the expenditure for capital equipment received and not yet paid at the Effective Time, NXP shall either:

(a) transfer the relevant accounts payable to the Company; or

(b) provide evidence of the payment of the relevant capital expenditure at the due date, upon which the Company shall make such payment to NXP.

4.11.8 Notwithstanding anything to the contrary in this Clause 4.11, no amount shall be payable by the Company (and no transfer of the relevant accounts payable under Clause 4.11.7(a) shall take place) under this Clause 4.11 to the extent that NXP's PPE amount (as reflected in NXP's PPE Statement determined in accordance with Clause 6.7) does not exceed an amount equal to the result of:

(a) 90% of NXP's PPE Reference Amount; plus

(b) the lower of:

(i) USD 25,000,000 (twenty-five million US dollar), and

(ii) the sum of the NXP First Allocated Interim Capex and the NXP Third Allocated Interim Capex.

4.12 T3G

Prior to Closing, NXP shall use its reasonable best efforts to acquire the shares in T3G currently held by Datang Mobile Communications Equipment Co. Ltd, Samsung Electronics Co. Ltd and Motorola Inc. (the "**T3G Shares**"). If Closing occurs, but NXP has not yet executed a binding agreement to acquire the T3G Shares, NXP shall indemnify and hold the Company harmless for the costs (including direct transaction costs) of acquiring these T3G Shares if the Company acquires such T3G Shares after Closing.

4.13 Accounts

Within twenty five (25) Business Days after the date of this Agreement, each of NXP and ST shall update the relevant Accounts with a list of assets and Inventory and procure its auditors to deliver an audit comfort letter in relation thereto.

5 CLOSING

5.1 Effective Time

Without prejudice to the Warrantee's rights arising from the R&Ws or each Party's rights arising otherwise from this Agreement, the Relevant Businesses are for the risk and the account of the Company as of the Effective Time.

5.2 Date and place

5.2.1 Subject to the satisfaction (or waiver under Clause 3.4) of each of the Closing Conditions,

Closing shall take place:

(a) at 11.00 CET on the first Business Day following the last calendar day of the reporting month in which (a) notification occurs under Clause 3.4.1 in respect of that Closing Condition set out in 3.1.1 or 3.1.2 that is last satisfied or, if later (b) waiver occurs under Clause 3.4 in respect of any Closing Condition that has not been satisfied or waived; and

(b) in Amsterdam, the Netherlands, at the offices of NXP's Lawyers; or

(c) at such other time, date and/or place as the Parties may agree in writing (not acting unreasonably).

5.2.2 Subject to Clauses 3 and 4, and without extending or amending any of the obligations of the Parties thereunder, the Parties shall make their best efforts to cause Closing to occur at or prior to 2 August 2008.

5.3 Closing events

At Closing, each Party shall procure that the actions set out in Schedule 10 for which it is responsible, are taken in the sequence set out in said Schedule, to the extent that any such action is not taken by NXP or ST, as the case may be and with the prior written consent of the other, prior to the Closing.

5.4 Breach of pre-Closing and Closing obligations

5.4.1 If any Party is in breach, and thereby a Defaulting Party, of any of its material obligations under Clauses 3, 4 or 5, which breach is attributable to the Defaulting Party and results in the Closing not occurring, the Defaulting Party shall immediately owe and pay to the other Party an amount of USD 100,000,000 (one hundred million US dollar). This amount is owed in addition and without prejudice to all other rights or remedies available to such other Party, including the right to claim damages, provided that if the damages awarded exceed the amount of USD 100,000,000 (one hundred million US dollar) actually paid to the non-Defaulting Party, the Defaulting Party may set off such amount against any damages due and payable pursuant to this Clause 5.4.1. Parties acknowledge that the other Party may also request specific performance to effect Closing.

5.4.2 Concurrent with and without prejudice to Clause 5.4.1, if any Party breaches any material obligation in Clause 5.3, ST, in the case of breach by NXP, or NXP, in case of breach by ST, shall be entitled, (in addition to and without prejudice to all other rights or remedies available, including the right to claim damages and the right, if applicable to receive the penalty payment as set forth in Clause 5.4.1) to terminate, by notice, this Agreement (other than Clauses 1, 10 and 11.2 through 11.15), in which event the Parties shall forthwith take all such action as is necessary to reverse any action already taken under Clause 5.3 and the Disentanglement Plans.

6 POST-CLOSING OBLIGATIONS

6.1 Completion of disentanglement

To the extent not taken prior to Closing, each Party, as soon as reasonably practicable after Closing but in any event prior to expiry of a period of three (3) months after Closing, shall take, and procure the taking of such actions, as set out in its Disentanglement Plan.

6.2 Wrong pockets

6.2.1 If, and to the extent applicable, any assets forming part of ST's or NXP's Relevant Businesses have not been transferred by ST or NXP, as applicable, to the Company, the relevant Party shall transfer these assets to the Company as soon as reasonably practicable after Closing, at no additional costs.

6.2.2 If, and to the extent applicable, assets not forming part of ST's or NXP's Relevant Businesses have been transferred by ST or NXP, as applicable, to the Company, the Company shall transfer these assets to the relevant Party as soon as reasonably practicable after Closing, at no additional costs.

6.2.3 Without detracting from the generality of Clause 6.2.2, if at any time after Closing, any Group Company receives any monies in respect of any NXP Receivables or ST Receivables, the Company shall procure that the relevant Group Company pays the amount received, less reasonable administrative expenses, to NXP or ST, as the case may be, as soon as reasonably practicable.

6.2.4 In the event that, in respect of differences between assumed and actual inventory levels, an adjustment payment is made by NXP or ST, or an Affiliate of NXP or ST, as the case may be, to an Affiliate of the Company, or vice versa, pursuant to a Local Transfer Agreement, and such payment would not have been due under this SCA, then the relevant Party shall pay such amount to the Company, or vice versa, as the case may

be, so as to place the relevant Party and its Affiliates in such position as it would have been in had the payment under the relevant Local Transfer Agreement not been made.

6.3 Ancillary Agreements

Neither NXP nor ST shall claim from or pursue a claim against the Company or any of the Company's Affiliates under any Ancillary Agreement in the event that the fact or circumstance giving rise to such claim is otherwise the subject of a claim under this Agreement for which NXP or ST is liable. In the event of NXP or ST, as the case may be, being found liable under this Agreement (excluding the Ancillary Agreements) after the claim has been satisfied under the relevant Ancillary Agreement, NXP or ST, as the case may be, shall procure that the Company or the relevant Group Company is reimbursed with the amount paid to the relevant member of the NXP Group or the ST Group, as the case may be, by the Company or the relevant Group Company in respect of the relevant claim under the relevant Ancillary Agreement. For the avoidance of doubt, the exclusion of representations, warranties and indemnities set out in the various Ancillary Agreements will be entirely without prejudice to the representations, warranties and indemnities set out in this Agreement, unless otherwise provided in this Agreement.

6.4 Release of Security

6.4.1 Without detracting from any R&Ws, or indemnities, set out elsewhere in this Agreement, each Party shall, to the extent not yet realized through the release referred to in Clause

4.8, undertake, with effect from Closing or as soon as reasonably practicable thereafter but in any event no later than three (3) months after the Closing, to perfect all the formalities and execute any documents as may be reasonably necessary to effect the release of all members of the Group from any (joint and/or several) Security given by, assumed by or binding upon them in relation to any of the liabilities of such Party or any of its Affiliates (excluding members of the Group), provided that such Party shall indemnify, defend and hold harmless the Company and the other members of the Group against all amounts paid by any of them or any costs, losses and liabilities (including without limitation any loss of assets subject to Security) suffered by them after Closing pursuant to any such Security.

6.4.2 Without detracting from any R&Ws, or indemnities, set out elsewhere in this Agreement, the Parties shall use their commercially reasonable best efforts to procure that the Company or the relevant Group Company procures, with effect from Closing or as soon as reasonably practicable thereafter but in any event no later than three (3) months after the Closing, the release of each Party or its Affiliate (excluding members of the Group) from any (joint and/or several) Security given by, assumed by or binding upon such Party or Affiliate in relation to any liability included in any of the Relevant Businesses, provided that the Company shall indemnify, defend and holds harmless the relevant Party or Affiliate against all amounts paid by it or any costs, losses and liabilities (including without limitation any loss of assets subject to Security) suffered by it after Closing pursuant to any such Security.

6.5 Final Assumed Financial Liabilities Statement

6.5.1 Within forty (40) Business Days after the Effective Time, the Company shall prepare and deliver to each of ST and NXP the Final Assumed Financial Liabilities Statement, in the form set out in Schedule 17.

6.5.2 The Final Assumed Financial Liabilities Statement shall be used to determine whether the Assumed Financial Liabilities contributed by each Party were fully funded when contributed in accordance with Clause 2.4.3 and whether, in relation to any NXP Entity or ST Entity, as the case may be, there is Cash to be deducted from the amount of the Assumed Financial Liabilities.

6.6 PPE and Inventory Statements

6.6.1 Within forty (40) Business Days after the Effective Time, the Company shall prepare and deliver to each of ST and NXP:

(a) a statement reflecting the value of the property, plant and equipment ("**PPE**") for each of the NXP Relevant Businesses and the ST Relevant Businesses, at the Effective Time (the "**PPE Statements**"); and

(b) a statement reflecting the value of the Inventory for each of the NXP Relevant Businesses and the ST Relevant Businesses at the Effective Time (the "**Inventory Statements**").

6.6.2 The PPE Statements and the Inventory Statements shall be calculated consistently with the same line items in the Accounts and shall be used to determine whether the value of the

PPE and Inventory contributed by each Party, at the Effective Time, did not deviate substantially from the relevant reference amounts set out in Schedule 20 (the "**Reference Amounts**").

6.7 Review and determination

6.7.1 In the event that either Party disagrees with the Final Assumed Financial Liabilities Statement, it shall within twenty (20) Business Days after receipt thereof, deliver notice of such disagreement to the other Party, with a copy to the Company, such notice (the "**Notice of Disagreement**") to specify (a) each item in the Final Assumed Financial Liabilities Statement with which it disagrees, (b) the amount of each adjustment proposed by it and (c) in reasonable detail, the reason for its disagreement in respect of each such item.

6.7.2 In the event that either Party disagrees with a PPE Statement or an Inventory Statement, it shall within twenty (20) Business Days after receipt thereof, deliver a Notice of Disagreement to the other Party, with copy to the Company to specify (a) what item it disagrees with and (b) in

reasonable detail, the reason for its disagreement in respect thereof.

6.7.3 If no Party delivers a Notice of Disagreement in terms of Clause 6.7.1, the Final Assumed Financial Liabilities Statement, the PPE Statements or the Inventory Statements, as the case may be, shall be final and binding on the Parties and the Company for all purposes.

6.7.4 If a Party delivers a Notice of Disagreement in terms of Clause 6.7.1, then the Parties shall attempt in good faith to reach agreement in respect of those items in the Final Assumed Financial Liabilities Statement, the PPE Statements or the Inventory Statements, as the case may be, in respect of which a Notice of Disagreement has been delivered, provided that if the Parties do not reach such agreement within twenty (20) Business Days of delivery of the Notice of Disagreement last delivered, either Party may by notice to the other Party require that those items in the Final Assumed Financial Liabilities Statement, the PPE Statements or the Inventory Statements, as the case may be, that have been properly specified in a Notice of Disagreement in accordance with Clause 6.7.1 or Clause 6.7.2, as relevant, and subsequently have not been agreed upon within the aforesaid twenty (20) Business Days, be referred to the Reporting Accountant in the terms of Schedule 17 (Part 2).

6.7.5 In order to enable the preparation and determination of the Final Assumed Financial Liabilities Statement, the PPE Statements and the Inventory Statement, the Company and each Party shall procure the keeping up-to-date and, subject to reasonable notice, making available to the Company's and each Party's representatives and advisors during normal office hours of all books and records relating to any member of the Group, and co-operate with them with regard to the preparation and determination of the Final Assumed Financial Liabilities Statement, the PPE Statements and the Inventory Statements. The Company and each Party shall, in so far as it is reasonable to do so, make available the services of its and its Affiliates' employees to assist the Company and each Party in the performance of its obligations and exercise by a Party of its rights under this Clause 6.7.

6.8 Adjustment and payment for the Final Assumed Financial Liabilities Statement

6.8.1 Following determination of the Final Assumed Financial Liabilities Statement in accordance with Clause 6.7, the Company shall determine the differences between the Draft Assumed Financial Liabilities Statements and the Final Assumed Financial Liabilities Statement and hence the amount of the Assumed Financial Liabilities Funding Requirement of each Party;

(a) if the Assumed Financial Liabilities Funding Requirement is a positive amount, the relevant Party shall pay to the Company in cash an amount equal to this positive amount;

(b) if the Assumed Financial Liabilities Funding Requirement is a negative amount, the Company shall pay to the relevant Party in cash an amount equal to this negative amount.

6.8.2 Any payment to be made in accordance with this Clause 6.8 shall include interest thereon calculated from the day after the Effective Time to the day of payment, both days inclusive, at the Interest Rate.

6.8.3 The due date for any payment to be made under this Clause 6.8, shall be the fifth (5th) Business Day after the Final Assumed Financial Liabilities Statement has been finally determined in accordance with Clause 6.7.

6.9 Adjustment and payment for the PPE Statements and the Inventory Statements

6.9.1 Following determination of the PPE Statements in accordance with Clause 6.7, the Company shall determine the differences between the relevant Reference Amounts and the value of the PPE as this is reflected in the respective PPE Statements.

6.9.2 If the value of the PPE as reflected in a Party's PPE Statement is more than 10% (ten per cent) lower than the relevant Reference Amount, that Party shall pay to the other Party in cash an amount equal to the shortfall below 90% (ninety per cent) of the relevant Reference Amount. For the avoidance of doubt, there shall only be a payment in relation to a PPE Statement in the situation as set forth in this Clause 6.9.2.

6.9.3 Following determination of the Inventory Statements in accordance with Clause 6.7, the Company shall determine the differences between the relevant Reference Amounts and the value of the Inventory as this is reflected in the respective Inventory Statements.

6.9.4 If the value of the Inventory as reflected in a Party's Inventory Statement is lower than the relevant Reference Amount that Party shall pay to the other Party in cash an amount equal to the difference in value between the Inventory as reflected in the Inventory Statement and the relevant Reference Amount. For the avoidance of doubt, there shall only be a payment in relation to an Inventory Statement in the situation as set forth in this Clause 6.9.4.

6.9.5 Any payment to be made in accordance with this Clause 6.9 shall include interest thereon calculated from the day after the Effective Time to the day of payment, both days inclusive, at the Interest Rate.

6.9.6 The due date for any payment to be made under this Clause 6.9, shall be the fifth (5th) Business Day after the PPE Statements and the Inventory Statements have been finally

determined in accordance with Clause 6.7.

6.10 Reciprocal release of liabilities; indemnity against certain liabilities

6.10.1 As of Closing:

(a) subject to any other indemnities included in this Agreement, excluding Clause 6.10.1(b) and Clause 6.10.2, (i) NXP shall indemnify, defend and hold harmless the Company and the other members of the Group against all NXP Retained Liabilities, and (ii) ST shall indemnify, defend and hold harmless the Company and the other members of the Group against all ST Retained Liabilities; and

(b) subject to any other indemnities included in this Agreement and upon final determination of the Assumed Financial Liabilities Funding Requirement in accordance with Clause 6.8 and the satisfaction thereof, the Company shall indemnify, defend and hold harmless each Party and its Affiliates against all Assumed Liabilities.

6.10.2 As of Closing:

(a) the Company and each relevant Group Company shall be released and discharged (i) by NXP and each member of the NXP Group from all the NXP Retained Liabilities, and (ii) by ST and each member of the ST Group from all ST Retained Liabilities; and

(b) NXP and each member of the NXP Group or ST and each member of the ST Group, as the case may be, shall be released and discharged by the Company or the relevant Group Company from any and all Assumed Financial Liabilities, provided that the Assumed Financial Liabilities Funding Requirements as determined in accordance with Clause 6.8 has been satisfied.

6.10.3 For the avoidance of doubt, the liabilities of each of the Parties under this Clause 6.10 are not limited in time or amount and shall continue to apply upon termination of the Shareholders Agreement.

6.11 R&D Tax Credits

6.11.1 Subject to Clause 6.11.2, NXP guarantees to ST and the Company that the amounts of the R&D Tax Credits will be received by NXP France, or such other relevant Group Company, as the case may be, ultimately within twenty (20) Business Days after the last day of the month set for those payments, in accordance with the table set out below.

Origin of the R&D Tax Credit		Amount	Date of refund
NXP Crolles			
December 2005	€	5.498.435	June 2009
December 2006	€	10.000.000	June 2010
December 2007	€	3.660.000	June 2011
NXP France			
December 2006	€	1.894.931	June 2010
December 2007	€	6.990.500	June 2011
NXP Rennes			
December 2005	€	1.492.872	June 2009
December 2006	€	365.693	June 2010
December 2007	€	133.000	June 2011

6.11.2 The guarantee by NXP, as set out in Clause 6.11.1, shall not apply if ST and/or the Company or any of its Affiliates, as applicable, takes any action or refrains from taking any action that adversely affects receipt of the R&D Tax Credits in the amounts and ultimately by the dates, as set out in the table in Clause 6.11.1.

6.11.3 If after Closing the Company receives an amount relating to the June 2008 Refunds, then the Company shall pay to NXP the actual amount of these June 2008 Refunds received within thirty (30) Business Days of receipt.

6.11.4 If an amount of the R&D Tax Credits as referred to in Clause 6.11.1 has not been fully received by any Group Company ultimately twenty (20) Business Days after the last day of the month set for those payments, NXP undertakes to pay within ten (10) Business Days of the relevant Group Company's notice thereof to NXP, to the relevant Group Company as referred to in this notice, (i) if any amount is received, the difference between the amount of the relevant R&D Tax Credit received and the amount of the relevant R&D Tax Credit as referred to in Clause 6.11.1 or (ii) if no amount has been received, the full amount of the relevant R&D Tax Credit as referred to in Clause 6.11.1. If after receipt of the relevant amount from NXP by the relevant Group Company, any amount of the relevant R&D Tax Credit to which such payment by NXP is related, is received from the relevant Governmental Authority, the relevant Group Company shall repay such amount received from the relevant Governmental Authority to NXP.

6.12 Obligation to obtain Third Party Consents

6.12.1 It is acknowledged that, in effecting the Disentanglement, the transfer, pursuant to this Agreement, of Contracts may be subject to Third Party Consents. NXP shall request ST to give its prior approval prior to obtaining the Third Party Consents of certain material Contracts. Insofar as a Third Party Consent has not been obtained in relation to a Contract, other than a Project Contract, prior to Closing, except as otherwise mutually agreed between the Parties, the Parties shall use their reasonable best efforts to obtain such Third Party Consent as soon as practicable after the Closing Date.

6.12.2 In connection with the obtaining of any Third Party Consent referred to in paragraph 6.12.1, each Party shall supply to the other Party such information and references (under appropriate non-disclosure arrangements) regarding it as may be reasonably requested by the other Party or any relevant third party for the purpose of obtaining Third Party Consents and shall enter into such undertakings or procure such guarantees in favour of any relevant third party as may be reasonably requested in respect of the relevant Contracts.

6.12.3 In respect of any Contract other than a Project Contract, from the Closing Date until the relevant Third Party Consent has been obtained as contemplated by Clause 6.12.1 or in

the event the Third Party Consent has been refused:

(a) to the extent permitted under the relevant Contract, the Parties shall make such other arrangements between themselves to provide to the Company or the relevant Group Company the full benefits of the Contract, including the enforcement at the cost and for the account of the Company or the relevant Group Company of all rights of NXP or ST, as the case may be, against any other party thereto;

(b) to the extent that the Company or the relevant Group Company is lawfully and practically able to do so, and to the extent that the Company or the relevant Group Company is receiving the full benefits of the Contract, the Company or the relevant Group Company shall perform the obligations of the NXP Group or ST Group, as the case may be, under the Contract as agent or sub-contractor and shall indemnify the NXP Group or the ST Group, as the case may be, in respect thereof;

(c) to the extent that the Company or the relevant Group Company is not lawfully or practically able to perform the obligations of the NXP Group or ST Group, as the case may be, under the Contract as agent or sub-contractor, the NXP Group or ST Group, as the case may be, shall do all such things as the Company or the relevant Group Company may reasonably require to enable due performance of the Contract and the Company or the relevant Group Company shall indemnify the NXP Group or ST Group, as the case may be, in respect thereof.

6.13 Retention of records

6.13.1 ST and NXP shall retain for a period of five (5) years from Closing, or such longer period as may be prescribed by applicable Law, all books, records and other written information relating to ST's or NXP's Relevant Businesses, as applicable, which are not delivered to, or in the possession or under the control of, the Company or another Group Company at or immediately after Closing and are held by or on behalf of any member of the ST Group or the NXP Group, as applicable, pursuant to Closing and, to the extent reasonably required by the other Party or the Company, shall allow the other Party or the Company, upon reasonable notice, access during normal office hours to such books, records and other information, including the right to inspect and take copies (at the expense of the other Party or the Company, as applicable) to the extent relating to the Relevant Businesses.

6.13.2 The Company shall retain for a period of five (5) years from Closing, or such longer period as may be prescribed by applicable Law, any books, records or other written information relating to the Business which are delivered to, or in the possession or under the control of, the Company or another Group Company at or immediately after Closing and, to the extent reasonably required by ST or NXP, the Company shall allow ST or NXP, upon reasonable notice, access during normal office hours to such books, records and information, including the right to inspect and take copies (at the expense of ST or NXP, as applicable).

6.13.3 Within 30 (thirty) Business Days after the Effective Time, NXP shall provide the necessary financial information to ST and the Company in order to enable ST to prepare an opening balance sheet of the Group as per the Effective Time, in accordance with the ST Accounting Principles.

6.14 Insurance

6.14.1 Termination of coverage

As of the date set for Closing, all coverage with respect to NXP's Relevant Businesses under any insurance policies of any member of the NXP Group (the "**Insurance Policies**") in respect of events, occurrences or accidents occurring on or after the Closing Date shall be cancelled and terminated, excluding those Insurance Policies in respect of which the sole policy holders or named insured are part of NXP's Relevant Businesses.

6.14.2 Indemnity

Except for claims referred to in Paragraph 17.1 of Schedule 14, for all claims made on or after the Effective Time and arising in respect of an event, occurrence or accident occurring on or after the Effective Time, there shall be no right to recover any amounts in respect thereof from NXP or any other member of the NXP Group, or any of its insurers, and the Company shall be responsible for and shall indemnify, defend and hold harmless NXP and the relevant other members of the NXP Group from all Losses incurred by NXP or any other member of the NXP Group, or its insurers, in respect of any such claim or attempted claim by any Group Company or third party.

6.15 Earn-out Obligations

Notwithstanding the provisions of Clause 6.10, the Company shall, and shall procure that the relevant Group Companies, meet all the Earn-Out Obligations assumed by the relevant Group Company in respect of the Earn-Out Payments.

7 WARRANTIES AND LIABILITY

7.1 Warranties

7.1.1 Subject to the remaining provisions of this Clause 7 and to Clauses 8 and 9, each Party (the "**Warrantor**") represents and warrants to the other Party (the "**Warrantee**", being ST, where NXP is the Warrantor, and NXP, where ST is the Warrantor) that the statements set out in Schedule 14 (the "**R&Ws**", and each a "**R&W**") are true and accurate as at Signing.

7.1.2 The Warrantee acknowledges and agrees that the Warrantor makes no representation or warranty as to the accuracy of any forecasts, estimates, projections, statements of intent or statements of opinion howsoever provided to the Warrantee or any of its representatives or advisors at or prior to Signing. The Warrantee acknowledges that no representations or warranties, express or implied, have been given or are given other than the Warrantor's R&Ws.

7.1.3 Any R&W qualified by the expression "**so far as the Warrantor is aware**" or any similar expression shall be deemed to refer to the knowledge of Carlo Bozotti, Aldo Romano, Tommi Uhari, Carlo Ferro, Pierre Ollivier, Patrice Chastagner and Lisa Jorgenson, where ST is the Warrantor and the knowledge of Frans van Houten, Theo Claasen, Peter van Bommel, Guido Dierick, Peter Kleij, Steven McCann and Marc Cetto where NXP is the Warrantor, each of whom shall be deemed to have knowledge of such matters as they

would have discovered, had they made reasonable enquiries within the Warrantor's Relevant Businesses.

7.1.4 The applicability of title 1 of Book 7 of the Netherlands Civil Code is hereby excluded.

7.1.5 For the avoidance of doubt, a Warrantor's R&Ws are given only in respect of its Relevant Businesses (and not in respect of the Warrantee's Relevant Businesses).

7.2 Disclosure

The R&Ws are subject to, and the Warrantor shall not be liable for breach of any of the R&Ws, in relation to any matter or fact which is Disclosed. Each Warrantor shall have the right and the obligation to update the ST Disclosure Letter or the NXP Disclosure Letter, as the case may be, for matters not having a Material Adverse Effect prior to Closing for those R&Ws that are only given at Signing in Schedule 14 and are being repeated at Closing pursuant to Clause 7.3.1

7.3 Updating of R&Ws at Closing

7.3.1 Subject to Clause 7.3.2, the Warrantor further represents and warrants to the Warrantee that the R&Ws will also be true and accurate at Closing, as if they had been repeated at Closing, provided that (i) all such R&Ws that pertain to or are made with respect to any companies not yet incorporated at the date hereof, are made as at Closing and not as of the date hereof and (ii) any R&W's given at Signing in Schedule 14 shall be read for the purpose of this Clause 7.3.1 without the words "at Signing".

7.3.2 No right to reimbursement of Losses shall arise in favour of the Warrantee under Clause 7.3.1 in consequence of an event or matter which results in any of the R&Ws being untrue or inaccurate at the Closing if the event or matter could not reasonably have been avoided or prevented by the Warrantor, or any of its directors, officers, or employees.

7.4 Liability for breach

7.4.1 Subject to Clauses 3.5 and 5.4.2, in the event of any breach by a Party under this Agreement, the other Party shall not have the right to terminate or rescind this Agreement and as its sole and exclusive remedy and subject to any other limitations of liability set out in this Agreement, shall have the right, after Closing, to claim the Losses suffered or incurred by it as a result of such breach.

7.4.2 For purposes of this Agreement, it is agreed that a breach of a R&W shall occur where same is untrue or inaccurate as at any date on which the same is given.

7.5 Losses suffered by the Business

7.5.1 Subject to Clause 7.5.2, Parties agree that Losses suffered or incurred by the Company or any other member of the Group in connection with a breach of a R&W, shall be deemed to be Losses suffered or incurred by the Warrantee.

7.5.2 Subject to the limitations of liability as set forth in Clause 8, if Losses are suffered or incurred at the level of the Group, as set forth in Clause 7.5.1 (a) the amount of the Losses that the Warrantee shall have the right to claim shall be limited to the Warrantee's proportionate share of such Losses, calculated on the basis of the Warrantee's

shareholding in the Company at the time of giving notice of the claim (as set forth in Clause 9.2) and (b) at the election of the Warrantee, the Warrantor shall pay the full amount of those Losses directly to the Company.

8 LIMITATION OF LIABILITY

8.1 Time limitation

A Party (the "**Defaulting Party**") shall not be liable in respect of any claim under the R&Ws or the Tax Indemnity unless a notice of the claim is given by to the other Party (the "**non-Defaulting Party**"), specifying the matters set out in Clause 9.2:

8.1.1 in the case of any claim under the Tax Indemnity, within thirty (30) days after expiry of the statutory limitation period applicable in the relevant jurisdiction for the Tax matter giving rise to such claims and any applicable term during which additional assessments can be levied under the relevant applicable Law;

8.1.2 in the case of any claim under Paragraph 14 of Schedule 14 (environmental warranties), within three (3) years after the Closing; and

8.1.3 in the case of any other claim, within eighteen (18) months after the Closing;

provided that the statutory limitation period applicable in the relevant jurisdiction shall apply for giving notice of any claim under Paragraphs 1.1, 2 and 3 of Schedule 14 (Incorporation, authority, corporate action).

8.2 Minimum claims

Subject to any other limitations set out in this Agreement, the Defaulting Party shall only be liable under the R&Ws in respect of any individual claim, or a series of claims arising from identical facts, to the extent that the liability agreed or determined in respect of any such claim or series of claims exceeds an amount of USD 500,000 (five hundred thousand US dollar). In relation to paragraph 17.1 of Schedule 14 (claims third parties) this clause 8.2 shall apply with the amount set out in the preceding sentence being USD 2,500,000 (two million five hundred thousand US dollar).

8.3 Aggregate minimum claims

Subject to any other limitations set out in this Agreement, the Defaulting Party shall only be liable under the R&Ws in respect of any claim if the aggregate amount of all claims for which it would otherwise be liable under this Agreement, exceeds USD 10,000,000 (ten million US dollar), in which case the Defaulting Party shall be liable for the full amount and not just the excess. Any liability of the Defaulting Party under this Agreement in relation to paragraph 17.1 of Schedule 14 (claims third parties) shall not be subject to, and also (in relation to any liability for other claims under the R&Ws) not count towards, the amount of USD 10,000,000 (ten million US dollar) referred to in the preceding sentence.

8.4 Maximum liability

As from Closing, save for any claims under Paragraph 14 of Schedule 14 (environmental

warranties), Paragraph 10 of Schedule 14 (IP warranties), Paragraph 7.1 of Schedule 14 (to the extent relating to IP warranties) and Paragraph 11 of Schedule 14 (to the extent relating to pension warranties), the aggregate liability of the Defaulting Party in respect of all claims under the R&Ws shall not exceed an amount of USD 250,000,000 (two hundred and fifty million US dollar).

8.5 Provisions

The Defaulting Party shall not be liable under this Agreement in respect of any claim if and to the extent that any allowance, provision or reserve is made in the relevant Accounts (and not released prior to the Effective Time), or in the relevant Final Assumed Financial Liabilities Statement, for the matter giving rise to the claim.

8.6 Matters arising after Signing / Closing

Subject to Clauses 3.1.6, 7.2 and 7.3.1, the Defaulting Party shall not be liable under this Agreement in respect of any matter, act, omission or circumstance (or any combination thereof), including the aggravation of a matter or circumstance, to the extent that the same would not have occurred but for:

8.6.1 any matter or thing done or omitted to be done pursuant to and in compliance with this Agreement or otherwise at the request or with the approval of the non-Defaulting Party;

8.6.2 any act, omission or transaction of the non-Defaulting Party, or the non-Defaulting Party's respective directors, officers, employees or agents or successors in title, after Signing;

8.6.3 the passing of, or any change in, any Law or administrative practice of any Governmental Authority after Signing, including any increase in the rates of Tax or any imposition of Tax or any withdrawal of relief from Tax not actually in effect at Signing;

8.6.4 any change after Signing of any generally accepted interpretation or application of any Law; or

8.6.5 any change in any accounting or Tax policy, basis or practice of NXP or ST, as applicable, introduced or having effect after Signing.

8.7 Insurance

The Defaulting Party shall not be liable in respect of any claims made by the non-Defaulting Party to the extent that the Losses in respect of which a claim is made are covered by a policy of insurance in force immediately prior to the Effective Time and insofar as the Company has a right of recovery.

8.8 Net financial benefit

The Defaulting Party shall not be liable under this Agreement in respect of any claims to the extent of any corresponding savings actually made by the non-Defaulting Party arising in respect of such Losses or the facts giving rise to such Losses (for example, without limitation, where the amount (if any) by which any Tax for which would otherwise have been accountable or liable to be assessed is actually or will actually be reduced or extinguished as a result of the matter giving rise to such liability).

8.9 Mitigation of Losses

The non-Defaulting Party shall use all reasonable efforts to procure that all reasonable steps are taken and all reasonable assistance is given to avoid or mitigate any Losses which in the absence of mitigation might give rise to a liability in respect of any claim under this Agreement.

8.10 Non-Defaulting Party's right to recover

8.10.1 The Warrantor shall not be liable in respect of any Losses relating to any actual liability unless and until such actual liability is due and payable, or any Losses relating to any liability which is contingent unless and until such contingent liability becomes an actual liability and is due and payable, provided that this Clause 8.10.1 shall not operate to exclude liability in relation to a claim made in respect of an actual or contingent liability within the relevant time limit specified in Clause 8.1 and specifying the matters set out in Clause 9.2.

8.10.2 If the Warrantor has paid an amount in discharge of any claim under this Agreement and any member of the Warrantee's Group subsequently recovers (whether by payment, discount, credit, relief, insurance or otherwise) from a third party a sum which indemnifies or compensates any member of the Warrantee's Group (in whole or in part) in respect of the Loss which is the subject matter of the claim, then the Warrantee shall procure that the relevant member of the Warrantee's Group forthwith pays to the Warrantor the full amount recovered, less any costs and expenses reasonably incurred in obtaining such recovery and limited to the amount actually paid by the Warrantor in respect of the claim.

8.11 Double claims

The non-Defaulting Party shall not be entitled to recover from the Defaulting Party under this Agreement more than once in respect of the same Losses suffered. Subject to any other limitations set out in this Agreement, in the event that any matter, act, omission or circumstance (or any combination thereof) giving rise to a breach of a R&W is the subject of an indemnity under this Agreement, the non-Defaulting Party's claim shall be limited to a claim under said indemnity.

8.12 Non-applicability to certain claims

Notwithstanding the foregoing provisions of this Clause 8:

8.12.1 the provisions of this Clause 8, save for Clauses 8.1.1, 8.5 and 8.7 through 8.11, shall not apply to any claims made under the Tax Indemnity.

8.12.2 the provisions of this Clause 8, save for Clauses 8.8 through 8.11, shall not apply to any claims made under Paragraph 1 (Incorporation; existence; solvency), 2 (Authority) or 3 (Corporate action) of Schedule 14;

8.12.3 the provisions of this Clause 8, save for Clauses 8.8 through 8.11, shall not apply to any claims made under the indemnities included in Clause 6.10 and Clause 6.11.1, Paragraph 6.4 of Schedule 3 (Calamba environmental indemnity), Paragraphs 3 and 4 of Schedule 7 (employment indemnities) and Paragraph 1.14 of Schedule 8 (pension indemnity).

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9 CLAIMS

9.1 Notification of potential claims

If the Warrantee becomes aware of any matter or circumstance that may give rise to a claim against the Warrantor, under the R&Ws, the Warrantee, shall within forty (40) Business Days deliver a notice to Warrantor setting out such information as is available to it as is reasonably necessary to enable the Warrantor to assess the merits of the claim, to act to preserve evidence and to make such provision as the Warrantor may consider necessary, provided that failure to give such notification within the aforesaid forty (40) Business Days shall not affect Warrantee's right to make the claim except to the extent Warrantor shall have been or will be actually prejudiced as a result of such failure.

9.2 Notification of claims

Without detracting from Clause 9.1, notices of claims under the R&Ws shall be given by the Warrantee to the Warrantor within the time limits specified in Clause 8.1, specifying full information of the legal and factual basis of the claim and the evidence on which the Warrantee relies and, if practicable, an estimate of the amount of Losses which are, or are to be, the subject of the claim (including any Losses which are contingent on the occurrence of any future event).

9.3 Commencement of proceedings

Without detracting from Clause 9.2, any claim notified to the Warrantor shall (if it has not been previously satisfied, settled or withdrawn) be deemed to be irrevocably withdrawn six (6) months after the notice is given pursuant to Clause 9.2 or, in the case of any contingent liability, six (6) months after such contingent liability becomes an actual liability and is due and payable unless legal proceedings in respect of it (i) have been formally commenced and (ii) are being and continue to be pursued with reasonable diligence.

9.4 Investigation by the Warrantor

In connection with any matter or circumstance notified by the Warrantee pursuant to Clause 9.1 or 9.2:

9.4.1 the Warrantee shall allow the Warrantor and its financial, accounting, legal and other advisors to investigate the matter or circumstance alleged to give rise to such claim and whether and to what extent any amount is or may be payable in respect of such claim; and

9.4.2 the Warrantee shall disclose to the Warrantor all information of which it is aware which relates to the claim and shall give, subject to being paid reasonable costs and expenses, all such information and assistance, including access to premises and personnel, and the right to examine and copy or photograph any assets, accounts, documents and records, in each case as the Warrantor or its financial, accounting, legal or other advisors may reasonably request.

9.5 Procedure for third party claims

9.5.1 If the claim notified to the Warrantor is a result of or in connection with a claim by or liability to a third party then:

(a) no admissions in relation to such third party claim shall be made by or on behalf of the Warrantee and the claim shall not be compromised, disposed of or settled without the prior written consent of the Warrantor;

(b) the Warrantor shall be entitled at its own expense, by notice to the Company and the Warrantee, and the Company and the Warrantee shall duly and fully co-operate to allow the Warrantor, to take such action as it deems necessary to avoid, dispute, deny, defend, resist, appeal, compromise or contest such claim or liability (including making counterclaims or other claims against third parties) in the name of and on behalf of the Warrantee, the Company or its relevant Affiliate, as the case may be, and to control the conduct of any related proceedings, negotiations or appeals; and

(c) where the Warrantor has issued a notice pursuant to Clause (b), the Warrantee and the Company shall give, and shall procure that their Affiliates give, subject to being paid reasonable costs and expenses, all such information and assistance including access to premises and personnel, and the right to examine and copy or photograph any assets, accounts, documents and records, as the Warrantor may reasonably request for the purpose referred to in Clause (b), including instructing such professional or legal advisors as the Warrantor may nominate to act on behalf of the Warrantee and the Company, but in accordance with the Warrantor's instructions, it being agreed that the Warrantor shall keep the Warrantee and the Company informed of all relevant matters relating to the claim and shall forward or procure to be forwarded to the Warrantee and the Company copies of all material external correspondence (other than such correspondence as is subject to legal professional privilege of the Warrantor) relating to the claim.

9.5.2 If the Company or the Warrantor, as the case may be, conducts the defence of a claim, the Company or the Warrantor, as the case may be, shall conduct the defence to the best of its abilities, taking into account not only its own interests but also the Warrantor's and Warrantee's or the Company's interest, as the case may be.

10 CONFIDENTIALITY

10.1 Announcements

No announcement or circular in connection with the existence or the subject matter of this Agreement shall be made or issued by or on behalf of ST or NXP without the prior written approval of ST and NXP. This shall not affect any announcement or circular required by Law or the rules of any recognised stock exchange on which the shares of either Party are listed, provided that the Party with an obligation to make an announcement or issue a circular shall consult with the other Party insofar as is reasonably practicable before complying with such an obligation.

10.2 Confidentiality undertaking

10.2.1 The Confidentiality Agreement shall cease to have any force or effect from Closing.

10.2.2 Subject to Clause 10.1 and Clause 10.2.3, each of the Parties shall treat as strictly confidential and not disclose or use any information contained in or received or obtained as a result of entering into this Agreement (or any agreement entered into pursuant to this Agreement) which relates to:

(a) the provisions of this Agreement or any agreement entered into pursuant to this Agreement;

(b) the negotiations relating to this Agreement (or any such other agreement); or

(c) a Party to this Agreement or the business carried on by it or any member of its group of companies.

10.2.3 Clause 10.2.2 shall not prohibit disclosure or use of any information if and to the extent:

(a) the disclosure or use is required by Law or any recognised stock exchange on which the shares of any Party are listed;

(b) the disclosure or use is required to vest the full benefit of this Agreement in any Party;

(c) the disclosure or use is required for the purpose of any judicial proceedings arising out of this Agreement or any other agreement entered into under or pursuant to this Agreement or the disclosure is made to a Tax Authority in connection with the Tax affairs of the disclosing Party;

(d) the disclosure is made to professional advisors of any Party on terms that such professional advisors undertake to comply with the provisions of Clause 10.2.2 in respect of such information as if they were a party to this Agreement;

(e) the information is or becomes publicly available (other than by breach of the Confidentiality Agreement or of this Agreement);

(f) the other Party has given prior written approval to the disclosure or use; or

(g) the information is independently developed after Closing;

provided that prior to disclosure or use of any information pursuant to Clause 10.2.3(a), (b), or (c), the Party concerned shall promptly notify the other Party of such requirement with a view to providing the other Party with the opportunity to contest such disclosure or use or otherwise to agree the timing and content of such disclosure or use.

11 MISCELLANEOUS

11.1 Further assurances

Each of the Parties shall from time to time execute such documents and perform such acts and things as the other Party may reasonably require to transfer their Relevant Businesses to the Joint Venture, and to give any Party the full benefit of this Agreement.

11.2 Whole agreement

11.2.1 This Agreement, together with the Transaction Documents, contains the whole agreement

between the Parties relating to the subject matter of this Agreement, to the exclusion of any terms implied by Law which may be excluded by contract, and supersedes any previous written or oral agreement between the Parties in relation to the matters dealt with in this Agreement.

11.2.2 ST acknowledges that it has not been induced to enter into this Agreement by any representation, warranty or undertaking not expressly set out in this Agreement.

11.2.3 NXP acknowledges that it has not been induced to enter into this Agreement by any representation, warranty or undertaking not expressly set out in this Agreement.

11.3 Precedence

In the event of a conflict between, on the one hand, the provisions of any of the Local Transfer Agreements, or any other agreements and documents relating to the transfer to the Company (or relevant Affiliates of the Company) of the Relevant Businesses, and, on the other hand, the provisions of this Agreement (excluding the Local Transfer Agreements and said other agreements and documents), the provisions of this Agreement shall prevail.

11.4 Assignment

Any Party may assign, grant any security interest over or otherwise transfer, in whole or in part, any of its rights and obligations under this Agreement, provided that such assignment, granting or transfer takes place to a party that becomes a shareholder of the Company in accordance with the provisions of the Shareholders Agreement. Any other assignment, granting of security interest over or other transfer shall require the prior written consent of the other Party.

11.5 Waiver

No waiver of any provision of this Agreement shall be effective unless in writing and signed by or on behalf of the waiving Party.

11.6 Variation

No variation of this Agreement shall be effective unless in writing and signed by or on behalf of each of the Parties.

11.7 Third party rights

This Agreement does not contain a stipulation in favour of a third party (‘*derdenbeding*’), except for the Company and the relevant Group Companies in relation to all provisions of this Agreement pursuant to which the Company and/or the Group Companies are granted certain rights or are the recipient of certain guarantees, covenants or undertakings and for the relevant members of the NXP Group in relation to Clause 6.10 and Clause 6.14.

11.8 Rescission

Without prejudice to Clauses 3.5 and 5.4.2, each Party waives its right to rescind (‘*ontbinden*’) this Agreement on the basis of section 6:265 of the Netherlands Civil Code. The mistaken party shall bear the risk of any mistake (‘*dwaling*’) in making this Agreement.

11.9 Costs

Unless this Agreement provides otherwise, all costs which a Party has incurred or must incur in preparing, concluding or performing this Agreement, including the relevant Transaction Costs and Disentanglement Costs, are for its own account. The Start-Up Costs shall be borne by either the Company or by ST and NXP pro rata to their shareholdings in the Company. For the avoidance of doubt, all Restructuring Costs shall be for the account of the Company, unless provided otherwise in this Agreement. NXP will bear all the WH2 Reorganisation Costs.

11.10 Interest

If any Party defaults in the payment when due of any sum payable under this Agreement, the liability of that Party shall be increased to include interest on such sum from the date when such payment is due until the date of actual payment (as well after as before judgement) at the Interest Rate.

11.11 Notices

11.11.1 Any notice in connection with this Agreement (a “**Notice**”) shall be:

(a) in writing;

(b) in English; and

(c) delivered by hand, fax, registered post or by courier using an internationally recognised courier company.

11.11.2 A Notice to ST shall be sent to ST at the following address, or such other person or address as ST may notify to NXP from time to time:

ST N.V.
39 Chemin de Champ des Filles
1228 Plan les Ouates, Geneva
Switzerland
Fax: +41 22 929 5906
Attention: General Counsel

11.11.3 A Notice to NXP shall be sent to NXP at the following address, or such other person or address as NXP may notify to ST from time to time:

NXP B.V.
High Tech Campus 60
5656 AG Eindhoven
The Netherlands
Fax: + 31 40 272 9658
Attention: General Counsel

11.11.4 A Notice shall be effective upon receipt and shall be deemed to have been received:

(a) at the time of delivery, if delivered by hand, registered post or courier;

(b) at the time of transmission in legible form, if delivered by fax.

11.12 Invalidity

If any provision in this Agreement shall be held to be illegal, invalid or unenforceable, in whole or in part, under any Law:

11.12.1 such provision or part shall to that extent be deemed not to form part of this Agreement but the legality, validity or enforceability of the remainder of this Agreement shall not be affected;

11.12.2 ST and NXP shall use reasonable efforts to agree a replacement provision that is legal, valid and enforceable to achieve so far as possible the intended effect of the illegal, invalid or unenforceable provision.

11.13 Counterparts

This Agreement may be entered into in any number of counterparts, all of which taken together shall constitute one and the same instrument. ST and NXP may enter into this Agreement by signing any such counterpart.

11.14 Dispute resolution

11.14.1 The Parties will attempt in good faith to resolve promptly any dispute arising out of or relating to this Agreement by negotiation. If the matter is not resolved in the normal course of business any Party may give the other Party notice of any such dispute not resolved, after which the dispute will be referred to the CEOs of the Parties, who will similarly attempt to resolve the dispute.

11.14.2 If the dispute has not been resolved within sixty (60) days after delivery of the notice referred to in Paragraph 11.14.1, then at the election of any Party, the dispute will be finally and exclusively settled by arbitration pursuant to the Rules of Conciliation and Arbitration of the International Chamber of Commerce by three arbiters appointed according to said Rules, the foregoing without prejudice to any Party's right to seek injunctive relief before a competent court. Arbitration shall take place in Paris and the procedure will be conducted in the English language in accordance with the rules of law. The right, if any, to discovery is excluded.

11.15 Governing law

This Agreement and the documents to be entered into pursuant to it, save as expressly otherwise provided therein, shall be governed by and construed in accordance with the Law of the Netherlands.

AGREED AND SIGNED ON 10 APRIL 2008 BY:

STMicroelectronics N.V.

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Name: Carlo Bozotti

Title: President and CEO

NXP B.V.

Name: Frans van Houten
Title: President and CEO

Schedule 1 Definitions

Definitions

(Clause 1.1)

"**ABO**" means Accumulated Benefit Obligation as defined under US GAAP standard FAS87, using actuarial and economic assumptions set forth in Appendix 8.1.3 to Schedule 6, for all rights and benefits accrued by the Employees up to the Effective Time. For other long term benefit plans in Section 2 of Appendix 8.2.1 that are outside the scope of FAS 87, the ABO calculation shall reflect the same principle of measuring the accrued liability as the expected projected cost of the benefit recognised over the service period to be rendered in exchange for the long-service benefit;

"**Accounts**" means, in respect of each Party's Relevant Businesses, the combined financial statements in respect of the Relevant Businesses for the 12 (twelve) month period ended on the Accounts Date, as set out in Schedule 15 (Part 1) in the case of ST's Relevant Businesses, and Schedule 15 (Part 2) in the case of NXP's Relevant Businesses;

"**Accounts Date**" means 31 December 2007;

"**Affiliate**" means, when used with reference to a specified Person, any other Person that directly or indirectly is Controlled by the specified Person, and any other Person which, in terms of sections 2:24a and 2:24b of the Netherlands Civil Code, qualifies as a "subsidiary" of such specified Person, provided that a reference to an Affiliate of ST or NXP shall exclude, as of Closing, the Group Companies;

"**Agreed Terms**" means, in relation to a document, such document in the terms agreed between ST and NXP and signed for identification by ST's Lawyers and NXP's Lawyers with such alterations as may be agreed in writing between ST and NXP from time to time;

"**Agreement**" means this Sale and Contribution Agreement and all the Schedules thereto, explicitly including the Transaction Documents and any annexes to Schedules;

"**Ancillary Agreements**" means the Local Transfer Agreement, the TSAs, the SLAs, and the Operational Agreements;

"**Anti-trust Approvals**" means in respect of any notifications, applications or requests required or necessary under any statutory provisions in connection with the conclusion or performance of this Agreement, including the Closing Anti-trust Approvals, (i) the relevant Governmental Authority having stated in writing that the subject matter of the notification, application or request is permitted, or (ii) that the relevant Governmental Authority shall not conduct any further investigation, or (iii) the applicable waiting periods under the applicable laws to such approvals have expired or been terminated, and "**Anti-trust Approval**" means any one of them or the relevant one of them, as the context requires;

"**APBO**" means Accumulated Postretirement Benefit Obligation in accordance with FAS 106

using actuarial and economic assumptions set forth in Appendix 8.1.3 to Schedule 7, for all rights and benefits accrued by the Employees up to the Effective Time;

"**Assumed Business Liabilities**" means, collectively, the NXP Assumed Business Liabilities and the ST Assumed Business Liabilities, and "**Assumed Business Liability**" means any one of them or the relevant one of them, as the context requires;

"**Assumed Financial Liabilities**" means collectively, the NXP Assumed Financial Liabilities and the ST Assumed Financial Liabilities, and "**Assumed Financial Liability**" means any of them or the relevant one of them, as the context requires;

"**Assumed Liabilities**" means, collectively, the Assumed Financial Liabilities and the Assumed Business Liabilities;

"**Assumed Financial Liabilities Funding Requirement**" means any one of the ST Assumed Financial Liabilities Funding Requirement and the NXP Assumed Financial Liabilities Funding Requirement or the relevant one of them, as the context requires;

"**Automatic Transfer Employees**" means all those Employees who will transfer with the Relevant Businesses by operation of relevant national Laws;

"**Back-End operations**" means operations relating to that part of the manufacturing process that commences with shipment out of the relevant wafer factory;

"**Business**" has the meaning set out in recital (A);

"**Business Day**" means a day which is not a Saturday, a Sunday, or a public holiday in the Netherlands;

"**Cash**" means cash in hand, cash in transit, cash at bank and cash equivalents;

"**Closing**" means the performance of the actions set out in Clause 5.3;

"**Closing Anti-trust Approvals**" means the approvals listed in Schedule 9;

"**Closing Conditions**" means the conditions set out in Clause 3.1, and "**Closing Condition**" means any one of them or the relevant one of them, as the context requires;

"**Closing Date**" means the date set for Closing in Clause 5.1;

"**Company**" has the meaning set out in Clause 2.1;

"**Confidentiality Agreement**" has the meaning set out in recital (A);

"**Contracts**" means the NXP Relevant Contracts and the ST Relevant Contracts, and "**Contract**" means any of them or the relevant one of them, as the context requires;

"**Contributed Company**" shall either be a NXP Contributed Company or a ST Contributed Company, as the case may be;

"**Controlled**" means the possession, directly or indirectly, of (i) more than 50% (fifty percent) of the voting shares, or (ii) the power to direct or cause the direction of the management and policies of, a Person or other entity whether by means of voting rights, contracts or otherwise;

"**Data Room**" means the ST Data Room or the NXP Data Room, as the case may be;

"**Defined Benefit Liabilities**" means liabilities of pension, other long-term benefit plans or other post employment benefit plans, which plans are classified as defined benefit under US GAAP standards FAS 87, FAS 106 or FAS 112;

"**Disclosed**" means (a) disclosed in the Due Diligence Information in such manner as to enable the Warrantee to make an informed and accurate assessment of the matter concerned, or (b) disclosed in the ST Disclosure Letter or NXP Disclosure Letter, as the case may be;

"**Disentanglement**" has the meaning set out in Clause 4.3;

"Disentanglement Costs" means all costs incurred in connection with the Disentanglement Plans, including costs, fees and expenses for the relocation of employees and equipment and installations, the registration of IP and the establishment of a virtually stand-alone IT infrastructure, other than those fees, costs and expenses which are covered by the Start-Up Costs or the WH2 Reorganisation Costs;

"**Disentanglement Plan**" means:

(a) in respect of ST's Relevant Businesses, the contents of Schedule 5 (including the appendices thereto); and

(b) in respect of NXP's Relevant Businesses, the contents of Schedule 6 (including the appendices thereto);

"**Draft Assumed Financial Liabilities Statements**" has the meaning set out in Clause 4.10.1 and "**Draft Assumed Financial Liabilities Statement**" means any one of them or the relevant one of them, as the context requires;

"**Domain Names and Trademarks**" has the meaning set out in Paragraph 10 of Schedule 14;

"**Due Diligence Information**" means (a) the information contained in the relevant Data Room, (b) the documents and written information provided to the Warrantee during and pursuant to question and answer sessions and (c) the written information provided to the Warrantee in management presentations, all of which are electronically stored on the DVDs, attached hereto as Exhibit 1 to Schedule 14, where ST is the Warrantee and as Exhibit 2 to Schedule 14 where NXP is the Warrantee;

"**Dutchco**" has the meaning set out in Clause 2.1.1;

"**Earn-out Payments**" has the meaning set out in Paragraph 3.4 of Schedule 3;

"**Earn-out Obligations**" means the non payment obligations under the agreements referred to in Paragraphs 3.4(d)(i) and 3.4(d)(ii) of Schedule 3;

"**Effective Time**" means 13h00 GMT on 2 August 2008;

"**Employees**" means ST Relevant Employees and/or NXP Relevant Employees, as the case may be and "**Employee**" means any one of them or the relevant one of them, as the context requires;

"**Employment Costs**" means:

(a) the amounts payable or paid to or in respect of the employment of the relevant Employee (including salary, wages, Tax and social security contributions, employer's pension contributions, bonus, insurance premiums, payments or allowances or any other consideration for employment); and

(b) the costs of providing any non-cash benefits, which the employer is required to provide, by Law or contract or customarily provides in connection with such employment (including other employee benefit provisions);

"**Employment Liabilities**" means any and all costs, losses and liabilities, other than Employment Costs, directly arising out of or directly connected with employment or the employment relationship, or the initiation or the termination of employment, or of the employment relationship (including all Losses in connection with any claim, award, judgement or agreement for redundancy pay, or damages or compensation for unfair or wrongful dismissal or breach of contract or discrimination);

"**Encumbrance**" means any claim, charge, pledge, mortgage, lien, option, equity, power of sale, hypothecation, usufruct, retention of title, right of pre-emption, right of first refusal or other third party rights or security interest of any kind or an agreement to create any of the foregoing;

"**Escrow Agent**" means such escrow agent as agreed on mutually between the Parties prior to Closing;

"**Event**" means any transaction, act, omission or event of whatsoever nature and includes any change in the residence of any person for the purposes of any Tax, and references to an Event effected prior to the Effective Time, includes references to a transaction completed after the Effective Time in pursuance of a legally binding obligation or an arrangement, in either case whether or not conditional, incurred or entered into prior to the Effective Time;

"**Final Assumed Financial Liabilities Statement**" means, in respect of NXP's Relevant Businesses, a final statement to be provided after the Effective Time, setting out the NXP Assumed Financial Liabilities Funding Requirement and, in respect of ST's Relevant Businesses, a final statement to be provided after the Effective Time setting out the ST Assumed Financial Liabilities Funding Requirement each of which shall be prepared, delivered, reviewed and determined in accordance with Clause 6.5 and Clause 6.7;

"**Financial Liabilities**" means any indebtedness, bank loans, bank overdrafts, bonds, finance leases or other borrowings, Employment Liabilities (including, for the avoidance of doubt, Defined Benefit Liabilities), provisions of a debt nature; and balance of debt from capitalised operating leases other than those operating leases identified in the Disentanglement Plan;

"**Front-End operations**" means operations relating to that part of the manufacturing process that takes place prior to shipment out of the relevant wafer factory;

"**Governmental Authority**" means, to the extent it has jurisdiction, any supranational governmental commission, council, directorate, court, trade agency, regulatory body or other authority, or any national government, any legislature, any political subdivision of a national

government or of any state, county, province or local jurisdiction therein, or any agency or instrumentality of any such government or political subdivision;

"**Group**" means the Company and Relevant Businesses, taken as a whole;

"**Group Companies**" means the Company and all companies that as at Closing form part of the Relevant Businesses including WH1 and WH2, and "Group Company" means any one of them or the relevant one of them, as the context requires;

"**HSR Act**" means the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended;

"**Insurance Costs**" means deductibles, allocated loss adjustment expenses (ALAE), retention amounts (including therein any of the ST Group or the NXP Group's, as applicable, captive insurer retention amounts or reinsurance amounts), third party administration fees, other charges and reasonable recovery expenses, collectively;

"**Insurance Policies**" has the meaning set out in Clause 6.14;

"**Intellectual Property**" or "**IP**" means trade marks, service marks, trade names, domain names, logos, patents, inventions, design rights, copyrights, semi-conductor topography rights, database rights and all other similar rights in any part of the world (including Know-how) including, where such rights are obtained or enhanced by registration, any registration of such rights and applications and rights to apply for such registrations;

"**Interest Rate**" means 3 months USD LIBOR rate compounded on a daily basis;

"**Inventory**" means work-in-progress (including wafers and dies), part-processed stocks, finished goods, goods for resale and stock-in-transit, excluding, for the avoidance of doubt, raw materials (including goldwire, moulding compounds and lead frames) and consumables;

"**Inventory Statements**" has the meaning set out in Clause 6.6;

"**IT Hardware**" means all information technology related hardware equipment, used or held for use in connection with the operation of ST's Relevant Businesses or NXP's Relevant Businesses, as the case may be;

"**June 2008 Refunds**" means the refunds of the R&D tax credits relating to NXP France set for refund in June 2008 and relating to the period from December 2003 until December 2004, amounting to EUR 6,170,649 (six million one hundred seventy thousand six hundred and forty-nine euro), of which EUR 5,570,100 (five million five hundred seventy thousand and one hundred euro) relates to NXP Crolles and EUR 600,549 (six hundred thousand five hundred and forty-nine euro) relates to NXP Rennes;

“**Know-how**” means all technical and commercial information, data and documents of whatever nature, including without limitation drawings, specifications, photographs, samples, models, processes, procedures, reports and correspondence, including any copyright and/or database rights and other rights for the protection of know-how as they may exist, but excluding any (right in) software and Patents and any other intellectual property rights therein;

“**Law**” means any applicable statute, law, ordinance, rule or regulation of any Governmental Authority;

“**Liabilities**” means all liabilities, duties and obligations of every description, including any indebtedness, bank loans, bank overdrafts, bonds, finance leases or other borrowings, Employment Liabilities, balance of debt from capitalised operating leases and provisions of a debt nature whether deriving from contract, common law, statute or otherwise, whether present or future, actual or contingent, ascertained or unascertained or disputed and whether owed or incurred severally or jointly or as principal or surety; and “**Liability**” means any one of them or the relevant one of them, as the context requires;

“**Local Transfer Agreements**” and “**Local Transfer Agreement**” have the meanings set out in Clause 4.1.1;

“**Losses**” means all damage, losses, liabilities, costs (including reasonable legal costs and reasonable experts’ and consultants’ fees), charges, expenses, claims and demands, but excluding any indirect or consequential damage;

“**Market Value of Assets**” means the value of assets of Defined Benefit pension plans and other long term benefit plans, in accordance with the definition of Market Value of Assets applicable under US GAAP standard FAS 87;

“**Material Adverse Effect**” means a change, effect, circumstance or development that is materially adverse to the financial condition, properties, assets, liabilities, products (whether in development or marketed) business, research programs or results of operations of a Party’s Relevant Businesses, taken as a whole, provided that none of the following (or the results thereof), in and of themselves, shall be deemed to give rise to a Material Adverse Effect: (a) any change after Signing in any Law or generally accepted accounting principles, or interpretations thereof, applicable to any of the Relevant Businesses, (b) any change in economic conditions or financial markets generally, (c) any change in business conditions generally affecting any industry in which any of the Relevant Businesses operate, (d) any acts of war, declared or undeclared, armed hostilities, sabotage or terrorism, and (e) any loss or, adverse change in the relationship with, employees, customers or suppliers of any of the Relevant Businesses proximately caused by the pendency or announcement of the Transaction or any other transactions contemplated by this Agreement, (f) any facts or circumstances known to the Party invoking the relevant provision against the other Party, prior to the date hereof which could reasonably be expected to have such effect and (g) any change in forecasts or projections of the Relevant Business;

“**Member States**” means the member states of the European Union from time to time, and “**Member State**” means any of them or the relevant one of them, as the context requires;

“**Non-Automatic Transfer Employees**” means all those Employees who will not transfer with the Relevant Businesses by operation of relevant national Laws;

“**Non-EU Country**” means any country that is not a Member State;

“**Notary**” means any civil law notary of De Brauw Blackstone Westbroek N.V., or such notary’s substitute;

“**Notice**” has the meaning set out in Clause 11.11.1;

“**NXP**” has the meaning set out in the introduction of this Agreement;

“**NXP Assumed Business Liabilities**” has the meaning set out in Schedule 3, and **“NXP Assumed Business Liability”** means any one of them or the relevant one of them, as the context requires;

“**NXP Assumed Financial Liabilities**” means, subject to Clause 2.4.2,:

(a) in respect of each NXP Entity as at the Effective Time the position held by the NXP Entity in any indebtedness, bank loans, bank overdrafts, bonds, finance leases or other borrowings, at Closing,

(a) in respect of NXP’s Relevant Businesses as at the Effective Time, certain Unfunded Defined Benefits Liabilities in respect of any NXP Employees,

and “**NXP Assumed Financial Liability**” means any one of them or the relevant one of them, as the context requires;

The NXP Assumed Financial Liabilities shall be determined on the basis of the ST Accounting Principles.

“**NXP Assumed Financial Liabilities Funding Requirement**” means the result of:

(a) the aggregate of all NXP Assumed Financial Liabilities;

less

(b) in respect of each NXP Contributed Company, all Cash held by or on behalf of it, as at the Effective Time, including any Cash contributed in relation to the funding obligations pursuant to Clause 2.4.3.

"**NXP Assumed Liabilities**" means, collectively, the NXP Assumed Business Liabilities and the NXP Assumed Financial Liabilities;

"**NXP Contributed Companies**" means those Affiliates of NXP forming part of the NXP's Relevant Business of which the shares shall be transferred to the Company (including without limitation WH1, WH2 and the local Newcos in accordance with the methods and principles set out in NXP's Disentanglement Plan and the NXP Entities), and "**NXP Contributed Company**" means any one of them or the relevant one of them, as the context requires;

"**NXP Data Room**" means the electronic data room containing documents and information in respect of each of NXP's Relevant Businesses, made available by NXP, the contents of which are listed in Appendix 1 to the Disclosure Letter;

"**NXP Disclosure Letter**" means the letter from NXP to ST, attached as Schedule 14 (Part 2);

"**NXP Entities**" means Beijing T3G Technology Co. Ltd. and NXP France, the shares of which are to be transferred to the Company (directly or indirectly as subsidiaries of WH1 or WH2) in accordance with the methods and principles set out in the NXP Disentanglement Plan;

"**NXP First Allocated Interim Capex**" has the meaning set out in Clause 4.11.2;

"**NXP Group**" means NXP and its Affiliates from time to time, excluding, after Closing, the Group Companies;

"**NXP Interim Capex**" has the meaning set out in Clause 4.11.1;

"**NXP's Lawyers**" means De Brauw Blackstone Westbroek N.V. of Tripolis 300, Burgerweeshuispad 301, 1076 HR Amsterdam, the Netherlands (reference Arne Grimme and Dieter Wolff);

"NXP Moveable Assets" has the meaning set out in Schedule 3;

"**NXP Receivables**" has the meaning set out in Schedule 3;

"**NXP's Relevant Businesses**" has the meaning set out in Schedule 3;

"**NXP Relevant Contracts**" has the meaning set out in Schedule 3, and "**NXP Relevant Contract**" means any one of them or the relevant one of them, as the context requires;

"**NXP Relevant Employees**" means all those persons that are immediately prior to Closing employed by NXP or any of its Affiliates and identified under NXP's Disentanglement Plan, attached as Schedule 6, to be transferred with NXP's Relevant Businesses;

"**NXP Relevant IP**" has the meaning set out in Schedule 3;

"**NXP Relevant Registered IP**" means all registered IP forming part of NXP Relevant IP;

"**NXP Remaining Business**" means the business activities of the NXP Group, other than NXP's Relevant Businesses;

"**NXP Retained Liabilities**" has the meaning set out in Schedule 3 and "**NXP Retained Liability**" means any one of them or the relevant one of them, as the context requires;

"**NXP Second Allocated Interim Capex**" has the meaning set out in 4.11.2;

"**NXP Senior Employees**" means Marc Cetto, GertJan Kaat, Andreas Brenner, Dan Rabinovitsj, Dennis Kish and Jacques Noel;

"**NXP Third Allocated Interim Capex**" has the meaning set out in 4.11.2,

"**NXP Umbrella Agreements**" means all agreements applicable to, but not exclusively related to, NXP's Relevant Businesses;

"**NXP VAT Claims**" means the claims identified as such in Schedule 21;

"**NXP's Works Council**" has the meaning set out in Clause 3.1.2;

"**Operational Agreements**" and "**Operational Agreement**" have the meaning set out in Clause 4.1.3;

"**Parties**" means ST and NXP, and "**Party**" means any one of them or the relevant one of them, as the context requires;

"**Patents**" shall have the meaning given thereto in the IP Transfer and License Agreement;

"**PBO**" means Projected Benefit Obligation as defined under US GAAP standard FAS87, using actuarial and economic assumptions set forth in Appendix 8.1.3 to Schedule 6, for all rights and

benefits accrued by the Employees up to the Effective Time. For other long term benefit plans in Section 2 of Appendix 8.2.1 that are outside the scope of FAS 87, the PBO calculation shall reflect the same principle of measuring the accrued liability as the expected projected cost of the benefit recognised over the service period to be rendered in exchange for the long-service benefit;

"**Permits**" means licences, permits, consents, approvals, authorizations, registrations, franchises, exemptions and orders of any Governmental Authority;

"**Person**" means any individual, company, corporation, partnership, joint venture, association, joint stock corporation, trust, unincorporated organisation or Governmental Authority;

"**Personal IT Equipment**" means desktops, laptops, blackberries and mobile phones;

"**PPE**" has the meaning set out in Clause 6.6;

"**PPE Statements**" has the meaning set out in Clause 6.6;

"**Project Contracts**" means the contracts relating to the Projects (as such term has been defined in the Projects Transfer Agreement between ST, NXP and the Company);

"**R&D Tax Credits**" means those R&D tax credits to be paid by the relevant Governmental Authority to NXP France (following the merger between NXP Crolles, NXP France and NXP Rennes), as set out in the table included in Clause 6.11.1;

"**Reasonable and Prudent Operator**" means a party seeking to perform its contractual and other obligations and in so doing and in the general conduct of its undertaking exercising that degree of skill, diligence, prudence and foresight which would reasonably and ordinarily be expected from a skilled and experienced operator in substantial compliance with all applicable laws engaged in the same type of undertaking in the same locality and under the same or similar circumstances and conditions;

"**Reference Amounts**" has the meaning set out in Clause 6.6;

"**Relevant Businesses**" means ST's Relevant Businesses and/or NXP's Relevant Businesses, as the context requires, and "**Relevant Business**" means any one of them or the relevant one of them, as the context requires;

"**Relevant IP**" has the meaning set out in Schedule 14;

"**Relevant IT Assets**" has the meaning set out in Schedule 14;

"**Relevant Licensed IP**" has the meaning set out in Schedule 14;

"**Reporting Accountant**" means a registered accountant of international repute and with relevant experience having regard to the relevant expertise required,;

"**Restructuring Costs**" means all restructurings costs, fees and expenses incurred by the Company or any of its Affiliates relating to employee relocation, retraining, severance or termination; the rationalisation, reduction or elimination of product lines; the consolidation, relocation or closure of manufacturing and administrative locations; impairment of inventory and

fixed assets specifically related to the aforementioned restructuring initiatives and similar items, as determined and calculated in accordance with the ST Accounting Principles, consistently applied;

"**Retained Liabilities**" means the NXP Retained Liabilities and the ST Retained Liabilities, and "**Retained Liability**" means any one of them or the relevant one of them, as the context requires;

"**Security**" means any right to Encumbrance, guarantee, indemnity, surety, letter of comfort or other assurance, security, right of set-off, obligation to contribute (*'bijdrageplicht'*) or undertaking, given by a person to secure or support the obligations (actual or contingent) of any other person, whether given directly, by way of counter-indemnity or otherwise;

"**Senior Employees**" means the NXP Senior Employees or the ST Senior Employees, as applicable;

"**Signing**" means the signing by the Parties of this Agreement;

"**Signing Date**" means the day on which the last Party signing this Agreement has signed this Agreement;

"**Shareholders Agreement**" means the agreement between ST, NXP and the Company, attached hereto in agreed form as Schedule 16;

"**Silabs IP**" means the NXP Relevant IP that has been obtained by NXP as a result of the acquisition by NXP of Silicon Laboratories, Inc;

"**SLAs**" and "**SLA**" have the meaning set out in Clause 4.1.2;

"**ST**" has the meaning set out in the introduction of this Agreement;

"**ST Accounting Principles**" means ST's Group accounting principles that are in accordance with US GAAP as applied by ST as at the Effective Time and thereafter, as set out in Schedule 18;

"**ST Assumed Business Liabilities**" has the meaning set out in Schedule 2, and "**ST Assumed Business Liability**" means any one of them or the relevant one of them, as the context requires;

"**ST Assumed Financial Liabilities**" means, subject to Clause 2.4.1,:

(a) in respect of each ST Entity as at the Effective Time the position held by the ST Entity in any indebtedness, bank loans, bank overdrafts, bonds, finance leases or other borrowings, at Closing,

(b) in respect of ST's Relevant Businesses as at the Effective Time, certain Unfunded Defined Benefits Liabilities in respect of any ST Employees,

and "**ST Assumed Financial Liability**" means any one of them or the relevant one of them, as the context requires;

The ST Assumed Financial Liabilities shall be determined on the basis of the ST Accounting Principles.

"**ST Assumed Financial Liabilities Funding Requirement**" means the result of:

(a) the aggregate of all ST Assumed Financial Liabilities;

less

(b) in respect of each ST Contributed Company, all Cash held by or on behalf of it, as at the Effective Time, including any Cash contributed in relation to the funding obligations pursuant to Clause 2.4.3;

"**ST Assumed Liabilities**" means, collectively, the ST Assumed Business Liabilities and the ST Assumed Financial Liabilities;

"**ST Contributed Companies**" means those Affiliates of ST forming part of ST's Relevant Businesses of which the shares shall be transferred to the Company including without limitation local Newco's in accordance with the methods and principles set out in the ST Disentanglement Plan and the ST Entities, and "**ST Contributed Company**" means any one of them or the relevant one of them, as the context requires;

"**ST Data Room**" means the electronic data room containing documents and information in respect of each of ST's Relevant Businesses, made available by ST, the contents of which are listed in Appendix 1 to the Disclosure Letter;

"**ST Disclosure Letter**" means the letter from ST to NXP, attached as Schedule 14 (Part 3);

"**ST Entities**" means ST R&D Oy, the shares of which are to be transferred (directly or indirectly) to the Company in accordance with the methods and principles set out in the ST Disentanglement Plan;

"**ST Group**" means ST and its Affiliates from time to time, excluding after Closing the Group Companies;

"**ST's Lawyers**" means Allen & Overy LLP;

"**ST Moveable Assets"** has the meaning set out in Schedule 2;

"**ST Receivables**" has the meaning set out in Schedule 2;

"**ST's Relevant Businesses**" has the meaning set out in Schedule 2;

"**ST Relevant Contracts**" has the meaning set out in Schedule 2, and "**ST Relevant Contract**" means any one of them or the relevant one of them, as the context requires;

"**ST Relevant Employees**" means all those persons that are immediately prior to Closing employed by ST or any of its Affiliates and identified under ST's Disentanglement Plan, attached as Schedule 5, to be transferred with ST's Relevant Businesses;

"**ST Relevant IP"** has the meaning set out in Schedule 2;

"**ST Retained Liabilities**" has the meaning set out in Schedule 2 and "**ST Retained Liability**" means any one of them or the relevant one of them, as the context requires;

"**ST Senior Employees**" means Tommi Uhari, Jean-Francois Mathieu, Leon Cloetens, Monica De Virgilis, Patrice Meilland, Jyrki Hannikainen, Francis Litty and Pierre Bacuvier;

"**ST Umbrella Agreements**" means all agreements applicable to, but not exclusively related to, ST's Relevant Businesses;

"**ST VAT Claims**" means the claims identified as such in Schedule 21 (part 2) [*Note: awaiting clarification from ST/A&O regarding the cross reference to Schedule 21 (part 2)*];

“**ST’s Works Council(s)**” has the meaning set out in Clause 4.9;

“**Start-Up Costs**” means cost of setting up the various new companies that will form the Group and the filing fees in relation to the Closing Anti-trust Approvals required to be made in any jurisdiction in connection with the Transaction, including all costs, penalties and fines resulting from not filing in any jurisdiction where it is determined that an anti-trust filing should have taken place.

“**Swiss Opco**” has the meaning set out in Clause 2.1.1;

“**T3G**” means Beijing T3G Technology Co. Ltd.;

“**Tax**” means all forms of taxation whether direct or indirect and whether levied by reference to income, profits, gains, net wealth, net worth, equity, asset values, turnover, gross receipts, added value or other reference, and statutory, governmental, state, provincial, local governmental or municipal impositions, duties, contributions, rates and levies (including sales and use taxes, social security contributions and any other payroll taxes), whenever and wherever imposed (whether imposed by way of a withholding or deduction for or on account of tax or otherwise) and in respect of any person, and all penalties, charges, costs and interest relating thereto;

“**Tax Authority**” means any taxing or other authority competent to impose any liability in respect of Tax or responsible for the administration and/or collection of Tax or enforcement of any Law in relation to Tax;

“**Tax Indemnity**” has the meaning set out in Schedule 13;

“**Term Sheets**” has the meaning set out in Clause 4.1 and “**Term Sheet**” means any one of them or the relevant one of them, as the context requires;

“**Third Party Consents**” means all consents, licences, approvals, permits, authorisations or waivers required from third parties in respect of the assignment or transfer to the Company or relevant Group Company of any Contract, and “**Third Party Consent**” means any one of them or the relevant one of them, as the context requires;

“**Transaction**” has the meaning set out in recital (A);

“**Transaction Costs**” means all fees, costs and expenses and stamp, transfer, registration and similar taxes incurred in connection with the Transaction, other than those fees, costs and expenses which are covered by the Start-Up Costs;

“**Transaction Documents**” means the Agreement, the Local Transfer Agreements, the TSAs, the SLAs and the Operational Agreements;

“**TSAs**” and “**TSA**” have the meaning set out in Clause 4.1.2;

“**Unfunded Defined Benefits Liability**” has the meaning set out in Schedule 8;

“**VAT**” means, within the European Union, such Tax as may be levied in accordance with (but subject to derogation from) the Directive 2006/112/EC, and outside the European Union, any Tax levied by reference to added value, or sales and/or consumption;

“**WCA**” has the meaning set out in Clause 3.1.2;

“**WH2 Reorganisation Costs**” means the costs, fees and expenses (including, without limitation, Tax) incurred by the Group after Closing to unwind the Newco-structure of WH2 (excluding NXP France and T3G) or otherwise caused by having newly incorporated companies holding the various assets and liabilities compared, and in excess, to the costs incurred by the Group if such assets and liabilities would have been transferred to companies newly incorporated by the Group;

“**Working Capital Loan**” has the meaning set out in Clause 2.1.2;

Exhibit 8

List of significant subsidiaries

NXP Semiconductors Austria GmbH, Wien, Austria (100%)
NXP Semiconductors Belgium N.V., Leuven, Belgium (100%)
NXP Semiconductors Brasil Ltda, Sao Paulo, Brazil (100%)
NXP Semiconductors Canada Inc., Ontario, Canada (100%)
NXP Semiconductors Guangdong Ltd., Dongguang City, China (100%)
NXP Semiconductors (Beijing) Ltd., Beijing, China (100%)
NXP Semiconductors (Shanghai) Ltd., Shanghai, China (100%)
Jilin NXP Semiconductors Ltd., Jilin City, China (60%)
NXP Semiconductors Finland Oy, Espoo, Finland (100%)
NXP Semiconductors France SAS, Colombelles, France (100%)
SMST Unterstützungskasse GmbH, Hamburg, Germany (100%)
NXP Semiconductors Germany GmbH, Hamburg, Germany (100%)
NXP Stresemannallee 101 Zweite Verwaltungs GmbH, Hamburg, Germany (100%)
NXP Stresemannallee 101 Dritte Verwaltungs GmbH, Hamburg, Germany (100%)
NXP Semiconductors Hong Kong Ltd., Hong Kong, Hong Kong (100%)
NXP Semiconductors Hungary Ltd., Budapest, Hungary (100%)
NXP Semiconductors India Pvt. Ltd., Bangalore, India (100%)
Glonav Ireland Ltd., Dublin, Ireland (100%)
Glonav Ltd., Southampton, United Kingdom (100%)
NXP Semiconductors Israel Ltd., Kiryat Byalik, Israel (100%)
NXP Semiconductors Italia Spa, Milan, Italy (100%)
NXP Semiconductors Japan Ltd., Tokyo, Japan (100%)
NXP Semiconductors Korea Ltd., Seoul, Korea (100%)
NXP Semiconductors Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia (100%)
NXP Semiconductors Netherlands B.V., Eindhoven, the Netherlands (100%)
NXP Semiconductors International B.V., Eindhoven, the Netherlands (100%)
NXP Software B.V., Eindhoven, the Netherlands (100%)
NXP Semiconductors Philippines, Inc., Calamba City, Philippines (100%)
NXP Semiconductors Cabuyao, Inc., Cabuyao, Philippines (100%)
Laguna Ventures, Inc., Cabuyao, Philippines (39.9%)
NXP Semiconductors Poland Sp.z.o.o., Warsaw, Poland (100%)
NXP Semiconductors Russia O.O.O., Moscow, Russia (100%)
NXP Semiconductors Singapore Pte. Ltd., Singapore, Singapore (100%)
NuTune Singapore Pte. Ltd., Singapore, Singapore (55%)
PT Thomson Batam, Batam, Indonesia (55%)
Suzhou NuTune Ltd., Suzhou, China (55%)
NuTune Netherlands B.V., Eindhoven, the Netherlands (55%)
NuTune France SAS, Paris, France (55%)
NuTune Germany GmbH, Villingen, Germany (55%)
Systems on Silicon Manufacturing Company Pte Ltd, Singapore, Singapore (61.2%)
NXP Semiconductors Sweden AB, Stockholm, Sweden (100%)
NXP Semiconductors Switzerland AG, Zürich, Switzerland (100%)
NXP Semiconductors Taiwan Ltd., Kaohsiung, Taiwan (100%)
NXP Manufacturing (Thailand) Co., Ltd., Bangkok, Thailand (100%)
NXP Semiconductors (Thailand) Co., Ltd., Bangkok, Thailand (100%)
NXP Semiconductors Elektronik Ticaret A.S., Istanbul, Turkey (100%)
NXP Semiconductors UK Ltd., Southampton, United Kingdom (100%)
NXP Semiconductors USA, Inc., San Jose, CA, USA (100%)
NXP Funding LLC, Wilmington, DE, USA (100%)
NXP Semiconductors (GPS) USA, Inc., Wilmington, DE, USA (100%)

Exhibit 12(a)

CERTIFICATION

I, Rick Clemmer, certify that:

1. I have reviewed this annual report on Form 20-F of NXP B.V;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 7, 2009

/s/ Rick Clemmer

Rick Clemmer
President, Chairman of the Board of Management
and the Management Team

Exhibit 12(b)

CERTIFICATION

I, Karl Sundström, certify that:

6. I have reviewed this annual report on Form 20-F of NXP B.V;

7. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

8. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

9. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

10. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 7, 2009

/s/ Karl Sundström

Karl Sundström
Executive Vice President and Chief Financial Officer

Exhibit 13(a)

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of NXP B.V. (the "Company"), hereby certifies, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2008 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 7, 2009

/s/ Rick Clemmer

Rick Clemmer
President, Chairman of the Board of Management
and the Management Team

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 13(b)

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of NXP B.V. (the "Company"), hereby certifies, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2008 (the "Report") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 7, 2009

/s/ Karl Sundström

Karl Sundström
Executive Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Report or as a separate disclosure document.

Annual Report to shareholders for 2008

The 2008 Annual Report of NXP B.V. is furnished to the Securities and Exchange Commission for information only and is not filed except for such specific portions that are expressly incorporated by reference in this Report on Form 20-F.

NXP Semiconductors

Annual Report 2008

Forward-looking statements

This document includes forward-looking statements which include statements regarding our business strategy, financial condition, results of operations, and market data, as well as any other statements which are not historical facts. By their nature, forward-looking statements are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. These factors, risks and uncertainties include the following: market demand and semiconductor industry conditions, our ability to successfully introduce new technologies and products, the demand for the goods into which our products are incorporated, our ability to generate sufficient cash or raise sufficient capital to meet both our debt service and research and development and capital investment requirements, our ability to accurately estimate demand and match our production capacity accordingly 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 to develop products for use in our customers' equipment and products, our ability to successfully establish a brand identity, our ability to successfully hire and retain key management and senior product architects; and, our ability to maintain good relationships with our suppliers.

Except for any ongoing obligation to disclose material information as required by the United States federal securities laws, we do not have any intention or obligation to update forward-looking statements after we distribute this document. In addition, this document contains information concerning the semiconductor industry, our market segments and business units 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 segments and product areas will develop. We have based these assumptions on information currently available to us. 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, our future results of operations and financial condition, and the market price of the notes, could be materially adversely affected.

Fair value information

In presenting the NXP Semiconductors Group's financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that we consider to be reliable. Users are cautioned that these values are subject to change over time and are only valid as of the balance sheet date. When a readily determinable market value does not exist, we estimate fair values using valuation models which we believe are appropriate for their purpose. These require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. In certain cases independent valuations are obtained to support management's determination of fair values.

Reporting currency

As from January 1, 2008, NXP has changed its reporting currency from Euro to US dollar in order to be more aligned with the Semiconductor market. Prior periods of the Financial Statements have been revised to reflect this change.

US GAAP basis of presentation

The financial information included in this document is based on US GAAP, unless otherwise indicated.

Use of non-US GAAP information

In presenting and discussing the NXP Semiconductors Group's financial position, operating results and cash flows, management uses certain non-US GAAP financial measures. These non-US GAAP financial measures should not be viewed in isolation or as alternatives to the equivalent US GAAP measure(s) and should be used in conjunction with the most directly comparable US GAAP measure(s).

A discussion of non-US GAAP measures included in this document and a reconciliation of such measures to the most directly comparable US GAAP measure(s) are contained in this document in the chapter "Reconciliation of non-US GAAP information".

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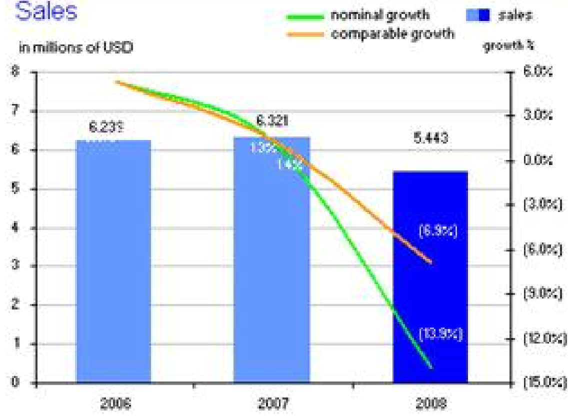
Financial highlights

all amounts in millions of USD unless otherwise stated

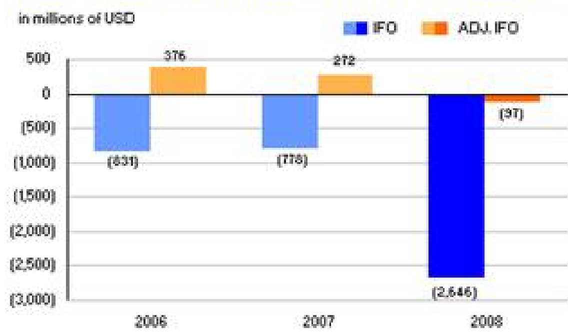
	PREDECESSOR	SUCCESSOR	COMBINED	SUCCESSOR	
	For the period January 1, September 28, 2006	For the period September 29, December 31, 2006	For the year ended December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Sales	4,705	1,533	6,238	6,321	**5,443**
Income (loss) from operations (IFO)	173	(1,004)	(831)	(778)	**(2,646)**
as a% of sales	3.7	(65.5)	(13.3)	(12.3)	**(48.6)**
Earnings before interest, tax and amortization (EBITA) (1)	138	(188)	(50)	(189)	**(1,624)**
as a% of sales	2.9	(12.3)	(0.8)	(3.0)	**(29.8)**
Adjusted EBITA (1)	318	88	406	297	**(57)**
as a% of sales	6.8	5.7	6.5	4.7	**(1.0)**
Earnings before interest, tax, depreciation and amortization (EBITDA) (1)	702	32	734	682	**(931)**
as a% of sales	14.9	2.1	11.8	10.8	**(17.1)**
Adjusted EBITDA (1)	882	276	1,158	1,031	**485**
as a% of sales	18.7	18.0	18.6	16.3	**8.9**
Net income (loss)	6	(794)	(788)	(650)	**(3,600)**
Cash flows before financing activities (1)	14	139	153	(145)	**393**
Business' and Shareholder's equity	2,532	4,834	4,834	4,528	**1,075**
Net debt : group equity ratio (1)	—(2)	48:52	48:52	51:49	**78:22**
Employees at end of period	38,144	37,468	37,468	37,627	**30,174**

(1) For a reconciliation to the most directly comparable US GAAP measures, see "Management discussion and analysis - Reconciliation of non-US GAAP information".

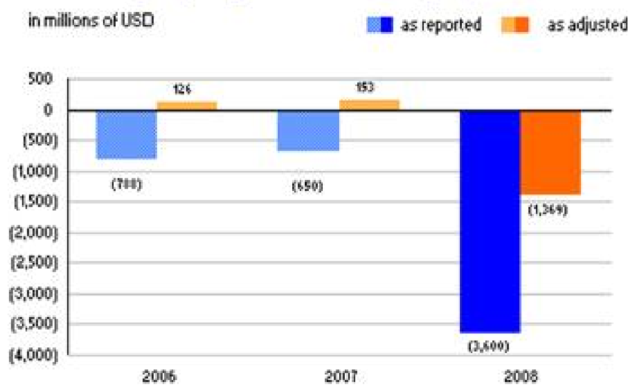
(2) Information on net debt and business' equity of predecessor period is not meaningful.



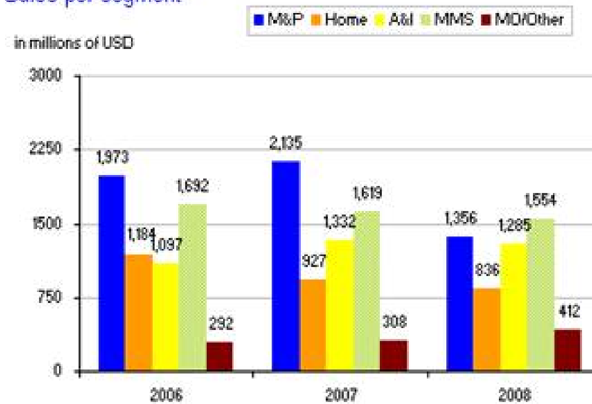
Sales
nominal growth
comparable growth
sales
in millions of USD
growth %
6.321
5.443
1.3%
1.4%
(6.9%)
(13.9%)
6.0%
3.0%
0.0%
(3.0%)
(6.0%)
(9.0%)
(12.0%)
(15.0%)
2006
2007
2008



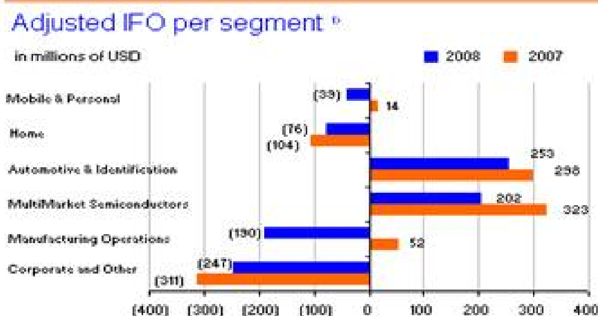
Income (loss) from operations (IFO) / Adjusted IFO
in millions of USD
IFO
ADJ. IFO
376
272
(831)
(778)
(97)
(2,646)
2006
2007
2008

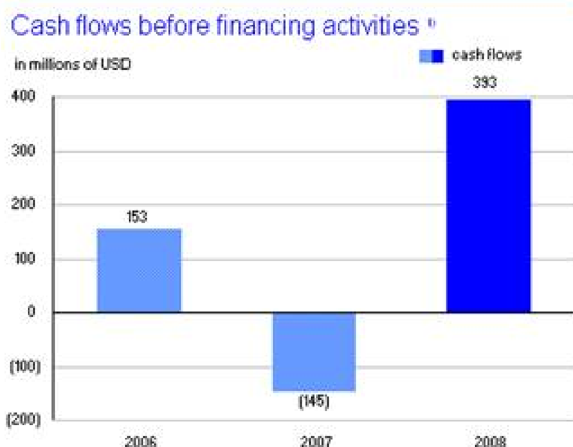


Net income (loss) / Adjusted net income (loss)
in millions of USD
as reported
as adjusted
126
153
(650)
(1,369)
2006
2007
2008



Sales per segment
M&P
Home
A&I
MMS
MD/Other
in millions of USD
1,973
1,184
1,097
1,692
292
2,135
927
1,332
1,619
308
1,356
836
1,285
1,554
412
2006
2007
2008





Information on the NXP Group

Structure

NXP B.V. (the 'Company' or 'NXP') is the parent company of the NXP Group (the 'NXP Group' or the 'Group'). The NXP Group in its current form was established on September 29, 2006, when Koninklijke Philips Electronics N.V. ('Philips') sold 80.1% of its semiconductors businesses to a consortium of private equity investors in a multi-step transaction. In order to carry out this transaction, Philips transferred 100% of these businesses to NXP on September 28, 2006. All of our issued and outstanding shares were then acquired on September 29, 2006 by KASLION Acquisition B.V., which was formed as an acquisition vehicle by the private equity consortium and Philips.

Effective January 1, 2008, the Company implemented a revised corporate governance structure. In order to simplify our organization and increase efficiency, the Board of Management and Management Team ("MT") have been combined into one management layer. The MT now functions as the primary executive management layer within our organization and is where the leaders of our Business Units, core processes and support functions act together to lead the Company. Under our new structure, members of our Board of Management continue to hold — in addition to their MT duties - responsibility as Board members with fiduciary duties under Dutch company law.

Under the chairmanship of the CEO, the Board of Management is entrusted with the general management of the Company, including setting its strategy and policies. The Board of Management, whose members are appointed and dismissed by the General Meeting of Shareholders upon proposal by the Supervisory Board, and which is embedded in NXP's MT, is accountable to our Supervisory Board and to our general meeting of shareholders. The MT, in turn is responsible for the deployment of the Company's strategy and policies and the achievement of its objectives and results, ensuring business matters and practices are shared across our business. Major decisions of the Board of Management require the approval of the Supervisory Board, including decisions relating to the Company's operational and financial objectives and the strategies it uses to achieve those objectives.

This Annual Report contains the consolidated financial statements of NXP B.V. based on US GAAP.

Business overview

The NXP Group is one of the world's largest semiconductor companies. With total sales of USD 5.4 billion in 2008, it ranks among the world's top semiconductor providers and among the top three suppliers of application-specific semiconductors. With over 50 years of operating history, we are also one of the longest established companies in our industry. Our business targets the home electronics, personal entertainment, and automotive and identification application markets. Within these markets, we provide a diversified range of application-specific semiconductors, including system solutions, and semiconductor components. We also have a strong multi-market products business, which provides our customers with general purpose semiconductor components, including transistors and diodes, general purpose logic and power discretes as well as an array of application specific standard products.

Strategy

Our vision is to be a leading semiconductor supplier in a world where consumers connect to information, entertainment and services through electronic devices containing our system solutions. We aspire to be industry leaders in the markets for our, Home, Automotive & Identification and MultiMarket Semiconductors business units, and to grow revenue, profitability and cash flow. In order to meet these goals, we have adopted the strategies described below:

- *Build on our market leadership positions.* We believe that our market leadership positions, extensive patent portfolio and strong research and development organization provide us with a strong foundation from which to gain additional market share in our targeted markets. We intend to build on this foundation by continuing to invest in our product portfolio, with a focus on innovations in more profitable and faster growing segments. We look to exploit our application knowledge and strengths in home, automotive, [mobile communications] and identification. We aim to extend our competitive advantage by offering differentiated semiconductor components and solutions that meet the requirements of our customers and that leverage our strong technology and design competencies in RF, analog-mixed signal, interface and interface protection, non-volatile memory, security, audio/video processing and acoustics.

- *Deepen the relationships with our key customers.* We intend to increase our share of the demand of our customers for semiconductors, with a particular focus on our top 40 OEM and EMS customers, and our top four distribution partners. To realize this objective, we deploy our sales and marketing resources to target and support these top customers effectively. We have created dedicated account teams that work across regions in order to better accommodate our customers' increasing geographical diversity. We seek to deepen our customer relationships by continuing to expand the application engineering support we provide close to our customers and by increasing the amount of product development work that we conduct jointly with our leading customers.

- *Improve operational excellence.* We continue on our comprehensive multi-year performance improvement program intended to drive revenue growth and increase profitability. As part of this program, we continue to reduce costs in manufacturing, selling, general and administrative activities, increase our effectiveness in research and development, and improve our organizational efficiency, manufacturing and supply chain performance, time-to-market of new products, product quality and customer service.

- *Pursue our asset-light manufacturing strategy.* We continue to implement our asset-light manufacturing strategy. Over the next years, we will be restructuring our legacy front-end manufacturing base in Europe and the U.S., and upgrade most remaining facilities to 8" wafer production. By concentrating our in-house production in fewer sites and outsourcing demand beyond that, we will be able to ensure that the remaining facilities can operate at high utilization levels. For all advanced CMOS manufacturing, we will leverage a number of foundry partners. We expect to maintain a major part of our assembly and test processes in house, as we believe that our internal facilities are highly competitive in terms of quality and cost. We believe that our asset-light strategy helps limit capital investment and thus reduces the fixed component of our cost structure and increases our return on invested capital. It also improves our operational flexibility throughout the industry cycle, while ensuring our continued access to world-class manufacturing capacity and leading-edge process technology.

Redesign Program

On September 12, 2008, we announced a redesign program (the ''Redesign Program'') intended to right-size our cost base to match our revenue profile following the disposition of our wireless business.

The Redesign Program was intended to be completed by the end of 2010 and targeted a reduction in annual operating costs of USD 550 million, benchmarked against our 2008 forecast cost base, adjusted for the disposition of our wireless business. This reduction was to be delivered mainly through a significant restructuring of our manufacturing base, the refocusing and resizing of central research and development (''R&D''), and reductions in support functions, and was expected to affect approximately 4,500 employees globally.

As initially envisaged, planned savings in the manufacturing base of USD 300 million on a run-rate basis were intended to be realized by the end of 2010, with R&D and support functions costs expected to be reduced by approximately USD 250 million in 2009. The related cash expense of the restructuring was estimated at USD 800 million, of which USD 600 million would be spent in 2009, and the remainder in 2010.

Since the announcement of the Redesign Program, we have made significant progress in detailing the Redesign Program and deploying the required measures within NXP, including taking a restructuring charge of USD 500 million in the third quarter of 2008 and completing the required consultations with unions and employee representatives in each jurisdiction except France.

In light of deteriorating financial and market conditions, beginning in the third quarter of 2008 and then accelerating in the fourth quarter, we have now taken steps to accelerate and expand the Redesign Program. Savings are now expected to be realized more quickly than previously anticipated. We also expect that savings will be significantly higher than we originally estimated. We also expect that the costs of the program will be lower than initially expected and estimate the total costs of the program at USD 700 million rather than USD 800 million. As a result of this lower estimate and its impact on our actions notwithstanding the expansion of the program, in the fourth quarter of 2008, we reversed a portion of the associated restructuring charge, reducing it from USD 500 million to USD 443 million in the fourth quarter.

Although we have made significant progress in implementing our Redesign Program, there can be no assurance that we will be able to realize the intended gains in full or on our intended timetable and at the expected cost. The expected U.S. dollar amount of savings may also be affected by currency fluctuations, as a portion of our cost base is denominated in currencies other than the U.S. dollar.

Business activities

During 2008, our business was organized into four business units. As a result of transactions we undertook during the year, we have reorganized into three business units.

Until July 2008, our Mobile & Personal business unit provided application-specific semiconductors, selected components and complete system solutions applied in mobile and portable devices.

On July 28, 2008, the key wireless operations of our Mobile & Personal business unit were sold to STMicroelectronics for an amount in cash and a holding in the newly established joint venture of 20%. In February 2009, STMicroelectronics exercised its option to buy NXP's 20% ownership in the joint venture.

As a consequence of these transactions, the Mobile & Personal sector has been regrouped effective as of January 1, 2009, with the remaining part of the business unit moved into the MultiMarket Semiconductors business unit and Corporate and Other segment.

The products sold by our remaining three business units encompass two categories. The first category consists of highly differentiated application-specific semiconductors and system solutions. Our Home and Automotive & Identification business units primarily sell products in this category. The profitability of these products depends to a significant degree on our ability to innovate and develop new technologies and customer solutions.
The second of our product categories consists of standard products, which are devices that can be incorporated in many different types of electronic equipment and which are typically sold to a wide variety of customers, both directly and through distributors. Our MultiMarket Semiconductors business unit carries a large range of standard products and application specific standard products, the profitability of which is driven by manufacturing cost, supply chain efficiency and continuous improvement of manufacturing processes.

Across our business units, we leverage both our knowledge of the consumer and our technical expertise in the areas of audio, video, radio frequency communications, power management and security technologies to create and deliver semiconductor solutions for the connected consumer.

Business Units

Home

Our Home business unit provides system solutions for Analog TV (ATV), Digital TV (DTV), Set-top boxes (STB) and PC-TV application markets, as well as related semiconductor components for a broad range of consumer products.

On September 1, 2008, NXP completed the combination of its can tuner modules operation with those of Thomson, operating in a new venture named NuTune, which is included in the Home business unit. NXP has a 55% ownership and Thomson the remaining 45%.

The ATV semiconductor market served by NuTune is expected to decline further, and we expect to maintain our leading market position.

In 2008, NXP acquired the Broadband Media Processing (BMP) business of Conexant Systems, Inc. With these transactions, NXP's existing set-top box and digital TV operations were combined with Conexant's BMP business. The combined operations have created a top three player in digital video systems with the scale to establish a strong leadership position.

The DTV semiconductor market in particular is expected to grow significantly as a result of further product integration and expanding digital TV market. Our total system solutions for the DTV application market positions us well to benefit from this growth. Part of the growth in the digital markets is driven by government mandates requiring the inclusion of a digital tuner in every new television, e.g. the 2005 FCC tuner mandate in the United States.

Our industry is largely focused on the consumer products market. Typically we experience seasonally higher sales in the second half of the year, in line with the higher demand for consumer products experienced by our customers during that time.

Our key customers in Home include LG Electronics, Sony, Sharp, Philips and Dell.

Automotive & Identification

The Automotive & Identification business unit provides system solutions and semiconductor components for the automotive and identification application markets.

Our automotive business focuses on the markets for Car Entertainment and Safety & Comfort. These markets have grown consistently and at a higher rate over the recent years than the overall semiconductor market, despite relatively slow growth in the sales of automobiles. This is due to the increasing prevalence of semiconductor devices within vehicles, which in turn has been the result of the further integration of consumer electronics in cars, an increasing focus on consumer safety and comfort and the replacement of mechanical devices with semiconductors.
The emergence of more integrated, "smart" safety and security systems, which utilize combinations of sensors, in-vehicle networks, micro controllers, power management components and RF competence, favor a broad automotive portfolio such as the product lines we currently maintain.

We believe that significant barriers to enter in the automobile market, such as long product lifecycles and zero-defect requirements of automotive manufacturers, give us a competitive advantage. Governmental regulations like car safety obligations (such as tire pressure

monitoring in the US) and new governmental road tolling developments have positive effects on our business as this requires increasingly advanced products.

In the above applications and segments we are working closely with the leading automotive first tier suppliers and selected OEMs to further strengthen our leading positions in applications for car radio, car access & immobilizers and in-vehicle networking.

Our identification business plays an important role in creating the markets for Radio Frequency Identification (RFID), e Government and Near-Field Communication (NFC) technologies. The primary factors driving growth are new governmental requirements for secure identity documents, the increasing prevalence of cashless transactions and more sophisticated supply chain management models.
In 2008 we introduced our Extended Access Control products for the eGovernment market, leading the market to higher standards in secure identity documents.
Our MIFARE automatic fare collection products are used in a growing number of cities around the world. In September 2007, we formed the Moversa joint venture together with Sony to combine the Felica and Mifare standards in one chip, allowing electronic access to payment and other functionality across the world.

We focus on sophisticated and high-margin areas of the identification market, allowing differentiation in contactless performance, security and packaging. In smart cards, we have elected not to participate in the largely commoditized segments of the SIM and banking card market, but have emphasized instead the high-security, higher value-added segments.

Our key customers in Automotive & Identification include Bosch, Bundesdruckerei, Continental (including former Siemens VDO), Gemalto, G&D, Oberthur Card Systems, Smartrac, Sony and Visteon.

MultiMarket Semiconductors

Our MultiMarket Semiconductors business unit supplies a broad range of standard products and a wide range of application-specific standard products. The standard product offering includes small signal diodes, medium power rectifiers and protection devices, BISS and RET transistors, complex discretes and ESD protection devices, Bipolar power transistors, diodes, triacs and MOSFETs and General Purpose logic devices.
Differentiation in the market for standard products is achieved through portfolio, product performance, availability, customer service and costs.

MultiMarket Semiconductors also has a wide range of application-specific standard products including 8 and 32 bit microcontrollers, ARM and 8051 based, radio frequency devices for power, satellite tuners and Cable television, analog-to-digital and digital-to-analog data converters for mid and high end applications, power management devices for lighting and power control and interface products, clocks, watches and graphic devices.

The business unit has its own manufacturing and assembly & test sites. Integrated circuit components marketed and sold by MultiMarket Semiconductors are produced within the Manufacturing Operations business.

MultiMarket Semiconductors includes Jilin NXP Semiconductor Ltd. (JNS), a joint venture based in China which we operate jointly with Jilin Sino-Microelectronics Co. Ltd. We currently hold a 60% ownership interest in JNS. JNS was founded in 2003 and manufactures bipolar discrete power products.

Our revenue and operating results are affected by seasonality, with sales historically strongest in the last quarter of the year.

A large part of sales of standard products flow through distribution channels, accounting for about 58% of the total MultiMarket sales. The main distributors are Arrow, Avnet, Future, SAC and WPI. Original Equipment Manufacturers account for 35% of sales, the main customers are Bosch, Continental, Nokia, Philips and Siemens.

Mobile & Personal

In August 2008, NXP and STMicroelectronics established a joint venture in order to combine their key wireless operations. The majority of the activities of our Mobile & Personal business unit were transferred to this joint venture. On December 31, 2008 NXP held a 20% share in this joint venture.

Effective February 2, 2009, STM exercised its option to buy our remaining stake for an agreed purchase price of USD 92 million.

The Mobile & Personal business unit provided application-specific semiconductors, selected components and complete system solutions applied in mobile and portable devices, such as cellular handsets and portable media players.

The remaining activities have been regrouped into the MultiMarket Semiconductors business unit and Corporate and Other segment as of January 1, 2009. NXP is a leader in Sound Solutions for mobile phones such as speakers & receivers and headsets, and is now also entering the MEMS microphone field. With the trend towards notebooks and netbooks in the computing segment, our very compact solutions providing excellent sound quality are attracting more and more interest in that industry. NXP’s RF Power technology provides leading products for mobile base stations, microwave and broadcasting, and the broad product offering of our Audio Amplifiers business line addresses mobile and consumer applications.

In February 2009 DSPG repurchased the 16% outstanding common stock of DSP Group Inc. at that time held by NXP, which were obtained in 2007 following the divestment of our Cordless & VoIP Terminal operations.

Manufacturing Operations

The Manufacturing Operations segment serves as the central source for our integrated circuit manufacturing, test and packaging for the business units. The integration of our IC manufacturing operations across our business units permits NXP to reduce the volatility in production demand that would result from independent operations. Manufacturing Operations is divided into two processes: front-end (wafer) manufacturing and back-end (assembly and test).

Manufacturing and Materials

The manufacturing of integrated circuits within NXP is highly comparable to the approaches in all other leading semiconductor companies. The production equipment, the starting material (silicon substrates), the chemicals, the photo masks and other components, are all sourced from a limited set of commercial suppliers, and the manufacturing process we use is very similar to that used by our competition. The details of the process flow in combination with the product design that is embedded in the photo-masks differentiates our products from those of our competitors.
Front-end manufacturing is a highly complex process, with as many as 300 physical and chemical process steps, with a typical production time of up to 60 days. Therefore the majority of wafer production is built on forecast, in contrast to back-end manufacturing which is typically customer order driven.

Back-end manufacturing comprises wafer test (electrical test of all ICs prior to assembly), assembly (packaging the silicon dies into a package that can be soldered onto a printed circuit board) and final testing of the individual packaged products. The throughput time of back-end manufacturing is typically two weeks. Back-end manufacturing materials and equipment are sourced from a limited set of suppliers that also serve our peers in the industry.

As a result of the rapid migration of front-end manufacturing to advanced technology nodes (with minimum feature sizes as small as 45 nanometers), the capital required to create an advanced waferfab is now in the billions of dollars. Therefore NXP has decided to rely exclusively on third parties (“foundries”) for its advanced technology needs (i.e. for 120 nm and below). Most of the products in this category are implemented in baseline “CMOS” technologies.

NXP is in the process of shrinking its wafer manufacturing base in the Western world, as a growing part of our portfolio is migrating to externally sourced advanced CMOS technologies, and some of the older waferfabs can no longer be cost competitive.

The following table shows selected key information with respect to our major front-end and back-end facilities as of December 31, 2008:

Site	Ownership	Wafer diameter	Linewidths used (microns)	Main Technologies	
Integrated Circuits-Front-end					
Singapore (SSMC) (1)	61.2%	8”	0.14-0.25	CMOS	
Nijmegen, The Netherlands	100%	8”	0.14-0.80	CMOS, BiCMOS,	
Nijmegen, The Netherlands	100%	6”	0.50-3.0	CMOS	
Nijmegen, The Netherlands	100%	5”	1.0-3.0	Bipolar, BCDMOS	Announced to close in 2010
Nijmegen, The Netherlands	100%	4”	0.5-3.0	RF specialties	
Fishkill, USA	100%	8”	0.25-0.60	CMOS, BiCMOS	Announced to close in 2009
Hamburg, Germany	100%	6”	0.5-1.0	CMOS, BiCMOS	Announced to shrink and merge with MMS fab in 2010
Caen, France	100%	6”	0.5-1.0	Passive Integration	Announced to close in 2009
Integrated Circuits-Back-end(2)					
Kaohsiung, Taiwan	100%	—	—	Leadframe-based packages and ball grid arrays	
Bangkok, Thailand	100%	—	—	Low-pin count leadframes	
Calamba, Philippines	100%	—	—	Leadframe-based packages and ball grid arrays, and system-in-package	Transferred to ST-NXP-Wireless in 2008

(1) Joint venture with TSMC, we are entitled to 61.2% of SSMC's annual capacity.

(2) In back-end manufacturing we have entered into a joint venture with ASE in Suzhou (ASEN), in which we currently hold 40%. See "Alliances and investments – ASEN".

Notes and definitions:
CMOS (complementary metal on silicon oxide semiconductor): technology applied for logic products and systems-on-chip
Bipolar: technology applied for analog products with high voltage or high power requirements
BiCMOS: combination of bipolar and CMOS, applied for high-frequency application
RF specialties: technologies applied for special radio-frequency applications
BCDMOS: bipolar-CMOS-DMOS. DMOS (double-diffused metal on silicon oxide semiconductor) gives high-voltage option up to 500V and above.

Other Business Activities

Certain business activities are reported outside of our primary business units, and are accounted for in the "Corporate and Other" reporting segment. These include:

IP Licensing

We license and cross-license our intellectual property to semiconductor companies and other technology firms. Apart from the revenues these licensing activities generate, we also view active intellectual property licensing as an important means to promote our businesses and technologies. Our cross-licensing activities are typically conducted with other large semiconductor companies, who have resources and research and development activities similar to ours.

Software Solutions

Our Software Solutions business develops audio and video multimedia solutions that enable mobile device manufacturers to produce differentiated hand-held products that enhance the end-user experience. Its software has been incorporated into over 500 million mobile devices produced by the world's leading mobile device manufacturers. It has its own sales force, product development and marketing departments within NXP.
Software Solutions is particularly focused on partnerships with the top OEM handset manufacturers, as well as on specific integrated circuit-based products. The major part of the revenue is generated via royalties or license deals, the remaining part stems from integration and maintenance services.
There is some seasonality in the mobile markets with one-third of the revenue generated in the fourth quarter.

Global Sales and Marketing

We market and sell our products worldwide to a variety of OEMs, original design manufacturers, contract manufacturers and distributors. We focus on generating demand for our products by adding value to our customers and leveraging our long-standing customer relationships and providing high quality customer support.

Our sales and marketing teams in each sales region (Europe, the Americas, Greater China and Asia Pacific) are responsible for managing the global key accounts, headquartered in that particular region, as well as for managing regional sales to other accounts.
Marketing, channel management, alliance and partnership management, and support operations are globally managed from our headquarters in Eindhoven, the Netherlands. Our sales and marketing strategy focuses on adding value to our customers, building lasting relationships with them and becoming their preferred supplier.

Research & Development

Our research and development activities are critical to our success. We conduct product-specific development and differentiating system and process technology research. Our product-specific research and development is aligned with our remaining three business units, and constitutes the majority of our research and development expenditures. System and process technology research is conducted centrally to efficiently leverage IP and know-how across our businesses. Focus areas

include the development of improved manufacturing options and enabling technology to be utilized and shared by our business units. Process-related research is conducted with TSMC in our joint Research Center in Leuven, Belgium.

Environmental Regulation

In each jurisdiction in which we operate, we are subject to many environmental, health and safety laws and regulations, 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.

As with other companies engaged in similar activities or that own or operate real property, we face inherent risks of environmental liability at our current and historical manufacturing facilities. Certain environmental laws impose liability on current or previous owners or operators

of real property for the cost of removal or remediation of hazardous substances. Certain of these laws also assess liability on persons who arrange for hazardous substances to be sent to disposal or treatment facilities when such facilities are found to be contaminated. Soil and groundwater contamination has been identified at some of our current and former properties resulting from historical, ongoing or third-party activities. [As a result, we are currently in the process of investigating and remediating contamination at some of our current and former facilities.

Significant acquisitions and divestments

2008

On September 1, 2008, NXP completed the combination of its can tuner modules operation with those of Thomson, operating in a new venture named NuTune, which is included in our Home business unit. NXP has a 55% ownership and Thomson the remaining 45%.

On August 11, 2008, NXP completed its acquisition of the Broadband Media Processing (BMP) business of Conexant Systems, Inc. which provides industry-leading solutions for satellite, cable and IPTV applications. These activities are included in our Home business unit.

On August 2, 2008, NXP and STMicroelectronics (STM) combined their wireless operations to form a new joint-venture company named ST-NXP Wireless, in which NXP contributed businesses and assets forming a substantial portion of its Mobile & Personal business unit (the Sound Solutions, Mobile Infrastructure and amplifiers business were not contributed and remain within NXP). NXP received a 20% ownership interest in the joint venture and cash consideration of USD 1.55 billion in connection with the divestment. Effective February 2, 2009, STM exercised its option to buy our remaining stake in the joint venture for an agreed purchase price of USD 92 million.

In January 2008, NXP completed the acquisition of GloNav Inc. , a U.S. based fabless Semiconductor company, developing single-chip solutions for global positioning systems (GPS) and other satellite navigation systems. The activities of this new acquisition were included in the Mobile & Personal business and subsequently transferred to the newly established ST-NXP Wireless joint-venture.

2007

In March 2007, we completed the acquisition of the Cellular Communications business of Silicon Laboratories Inc., a leader in Radio Frequency technology for mobile phones. As from the acquisition date it is consolidated within Mobile & Personal.

In September 2007, we completed the divestment of the Cordless & VoIP Terminal operations from our Mobile & Personal business unit to DSPG. We received a 13% interest in DSPG as consideration for the divestment. In March 2009, DSPG repurchased our shares in DSPG for cash consideration of approximately USD 20 million.

2006

In November 2006, the Company’s option to purchase additional outstanding stock of the Singapore-based Systems on Silicon Manufacturing Company (SSMC) was fully exercised. An incremental 10.7% SSMC shares were acquired from the Economic Development Board (EDB), increasing the Company’s equity interest to 61.2%.

In 2006 there were no material divestments.

Alliances and investments

Apart from Jilin NXP Semiconductor Ltd. (JNS) and Systems on Silicon Manufacturing Co. Pte. Ltd. (SSMC), which are consolidated and described in previous sections, we participate in the following alliances:

Advanced Semiconductor Manufacturing Company

We established the Advanced Semiconductor Manufacturing Company (ASMC) in Shanghai in 1995 together with a number of Chinese joint venture partners. ASMC currently operates three wafer fabs, producing five-, six- and eight-inch wafers of primarily analog integrated circuits with line widths in the 0.35 to 3 micron range using CMOS and bipolar process technologies. We currently own approximately 27% of the outstanding shares of ASMC, which are listed on the Hong Kong Stock Exchange.

ASEN

Together with Advanced Semiconductor Engineering Inc. (ASE) we established an assembly and test joint venture (ASEN) in September 2007. ASEN is jointly owned by ASE (60%) and NXP (40%). ASEN is positioned to serve the global semiconductor assembly and test market and has initially focused on mobile communications; it is expected to expand into other segments in the future.

DSPG

Following the divestment of our Cordless & VoIP Terminal operations in September 2007, we obtained approximately 13% DSPG’s outstanding common stock and had an NXP nominee appointed to DSPG’s board of directors. As of December 31, 2008, we held an approximate 16% interest in DSPG. DSPG is a fabless semiconductor company, offering advanced chip-set solutions for a variety of applications. Shares of DSPG are listed on the NASDAQ in the United States.
In March 2009, DSPG repurchased all of the DSPG shares that we held.

Moversa

Moversa, established as a joint venture with Sony Corporation in November 2007, drives global adoption of contactless smart card applications in mobile phones using Near Field Communication (NFC). It incorporates both MIFARE and FeliCa™ operating systems and applications, two of the most widely installed contactless smart card technologies in the world. Both parties hold a 50% interest in the joint venture, which is headquartered in Vienna, Austria.

T3G

In January 2003, Datang Mobile, Philips Semiconductors and Samsung Electronics formed a joint venture, T3G Technology Co. Ltd., to design and license system solutions for mobile devices. In January 2005, Motorola joined as a partner. NXP, as Philips' successor, currently has a 42.7% interest in T3G. The cooperation combines NXP's cutting edge semiconductor design and process

capability, Datang's TD-SCDMA expertise and Samsung's and Motorola's leadership in mobile handset creation. TD-SCDMA is a China based 3G standard, strongly supported by the Chinese government. We expect this support will ensure the successful adoption of TD-SCDMA as one of the 3G standards in China, the world's largest market for mobile phones.
As part of the transfer of assets and liabilities of the wireless operations into the joint-venture ST-NXP Wireless, NXP's ownership in T3G was also transferred to the new joint-venture.

Software partnerships

In addition to manufacturing and process technology research, we leverage strategic partnerships to develop software for our products. As our market focus has turned increasingly towards system solutions, software is playing a critical role in determining our competitiveness. By partnering with independent software developers, we gain the benefit of industry-leading expertise and quality levels with respect to the software which operates on our products. In return, our partners, who currently include approximately 100 software companies, gain a platform with which to align their software.

Management discussion and analysis

Basis of presentation

The discussion and analysis of the financial results and condition of NXP Semiconductors Group (NXP) is based on the audited US GAAP financial statements of the Company for the period from January 1, 2006 through September 28, 2006 (Predecessor), the period from September 29, 2006 through December 31, 2006 and the years ended December 31, 2007 and 2008 (Successor). This discussion should be read in conjunction with those audited financial statements, which have been included in this Annual Report.

On September 29, 2006, Koninklijke Philips Electronics N.V. ("Philips") sold 80.1% of its Semiconductors business to a consortium of private equity investors (the "Consortium") in a multi-step transaction. In order to carry out this transaction, Philips transferred 100% of these businesses to NXP on September 28, 2006 (the "Separation"). All of our issued and outstanding shares were then acquired on September 29, 2006 by KASLION Acquisition B.V. ("KASLION"), which was established as an acquisition vehicle by the Consortium and Philips. We refer to our acquisition by KASLION as the "Acquisition".

As a result of the Separation and Acquisition, the accompanying combined and consolidated balance sheets and statements of operations, cash flows and business' and shareholder's equity are presented on two different bases: Predecessor and Successor, which relate to periods preceding the Acquisition and periods from and after the Acquisition, respectively. The basis of accounting for the Predecessor is different than that for the Successor, since the consolidated financial statements of the Successor are affected by the purchase accounting applied to the Acquisition, which requires that all assets and liabilities be recorded at fair value. Furthermore, the combined financial statements for the Predecessor have been derived from the consolidated financial statements and accounting records of Philips, principally the historical results of operations and basis of assets and liabilities of Philips' Semiconductors businesses. The results for those periods include an allocation of the costs of certain corporate functions or expenses, historically provided or incurred by Philips, which allocations are made on a specifically identifiable basis, or other basis considered reasonable. The consolidated financial statements of the Successor represent actual costs incurred after the Acquisition as a stand-alone company. The costs allocated to the Predecessor are not always comparable to the actual costs incurred by the Successor.

Notwithstanding the difference in the basis of accounting between the Successor and Predecessor described above, we have prepared our discussion of the results of operations for the year ended December 31, 2006 based on the arithmetical combination of these results for each of the periods January 1, 2006 through September 28, 2006 (Predecessor) and September 29, 2006 through December 31, 2006 (Successor), since we believe this provides the most meaningful comparison with the subsequent years' results. Because our accounting basis changed upon the Acquisition, however, the presentation of the combined results of our Predecessor and Successor periods during 2006 does not comply with US GAAP and has not been audited. Where relevant, we have described the impact on our results of the purchase accounting used in connection with the Acquisition and subsequent acquisitions and divestments (see "Effect of Purchase Accounting", below) and have also provided 2006, 2007 and 2008 adjusted financial results whereby the impact of these accounting effects ("Purchase Price Adjustments", or "PPA") has been eliminated.

We have also described the impact of cost allocations to the Predecessor and the actual stand-alone costs of the Successor, where relevant to the analysis.

Effect of purchase accounting

KASLION

Our Acquisition by KASLION has been accounted for using the purchase method. Accordingly, the USD 10,622 million purchase price has been “pushed down” to NXP and allocated to the fair value of assets acquired and liabilities assumed.

The net assets acquired and liabilities assumed of NXP, as of the Acquisition date, amounted to USD 3,302 million, resulting in an excess of the purchase price over the net assets acquired of USD 7,320 million. The excess of the purchase price over the net assets acquired was allocated as follows:

Identified technology-related intangible assets:
- Existing technology with an aggregate estimated fair value of USD 2,057 million and useful lives varying between 3 and 12 years;
- In-process research & development with an aggregate estimated fair value of USD 660 million, which was written off in full in the period immediately following the Acquisition and charged to R&D expenses;
- Core technology with an aggregate estimated fair value of USD 1,013 million and with useful lives varying between 8 and 12 years.

Identified customer-related intangible assets:
- Customer relationships with an aggregate estimated fair value of USD 758 million and with useful lives varying between 14 and 16 years;
- Order backlog with an aggregate estimated fair value of USD 60 million, which management believes to be firm and was realized over one year, ending September 2007.

Trademarks:
Trademarks with an aggregate estimated fair value of USD 109 million, with useful lives of 5 years.

Property, plant and equipment and inventories:
- Property, plant and equipment of USD 549 million comprised of: Land (USD 70 million), Buildings (USD 261 million) and Machinery and Equipment (USD 218 million);
- Inventories of USD 166 million.

Other, partly offsetting the above allocations, comprised of:
- Deferred tax liabilities in respect of purchase price adjustments (USD 1,023 million);
- Pension liabilities (USD 133 million);
- Investments equity-accounted investees (USD 13 million).

The USD 3,117 million excess of the purchase price over the estimated fair value of the net assets acquired was allocated to goodwill. In accordance with SFAS 142 (“Goodwill and other Intangible Assets”), goodwill is not amortized but will be tested for impairment at least annually.
In 2008 this has lead to an impairment of USD 714 million in the segment Home and Corporate and Other.

The cumulative effect of this Purchase Accounting on our financial results is referred to as the ‘PPA effect’.

Other acquisitions

In addition, Purchase Accounting is also applied to other acquisitions such as Silicon Laboratories Inc. in 2007 and the acquisitions of GloNav Inc., the BMP business of Conexant Systems Inc. and our NuTune joint venture with Thomson in 2008.

‘PPA effect’ includes the net effect of the purchase accounting applied to these transactions.

The above mentioned adjustments in fair values had an impact on 2008 income from operations of USD 713 million (2007: USD 791 million, September 29, 2006 through December 31, 2006: USD 1,018 million) due to increased amortization and depreciation charges. This was partly offset in 2008 net income by the tax effect on the purchase price adjustments amounting to USD 349 million (2007: USD 247 million, September 29, 2006 through December 31, 2006: USD 293 million).

Use of certain non-US GAAP financial measures

The following non-US GAAP financial measures are presented in the discussion because they are used by management in evaluating the performance of the Company and its reporting segments or because management believes the measure provides investors with useful information about the Company’s financial results.

Comparable Sales Growth

This reflects the relative changes in sales between periods adjusted for the effects of foreign currency exchange rate changes, material acquisitions and divestments and reclassified product lines (consolidation changes). Management believes that an understanding of sales performance is enhanced after these effects are excluded. Where presented, 'nominal growth' represents the relative changes in sales between periods, including these effects. Sales are translated from foreign currencies into the Company's reporting currency, the US dollar, at the exchange rate on transaction dates during the respective years.

Earnings Before Interest, Tax and Amortization (EBITA)
EBITA represents net income excluding income taxes, financial income and expenses and amortization of intangible assets (including impairments). EBITA is used by management to evaluate the group performance of the Company, since it believes that using EBITA facilitates the comparison between periods of the underlying performance of our business.

Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)
EBITDA represents net income excluding income taxes, financial income and expenses and amortization and depreciation (including impairments). EBITDA is used by management to evaluate the group performance of the Company, since it believes that using EBITDA facilitates the comparison between periods of the underlying performance of our business.

Adjusted EBITA
Adjusted EBITA refers to EBITA adjusted for incidental items such as restructuring, litigation, IT system reorganization costs, exit of product lines, other non operations-related items and the remaining effects of purchase price accounting (PPA). Management uses Adjusted EBITA to evaluate the group performance of the Company and to make comparisons over different fiscal periods, since it eliminates the effect of certain items management deems less relevant to the continuing operations of the Company.

Adjusted EBITDA
Adjusted EBITDA refers to EBITDA adjusted for incidental items such as restructuring, litigation, IT system reorganization costs, exit of product lines, other non operations-related items and the remaining effects of purchase price accounting (PPA). Management uses Adjusted EBITDA to evaluate the group performance of the Company and to make comparisons over different fiscal periods, since it eliminates the effect of certain items management deems less relevant to the continuing operations of the Company.

Adjusted IFO
Adjusted IFO refers to IFO adjusted for incidental items such as restructuring, litigation, IT system reorganization costs, exit of product lines, other non operations-related items, impairments and the effects of purchase price accounting (PPA). Adjusted IFO is used by management to evaluate the performance of the Company's operating businesses.

Cash flows before financing activities
Cash flows before financing activities, which are defined as the sum of net cash from operating activities and net cash from investing activities, are presented separately to facilitate investors' understanding of the Company's funding requirements.

Net debt : group equity ratio
The total net debt position as a percentage of the sum of total group equity (shareholder's equity and minority interests) and net debt is presented as a measure, since management considers this a measure of the Company's solvency.

For a reconciliation of non-US GAAP financial measures to the nearest US GAAP financial measure, refer to "Reconciliation of non-US GAAP information".

Management Summary

Economic and financial crisis
We have been impacted significantly in the fourth quarter of 2008 by the unprecedented economic downturn in our industry. The financial crisis and semiconductor market conditions caused a rapid deterioration of demand towards the end of the third quarter, especially in the automotive and consumer sectors. In the fourth quarter this deterioration broadened over all sectors leading to a sequential nominal sales decline of 25.3%. The lowered sales and decreased visibility severely impacted the utilization of our factories, which declined to 56% in the fourth quarter compared to 68% in the third quarter of 2008. Also, our book to bill ratio declined to 0.71 compared to 1.00 in the third quarter of 2008, as a consequence of which our visibility on future potential sales levels declined. Margins were strongly affected by the lowered sales and related lower utilization of our factories, resulting in an EBIT loss of USD 258 million in the last quarter of 2008.

2008 results
For the year ended December 31, 2008, our total sales compared to 2007 declined 13.9% to USD 5,443 million. As a result of this and a substantial impairment of goodwill and restructuring charges, we recorded a net loss in 2008 of USD 3,600 million. Our operating cash flows also reversed from an inflow of USD 533 million in 2007 to an outflow of USD 622 million in 2008. The challenging and unusual conditions referred to above also make visibility very limited going forward. Please see "Outlook" for further information.

Redesign Company
On September 12, 2008, we announced a redesign program (the 'Redesign Program') intended to right-size our cost base to match our revenue profile following the disposition of our wireless business.

The Redesign Program was intended to be completed by the end of 2010 and targeted a reduction in annual operating costs of USD 550 million, benchmarked against our 2008 forecast cost base, adjusted for the disposition of our wireless business. This reduction was to be

delivered mainly through a significant restructuring of our manufacturing base, the refocusing and resizing of central research and development ("R&D"), and reductions in support functions, and was expected to affect approximately 4,500 employees globally.

As initially envisaged, planned savings in the manufacturing base of USD 300 million on a run-rate basis were intended to be realized by the end of 2010, with R&D and support functions costs expected to be reduced by approximately USD 250 million in 2009. The related cash expense of the restructuring was estimated at USD 800 million, of which USD 600 million would be spent in 2009, and the remainder in 2010.

Since the announcement of the Redesign Program, we have made significant progress in detailing the Redesign Program and deploying the required measures within NXP, including taking a restructuring charge of USD 500 million in the third quarter of 2008 and completing the required consultations with unions and employee representatives in each jurisdiction except France.

In light of deteriorating financial and market conditions, beginning in the third quarter and then accelerating in the fourth quarter, we have now taken steps to accelerate and expand the Redesign

Program. Savings are now expected to be realized more quickly than previously anticipated. We also expect that savings will be significantly higher than we originally estimated. We also expect that the costs of the program will be lower than initially expected and estimate the total costs of the program at USD 700 million rather than USD 800 million. As a result of this lower estimate and its impact on our actions notwithstanding the expansion of the program, in the fourth quarter, we reversed a portion of the associated restructuring charge, reducing it from USD 500 million to USD 443 million in the fourth quarter.

Although we have made significant progress in implementing our Redesign Program, there can be no assurance that we will be able to realize the intended gains in full or on our intended timetable and at the expected cost. The expected U.S. dollar amount of savings may also be affected by currency fluctuations, as a portion of our cost base is denominated in currencies other than the U.S. dollar.

Impairments and write down of tax assets
Conditions began to weaken from the third quarter of 2008, particularly in our Home business, which saw declines most strongly in the cathode ray tube ("CRT") TV market and in the retail set top box ("STB") business. Taking into account these developments, the current market environment, the divestiture of the wireless business and the implementation of the Redesign Program, the application of the impairment test resulted in the write-down of goodwill and intangibles of USD 714 million. We have not recognized a deferred tax asset associated with these impairment charges based on our estimate of future profitability, which has a substantial impact on our effective tax rate.

Highlights
The following highlights what we believe to be the most significant events in 2008 that impacted our business, in addition to the significant economic downturn in 2008.

Joint venture with STMicroelectronics
On July 28, 2008, we announced the closing of the joint venture we formed with STMicroelectronics ("STM"), which brought together the key wireless operations of both companies into ST-NXP Wireless. We received a 20% interest in the joint venture and USD 1.55 billion cash proceeds for the contribution of our wireless business. As part of the joint venture agreement, STM received an option to buy our remaining 20% interest. As a result of the transaction, we deconsolidated the associated assets and liabilities and recorded the remaining 20% interest as an investment in equity accounted investees at its fair value at that date. The transaction resulted in a loss of USD 413 million, which was recorded during the third quarter of 2008. In the fourth quarter we wrote our 20% share down to its fair market value and as a consequence recorded an additional loss of USD 249 million, which is recorded in results relating to equity-accounted investees. On August 20, 2008, STM announced it had entered into an agreement to merge ST-NXP Wireless and Ericsson Mobile Platforms into a new joint venture. As a result, on February 2, 2009, STM exercised its option and agreed to pay USD 92 million for our 20% interest.

Acquisition of Conexant
On August 11, 2008, we successfully completed the acquisition of Conexant Systems Inc.'s Broadband Media Processing ("BMP") business, which is comprised of products for satellite, cable and internet protocol television ("IPTV") applications. The BMP business has become part of our Home segment and contributed USD 63 million to our total sales during 2008.

NuTune
Effective September 1, 2008, we completed the formation of a joint venture for can tuner module operations with Thomson, called NuTune. Both NXP and Thomson contributed their can tuner activities into the joint venture in exchange for NXP obtaining a 55% interest and Thomson receiving the remaining 45%. NuTune is included in the Home segment as of September 1, 2008. The incremental impact on total sales resulting from the formation of this joint venture was USD 31 million during 2008.

Comparability of Results
Beginning January 1, 2008, we changed our reporting currency from euro to U.S. dollar in order to be more aligned with the semiconductor market and for comparison reasons with our peers. The functional currency of the various entities in our group consolidation has not changed.

For consolidation purposes, the financial statements of those entities, including the parent company NXP B.V. ("NXP"), with a functional currency other than the U.S. dollar are translated into U.S. dollars. Assets and liabilities are translated using the exchange rates on the respective balance sheet dates. Items in the statement of operations and cash flow statement are translated at average rates of exchange in the periods involved. The resulting translation adjustments are recorded as a separate component of other comprehensive income (loss) in

the statements of changes in business' and shareholder's equity. Cumulative translation adjustments are recognized as income or expense upon partial or complete disposal or substantially complete liquidation of a foreign entity.

Transactions are recorded based on the applicable currency exchange rate on the date of the transaction. Any associated monetary assets or liabilities outstanding are retranslated at the end of each reporting period based on the currency exchange rate at period end. The difference between the currency exchange rate at the time the asset or liability was originally recorded and the currency exchange rate at period end is recognized as an expense during the period. During 2008, we recorded net foreign currency losses of USD 87 million.

Further, as portions of our revenues and expenses are denominated in currencies other than U.S. dollars, our results for each period are impacted by changes in exchange rates when translated into U.S. dollars. As a result, movements in the U.S. dollar relative to the euro or to other currencies can have a significant impact on our statements of operations, particularly to the extent that the sales and costs incurred in individual foreign currencies do not offset them.

As a result of these effects, results may not be fully comparable across different periods.

Performance of the Group 2008 compared to 2007

The following table represents income elements for the years ended 2008 and 2007.

In millions of USD	2007					2008				
	As published	Effects of PPA	Incidental items	Impairment charges	As adjusted	As published	Effects of PPA	Incidental items	Impairment charges	As adjusted
Sales	6,321	—	—	—	6,321	**5,358**	—	—	—	**5,358**
Wireless business wafer sales	—	—	—	—	—	**85**	—	—	—	**85**
Total group sales	6,321	—	—	—	6,321	**5,443**	—	—	—	**5,443**
% nominal growth	1.3	—	—	—	1.3	**(13.9)**	—	—	—	**(13.9)**
% comparable growth	1.4	—	—	—	1.4	**(6.6)**	—	—	—	**(6.6)**
Gross margin	2,045	(140)	(229)	—	2,414	**1,218**	**(151)**	**(402)**	—	**1,771**
Selling expenses	(425)	—	(18)	—	(407)	**(400)**	—	**(19)**		**(381)**
General & administrative expenses:										
- Impairment goodwill and other intangibles	—	—	—	—	—	**(714)**	—	—	**(714)**	—
- Other general and administrative expenses	(1,189)	(636)	(98)	—	(455)	**(1,161)**	**(536)**	**(207)**	—	**(418)**
Research & development expenses	(1,343)	(15)	(20)	—	(1,308)	**(1,225)**	**(26)**	**(107)**	—	**(1,092)**
Other income (loss)	134	—	106	—	28	**(364)**	—	**(387)**	—	**23**
Income (loss) from operations	(778)	(791)	(259)	—	272	**(2,646)**	**(713)**	**(1,122)**	**(714)**	**(97)**
Financial income and (expenses)	(181)	—	—	—	(181)	**(614)**	—	—	—	**(614)**
Income tax benefit (expense)	396	247	—	—	149	**(46)**	**349**	**30**	—	**(425)**
Results equity-accounted investees	(40)	—	—	—	(40)	**(268)**	—	—	—	**(268)**
Minority interests	(47)	—	—	—	(47)	**(26)**	—	—	—	**(26)**
Net income/(loss)	(650)	(544)	(259)	—	153	**(3,600)**	**(364)**	**(1,092)**	**(714)**	**(1,430)**

Certain non-US GAAP financial measures have been used when discussing the NXP Group's financial position. The following table represents a reconciliation of IFO to Adjusted IFO and Adjusted EBITDA.

IFO to Adjusted EBITDA

In millions of USD	2007	2008
IFO	(778)	**(2,646)**
Exclude:		
PPA effects amortization intangible fixed assets	651	**562**
PPA effects depreciation tangible fixed assets	137	**151**
PPA effects inventories	3	—
Exit of product lines	18	**15**
Restructuring costs	218	**594**
Other incidental items	23	**513**
Impairment goodwill and other intangibles	—	**714**
Adjusted IFO	272	**(97)**
Exclude:		
Remaining amortization intangible fixed assets	25	**40**
Remaining depreciation tangible fixed assets	734	**542**
Adjusted EBITDA	1,031	**485**

Sales

The following table presents the aggregate by segment of sales for the full year 2008 and 2007.

Sales

In millions of USD	2007 Sales	2007 % nominal growth	2007 % comparable growth	2008 Sales	2008 % nominal growth	2008 % comparable growth
Mobile & Personal	2,135	8.2	13.8	**1,356**	**(36.5)**	**0.1**
Home	927	(21.7)	(20.4)	**836**	**(9.8)**	**(17.3)**
Automotive & Identification	1,332	21.4	8.8	**1,285**	**(3.5)**	**(6.1)**
MultiMarket Semiconductors	1,619	(4.3)	(0.7)	**1,554**	**(4.0)**	**(7.7)**
Manufacturing Operations	214	1.4	(15.6)	**324**	**51.4**	**10.7**
Corporate and Other	94	—	—	**88**	**—**	**—**
	6,321	1.3	1.4	**5,443**	**(13.9)**	**(6.6)**

Sales were USD 5,443 million in 2008 compared to USD 6,321 million in 2007, a decrease of 13.9%, and a comparable decrease of 6.6%. The change was primarily due to a decrease of USD 665 million associated with the deconsolidation of our wireless activities in 2008 and the full year impact of the sale of the Cordless & VoIP Terminal operations in 2007. The remaining decline in sales reflected the weakening economic environment in the second half of the year which impacted each of our segments in that period. The Home segment was also affected by the ongoing decline in the CRT TV market and the weakness in the mainstream (retail) STB market. The Automotive & Identification segment was affected by the severe crisis in the automotive market and overall weak demand. The MultiMarket Semiconductors business was affected by lower end-customer demand in the fourth quarter of 2008. These decreases were slightly offset by favorable currency effect of USD 88 million compared to 2007.

Gross margin

Gross margin declined from USD 2,045 million in 2007 to USD 1,218 million in 2008, and decreased to 22.4% as a percentage of total sales for 2008 compared to 32.4% in 2007. The gross margin declined by USD 308 million mainly due to the impact of the deconsolidation of the wireless activities in 2008 and was also affected by the full year impact of the sale of the Cordless & VoIP Terminal activities in 2007. In addition, 2008 included incidental expenses of USD 402 million primarily associated with the restructuring charge of USD 349 million related to the Redesign Program and other costs associated with existing product lines, compared to incidental expenses of USD 229 million in 2007 comprised of restructuring charges of USD 178 million related to our exit from the Crolles2 Alliance and the closure of our Boeblingen facility. USD 295 million of the decrease in gross margin was attributable to lower sales and related lower factory utilization, and the decrease was also caused by an unfavorable currency effect of USD 40 million compared to 2007. Factory utilization decreased to 72% in 2008 compared to 79% in 2007. USD 151 million (2007: USD 140 million) was related to depreciation of tangible fixed assets and write-off of stepped-up inventories.

Selling expenses

Selling expenses were USD 400 million in 2008 compared to USD 425 million in 2007 and 7.3% of sales in 2008 compared to 6.7% in 2007. The increase in the percentage of sales was predominantly caused by the rapid decrease in sales in the second half of 2008. The deconsolidation of our wireless activities, with effect from July 28, 2008, accounted for USD 67 million selling expenses over the first seven months of 2008 (2007: USD 79 million). Savings from our Redesign Program and previous cost savings programs reduced selling

expenses. The decrease was partly offset by the combined acquisition effect from Conexant and NuTune of USD 6 million and unfavorable currency effects.
Selling expenses for 2008 included incidental charges of USD 19 million related to restructuring (2007: USD 16 million).

General and Administrative expenses

General and Administrative expenses ("G&A expenses") were USD 1,875 million in 2008 compared to USD 1,189 million in 2007 and 34.4% of sales in 2008 compared to 18.8% in 2007. G&A expenses in 2008 included a write down of goodwill and intangibles of USD 714 million mainly related to the Home segment (USD 665 million) and Corporate and Other, incidental items of USD 207 million (2007: USD 98 million), acquisition effects of USD 21 million related to the acquisition of Conexant and the establishment of NuTune and unfavorable currency effects. Incidental items of USD 207 million in 2008 included USD 79 million of IT system reorganization costs and USD 123 million of restructuring costs, of which USD 83 million related to the Redesign Program. These increases were partly offset by a decrease in the effects from PPA of USD 100 million, a positive effect from the sale of the wireless activities in 2008 (USD 35 million) and Cordless activities in 2007 (USD 6 million). The PPA effect related to the amortization of intangibles was USD 536 million compared to USD 636 million in 2007.
G&A expenses included a non-cash charge for a share-based compensation program of USD 31 million compared to USD 26 million in 2007.

Research and Development expenses

Research and Development expenditures per sector

In millions of USD	2007 amount	2007 % of sales	2008 amount	2008 % of sales
Mobile & Personal	510	23.9	**344**	**25.4**
Home	258	27.8	**251**	**30.0**
Automotive & Identification	205	15.4	**246**	**19.1**
MultiMarket Semiconductors	118	7.3	**147**	**9.5**
Manufacturing Operations	48	22.4	**40**	**12.3**
Corporate and Other	189	—(1)	**171**	**—(1)**
	1,328	21.0	**1,199**	**22.0**

(1) Not meaningful

Excludes the write-off of acquired In-Process R&D of USD 26 million in 2008 (2007: USD 15 million).

R&D expenses and write-off of acquired in-process research and development were USD 1,225 million in 2008 compared to USD 1,343 million in 2007. The decrease was related to the impact of the sale of the wireless activities in 2008 (USD 60 million), the full year impact of the sale of the Cordless and VoIP Terminal operations in 2007 (USD 25 million) and generally lower costs in both the remaining Mobile & Personal activities and the Home segment. This reduction was partly offset by a restructuring charge of USD 97 million primarily

related to the Redesign Program, R&D investments of USD 42 million related to the acquisition of Conexant's BMP activities and increased R&D investments in the Automotive & Identification and MultiMarket Semiconductors segments. Furthermore, R&D expenses were affected by unfavorable currency effect of USD 62 million. R&D expenses and write-off of acquired in-process research and development were 22.5% of total sales in 2008 compared to 21.2% in 2007.

Other income

Other income and expense was a loss of USD 364 million in 2008, compared to a gain of USD 134 million in 2007. The loss in 2008 was due to the loss of USD 413 million related to the sale of our wireless activities, partly offset by gains from divestments of certain other activities and various tangible fixed assets.

Restructuring charges

In 2008, a charge of USD 594 million was recorded for restructuring (2007: USD 218 million). USD 443 million of this restructuring charge was related to the Redesign Program, which was announced in September 2008 and related to employee termination costs. The remainder was largely related to the write downs of assets, costs related to the closure of businesses and various other restructuring charges. The personnel related part of this restructuring charge reflects redundancy costs. The restructuring charge of USD 443 million was primarily related to the planned closure or sale of certain facilities and refocusing and resizing central R&D and reductions in support functions. The non-personnel related part of the restructuring charge related to inventory write downs (USD 36 million), process transfer costs following the closure of the facility in Boeblingen (USD 27 million) and other costs. The Redesign Program encompassed all previously announced programs (such as Business Renewal), for which a restructuring charge was recorded in 2007 of USD 218 million.

The following table presents restructuring charges by segment as included in income from operations:

Restructuring charges

In millions of USD	2007	2008
Mobile & Personal	11	**19**
Home	19	**25**
Automotive & Identification	—	**8**
MultiMarket Semiconductors	1	**9**
Manufacturing Operations	133	**360**
Corporate and Other	54	**173**
Total restructuring charges	218	**594**

The Redesign Program has now been significantly accelerated and expanded.

Income from operations (IFO)

The following tables present the aggregate by segment of income (loss) from operations for the full year 2008 and 2007.

	2008					
In millions of USD	**income from operations as reported**	**effects of PPA**	**incidental items**	**impairment charges**	**adjusted income from operations**	**as a % of sales**
Mobile & Personal	**(665)**	**(188)**	**(438)**		**(39)**	**(2.9)**
Home	**(875)**	**(110)**	**(24)**	**(665)**	**(76)**	**(9.1)**
Automotive & Identification	**73**	**(152)**	**(28)**		**253**	**19.7**
MultiMarket Semiconductors	**63**	**(129)**	**(10)**		**202**	**13.0**
Manufacturing Operations (1)	**(691)**	**(134)**	**(367)**		**(190)**	**—**
Corporate and Other (1)	**(551)**	**—**	**(255)**	**(49)**	**(247)**	—
	(2,646)	**(713)**	**(1,122)**	**(714)**	**(97)**	**(1.8)**

(1) Percentage not Meaningful

2007

In millions of USD	income from operations as reported	effects of PPA	incidental items	impairment charges	adjusted income from operations	as a % of sales
Mobile & Personal	(159)	(258)	85	—	14	0.7
Home	(234)	(111)	(19)	—	(104)	(11.2)
Automotive & Identification	144	(151)	(3)	—	298	22.4
MultiMarket Semiconductors	164	(155)	(4)	—	323	20.0
Manufacturing Operations (1)	(210)	(116)	(146)	—	52	—
Corporate and Other (1)	(483)	—	(172)	—	(311)	—
	(778)	(791)	(259)	—	272	4.4

(1) Percentage not Meaningful

Income from Operations in 2008 was a loss of USD 2,646 million compared to a loss of USD 778 million in 2007. Adjusted for PPA effects, incidental items and impairment charges adjusted Income from Operations was a loss of USD 97 million compared to a gain of USD 272 million in 2007.

Incidental items in 2008 amounted to a loss of USD 1,122 million mainly caused by restructuring charges of USD 594 million and the result on the sale of the wireless activities of USD 413 million.
The annual impairment test resulted in the write-down of goodwill and intangibles of USD 714 million.
The decline of the Income from Operations reflects the effects of the lower sales and related factory utilization on the margin, only partly offset by cost reductions.

Financial income and expenses

Financial income and expenses

In millions of USD	2007	2008
Interest income	43	**27**
Interest expense	(495)	**(502)**
Impairment loss securities	(21)	**(38)**
Foreign exchange results	300	**(87)**
Other	(8)	**(14)**
	(181)	**(614)**

Financial income and expenses was a net expense of USD 614 million in 2008, compared to an expense of USD 181 million in 2007, largely as a result of foreign currency effects related to our U.S. dollar-denominated debt. Financial income and expenses include a net interest expense of USD 475 million (2007: USD 452 million), financing fees of USD 14 million (2007: USD 8 million) and the impact of foreign exchange rate changes. In 2008, a foreign exchange loss of USD 87 million was recognized compared to a foreign currency gain of USD 300 million in 2007 on our USD-denominated notes and short-term loans. This was partly offset by exchange rate movements on foreign currency contracts and liquid assets.

Income tax benefit (expenses)

The income tax expense for 2008 was USD 46 million, compared to a tax benefit in 2007 of USD 396 million. In 2008, the PPA effects included in income tax expense amounted to a benefit of USD 349 million, compared to a benefit in 2007 of USD 247 million The Company’s effective income tax rate changed from a tax benefit of 41.3% in 2007 to a tax expense rate of 1.4% in 2008. The change in the effective tax rate was primarily attributable to an increase in the valuation allowance of USD 496 million and a decrease in non-taxable income.

Results relating to equity-accounted investees

Results relating to the equity-accounted investees in 2008 resulted in a loss of USD 268 million compared to a loss of USD 40 million in 2007. The loss in 2008 was largely related to the revaluation of the fair market value of our 20% share in the ST-NXP Wireless joint venture.
The 2007 loss included an impairment charge for our participation in Advanced Semiconductor Manufacturing Company (''ASMC'') and T3G.

Minority interests

Minority interests in 2008 were a loss of USD 26 million and were related to the share of minority shareholders in the income of consolidated companies, predominantly Systems on Silicon Manufacturing Company Pte. Ltd. (''SSMC'') and NuTune, compared to a loss of USD 47 million in 2007.

Net income

Net loss increased from USD 650 million in 2007 to a loss of USD 3,600 million in 2008 as result of the items discussed above.

EBITA/EBITDA

The following table presents certain income numbers related to NXP Group's financial position for the full years 2008 and 2007.

In millions of USD	2007 For the year ended December 31,	2007 Effects of PPA	2007 As adjusted to eliminate PPA effects	2008 For the year ended December 31,	2008 Effects of PPA	2008 As adjusted to eliminate PPA effects
EBITA	(189)	(140)	(49)	**(1,624)**	**(151)**	**(1,473)**
EBITDA	682	(3)	685	**(931)**	**—**	**(931)**
Adjusted EBITA			297			**(57)**
Adjusted EBITDA			1,031			**485**

Adjusted EBITA

Adjusted EBITA for 2008 was a loss of USD 57 million, compared to a profit of USD 297 million in 2007. This decrease of USD 354 million is mainly caused by the combined effect of a lower gross margin of USD 643 million, partly offset by lower costs of USD 384 million.
The adjustments made from 2008 EBITA of a loss of USD 1,624 million (2007: a loss of USD 189 million), to arrive at Adjusted EBITA of a loss of USD 57 million (2007: a profit of USD 297 million) consist of:

- PPA effects, mainly related to depreciation of property, plant and equipment of USD 151 million (2007: USD 140 million)
- restructuring costs of USD 594 million (2007: USD 218 million)
- exit of product lines of USD 15 million (2007: USD 18 million)
- other incidental items of USD 513 million (2007: USD 23 million), mainly consisting of the results on the sale of businesses (of which the sale of the major part of the Mobile & Personal business unit amounted to USD 413 million) and process transfer costs and other merger & acquisition related costs
- minority interest and results of equity-accounted investees of a loss of USD 294 million (2007: USD 87 million), mainly related to the impairment of the ST-NXP Wireless joint venture.

Adjusted EBITDA

Adjusted EBITDA for 2008 was USD 485 million, compared to USD 1,031 million in 2007.
The difference between EBITA and Adjusted EBITDA in 2008 is explained by depreciation costs of USD 693 million, minority interest and results of equity accounted investees of a loss of USD 294 million and identical incidental items for restructuring costs, exit of product lines and other items as included in 2008 EBITA adjustments.

In 2007 the difference between EBITA of a loss of USD 189 million and Adjusted EBITDA of USD 1,031 million consisted of depreciation costs of USD 871 million, USD 3 million PPA effects, minority interest and results of equity accounted investees of USD 87 million and incidental items amounting to USD 259 million.

Performance by segment 2008 compared to 2007

Sales growth composition 2008 versus 2007

In %	comparable growth	currency effects	consolidation changes	nominal growth
Mobile & Personal	0.1	0.5	(37.1)	(36.5)
Home	(17.3)	0.5	7.0	(9.8)
Automotive & Identification	(6.1)	2.6	—	(3.5)

MultiMarket Semiconductors	(7.7)	2.2	1.5	(4.0)
Manufacturing Operations	10.7	—	40.7	51.4
Corporate and Other (1)	—	—	—	—
	(6.6)	1.7	(9.0)	(13.9)

(1) Percentage not meaningful

Income (loss) from operations

In millions of USD	2007 income from operations as reported	2007 adjusted income from operations	2007 as a % of sales	2008 income from operations as reported	2008 adjusted income from operations	2008 as a % of sales
Mobile & Personal	(159)	14	0.7	**(665)**	**(39)**	**(2.9)**
Home	(234)	(104)	(11.2)	**(875)**	**(76)**	**(9.1)**
Automotive & Identification	144	298	22.4	**73**	**253**	**19.7**
MultiMarket Semiconductors	164	323	20.0	**63**	**202**	**13.0**
Manufacturing Operations (1)	(210)	52	—	**(691)**	**(190)**	—
Corporate and Other (1)	(483)	(311)	—	**(551)**	**(247)**	—
	(778)	272	4.4	**(2,646)**	**(97)**	**(1.8)**

(1) Percentage not meaningful

Mobile & Personal

Key data

In millions of USD unless otherwise stated	2007	2008
Sales	2,135	**1,356**
% nominal growth	8.2	**(36.5)**
% comparable growth	13.8	**0.1**
Income (loss) from operations (IFO)	(159)	**(665)**
as a % of sales	(7.4)	**(49.0)**
Effects of PPA	(258)	**(188)**
Incidental items	85	**(438)**
Adjusted IFO	14	**(39)**
as a % of sales	0.7	**(2.9)**

Acquisition and Divestments

On July 28, 2008, NXP and STMicroelectronics announced the closing of their agreement, bringing the key wireless operations of both companies into the joint venture ST-NXP Wireless. Subsequently, the related assets and liabilities were deconsolidated. We held a 20% share in this joint venture on December 31, 2008. On February 2, 2009, the 20% share was sold to STMicroelectronics for USD 92 million.

Sales

Sales in 2008 were USD 1,356 million compared to USD 2,135 million in 2007, a nominal decrease of 36.5% and a comparable increase of 0.1%. USD 665 million of the decrease was due to consolidation changes related to the deconsolidation of the wireless activities in August 2008 and the sale of the Cordless & VoIP Terminal operations in September 2007. The remaining activities (Sound Solutions, Mobile Infrastructure and Amplifiers) showed sales comparable to 2007 whereby stronger sales in Sound Solutions were offset by lower sales in the other activities.

Income from operations

Income from operations (''IFO'') in 2008 was a loss of USD 665 million, compared to a loss of USD 159 million in 2007. The increase in the loss in 2008 was primarily due to an increase in incidental items, which included the loss on the sale of our wireless activities of USD 413 million in 2008. In 2007, incidental items included a gain of USD 119 million on the divestment of the Cordless & VoIP Terminal Operations, which was partly offset by other incidental items.

Home

Key data

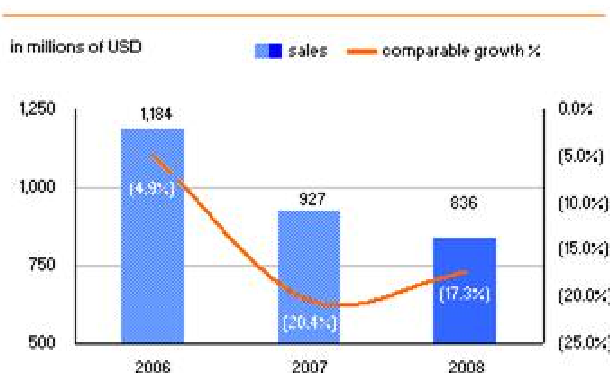
In millions of USD unless otherwise stated	**2007**	**2008**
Sales	927	**836**
% nominal growth	(21.7)	**(9.8)**
% comparable growth	(20.4)	**(17.3)**
Income (loss) from operations (IFO)	(234)	**(875)**
as a % of sales	(25.2)	**(104.7)**
Effects of PPA	(111)	**(110)**
Incidental items	(19)	**(24)**
Impairment goodwill and other intangibles	—	**(665)**
Adjusted IFO	(104)	**(76)**
as a % of sales	(11.2)	**(9.1)**

Acquisition and Divestments

Effective August 8, 2008, we successfully completed the acquisition of Conexant's Broadband Media Processing (''BMP'') division that manufactures industry-leading products for satellite, cable and IPTV applications. Our existing set-top box and digital TV operations were combined with BMP.
Effective September 1, 2008, NXP and Thomson completed the transaction to form a joint venture called NuTune in which both companies combined their can tuner module operations. We have a 55% holding in NuTune and Thomson holds the remaining 45%.

Sales

Sales in 2008 were USD 836 million compared to USD 927 million in 2007, a decrease of 9.8% and a comparable decrease of 17.3%. The decrease is mainly caused by the continued decline in the CRT TV market and the weakness in the mainstream (retail) STB market. The decrease was partly offset by improvements in the Digital TV Systems on Chip market where the Home business won market share after starting mass production for a major Japanese original equipment manufacturer (''OEM''). The decrease was further offset due to the consolidation effect of the acquisition of BMP and the NuTune joint venture with a positive effect on sales of USD 63 million and USD 31 million respectively.



Income from operations

IFO in 2008 was a loss of USD 875 million, compared to a loss of USD 234 million in 2007.
The decrease in IFO was mainly related to a loss of USD 665 million arising from the impairment of goodwill and certain intangible assets. Furthermore, IFO was impacted by the unfavorable margin effect from lower sales that was more than offset by an improved margin and lower operational expenditures from the ongoing restructuring in the Home business. Incidental items in 2008 were mainly related to restructuring costs of USD 24 million. Incidental items in 2007 were related to restructuring charges in the R&D organization.

Automotive & Identification

Key data

In millions of USD unless otherwise stated	2007	2008
Sales	1,332	**1,285**
% nominal growth	21.4	**(3.5)**
% comparable growth	8.8	**(6.1)**
Income (loss) from operations (IFO)	144	**73**
as a % of sales	10.8	**5.7**
Effects of PPA	(151)	**(152)**
Incidental items	(3)	**(28)**
Adjusted IFO	298	**253**
as a % of sales	22.4	**19.7**

Sales

Sales in 2008 were USD 1,285 million compared to USD 1,332 million in 2007, a decrease of 3.5%, and a comparable decrease of 6.1%. Automotive sales for 2008 were lower than 2007 following the economic crisis affecting the automotive market in the second half of 2008. The Identification business showed lower sales in an overall weak market; in the second half of 2008 the business was faced with overstock situations in the market leading to reduced sales and price pressure mainly in SIM-related markets. This was partly offset by the improved sales of security on cards in the Desfire and Mifare+ products for Automated Fare Collection and Extended Access Control products for Electronic Passports. Furthermore, currency effects of USD 42 million positively impacted sales.

Income from operations

IFO in 2008 was USD 73 million, compared to USD 144 million in 2007. The decrease in IFO was largely caused by a lower gross margin in line with lower sales, both in Automotive & Identification. Furthermore, costs were higher mainly due to investments in R&D and higher incidental items of USD 28 million. Incidental items in 2008 mainly related to process transfer costs, following the closure of our factory in Boeblingen in Germany, and restructuring costs. Incidental items in 2007 fully related to restructuring costs.

MultiMarket Semiconductors

Key data

In millions of USD unless otherwise stated	2007	2008
Sales	1,619	**1,554**
% nominal growth	(4.3)	**(4.0)**
% comparable growth	(0.7)	**(7.7)**
Income (loss) from operations (IFO)	164	**63**
as a % of sales	10.1	**4.1**
Effects of PPA	(155)	**(129)**
Incidental items	(4)	**(10)**
Adjusted IFO	323	**202**
as a % of sales	20.0	**13.0**

Sales

Sales in 2008 were USD 1,554 million compared to USD 1,619 million in 2007, a decrease of 4.0%, and a comparable decrease of 7.7%. The decline was primarily caused by lower end user demand in a weaker market in the second half of the year. The growth in standard MOS and Signal Diodes was more than offset by the decline in the sales of Bipolar, Interface Products and Integrated Power. In addition, sales increased by USD 23 million due to a reclassification of Solid State Lighting activities. In 2007 these activities were reported in Corporate and Other and amounted to USD 9 million. Furthermore, in 2007, MMS was impacted positively by USD 35 million due to currency effect.

Income from operations

IFO in 2008 was USD 63 million, compared to USD 164 million in 2007. The IFO in 2008 was affected by the impact from lower sales and related lower factory utilization on the gross margin, higher investments in R&D and increased selling expenses. The impact from lower sales was partly offset by lower PPA effects of USD 129 million in 2008 compared to USD 155 million in 2007 and an increase in incidental items of USD 10 million in 2008 compared to USD 4 million in 2007. Incidental items in 2008 were primarily restructuring costs of USD 9 million.

Manufacturing Operations

Key data

In millions of USD unless otherwise stated	2007	2008
Sales	214	**324**
% nominal growth	1.4	**51.4**
% comparable growth	(15.6)	**10.7**
Income (loss) from operations (IFO)	(210)	**(691)**
as a % of sales (1)	—	—
Effects of PPA	(116)	**(134)**
Incidental items	(146)	**(367)**
Adjusted IFO	52	**(190)**
as a % of sales	—	—

(1) IFO and adjusted IFO as a percentage of sales is not meaningful for Manufacturing Operations .

Sales

Sales to third parties in 2008 were USD 324 million compared to USD 214 million in 2007, a nominal increase of 51.4%, and a comparable increase of 10.7%. The increase of nominal sales was mainly caused by wafer sales to ST-NXP Wireless, which became a third party in 2008, and sales to the DSP Group, which became a third party in 2007, in connection with the sale of our Cordless & VoIP Terminal operations in the third quarter of 2007.

Income from operations

IFO in 2008 was a loss of USD 691 million, compared to a loss of USD 210 million in 2007.
The decline was caused by a lower gross margin, which was mainly due to incidental items, lower factory utilization, the weaker U.S. dollar compared to 2007 and price erosion. The increase in incidental items in 2008 mainly related to the announced Redesign Program, ongoing restructuring in 2008 and the downscaling of production facilities in the second half of the year. Overall factory utilization declined to 72% in 2008 compared to 79% in 2007. In the fourth quarter of 2008 the utilization was 56%.

Corporate and Other

Key data

In millions of USD unless otherwise stated	2007	2008
Sales	94	**88**
% nominal growth	—	—
% comparable growth	—	—

Income (loss) from operations (IFO)	(483)	**(551)**
as a % of sales (1)	—	—
Effects of PPA	—	**—**
Incidental items	(172)	**(255)**
Impairment goodwill and other intangibles	—	**(49)**
Adjusted IFO	(311)	**(247)**
as a % of sales	—	—

(1) IFO and Adjusted IFO as a percentage of sales is not meaningful for Corporate and Other.

Corporate and Other business includes IP management, corporate research and development and corporate infrastructure.

Sales

Sales in 2008 were USD 88 million compared to USD 94 million in 2007 and related to IP licensing and NXP Software. Consolidation changes amounted to USD 9 million and related to Solid State Lightning activities. With effect from 2008, these activities are reported in the MultiMarket Semiconductors segment.

Income from operations

IFO in 2008 was a loss of USD 551 million, compared to a loss of USD 483 million in 2007.
The decrease compared to 2007 was caused by incidental items, currency results relating to hedging and fair value accounting, the impairment of goodwill of USD 49 million, partly offset by lower corporate IT costs. Incidental items in 2008 amounted to USD 255 million and consisted of restructuring charges of USD 173 million and Merger & Acquisition related costs of USD 54 million. Incidental items in 2007included, amongst others, IT disentanglement costs and restructuring charges for the exit from the Crolles2 Alliance and restructuring of the Global Sales Force.

Performance of the Group 2007 compared to 2006

Management Summary

- Full year sales at USD 6,321 million, compared to USD 6,238 million in 2006
- Full year Adjusted EBITDA at USD 1,031 million, compared to USD 1,158 million in 2006
- Full year Adjusted EBITA at USD 297 million, compared to USD 406 million in 2006
- Cost savings from Business Renewal Program in 2007 exceed USD 135 million on a run rate basis

The following table presents income from operations for the years ended December 31, 2007 together with the combined period of January 1, 2006 through December 31, 2006:

	2006 Combined			**2007 Successor**		
In millions of USD	**For the year ended December 31,**	**Effects of PPA**	**As adjusted to eliminate PPA effects**	**For the year ended December 31,**	**Effects of PPA**	**As adjusted to eliminate PPA effects**
Total sales	6,238	—	6,238	6,321	—	6,321
% nominal growth	5.4	—	5.4	1.3	—	1.3
% comparable growth	5.4	—	5.4	1.4	—	1.4
Gross margin	2,148	(200)	2,348	2,045	(140)	2,185
Selling expenses	(457)	—	(457)	(425)	—	(425)
General & administrative expenses	(632)	(154)	(478)	(1,189)	(636)	(553)
Research & development expenses	(1,916)	(664)	(1,252)	(1,343)	(15)	(1,328)
Other income	26	—	26	134	—	134
Income (loss) from operations	(831)	(1,018)	187	(778)	(791)	13
Financial income and (expenses)	(121)	—	(121)	(181)	—	(181)
Income tax benefit (expense)	231	293	(62)	396	247	149
Results equity-accounted investees	1	—	1	(40)	—	(40)
Minority interests	(68)	—	(68)	(47)	—	(47)
Net income/(loss)	(788)	(725)	(63)	(650)	(544)	(106)

Sales

Sales growth composition 2007 versus 2006

In %	comparable growth	currency effects	consolidation changes	nominal growth
Mobile & Personal	13.8	1.6	(7.2)	8.2
Home	(20.4)	(0.5)	(0.8)	(21.7)
Automotive & Identification	8.8	5.4	7.2	21.4
MultiMarket Semiconductors	(0.7)	2.1	(5.7)	(4.3)
Manufacturing Operations	(15.6)	0.2	16.8	1.4
Corporate and Other	—	—	—	—
	1.4	2.2	(2.3)	1.3

Sales were USD 6,321 million in 2007 compared to USD 6,238 million for 2006, an increase of 1.3% (an increase of 1.4% on a comparable basis). Sales were positively affected by stronger sales in Automotive & Identification and the development of the EUR/USD exchange rate and partly offset by lower sales in the Home segment.

Gross margin

Gross margin declined from USD 2,148 million in 2006 to USD 2,045 million in 2007 and from 34.4% in 2006 to 32.4% in 2007 as a percentage of sales. The 2007 gross margin was impacted by an increase in incidental items from USD 80 million in 2006 to USD 229 million in 2007, which was partially offset by a decrease in the effects of PPA of USD 60 million. The decrease in PPA effects was related to the depreciation of tangible fixed assets and write-off of inventories from USD 200 million in 2006 to USD 140 million in 2007.
The remaining change in gross margin was a result of price erosion and unfavorable product mix, which was offset by higher utilization and better performance of our manufacturing facilities.

Selling expenses

Selling expenses were USD 425 million in 2007, compared to USD 457 million in 2006. As a percentage of sales, selling expenses for 2007 were 6.7% compared to 7.3% in 2006. The decrease in selling expenses in 2007 was mainly caused by the consolidation of sales offices, which also resulted in a more transparent cost structure. The 2007 selling expenses included restructuring charges of USD 16 million (2006: USD 14 million).

General and administrative expenses

G&A expenses were USD 1,189 million in 2007, compared to USD 632 million in 2006, an increase of USD 557 million. The increase was primarily due to the full year impact of the PPA effects resulting from the amortization of intangible assets, which increased to USD 636 million in 2007 compared to USD 154 million in 2006. The remaining increase was mainly related to incidental items of USD 98 million including, amongst others, IT system reorganization costs from Philips (USD 75 million) and USD 26 million for equity-based compensation.
In 2006, restructuring charges of USD 32 million were incurred. The Business Renewal Program, which was a predecessor to our Redesign Program, partly offset higher additional G&A expenses in 2007. PPA effects in 2007 amounted to USD 636 million and were related to the amortization of intangible assets (2006: USD 154 million).

Research and Development expenses

Research and Development expenditures per sector

In millions of USD	2006 Combined amount	2006 Combined % of sales	2007 Successor amount	2007 Successor % of sales
Mobile & Personal	466	23.6	510	23.9
Home	246	20.8	258	27.8
Automotive & Identification	160	14.6	205	15.4
MultiMarket Semiconductors	116	6.9	118	7.3
Manufacturing Operations	95	45.0	48	22.4
Corporate and Other	169	—	189	—
	1,252	20.1	1,328	21.0

Excludes the write-off of acquired in-process R&D of USD 15 million in 2007 (2006: USD 664 million).

R&D expenses and write-off of acquired in-process research and development were USD 1,343 million in 2007, down from USD 1,916 million in 2006. The 2006 expenses included a charge of USD 664 million relating to the write-off of acquired in-process R&D. Without taking into account the charge in 2006, R&D expenses and write-off of acquired in-process research and development increased by USD 91 million in 2007. This increase was a result of increased incidental costs of USD 20 million, due to restructuring charges of USD 12 million related to the rightsizing of the Home R&D organization, compared to incidental costs of USD 29 million in 2006. The divestment of some of our product lines (including DVD-R, Power Amplifiers/Front End Modules, Large Display Driver and our Cordless & VoIP Terminal operations) freed up R&D resources in 2007, which we refocused on key battle areas in Mobile & Personal (especially 3G cellular systems) and Automotive & Identification.

Other income

Other income and expense was USD 134 million for 2007, mainly related to the gain of USD 119 million from the sale of Cordless & VoIP Terminal operations. The remainder of other income and expense was attributable to gains from disposal of various tangible fixed assets.

For 2006, other income and expense was USD 26 million, reflecting the sale of property, release of litigation provisions and a settlement of a legal dispute with a supplier.

Restructuring charges

The following table presents restructuring charges by segment as included in income from operations:

Restructuring charges

In millions of USD	2006 Combined	2007 Successor
Restructuring:		
Mobile & Personal	—	11
Home	9	19
Automotive & Identification	—	—
MultiMarket Semiconductors	(1)	1
Manufacturing Operations	5	133
Corporate and Other	13	54
Total restructuring charges	26	218

Income (loss) from operations (IFO)

Loss from operations was USD 778 million in 2007, compared to a loss of USD 831 million in 2006. Excluding the PPA effect of USD 791 million, 2007 income from operations was a profit of USD 13 million compared to USD 187 million in 2006 (excluding the PPA effect of USD 1,018 million).

Financial income and expense

Financial income and expenses

In millions of USD	2006 Combined	2007 Successor
Interest income	19	43
Interest expense	(144)	(495)
Impairment loss securities	—	(21)
Foreign exchange results	62	300
Other	(58)	(8)
	(121)	(181)

Financial income and expenses was a net expense of USD 181 million for 2007 compared to a net expense of USD 121 million in 2006. This change was primarily attributable to the full year impact of interest expense associated with the borrowings used to fund the acquisition by KASLION in 2006, which increased interest expenses by USD 327 million, partly offset by foreign exchange rate gains of USD 300 million. Financial income and expenses in 2007 also included an impairment loss of USD 21 million reflecting a decline in the DSP Group Inc. (''DSPG'') share price and hence of the value of our stake in DSPG.

Income tax benefit (expenses)

The income tax benefit in 2007 was USD 396 million, compared to USD 231 million in 2006. In 2007, the PPA effects included in income tax amounted to a benefit of USD 247 million compared to a benefit of USD 293 million in 2006. Prior to the acquisition by KASLION, our tax rate reflected internal allocations from Philips and therefore our 2006 tax results are not comparable.

Results relating to equity-accounted investees

Results relating to the equity-accounted investees in 2007 showed a loss of USD 40 million compared to a gain of USD 1 million in 2006 and relate to our participations in ASMC and T3G. The loss recorded for ASMC included an impairment charge of USD 29 million, reflecting the lower share price value of ASMC at the end of December 2007.

Minority interests

Minority interests in 2007 were a loss of USD 47 million and were related to our joint ventures SSMC (USD 46 million) and Jilin NXP Semiconductor Ltd. (''Jilin'') (USD 1 million). The minority interest in 2006 was a loss of USD 65 million in SSMC and USD 3 million in Jilin. In November 2006 we increased our shareholding in SSMC from 50.5% to 61.2%.

Net income

Net loss decreased from USD 788 million in 2006 to a loss of USD 650 million in 2007 as result of the items discussed above.

EBITA/EBITDA

The following table presents certain income numbers related to NXP Group's financial position for the full year 2007 and the combined period of January 1, 2006 through December 31, 2006.

In millions of USD	2006 Combined			2007 Successor		
	For the year ended December 31,	Effects of PPA	As adjusted to eliminate PPA effects	For the year ended December 31,	Effects of PPA	As adjusted to eliminate PPA effects
EBITA	(50)	(200)	150	(189)	(140)	(49)
EBITDA	734	(168)	902	682	(3)	685
Adjusted EBITA			406			297
Adjusted EBITDA			1,158			1,031

Adjusted EBITA

Adjusted EBITA for 2007 was USD 297 million, compared to USD 406 million in 2006. This decrease was mainly related to the lower sales and negative currency effects of approximately USD 123 million, partly offset by lower R&D, Selling and G& A expenses.

The adjustments made from 2007 EBITA of a loss of USD 189 million (2006: a loss of USD 50 million), to arrive at Adjusted EBITA of USD 297 million (2006: USD 406 million) consist of:

- PPA effects, mainly relating to depreciation property, plant and equipment of USD 140 million (2006: USD 200 million)
- restructuring costs of USD 218 million (2006: USD 26 million)
- exit of product lines of USD 18 million (2006: USD 56 million)
- other items of USD 23 million (2006: USD 107 million), mainly consisting of litigation costs of USD 5 million and IT system reorganization costs of USD 74 million and the gain on the divestment of Cordless & VoIP Terminal operations USD 119 million
- minority interest and results of equity-accounted investees of USD 87 million (2006: USD 67 million)

Adjusted EBITDA

Adjusted EBITDA for 2007 was USD 1,031 million, compared to USD 1,158 million in 2006. The difference between EBITA and Adjusted EBITDA in 2007 is explained by depreciation costs of USD 871 million, USD 3 million PPA effects, minority interest and results of equity accounted investees of USD 87 million, and identical incidental items for restructuring costs, exit of product lines and other items as included in 2007 EBITA adjustments.

In 2006 the difference between EBITA of a loss of USD 50 million and Adjusted EBITDA of USD 1,158 million consisted of depreciation costs of USD 784 million, USD 168 million PPA effects, minority interest and results of equity-accounted investees of USD 67 million and incidental items amounting to USD 189 million.

Performance by segment 2007 compared to 2006

The following tables present sales and income from operations by segment for the full year 2007 and the combined period January 1, through December 31, 2006.

Sales

In millions of USD	2006 Combined		2007 Successor	
	Sales	% nominal growth	Sales	% nominal growth
Mobile & Personal	1,973	(1.8)	2,135	8.2
Home	1,184	(4.8)	927	(21.7)
Automotive & Identification	1,097	22.8	1,332	21.4
MultiMarket Semiconductors	1,692	10.0	1,619	(4.3)
Manufacturing Operations	211	16.6	214	1.4
Corporate and Other	81	—	94	—
	6,238	5.4	6,321	1.3

Income (loss) from operations

In millions of USD	2006 Combined		2007 Successor			
	income from operations as adjusted to eliminate PPA effects	as a % of sales	income from operations	Effects of PPA	income from operations as adjusted to eliminate PPA effects	as a % of sales
Mobile & Personal	53	2.7	(159)	(258)	99	4.6
Home	(68)	(5.7)	(234)	(111)	(123)	(13.3)
Automotive & Identification	243	22.2	144	(151)	295	22.2
MultiMarket Semiconductors	342	20.2	164	(155)	319	19.7
Manufacturing Operations	(29)	—	(210)	(116)	(94)	—
Corporate and Other	(354)	—	(483)	—	(483)	—
	187	3.0	(778)	(791)	13	0.2

Mobile & Personal

Key data

In millions of USD unless otherwise stated	2006 Combined	2007 Successor
Sales	1,973	2,135
% nominal growth	(1.8)	8.2
% comparable growth	(2.0)	13.8
Income (loss) from operations (IFO)	(145)	(159)
as a % of sales	(7.3)	(7.4)
Effects of PPA	(198)	(258)
Incidental items	1	85
Adjusted IFO	52	14
as a % of sales	2.6	0.7

Sales

Sales in 2007 were USD 2,135 million compared to USD 1,973 million in 2006, a nominal increase of 8.2% (comparable increase of 13.8%). Growth in Cellular and Portable Sound Solutions was partly offset by lower sales in Connected Entertainment and the divestment of Cordless & VoIP Terminal operations. Connected Entertainment sales were affected by product development delays in Bluetooth and a declining connectivity market. This was partly offset by growth of the Multimedia product line.

Income from operations

IFO in 2007 was a loss of USD 159 million, compared to a loss of USD 145 million in 2006. IFO in 2007 included PPA effects of USD 258 million and positive results from incidental items amounting to USD 85 million. The latter was largely related to the gain from the divestment of the Cordless & VoIP Terminal operations of USD 119 million and other incidental items amounting to USD 34 million. The decrease compared to 2006 was primarily caused by significant price erosion in Cellular Systems and Connected Entertainment and lower yield associated with the ramp up of new Power Management Unit products. Furthermore, R&D was re-directed to key growth areas, including 3G Cellular Systems, Multimedia and Connected Entertainment.

Home

Key data

In millions of USD unless otherwise stated	2006 Combined	2007 Successor
Sales	1,184	927
% nominal growth	(4.8)	(21.7)
% comparable growth	(4.9)	(20.4)
Income (loss) from operations (IFO)	(257)	(234)
as a % of sales	(21.7)	(25.2)
Effects of PPA	(189)	(111)
Incidental items	(60)	(19)
Adjusted IFO	(8)	(104)
as a % of sales	(0.7)	(11.2)

Sales

Sales in 2007 were USD 927 million compared to USD 1,184 million in 2006, a nominal decrease of 21.7% (comparable decrease of 20.4%). The rapidly declining CRT TV markets, reflecting the fast transition from analog to digital television technologies, and soft sales in the digital TV market were the primary causes of the decrease in sales.

Income from operations

IFO in 2007 was a loss of USD 234 million compared to a loss of USD 257 million in 2006. In 2007, PPA effects were USD 111 million compared to USD 189 million in 2006. In 2007, incidental items amounted to USD 19 million, mainly related to the rightsizing of the R&D organization.
The income from operations in 2007 was strongly affected by the above mentioned decline in sales. This impact was only partly offset by a lower cost base. Furthermore, R&D investments in key areas such as Digital TV and Set Top Boxes were sustained in order to support future design wins.

Automotive & Identification

Key data

In millions of USD unless otherwise stated	2006 Combined	2007 Successor
Sales	1,097	1,332
% nominal growth	22.8	21.4
% comparable growth	22.2	8.8
Income (loss) from operations (IFO)	(142)	144
as a % of sales	(12.9)	10.8
Effects of PPA	(385)	(151)
Incidental items	(10)	(3)
Adjusted IFO	253	298
as a % of sales	23.1	22.4

Sales

Sales in 2007 were USD 1,332 million compared to USD 1,097 million in 2006, a nominal increase of 21.4% (comparable increase of 8.8%). Nominal sales were positively impacted by the reclassification of the Automotive Sensors operations, which recorded USD 77 million in sales in 2006, from MultiMarket Semiconductors as from January 2007. The Automotive business showed solid growth in all segments resulting from competitive product offerings and new product introductions. The Identification business maintained its overall share while the market growth rate slowed down in Radio Frequency Identification and Near Field Communication. The automatic fare collection business showed solid growth and the eGovernment business had single digit growth after strong growth in 2006.

Income from operations

IFO in 2007 was a gain of USD 144 million, compared to a loss of USD 142 million in 2006. PPA effects were USD 151 million in 2007 and incidental items were USD 3 million. Margins improved in Automotive & Identification. This was partly offset by additional investments in Automotive quality and R&D.

MultiMarket Semiconductors

Key data

In millions of USD unless otherwise stated	2006 Combined	2007 Successor
Sales	1,692	1,619
% nominal growth	10.0	(4.3)
% comparable growth	9.6	(0.7)
Income (loss) from operations (IFO)	151	164
as a % of sales	8.9	10.1
Effects of PPA	(191)	(155)
Incidental items	(13)	(4)
Adjusted IFO	355	323
as a % of sales	21.0	20.0

Sales

Sales in 2007 were USD 1,619 million, compared to USD 1,692 million in 2006, a nominal decrease of 4.3% (comparable decrease of 0.7%). Sales were negatively impacted by the reclassification as from January 2007 of the Automotive Sensor operations (2006: USD 77 million) to Automotive & Identification and the discontinuation of the Mobile Display Drivers activity.
In 2007, the general market conditions for MultiMarket Semiconductors were soft, in particular for RF products. The General Applications business registered healthy growth.

Income from operations

IFO in 2007 was USD 164 million, compared to USD 151 million in 2006. IFO in 2007 included PPA effects of USD 155 million and incidental items of negative USD 4 million. In 2006, the PPA effect was USD 191 million and incidental items amounted to negative USD 13 million. Benefits from operational excellence and cost management compensated partly for price erosion and translation differences. Continuous rationalization of manufacturing operations and our shift of bipolar power discrete semiconductor fabrication activities from the United Kingdom to China (Jilin), in particular, contributed significant cost savings.

Manufacturing Operations

Key data

In millions of USD unless otherwise stated	2006 Combined	2007 Successor
Sales	211	214
% nominal growth	16.6	1.4
% comparable growth	16.3	(15.6)
Income (loss) from operations (IFO)	(83)	(210)
as a % of sales (1)	—	—
Effects of PPA	(54)	(116)
Incidental items	(9)	(146)
Adjusted IFO (1)	(20)	52
as a % of sales	—	—

(1) IFO and adjusted IFO as a percentage of sales is not meaningful for the MANUFACTURING OPERATIONS business unit.

Sales

Sales in 2007 were USD 214 million compared to USD 211 million in 2006, a nominal increase of 1.4% (comparable decrease of 15.6%). The increase in sales was related to lower sales from SSMC to TSMC, but offset by sales to DSPG (USD 34 million) following the divestment of the Cordless & VoIP Terminal operations.

Income from operations

IFO in 2007 was a loss of USD 210 million, compared to a loss of USD 83 million in 2006. IFO in 2007 included PPA effects of USD 116 million and incidental items of USD 146 million primarily comprising restructuring costs of USD 133 million. The incidental items of USD 146 million were related to the closure of our facility in Boeblingen (Germany) and various restructuring charges in Nijmegen (the Netherlands), Cabuyao (the Philippines) and others totalling USD 13 million. This was partly offset by lower depreciation from the continued implementation of our asset-light strategy and savings from our Business Renewal Program, the predecessor to our Redesign Program.

Corporate and Other

Key data

In millions of USD unless otherwise stated	2006 Combined	2007 Successor
Sales	81	94
% nominal growth	—	—
% comparable growth	—	—
Income (loss) from operations (IFO)	(355)	(483)
as a % of sales (1)	—	—
Effects of PPA	(1)	—
Incidental items	(98)	(172)
Adjusted IFO	(256)	(311)
as a % of sales (1)	—	—

(1) IFO and Adjusted IFO as a percentage of sales is not meaningful for Corporate and Other.

Sales

Sales in 2007 were USD 94 million compared to USD 81 million in 2006 and mainly related to IP licensing.

Income from operations

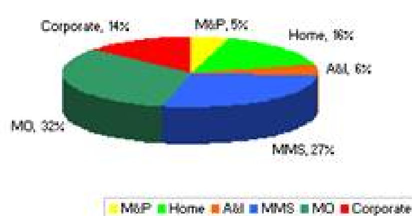
IFO was a loss of USD 483 million in 2007 compared to a loss of USD 355 million in 2006. The 2007 incidental items of USD 172 million included restructuring charges of USD 54 million, IT disentanglement costs of USD 75 million and remaining incidental costs of USD 43 million.

Employment

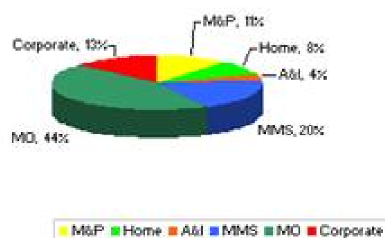
Employees by segment at year-end

In number of FTE	2006	2007	2008
Mobile & Personal	3,473	4,100	**1,416**
Home	3,546	3,096	**4,878**
Automotive & Identification	1,095	1,385	**1,728**
MultiMarket Semiconductors	6,804	7,350	**8,163**
Manufacturing Operations	17,442	16,728	**9,819**
Corporate and Other	5,108	4,968	**4,170**
	37,468	37,627	**30,174**

Employees by segment 2008



Employees by segment 2007



The table above indicates the number of employees at year-end. In 2008, the number of employees decreased by 7,453 compared to 2007. The main decline in the segment Mobile & Personal is caused by the deconsolidation of the Wireless activities (2,581 employees). The increase in segment Home is caused by the acquisition of Conexant's Broadband Media Processing (BMP) (646 employees) and the establishment of the joint venture NuTune (2,380 employees) of which a major part left after the merger. The decline of the number of employees within Manufacturing Operations is caused by the transfer of the site in Calamba as part of the transfer of Wireless activities (2,541 employees), the closure of the activities in Crolles and a large number of temporary employees that left the Company. The number of employees within Corporate and Other decreased as a consequence of the redesign program.

In 2007 the number of employees increased with 159 compared to 2006 which was caused by expansion of activities in the segments Mobile & Personal, MultiMarket Semiconductors and Automotive, which was partly offset by efficiency measures and restructuring in the segments Home, Manufacturing Operations and Corporate and Other.

The following table indicates the number of employees per geographic area.

Employees by geographic area at year-end

In number of FTE	2006	2007	2008
Europe and Africa	13,698	14,018	**10,310**
Americas	1,827	1,776	**1,530**
Greater China	7,739	7,904	**6,832**

Asia Pacific	14,204	13,929	**11,502**
	37,468	37,627	**30,174**

Liquidity and capital resources

Historically, our liquidity was primarily derived from cash generated by our operations, which generated cash flows of USD 960 million in 2006 and USD 533 million in 2007. In 2008, however, we were required to fund cash outflows from operations of USD 622 million. Typically, we expect to generate more sales, and therefore more cash, in the second half of the year to compensate for a weaker first half. However, in 2008, our second half revenues were affected by the economic downturn, leading to cash flows that were approximately neutral in the second half of 2008 and negative for the whole year. In 2008, we also generated significant cash from the sale of our wireless operations.

We continually assess our cash on hand, available financing and cash requirements as part of our overall risk management strategy. In November 2008, we borrowed USD 400 million under our senior secured revolving credit facility, which increased our available cash on hand. Our cash flow requirements are dependent on various factors, including anticipated working capital needs, scheduled interest repayments, planned capital expenditures and the cost of restructuring programs. Our working capital requirements are directly impacted by the underlying performance of our business and as a result, are subject to significant fluctuation in the current economy. In addition, expected cash requirements associated with the Redesign Program are based on our current estimates of costs and may change as we finalize and implement the program.

At December 31, 2008, we had cash on hand of USD 1,796 million and availability under our senior secured revolving credit facility. After an additional drawdown of USD 200 million on February 13, 2009, we have borrowed USD 600 million under the facility. At February 13, 2009, we had remaining capacity under that facility of approximately EUR 39 million, after taking into account outstanding bank guarantees under the facility. At December 31, 2008, USD 190 million of our cash on hand was held at our joint venture subsidiary, SSMC, and our ability to receive this cash is dependent upon agreement with our joint venture partner to make distributions. A portion of any distribution must also be paid to our joint venture partner. In 2008, SSMC distributed USD 200 million of cash of which USD 78 million was distributed to our joint venture partner.

We have developed forecasts and projections of cash flows and liquidity needs for the upcoming year taking into account the current market conditions, reasonably possible changes in trading performance based on such conditions, and our ability to modify our cost structure as a result of changing economic conditions and sales levels. We have also considered in the forecasts our available cash on hand and our available borrowings under our revolving credit facility, the impact of the initiated debt-for-debt exchange and our ability to access additional indebtedness.

Based on these analyses, we believe that our cash on hand will provide sufficient liquidity to fund our current obligations, expected working capital requirements, the cost of the Redesign Program and our planned capital expenditures for a period that includes at least the next 12 months.

Cash flows

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

Condensed cash flow statements

	PREDECESSOR	**SUCCESSOR**	**COMBINED**	**SUCCESSOR**	
In millions of USD	**For the period January 1, 2006 – September 28, 2006**	**For the period September 29, 2006 – December 31, 2006**	**For the year ended December 31, 2006**	**For the year ended December 31, 2007**	**For the year ended December 31, 2008**
Cash flow from operating activities:					
Net income (loss)	6	(794)	(788)	(650)	**(3,600)**
Adjustments to reconcile net income (loss) to net cash provided by operating activities	578	1,170	1,748	1,183	**2,978**
Net cash provided by (used for) operating activities	584	376	960	533	**(622)**
Net cash (used for) provided by investing activities	(570)	(237)	(807)	(678)	**1,015**
Net cash (used for) provided by	60	905	965	(22)	**316**

financing activities					
	74	1,044	1,118	(167)	**709**
Effect of changes in exchange rates on cash positions	(1)	(16)	(17)	(24)	**46**
Cash and cash equivalents at beginning of period	131	204	131	1,232	**1,041**
Cash and cash equivalents at end of period	204	1,232	1,232	1,041	**1,796**

Cash flow from operating activities

We used USD 622 million of cash to fund our operations in 2008 compared to cash flows generated by operations of USD 533 million in 2007. The operating cash flows were directly impacted by our net loss in 2008 of USD 3,600 million (2007: a loss of USD 650 million). The 2008 net loss included non-cash items, which consist primarily of depreciation and amortization, write-off of acquired in-process R&D of USD 1,296 million (2007: USD 1,547 million), impairment charges of USD 714 million and losses (including an impairment charge of USD 249 million) relating to equity accounted investees and minority interests of USD 294 million (2007: USD 87 million). Furthermore, it included net losses on the sale of assets of USD 369 million (2007: a gain of USD 114 million), which proceeds are included in cash flow from investing activities. The 2008 net loss also included an incidental charge for restructuring of USD 594 million (2007: USD 218 million) and other items of losses of USD 120 million (2007: profits of USD 251 million). This decrease in cash flow was associated with operations and resulted from lower cash receipts from customers of approximately USD 800 million, mainly due to the lower sales level, and higher net payments for interest and taxes (2008: USD 567 million; 2007: USD 481 million). This was partly offset by lower cash payments to suppliers. The net cash provided by operating activities for 2007 was USD 533 million compared to USD 960 million for 2006. The decrease was primarily caused by higher net cash payments for interest and taxes (2007: USD 481 million; 2006: USD 92 million).

Cash flow from investing activities

The Company generated cash flow from investing activities of USD 1,015 million in 2008, compared to a cash outflow of USD 678 million in 2007. The cash generated in 2008 was primarily due to the net proceeds from the transfer of the wireless activities of USD 1,433 million, cash paid for the acquisition of BMP of USD 111 million and net capital expenditures of USD 224 million. In 2007, the net cash used for investing activities was USD 678 million. This related to net capital expenditures of USD 406 million, acquisition of the Cellular Communications business of Silicon Laboratories Inc. (USD 288 million) and the final settlement with Philips (USD 114 million) relating to our acquisition by KASLION in 2006. This was partly offset by proceeds of USD 169 million from the divestment of Cordless & VoIP Terminal operations. In 2006, the net cash used for investing activities was USD 807 million. Net capital expenditures of USD 684 million and the purchase of an additional stake of 10.7% in SSMC for USD 120 million were the main cash payments.

Cash flow from financing activities

Our financing activities generated cash flows in 2008 of USD 316 million, compared to a use of cash related to financing activities of USD 22 million in 2007. The net cash provided by financing activities in 2008 mainly consists of USD 400 million from the drawing of the senior secured revolving credit facility. Furthermore, in 2008, SSMC (in which we have a 61.2% ownership share) repaid USD 200 million of paid-in capital to its shareholders. As a consequence, the USD 78 million that was paid to TSMC (our joint venture partner in SSMC) reduced the consolidated cash position and was reflected in the cash flow from financing activities. The net cash used for financing activities in 2007 fully related to a reduction in short term debt.

In 2006, net financing cash-flows of USD 965 million included the repayment of a loan from Philips, net of settlement, of USD 4,773 million and gross proceeds from the issuance of notes in October 2006 of USD 5,836 million, which were used to repay a bridge loan incurred in association with our acquisition by KASLION.

Financing

The condensed consolidated balance sheets at December 31, 2007 and 2008 are presented as follows:

Condensed balance sheet

In millions of USD	**2007**	**2008**
Cash and cash equivalents	1,041	**1,796**
Securities	—	**33**
Receivables and other assets	1,487	**1,198**
Inventories	958	**630**
Assets held for sale	130	**—**

Investment in equity-accounted investees	76	**158**
Other non-current financial assets	64	**18**
Property plant and equipment – net	2,500	**1,807**
Goodwill and intangible assets - net	7,560	**5,045**
Total assets	13,816	**10,685**
Accounts payable, accruals and other liabilities	2,115	**1,829**
Provisions	838	**1,201**
Debt	6,078	**6,367**
Minority interests	257	**213**
Shareholder's equity	4,528	**1,075**
Total liabilities and shareholder's equity	13,816	**10,685**

Cash and cash equivalents

The Company's cash position at year end amounted to USD 1,796 million, compared to USD 1,041 million at the end of 2007. The increase of the cash position is mainly caused by the proceeds from the transfer of the Wireless activities of USD 1,433 million and the drawing of the revolving credit facility of USD 400 million, partly offset by negative Net Income of USD 1,071 (adjusted for non cash items) and the acquisition of Conexant's Broadband Media Processing (BMP) of USD 111 million.

Related to the divestment of the Wireless activities we recognized gross proceeds of USD 1,550 million. Below table shows the calculation of the net proceeds and the use of these proceeds:

Gross cash proceeds	1,550
Transaction-related expenses and accruals incl. taxes *	(514)
Cash divested	(33)
Net available cash	1,003
Use of proceeds 2008:	
Relevant Capex	40
Conexant STB acquisition	111
Repayment revolving credit facility	450
Use of proceeds during 2008	601
Excess proceeds	402

* Any provisions, accruals and expenses related to the divestment of the Wireless business can be deducted from the gross proceeds.

Debt position

In October 2006, we issued an aggregate USD equivalent principal amount of USD 5,746 million in fixed- and floating rate notes (which are still outstanding), in the following series:

EUR 1,000 million	floating rate senior secured notes due 2013 (EURIBOR plus 2.75%)
USD 1,535 million	floating rate senior secured notes due 2013 (LIBOR plus 2.75%)
USD 1,026 million	77/8% senior secured notes due 2014
EUR 525 million	85/8% senior notes due 2015
USD 1,250 million	91/2% senior notes due 2015

These notes require quarterly interest payments, in the case of the floating rate notes, or semi-annual interest payments in the case of the remaining notes. The notes do not require amortization and all principal is due on the notes' respective maturity dates. As of December 31, 2008, the principal amount of the notes was equal to USD 5,955 million. In addition, we have drawn amounts under our EUR 500 million senior secured revolving credit facility. As of December 31, 2008, after taking into account outstanding bank guarantees under the facility of USD 5 million, we had drawn USD 405 million. Subsequently, on February 13, 2009 we drew a further USD 200 million under the facility. As of February 13, 2009, and at the exchange rates prevailing on that date, we had approximately EUR 39 million of remaining availability, after taking into account outstanding bank guarantees under the facility. The facility may be repaid and redrawn from time to time, and matures in September 2012.

Net debt

As of December 31, 2008 the Company had a net debt position (total debt minus cash equivalents) of USD 4,571 million compared to USD 5,037 million at the end of 2007. Our net debt to group equity ratio was 78 : 22 as of December 31, 2008 (December 31, 2007: 51 : 49).

Shareholder’s equity

Change in equity in 2008 relate to the net loss for that period of USD 3,600 million, currency translation differences of USD 145 million, share-based compensation of USD 27 million and other comprehensive income that decreased equity with USD 25 million.
As of December 31, 2008 shareholder’s equity was USD 1,075 million compared to USD 4,528 million as of December 31, 2007.

Changes in equity in 2007 consisted of net loss for that period of USD 650 million, currency translation differences of USD 276 million, share-based compensation of USD 28 million and other comprehensive income that increased equity with USD 40 million.

Completion of Exchange Offers 2009

On April 2, 2009, the Company completed its private offers to exchange a portion of its outstanding senior notes. Further reference is made to page 99, “Subsequent events”.

Guarantees and contractual obligations

Guarantees

Guarantees issued or modified after December 31, 2002 having characteristics as defined in FASB Interpretation No. 45 ‘Guarantor’s Accounting and Disclosure Requirements of Guarantees, including Indirect Guarantees of Indebtedness of Others’ (FIN45), are measured at fair value and recognized on the balance sheet. At the end of December 31, 2008, the total fair value of such guarantees was nil.

Guarantees issued before December 31, 2002 and not modified afterwards, and guarantees issued after December 31, 2002, which do not have characteristics defined in FIN45, remain off-balance sheet. As of December 31, 2008, there were no such guarantees recognized.

Contractual obligations (2)

Presented below is a summary of the NXP Semiconductors Group’s contractual obligations as at December 31, 2008.

in millions of USD	**Total**	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**After 5 years**
Long-term debt	5,964	—	3	2,943	3,018
Capital lease obligations	5	—	2	1	2
Short-term debt	403	403	—	—	—
Operating leases	240	43	74	43	80
Interest on the notes(1)	2,554	428	805	875	446
Total contractual cash obligations(2),(3),(4)	9,161	874	882	3,861	3,544

(1) The interest on the notes was determined on the basis of LIBOR and EURIBOR interest rates and USD/EUR balance sheet rates as at December 31, 2008. We have also drawn amounts under our senior secured revolving credit facility, but have not included these interest amounts due to the revolving nature of the debt.

(2) This table does not reflect uncertain tax positions, amounting to USD 55 million, payments associated with our defined benefit plans, restructuring obligations and any obligations contingent on future events. In addition, this does not include purchase orders entered into in the normal course of business.

(3) 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 the rate in effect at December 31, 2008. As a result, the actual payments will vary based on any change in exchange rate.

(4) Subsequent to December 31, 2008, we borrowed an additional USD 200 million under our senior secured revolving credit facility. This borrowing is not included in the obligations reflected on the table above.

As at December 31, 2008 accrued interest on debt amounted to USD 105 million.

Certain contingent contractual obligations, which are not reflected in the table above, include (a) contractual agreements, such as supply agreements, containing provisions that certain penalties may be charged if we do not fulfill our commitments, (b) a contractual agreement to contribute USD 18 million in our joint venture called the Advanced Semiconductor Engineering Inc. if our venture partner also contributes its contractually agreed amounts, which we expect may occur in 2009, and (c) a contractual agreement to contribute USD 6 million in our joint venture with Sony called Moversa if our venture partner also contributes its contractually agreed amounts.

We sponsor pension plans in many countries in accordance with legal requirements, customs and the local situation in the countries involved. These are defined-benefit pension plans, defined contribution pension plans and multi-employer plans.

Contributions to funded pension plans are made as necessary, to provide sufficient assets to meet future benefits payable to plan participants. These contributions are determined by various factors, including funded status, legal and tax considerations and local customs. We currently estimate our contributions to pension plans will be USD 117 million in 2009, consisting of USD 5 million in employer contributions to defined-benefit pension plans, USD 105 million in employer contributions to defined-contribution pension plans and multi-employer plans, and USD 7 million expected cash outflows in relation to a funding deficit associated with pension plans.

The expected cash outflows in 2009 and subsequent years are uncertain and may change substantially 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.

For further details about cash obligations related to pension and other postretirement plans, see notes 25 and 26 of the group financial statements.

Risk management

The following sections present an overview of NXP's approach to risk management and business control and a description of the nature and the extent of its exposure to risks. These risks are further described in the section "risk factors" of this Annual Report. The risk overview provided is not exhaustive. Some risks not yet known to NXP or currently believed not to be material could later turn out to have a material impact on NXP's business, financial condition or results of operations.

The risk factors should be considered in connection with the information provided under "forward-looking statements", elsewhere in this Annual Report.

NXP's approach to risk management and business control

Risk management forms an integral part of business management. NXP's risk and control policy is designed to provide reasonable assurance that objectives are met by integrating management control over daily operations, by ensuring compliance with legal requirements and by safeguarding the integrity of the financial reporting and related disclosures. NXP management is responsible for identifying critical business risks and for implementing fit-for-purpose risk responses. Internal controls are managed and controlled by a regular assessment of the installed business controls and, if required, corrective actions.

Corporate governance

NXP believes that adequate corporate governance is a critical factor in achieving business success. Adequate corporate governance is based on, amongst other factors, solid internal controls and high ethical standards throughout every aspect of our business. Risk management is well-embedded in NXP's corporate governance model (e.g., annual strategy determination, quarterly business review meetings and periodical assessment of controls).

The quality of NXP's systems of business controls and the findings of internal and external audits are reported to and discussed by the Audit Committee of the Supervisory Board. Internal auditors monitor the quality of the business controls through risk-based operational audits, inspections of financial reporting controls and compliance audits. The NXP audit committee meets on a regular basis to address weaknesses as reported by the auditors or from self-assessments and to take corrective action where necessary. This audit committee is also involved in determining the desired company-wide internal audit coverage as approved by the Supervisory Board Audit Committee.

NXP Business Control Framework

The NXP Business Control Framework ("BCF",) sets the standard for risk management and business controls at NXP. The objectives of the BCF are to maintain integrated management control of the Company's operations, to ensure integrity of the financial reporting and business processes, as well as to comply with applicable laws and regulations.

With respect to financial reporting, a structured company-wide assessment and monitoring process is in place to enable the Chief Executive Officer and Chief Financial Officer to review the effectiveness of financial risk management and business controls. Each quarter, entities issue a formal certification statement to confirm the adequacy of the design and effectiveness of disclosure controls and internal controls over financial reporting. As part of the annual report process, management's accountability for business controls is enforced through the formal issuance of a Statement on Business Controls and a Letter of Representation.

US Sarbanes-Oxley Act

In connection with the registration of its exchange notes, NXP became a SEC registrant during 2007. Following this SEC registration, NXP is subject to certain provisions of the US Sarbanes-Oxley Act. A separate Annual Report on Form 20-F, certified by both the CEO and the CFO, will be filed with the US Securities and Exchange Commission, including management certification relating to its internal controls over financial reporting. Both the CEO and CFO have assessed the design and operating effectiveness of controls within the scope of

section 404 of the US Sarbanes-Oxley Act. This evaluation included controls at Group level and transactional controls at significant locations. The scope also included relevant IT controls. Any deficiencies noted in design and operating effectiveness not completely remediated were formally evaluated at year-end. Based on that assessment, it was concluded that, as of December 31, 2008, the Company's internal control over US GAAP financial reporting is considered effective.

NXP Business Code of Conduct

The NXP Business Code of Conduct ('BCC') explicitly lays out the rules of behavior that NXP as an organization and its employees commit to. The BCC outlines NXP's general commitment to be a responsible social partner and the way in which it interacts with its stakeholders: customers, shareholders, employees, suppliers and the market. The BCC expresses NXP's commitment to an economically, socially and ethically sustainable way of working. It covers NXP's policy on a diverse array of subjects, including corporate gifts, child labor, ILO conventions, working hours, sexual harassment, free-market competition, bribery and the integrity of financial reporting.

Risks related to our business

We have experienced a severe downturn in revenues and a significant loss of cash from our operating activities in 2008, and our revenues are currently expected to decline further.

Our 2008 financial statements show a severe downturn in revenues and a significant loss of cash from our operating activities. Although it is not possible to predict our future performance, especially in light of the unusual conditions prevailing in the semiconductor industry, our current expectation is that our revenues for 2009 will decline compared to our 2008 revenues, and this decline could be significant. If these negative developments continue or worsen, our liquidity will be further impaired, along with our ability to fund our working capital, service our outstanding indebtedness and meet our liabilities.

We have been negatively affected by the financial crisis in the global capital and credit markets and the resulting global recession.

The global capital and credit markets have been experiencing extreme volatility and disruption. The financial crisis and the fact that financial institutions have consolidated or gone out of business have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets, strongly reducing the availability of financing in general. This has had a severe negative impact on businesses around the world and depressed the global economy. In addition, these conditions have and could further lead to reduced consumer spending in the foreseeable future.

There are a number of severe follow-on effects from the financial crisis in the global capital and credit markets on the semiconductor industry and on our business, which have already had a material adverse effect on our results of operations and liquidity. The impact of this crisis on our major customers and key suppliers cannot be predicted and is likely to be severe. In the current depressed economic environment, there has been a decline in consumer purchases of items for which we supply components, and such decline will likely continue as the current recessionary period continues and disposable income declines. In addition, a disruption in the ability of our major customers to access liquidity could cause serious disruptions or an overall deterioration of their business, which could lead to a significant reduction in their future orders of our products and the inability or failure on their part to meet their payment obligations to us. Similarly, the impact of this crisis on our pension liabilities and costs cannot be predicted and may be severe. All of the foregoing could affect our ability to maintain sufficient liquidity to fund our working capital, service our outstanding indebtedness and meet our liabilities, including any principal due on our debt. If our resources do not satisfy our liquidity requirements, we may have to seek additional financing, but may not be able to successfully obtain any necessary additional financing on favorable terms, or at all, especially in light of the crisis in the credit markets. In addition, the financial crisis may cause banks who are parties to our senior revolving credit facility to refuse or be unable to fund future drawings. Without sufficient liquidity, we could be forced to curtail our operations. Moreover, any failure of derivative counterparties and other financial institutions may negatively impact our treasury operations.

The current volatility in the financial markets and overall economic uncertainty increases the risk that the actual amounts realized in the future on our financial instruments could differ significantly from the fair values currently assigned to them. Other income and expense could also vary materially from expectations depending on gains or losses realized on the sale or exchange of financial instruments, impairment charges related to debt securities as well as equity and other investments, interest rates, cash balances and changes in fair value of derivative instruments.

A significant write down of goodwill and other intangible assets would have a material adverse effect on our reported results of operations and net worth.

Our total assets include USD 5.0 billion of goodwill and other intangible assets as of December 31, 2008. 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. As a result of these reviews, in 2008 we recorded an impairment of USD 714 million.

The assessment of impairment is based on a number of assumptions, including the use of a weighted-average cost of capital to calculate the present value of the expected future cash flows of our cash generating units. Future changes in the cost of capital, expected cash flows, or other factors may cause these assets to be impaired, resulting in a non-cash charge against results of operations to write down these assets for the amount of the impairment. If a significant write down is required, the charge would have a material adverse effect on our reported results of operations and net worth.

The financial performance of the semiconductor market is highly cyclical and currently experiencing a downturn which may continue in the future.

The semiconductor industry as a whole is currently in a sharp downturn, particularly in view of deteriorating general economic conditions. We believe that these conditions have already negatively impacted our business, leading to a severe downturn in revenues for 2008 and a significant loss of cash from our operating activities in 2008. These conditions may worsen and we are unable to predict the severity or length of any downturn, or what impact these conditions will have on our securities. As a result, our financial data included in this report may not be indicative of the full severity of the downturn in the future.

Historically, the relationship between supply and demand in the semiconductor industry has caused a high degree of cyclicality in the semiconductor market. Semiconductor supply is driven by manufacturing capacity, which in the past has demonstrated alternating periods of substantial capacity additions and periods in which no or limited capacity was added. As a general matter, semiconductor companies are more likely to add capacity in periods when current or expected future demand is strong and margins are, or are expected to be, high. Investments in new capacity can result in overcapacity, which can lead to a reduction in prices and margins. In response, companies typically limit further capacity additions, eventually causing the market to be relatively undersupplied. In addition, demand for semiconductors varies, which can exacerbate the effect of supply fluctuations. As a result of this cyclicality, the semiconductor industry has in the past experienced significant downturns, 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, underutilization of manufacturing capacity and accelerated erosion of average selling prices. For example, in 2001 through 2003 the semiconductor industry experienced a period of significant overcapacity, and we suffered operating losses as a result over an extended period. As a result of the overall cyclicality in the market, the semiconductor industry will likely continue to experience downturns of varying degrees and durations in the future. We may not be able to adequately protect ourselves against the impact of these downturns, which could have a material adverse effect on our business, financial condition and results of operations.

In difficult market conditions, our high fixed costs combined with low revenues negatively impact our results.

The semiconductor industry is characterized by high fixed costs and, notwithstanding our significant utilization of third-party manufacturing capacity, most of our production requirements are met by our own manufacturing facilities. In less favorable industry environments, we are generally faced with a decline in the utilization rates of our manufacturing facilities due to decreases in product demand. During such periods, our fabrication plants operate at a lower loading level, while the fixed costs associated with the full capacity continue to be incurred resulting into lower gross margins. In addition, we have made certain commitments related to Silicon Manufacturing Company Pte. Ltd. (''SSMC''), whereby we are obligated to make cash payments to SSMC should we fail to take up an agreed-upon percentage of the total available capacity at SSMC's fabrication facilities if overall SSMC utilization levels drop below a fixed proportion of the total available capacity. We have only had to make such payment once, for 2002, in the amount of EUR 15 million. In the event that our demand for production from SSMC falls in the future, we may be required to make similar payments, which could be significant if were to fail to take up our agreed-upon quota.

Currently we are experiencing a difficult market environment and our utilization levels during the year 2008 decreased from 88% in the first quarter of 2008, to 78% in the second quarter, 68% in the third quarter and 56% in the fourth quarter. Lower utilization has had a negative impact on our results. Any attempts to improve utilization by rationalizing some of these facilities will be costly and require the cooperation of our customers, which may not always be forthcoming. Although our current Redesign Program is focused amongst other things on reducing our manufacturing footprint, we cannot guarantee that difficult market conditions in the future will not adversely affect our utilization rates and consequently our future gross margins. This in turn could further materially adversely affect our business, financial condition and results of operations.

Our historical results may not be representative of our future results.

In the two years since our separation from Philips, we have engaged in numerous acquisitions, joint ventures and other strategic transactions. We have concluded our transformation into a standalone company separate from Philips. We have also disposed of our wireless business, which was a substantial portion of our business, and rationalized several product lines. We have now embarked upon a major redesign and restructuring program. Because of the number and significance of these events, you should not rely upon our historical financial data to be predictive of our future performance. In addition, we have suffered a severe decline in revenues in 2008 and expect a further decline in the first quarter of 2009 on a sequential basis, which decline may continue. Therefore, no undue reliance should be placed on this information as a prediction of our future performance.

The demand for our products depends to a significant degree on the demand for the end products of our customers into which they are incorporated.

The vast majority of our revenues are derived from sales to manufacturers in the automotive, consumer electronics and communications industries. Demand in these markets fluctuates significantly, driven by consumer spending, consumer preferences, the development of new technologies and prevailing economic conditions. We have experienced lower demand as a result of the current global downturn. 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 schedule delivery dates, modify their orders or reduce lead times. This is particularly common during periods of low demand, such as now. This can make managing our business difficult, as it limits the foreseeability of future sales. 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 revenues, 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 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 highly competitive. If we fail to introduce new technologies and products in a timely manner, it could adversely impact 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. Our ability to meet evolving industry requirements and to introduce 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 revenues may decline substantially. Moreover, some of our competitors are well-established entities, are larger than we are 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 materializes, our business, financial condition and results of operations could be materially adversely affected.

The semiconductor industry is characterized by aggressive pricing and rapidly declining average selling prices, especially after a product has been on the market for a significant period of time.

One of the results of the rapid innovation that is exhibited by the semiconductor industry is that pricing pressure, especially on products containing older technology, can be intense. Product life cycles are relatively short, and as a result, products tend to be replaced by more technologically advanced substitutes on a regular basis. In turn, demand for older technology falls, causing the price at which such products can be sold to drop, in some cases precipitously. In order to continue profitably supplying these products, we must reduce our production costs in line with the lower revenues we can expect to receive per unit. Usually, this must be accomplished through improvements in process technology and production efficiencies. If we cannot advance our process technologies or improve our efficiencies to a degree sufficient to maintain required margins, we will no longer be able to make a profit from the sale of these products. Moreover, we may not be able to cease production of such products, either due to contractual obligations or for customer relationship reasons, and as a result may be required to bear a loss on such products. We cannot guarantee that competition in our core product markets will not lead to price erosion, lower revenue growth rates and lower margins in the future. Should reductions in our manufacturing costs fail to keep pace with reductions in market prices for the products we sell, our business, results of operation and financial condition could be materially adversely affected.

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

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. In particular, our Home business unit is heavily dependent on winning contracts with major TV and set-top box manufacturers in 2009. Our failure to win a sufficient number of these bids could result in reduced revenues 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 materially adversely affect our business, financial condition and results of operations.

Our Redesign Program may not be successful and our estimated savings are difficult to predict.

We recently announced our Redesign Program targeted to reduce our annual cost base through major reductions of the manufacturing base, rightsizing of central R&D, and reduction of support functions. We have now accelerated and expanded the program. However, our actual savings may be lower than we may currently anticipate, and they may or may not be realized on our anticipated time line. The cost of implementing the Redesign Program may also differ from our estimates and negative effects from the Redesign Program, such as customer dissatisfaction, may have a larger impact on our revenues than expected.

Implementing a fundamental redesign may also be more difficult in our business than in other businesses due to the complexity of our products, the way our products are manufactured and the requirements of our customers. For instance, if we close or move a production line, we may need to negotiate with customers to ensure our replacement product line will produce satisfactory replacement components. The Redesign Program may also affect the NXP brand if there are any issues from the redesign that impact our customers negatively. Furthermore, the Redesign Program may create employee retention issues, including the inadvertent loss of highly qualified employees, and may result in worker's council issues in some jurisdictions or other labor issues.

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

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

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

From time to time we may decide to divest certain product lines and businesses or restructure our operations, including through the contribution of assets to joint ventures. We have in recent years exited several of our product lines and businesses and we have closed several of our manufacturing and research facilities. We may continue these practices in the future. However, our ability to successfully extricate ourselves from 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 adequate 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 or involve the presence of work councils that 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, our business, financial condition and results of operations could be materially adversely affected.

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

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

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.

Some of our suppliers may also find it harder to obtain receivables insurance on satisfactory terms and we expect that some suppliers may therefore request more favorable terms from us. This situation could be made worse by our credit ratings downgrade. At the same time, some of our customers may be seeking to improve their liquidity by obtaining more favorable terms from us on our accounts receivable.

Deterioration in our working capital position could require us to draw additional amounts on our senior secured revolving credit facility (as to which we only retained approximately EUR 39 million of capacity as of February 13, 2009, taking into account USD 5 million of outstanding bank guarantees) or otherwise obtain and utilize more cash. We may not be able to obtain this cash on favorable terms or at all.

Our business has and could suffer from manufacturing problems.

We manufacture our products using processes that are highly complex, require advanced and costly equipment and must continuously be modified to improve yields and performance. Difficulties in the production process can reduce yields or interrupt production, and as a result of such problems we may on occasion not be able to deliver products on time or in a cost-effective, 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.

Furthermore, 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. As with other semiconductor companies, we use highly combustible materials such as silane and hydrogen in our manufacturing processes and are therefore subject to the risk of explosions and fires, which can cause significant

disruptions to our operations. These can occur even in the absence of any fault on our part. We have experienced two significant fires at our facilities. In March 2000, our facility in Albuquerque, New Mexico suffered a fire caused by a power outage that shut down our fabrication line for 200 millimeter silicon wafers for over a month. In December 2003, a fire occurred in our fabrication plant in Caen, France, resulting in a complete loss of our production line there. If operations at a manufacturing facility are interrupted, we may not be able to shift production to other facilities on a timely basis or at all. The loss of our Caen facility resulted in us permanently ceasing production of several legacy products for which we did not have alternate fabrication capability and the Albuquerque fire caused extensive delays in shipping certain products. Even if a transfer is possible, transitioning production of a particular type of semiconductor from one of our facilities to another can take between six to twelve months to accomplish, and in the interim period we would likely suffer significant or total supply disruption and incur substantial costs.

We may in the future experience manufacturing difficulties or permanent or temporary loss of manufacturing capacity due to the foregoing or other risks. Such an event could materially adversely affect our business, financial condition and results of operations.

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 could lose sales opportunities and become liable to pay 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 in turn 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 our business, financial condition and results of operations could be materially adversely affected.

We rely on strategic partnerships, joint ventures and alliances for manufacturing and research and development. However, we typically 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 materially adversely affect our business, financial condition and results of operations.

As part of our strategy, we have entered into a number of long-term strategic partnerships with other leading industry participants. For example, we have entered into a joint venture with TSMC, called Systems on SSMC, and we operate jointly with Jilin Sino-Microelectronics Co. Ltd. the joint venture Jilin NXP Semiconductor Ltd. (''JNS''). We established the Advanced Semiconductor Manufacturing Company together with a number of Chinese partners, and together with Advanced Semiconductor Engineering Inc. we established an assembly and test joint venture. Furthermore, we established Moversa with Sony Corporation and recently formed NuTune with Thomson.

We also engage in alliances with respect to other aspects of our business, such as product development. For example, we partner with industry participants to develop new standards in the areas of near field communication technology and are a founding member of the FlexRay consortium to develop advanced communication systems for automotive applications. The failure of any of these consortia, or their obsolescence due to the success of any competing industry groups, would damage our ability to sell into the relevant markets and to influence industry standards, an important part of our strategy.

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, in which case our business, financial condition and results of operations could be materially adversely affected.

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

We currently use outside suppliers or foundries for a portion of our manufacturing capacity, and expect that our reliance on outsourcing will increase. Outsourcing our production presents a number of risks. If our outside suppliers are unable to satisfy our demand, or experience manufacturing difficulties, delays or reduced yields, our results of operations and ability to satisfy customer demand could suffer. In addition, purchasing rather than manufacturing these products may adversely affect our gross profit margin if the purchase costs of these products are higher than our own manufacturing costs would have been. Our internal manufacturing costs include depreciation and other fixed costs, while costs for products outsourced are based on market conditions. Prices for foundry products also vary depending on capacity utilization rates at our suppliers, quantities demanded, product technology and geometry. Furthermore, these outsourcing costs can

vary materially from quarter-to-quarter and, in cases of industry shortages, they can increase significantly, negatively impacting our gross margin.

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. Moreover, we rely on a single source of supply for certain equipment and materials, and a failure by such single-source suppliers to deliver our requirements could result in disruptions to our manufacturing operations and, in some circumstances, result in a shut-down of our operations at affected facilities. Our business, financial condition and results of operations could be hurt 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.

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

We depend on our key management to run our business and on our senior architects to develop new products and technologies. The loss of any of these key personnel could materially adversely affect our business. Competition for qualified employees among companies that rely heavily on engineering and technology expertise is intense, 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.

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

A substantial portion of our sales is derived from our top customers. At December 31, 2008, our largest customer was Nokia, which accounted for 9% of our revenues for the calendar year ended December 31, 2008, compared to 9% in 2007 and 8% in 2006. For the calendar year ended December 31, 2008, our top ten customers accounted for approximately 49% of our revenues, compared to approximately 50% of our 2007 revenues and 47% of our 2006 revenues. We cannot guarantee that we will be able to generate similar levels of sales from our largest customers in the future. Should one or more of these customers substantially reduce their purchases from us, our results of operations could be materially adversely affected.

Our business could suffer as a result of changing circumstances in different parts of the world.

We operate globally, with manufacturing, assembly and testing facilities on several continents. We also market our products in many different countries. Our business is therefore subject to risks inherent in international business, including:

- negative economic developments in economies around the world and the instability of governments, including the threat of war, terrorist attacks, epidemic or civil unrest;
- adverse changes in laws, policies and governmental policies, especially those affecting trade and investment;
- pandemics, such as the avian flu, which may adversely affect our workforce as well as our local suppliers and customers;
- import or export licensing requirements imposed by governments;
- foreign currency exchange and transfer restrictions;
- differing labor standards;
- differing levels of protection of intellectual property;
- the threat that our operations or property could be subject to nationalization and expropriation; and
- varying practices of the regulatory, tax, judicial and administrative bodies in the jurisdictions where we operate.

If any of these risks were to materialize or worsen, our business, financial condition and results of operations could be materially adversely affected.

As our business is global, our operations are exposed to economic and political developments, and laws and regulations in countries across the world that could adversely impact our operating results.

The business environment is influenced by economic and political uncertainties that continue to affect the global economy and the international capital markets. As a company with global operations, economic and political developments in various parts of the world could have an adverse effect on our operating results. Besides this, we are subject to environmental, 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. No assurance can be given that we have been or will be at all times in complete compliance with such laws, regulations, permits and other authorizations or licenses. If we violate or fail to comply with these laws, regulations, permits and other authorizations or licenses, we could be fined or otherwise sanctioned by regulators.

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

A substantial proportion of our expenses are incurred in euros, while most of our revenues are denominated in U.S. dollars. Accordingly, our results of operations may be affected by changes in exchange rates, particularly between the euro and the U.S. dollar. In addition, despite the fact that a majority of our revenues are denominated in U.S. dollars and a substantial portion of our debt is denominated in U.S. dollars, we have euro-denominated assets and liabilities and the impact of currency translation adjustments to such assets and liabilities may be material. We have recently converted a substantial part of our U.S. dollar denominated cash into euro as a hedge for our short to medium term anticipated euro cash requirements, including those associated with the Redesign Program, and the relative value of this cash could decline in U.S. dollar terms.

We are exposed to a variety of financial risks, including currency risk, interest rate risk, liquidity risk, commodity price risk, credit risk and other insurable risks, which may impact our 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 insurable risks. We enter into diverse financial transactions with several counterparties to mitigate our currency risk. Derivative instruments are only used for hedging purposes. The rating of our debt by major rating agencies or banks may improve or further deteriorate. As a result, our borrowing capacity and financing costs may be impacted. We are also a purchaser of certain base metals, precious metals and energy used in the manufacturing process of our products. Currently, we do not use financial derivative instruments to manage exposure to fluctuations in commodity prices. 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, but we may suffer significant losses on receivables in a worsening credit environment. We invest available cash and cash equivalents with various financial institutions and are in that respect exposed to credit risk with these counterparties. We actively manage concentration risk on a daily basis adhering to a treasury management policy. Cash is invested and financial transactions are concluded where possible with financial institutions with a strong credit rating.

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

We depend significantly on patents and other intellectual property rights to protect our products and proprietary design and fabrication processes against misappropriation by others. We may in the future have difficulty obtaining patents and other intellectual property rights and the patents we receive may be insufficient to provide us with meaningful protection or commercial advantage. We may not be able to obtain patent protection or secure other intellectual property rights in all the countries in which we operate, and under the laws of such countries, patents and other intellectual property rights may be unavailable or limited in scope. Furthermore, our trade secrets may be vulnerable to disclosure or misappropriation by employees, contractors and other persons. In particular, intellectual property rights are difficult to enforce in the People’s Republic of China and certain other developing nations, since the laws governing such rights are relatively undeveloped in these countries compared to other jurisdictions where we operate, such as the United States and The Netherlands. Consequently, operating in the People’s Republic of China or other developing nations may subject us to an increased risk that unauthorized parties may attempt to copy or otherwise use our intellectual property or the intellectual property of our suppliers or other parties with whom we engage. There is no assurance that we will be able to protect our intellectual property rights or have adequate legal recourse in the event that we are required to seek legal or judicial enforcement of our intellectual property rights under the laws of such countries. Any inability on our part to protect adequately our intellectual property may have a material adverse effect on our business, financial condition and results of operations.

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

In connection with our separation from Philips, Philips transferred approximately 5,300 patent families to us subject to certain limitations, including (1) any prior commitments to and undertakings with third parties entered into prior to the separation and (2) certain licenses retained by Philips. These licenses back to Philips give Philips the right to sublicense to third parties in certain circumstances that may divert revenue opportunities from us. Approximately 800 of these patent families were transferred on to ST-NXP and its successor.

Philips granted us a non-exclusive license (A) to all patents Philips holds but has not assigned to us, to the extent that they are entitled to the benefit of a filing date prior to the separation and for which Philips is free to grant licenses without the consent of or accounting to any third party and (B) to certain know-how that is available to us, where such patents and know-how relate: (1) to our current products and technologies as well as successor products and technologies, (2) to technology that was developed for us prior to the separation, and (3) to technology developed pursuant to contract research co-funded by us. Philips has also granted us a non-exclusive royalty-free and irrevocable license (A) under certain patents for use in giant magneto-resistive devices outside the field of healthcare and bio applications, and (B) under certain patents relevant to polymer electronics resulting from contract research work co-funded by us in the field of RFID tags. Such licenses are subject to certain prior commitments and prior undertakings. However, Philips retained ownership of certain intellectual property related to our business as

well as certain rights with respect to intellectual property transferred to us in connection with the separation. There can be no guarantee that the patents transferred to us will be sufficient to assert offensively against our competitors or to use as leverage to negotiate future cross-licenses to give us freedom to operate and innovate in the industry. The strength and value of our intellectual property may be diluted if Philips licenses or otherwise transfers such intellectual property or such rights to third parties, especially if those third parties compete with us.

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. Furthermore, 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 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 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 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.

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

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.

Such laws and regulations include a recently implemented European Union directive, known as the Restriction on Hazardous Substances, or RoHS, which bans the use of lead and certain other hazardous substances in electronic equipment. China has enacted similar legislation, commonly referred to as China RoHS. China RoHS includes labeling and information disclosure requirements that became effective on March 1, 2007. These laws and regulations also include significant new regulation on these of perfluorinated compounds, or PFCs, and sulfur

hexafluoride, or SF6. The regulation of these two types of gases, which are critical in the semiconductor manufacturing process, currently exempts the semiconductor industry, but this exemption may not continue in the future. The European Union has also implemented restrictions on perfluorooctane sulfonate, or PFOS, which currently exempt semiconductor manufacturing processes, although it is not certain whether any such exemption will be retained in the future. In addition, a new European Union regulation regarding chemicals and their safe use, part of which will be effective starting June 1, 2009, deals with the registration, evaluation, authorization and restriction of chemicals (REACH), some of which we use in our manufacturing processes. Other governments may propose and pass similar bans through legislation, regulation, directives or adoption or amendment of international treaties. A 2005 European Union directive established a framework that will ultimately impose labeling and energy efficiency requirements on energy-using products. The European Union has not yet issued product-specific requirements. The European Union directive on environmental liability with regard to the prevention and remediation of environmental damage had to be implemented by the European Union member states by April 2008. Following implementation of this directive in the member states, we could face increased environmental liability, which may result in higher insurance costs, remediation expenses and potential damage claims. The European Union directives, REACH, and any PFC, SF6 or PFOS bans that affect the semiconductor manufacturing process, have and may continue to complicate our research and development activities and have and may continue to require us to change certain of our manufacturing processes, to utilize more costly materials or to incur substantial additional expenses.

As with other companies engaged in similar activities or that own or operate real property, we face inherent risks of environmental liability at our current and historical manufacturing facilities. Certain environmental laws impose strict, and in certain circumstances, joint and several liability on current or previous owners or operators of real property for the cost of investigation, removal or remediation of hazardous substances as well as liability for related damages to natural resources. Certain of these laws also assess liability on persons who arrange for hazardous substances to be sent to disposal or treatment facilities when such facilities are found to be contaminated. Soil and groundwater contamination has been identified at some of our current and former properties resulting from historical, ongoing or third-party activities. We are in the process of investigating and remediating contamination at some of these sites. While we do not expect that any contamination currently known to us will materially adversely affect our business or financial condition, we cannot assure you that this is the case or that we will not discover new facts or conditions or that environmental laws (including the European Union directive on environmental liability referenced above) 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 materially adversely affect our business, results of operations and/or financial conditions.

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 impact 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, our business, financial condition and results of operations could be materially adversely affected. As the availability of government funding is outside our control, we cannot guarantee that we will continue to benefit from government support or that sufficient alternative funding will be available if we lose such support. Moreover, should we terminate any activities or operations, including strategic alliances or joint ventures, we may face adverse actions from the local governmental agencies providing such subsidies to us. In particular, such government

agencies could seek to recover such subsidies from us and they could cancel or reduce other subsidies we receive from them. This could have a materially adverse impact on our results of operations.

The impact of the financial crisis on our pension liabilities and costs cannot be predicted and may be severe.

The Company estimates that it has a funding deficit associated with pension obligations of USD 190 million as of December 31, 2008. The impact of the financial crisis on our pension assets, liabilities and costs cannot be predicted and may be severe. Our costs to meet these pension liabilities going forward may be significant and could have a material adverse impact on our financial condition.

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, which represent a material number of our employees. Currently, some of these agreements are being extended, renewed or renegotiated. We also are required to consult with our employee representatives such as works councils on items such as restructurings and 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, including changes in wages and benefit levels, 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.

The interests of our principal shareholders may be inconsistent with your interests.

Our principal shareholders may have conflicting interests with one another that may impede their ability to collectively make important decisions regarding our business. The interests of our shareholders could also conflict with your interests, particularly if we encounter financial difficulties or are unable to pay our debts when due. In addition, our principal shareholders and their respective affiliates could have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, would enhance their equity investments, and their respective affiliates may own, acquire and hold interests in businesses that compete directly or indirectly with us or may own businesses with interests that conflict with ours.

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

We are exposed to foreign taxation, and potentially to penalties, including interest payments. We have issued transfer pricing directives in the area of goods, services and financing, which are in accordance with the Guidelines of the Organization of Economic Co-operation and Development. As transfer pricing has a cross border effect, the focus of local tax authorities on implemented transfer pricing procedures in a country may have an impact on results in another country. In order to mitigate the transfer pricing uncertainties within our deployment, measures have been taken and a monitoring system has been put in place. On a regular basis audits are executed to test the correct implementation of the transfer pricing directives. Uncertainties can result from disputes with local tax authorities about transfer pricing of internal deliveries of goods and services or relate to financing, acquisitions and divestments, the use of tax credits and permanent establishments, and losses carried forward. These uncertainties may have a significant impact on local tax results.

We have various tax assets partly resulting from the acquisition of our business from Philips or from other acquisitions. Tax assets can also result from the generation of tax losses in certain legal entities. Tax authorities may challenge these tax assets. In addition, the value of the tax assets resulting from tax losses carried forward depends on having sufficient taxable profits in the future.

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

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

Risks related to our capital structure

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

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions (including the current downturn in the global economy in general and in our industry in particular). In 2008, we had operating cash outflows of USD 622 million and we had an operating loss of USD 2,646 million. In the future, we may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, particularly in light of the severe downturn in our sales and in the semiconductor industry generally.

Our business may not generate sufficient cash flow from operations, or future borrowings under our senior secured revolving credit facility or from other sources may not be available to us in an amount sufficient, to enable us to repay our indebtedness, including the senior secured revolving credit facility or the outstanding notes, or to fund our other liquidity needs, including our Redesign Program and working capital and capital expenditure requirements, and we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. A substantial portion of our indebtedness currently bears interest at floating rates, and therefore if interest rates increase, our debt service requirements will increase. We may therefore need to refinance or restructure all or a portion of our indebtedness, including the senior secured revolving credit facility or the outstanding notes, on or before maturity. This may not be possible unless our performance improves and there is a recovery in the credit markets.

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

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

- our debt holders could declare all outstanding principal and interest to be due and payable;
- the lenders under our senior secured revolving credit facility could terminate their commitments to lend us money and foreclose against the assets securing their borrowings; and
- we could be forced into bankruptcy or liquidation.

If we default on our obligations to pay our indebtedness or if we otherwise fail to comply with the various covenants in the instruments governing our indebtedness, we may not be able to make interest payments on our indebtedness.

Any default under the agreements governing our indebtedness, including a default under the senior secured revolving credit facility and the indentures governing our securities and the remedies sought by the holders of such obligations, could make us unable to pay principal, premium, if any, and interest under our securities and substantially decrease the market value of our securities. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium (if any) and interest on our indebtedness, or if we otherwise fail to comply with the various covenants in the instruments governing our indebtedness we could be in default under the terms of the agreements governing such indebtedness, including our senior secured revolving credit facility and our indentures governing our securities. In the event of a default, the lenders under our senior secured revolving credit facility or the investors in our securities could elect to declare all the funds borrowed there under to be due and payable, together with accrued and unpaid interest, the lenders under our senior secured revolving credit facility could elect to terminate their commitments there under and cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation.

Our substantial amount of debt could adversely affect our financial health.

We are highly leveraged. For a description of our outstanding indebtedness as of December 31, 2008, see ‘‘Debt position’’ in “Management Discussion and Analysis”. Our substantial indebtedness could materially adversely affect us by making it more difficult for us to satisfy our payment and obligations under our senior secured revolving credit facility and under our securities; limiting our ability to borrow money for working capital, restructurings, capital expenditures, research and development, investments, acquisitions or other purposes, if needed, and increasing the cost of any of these borrowings; requiring us to dedicate a substantial portion of our cash flow from operations to service our debt, which reduces the funds available for operations and future business opportunities; limiting our flexibility in responding to changing business and economic conditions, including increased competition and demand for new services; placing us at a disadvantage when compared to our competitors that have less debt; and making us more vulnerable than our competitors who have less debt to a downturn in our business, industry or the economy in general. Despite our substantial indebtedness, we may still incur significantly more debt, which could further exacerbate the risks described above.

We have reviewed and may continue to review alternatives to further improve our capital structure.

Considering our high leverage, we have reviewed and may continue to review alternatives to improve our capital structure. We may in the future take additional steps to reduce our leverage and our interest charges, such as exchange offers or tender offers and private market purchases. If our existing debt cannot be successfully refinanced or restructured, it may in some circumstances be required or advisable for us to seek insolvency protection under Dutch, U.S. or other laws.

Restrictive covenants in our senior secured revolving credit facility and the indentures governing the outstanding notes may restrict our ability to pursue our business strategies.

Our senior secured revolving credit facility and the indentures governing the outstanding notes will limit our ability, among other things, to:

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

· engage in consolidations, mergers or sales of substantially all of our assets.

The restrictions contained in the indentures and the senior secured revolving credit facility could:

· limit our ability to plan for or react to market conditions or meet capital needs or otherwise restrict our activities or business plans; and
· adversely affect our ability to finance our operations, make strategic acquisitions, investments or alliances, engage in research and development activities, restructure our organization, finance other capital needs or engage in other business activities that would be in our interest.

Our failure to comply with the covenants contained in the credit agreement governing our senior secured revolving credit facility or the indentures governing the outstanding notes or our other debt agreements, including as a result of events beyond our control, could result in an event of default which could materially and adversely affect our operating results and our financial condition.

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

If, when required, we are unable to repay, refinance or restructure our indebtedness under, or amend the covenants contained in, our senior secured revolving credit facility, or if a default otherwise occurs, the lenders under our senior secured revolving credit facility could elect to terminate their commitments there under, cease making further loans and issuing or renewing letters of credit, declare all outstanding borrowings and other amounts, together with accrued interest and other fees, to be immediately due and payable, institute enforcement proceedings against those assets that secure the extensions of credit under our senior secured revolving credit facility and thereby prevent us from making payments on our debt. Any such actions could force us into bankruptcy or liquidation, and we might not be able to repay our obligations under our debt in such an event.

Critical accounting policies

The preparation of financial statements and related disclosures in accordance with US GAAP requires our management to make judgments, assumptions and estimates that affect the amounts reported in our combined (predecessor) financial statements, our consolidated (successor) financial statements and the accompanying notes. The critical accounting policies described in this section are related to both the predecessor financial statements as well as the successor financial statements unless stated otherwise. Our management bases its estimates and judgments on historical experience, current economic and industry conditions and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. If actual results differ significantly from management's estimates, there could be a material adverse effect on our results of operations, financial condition and liquidity.

The combined financial statements of our predecessor period ending September 28, 2006 have been derived from the consolidated financial statements of Philips and principally represent the semiconductors segment. Prior to September 2006, we operated as a segment of Philips and a number of services were provided to us by Philips. These include certain corporate functions such as management oversight and brand campaigns, basic research and intellectual property services. In addition, we participated in Philips pension plans, overall treasury management and tax planning strategies. The costs of all such services were estimated and we have recorded these amounts in our combined financial statements. These estimates are subject to significant judgment and have had a material impact on our combined financial statements. In addition, the combined financial statements of our predecessor period do not reflect the impact of our acquisition by KASLION. Summarized below are those of our accounting policies where management believes the nature of the estimates or assumptions involved is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change.

Inventories

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

An allowance is made for the estimated losses due to obsolescence. This allowance is determined for groups of products based on purchases in the recent past and/or expected future demand.

Impairment of Long-Lived Assets

Goodwill

We review goodwill for impairment on an annual basis in September of each year, or more frequently if there are events or circumstances that indicate the carrying amount may not be recoverable. To assess for impairment we determine the fair value of each reporting unit that has goodwill. If the carrying value of the net assets in the reporting unit exceeds the fair value, we perform an additional assessment to

determine the implied fair value of the goodwill. If the carrying value of the goodwill exceeds this implied fair value, we record impairment for the difference between the carrying value and the implied fair value.

The determination of the fair value of the reporting unit requires us to make significant judgments and estimates including projections of future cash flows from the business. These estimates and required assumptions include estimated revenues and revenue growth rate, operating margins used to calculate projected future cash flows, future economic and market conditions, determination of market comparables and the estimated weighted average cost of capital (''WACC''). We base our estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make judgments and assumptions in allocating assets and liabilities to each of our reporting units.

In 2008, as a result of our goodwill impairment analysis, we were required to recognize a USD 381 million impairment related to our Home reporting unit and USD 49 million related to our corporate and other reporting unit. This impairment resulted in significantly reduced estimated fair values that were directly attributable to the significant economic downturn in 2008. The key assumptions used to determine the fair value of our reporting units included (a) cash flows based on financial projections for periods ranging from 2008 through 2011 and which were extrapolated until 2020, (b) terminal values based on terminal growth rates not exceeding 3%, (c) discount rates, based on WACC, ranging from 12.5% to 15.0% (WACC was business unit specific and was based on the WACC of peer companies in the relevant industries). A change in WACC of approximately 0.5% would have resulted in an impairment loss in both our MultiMarket Semiconductors and Manufacturing Operations reporting units and a decrease of more than 1% in the terminal growth rate would have resulted in an impairment in the MultiMarket Semiconductors reporting unit. Based on our assessment of the impact of changes on the key assumptions subsequent to the third quarter, we considered that no additional impairment was required. We cannot predict certain future events that might adversely affect the reported value of goodwill, which totaled USD 2.7 billion at December 31, 2008.

Long-Lived Assets other than Goodwill

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

the Company's strategic plans, long-range forecasts, estimated growth rates and assumed profit margins.

If the initial assessment indicates a potential impairment, the fair value of the assets is determined. Management generally estimates fair value based on discounted cash flows. The discount rates applied to the estimated cash flows are generally based on the business unit specific Weighted Average Costs of Capital (WACC), which ranged between 12.5% and 15.0% in 2008 and which were based on the WACCs of peer companies in the relevant industries. An impairment loss is recognized for the difference between the carrying value and the estimated fair value. An indication of impairment exists, similar to goodwill, based on the unfavorable developments in the economic climate. We performed an impairment assessment of our tangible fixed assets and other intangible assets in 2008. The projected cash flows were modified significantly from prior periods due to the changing economic environment, which resulted in lower projected cash flows (and fair values). As a result of this assessment, we recorded an impairment of USD 284 million to our intangible assets. The assumptions applied were consistent with our impairment assessment for goodwill.

At December 31, 2008, we have USD 2.4 billion of other intangible assets and USD 1.8 billion of long-lived tangible assets. Any changes in future periods related to the estimated cash flows from these assets could result in an additional impairment in future periods.

Restructuring

The provision for restructuring relates to the estimated costs of initiated reorganizations that have been approved by our Board of Management and that involve the realignment of certain parts of the industrial and commercial organization. When such reorganizations require discontinuance and/or closure of lines of activities, the anticipated costs of closure or discontinuance are included in restructuring provisions.

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

Revenue Recognition

The Company's revenues are primarily derived from made-to-order sales to OEMs and similar customers. A smaller portion of the Company's revenues is derived from sales to distributors.

The Company applies the guidance in SEC Staff Accounting Bulletin Topic 13 ''Revenue Recognition'' and recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or the service has been provided, the sales price is fixed or determinable, and collection is reasonably assured, based on the terms and conditions of the sales contract. For ''made to order'' sales, these criteria are generally met at the time the product is shipped and delivered to the customer and title and risk have passed to the customer. Examples of delivery conditions typically meeting these criteria are ''Free on Board point of delivery'' and ''Costs,

Insurance Paid point of delivery''. Generally, the point of delivery is the customer's warehouse. Acceptance of the product by the customer is generally not contractually required, since, with ''made-to-order'' customers, design approval commences manufacturing and

subsequently delivery follows without further acceptance protocols. Payment terms used are those that are customary in the particular geographic market.

When management has established that all aforementioned conditions for revenue recognitionhave been met and no further post-shipment obligations exist revenue is recognized.

For sales to distributors, the same recognition principles apply and similar terms and conditions as for sales to other customers are applied. However, for some distributors, contractual arrangements are in place that allow these distributors to return a product if certain conditions are met. These conditions generally relate to the time period during which return is allowed and reflect customary conditions in the particular geographic market. Other return conditions relate to circumstances arising at the end of a product 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. Long notice periods associated with these announcements generally prevent significant amounts of product from being returned, however. Repurchase agreements with OEMs or distributors are generally not entered into by the Company. For sales where return rights exist, the Company applies the guidance given in SFAS 48 ''Recognition When Right of Return Exists''. Based on historical data, management has determined that only a very small percentage of the sales to this type of distributors is actually returned. In accordance with the requirements of SFAS 48, a pro rata portion of the sales to these distributors is not recognized but deferred until the return period has lapsed or the other return conditions no longer apply. Revenues are recorded net of sales taxes, customer discounts, rebates and similar charges. Shipping and handling costs billed to customers are recognized as revenues. Expenses incurred for shipping and handling costs of internal movements of goods are recorded as cost of sales. Shipping and handling costs related to sales to third parties are reported as selling expenses.

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

A provision for product warranty is made at the time of revenue recognition and reflects the estimated costs of replacement and free-of-charge services that will be incurred by the Company with respect to the sold products. In cases where the warranty period is extended and the customer has the option to purchase such an extension, which is subsequently billed separately to the customer, revenue recognition occurs on a straight-line basis over the contract period.

Income Taxes

The Company's income taxes as presented in the predecessor combined financial statements were calculated on a separate tax return basis, although the Company was included in the consolidated tax return of Philips. Philips manages its tax position for the benefit of its entire

portfolio of businesses, and its tax strategies are not necessary reflective of the tax strategies that the Company would have followed or will follow as a stand-alone Company.

Income taxes in the successor consolidated financial statements are accounted for using the asset and liability method. We operate in numerous countries where our income tax returns are subject to audits and adjustments. Because we operate globally, the nature of the audit items are often very complex. We employ internal and external tax professionals to minimize audit adjustment amounts where possible. We have applied the provisions of FIN 48 with regard to uncertain tax positions and have recognized a liability for tax positions taken but possibly not entirely realizable, based on estimated amounts that have a cumulative realizability of more than 50%.

We have significant deferred tax assets primarily related to net operating losses (''NOLs'') in the Netherlands, France, Germany, the USA and other countries. The realization of these assets is not assured and is dependent on the generation of sufficient taxable income in the future. We have exercised judgment in determining whether it is more likely or not that we will realize the benefit of these net operating losses, based upon estimates of future taxable income in the various jurisdictions in which these NOLs exist and any feasible tax planning strategies. Where there is an expectation that on the balance of probabilities there will not be sufficient taxable profits to utilize these NOLs a valuation allowance has been made against these deferred tax assets.

During 2008, based on our assessment of future profitability and our ability to realize our deferred tax assets, we recorded an additional valuation allowance of USD 496 million against deferred tax assets.

At December 31, 2008, we had USD 539 million of deferred tax assets recognized on our balance sheet based on our determination that it was more likely than not that these assets would be realized. This determination was based on the estimated profitability of operations in each jurisdiction. If the actual results differ from these estimates, or to the extent that these estimates are adjusted in the future, any changes to the valuation allowance could materially impact the Company's financial position and results.

Benefit Accounting

The Company accounts for the cost of pension plans and postretirement benefits other than pensions in accordance with SFAS No. 87 ''Employer's Accounting for Pensions'', and SFAS No. 106 ''Postretirement Benefits other than Pension'', respectively. 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 employees participating in defined-benefit plans have been allocated to the Company based upon actuarial computations. We record the unfunded status associated with these plans in accordance with the requirements of SFAS No. 158 and record the actuarially determined pension costs each period. Pension costs in respect of defined-benefit pension plans primarily represent the increase in the actuarial present value of the obligation for pension

benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets.

In calculating obligation and expense, we are required to select certain actuarial assumptions. These assumptions include discount rate, expected long-term rate of return on plan assets and rates of increase in compensation costs. Our assumptions are determined based on current market conditions, historical information and consultation with and input from our actuaries. Changes in the key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic pension cost incurred. For a discussion of the current funded status and a sensitivity analysis with respect to pension plan assumptions, please refer to note 25 of the financial statements.

Share-based compensation

Share-based compensation plans were put in place by our parent company KASLION. Under these plans management and certain other executives acquire the right to receive depository receipts of KASLION shares upon exercise and payment of the exercise price, after these rights have vested and only if a change in control event that triggers exercise has taken place. Also, equity rights were granted to certain non-executive employees containing the right to acquire KASLION shares for no consideration after the rights have vested and a change in control event that triggers exercise has taken place. No share-based compensation arrangements were in place in the period from September 29, 2006 through December 31, 2006.

The plans are accounted for in accordance with the provisions of SFAS 123(R). The Company uses a binomial option-pricing model to determine the estimated fair value of the equity instruments.

Since neither KASLION's stock options nor its shares are traded on any stock exchange, and exercise is dependent upon a sale or change of control of the Company, employees can receive no value nor derive any benefit from holding these options or rights without the fulfillment of the conditions for exercise. The Company has concluded that the fair value of the share-based payments can best be estimated by the use of a binomial option-pricing model because such model takes into account the various conditions and subjective assumptions that determine the estimated value. The assumptions used are:

- Expected life of the options and equity rights is calculated as the difference between the grant dates and an exercise triggering event occurring not before the end of 2011;
- Risk-free interest rate is 4.1% for 2007 awards and 3.8% for 2008 awards;
- Expected asset volatility is approximately 27%;
- Dividend pay-out ratio of nil; and
- Lack of marketability discount is 35% for 2007 awards and 26% for 2008 awards.

Because the options and rights are not traded, an option-based approach (the Finnerty model) was used to calculate an appropriate discount for lack of marketability. The expected life of the options and rights is an estimate based on the time period private equity investors typically take to liquidate a portfolio investment. The volatility assumption has been based on the average volatility of comparable companies over an equivalent period from valuation to exit date.
Changes in the assumptions can materially affect the fair value estimate.

Reconciliation of non-US GAAP information

Certain non-US GAAP financial measures are presented when discussing the NXP Group's financial position. In the following tables, a reconciliation to the most directly comparable US GAAP financial measure is made for each non-US GAAP performance measure.

Sales growth composition

In %	Comparable growth	Currency effects	Consolidation changes	Nominal growth
For the year 2008 versus the year 2007				
Mobile & Personal	0.1	0.5	(37.1)	(36.5)
Home	(17.3)	0.5	7.0	(9.8)
Automotive & Identification	(6.1)	2.6	—	(3.5)
MultiMarket Semiconductors	(7.7)	2.2	1.5	(4.0)
Manufacturing Operations	10.7	—	40.7	51.4
Corporate and Other (1)	—	—	—	—
NXP Group	(6.6)	1.7	(9.0)	(13.9)

(1) Percentage not meaningful

In %	Comparable growth	Currency effects	Consolidation changes	Nominal growth
For the year 2007 versus the year 2006				
Mobile & Personal	13.8	1.6	(7.2)	8.2
Home	(20.4)	(0.5)	(0.8)	(21.7)
Automotive & Identification	8.8	5.4	7.2	21.4
MultiMarket Semiconductors	(0.7)	2.1	(5.7)	(4.3)
Manufacturing Operations	(15.6)	0.2	16.8	1.4

Corporate and Other (1)	—	—	—	—
NXP Group	1.4	2.2	(2.3)	1.3

In %	Comparable growth	Currency effects	Consolidation changes	Nominal growth
Combined for the year 2006 versus the year 2005				
Mobile & Personal	(2.0)	0.2		(1.8)
Home	(4.9)	0.1		(4.8)
Automotive & Identification	22.2	0.6		22.8
MultiMarket Semiconductors	9.6	0.4		10.0
Manufacturing Operations	16.3	0.3		16.6
Corporate and Other (1)	—	—		—
NXP Group	5.4	—	—	5.4

Adjusted EBITA to EBITA to Net income (loss)

	PREDECESSOR	SUCCESSOR	COMBINED	SUCCESSOR	
	For the period January 1, 2006 – September 28 2006	For the period September 29, 2006 – December 31, 2006	For the years ended December 31, 2006	2007	2008
Adjusted EBITA	318	88	406	297	**(57)**
Add back:					
Exit of product lines	(44)	(12)	(56)	(18)	**(15)**
Restructuring costs	(21)	(5)	(26)	(218)	**(594)**
Other incidental items	(56)	(51)	(107)	(23)	**(513)**
Minority interest and results of equity-accounted investees	(59)	(8)	(67)	(87)	**(294)**
Effects of PPA	—	(200)	(200)	(140)	**(151)**
EBITA	138	(188)	(50)	(189)	**(1,624)**
Include:					
Amortization intangible assets	(24)	(824)	(848)	(676)	**(602)**
Impairment goodwill and other intangibles	—	—	—	—	**(714)**
Financial income (expenses)	(27)	(94)	(121)	(181)	**(614)**
Income taxes	(81)	312	231	396	**(46)**
Net income (loss)	6	(794)	(788)	(650)	**(3,600)**

Adjusted EBITDA to EBITDA to Net income (loss)

	PREDECESSOR	SUCCESSOR	COMBINED	SUCCESSOR	
	For the period January 1, 2006 – September 28 2006	For the period September 29, 2006 – December 31, 2006	For the years ended December 31, 2006	2007	2008
Adjusted EBITDA	882	276	1,158	1,031	**485**
Add back:					
Exit of product lines	(44)	(12)	(56)	(18)	**(15)**
Restructuring costs	(21)	(5)	(26)	(218)	**(594)**
Other incidental items	(56)	(51)	(107)	(23)	**(513)**
Minority interest and results of equity-accounted investees	(59)	(8)	(67)	(87)	**(294)**
Effects of PPA	—	(168)	(168)	(3)	**—**
EBITDA	702	32	734	682	**(931)**
Include:					

Amortization intangible assets	(24)	(824)	(848)	(676)	**(602)**
Impairment goodwill and other intangibles	—	—	—	—	**(714)**
Depreciation property, plant and equipment	(564)	(220)	(784)	(871)	**(693)**
Financial income (expenses)	(27)	(94)	(121)	(181)	**(614)**
Income taxes	(81)	312	231	396	**(46)**
Net income (loss)	6	(794)	(788)	(650)	**(3,600)**

Adjusted Income from Operations (IFO) to IFO

	NXP Group	Mobile & Personal	Home	Automotive & Identification	MultiMarket Semi-conductors	Manufacturing Operations	Corporate and Other
2008							
Adjusted IFO	**(97)**	**(39)**	**(76)**	**253**	**202**	**(190)**	**(247)**
Add back:							
Exit of product lines	**(15)**	**(15)**	**—**	**—**	**—**	**—**	**—**
Restructuring costs	**(594)**	**(19)**	**(25)**	**(8)**	**(9)**	**(360)**	**(173)**
Other incidental items	**(513)**	**(404)**	**1**	**(20)**	**(1)**	**(7)**	**(82)**
Impairment goodwill and other intangibles	**(714)**	**—**	**(665)**	**—**	**—**	**—**	**(49)**
Effects of PPA	**(713)**	**(188)**	**(110)**	**(152)**	**(129)**	**(134)**	**—**
IFO	**(2,646)**	**(665)**	**(875)**	**73**	**63**	**(691)**	**(551)**
2007							
Adjusted IFO	272	14	(104)	298	323	52	(311)
Add back:							
Exit of product lines	(18)	(19)	1	—	—	—	—
Restructuring costs	(218)	(11)	(19)	—	(1)	(133)	(54)
Other incidental items	(23)	115	(1)	(3)	(3)	(13)	(118)
Effects of PPA	(791)	(258)	(111)	(151)	(155)	(116)	—
IFO	(778)	(159)	(234)	144	164	(210)	(483)
Combined 2006							
Adjusted IFO	376	52	(8)	253	355	(20)	(256)
Add back:							
Exit of product lines	(56)	1	(50)	—	(7)		
Restructuring costs	(26)	—	(8)	—	1	(5)	(14)
Other incidental items	(107)	—	(2)	(10)	(7)	(4)	(84)
Effects of PPA	(1,018)	(198)	(189)	(385)	(191)	(54)	(1)
IFO	(831)	(145)	(257)	(142)	151	(83)	(355)

Composition of cash flows before financing activities

	PREDECESSOR	SUCCESSOR	COMBINED	SUCCESSOR	
	For the period January 1, 2006 — September 28 2006	For the period September 29, 2006 — December 31, 2006	For the year ended December 31,		
			2006	2007	2008
Cash flows from operating activities	584	376	960	533	**(622)**
Cash flows from investing activities	(570)	(237)	(807)	(678)	**1,015**
Cash flows before financing activities	14	139	153	(145)	**393**

Composition of net debt to group equity

	2007	2008
Long-term debt	6,072	**5,964**
Short-term debt	6	**403**
Total debt	6,078	**6,367**
Cash and cash equivalents	(1,041)	**(1,796)**
Net debt (cash)		

(total debt less cash and cash equivalents)	5,037	**4,571**
Minority interests	257	**213**
Shareholder's equity	4,528	**1,075**
Group equity	4,785	**1,288**
Net debt and group equity	9,822	**5,859**
Net debt divided by net debt and group equity (in %)	51	**78**
Group equity divided by net debt and group equity (in %)	49	**22**

Subsequent events

On April 2, 2009, we announced the closing of two separate private offers to exchange existing unsecured and secured notes for new U.S. dollar and euro-denominated super priority notes upon the terms and subject to the conditions set forth in the confidential offering memorandum relating to the exchange offers. The purpose of the exchange offers, commenced on March 3, 2009, is to reduce our overall indebtedness and related interest expense. As a result, overall indebtedness will be reduced by approximately USD 465 million, with a corresponding increase in net income, taking into account tax effects, if any. Furthermore, the related annual interest expense will be reduced by approximately USD 30 million.

On March 13, 2009, Singapore based Systems on Silicon Manufacturing Company Pte. Ltd. ("SSMC") (in which we have a 61.2% ownership share) paid USD 73 million cash dividend for 2008 to its shareholders. As a consequence, the USD 29 million that was paid to TSMC (our joint-venture partner in SSMC) reduced the consolidated cash position which will be reflected in the first quarter 2009 cash flow from operating activities.

On March 13, 2009, we announced the completion of the sale and repurchase of our stake in DSPG (approximately 4.2 million shares or 16% outstanding common stock of DSPG) currently held by us and obtained in 2007 following the divestment of our Cordless & VoIP Terminal operations. The agreed repurchase price amounted to approximately USD 20 million. Effective the same date, we have surrendered our seat on the board of directors of DSPG in accordance with the Stock Repurchase Agreement.

On February 13, 2009, we drew an additional USD 200 million under our senior secured revolving credit facility, bringing the total amount drawn under this facility to USD 600 million, without taking into account USD 5 million of outstanding bank guarantees under the facility. As of that date, we had approximately EUR 39 million of remaining availability under the facility, after taking into account outstanding bank guarantees under the facility.

On February 2, 2009, STMicroelectronics purchased our 20% stake in ST-NXP. The agreed purchase price, based on the sales and EBITDA performance of the ST-NXP business in the last twelve months, was USD 92 million.

Eindhoven, April 7, 2009
Board of Management

Board of Management

Under the chairmanship of the CEO, the Board of Management is entrusted with the general management of the Company, including the deployment of its strategy and policies, and the achievement of its objectives and results. The Board of Management, whose members are appointed and dismissed by the General Meeting of Shareholders upon proposal by the Supervisory Board, and who is embedded in NXP's Management Team ('MT'), is accountable to our Supervisory Board and to the General Meeting of Shareholders. Members of the Board of Management hold office until they are removed or replaced by the General Meeting of Shareholders. Major decisions of the Board of Management require the approval of the Supervisory Board, including decisions relating to the Company's operational and financial objectives and the strategies it uses to achieve those objectives.
Set forth below is a list of the members of the Board of Management as of January 1, 2009, along with their year of birth and nationality:

Richard L. Clemmer, 1951, American (1)

Mr. Clemmer became Chairman of the Board of Management, President and Chief Executive Officer on January 1, 2009. Previously, since December 2007, Mr. Clemmer was a member of our Supervisory Board and Senior Advisor of KKR. Prior to joining NXP, he drove the turnaround and re-emergence of Agere Systems, the Lucent spin-out and a leader in semiconductors for storage, wireless data, and public and enterprise networks. He also served as Chairman of u-Nav Microelectronics, a leading GPS technology provider, and held a five-year tenure at Quantum Corporation where he was Executive Vice President and Chief Financial Officer. Prior to Quantum, Mr. Clemmer worked for Texas Instruments as Senior Vice President and Chief Financial Officer. Mr. Clemmer also serves on the boards of NCR Corporation and i2 Technologies, Inc.

Karl-Henrik Sundström, 1960, Swedish (2)

Mr. Sundström is a member of the Board of Management, Executive Vice President and Chief Financial Officer since May 13, 2008. In a successful 22 year career at Ericsson, Mr. Sundström gained general management experience leading the company's Global Services

Operations and its Australian and New Zealand business before his appointment as Chief Financial Officer of Ericsson AB in 2003 until the end of 2007.

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(1) Prior to January 1, 2009, this function was fulfilled by Mr. Frans van Houten who resigned as of December 31, 2008. Mr. van Houten was Chairman of the Board of Management, President and Chief Executive Officer since November 2004.
(2) Until May 13, 2008, Mr Peter van Bommel was the Chief Financial Officer of the Company. As per this date he resigned as member of the Board of Management. Mr. Hein van der Zeeuw and Mr. Theo Claasen resigned as members of the Board of Management and left the Company on July 7 and August 1, 2008, respectively

Management Team

Subject to the overall authority of our Board of Management, the Management Team is the primary executive management layer within NXP where the business units, the core processes and the support functions act as one team together to lead our company. The Management Team, consisting of the members of the Board of Management, as well as eight senior executives of the Company, has overall operational responsibility for the management of the Company and carries out the day-to-day operations of the business, including the development of business plans, budgets and operational forecasts. Members of the Management Team, other than members of the Board of Management, are appointed and dismissed by the Board of Management and hold office until they are removed or replaced by the Board of Management.

Set forth below is a list as of January 1, 2009 of the members of the Management Team, other than the members of the Board of Management along with their year of birth and nationality:

Marc de Jong, 1961, Dutch (1)

Mr. de Jong is Executive Vice-President and General Manager of the Automotive & Identification business unit, a position he has held since November 2005. He has previously served in various positions at Philips since 1986.

Christos Lagomichos, 1955, Greek

Mr. Lagomichos is Senior Vice-President and General Manager of the Home business unit, a position he has held since September 2007. Before joining NXP, he worked for STMicroelectronics where he held various senior management roles.

Rene Penning De Vries, 1954, Dutch

Mr. Penning De Vries is Senior Vice-President and Chief Technology Officer. He was employed by Philips from 1984 to September 29, 2006 in various managerial positions.

Mike Noonen, 1963, American

Mr. Noonen was appointed Senior Vice-President, Global Sales on November 10, 2008 (2). He previously served in a global Sales position at National Semiconductors which he joined in 2001. Before that he worked for various high-tech companies including NCR Microelectronics and Cisco Systems.

Peter Kleij, 1960, Dutch

Mr. Kleij is Senior Vice-President, Human Resource Management, a position he has held since September 2002. Prior to joining Philips in 1996, he worked for various large companies, including AT&T.

Guido Dierick, 1959 , Dutch

Mr. Dierick is Senior Vice-President, General Counsel, responsible for Legal and IP, a position he has held since 2000. He previously was employed by Philips from 1982 and worked in various legal positions.

Alexander Everke, 1963, German

Mr. Everke was appointed Executive Vice-President and General Manager MultiMarket Semiconductors on January 1, 2008.(3). He previously served in various senior management positions within NXP. Mr. Everke joined NXP in 2006 from Infineon Technologies, where he served most recently as general manager of the Chip Card & Security ICs business unit. Before Infineon, Mr. Everke worked for several years in Siemens.

Chris Belden, 1960 , American

Mr. Belden was appointed Senior Vice-President, General Manager of Operations on July 7, 2008.(4) He joined NXP as Senior Vice-President Global Manufacturing on March 1, 2008. Previously Mr. Belden worked for Applied Materials, where he was responsible for Global Operations. Before that, he spent the majority of his career at Motorola Semiconductor and Freescale Semiconductor, last responsible for Freescale's Global Manufacturing Operations.

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(1) Marc de Jong left NXP effective April 1, 2009. Following this change, responsibility for the Automotive and Identification Business Unit has been taken over on an interim basis by Rick Clemmer and Alexander Everke in addition to their existing duties.

(2),(3) Until September 1, 2008 Pascal Langlois was Senior Vice-President, Global Sales. From September and November 20, 2008, this function was managed by Alexander Everke on an interim basis in addition to his function as General Manager of MultiMarket Semiconductors.

(4) Until July 7, 2008, Hein van der Zeeuw was General Manager of Operations.

Supervisory Board

The Supervisory Board has comprehensive oversight responsibilities and supervises and advises the Board of Management in performing its management tasks and setting the direction of NXP’s business. It approves major management decisions, including the overall business strategy, and supervises the structure and management of the Company’s internal control systems and the financial reporting process. It also determines the remuneration of the individual members of the Board of Management within the established remuneration policy.
While retaining overall responsibility, the Supervisory Board assigns certain of its tasks to three permanent committees: the Operating Committee, the Nominating and Compensation Committee and the Audit Committee. The Supervisory Board consists of eight members, appointed and dismissed by the General Meeting of Shareholders. Six of whom are nominated by KASLION Holding B.V., one of whom (Mr. Eric Coutinho) is nominated by Philips, and one of whom (Sir Peter Bonfield) is an independent Chairman, who is appointed and dismissed jointly by KASLION Holding B.V. and Koninklijke Philips Electronics N.V. The members of the Supervisory Board hold office until they are removed or replaced by the General Meeting of Shareholders. Members of the permanent committees are appointed and dismissed by the Supervisory Board.
Set forth below is a list of the members of the Supervisory Board and their committee membership as of January 1, 2009 along with their year of birth and nationality:

Sir Peter Bonfield, 1944, British
Sir Peter has been the chairman of the Supervisory Board since September 29, 2006. Sir Peter served as CEO and Chairman of the Executive Committee for BT plc from 1996 to 2002 and prior to that was Chairman and CEO of ICL plc (now Fujitsu Services). Sir Peter also worked in the semiconductor industry during his tenure as a divisional director at Texas Instruments, for whom he held a variety of senior management positions around the world. Sir Peter currently holds non-executive directorships at LM Ericsson, TSMC, Mentor Graphics and Sony.

Johannes P. Huth, 1960, German (1) (2)
Mr. Huth has been a vice-chairman of the Supervisory Board since September 29, 2006 and is a Managing Director of KKR Europe. He has been with KKR for seven years. Currently, he is on the board of directors of ATU, Demag, Duales System Deutschland (DSD), MTU Aero Engines, NXP, Selenia, SBS Broadcasting, Wincor Nixdorf and Zumtobel. Mr. Huth started his professional career with Salomon Brothers in New York and London. Following that, he worked with Investcorp in London.

Adam H. Clammer, 1970, American
Mr. Clammer was elected to the Supervisory Board effective January 1, 2009, representing KKR*.
He has been with KKR for thirteen years and during that time has been actively involved with several companies. Currently, he is on the board of directors of Aricent and Avago Technologies. Prior to joining KKR, Mr. Clammer was with Morgan Stanley & Co.

Eric Coutinho, 1951, Dutch
Mr. Coutinho has been a member of the Supervisory Board since September 29, 2006 and Chief Legal Officer of Royal Philips Electronics and a member of its Group Management Committee. He has been with Philips since 1979 during which time he has worked in various positions. He is also Deputy Chairman of The Netherlands Philips Pension Funds.

Egon Durban, 1973, German (1)
Mr. Durban has been a member of the Supervisory Board since September 29, 2006 and is a Managing Director of Silver Lake Partners. He joined Silver Lake in January 1999. Prior to joining Silver Lake, Mr. Durban worked in various positions at Morgan Stanley. He serves on the board of Intelsat and the operating committee of SunGard.

Ian Loring, 1966, American
Mr. Loring has been a member of the Supervisory Board since September 29, 2006 and is a Managing Director of Bain Capital Partners. Prior to joining Bain Capital in 1996, Mr. Loring worked at Berkshire Partners and previously he worked at Drexel Burnham Lambert. He serves as a director of Cumulus Media Partners, Eschelon Telecom and Warner Music Group.

Michel Plantevin, 1956, French (1) (2)
Mr. Plantevin has been a member of the Supervisory Board since September 29, 2006 and is a Managing Director of Bain Capital Partners. Prior to joining Bain Capital in 2003, Mr. Plantevin worked at Goldman Sachs in London, and prior to that he was a partner with Bain & Company in London and Paris. He also serves as a director of FCI.

Richard Wilson, 1965, British (1) (3)
Mr. Wilson has been a member of the Supervisory Board since October 22, 2008 (**) and is a Partner of Apax Partners. Prior to joining Apax n 1995, he served as a consultant with Scientific Generics and also worked for Marconi Space Systems. He has sat on a number of boards of Apax portfolio companies and is a Council Member of the British Venture Capital and Private Equity Association.

(1) Member of the Supervisory Board Operating Committee

(2) Member of the Supervisory Board Nominating and Compensation Committee

(3) Member of the Supervisory Board Audit Committee

* Mr. Clammer replaced Mr. Richard L. Clemmer who resigned effective December 31, 2008 to become President and CEO of the Company .

** Mr. Wilson replaced Mr. Christian Reitberger who resigned effective October 22, 2008.

Report of the Supervisory Board

General

The supervision of the general affairs and business of NXP B.V. (the ‘Company’) is entrusted to the Supervisory Board, which, in the two-tier corporate structure under Dutch law, is a separate body, fully independent of the Board of Management. This independence is reflected in the requirement that members of the Supervisory Board be neither members of the Board of Management, nor employees of the Company. The Supervisory Board supervises and advises the Board of Management in performing its management tasks and setting the direction of the Company’s business. Similar to the Board of Management, it is guided by the interests of the Company and its business, taking into account the relevant interests of the stakeholders involved in the Company. The Supervisory Board discusses and approves the Company’s corporate strategy, it approves major management decisions, including the overall business strategy, and supervises the structure and management of internal control systems and the financial reporting process. The Supervisory Board also determines the remuneration of the individual members of the Board of Management. While retaining overall responsibility, the Supervisory Board assigns certain of its tasks to three permanent committees: the Operating Committee, the Nominating and Compensation Committee and the Audit Committee.

The Supervisory Board was installed on September 29, 2006, immediately following the acquisition of a majority interest in the Company by the Consortium. The members of the Supervisory Board are listed on pages 103 and 104 of this Annual Report.

The Supervisory Board met ten times in the course of 2008. The members of the Board of Management and, if requested, some members of the Management Team, were present at these meetings. The Supervisory Board was informed and consulted by the Board of Management on the direction of the Company’s business and passed several resolutions. In addition to this meeting, the Chairman and other members of the Supervisory Board had regular contact with the CEO and other members of the Board of Management.

Operating Committee

The Operating Committee is responsible for maintaining regular contact with the Board of Management on the implementation of the Company’s budget and group strategy. It conducts regular business reviews, supervises the Company’s general affairs, and advises the Board of Management and Management Team. The Committee met twelve times in the course of 2008 and reported its findings to the plenary Supervisory Board. The members of the Operating Committee are Messrs. Huth (Chairman), Durban, Plantevin and Wilson.

Nominating and Compensation Committee

The Nominating and Compensation Committee determines selection criteria and appointment procedures for members of the Board of Management, periodically assesses the scope and composition of the Board of Management and evaluates the performance of its individual members.

It is further responsible for recommending to the Supervisory Board the compensation package for each member of the Board of Management. It reviews employment contracts entered into with members of the Board of Management, makes recommendations to the Supervisory Board with respect to major employment-related policies and overseas compliance with the Company’s employment and compensation-related disclosure obligations under applicable laws. The members of the Nominating and Compensation Committee are Messrs. Huth and Plantevin.

Compensation

Indemnification
Unless prohibited by law in a particular circumstance, our Articles of Association require that the Company reimburses the members of the Board of Management and Supervisory Board for damages and various costs and expenses related to claims brought against them in connection with the exercise of their duties. However, no reimbursement is available if a member’s act or failure to act is intentional (*opzettelijk*), intentionally reckless (*bewust roekeloos*) or seriously culpable (*ernstig verwijtbaar*). The Company has purchased directors and officers’ liability insurance for the members of the Supervisory Board and Board of Management, substantially in line with that purchased by similarly situated companies.

Compensation
Supervisory Board.
The remuneration of the members of the Supervisory Board is determined by the General Meeting of Shareholders. Other than Sir Peter Bonfield, the members of the Supervisory Board do not receive any cash compensation for their service. The remuneration is not dependent

on the Company's results. As of December 31, 2008 no personal loans, guarantees or similar arrangements have been granted to the Supervisory Board Members.
Board of Management and Management Team.
The remuneration of the members of the Board of Management is determined by the Supervisory Board upon a recommendation of its Nominating and Compensation Committee, and the remuneration of the other members of the Management Team is determined by the CEO.

Salaries and Variable Incentives
The remuneration structure is designed to promote the interests in the medium and long term. The level and structure of remuneration depends on the Company's results and other developments relevant to the Company.

In addition to the base salary, each year a variable cash incentive can be earned, based on the achievement of specific and challenging targets. The related targets, which are based on EBITDA, operational cash flow and net sales criteria, are determined annually by the Supervisory Board for the members of the Board of Management, and by the CEO in consultation with the Supervisory Board for members of the Management Team.

Retirement Plans
A pension plan is in force for all members of the Board of Management and other members of the Management Team. The plan is based on a combination of defined-benefits (career average) and defined-contribution. The target retirement age under the plan is 62.5. The plan does not require employee contributions.

Management Equity Plan-Management Co-Investment Program
Stichting Management Co-Investment NXP (the 'Foundation'), a foundation established to implement our management co-investment program, holds shares of KASLION Acquisition B.V. ('KASLION') for the benefit of designated participants in the program. Pursuant to this program, selected members of our management have purchased depositary receipts issued by the Foundation, each representing economic interests in an ordinary share of KASLION. These interests include any dividends and other proceeds or liquidation entitlements, but do not include any voting rights, which are retained by the Foundation in its capacity as shareholder. Participants in our management co-investment program are selected by the Supervisory Board, with respect to participants who are on the Board of Management, and by the CEO, with respect to other participants.
KASLION granted stock options to the members of the Board of Management, other members of the Management Team and certain other executives of NXP on October 1, 2007 and April 1, 2008. Under this stock option plan the participants acquire the right to receive depositary receipts representing economic interests over KASLION shares upon exercise and payment of the exercise price after the stock options have vested and the change in control event that triggers exercise has taken place. The purpose of this share-based compensation plan is to align the interests of management with those of the shareholders by providing additional incentives to improve the Company's performance on a long-term basis by offering the participants to share in the benefits for the shareholders of a sale or change in control of the Company.

Audit Committee

The Audit Committee assists the Supervisory Board in supervising and monitoring, and advising the Board of Management on, financial reporting, risk management, compliance with relevant legislation and regulations and the Company's Business Code of Conduct. It overseas the preparation of the Company's financial statements, its financial reporting process, system of internal business controls and risk management, internal and external audit process and the internal and external auditor's qualifications, independence and performance. The Audit Committee also reviews the Company's annual and interim financial statements and other public disclosures, prior to publication. The current members of the Audit Committee are Messrs. Wilson (Chairman) and Loring. The Supervisory Board considers the knowledge and experience available on the Audit Committee as well as the availability of advice from internal and external experts and advisors to be sufficient for the fulfillment by the Audit Committee of its tasks and responsibilities. As such, the Supervisory Board has chosen not to appoint any member of the Audit Committee as an "audit committee financial expert", as such term is defined under the rules of the SEC. The Audit Committee met five times in 2008 and reported its findings to the plenary Supervisory Board.

Auditor information
In accordance with the procedures laid down in the NXP Policy on Auditor Independence and as mandatory required by Dutch law, the external auditor of the Company is appointed by the General Meeting of Shareholders on the proposal of the Supervisory Board, after the latter has been advised by the Audit Committee and the Board of Management. Under this Auditor Policy, once every three years the Supervisory Board and the Audit Committee conduct a thorough assessment of the functioning of the external auditor. The main conclusions of this assessment shall be communicated to the General Meeting of Shareholders for the purposes of assessing the nomination for the appointment of the external auditor. The current auditor of the Company, Deloitte Accountants B.V., was appointed in 2006. The current lead audit partner has been in charge since 2007; in accordance with the rotation schedule determined in accordance with the Auditor Policy, he will be replaced by another partner of the auditing firm ultimately in 2011, subject to the re-appointment of Deloitte Accountants B.V. in 2009. The Audit Committee reports on their dealings with the external auditor to the Supervisory Board on an annual basis, particularly with regard to the auditor's independence. The Supervisory Board shall take this into account when deciding upon its nomination for the appointment of an external auditor.
The external auditor attends, in principle, all meetings of the Audit Committee. The findings of the external auditor, the audit approach and the risk analysis are also discussed at these meetings. The external auditor attends the meeting of the Supervisory Board at which the report of the external auditor with respect to the audit of the annual accounts is discussed, and at which the annual accounts are approved. In its audit report on the annual accounts to the Board of Management and the Supervisory Board, the external auditor refers to the financial

reporting risks and issues that were identified during the audit, internal control matters, and any other matters, as appropriate, requiring communication under the auditing standards generally accepted in the Netherlands and the United States.

Auditor policy
The Company maintains a policy of auditor independence, and this policy restricts the use of its auditing firm for non-audit services, in line with US Securities and Exchange Commission rules under which the appointed external auditor must be independent of the Company both in fact and appearance. The policy is laid down in the comprehensive policy on auditor independence published on the Company's website.

Audited Financial Statements

The combined financial statements of the Company (Predecessor) for the period from January 1, 2006 to September 28, 2006 included in this Annual Report, as presented by the Board of Management, have been audited by KPMG Accountants N.V., an independent registered public accounting firm. The consolidated financial statements of the Company (Successor) for the period from September 29, 2006 to December 31, 2006 and for the years ended December 31, 2007 and 2008 included in this Annual Report, as presented by the Board of Management, have been audited by Deloitte Accountants B.V., an independent registered public accounting firm. The reports of the independent registered public accounting firms appear on pages 204 and 205 of this Annual Report. The Supervisory Board has approved these financial statements.

The aggregate fees billed by KPMG for professional services rendered for the fiscal periods 2006 and 2007 (for the Predecessor period) were as follows:

Aggregate fees KPMG (Predecessor period)

In millions of USD	2006	2007
Audit fees	1.1	0.8
Audit-related fees	3.6	0.1
Tax fees	—	—
Other fees	—	—
	4.7	0.9

Audit-related fees in the Predecessor period consist mainly of fees in connection with the disentanglement of the Company from Philips. The audit- and audit-related fees billed by KPMG after the Predecessor period (as from September 29, 2006) consist of fees for the examination of both the consolidated and statutory financial statements and fees for the registration under the U.S. Securities Act of NXP's euro and dollar bonds, respectively.

The aggregate fees billed by Deloitte for professional services rendered for the fiscal period 2007 and 2008 were as follows:

Aggregate fees Deloitte

In millions of USD	2007	2008
Audit fees	4.4	**4.2**
Audit-related fees	1.4	**0.7**
Tax fees	0.1	**0.7**
Other fees	—	**0.2**
	5.9	**5.8**

Audit fees consist of fees for the examination of both the consolidated and statutory financial statements of the Successor period (as from September 29, 2006). Audit-related fees consist of fees in connection with audits of acquisitions and divestments (USD 0.3 million) and in 2007, audit fees related to the start-up of NXP as a new company, separated from Philips.

No fees were charged to the Company in 2006 for the fiscal period 2006, these are included in the 2007 amounts.

Finally, we would like to express our thanks to the members of the Board of Management, the Management Team and all employees for their efforts and contribution during this year for the Company.

April 7, 2009

The Supervisory Board

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Combined and consolidated statements of operations of the NXP Semiconductors Group
in millions of USD unless otherwise stated

		PREDECESSOR	SUCCESSOR		
		For the period January 1, 2006 - September 28, 2006	For the period September 29, 2006 - December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
	Sales *	4,705	1,533	6,321	**5,443**
	Cost of sales	(2,909)	(1,181)	(4,276)	**(4,225)**
	Gross margin	1,796	352	2,045	**1,218**
	Selling expenses	(343)	(114)	(425)	**(400)**
	General and administrative expenses:				
	- Impairment goodwill	—	—	—	**(430)**
	- Impairment other intangibles	—	—	—	**(284)**
	- Other general administrative expenses	(382)	(250)	(1,189)	**(1,161)**
	Research and development expenses	(920)	(332)	(1,328)	**(1,199)**
21	Write-off of acquired in-process research and development	—	(664)	(15)	**(26)**
	Other income and expense	22	4	134	**(364)**
8,9	**Income (loss) from operations**	173	(1,004)	(778)	**(2,646)**
10	Financial income (expense)	(27)	(94)	(181)	**(614)**
	Income (loss) before taxes	146	(1,098)	(959)	**(3,260)**
11	Income tax (expense) benefit	(81)	312	396	**(46)**
	Income (loss) after taxes	65	(786)	(563)	**(3,306)**
12	Results relating to equity-accounted investees	4	(3)	(40)	**(268)**
13	Minority interests	(63)	(5)	(47)	**(26)**
	Net income (loss)	6	(794)	(650)	**(3,600)**

* Includes sales to Philips companies amounting to USD 20 million (2007: USD 74 million; September 29, 2006 through December 31, 2006: USD 23 million; January 1, 2006 through September 28, 2006: USD 85 million)

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

Consolidated balance sheets of the NXP Semiconductors Group
in millions of USD unless otherwise stated

Assets

		December 31, 2007		December 31, 2008	
	Current assets				
	Cash and cash equivalents		1,041		**1,796**
14	Securities		—		**33**
6,15	Receivables:				
	- Accounts receivable – net	730		**459**	
	- Other receivables	34		**58**	
			764		**517**
16	Inventories		958		**630**
20	Assets held for sale		130		**—**

Note					
11,17	Other current assets		237		**212**
	Total current assets		3,130		**3,188**
	Non-current assets				
12	Investments in equity-accounted investees		76		**158**
18	Other non-current financial assets		64		**18**
11,19	Other non-current assets		486		**469**
20,31	Property, plant and equipment:				
	- At cost	3,106		**3,594**	
	- Less accumulated depreciation	(606)		**(1,787)**	
			2,500		**1,807**
21	Intangible assets excluding goodwill:				
	- At cost	4,643		**3,674**	
	- Less accumulated amortization	(799)		**(1,290)**	
			3,844		**2,384**
22	Goodwill		3,716		**2,661**
	Total non-current assets		10,686		**7,497**
	Total		13,816		**10,685**

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

Liabilities and shareholder's equity

Note			December 31, 2007		December 31, 2008
	Current liabilities				
6	Accounts payable		1,001		**619**
23	Accrued liabilities		935		**983**
11,24,25,26,32	Short-term provisions		40		**129**
27	Other current liabilities		73		**120**
28	Short-term debt		6		**403**
	Total current liabilities		2,055		**2,254**
	Non-current liabilities				
29,31	Long-term debt		6,072		**5,964**
11,24,25,26,32	Long-term provisions		798		**1,072**
30	Other non-current liabilities		106		**107**
	Total non-current liabilities		6,976		**7,143**
31,32	Commitments and contingent liabilities				
13	Minority interests		257		**213**
33	Shareholder's equity:				
	Common shares, par value EUR 455 per share:				
	- Authorized: 200 shares	—		**—**	
	- Issued: 40 shares	—		**—**	
	Capital in excess of par value	5,542		**5,569**	
	Accumulated deficit	(1,444)		**(5,044)**	
	Accumulated other comprehensive income (loss)	430		**550**	
	Total Shareholder's equity		4,528		**1,075**

Total	13,816	**10,685**

Combined and consolidated statements of cash flows of the NXP Semiconductors Group
in millions of USD unless otherwise stated

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 - September 28, 2006	For the period September 29, 2006 - December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Cash flows from operating activities:				
Net income (loss)	6	(794)	(650)	**(3,600)**
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization	588	380	1,532	**1,270**
Write-off of in-process research and development	—	664	15	**26**
Impairment goodwill and other intangibles	—	—	—	**714**
Net (gain) loss on sale of assets	(9)	(5)	(114)	**369**
Results relating to equity-accounted investees	(4)	3	40	**268**
Minority interests (net of dividends paid)	63	5	44	**7**
Changes in operating assets and liabilities:				
(Increase) decrease in receivables and other current assets	(163)	342	(38)	**159**
(Increase) decrease in inventories	(85)	217	(70)	**122**
Increase (decrease) in accounts payable, accrued and other liabilities	192	(4)	495	**(356)**
Decrease (increase) in current accounts Philips	(31)	—	—	**—**
Decrease (increase) in non-current receivables/other assets	(30)	(106)	(237)	**(67)**
Increase (decrease) in provisions	41	(265)	(233)	**346**
Other items	16	(61)	(251)	**120**
Net cash provided by (used for) operating activities	584	376	533	**(622)**
Cash flows from investing activities:				
Purchase of intangible assets	(15)	(7)	(37)	**(36)**
Capital expenditures on property, plant and equipment	(580)	(143)	(549)	**(379)**
Proceeds from disposals of property, plant and equipment	33	28	180	**61**
Proceeds from disposals of assets held for sale	—	—	—	**130**
Purchase of other non-current financial assets	(4)	(2)	(6)	**(14)**
Proceeds from the sale of other non-current financial assets	—	—	4	**10**
Purchase of interests in businesses	(4)	(120)	(328)	**(206)**
Proceeds from sale of interests in businesses	—	7	172	**1,449**
Cash settlement agreement with Philips	—	—	(114)	**—**
Net cash (used for) provided by investing activities	(570)	(237)	(678)	**1,015**
Cash flows from financing activities:				
PREDECESSOR				
Net decrease in debt	(402)			
Net draws (repayments) of loans to Philips companies	(620)			
Net transactions with Philips	1,082			
SUCCESSOR				
Increase (decrease) in short-term debt		22	(22)	**394**
Proceeds from bridge loan facility, net		5,670	—	**—**
Repayment of loan from Philips, net of settlements		(4,773)	—	**—**
Principal payments on long-term debt (incl. bridge loan)		(5,850)	—	**—**
Proceeds from the issuance of notes		5,836	—	**—**
Capital repayment to minority shareholders		—	—	**(78)**
Net cash provided by (used for) financing activities	60	905	(22)	**316**
Effect of changes in exchange rates on cash positions	(1)	(16)	(24)	**46**
Increase (decrease) in cash and cash equivalents	73	1,028	(191)	**755**
Cash and cash equivalents at beginning of period	131	204	1,232	**1,041**
Cash and cash equivalents at end of period	204	1,232	1,041	**1,796**

For a number of reasons, principally the effects of translation differences and consolidation changes, certain items in the statements of cash flows do not correspond to the differences between the balance sheet amounts for the respective items.
The accompanying notes are an integral part of these combined and consolidated financial statements.

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 - September 28, 2006	For the period September 29, 2006 - December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Supplemental disclosures to combined and consolidated statements of cash flows				
Net cash paid during the period for:				
Interest	24	24	460	**483**
Income taxes	25	19	21	**84**
Net gain (loss) on sale of assets:				
Cash proceeds from the sale of assets	33	35	356	**1,650**
Book value of these assets	(24)	(30)	(280)	**(2,172)**
Non-cash gains (losses)	—	—	38	**153**
	9	5	114	**(369)**
Non-cash investing information:				
Assets received in lieu of cash from the sale of businesses:				
ST-NXP Wireless JV	—	—	—	**341**
DSPG shares	—	—	72	**—**
Others	—	—	—	**13**
Other items:				
Other items consist of the following non-cash elements in income:				
Exchange differences	—	(62)	(300)	**87**
Share-based compensation	—	—	28	**27**
Value adjustments/impairment financial assets	—	—	21	**38**
Non-cash tax benefit against goodwill	—	—	—	**(29)**
Others	16	1	—	**(3)**
	16	(61)	(251)	**120**

Combined and consolidated statements of changes in business' and shareholder's equity of the NXP Semiconductors Group
in millions of USD unless otherwise stated

		Accumulated other comprehensive income (loss)		
	Philips net investment	Currency translation differences	Changes in fair value of cash flow hedges	Total business' equity
PREDECESSOR				
Balance as of December 31, 2005	1,243	115	(23)	1,335
Net income	6			6
Current period change		(35)	35	—
Income tax on current period change			(10)	(10)
Differences due to translating the parent's functional currency into Group reporting currency		135		135
Total comprehensive income (loss), net of tax	6	100	25	131
Net transactions with Philips	1,066			1,066
Balance as of September 28, 2006	2,315	215	2	2,532*

* The business' equity amount of USD 2,532 million, representing the net assets of NXP as of September 28, 2006 does not correspond to the amount of USD 3,302 million presented as net assets before purchase price allocation as of September 29, 2006 in note 3, "Purchase price accounting', as this latter amount reflects the assets actually acquired and liabilities assumed at Acquisition date.

				Accumulated other comprehensive income (loss)				
	Common stock	Capital in excess of par value	Accumulated deficit	Currency translation differences	Unrealized gain (loss) on available-for-sale securities	Pension (SFAS No. 158)	Changes in fair value of cash flow hedges	Total share-holder's equity
SUCCESSOR								
Balance as of September 29, 2006	—	5,514	—	—	—	—	—	5,514

Net loss			(794)					(794)
Current period change				(13)			8	(5)
Income tax on current period change								—
Differences due to translating the parent’s functional currency into Group reporting currency				119				119
Total comprehensive income (loss), net of tax			(794)	106			8	(680)
Balance as of December 31, 2006	—	5,514	(794)	106	—	—	8	4,834
Net loss			(650)					(650)
Current period change				(229)			7	(222)
Reclassifications into income				1			(21)(1)	(20)
Income tax on current period change							6	6
Differences due to translating the parent’s functional currency into Group reporting currency				504				504
Total comprehensive income (loss), net of tax			(650)	276	—	—	(8)	(382)
Adoption of SFAS 158						48		48
Share-based compensation plans		28						28
Balance as of December 31, 2007	—	5,542	(1,444)	382	—	48	—	4,528
Net loss			**(3,600)**					**(3,600)**
Current period change				**454**	**6**	**(31)**		**429**
Reclassifications into income								**—**
Income tax on current period change								**—**
Differences due to translating the parent’s functional currency into Group reporting currency				**(309)**				**(309)**
Total comprehensive income (loss), net of tax			**(3,600)**	**145**	**6**	**(31)**	**—**	**(3,480)**
Share-based compensation plans		**27(2)**						**27**
Balance as of December 31, 2008	**—**	**5,569**	**(5,044)**	**527**	**6**	**17**	**—**	**1,075**

(1) Reclassifications into income after abolishing cash flow hedge accounting and dedesignation of the hedge transactions.
(2) The total charge in 2008 for share-based compensation plans amounted to USD 35 million, offset by USD 8 million relating to the liability arising from transfer of employees to the new established ST-NXP Wireless joint-venture.

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

1 Background, Reporting currency and Description of Business

Background

NXP B.V. (the ‘Company’ or ‘NXP’) and its subsidiaries (collectively the ‘NXP Group’ or the ‘Group’) was formed on September 29, 2006, when Koninklijke Philips Electronics N.V. (‘Philips’) sold 80.1% of its semiconductors businesses to a consortium of private equity investors in a multi-step transaction. In order to carry out this transaction, Philips transferred 100% of these businesses to NXP on September 28, 2006. This transaction is referred to as the ‘Separation’. All of NXP’s issued and outstanding shares were then acquired on September 29, 2006 by KASLION Acquisition B.V., which was formed as an acquisition vehicle by the Private Equity Consortium and

Philips. In order to fund the Acquisition of NXP by KASLION, the Private Equity Consortium and Philips contributed cash to KASLION in exchange for 80.1% and 19.9%, respectively, of the total equity of KASLION.
As a result of the Separation and Acquisition, the balance sheets, statements of operations, cash flows and business' and shareholder's equity and related notes to the financial statements are presented on a Predecessor and Successor basis: The Predecessor periods reflect the combined financial results of NXP prior to the Acquisition. The Successor period reflects the consolidated financial results after the Acquisition. The Company also refers to the operations of NXP for both the Predecessor and Successor periods as NXP Semiconductors Group.

Reporting currency

As from January 1, 2008, the Company has changed its reporting currency from Euro to US dollar in order to be more aligned with the semiconductor market and for comparison reasons with its peers.

The functional currency of the Company and the various entities in NXP's group consolidation has not changed.

The financial statements have been restated for all prior periods to reflect the change reporting currency on a consistent basis. In the process of restating the historical financial statements from euro to U.S. dollars, the Company has applied the process described in the accounting policies.

Description of Business

The Group is a semiconductor business headquartered in the Netherlands, which currently targets mainly the automotive, home electronics and identification application markets. The Group is organized into three primary business units: Automotive & Identification, Home and MultiMarket Semiconductors. The Group has manufacturing facilities throughout the world. The Group's customers, who are also located throughout the world, include automotive, customer electronics, identification and communications infrastructure suppliers, as well as other technology providers, electronics distributors and governments.

During 2008, the Group's business has been significantly impacted by the worldwide financial crisis and the severe downturn in the semiconductor market. These events have caused a rapid deterioration of demand towards the end of the third quarter. This downturn has impacted, and

will likely continue to impact, the Group's future development, performance and financial position and the Group's financial results, its cash flows, liquidity requirements and access to additional borrowing facilities.

The financial statements for the year ended December 31, 2008 show that the Group generated a loss from operations of USD 2,646 million with cash outflows from operations of USD 622 million. The 2008 loss from operations includes an amount of USD 1,709 million related to (i) restructuring charges of USD 594 million, (ii) impairments of goodwill and intangibles for USD 714 million and (iii) a negative transaction result related to the sale of the wireless activities and a positive deal result on the establishment of the NuTune joint venture in total amounting to negative USD 401 million. The effects of the downturn have lead to lower demand in all segments and an impairment of goodwill in the segment Home and Corporate and Other. At an early stage NXP has initiated a Redesign Program to cope with this weakening economic environment. At December 31, 2008, the Group had positive working capital (current assets less current liabilities, excluding short-term debt) of USD 1,337 million and total outstanding borrowings of USD 6,367 million. Prior to 2008, the Group had generated positive operating cash inflows from operations for each of the last two years to December 31, 2007 and 2006 of USD 533 million and USD 960 million, respectively.

The Group has developed forecasts and projections of cash flows and liquidity needs for the upcoming year taking into account the current market conditions, reasonably possible changes in trading performance based on such conditions, and its ability to modify its cost structure as a result of changing economic conditions and sales levels that the Group has already started with the implementation of the Redesign Program. It has also considered in the forecasts its cash balances amounting to USD 1,796 million as per December 31, 2008, its available borrowings under its revolving credit facility, and its ability to access additional indebtedness. Due to the number of assumptions necessary to develop these forecasts, the actual cash flows may differ significantly from the forecast.

The Group is satisfied that based on these forecasts and ability to modify its cash flows when necessary that it will have adequate cash flow and that it is appropriate to prepare these financial statements on the going concern basis.

2 Basis of Presentation

The combined and consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of financial statements in conformity with US GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Predecessor periods

The combined financial statements of the Company for the Predecessor periods represent the financial statements of NXP B.V. together with the combined financial statements of the

semiconductor businesses of Philips and have been derived from the consolidated financial statements and accounting records of Philips, principally using the historical results of operations, the historical basis of assets and liabilities of the semiconductor businesses. Additionally, the combined financial statements include an allocation of the costs of certain corporate functions (management oversight, corporate services, basic research costs, brand campaign expenses, employee benefits and incentives including pensions) historically provided by Philips but not recorded by its semiconductors businesses. Additionally, the combined financial statements include allocated cash, debt and related interest income and expense, which have not been historically reported by Philips' semiconductors businesses. Furthermore, the combined financial statements present income taxes calculated on a basis as if the Company had filed a separate income tax return.
These allocations were made on a specifically identifiable basis or using relative percentages, as compared to Philips' other businesses, of the Company's net sales, payroll, fixed assets, inventory, net assets, excluding debt, headcount or other reasonable methods. Management believes the assumptions underlying the combined financial statements to be a reasonable reflection of the utilization of services provided by Philips. However, the costs the Company would have incurred or will incur as a separate stand-alone company may be higher or lower than the cost allocations reflected in these combined financial statements for the Predecessor periods. In determining these estimates, management has retained the historical cost allocated by Philips where no more reliable estimate of the costs are available (for example, pension cost).

Additionally, during the Predecessor periods Philips used a worldwide centralized cash management and finance function, with the activity between Philips and the Company reflected in Philips' net investment. Accordingly, the accompanying combined financial statements may not necessarily reflect the Company's results of operations, financial position and cash flows in the future or what its results of operations, financial position and cash flows would have been if the Company had been a stand-alone company during the Predecessor periods.

Since a direct ownership relationship did not exist among the various worldwide entities comprising the Company prior to the legal separation from Philips, Philips' net investments in the Company is shown as Business' equity in lieu of Shareholder's equity in the combined financial statements for the predecessor periods. Transactions between NXP B.V. and Philips and its affiliates have been identified in the combined financial statements as transactions between related parties.

Successor periods

The consolidated financial statements include the accounts of NXP B.V. and subsidiaries during the Successor periods.

As a result of the purchase accounting applied to the Acquisition, the assets and liabilities reported in the consolidated balance sheet have changed substantially for the Successor periods as discussed in more detail in note 3. The allocation of the purchase price paid by KASLION to Philips that is reflected in our financial statements has been based on estimated fair values.

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3 Purchase price accounting

KASLION

On September 29, 2006, the Company was acquired by KASLION for a purchase price of USD 10,457 million composed of a payment of USD 5,624 million to Philips and assumed debt of USD 4,833 million. In accordance with the provisions of SFAS No 141 "Business Combinations" (SFAS 141), KASLION has been identified as the acquiring company and purchase accounting has been applied to the transaction. The purchase price paid by KASLION together with the acquisition costs of USD 58 million and a net amount of USD 107 million for certain transferred receivables and liabilities that should have been retained by Philips, result in a total purchase price consideration of USD 10,622 million, which has been pushed down to NXP B.V. and allocated to the fair value of assets acquired and liabilities assumed.

After the Acquisition, the Company obtained a bridge loan facility of USD 5,670 million, net of issuance cost of USD 129 million, which was used to repay the payable to Philips, including certain cash balance settlements, amounting to USD 4,773 million. Subsequently the bridge loan facility was repaid with the proceeds from the issuance of USD 5,836 million of euro and USD denominated notes as described in more detail in note 29. On June 19, 2007, the Company concluded an exchange offer for these notes in which investors could exchange their existing notes for identical notes registered under the U.S. Securities Act. This exchange offer did not affect NXP's capitalization or debt outstanding.

The Company has allocated the total purchase price, calculated as described above to the assets acquired and liabilities assumed based on estimated fair values. Management is responsible for determining these fair values, which reflects among other things, its consideration of valuation and appraisal reports. During 2007, within the time frames permitted by applicable accounting standards, revisions to the preliminary allocations of the purchase price were made which affected the fair value initially assigned to the assets and liabilities. These adjustments mainly related to deferred income tax balance, since NXP was able to clarify the tax treatment of certain intangible assets with tax authorities resulting in the recognition of additional deferred tax liabilities, resulting in an offsetting increase in goodwill. Furthermore, in 2007, NXP agreed on a final settlement with Philips resulting in an additional payment of USD 110 million (including USD 3 million of interest), establishing the total purchase price to USD 10,622 million.

The table as set forth below reflects the purchase price allocation among assets acquired and liabilities assumed, whereby the original EUR amounts have been translated into USD against the closing rate of the USD vs. EUR as of September 29, 2006:

In millions of USD	
Aggregate purchase price including settlement with Philips for working capital and cash positions	10,622

Net assets acquired and liabilities assumed at September 29, 2006	3,302
Excess of purchase price over net assets acquired	7,320
Allocations to reflect fair value of net assets acquired:	
Existing technology	(2,057)
Core technology	(1,013)
Customer relationships	(758)
Order backlog	(60)
Trademarks	(109)
In-process research and development	(660)
Property, plant and equipment	(549)
Inventories	(166)
Investments in equity-accounted investees	13
Pension liabilities	133
Deferred tax liabilities	1,023
Allocation to goodwill	3,117

The Company estimated the fair value of existing technology and core technology by applying an income analysis (which involves calculating the present value of future cash flows resulting from each asset), using an “excess earnings” method for product-related technologies, and a “relief from royalties” method for core fabrication technologies and patents. Discount rates between 11% and 28% were used in discounting cash flows, and royalty rates of between 2% and 6% were applied for purposes of the “relief from royalties” methodology.

The Company estimated the fair value of customer relationships by applying an income analysis, using an “excess earnings” approach.

Under this approach, the Company estimated its customer attrition rates and then calculated the discounted present value of the estimated cash flows resulting from selling future products to those customers over the estimated life of the customer relationship. Discount rates between 15% and 20% were applied to this analysis.

Goodwill is not amortized and is evaluated for impairment on at least an annual basis. In-process research and development was written off immediately upon the Acquisition in 2006 and, accordingly, is reflected as a loss in the consolidated statement of operations. The major categories of net assets after the purchase price allocation (PPA) (in millions of USD) were:

	Balances after PPA
Cash & cash equivalents	204
Inventories	1,057
Property, plant and equipment	3,053
Intangible assets	4,066
In-process research and development	660
Goodwill	3,117
Other assets	1,347
Liabilities and debt	(2,882)
Net assets	10,622

Other acquisitions

In addition, Purchase Accounting is also applied to other acquisitions such as the acquisition of the Cellular Communication Business of Silicon Laboratories Inc., the establishment of an assembly and test joint venture (ASEN) with Advanced Semiconductor Engineering Incorporated (ASE) in 2007 and GloNav Inc., and the BMP business of Conexant Systems Inc. in 2008.
For further information refer to note 7 “Acquisitions and divestments”.

4 Accounting policies and new accounting standards

Accounting policies

The combined and consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (US GAAP). Historical cost is used as the measurement basis unless otherwise indicated. The accounting policies as described in this section are used for both the combined financial statements for the Predecessor periods as well as the consolidated financial statements for the Successor periods, unless otherwise indicated.

Principles for combined and consolidated financial statements

The combined financial statements for the Predecessor periods include the accounts of NXP B.V. during the Predecessor periods as a wholly owned subsidiary of Philips, and the assets and liabilities of the semiconductor businesses of Philips. Furthermore, the combined financial statements include all entities in which the Company holds a direct or indirect controlling interest through voting rights or qualifying variable interests. The consolidated financial statements for the Successor periods include the accounts of NXP B.V., during the Successor period a wholly-owned subsidiary of KASLION, its subsidiaries and all entities in which the Company holds a direct or indirect controlling interest through voting rights or qualifying variable interests.

All intercompany balances and transactions have been eliminated in the combined and consolidated financial statements. Net income (loss) is reduced by the portion of the earnings of subsidiaries applicable to minority interest. The minority interests are disclosed separately in the combined and consolidated statements of operations and in the consolidated balance sheets.

The Company applies Financial Accounting Standards Board (FASB) Interpretation No. 46(R) 'Consolidation of Variable Interest Entities.' In accordance with Interpretation of Accounting Research Bulletin (ARB) No. 51 'Consolidated Financial Statements', the Company includes in its combined and consolidated financial statements entities in which variable interests are held to an extent that would require the Company to absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both.

Investments in equity-accounted investees

Investments in companies in which the Company does not have the ability to directly or indirectly control the financial and operating decisions, but does possess the ability to exert significant influence, are accounted for using the equity method. Generally, in the absence of demonstrable proof of significant influence, it is presumed to exist if at least 20% of the voting stock is owned. The Company's share of the net income of these companies is included in results relating to equity-accounted investees in the combined and consolidated statements of operations.

The Company recognizes an impairment loss when an other-than-temporary decline in the value of an investment occurs.
When its share of losses exceeds the carrying amount of an investment accounted for by the equity method, the carrying amount of that investment is reduced to zero and recognition of further losses is discontinued unless the Company has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee.

Accounting for capital transactions of a subsidiary or an equity-accounted investee

The Company recognizes in income dilution gains or losses arising from the sale or issuance of stock by a subsidiary that is included in the combined and consolidated financial statements or an unconsolidated entity which is accounted for using the equity method of accounting in the combined and consolidated statement of income, unless the Company or the subsidiary either has reacquired or plans to reacquire such shares. In such instances, the result of the transaction will be recorded directly in equity.

The dilution gains or losses are presented in the combined and consolidated statement of operations under other income and expense if they relate to subsidiaries that are included in the combined and consolidated financial statements. Dilution gains and losses related to equity-accounted investees are presented under results relating to equity-accounted investees.

Accounting for Alliance

Since 2002 the Company has been a participant in a jointly funded alliance (the 'Alliance') with two other semiconductors manufacturers in Crolles, France. The activities of the Alliance are the joint development of advanced process and assembly/packaging technology and the joint operation of a fabrication plant for the manufacturing of 300-millimeter wafers. The Alliance has its own governance structure to decide on all material decisions relating to the Alliance. Each of the three participants is equally represented in the governance structure. Upon its commencement each party contributed assets to the Alliance. The initial term of the Alliance expired December 31, 2007, and because the Company withdrew from the Crolles2 Alliance, effective December 31, 2007, the automatic extension until December 31, 2010 has been cancelled.

At the termination of the Alliance, the Company would retain title to the capital assets that it contributed to the Alliance unless another participant of the Alliance exercises its option to purchase those assets. Capital assets contributed by the Company include primarily machinery.

Under the Alliance arrangement, each participant is responsible for funding specific allocations of operations, research and development expenses, as well as related capital expenditures and output from the facility. Funding requirements are divided among the Company (31%) and the two other participants (31% and 38%), and are accounted for to ensure all expenses and capital expenditures are recorded in relation to the funding percentage.

The Company's interest in the Alliance has been accounted for in these combined and consolidated financial statements as a contract or cost sharing arrangement.

Accordingly, the Company's share in the results of operation of the Alliance are recorded in the cost and expense captions in the accompanying combined and consolidated statement of

operations, and primarily consists of the Company's share of research and development expenses, pilot line manufacturing expenses and depreciation expense related to the Alliance's capital assets.
Following the withdrawal from the Alliance, the Company sold its assets. Approximately half of the Company's investment was sold in 2007 and the remaining portion was sold in 2008.

In the accompanying consolidated balance sheets the Company's share in the capital assets of the Alliance and for which it still had title at the end of 2007, has been recorded in accordance with SFAS No. 144 'Accounting for the Impairment or Disposal of Long-Lived Assets' as available for sale in 2007. Depreciation of these assets ceased as of December 2007. For previous years all capital assets for which the Company had title are recorded in property, plant and equipment.

Foreign currencies

As described in note 1, the Company uses the U.S. dollar as its reporting currency. For consolidation purposes, the financial statements of the entities, including the Company, with a functional currency other than the U.S. dollar, are translated into U.S. dollars. Assets and liabilities are translated using the exchange rates on the respective balance sheet dates. Items in the statement of operations and cash flow statement are translated at average rates of exchange in the periods involved. The resulting translation adjustments are recorded as a separate component of other comprehensive income (loss) within business' and shareholder's equity. Cumulative translation adjustments are recognized as income or expense upon partial or complete disposal or substantially complete liquidation of a foreign entity.

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

			US$ 1 per EUR	
	period end	**average(1)**	**high**	**low**
January 1 - September 28, 2006	1.2807	1.2481	1.1855	1.2855
September 29, - December 31, 2006	1.3118	1.2887	1.2765	1.3148
2007	1.4742	1.3721	1.3033	1.4810
2008	1.4061	1.4768	1.2749	1.5801

(1) The average rates are the accumulated average rates based on monthly quotations.

The functional currency of foreign entities is generally the local currency, unless the primary economic environment requires the use of another currency. When foreign entities conduct their business in economies considered to be highly inflationary, they record transactions in the Company's reporting currency instead of their local currency. Gains and losses arising from the translation or settlement of non-functional currency-denominated transactions, monetary assets and liabilities into the functional currency are recognized in income in the period in which they arise. However, currency differences on intercompany loans that have the nature of a permanent investment are accounted for as translation differences as a separate component of other comprehensive income (loss) within business and shareholder's equity.

Derivative financial instruments

The Company uses derivative financial instruments principally in the management of its foreign currency risks and to a more limited extent for commodity price risks.

In compliance with SFAS No. 133, 'Accounting for Derivative Instruments and Hedging Activities', SFAS No. 138, 'Accounting for Certain Derivative Instruments and Certain Hedging Activities', and SFAS No. 149 'Amendment of Statement 133 on Derivative Instruments and Hedging Activities', the Company measures all derivative financial instruments based on fair values derived from market prices of the instruments or from option pricing models, as appropriate, and in accordance with the provisions of SFAS No. 157 "Fair Value Measurements", which establishes a framework for measuring fair value and sets out a fair value hierarchy to be used to classify the source of information used in fair value measurements. Changes in the fair values are recognized in the statement of operations immediately unless cash flow hedge accounting is applied.

Changes in the fair value of a derivative that is highly effective and designated and qualifies as a cash flow hedge are recorded in accumulated other comprehensive income (loss), until earnings are affected by the variability in cash flows of the designated hedged item.

The Company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions and for which cash flow hedge accounting is applied, are highly effective in offsetting changes in cash flows of hedged items. When it is established that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur within a period of two months from the originally forecasted transaction date, the Company continues to carry the derivative on the consolidated balance sheets at its fair value, and gains and losses that were accumulated in other comprehensive income are recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the Company continues to carry the derivative at its fair value on the consolidated balance sheets, and recognizes any changes in its fair value in earnings. From December 2007 going forward, the application of cash flow hedge accounting for foreign currency risks is limited to transactions that represent a substantial currency risk that could materially affect the financial position of the Company. Consequently, the application of cash flow hedge accounting seldom occurs.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and short-term highly liquid investments with a maturity of three months or less at acquisition that are readily convertible into known amounts of cash. It also includes restricted cash balances that cannot be freely repatriated. Cash and cash equivalents are stated at face value.

Receivables

Receivables are carried at face value, net of allowances for doubtful accounts and uncollectible amounts. As soon as trade accounts receivable can no longer be collected in the normal way and are expected to result in a loss, they are designated as doubtful trade accounts receivable and valued at the expected collectible amounts. They are written off when they are deemed to be uncollectible because of bankruptcy or other forms of receivership of the debtors.

The allowance for doubtful trade accounts receivable takes into account objective evidence about credit-risk concentration, collective debt risk based on average historical losses, and specific circumstances such as serious adverse economic conditions in a specific country or

region.

Inventories

Inventories are stated at the lower of cost or market, less advance payments on work in progress. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, taking into account the stage of completion. The cost of inventories is determined using the first-in, first-out (FIFO) method. An allowance is made for the estimated losses due to obsolescence. This allowance is determined for groups of products based on purchases in the recent past and/or expected future demand. Individual items of inventory that have been identified as obsolete are typically disposed of within a period of three months either by sale or by scrapping. In accordance with SFAS No. 151, ‘Inventory costs (SFAS 151), an amendment of ARB No. 43, Chapter 4’ abnormal amounts of idle facility expense and waste are not capitalized in inventory. The allocation of fixed production overheads to the inventory cost is based on the normal capacity of the production facilities.

Other non-current financial assets

Other non-current financial assets include available-for-sale securities, loans and cost-method investments.
Loans receivable are stated at amortized cost, less the related allowance for impaired loans receivable.

The Company classifies its investment in equity securities that have readily determinable fair values based on quoted market prices as available-for-sale. Available-for-sale securities are recorded at fair value with changes in the fair value going through other comprehensive income in shareholder’s equity. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income until realized. Fair value is determined in accordance with the provisions of SFAS No. 157 “Fair Value Measurements”, which establishes a framework for measuring fair value and sets out a fair value hierarchy to be used to classify the source of information used in fair value measurements. Available-for-sale securities that are contractually restricted from sale for a period longer than 1 year are accounted for by the cost method without changes in fair value being reflected in their measurement unless they are impaired in which case the impairment loss is charged to earnings. Similarly, restricted equity securities obtained as payment from the acquirer upon disposal of product lines are accounted for under the cost method. In accordance with EITF 01-2 ‘Interpretations of APB Opinion No. 29’, NXP recognizes in nonmonetary transactions the fair value of the assets surrendered at transaction date initially as its interest in the acquirer, which is the new cost basis going forward.

Impairments of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. The Company assesses its long-term investments accounted for as available-for-sale on a quarterly basis to determine whether declines in market value below cost are other-than-temporary, in which case the cost basis for the individual security is reduced and a loss realized in the period in which it occurs. When the decline is determined to be temporary, the unrealized loses are included in other comprehensive income.

If objective evidence indicates that cost-method investments need to be tested for impairment, calculations are based on information derived from business plans and other information available for estimating their fair value.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Assets constructed by the Company include direct costs, overheads and interest charges incurred during the construction period. Government investment grants are deducted from the cost of the related asset. Depreciation is calculated using the straight-line method over the expected economic life of the asset. Depreciation of special tooling is generally also based on the straight-line method. Gains and losses on the sale of property, plant and equipment are included in other income and expense. Costs related to repair and maintenance activities are expensed in the period in which they are incurred unless leading to an extension of the original lifetime or capacity. Plant and equipment under capital leases are initially recorded at the present value of minimum lease payments. These assets and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

The Company applies SFAS No. 143 ‘Accounting for Asset Retirement Obligations’ (SFAS 143) and FASB Interpretation No. 47 ‘Accounting for Conditional Asset Retirement Obligations’. Under the provisions of these pronouncements the Company recognizes the fair value of an asset retirement obligation in the period in which it is incurred, while an equal amount is capitalized as part of the carrying amount of the long-lived asset and subsequently depreciated over the useful life of the asset.

Goodwill

The Company accounts for goodwill in accordance with the provisions of SFAS 141 and SFAS No. 142 ‘Goodwill and Other Intangible Assets’, (SFAS 142). Accordingly, goodwill is not amortized but tested for impairment annually in the third quarter or whenever impairment indicators require so. During the predecessor period the annual goodwill impairment test was executed in the second quarter.

An impairment loss is recognized to the extent that the carrying amount of goodwill exceeds the asset’s implied fair value. This determination is made at the business unit level, which is for the Company the reporting unit level in accordance with Statement No. 142, and consists of two steps. First, the Company determines the carrying value of each reporting unit by assigning the assets and liabilities, including the goodwill and intangible assets, to those reporting units. Furthermore, the Company determines the fair value of each reporting

unit and compares it to the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds the fair value of the reporting unit, the Company performs the second step of the impairment test. In the second step, the Company compares the implied fair value of the reporting unit's goodwill with the carrying amount of the reporting unit's goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation upon a business combination in accordance with SFAS 141. The residual fair value after this allocation is the implied fair value of the reporting unit's goodwill. The Company generally determines the fair value of the reporting units based on discounted projected cash flows.

Intangible assets

Intangible assets (other than goodwill) arising from acquisitions are amortized using the straight-line method over their estimated economic lives. Remaining useful lives are evaluated every year to determine whether events and circumstances warrant a revision to the remaining period of amortization. There are currently no intangible assets with indefinite lives. In-process research and development with no alternative use is written off immediately upon acquisition. Patents, trademarks and other intangible assets acquired from third parties are capitalized at cost and amortized over their remaining useful lives.

Certain costs relating to the development and purchase of software for internal use are capitalized and subsequently amortized over the estimated useful life of the software in conformity with Statement of Position (SOP) 98-1, 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use'.

Impairment or disposal of intangible assets other than goodwill and tangible fixed assets

The Company accounts for intangible and tangible fixed assets in accordance with the provisions of SFAS No. 144, 'Accounting for the Impairment or Disposal of Long-Lived Assets'. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset with future undiscounted net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company determines the fair value based on discounted projected cash flows. The review for impairment is carried out at the level where discrete cash flows occur that are largely independent of other cash flows. For the Manufacturing Operations segment, the review of impairment of long-lived assets is carried out on a Company-wide basis, as Manufacturing Operations is the shared manufacturing base for the other business units with, for this purpose, no discrete cash flows that are largely independent of other cash flows. Assets held for sale are reported at the lower of the carrying amount or fair value, less cost to sell.

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. For this to be the case the asset (or disposal group) must be available for immediate sale in its present condition and the sale must be highly probable. For the sale to be highly probable, (i) the appropriate level of management must be committed to a plan to sell the asset, (ii) an active program to locate a buyer and complete the plan must be initiated, (iii) the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value, (iv) the sale should generally be expected to qualify for recognition as a completed sale within one year from the date of classification and (v) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of the asset's carrying amount and the fair value less costs to sell. Depreciation or amortization of an asset ceases when it is classified as held for sale, or included within a disposal group that is classified as held for sale.

Discontinued operations

A discontinued operation is a component of the Company that either has been disposed of, or that is classified as held for sale, and:
(i) represents a separate major line of business or geographical area of operations that can be clearly distinguished from the rest of the Company in terms of operations and cash flows or (ii) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations. Generally, a major line of business is a segment or business unit. Discontinued operations are carried at the lower of carrying amount and fair value less cost to sell. Results from discontinued operations until the date of disposal are presented separately as a single amount in the consolidated statements of operations together with any gain or loss from disposal. Results from operations qualifying as discontinued operations as of the balance sheet date for the latest period presented, that have previously been presented as results from continuing operations, are re-presented as results from discontinued operations for all periods presented. The financial information of discontinued operations is excluded from the respective captions in the consolidated financial statements and related notes for all years presented.

Research and development

Costs of research and development are expensed in the period in which they are incurred, in conformity with SFAS No. 2, 'Accounting for Research and Development Costs'.

Advertising

Advertising costs are expensed when incurred.

Provisions and accruals

The Company recognizes provisions for liabilities and probable losses that have been incurred as of the consolidated balance sheet dates and for which the amount is uncertain but can be reasonably estimated.

Provisions of a long-term nature are stated at present value when the amount and timing of related cash payments are fixed or reliably determinable unless discounting is prohibited under US GAAP. Short-term provisions are stated at face value.

The Company applies the provisions of SOP 96-1, 'Environmental liabilities' and SFAS No. 5, 'Accounting for Contingencies' and accrues for losses associated with environmental obligations when such losses are probable and reasonably estimable. Additionally, in accordance with SOP 96-1, the Company accrues for certain costs such as compensation and benefits for employees directly involved in the remediation activities. Measurement of liabilities is based on current legal requirements and existing technology. Liabilities and expected insurance recoveries, if any, are recorded separately. The carrying amount of liabilities is regularly reviewed and adjusted for new facts or changes in law or technology.

Restructuring

The Company applies SFAS No. 146, 'Accounting for Costs Associated with Exit or Disposal Activities' (SFAS 146).

The provision for restructuring relates to the estimated costs of initiated reorganizations that have been approved by the Board of Management, and which involve the realignment of certain parts of the industrial and commercial organization. When such reorganizations require discontinuance and/or closure of lines of activities, the anticipated costs of closure or discontinuance are included in restructuring provisions.

SFAS 146 requires that a liability be recognized for those costs only when the liability is incurred, i.e. when it meets the definition of a liability. SFAS 146 also establishes fair value as the objective for initial measurement of the liability.

Liabilities related to one-time employee termination benefits are recognized ratably over the future service period when those employees are required to render services to the Company, if that period exceeds 60 days or a longer legal notification period.

However, generally employee termination benefits are covered by a contract or an ongoing benefit arrangement and continue to be accounted for under SFAS No. 112, 'Employer's Accounting for Postemployment Benefits'. In conformity with SFAS 112 these benefits are recognized when it is probable that the employees will be entitled to the benefits and the amounts can be reasonably estimated.

Guarantees

The Company complies with FASB Interpretation No. 45, 'Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others' (FIN 45). In accordance with this Interpretation, the Company recognizes, at the inception of a guarantee that is within the scope of the recognition criteria of the Interpretation, a liability for the fair value of the obligation undertaken in issuing the guarantee.

Debt and other liabilities

Debt and other liabilities, other than provisions, are stated at amortized cost. However, loans that are hedged under a fair value hedge are remeasured for the changes in the fair value that are attributable to the risk that is being hedged. Debt issue cost is not expensed immediately but are reported as deferred charges and subsequently amortized over the term of the debt using the effective interest rate method.

Currently, the Company does not have any financial instruments that are affected by SFAS No. 150 'Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity'.

FASB Staff position No. EITF 00-19-2 'Accounting for Registration Payment Arrangements' requires companies that agree to register securities to recognize a liability separate from the related securities if a payment to investors for failing to fulfill the agreement is probable and its amount can be reasonably estimated. The Company had agreed to register an exchange offer for its outstanding notes within 450 days from October 12, 2006 or otherwise incur higher interest expense on the

notes. Since the Company registered an exchange offer for the notes in April 2007, it is not deemed probable that higher interest expense will be incurred as a result of failing to meet the registration obligation.

Revenue recognition

The Company's revenues are primarily derived from made-to-order sales to Original Equipment Manufacturers ("OEM's") and similar customers. The Company's revenues are also derived from sales to distributors.

The Company applies the guidance in SEC Staff Accounting Bulletin (SAB) Topic 13 'Revenue Recognition' and recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or the service has been provided, the sales price is fixed or

determinable, and collection is reasonably assured, based on the terms and conditions of the sales contract. For made-to-order sales, these criteria are generally met at the time the product is shipped and delivered to the customer and title and risk have passed to the customer. Examples of delivery conditions typically meeting these criteria are 'Free on Board point of delivery' and 'Costs, Insurance Paid point of delivery'. Generally, the point of delivery is the customer's warehouse. Acceptance of the product by the customer is generally not contractually required, since, with made-to-order customers, design approval occurs before manufacturing and subsequently delivery follows without further acceptance protocols. Payment terms used are those that are customary in the particular geographic market. When management has established that all aforementioned conditions for revenue recognition have been met and no further post-shipment obligations exist revenue is recognized.

For sales to distributors, the same recognition principles apply and similar terms and conditions as for sales to other customers are applied. However, for some distributors contractual arrangements are in place, which allow these distributors to return products if certain conditions are met. These conditions generally relate to the time period during which 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 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. Long notice periods associated with these announcements generally prevent significant amounts of product from being returned, however. Repurchase agreements with OEM's or distributors are not entered into by the Company.

For sales where return rights exist, the Company applies the guidance given in SFAS 48 'Recognition When Right of Return Exists'. Based on historical data, management has determined that only a very small percentage of the sales to this type of distributors is actually returned. In accordance with the requirements of SFAS 48, a pro rata portion of the sales to these distributors is not recognized but deferred until the return period has lapsed or the other return conditions no longer apply.

Revenues are recorded net of sales taxes, customer discounts, rebates and similar charges. Shipping and handling costs billed to customers are recognized as revenues. Expenses incurred for shipping and handling costs of internal movements of goods are recorded as cost of sales. Shipping and handling costs related to sales to third parties are reported as selling expenses.

A provision for product warranty is made at the time of revenue recognition and reflects the estimated costs of replacement and free-of-charge services that will be incurred by the Company with respect to the sold products. In cases where the warranty period is extended and the customer has the option to purchase such an extension, which is subsequently billed separately to the customer, revenue recognition occurs on a straight-line basis over the contract period.

Royalty income, which is generally earned based upon a percentage of sales or a fixed amount per product sold, is recognized on an accrual basis. Royalty income, other license income or other income related to R&D arrangements and that is received in the form of non-refundable upfront payments is recognized as income pro rata over the term of the contract unless a separate earnings process has been completed or when it concerns software. In the latter case revenue is recognized in accordance with Statement of Position (SOP) 97-2 "Software Revenue recognition" when the 4 criteria of SAB Topic 13 are met. Government grants, other than those relating to purchases of assets, are recognized as income as qualified expenditures are made.

Income taxes

Income taxes in the consolidated financial statements are accounted for using the asset and liability method. Income tax is recognized in the statement of operations except to the extent that it relates to an item recognized directly within shareholder's equity, including other comprehensive income (loss), in which case the related tax effect is also recognized there.

Current-year deferred taxes related to prior-year equity items, which arise from changes in tax rates or tax laws are included in income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the consolidated balance sheet dates, and any adjustment to tax payable in respect of previous years. Income tax payable includes amounts payable to tax authorities. 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 assets, including assets arising from loss carryforwards, are recognized if it is more likely than not that the asset will be realized. Deferred tax assets and liabilities are not discounted. Deferred tax liabilities for withholding taxes are recognized for subsidiaries in situations where the income is to be paid out as dividends in the foreseeable future, and for undistributed earnings of minority shareholdings.

In July 2006 the FASB issued FASB Interpretation No. 48 'Accounting for Uncertainty in Income Taxes', (FIN 48). The Company adopted FIN 48 in 2007. The Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109 'Accounting for Income Taxes'. FIN 48 prescribes a 'more-likely-than-not' recognition threshold that must be met before a tax benefit can be recognized. FIN 48 also prescribes a measurement methodology for those positions meeting the recognition threshold and provides guidance on de-recognition, classification, interest and penalties, and disclosures. Penalties are recorded as income tax charges, whereas interest is reported as financial charges in the statement of operations.

Changes in tax rates are reflected in the period that includes the enactment date.

Predecessor

The Company's income taxes as presented in the combined financial statements are calculated on a separate tax return basis, although the Company was included in the consolidated tax return of Philips. Philips manages its tax position for the benefit of its entire portfolio of

businesses, and its tax strategies are not necessarily reflective of the tax strategies that the Company would have followed as a stand-alone Company.

Benefit accounting

The Company accounts for the cost of pension plans and postretirement benefits other than pensions in accordance with SFAS No. 87, ‘Employers’ Accounting for Pensions’, and SFAS No. 106, ‘Postretirement Benefits other than Pensions’, respectively and in accordance with SFAS No. 158, ‘Employers’ Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans’.

The Company 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 employees participating in defined-benefit plans have been allocated to the Company based upon actuarial computations.

Obligations for contributions to defined-contribution pension plans are recognized as an expense in the statement of operations as incurred.

Statement No. 158 requires that the Company recognizes on its balance sheet the over-funded or under-funded status of its defined benefit and post retirement plans – measured as the difference between plan assets at fair value and the defined-benefit obligation – as an asset or liability. The offset of recognizing the funded status is recorded in accumulated other comprehensive income (within shareholder’s equity). Statement 158 requires that the Company recognizes as a component of accumulated other comprehensive income, net of taxes, the gains or losses and prior service costs and credits that arise during the year but are not recognized as a component of net periodic benefit cost pursuant to SFAS 87 and SFAS 106. Amounts recognized in accumulated other comprehensive income, including the gains or losses and the prior services costs or credits are adjusted as they are subsequently recognized as components of net periodic benefit costs pursuant to the recognition provisions of Statements No. 87 and No. 106. Since the Company has not issued equity securities that trade in a public market, it was not required to adopt the aforementioned provisions of SFAS 158 until the fiscal year ending December 31, 2007. Accordingly, the Company adopted these SFAS 158 provisions on December 31, 2007.
SFAS 158 also requires measurement of defined-benefit plan assets and obligations as of the date of the employer’s fiscal year-end balance sheet for years ending after December 15, 2008. For all of the Company’s defined pension benefit plans, the measurement date on which it determines the funded status already complies with this requirement in 2008 and prior years.

Predecessor

The Company has accounted for its participation in Philips sponsored pension plans in which the Company and other Philips businesses participate as multi-employer plans.

For pension and other postretirement benefit plans in which only Company employees participate (the Company dedicated plans), the related costs have been included in the combined and consolidated statements of operations.

The costs of pension and other postretirement benefits with respect to Company employees participating in the Philips plans have been allocated to the Company based upon actuarial computations, except for certain less significant plans, in which case a proportional allocation based upon compensation or headcount has been used.

Share-based compensation

Predecessor

In 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, ‘Accounting for Stock-Based Compensation’ (SFAS 123), as amended by SFAS No. 148, ‘Accounting for Stock- Based Compensation — Transition and Disclosure’, prospectively for all employee awards granted, modified or settled after January 1, 2003. Effective January 1, 2006, the Company adopted SFAS No. 123 (Revised 2004) (SFAS 123(R)), using the modified prospective method for the transition. Since the Company already adopted the fair value recognition provision of SFAS 123, the effects of the adoption of the revised standard on the Company was not material. Under the provisions of SFAS 123(R), the Company recognizes the estimated fair value of equity instruments granted to employees as compensation expense over the vesting period on a straight-line basis taking into account estimated forfeitures. The Company used the Black-Scholes option-pricing model to determine the estimated fair value of the equity instruments. These employee awards were previously granted by Philips to its employees and have been allocated to the Company for the purpose of the predecessor combined financial statements.

For awards granted to employees prior to 2003, the Company continued to account for share-based compensation using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, ‘Accounting for Stock Issued to Employees’. These employee awards were previously granted by Philips to its employees and have been subsequently allocated to the Company.

Successor

Immediately before the date of acquisition of our Company by KASLION, Philips announced all outstanding unvested stock options and restricted share rights related to employees of the semiconductor businesses of Philips would become fully vested and exercisable on October 16, 2006, which was recorded as part of the purchase price allocation. For the successor period, share-based payment plans were put in place by our parent company KASLION Acquisition B.V. for NXP employees. No share-based compensation arrangements were in place in the period from September 29, 2006 through December 31, 2006. The plans are accounted for in accordance with the provisions of SFAS 123(R). The Company uses a binomial option-pricing model to determine the estimated fair value of the equity instruments.

FASB Staff Position (FSP) SFAS 123(R)-4 ‘Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event’ amends paragraph 32 of SFAS 123 (R). The FSP requires share options and restricted shares that have contingent cash settlement features that are outside the control of the employee,

such as a change in control or the death or disability of an employee, to be accounted for as liabilities rather than equity if the contingent event is probable of occurring. The share-based compensation plans that the Company's employees participate in contain contingent cash settlement features upon an exit or change in control in combination with a termination of employment. The Company has concluded that the likelihood of these events occurring is remote and therefore not probable. Also, upon death or disablement the Company may offer cash settlement, but the employee or his dependents must consent. Therefore, the Company has concluded that this FSP is not applicable to the Company with respect to these cash settlement features. However, in the case that for certain employees the vested share-based payment rights have been declared to become cash settled such instruments will be recorded as liabilities as from the date of such event.

Cash flow statements

Cash flow statements have been prepared using the indirect method in accordance with the requirements of SFAS No. 95, 'Statement of Cash flows', as amended by SFAS No. 104, 'Statement of Cash Flows - Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions'. Cash flows in foreign currencies have been translated into USD using the weighted average rates of exchange for the periods involved.

Cash flows from derivative instruments that are accounted for as fair value hedges or cash flow hedges are classified in the same category as the cash flows from the hedged items. Cash flows from derivative instruments for which hedge accounting has been discontinued are classified consistent with the nature of the instrument as from the date of discontinuance.

Concentration of risk

The Company's sales are for a large part dependent on a limited number of customers, none of which individually exceeds 10% of total sales. Furthermore, the Company is using outside suppliers of foundries for a portion of its manufacturing capacity. For certain equipment and materials the Company relies on a single source of supply.

New accounting standards

The FASB issued several pronouncements, of which the following are to various degrees of relevance to the Company and which are not yet effective, either partially or in full, or became effective in 2008.

In September 2006, the FASB issued FASB Statement No. 157 "Fair value measurements", which sets out a framework for measuring fair values. It applies only to fair-value measurements that are already required or permitted by other accounting pronouncements. The Statement has become effective prospectively for the Company from 2008 going forward, except for non-financial assets and non-financial liabilities, other than that are recognized or disclosed at fair value on a recurring basis, for which the effective date will start on January 1, 2009 for the Company in accordance with the deferral provisions of FASB Staff Position FAS 157-2 "Effective Date of FASB Statement No. 157". Effectively, the Statement was only applicable for NXP in measuring the fair value of derivative instruments and available-for-sale equity securities in 2008. The limited situations in which the Statement requires retrospective application are not expected to be applicable to the Company. In 2009 when Statement 157 becomes fully effective, it will be

applicable also for fair value determination of non financial assets and liabilities, the most important of which will be the annual goodwill impairment test and the impairment test of other long-lived assets. The method the Company currently uses for these impairment tests does not significantly deviate from the guidance prescribed by Statement 157.

In October 2008, the FASB issued Staff Position FSP FAS 157-3 "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active". The FSP amends Statement 157 by incorporating an example to illustrate key considerations in determining the fair value of a financial asset in an inactive market. The FSP is effective upon issuance and should be applied to prior periods for which financial statements have not been issued.

The Company does not hold financial assets that currently trade in inactive markets. Therefore the effect of this FSP on the Company's financial statements is likely to be nil.

In February 2007, the FASB issued FASB Statement No.159 'The Fair Value Option for Financial Assets and Financial Liabilities'. The Statement permits an entity to measure certain financial assets and financial liabilities at fair value and requires the entity that elected this fair value option to report unrealized gains and losses in earnings at each subsequent reporting date. SFAS 159 establishes presentation and disclosure requirements and amends in this respect SFAS No.115 'Accounting for Certain Investments in Debt and Equity Securities' with respect to available-for- sale and trading securities. SFAS 159 became effective for the Company as from 2008. However, the Company has elected not to account for any financial asset or financial liability under Statement 159. Nevertheless, the amended disclosure and presentation requirements of Statement 115 are applicable to the Company; however, without significant impact.

In December 2007 the FASB issued FASB Statement No. 141(R) 'Business Combinations (revised 2007)', effective from 2009. The changes compared with the original Statement 141 that are significant for the Company are:

- Non-controlling interests acquired after the effective date of the Statement must be measured at their fair values at the acquisition date including a related portion of the goodwill, whereas previously these interests were recognized at predecessor carrying values;

- Acquisition-related costs may not be added to the fair values of the acquired assets and liabilities assumed but must be recognized separately, generally as an expense in the period in which they are incurred. Previously these transaction costs were added to the

purchase price and included in goodwill. At December 31, 2008 the Company had not incurred significant amounts for acquisition related costs that subsequently in 2009 must be charged to the statement of operations;

- Post closing restructuring costs for entities acquired after the effective date of the Statement may not be recognized in the purchase accounting for the business combination and thus may not be recognized as a liability, rather the cost must be charged to the statement of operations in accordance with the prevailing guidance of other pronouncements;

- Contingent consideration such as earn-out arrangements for entities acquired after the effective date of the Statement must initially be recognized at their acquisition date fair value. Subsequent changes in the fair value are recognized in earnings. Previously, contingent consideration was added to the purchase price when it became reliably measurable;

- The Statement requires recognition of the acquisition date fair value of research and development assets acquired in a business combination. Subsequently, these assets will be

depreciated or amortized over their estimated useful lives. Previously such In-Process R&D was expensed in full immediately upon acquisition.

- Statement 141(R) changes the definition of a business, which affects the identification of reporting units to which goodwill must be allocated, both for previously completed business combinations as well as for future acquisitions. The Company is in the process of identifying any consequences for current goodwill allocation to reporting units. However, significant effects are not expected.

Statement 141(R) becomes effective as of January 1, 2009 for the Company. It may not be applied retrospectively. It will significantly affect the accounting for business combinations that are concluded from 2009 going forward. It will not affect the assets and liabilities that were recognized in business combinations that closed before 2009.

Simultaneously with Statement 141(R) the FASB issued Statement No. 160 “Non-controlling Interests in Consolidated Financial Statements; and amendment of ARB No. 51”. This Statement amends ARB 51 to establish accounting and reporting standards for the non-controlling interests in a subsidiary and for the deconsolidation of a subsidiary. Statement 160 requires that a non-controlling interest, sometimes called a minority interest, be reported as equity in the consolidated financial statements, whereas previously this was reported in the mezzanine. It also requires that consolidated net income be reported at amounts that included the amounts attributable to both the parent and the non-controlling interest. As a result the income attributable to non-controlling interests may no longer be deducted as an expense in arriving at consolidated net income. Net income (loss) attributable to the parent and the non-controlling interests must be disclosed on the face of the statement of operations.

Statement 160 also requires that changes in the ownership of a subsidiary, not resulting in deconsolidation, shall be accounted for as equity transactions. Consequently, no dilution gains or losses can result from such transactions. Upon deconsolidation of a subsidiary any remaining non-controlling interest of the parent shall be remeasured at fair value and that fair value shall be taken into account in determining the gain or loss of the transaction.

Statement 160 becomes effective as of January 1, 2009 for the Company. It may not be applied retrospectively except for the presentation and disclosure requirements, which

shall be applied to all periods presented. The Statement will significantly affect the Company’s presentation of net income or loss in the statement of operations and the equity in the balance sheet. It will significantly affect the accounting for transactions that change ownership in subsidiaries that are concluded from 2009 going forward. It will not affect the measurement of non-controlling interests existing before 2009 and that remain unchanged thereafter.

SFAS No. 161 “Disclosures about Derivative Instruments and Hedging Activities” was issued in March 2008.

The Statement becomes effective for NXP on January 1, 2009. Comparable disclosures for prior years need only be given as from 2010 onwards but not for years before 2009.

The Statement requires quantitative and qualitative disclosures in a tabular format about fair values, objectives, type and nature of the hedging instruments in relation to the risk exposure and the line items in the balance sheet where derivative instruments are reported, For the gains and losses reported in the statement of operations or in other comprehensive income (OCI) a separate disclosure must be made for fair value hedges and for cash flow hedges. Also, the

movements from OCI to the statement of operations must be disclosed. All this per type of contract and indicating in which line item of the statement of operations it is being reported.

The impact of the Statement for the Company is limited to additional disclosures.

On May 9, 2008, the FASB issued Statement 162 “The Hierarchy of Generally Accepted Accounting Principles”, which reorganizes the GAAP hierarchy. The purpose of the new standard is to improve financial reporting by providing a consistent framework for determining what accounting principles should be used when preparing U.S. GAAP financial statements. This Statement will have no immediate effect on NXP’s financial statements.

On April 25, 2008, the FASB issued FSP FAS 142-3 "Determination of the Useful Life of Intangible Assets", which amends the list of factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under Statement 142. The Company has concluded that this FSP is not expected to result in future changes to economic lives of acquired intangible assets because such assets have no extension or renewal possibilities.

On December 30, 2008, the FASB issued FSP FAS 132 (R)-1. "Employers' Disclosures about Postretirement Benefit Plan assets". The FSP amends statement No. 132 (R) to require additional disclosures about assets held in an employer's defined benefit pension or other postretirement plans. The Company is still investigating the impact of this pronouncement but expects it to be limited to additional disclosures.

5 Information by Segment and Main Countries

The following sectors are distinguished as reportable segments in compliance with SFAS 131.

The Company is structured in four market-oriented business units: Mobile & Personal, MultiMarket Semiconductors, Home and Automotive & Identification.

- Until July 2008, Mobile & Personal delivered full systems solutions for cellular phones and personal entertainment devices.

  On July 28, 2008 the key wireless operations of NXP were contributed to a new joint venture ST-NXP Wireless, and as such all assets and liabilities involved in this transaction have been deconsolidated from this sector. The operations until July 28, 2008 remain consolidated in the consolidated accounts.

  The Mobile & Personal sector will be regrouped as from 2009. The remaining part of the business unit, after the contribution of activities into the joint venture ST-NXP Wireless, will be moved into the sectors MultiMarket Semiconductors and Corporate and Other in 2009.

- Home is a leading supplier of systems and components for the TV, PC TV and direct memory access segments of the consumer semiconductors market.

- Automotive & Identification has leading positions in car audio/radio, in-vehicle networking (IVN), car access and immobilization, tire pressure monitoring and magnetic sensors; Identification has leading positions in the radio frequency identification (RFID), near field communication (NFC) and eGovernment applications markets.

- MultiMarket Semiconductors provides a broad range of standard products (e.g. Bipolar, Power Discretes, Transistors & Diodes and Logic) and application specific standard products (e.g. Integrated Discretes, Interface Products and Microcontrollers).

The Company operates a shared manufacturing base, which is grouped in Manufacturing Operations (formerly named IC Manufacturing Operations), with the exception of manufacturing assets dedicated to MultiMarket Semiconductors products, which are reported as part of that segment.

Corporate and Other includes certain research and development activities, IP licensing, Emerging Products and special items not directly allocated to Business Units and/or Manufacturing Operations.

NXP Software (formerly Philips Software) included in Corporate and Other, specializes in innovative multimedia, security and connectivity solutions for manufacturers of mobile and portable equipment.

Certain assets of the Company have been used jointly or managed at Corporate level.

Arithmetical allocation of these assets to the various businesses is not deemed to be meaningful and as such total assets by segment has been omitted. Instead, inventories per segments are included.

Segments

	Sales	Research and development expenses	Income (loss) from operations	Income (loss) from operations as a % of sales	Results relating to equity-accounted investees
SUCCESSOR					
For the year ended December 31, 2008					
Mobile & Personal	**1,356**	**344**	**(665)**	**(49.0)**	**(249)**
Home	**836**	**251**	**(875)**	**(104.7)**	**4**
Automotive & Identification	**1,285**	**246**	**73**	**5.7**	**(2)**
MultiMarket Semiconductors	**1,554**	**147**	**63**	**4.1**	**—**
Manufacturing Operations (*)	**324**	**40**	**(691)**	**—(1)**	**—**
Corporate and Other	**88**	**171**	**(551)**	**—(1)**	**(21)**
	5,443	**1,199**	**(2,646)**	**(48.6)**	**(268)**

For the year ended December 31, 2007					
Mobile & Personal	2,135	510	(159)	(7.4)	—
Home	927	258	(234)	(25.2)	(3)
Automotive & Identification	1,332	205	144	10.8	(5)
MultiMarket Semiconductors	1,619	118	164	10.1	—
Manufacturing Operations (*)	214	48	(210)	—(1)	—
Corporate and Other	94	189	(483)	—(1)	(32)
	6,321	1,328	(778)	(12.3)	(40)
For the period September 29, 2006 through December 31, 2006					
Mobile & Personal	510	117	(174)	(34.1)	—
Home	273	64	(211)	(77.3)	—
Automotive & Identification	271	45	(330)	(121.8)	—
MultiMarket Semiconductors	423	32	(102)	(24.1)	—
Manufacturing Operations (*)	36	14	(92)	—(1)	—
Corporate and Other	20	60	(95)	—(1)	(3)
	1,533	332	(1,004)	(65.5)	(3)
PREDECESSOR					
For the period January 1, 2006 through September 28, 2006					
Mobile & Personal	1,463	349	29	2.0	—
Home	911	182	(46)	(5.0)	—
Automotive & Identification	826	115	188	22.8	—
MultiMarket Semiconductors	1,269	84	253	19.9	—
Manufacturing Operations (*)	175	81	9	—(1)	5
Corporate and Other	61	109	(260)	—(1)	(1)
	4,705	920	173	3.7	4

(*) For the year ended December 31, 2008 Manufacturing Operations supplied USD 1,830 million (2007: USD 2,765 million, for the period September 29, 2006 through December 31, 2006: USD 579 million, for the period January 1, 2006 through September 28, 2006: USD 1,996 million) to other segments, which have been eliminated in the above presentation.

(1) Percentage not meaningful

Segments

	Inventories(1)	Long-lived(2) assets	Total liabilities excl. debt	Gross capital expenditures	Depreciation property, plant and equipment
SUCCESSOR					
For the year ended December 31, 2008					
Mobile & Personal	**75**	**385**	**243**	**40**	**65**
Home	**84**	**310**	**83**	**6**	**20**
Automotive & Identification	**110**	**2,034**	**53**	**8**	**16**
MultiMarket Semiconductors	**203**	**2,296**	**60**	**100**	**97**
Manufacturing Operations	**147**	**1,509**	**619**	**207**	**449**
Corporate and Other	**11**	**318**	**1,972**	**18**	**46**
	630	**6,852**	**3,030**	**379**	**693**
For the year ended December 31, 2007					
Mobile & Personal	276	1,762	310	63	38
Home	84	996	239	5	17
Automotive & Identification	118	2,273	80	6	12
MultiMarket Semiconductors	222	2,531	206	87	119
Manufacturing Operations	280	2,142	1,120	326	524
Corporate and Other	(22)	356	998	62	161
	958	10,060	2,953	549	871
For the period September 29, 2006 through December 31, 2006					
Mobile & Personal	204	1,531	156	5	9
Home	110	910	100	3	4
Automotive & Identification	96	1,954	37	1	1
MultiMarket Semiconductors	218	2,330	117	18	33
Manufacturing Operations	219	2,258	690	84	137
Corporate and Other	—	699	961	32	36
	847	9,682	2,061	143	220
PREDECESSOR					
For the period January 1, 2006 through					

September 28, 2006					
Mobile & personal	224	61	161	24	15
Home	134	46	96	7	9
Automotive & Identification	104	19	33	12	2
MultiMarket Semiconductors	207	360	140	65	84
Manufacturing Operations	241	1,488	656	292	376
Corporate and Other	(1)	873	603	180	78
	909	2,847	1,689	580	564

(1) Inventory “Corporate and Other” includes the central intercompany profit elimination from inventories.

(2) Long-lived assets include property, plant and equipment, goodwill and other intangible fixed assets.

Goodwill assigned to segments

	Carrying value at January 1, 2008	**Acquisitions**	**Divestments**	**Impairment**	**Translation differences and other changes (*)**	**Carrying value at December 31, 2008**
SUCCESSOR						
Mobile & Personal	**778**	**20**	**(660)**	**—**	**62**	**200**
Home	**486**	**48**	**—**	**(381)**	**6**	**159**
Automotive & Identification	**1,297**	**—**	**—**	**—**	**(52)**	**1,245**
MultiMarket Semiconductors	**767**	**—**	**—**	**—**	**(31)**	**736**
Manufacturing Operations	**335**	**—**	**—**	**—**	**(15)**	**320**
Corporate and Other	**53**	**—**	**—**	**(49)**	**(3)**	**1**
	3,716	**68**	**(660)**	**(430)**	**(33)**	**2,661**

(*) Included are other changes related to a PPA tax benefit against goodwill. Refer to note 22.

Main countries

	Total sales (1)	**Long-lived assets**	**Gross capital expenditures**	**Depreciation property, plant and equipment**
SUCCESSOR				
For the year ended December 31, 2008				
China	**907**	**144**	**51**	**40**
Netherlands	**970**	**5,607**	**63**	**250**
Taiwan	**406**	**63**	**12**	**32**
United States	**436**	**66**	**11**	**22**
Singapore	**556**	**261**	**20**	**117**
Germany	**346**	**250**	**39**	**68**
South Korea	**569**	**—**	**—**	**—**
Other countries	**1,253**	**461**	**183**	**164**
	5,443	**6,852**	**379**	**693**
For the year ended December 31, 2007				
China	1,263	135	47	50
Netherlands	1,022	8,371	77	235
Taiwan	527	131	38	47
United States	523	81	13	23
Singapore	545	358	97	142
Germany	386	317	57	78
South Korea	707	1	—	—
Other countries	1,348	666	220	296
	6,321	10,060	549	871
For the period September 29, 2006 through December 31, 2006				
China	327	161	8	16
Netherlands	233	7,585	20	58
Taiwan	129	144	3	12
United States	132	88	8	6
Singapore	193	403	26	41
Germany	90	312	16	19
South Korea	14	1	—	—

			1,533	9,682	143	220
Other countries			415	988	62	68

	Sales to third parties	Sales to Philips companies	Total sales (1)	Long-lived assets	Gross capital expenditures	Depreciation property, plant and equipment
PREDECESSOR						
For the period January 1, 2006 through September 28, 2006						
China	1,037	28	1,065	174	47	38
Netherlands	737	19	756	469	41	87
Taiwan	337	—	337	155	24	38
United States	458	16	474	278	15	35
Singapore	541	6	547	435	54	136
Germany	245	—	245	351	77	62
South Korea	389	—	389	1	—	—
Other countries	876	16	892	984	322	168
	4,620	85	4,705	2,847	580	564

(1) The allocation is based on invoicing organization.

From September 29, 2006 onwards, sales to Philips companies amounting to USD 23 million for the 2006 period, USD 74 million for 2007 and USD 20 million for 2008 are included in sales to third parties.

6 Related-party transactions

The Company entered into related-party transactions with:

1. Philips, which was the Company's parent during the predecessor periods and continued to hold an indirect 19.9% beneficial interest during the successor period.

2. Various related parties in which NXP typically holds a 50% or less equity interest and has significant influence (refer to note 12). The transactions in these related parties are generally conducted with terms comparable to transactions with third-parties.

3. Taiwan Semiconductor Manufacturing Company (TSMC) is a related party during the predecessor period as a result of Philips' interest in TSMC.

4. The newly established joint venture with STMicroelectronics named ST-NXP Wireless.

NXP and Philips will have continuing relationships through shared research and development activities and through license agreements. The previous existing global service agreements for — amongst others — payroll, network and purchase facilities are meanwhile terminated or are being terminated shortly. Additionally, through the purchase of component products, namely semiconductor products for the consumer electronic sector, NXP and Philips will have a continuing relationship for the foreseeable future.

The following table presents the amounts related to revenues and expenses incurred in transactions with these related parties:

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 – September 28, 2006	For the period September 29, 2006 – December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Sales	200	24	77	**112**
Purchase of goods and services	212	48	241	**328**
General corporate expenses	77	—	—	**—**
Basic research	17	—	—	**—**
Interest expense to Philips companies, net	7	—	—	**—**

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

	SUCCESSOR	
	December 31, 2007	December 31, 2008
Receivables	21	**18**
Payables	35	**73**

As of December 31, 2008, the amounts receivable from STMicroelectronics amounted to USD 350 million, and the amounts payable were USD 385 million. The net amount payable of USD 35 million is recorded in the balance sheet under Accounts payables.

Predecessor

Costs of services and corporate functions

During the predecessor periods the Company participated in a variety of corporate-wide programs administered by Philips in areas such as cash management, insurance, employee benefits, information technology, intellectual property, and customs.

Furthermore, the Company utilized various Philips shared services organizations for services such as:

- Human Resource services such as payroll processing, benefits administration, recruitment and training
- Accounting services
- Information technology such as the cost of hardware, network and standard software applications
- Purchasing of non-product related items
- Real Estate services

The costs of these services have been charged or allocated to the Company based on service level agreements and other contracts that include agreements on charges against actual costs. Please refer to notes 25, 26 and 34 for a discussion of the costs of pension benefits, other postretirement benefits and share-based compensation.

Successor

In December 2006 and during 2007, selected members of our management purchased approximately 10.6 million depository receipts issued by the Stichting Management Co-Investment NXP, each of these receipts representing an economic interest in a common share of KASLION. These depository receipts have been purchased at a price estimated to be fair market value and in the aggregate represent a beneficial interest in KASLION of 0.25%.

General corporate expenses and Basic Research

The financial statements for the predecessor periods also include expense allocations for certain corporate functions, historically provided by Philips but not charged to the semiconductors segment, such as management oversight, accounting, treasury, tax, legal, brand management and human resources, as well as an allocation of the costs of basic research performed by Philips. A proportional cost allocation method based upon sales has been used to estimate the amounts of these allocations.

The Company considers the allocation of the costs of the aforementioned services and functions to be reasonable. However, these amounts may not be indicative of the costs that would have been necessary for the Company to operate as a stand-alone entity.

Interest expense

The amount of net interest expense charged by Philips included in the combined statements of operations for January 1, 2006 through September 28, 2006 amounted to USD 7 million.

Loans with Philips companies

As a result of the Separation, the Company had repaid all outstanding balances owed to Philips companies as of September 28, 2006.

Cash management and financing

During the predecessor periods, the Company participated in Philips' worldwide cash management system under which the Company maintained bank accounts in specific banks as directed by Philips. Such accounts were generally zero balanced, where possible, to the Philips global pool, allowing cash to be managed and centralized by Philips.

The transfer of funds in and between the countries is accounted for via intercompany accounts. The balance of these intercompany accounts has been presented in the caption Philips' net investment in the Company, which is presented as a part of business' equity. Interest income and expense are generally not recorded on these domestic intercompany balances. Where pooling of cash balances was not possible, longer term cash surpluses were generally placed on deposit with Philips until dividends were distributed to Philips. Philips also maintained an in-house banking arrangement that provided facilities for Philips entities to obtain funds for local short term funding requirements. Longer term and structural financing was provided to Philips legal entities either through specific intercompany loans with Philips or through third party financing. Philips did not allocate interest to specific segments or businesses. The combined statements of operations include intercompany interest income and expense that has been recorded by legal entities that include only the Company's businesses. Interest income and expense of shared legal entities of the Company and other Philips divisions have not been included in the combined statements of operations.

Cash and cash equivalents, external debt, intercompany loans, and related interest income and expense have been included in the Company's financial statements for the predecessor periods to the extent such amounts were actually held or incurred by the legal entities that are part of the Company.

7 Acquisitions and divestments

2008

During 2008, the Company entered into a number of acquisitions. All business combinations have been accounted for using the purchase method of accounting. The more important business combinations in 2008 were the acquisitions of GloNav, Conexant's Broadband Media Processing business, and NuTune. All acquisitions, both individually and in the aggregate, were deemed immaterial in respect of the SFAS 141 disclosure requirements.

In January, 2008, NXP acquired GloNav Inc., a US-based fabless semiconductor company, adding GPS (Global Positioning Systems) to the connected entertainment portfolio. The assets acquired amounted to USD 2 million, the liabilities assumed amounted to USD 4 million. The purchase price was USD 87 million and was allocated to other intangible assets (USD 69 million) and goodwill (USD 20 million, net of deferred taxes).

As a result of the contribution of the wireless operations into the new joint venture ST-NXP Wireless, GloNav was part of this transaction and as such also included in this transfer of net assets on August 2, 2008.

On August 11, 2008, NXP completed its acquisition of the Broadband Media Processing (BMP) business of Conexant Systems, Inc. which provides industry-leading solutions for satellite, cable and IPTV applications. The assets acquired amounted to USD 22 million, the liabilities assumed amounted to USD 1 million. The purchase price (net of cash acquired) was USD 111 million and was allocated to Other intangible assets (USD 58 million) and Goodwill (USD 32 million) . The revenue in the year of acquisition since the date of acquisition was USD 63 million.

NXP also has an additional consideration of up to USD 35 million based on the achievement of certain revenue milestones over the period from closing through 2009.

On September 1, 2008, NXP and Thomson combined their can tuner module operations in a joint venture, named NuTune. NXP has a 55% ownership and Thomson the remaining 45%.

The net assets acquired amounted to USD 20 million and resulted in a goodwill allocation of USD 16 million.

The revenue in the year of acquisition since the date of acquisition was USD 31 million.

The most significant divestment in 2008 was the major part of the Company's Mobile & Personal business unit.

On August 2, 2008, NXP and STMicroelectronics (STM) combined their wireless operations to form a new joint-venture company - ST-NXP Wireless -, in which NXP contributed business and assets forming a substantial portion of its Mobile & Personal business unit (excluding Sound Solutions, Mobile Infrastructure and amplifiers). STM owns a majority stake (80%) and NXP has a 20% ownership while receiving USD 1.55 billion from STM. The 20% investment in the combined wireless operations is accounted for by the equity method because the Company has significant influence. As a result of retaining this 20% investment and the ongoing significant cash flows, the divestment is not reported as a discontinued operation. The net assets divested amounted to USD 1,976 million, resulting in a loss on their transaction of USD 413 million, which has been reported under Other business income.

In February 2009, STM exercised its option to buy the 20% ownership for an amount of USD 92 million.

2007

On March 23, 2007, NXP completed its acquisition of the Cellular Communication business of Silicon Laboratories Inc., a leader in Radio Frequency (RF) technology for mobile phones. NXP acquired the Cellular Communication business for USD 288 million in cash, and has been consolidated within the segment Mobile & Personal as from the acquisition date. Contingent upon the achievement of certain milestones in the next three years, an additional USD 65 million may be paid up for the acquisition. Related to this earn-out, an amount of USD 4 million has been included in the purchase price accounting. The purchase price for the acquisition was allocated to Property, plant and equipment (USD 9 million), Other intangible assets (USD 104 million), Assets and liabilities (USD 22 million) and Goodwill (USD 153 million).

On September 5, 2007, NXP completed the divestment of its Cordless and VoIP Terminal operations to DSP Group for an initial payment of USD 200 million in cash and 4,186,603 newly issued shares of DSP Group's common stock. As a result of the transaction, NXP now owns approximately 16% of DSP Group's outstanding common stock. The net assets divested amounted to USD 90 million. Furthermore, liabilities for future payments and various expenses were taken into consideration resulting in a gain on this transaction of USD 119 million, which has been reported under Other business income.

2006

Successor

In November 2006, the Company's option to purchase additional outstanding stock of the Singapore-based wafer fabrication firm Systems on Silicon Manufacturing Company (SSMC) was fully exercised. An incremental 10.7% SSMC shares were acquired from the Economic Development Board (EDB), increasing the Company's equity interest to 61.2%, at cost of USD 118 million paid in cash. The total purchase

price was allocated to property, plant and equipment (USD 8 million), goodwill (USD 35 million), other intangibles (USD 19 million) and, as a consequence, a reduction in minority interests (USD 59 million). Other intangibles fully consist of core technology.

In 2006 there were no material divestments.

8 Income from operations

For information related to sales and income from operations on a geographical and business basis, see note 5.

Sales composition

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 – September 28, 2006	**For the period September 29, 2006 – December 31, 2006**	**For the year ended December 31, 2007**	**For the year ended December 31, 2008**
Goods	4,684	1,526	6,291	**5,420**
Licenses	21	7	30	**23**
	4,705	1,533	6,321	**5,443**

Salaries and wages

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 – September 28, 2006	**For the period September 29, 2006 – December 31, 2006**	**For the years ended December 31, 2007**	**For the years ended December 31, 2008**
Salaries and wages	1,196	434	1,969	**2,210**
Pension and other postemployment costs	87	34	46	**130**
Other social security and similar charges:				
- Required by law	170	58	256	**224**
- Voluntary	2	1	15	**13**
	1,455	527	2,286	**2,577**

Salaries and wages in 2008 include USD 449 million (2007: USD 178 million; September 29, 2006 through December 31, 2006: USD 6 million; January 1, 2006 through September 28, 2006: USD 23 million) relating to restructuring charges. Pension and other postemployment costs include the costs of pension benefits, other postretirement benefits, and postemployment benefits, including obligatory severance.

Depreciation and amortization

Depreciation of property, plant and equipment and amortization of intangibles are as follows:

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 – September 28, 2006	**For the period September 29, 2006 – December 31, 2006**	**For the year ended December 31, 2007**	**For the year ended December 31, 2008**
Depreciation of property, plant and equipment	564	220	871	**693**
Amortization of internal use software	13	7	31	**40**
Amortization of goodwill and other intangibles:				
- Amortization of other intangible assets	11	153	630	**537**
- Impairment of goodwill	—	—	—	**430**
- Impairment of other intangible assets	—	—	—	**284**
Write-off of in-process research and development	—	664	15	**26**
	588	1,044	1,547	**2,010**

Depreciation of property, plant and equipment in 2008 includes an additional write-off in connection with the retirement of property, plant and equipment amounting to USD 4 million (2007: USD 3 million; September 29, 2006 through December 31, 2006: USD 4 million, January 1, 2006 through September 28, 2006: USD 1 million).

The additional depreciation property, plant and equipment resulting from the purchase price accounting amounted to USD 151 million (2007: USD 137 million; September 29, 2006 through December 31, 2006: USD 32 million.

Depreciation of property, plant and equipment include USD 6 million relating to impairment charges (2007: USD 20 million; September 29, 2006 through December 31, 2006: nil, January 1, 2006 through September 28, 2006: nil).

Depreciation of property, plant and equipment and amortization of software are primarily included in cost of sales.

The Company periodically reviews the carrying value of its long-lived assets and reviews annually the carrying value of its recorded goodwill.

Following the ongoing loss-making situation of the Company as a result of poor economic market circumstances, goodwill impairment tests were carried-out in the third quarter of 2008.

As a result of these tests, an impairment situation was demonstrated in our business segments Home and Corporate and Other. Simultaneously we have tested for impairment other intangible assets belonging to these segments. Following these tests a goodwill impairment charge of USD 430 million was recognized in 2008. Of this impairment an amount of USD 381 million related to the Home segment and an amount of USD 49 million related to the segment Corporate and Other. The impairment test for other intangible assets resulted in an impairment loss of USD 284 million, which was fully attributable to the Home segment. Based on our assessment of the impact of the charges in the key assumptions subsequent to the third quarter, it was concluded that no additional impairment was required.

In 2007 and previous years, no goodwill impairments were recorded.

Included in the amortization of other intangible assets is the additional amortization other intangible assets resulting from the purchase price accounting amounted to USD 537 million (2007: USD 636 million; September 29, 2006 through December 31, 2006: USD 154 million).

Rent
Rent expenses amounted to USD 84 million in 2008 (2007: USD 94 million; September 29, 2006 through December 31, 2006: USD 26 million, January 1, 2006 through September 28, 2006: USD 61 million).

Selling expenses
Selling expenses incurred in 2008 totaled USD 400 million (2007: USD 425 million; September 29, 2006 through December 31, 2006: USD 114 million, January 1, 2006 through September 28, 2006: USD 343 million). Included are shipping and handling costs of USD 25 million (2007: USD 29 million).

The selling expenses mainly relate to the cost of the sales and marketing organization. This mainly consists of account management, marketing, first and second line support, and order desk.

General and administrative expenses
General and administrative expenses include the costs related to management and staff departments in the corporate center, business units and business lines, amounting to USD 1,161 million in 2008 (2007: USD 1,189 million; September 29, 2006 through December 31, 2006: USD 250 million, January 1, 2006 through September 28, 2006: USD 382 million), of which nil (2007: nil, September 29, 2006 through December 31, 2006: nil, January 1, 2006 through September 28, 2006: USD 79 million) was allocated from Philips.

Also included is the amortization of other intangible assets in connection with the purchase price accounting, amounting to USD 536 million (2007: USD 621 million; September 29, 2006 through December 31, 2006; USD 154 million).

Research and development expenses
Expenditures for research and development activities amounted to USD 1,199 million in 2008 (2007: USD 1,328 million, September 29, 2006 through December 31, 2006: USD 332 million, January 1, 2006 through September 28, 2006: USD 920 million), of which nil (2007: nil, September 29, 2006 through December 31, 2006: nil, January 1, 2006 through September 28, 2006: USD 17 million) was allocated from Philips.

For information related to research and development expenses on a segment basis, refer to note 5.

Write-off of acquired in-process research and development
In 2008, the write-off of acquired in-process research and development related to the acquisition of GloNav Inc. amounting to USD 12 million and Conexant Systems Inc. totaling USD 14 million.

In 2007, the write-off of acquired in-process research and development related to the acquisition of the Cellular Communications business of Silicon Labs amounted to USD 15 million.

The full amounts have been written-off immediately and charged to the statement of operations for 2008 and 2007 and the period September 29, 2006 through December 31, 2006 (refer to note 3 regarding purchase accounting).

As part of the purchase price allocation in 2006 related to the separation from Philips, USD 664 million was identified as in-process research and development relating to incomplete projects for which no alternative use could be determined.

Other income and expense
Other income and expense consists of the following:

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 – September 28, 2006	For the period September 29, 2006 – December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008

Results on disposal of properties	9	5	1	**5**
Results on disposal of businesses	—	—	113	**(374)**
Remaining income (expense)	13	(1)	20	**5**
	22	4	134	**(364)**

In 2008, the result on disposal of properties related to a gain of USD 8 million from the sale of buildings of Boeblingen Germany, a loss of USD 8 million related to the Crolles factory in France and various other sales of properties.

The result on disposal of properties for all previous periods represents gains and losses arising from the sale of various properties. For the period January 1, 2006 through September 28, 2006 most significant was the sale of property in Albuquerque.

The result on disposal of businesses in 2008 includes a loss of USD 413 million related to the divestment of the major part of the Mobile & Personal business unit;

Gross cash proceeds	1,550
Transaction-related costs	(84)
Cash divested	(33)
Net cash proceeds	1,433
20% shareholding ST-NXP Wireless J.V. at fair value at acquisition date	341
Total consideration	1,774
Net assets divested:	
Intangible assets (incl. goodwill)	(1,327)
Property, plant and equipment	(303)
Inventories	(230)
Remaining assets	(166)
Liabilities	50
	(1,976)
Liabilities deducted from transaction result	(211)
Result on transaction included in income from operations	(413)

At year-end 2008, the Company had recorded a non cash impairment charge of USD 249 million, as a result of the decline in fair value of the 20% shareholding in the ST-NXP Wireless J.V., which was recorded under Results relating to equity-accounted investees. Reference is also made to note 12.

Furthermore, gains on disposals of R/F Mems activities (USD 15 million) and part of software activities (USD 14 million), and a merger gain on NuTune (USD 12 million) were included.

The result on disposal of businesses in 2007 includes USD 119 million related to the divestment of the Cordless & VoIP Terminal operations.

In 2008 and 2007, remaining income consists of various smaller items for all periods reported.

9 Restructuring charges

In 2008, a charge of USD 594 million was recorded for restructuring (2007: USD 218 million, 2006: USD 26 million), of which USD 443 million related to employee termination costs in connection with the Redesign Program. The remainder relates to write down of inventory of USD 36 million, various closure costs of USD 41 million (mainly Boeblingen of USD 27 million) and various other restructuring charges of USD 74 million. There were no inventory write-downs in the previous years.

The components of restructuring charges recorded in 2008, 2007, in the successor period September 29, 2006 through December 31, 2006 and in the predecessor period January 1, 2006 through September 28, 2006 are as follows:

	PREDECESSOR	**SUCCESSOR**		
	For the period January 1, 2006 – September 28, 2006	**For the period September 29, 2006 – December 31, 2006**	**For the year ended December 31, 2007**	**For the year ended December 31, 2008**
Personnel lay-off costs	23	6	178	**449**
Write-down of assets	4	—	20	**36**
Other restructuring costs	—	—	24	**125**
Release of excess provisions/accruals	(6)	(1)	(4)	**(16)**
Net restructuring charges	21	5	218	**594**

The restructuring charges are included in the following line items in the statement of operations:

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 – September 28, 2006	For the period September 29, 2006 – December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Cost of sales	4	6	173	**348**
Selling expenses	11	(1)	15	**19**
General and administrative expenses	—	—	18	**124**
Research & development expenses	6	—	12	**97**
Other income and expenses	—	—	—	**6**
Net restructuring and impairment charges	21	5	218	**594**

The most significant new projects for restructuring in 2008

In 2008, the restructuring charges mainly related to the Redesign program of the Company, resulting in the closure or sale of:

- The “ICN5” part of the facility in Nijmegen, The Netherlands;
- The “ICH” fab of the Hamburg facility, Germany;
- The fab in Fishkill, in the USA
- NXP’s factory in Caen, France, which will be marketed for sale.

Furthermore, a reduction in support functions at the Corporate Center is part of the Redesign program as a consequence of the downsizing of the Company.

In 2007, the charges mainly related to the exit of the Crolles2 Alliance in France and subsequent sale of its equipment, relocation of activities in the Philippines and Germany, the discontinuation of power amplifier and front-end-module production in the Philippines,

the reorganization to improve further efficiency in the Netherlands and some smaller projects, primarily related to lay-offs.

In 2006 the Company has executed restructuring programs to reduce excess capacity, increase operational efficiency and implement an asset-light flexible manufacturing strategy. In the period January 1, 2006 through September 28, 2006 the charge is mainly related to the restructuring of the back-office of the sales organization (USD 11 million), the increase of the operational efficiency in the manufacturing organization (USD 4 million) and reorganization of development sites in Europe (USD 6 million). In the successor period September 29, 2006 through December 31, 2006 it related to releases from our sales organizations’ restructuring and our activities in Stadskanaal.

The following tables present the changes in the position of restructuring liabilities by segment from January 1, 2008 through December 31, 2008:

	Balance January 1, 2008	Additions	Utilized	Released	Other changes(1)	Balance December 31, 2008
Mobile & Personal	**1**	**19**	**(16)**		**(3)**	**1**
Home	**9**	**30**	**(23)**	**(5)**	**3**	**14**
Automotive & Identification	**—**	**8**	**(5)**		**(1)**	**2**
MultiMarket Semiconductors	**1**	**9**	**(7)**		**(3)**	**—**
Manufacturing Operations	**98**	**364**	**(192)**	**(4)**	**10**	**276**
Corporate and Other	**3**	**180**	**(9)**	**(7)**	**38**	**205**
	112	**610**	**(252)**	**(16)**	**44**	**498**

(1) Other changes primarily related to translation differences

The total restructuring liability as of December 31, 2008 of USD 498 million is classified in the balance sheet under provisions (USD 420 million) and accrued liabilities (USD 78 million). In 2007, the restructuring liability of USD 112 million was recorded in the balance sheet under accrued liabilities.

Additions in 2008 of USD 610 million are presented by segment as follows:

	Personnel costs	Write-down of assets	Other changes	Total
Mobile & Personal	18		1	**19**
Home	21		9	**30**
Automotive & Identification	5		3	**8**
MultiMarket Semiconductors	5		4	**9**
Manufacturing Operations	264	36	64	**364**
Corporate and Other	136		44	**180**
	449	36	125	**610**

The following tables present the changes in the position of restructuring liabilities by segment from January 1, 2007 through December 31, 2007:

	Balance January 1, 2007	Additions	Utilized	Released	Other changes(1)	Balance December 31, 2007
Mobile & Personal	—	11	(10)			1
Home	1	19	(12)		1	9
Automotive & Identification	—					—
MultiMarket Semiconductors	4	1	(3)		(1)	1
Manufacturing Operations	8	133	(50)		7	98
Corporate and Other	3	58	(54)	(4)		3
	16	222	(129)	(4)	(7)	112

(1) Other changes primarily related to translation differences

Additions in 2007 of USD 222 million are presented by segment as follows:

	Personnel costs	Write-down of assets	Other changes	Total
Mobile & Personal	4		7	11
Home	16		3	19
Automotive & Identification				
MultiMarket Semiconductors	1			1
Manufacturing Operations	114	12	7	133
Corporate and Other	43	8	7	58
	178	20	24	222

The releases of surplus in 2008 and 2007 were primarily attributable to reduction in severance payments due to an internal transfer of employees to other positions in the Company, who were originally expected to be laid off.

10 Financial income and expenses

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 – September 28, 2006	For the period September 29, 2006 – December 31, 2006	For the year ended December 31, 2007	For the years ended December 31, 2008
Interest income	4	15	43	**27**
Interest expense	(20)	(117)	(495)	**(502)**
Interest expense Philips, net	(7)	—	—	**—**
Total interest expense, net	(23)	(102)	(452)	**(475)**
Foreign exchange rate results	—	62	300	**(87)**
Miscellaneous financing costs/income, net	(4)	(54)	(29)	**(52)**
Total other income and expense	(4)	8	271	**(139)**
Total	(27)	(94)	(181)	**(614)**

Successor

In 2008, interest expense, net, of USD 475 million (2007: USD 452 million) was mainly related to the interest expense on the EUR and USD notes.

Interest expense for the period September 29, 2006 through December 31, 2006, net of USD 102 million, was mainly related to the interest expense that was recorded in connection with the bridge financing facility (USD 18 million) and the issuance of notes (USD 95 million).

In 2008, foreign exchange results amounted to a loss of USD 87 million (2007: a gain of USD 300 million) and are composed of exchange rate fluctuations:

- related to the USD notes, a loss of USD 230 million (2007: a gain of USD 419 million);
- related to intercompany financing a loss of USD 46 million (2007: a loss of USD 29 million).
- related to the Company’s foreign currency cash and cash equivalents of a gain of USD 163 million (2007: a loss of USD 64 million);
- related to foreign currency contracts a gain of USD 25 million (2007: a loss of USD 20 million);
- related to remaining items a gain of USD 1 million (2007: a loss of USD 6 million)

Foreign exchange results for the period September 29, 2006 through December 31, 2006, a profit of USD 62 million mainly include losses related to a bridge financing (USD 36 million) and foreign exchange gains related to the USD denominated notes (USD 143 million). Furthermore, an exchange loss of USD 31 million was related to cash and cash equivalents.

In 2008, miscellaneous financing costs included an impairment charge of USD 25 million (2007: USD 21 million) related to the DSPG shares, that were received in connection with the divestment of the Cordless & VoIP Terminals operations in 2007. Furthermore, an impairment loss of USD 13 million was recorded in 2008 on the fair value of a put option that was received in connection with a partly divestment of software activities.

Also included in 2008 is the amortization of capitalized fees (relating to the issuance of the EUR/USD notes in 2006) amounting to USD 14 million (2007: USD 8 million).

Miscellaneous financing costs for the period September 29, 2006 through December 31, 2006 include fees related to the bridge financing (USD 50 million).

Predecessor

Net interest expense, for the period January 1, 2006 through September 28, 2006 decreased to USD 23 million, mainly due to lower financing by Philips.

11 Income taxes

Accounting for Income Taxes

In accounting for income taxes the liability method has been used. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements, using the statutory tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and

liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date under the law. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

The tax expense on the loss before income tax in 2008 amounted to USD 46 million (2007: a benefit of USD 396 million; September 29, 2006 through December 31, 2006: a benefit of USD 312 million; January 1, 2006 through September 28, 2006: an expense of USD 81 million).

	PREDECESSOR	**SUCCESSOR**		
	For the period January 1, 2006 – September 28, 2006	**For the period September 29, 2006 – December 31, 2006**	**For the year ended December 31, 2007**	**For the year ended December 31, 2008**
The components of income tax benefit (expense) are as follows:				
Netherlands:				
Current taxes	(24)	—	—	**—**
Deferred taxes	—	272	273	**43**
	(24)	272	273	**43**
Foreign:				
Current taxes	(80)	(6)	(9)	**(124)**
Deferred taxes	23	46	132	**35**
	(57)	40	123	**(89)**
Income tax (expense) benefit	(81)	312	396	**(46)**

The Company's operations are subject to income taxes in various jurisdictions. Excluding certain tax incentives, the statutory income tax rates vary from 16% to 44%.

A reconciliation of the statutory income tax rate in the Netherlands as a percentage of income before taxes and the effective income tax rate is as follows:

	PREDECESSOR	**SUCCESSOR**		
	For the period January 1, 2006 – September 28, 2006	**For the period September 29, 2006 – December 31, 2006**	**For the year ended December 31, 2007**	**For the year ended December 31, 2008**
Statutory income tax in the Netherlands	29.6	29.6	25.5	**25.5**
Rate differential local statutory rates versus statutory rates of the Netherlands	(2.6)	(2.4)	2.8	**(3.3)**
Changes in the valuation allowance:				
– utilization of previously reserved loss carryforwards	(5.0)	—	0.5	**—**

– new loss carryforwards not expected to be realized	19.6	(0.7)	—	**(15.0)**
– release and other changes	(11.4)	(0.2)	(0.9)	**—**
Changes previous year's tax effect	—	0.2	4.9	**(0.8)**
Non-taxable income	(2.9)	0.8	5.9	**(6.1)**
Non-tax-deductible expenses	0.2	(0.1)	(4.4)	**(0.2)**
Withholding and other taxes	5.6	(0.1)	1.5	**—**
Tax incentives and other	23.0	1.3	5.5	**(1.5)**
Effective tax rate	56.1%	28.4%	41.3%	**(1.4)%**

Deferred tax assets and liabilities

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

	As of December 31, 2007		As of December 31, 2008	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	223	(867)	**75**	**(451)**
Property, plant and equipment	13	(19)	**26**	**(39)**
Inventories	28	(13)	**5**	**(3)**
Receivables	1	—	**5**	**(3)**
Other assets	2	(3)	**5**	**(6)**
Provisions:				
Pensions	2	(16)	**33**	**(3)**
Guarantees	1	—	**—**	**—**
Restructuring	—	—	**101**	**—**
Other	15	—	**5**	**(6)**
Long-term debt	—	(176)	**28**	**(157)**
Other liabilities (incl. Restructuring)	35	—	**17**	**—**
Tax loss carryforwards (including tax credit carryforwards)	588	—	**747**	**—**
Total deferred tax assets (liabilities)	908	(1,094)	**1,047**	**(668)**
Net deferred tax position	(186)		**379**	
Valuation allowances	(12)		**(508)**	
Net deferred tax assets (liabilities)	(198)		**(129)**	

The Company has significant net deferred tax assets resulting from net operating loss carryforwards, tax credit carryforwards and deductible temporary differences that may reduce taxable income in future periods.

Valuation allowances have been established for deferred tax assets based on a "more likely than not" threshold. Our ability to realize our deferred tax assets depends on our ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction.

The following possible sources of taxable income have been considered when assessing the realization of our deferred tax assets:

· Future reversals of existing taxable temporary differences;
· Future taxable income exclusive of reversing temporary differences and carryforwards;
· Taxable income in prior carryback years; and
· Tax-planning strategies.

In 2008, we recorded a charge of USD 496 million related to establishing valuation allowances against our net deferred tax assets in the Netherlands, Germany, France and USA. Despite our positive long-term financial outlook we concluded in line with FAS 109 principles that building a partial valuation allowance is an appropriate approach, because of the Company's recent history of cumulative tax losses for these countries.

At the moment that the Company's operating performance improves on a sustained basis, our conclusion regarding the need for such valuation allowance could change.

After the recording of the valuation allowance against deferred tax assets for The Netherlands, Germany, France and USA, a net deferred tax liability remains of USD 129 million. This is caused by the fact that certain taxable temporary differences reverse outside the loss carry forward period and certain countries show a net deferred tax liability.

At December 31, 2008, operating loss carryforwards expire as follows:

Total	2009	2010	2011	2012	2013	2014-2018	later	unlimited
2,544					2	1,999		543

The Company also has tax credit carryforwards of USD 43 million, which are available to offset future tax, if any, and which expire as follows:

Total	2009	2010	2011	2012	2013	2014-2018	later	unlimited
43							4	39

The classification of the deferred tax assets and liabilities in the Company's balance sheet is as follows:

	2007	2008
Deferred tax assets grouped under other current assets	47	**39**
Deferred tax assets grouped under other non-current assets	321	**334**
Deferred tax liabilities grouped under provisions	(566)	**(502)**
	(198)	**(129)**

Net income tax payable as of December 31, 2008 amounted to USD 38 million and includes amounts directly payable to or receivable from tax authorities (2007: USD 8 million).

In addition to the recognized deferred income taxes, an unrecognized deferred income tax liability as of December 31, 2008, of USD 57 million (2007: USD 38 million) relates to unremitted earnings in foreign Group companies, which are considered to be permanently re-invested. Under current Dutch tax law, no additional taxes are payable. However, in certain jurisdictions, withholding taxes would be payable.

Effective January 1, 2007, the Company adopted FIN48, "Accounting for Uncertainty in Income Taxes". The evaluation of a tax position in accordance with this Interpretation is a two-step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position, presuming that the taxing authority has full knowledge of all relevant information. The second step is measurement: a tax position that meets the recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

The Company classifies interest as financial charges and penalties as income taxes. The total interest (as relevant in this regard) as of December 31, 2008 amounted to USD 7 million (2007: USD 3 million). Penalties included in the balance of unrecognized tax benefits amounted to USD 1 million.

The gross unrecognized tax benefits as of adoption of FIN48 amounts to USD 55 million and, if recognized, would affect the effective tax rate by 1.4%.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Uncertain tax positions	
Balance as of January 1, 2008	**38**
Increases from tax positions taken during prior periods	**14**
Decreases from tax positions taken during prior periods	**—**
Increases from tax positions taken during current period	**3**
Decreases from tax positions taken during current period	**—**
Increases relating to settlements with the tax authorities	**—**
Decreases relating to settlements with the tax authorities	**—**
Reductions as a result of lapse of statute of limitations	**—**
Balance as of December 31, 2008	**55**

Tax years that remain subject to examination by major tax jurisdictions are 2006, 2007 and 2008

12 Investments equity-accounted investees

Results relating to equity-accounted investees

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 - September 28, 2006	For the period September 29, 2006 –December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Company's participation in income (loss)	(2)	(3)	(11)	**(4)**
Gains arising from dilution effects	6	—	—	**—**
Investment impairment charges	—	—	(29)	**(268)**
Incidental results	—	—	—	**4**
	4	(3)	(40)	**(268)**

Detailed information on the aforementioned individual subjects is set out below.

Company's participation in income (loss)

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 -	For the period September 29, 2006 –	For the year ended December 31,	For the year ended December 31,

	September 28, 2006	December 31, 2006	2007	2008
ST-NXP wireless	—	—	—	**—**
ASMC	1	—	(3)	**2**
Moversa	—	—	(5)	**(3)**
Others	(3)	(3)	(3)	**(3)**
	(2)	(3)	(11)	**(4)**

The Company's share in income of equity accounted investees related to various equity-accounted investees.

Gains arising from dilution effects
The gain arising from dilution effects in the period January 1, 2006 through September 28, 2006, is related to the initial public offering by ASMC, resulting in a dilution of NXP's shareholding from 37% to 27%.

Investment impairment charges
Effective February 2, 2009, STMicroelectronics exercised its option to buy NXP's 20% ownership in the ST-NXP Wireless joint-venture for an agreed purchase price of USD 92 million. The Company's investment in the ST-NXP Wireless joint-venture has been tested for impairment. As a result, a non-cash impairment loss had to be recorded. In determining the impairment loss, the fair value of our investment has been based on level 3 measures. The level 3 measure has been derived from the execution of STMicroelectronics' call option on our investment. As a consequence, an impairment loss of USD 249 million was recorded.

Due to an other-than-temporary decline of the fair value of the shareholding in ASMC, the Company recorded an impairment loss of USD 19 million in 2008 (2007: USD 29 million).

Investments in and loans to equity-accounted investees

The changes in 2008 are as follows:

	Loans	Investments	Total
Balance as of January 1	13	63	**76**
Changes:			
Acquisitions/additions	8	341	**349**
Reclassifications	—	—	**—**
Transfer from consolidated companies	—	—	**—**
Sales/repayments	—	—	**—**
Share in income (loss)	(4)	—	**(4)**
Impairment charges	—	(268)	**(268)**
Translation and exchange rate differences	1	4	**5**
Balance as of December 31	18	140	**158**

Acquisitions mainly relate to the newly acquired 20% ownership in the ST-NXP wireless joint-venture, resulting from the transfer of assets of the Mobile & Personal business unit into those of STMicroelectronics, initially amounting to USD 341 million being the fair value at the time of closing the deal, and loans granted to T3G of USD 8 million. Refer to Significant acquisitions and divestments on page 16.

The total carrying value of investments in equity-accounted investees is summarized as follows:

	As of December 31, 2007		As of December 31, 2008	
	Shareholding %	Amount	Shareholding %	Amount
ST-NXP wireless	—	—	**20**	**92**
ASMC	27	20	**27**	**5**
Moversa	50	9	**50**	**7**
ASEN	40	33	**40**	**36**
Others		14		**18**
		76		**158**

Investments in equity-accounted investees are included in the segments Mobile & Personal, Home, Automotive & Identification and Corporate and Other.

13 Minority interests

The share of minority interests in the results of the Company resulted in a charge to the combined and consolidated statements of operations of USD 26 million in 2008 (2007: USD 47 million; September 29, 2006 through December 31, 2006: USD 5 million; January 1, 2006 through September 28, 2006: USD 63 million).

As of December 31, 2008, minority interests in consolidated companies totaled USD 213 million (2007: USD 257 million).

In 2008 and 2007, minority interests almost entirely relates to the shareholding in SSMC in Singapore.

14 Securities

The changes during 2008 are as follows:

Balance as of January 1	—
Reclassifications	24
Fair value adjustments	6
Translation differences	3
Balance as of December 31	33

DSPG shares acquired as part of the divestment of the Company's Cordless & VoIP Terminals in 2007, were reclassified at the end of 2008 from Other non-current financial assets to current assets as a consequence of the elapse of the holding period and valued at fair value. Refer to note 18.

15 Receivables

Accounts receivable are summarized as follows:

	As of December 31, 2007	As of December 31, 2008
Accounts receivable from third parties	727	**460**
Accounts receivable from equity-accounted investees	6	**1**
Less: allowance for doubtful accounts	(3)	**(2)**
	730	**459**

Accounts receivable from third parties include receivables from Philips companies of USD 12 million (2007: USD 13 million).

Income taxes receivable totaling USD 42 million (2007: USD 16 million) are included under other receivables.

The changes in allowances for doubtful accounts are as follows:

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 – September 28, 2006	For the period September 29, 2006 – December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Balance as of January 1,	4	3	4	**3**
Additions charged to income	—	1	—	**—**
Deductions from allowance (1)	(1)	—	(1)	**(1)**
Other movements (2)	—	—	—	**—**
Balance end of period	3	4	3	**2**

(1) Write offs for which an allowance was previously provided
(2) Included the effect of translation differences and consolidation changes

16 Inventories

Inventories are summarized as follows:

	As of December 31, 2007	As of December 31, 2008
Raw materials and supplies	486	**377**
Work in process	264	**107**
Finished goods	208	**146**
	958	**630**

The deconsolidation of the wireless activities resulted in a decline in inventories of USD 230 million.

A portion of the finished goods stored at customer locations under consignment amounted to USD 26 million as of December 31, 2008 (2007: USD 53 million).

The amounts recorded above are net of an allowance for obsolescence.

The changes in the allowance for obsolescence for 2008 were as follows:

PREDECESSOR	SUCCESSOR		
For the period January 1,	For the period September	For the year ended	For the year ended

	2006 – September 28, 2006	29, 2006 – December 31, 2006	December 31, 2007	December 31, 2008
Balance as of January 1	96	92	77	**86**
Additions charged to income	40	26	23	**76**
Deductions from allowance	(37)	(40)	(49)	**(48)**
Other movements (1)	(7)	(1)	35	**(31)**
Balance as of December 31	92	77	86	**83**

(1) Included the effect of translation differences and consolidation changes

17 Other current assets

Other current assets as of December 31, 2008, consist of a current deferred tax asset of USD 39 million (2007: USD 47 million), derivative instrument assets of USD 37 million (2007: USD 53 million), the current portion of capitalized unamortized fees related to the issuance of notes of USD 11 million (2007: USD 12 million) and prepaid expenses of USD 125 million (2007: USD 125 million).

18 Other non-current financial assets

The changes during 2008 are as follows:

	Available for sale securities	Other	Total
Balance as of January 1	52	12	**64**
Changes:			
Reclassifications	(24)	—	**(24)**
Acquisitions/additions	15	12	**27**
Sales/repayments	—	(6)	**(6)**
Impairment	(38)	—	**(38)**
Translation and exchange differences	(5)	—	**(5)**
Balance as of December 31	—	18	**18**

Included in other non-current financial assets are 4,186,603 shares of DSPG's common stock, acquired as part of the divestment of the Company's Cordless & VoIP Terminal operations, valued at USD 72 million at the date of the transaction in 2007. These shares were restricted to be sold within two years after closing and as such initially valued at cost. During 2008, the Company recognized an impairment loss of USD 25 million (2007: USD 21 million), because of an other-than-temporary decline in value. Early 2009, agreement has been reached with DSPG that they will repurchase their shares at an adjusted market price, which closing is expected to be finalized in March 2009. As a consequence, at the end of 2008 the DSPG shares were reclassified to Securities. Please refer to note 14.

Also included is an impairment loss of USD 13 million related to a put option that was received in connection with a partial divestment of software activities.

19 Other non-current assets

Other non-current assets as of December 31, 2008 include prepaid pension costs of USD 25 million (2007: USD 43 million), the non-current portion of deferred tax assets of USD 334 million (2007: USD 321million) and the non-current portion of capitalized unamortized fees related to the issuance of notes of USD 78 million (2007: USD 91million). The term of amortization of capitalized fees related to the issuance cost of notes is on average 6 years.

20 Property, plant and equipment

Property, plant and equipment consisted of:

	Total	Land and buildings	Machinery and installations	Other equipment	Prepayments and construction in progress	Assets held for sale or disposal
Balance as of January 1, 2008:						
Cost	**3,236**	**944**	**1,726**	**249**	**187**	**130**
Accumulated depreciation and impairments	**(606)**	**(52)**	**(485)**	**(69)**	**—**	**—**
	2,630	**892**	**1,241**	**180**	**187**	**130**
Less: Assets held for sale (cost)	**(130)**					**(130)**
Book value	**2,500**	**892**	**1,241**	**180**	**187**	**—**
Changes in book value:						
Capital expenditures	**379**	**—**	**—**	**—**	**379**	**—**
Transfer assets put into use	**—**	**39**	**424**	**38**	**(501)**	**—**

Retirements and sales	(53)	—	(51)	(2)	—	—
Depreciation	(683)	(80)	(550)	(53)	—	—
Write-downs and impairments	(6)	—	(4)	(2)	—	—
Consolidation changes	(278)	(80)	(154)	(32)	(12)	—
Translation differences	(52)	(21)	(28)	(4)	1	—
Total changes	**(693)**	**(142)**	**(363)**	**(55)**	**(133)**	—
Balance as of December 31, 2008:						
Cost	**3,594**	**873**	**2,377**	**282**	**54**	**8**
Accumulated depreciation and impairments	**(1,787)**	**(123)**	**(1,499)**	**(157)**	—	**(8)**
Book value	**1,807**	**750**	**878**	**125**	**54**	—

Land with a book value of USD 122 million (2007: USD 125 million) is not depreciated.

In 2008, properties which were classified as Assets held for sale, were sold for USD 130 million.

The expected service lives as of December 31, 2008 were as follows:

Buildings	from 12 to 50 years
Machinery and installations	from 2 to 7 years
Lease assets	from 3 to 10 years
Other equipment	from 3 to 10 years

In 2008 and 2007, there was no significant capitalized interest related to the construction in progress.

21 Intangible assets excluding goodwill

The changes in 2008 were as follows:

	Total	Other intangible assets	Software
Balance as of January 1, 2008:			
Cost	**4,643**	**4,542**	**101**
Accumulated amortization	**(799)**	**(762)**	**(37)**
Book value	**3,844**	**3,780**	**64**
Changes in book value:			
Acquisitions/additions	**163**	**127**	**36**
Divestments	**(667)**	**(667)**	—
Amortization	**(577)**	**(537)**	**(40)**
Impairment charges	**(284)**	**(284)**	—
Write-off in-process research and development	**(26)**	**(26)**	—
Consolidation changes	**(2)**	—	**(2)**
Translation differences	**(67)**	**(67)**	—
Total changes	**(1,460)**	**(1,454)**	**(6)**
Balance as of December 31, 2008:			
Cost	**3,674**	**3,547**	**127**
Accumulated amortization	**(1,290)**	**(1,221)**	**(69)**
Book value	**2,384**	**2,326**	**58**

Additions to other intangible assets relate to the following acquisitions in 2008:

- Broadband Media Processing (BMP) business of Conexant Systems, Inc. amounting to USD 58 million.
- GloNav Inc. amounting to USD 69 million

As a result of the sale of the Mobile & Personal operations in 2008, the related Other intangible assets have been removed under Divestments.

As a result of the yearly impairment test, the Company has recorded an impairment charge in 2008 of USD 284 million.

Other intangible assets consist of:

	As of December 31, 2007		As of December 31, 2008	
	Gross	Accumulated amortization	Gross	Accumulated amortization
Marketing-related	157	(35)	**110**	**(65)**
Customer-related	866	(77)	**576**	**(168)**
Technology-based	3,519	(650)	**2,861**	**(988)**

4,542	(762)	**3,547**	**(1,221)**

The estimated amortization expense for these other intangible assets as of December 31, 2008 for each of the five succeeding years is:

2009	341
2010	315
2011	302
2012	293
2013	268

All intangible assets, excluding goodwill, are subject to amortization and have no assumed residual value.

The estimated amortization expense for software as of December 31, 2008 for each of the five succeeding years is:

2009	22
2010	20
2011	16
2012	—
2013	—

The expected weighted average remaining life of other intangibles is 4 years as of December 31, 2008. The expected weighted average remaining lifetime of software is 2 years as of December 31, 2008.

22 Goodwill

The changes in goodwill were as follows:

	For the year ended December 31, 2007	**For the year ended December 31, 2008**
Book value at begin of period	2,665	**3,716**
Changes in book value:		
Reclassifications	419	**—**
Additions	—	**29**
Acquisitions	288	**68**
Divestments	—	**(660)**
Impairment charges	—	**(430)**
Translation differences	344	**(62)**
Book value at end of period	3,716	**2,661**

Acquisition in 2008 related to the following acquisitions:

- Broadband Media Processing business of Conexant Systems, Inc. for an amount of USD 32 million.
- GloNav Inc. for an amount of USD 20 million.
- NuTune for an amount of USD 16 million.

As a result of the sale of the Mobile & Personal operations in 2008, the related goodwill has been removed under divestments.

As a result of the yearly impairment test, the Company has recorded an impairment charge in 2008 of USD 430 million.

Additions in 2008 consist of a tax benefit of USD 29 million resulting from the difference in tax base of goodwill in fiscal value against economic value.

In 2007, the final appraisal value of goodwill with respect to the “Acquisition in 2006, resulted in an adjustment to the amount originally assigned on a provisional basis. The reallocation of the purchase price to goodwill is reflected under “reclassifications”.

Acquisitions in 2007 include USD 135 million related to the final settlement with Philips. Furthermore, USD 153 million was recorded with respect to the acquisition of the Cellular Communications business of Silicon Laboratories Inc.

Refer to note 7 for acquisitions and divestments. Refer to note 5 for a specification of goodwill by segment.

23 Accrued liabilities

Accrued liabilities are summarized as follows:

	As of December 31, 2007	**As of December 31, 2008**

Personnel-related costs:		
Salaries and wages	161	128
Accrued vacation entitlements	94	60
Other personnel-related costs	54	42
Utilities, rent and other	32	21
Income tax payable	8	80
Communication & IT costs	41	51
Distribution costs	8	10
Sales-related costs	55	28
Purchase-related costs	70	53
Interest accruals	106	105
Derivative instruments - liabilities	47	55
Liabilities for restructuring costs (refer to note 9)	112	78
Liabilities from contractual obligations	21	24
Accrual for future losses on deliveries	29	139
Other accrued liabilities	97	109
	935	983

The accrual for loss-giving contracts in connection with the sale of the major part of the Mobile & Personal business amounted to USD 101 million.

Refer to note 11 for a specification of income tax payable.

24 Provisions

Provisions are summarized as follows:

	As of December 31, 2007		As of December 31, 2008	
	Long - term	Short - term	Long - term	Short - term
Pensions for defined-benefit plans (refer to note 25)	130	7	131	5
Other postretirement benefits (refer to note 26)	13	1	15	—
Postemployment benefits and severance payments	9	6	322	98
Deferred tax liabilities (refer to note 11)	556	10	489	13
FIN48 liability (refer to note 11)	38	—	55	—
Product warranty	4	2	8	1
Loss contingencies	1	—	1	—
Other provisions	47	14	51	12
Total	798	40	1,072	129

The changes in total provisions excluding deferred tax liabilities and FIN48 liabilities are as follows:

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 – September 28, 2006	For the period September 29, 2006 – December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Beginning balance	154	207	224	233
Changes:				
Additions	31	19	35	445
Utilizations	(30)	(6)	(41)	(35)
Releases	(1)	—	—	(19)
Translation differences	7	4	15	21
Changes in consolidation	—	—	—	(1)
Ending balance	161	224	233	644

Postemployment benefits and obligatory severance payments

The provision for postemployment benefits covers benefits provided to former or inactive employees after employment but before retirement, including salary continuation, supplemental unemployment benefits and disability-related benefits.

The provision for severance payments covers the Company’s commitment to pay employees a lump sum upon the employee’s dismissal or resignation. In the event that a former employee has passed away, in certain circumstances the Company pays a lump sum to the deceased employee’s relatives.

Product warranty

The provision for product warranty reflects the estimated costs of replacement and free-of-charge services that will be incurred by the Company with respect to products sold. The changes in the provision for product warranty are as follows:

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 - September 28, 2006	For the period September 29, 2006 - December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Beginning balance	6	9	8	**6**
Changes:				
Additions	2	—	—	**5**
Utilizations	—	(1)	(3)	**—**
Releases	—	—	—	**(1)**
Translation differences	1	—	1	**(1)**
Changes in consolidation	—	—	—	**—**
Ending balance	9	8	6	**9**

Loss contingencies (environmental remediation and product liability)

This provision includes expected losses recorded with respect to environmental remediation and product liability obligations which are deemed probable and reasonably estimatable. The changes in this provision are as follows:

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 - September 28, 2006	For the period September 29, 2006 - December 31, 2006	For the years ended December 31, 2007	For the years ended December 31, 2008
Beginning balance	19	3	4	**1**
Changes:				
Additions	—	1	—	**—**
Utilizations	(4)	—	—	**—**
Releases	—	—	(3)	**—**
Translation differences	—	—	—	**—**
Ending balance	15	4	1	**1**

Philips has assumed obligations related to the environmental remediation that existed at the date of the Acquisition (September 29, 2006), primarily at certain closed sites in the United States. The Company has not incurred material environmental remediation obligations since the Acquisition.

Other provisions

Other provisions include provisions for employee jubilee funds totaling USD 33 million as of December 31, 2008 (2007: USD 37 million).

25 Pensions

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

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

These contributions are determined based upon various factors, including funded status, legal and tax considerations as well as local customs. The Company funds certain defined-benefit pension plans as claims are incurred. The pension plans have been established either by Philips or changed by NXP after disentanglement from Philips. During the predecessor period the costs of pension benefits with respect to the Company's employees participating in these plans have been allocated to the Company based upon actuarial computations, except for certain less significant plans, in which case a proportional allocation based upon compensation or headcount has been used.

For pension plans in which only the Company's employees participate (the Company's dedicated plans), the related costs of 2006 have been included in the combined and consolidated statements of operations.

The amount included in the statements of operations for the year 2008 was USD 127 million of which USD 111 million (2007: USD 52 million; September 29, 2006 through December 31, 2006: USD 10 million; January 1, 2006 through September 28, 2006: USD 12 million) represents defined-contribution plans and similar plans.

The total cost of defined-benefit plans amounted to USD 16 million in 2008 (2007: USD 3 million; September 29, 2006 through December 31, 2006: USD 23 million; January 1, 2006 through September 28, 2006: USD 14 million).

The defined-benefit pension cost for 2008 of USD 16 million consists of USD 24 million net periodic cost. The remainder, a positive result of USD 8 million, follows from special events. These are curtailments and settlements resulting from ST-NXP Wireless, leading to a positive result of USD 11 million and charges because of acquisitions (Conexant and NuTune) leading to a negative result of USD 3 million.

The Company currently expects contributions to pension plans which are estimated to amount to USD 117 million in 2009, consisting of USD 5 million employer contributions to defined-benefit pension plans, USD 105 million employer contributions to defined-contribution pension plans and multi-employer plans, and USD 7 million expected cash outflows in relation to unfunded pension plans.

The expected cash outflows in 2009 and subsequent years are uncertain and may change substantially 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.

The table below provides a summary of the changes in the pension benefit obligations and defined-benefit pensions plan assets for 2008 and 2007, with respect to the Company's dedicated plans, and a reconciliation of the funded status of these plans to the amounts recognized in the consolidated balance sheets.

	As of December 31, 2007	As of December 31, 2008
Projected benefit obligation		
Projected benefit obligation at beginning of year	1,254	**407**
Additions	30	**6**
Service cost	73	**20**
Interest cost	49	**19**
Actuarial (gains) and losses	(107)	**4**
Curtailments and settlements	(956)	**(94)**
Plan amendments	3	**—**
Employee contributions	1	**1**
Benefits paid	(16)	**(27)**
Exchange rate differences	76	**(9)**
Projected benefit obligation at end of year	407	**327**
Plan assets		
Fair value of plan assets at beginning of year	947	**226**
Additions	34	**3**
Actual return on plan assets	12	**(2)**
Employer contributions	74	**39**
Employee contributions	—	**1**
Curtailments and settlements	(883)	**(102)**
Benefits paid	(16)	**(27)**
Exchange rate differences	58	**(1)**
Fair value of plan assets at end of year	226	**137**
Funded status	(181)	**(190)**
Unrecognized net transition obligation	—	**—**
Unrecognized prior service cost	—	—
Unrecognized net loss	—	**—**
Net balance	(181)	**(190)**
Classification of the net balances is as follows:		
- Prepaid pension costs under other non-current assets	43	**25**
- Accrued pension costs under other non-current liabilities	(87)	**(79)**
- Provisions for pensions under provisions	(137)	**(136)**
Total	(181)	**(190)**
Amounts recognized in accumulated other comprehensive income (before tax):		
- Net actuarial loss (gain)	(66)	**37**
- Prior service cost (credit)	(3)	**3**
- Exchange rate differences	—	**1**
Total	(69)	**41**

The weighted average assumptions used to calculate the projected benefit obligations were as follows:

As of December **As of December 31,**

	31, 2007	2008
Discount rate	4.9%	**4.6%**
Rate of compensation increase	2.5%	**3.1%**

The weighted average assumptions used to calculate the net periodic pension cost were as follows:

	PREDECESSOR		SUCCESSOR	
	For the period January 1, 2006 - September 28, 2006	For the period September 29 2006 - December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Discount rate	4.4%	4.4%	4.4%	**5.0%**
Expected returns on plan assets	4.3%	5.3%	5.3%	**4.7%**
Rate of compensation increase	3.6%	3.1%	3.1%	**3.8%**

Expected returns per asset class are based on the assumption that asset valuations tend to return to their respective long-term equilibria. The Expected Return on Assets for any funded plan equals the average of the expected returns per asset class weighted by their portfolio weights in accordance with the fund's strategic asset allocation.

The components of net periodic pension costs were as follows:

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 - September 28, 2006	For the period September 29 2006 - December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Service cost	9	21	73	**20**
Interest cost on the projected benefit obligation	9	13	49	**19**
Expected return on plan assets	(5)	(12)	(43)	**(9)**
Net amortization of unrecognized net assets/liabilities	—	—	—	**—**
Net actuarial loss recognized	1	—	—	**(6)**
Curtailments & settlements	—	—	(82)	**(11)**
Other	—	1	—	**3**
Net periodic cost	14	23	(3)	**16**

The Company expects to make cash contributions other than benefit payments in relation to defined-benefit plans amounting to USD 5 million in 2009.

A sensitivity analysis shows that if the discount rate increases by 1% from the level of December 31, 2008, with all other variables held constant, the net periodic pension cost would decrease by USD 3 million. If the discount rate decreases by 1% from the level of December 31, 2008, with all other variables held constant, the net periodic pension cost would increase by USD 2 million.

The estimated net actuarial loss (gain) and prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year (2009) are USD 2 million and nil, respectively.

Estimated future pension benefit payments

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

2009	10
2010	14
2011	15
2012	18
2013	20
Years 2014-2018	105

	As of December 31, 2007	As of December 31, 2008
Accumulated benefit obligation for all Company-dedicated benefit pension plans	343	**275**

Plan assets

The actual and targeted pension plan asset allocation at December 31, 2007 and 2008 is as follows:

	As of December 31, 2007	As of December 31, 2008
Asset category:		

Equity securities	4%	**9%**
Debt securities	67%	**60%**
Insurance contracts	7%	**12%**
Other	22%	**19%**
	100%	**100%**

The investment objectives for the pension plan assets are designed to generate returns that, along with the future contributions, will enable the pension plans to meet their future obligations.

Introduction SFAS No. 158

In September 2006, SFAS No. 158 was issued. NXP has adopted FAS 158 as of the end of 2007. This statement requires an employer to recognize the funded status of a benefit plan – measured as the difference between plan assets at fair value and the benefit obligation in the balance sheet. The offset of recognized funded status is recorded in accumulated other comprehensive income (within shareholder's equity).

Incremental effect of applying FASB Statement No. 158 on individual line items in the statement of financial position (pensions and other postretirement benefits) in 2007.

	Before application of FAS 158	Additional minimum liability	Effect of FAS 158	After application of FAS 158
Prepaid pension costs under other non-current assets	(4)	—	47	43
Accrued pension costs under other non-current liabilities	(87)	—	—	(87)
Provisions for pensions under provisions	(164)	—	27	(137)
Postretirement benefits other than pensions	(1)	—	(13)	(14)
Deferred tax assets (non-current)	321	—	—	321
Deferred tax liabilities grouped under provisions (non-current)	(547)	—	(9)	(556)
Total assets	13,769	—	47	13,816
Total liabilities and shareholder's equity	(13,769)	—	(47)	(13,816)
Accumulated in other comprehensive income	259	—	(51)	208
Total shareholder's equity	(4,477)	—	(51)	(4,528)

26 Postretirement benefits other than pensions

Prior to the Separation, the Company's employees in certain countries participated in Philips sponsored plans that provide other postretirement benefits, primarily retiree healthcare benefits. The costs of other postretirement benefits, with respect to the Company's employees, have been allocated to the Company based upon headcount and actuarial calculations. After the Separation, these plans have been closed with the exception of a small group of employees in the United Kingdom and a larger group in the USA. In 2007, NXP introduced a new postretirement medical plan for the aforementioned group of USA employees.

The amounts included in the consolidated statements of operations for 2008, 2007, for the period September 29, 2006 through December 31, 2006, the period January 1, 2006 through September 28, 2006 are an expense of USD 3 million, expense of USD 1 million, expense of USD 1 million and expense of USD 1 million, respectively.

For the period prior to the Separation, the Philips sponsored pension plans in which the Company and other Philips businesses participated have been treated as multi-employer plans (non-Company dedicated plans).

The table below provides a summary of changes in the post-retirement plan benefit obligations for 2008 and 2007, with respect to the Company's dedicated plans, and a reconciliation of the funded status of these plans to the amounts recognized in the consolidated balance sheets.

	As of December 31, 2007	As of December 31, 2008
Accumulated postretirement benefit obligation		
Projected benefit obligation at beginning of year	1	**14**
Additions	—	**1**
Service cost	—	**1**
Interest cost	—	**1**
Actuarial (gains) and losses	—	**(1)**
Plan amendments	14	**(1)**
Settlements	—	**—**

Benefits paid	—	**—**
Exchange rate differences	(1)	**—**
Accumulated postretirement benefit obligation at end of year	14	**15**
Plan assets		
Fair value of plan assets at beginning of year	—	**—**
Additions	—	**—**
Actual return on plan assets	—	**—**
Employer contributions	—	**—**
Benefits paid	—	**—**
Exchange rate differences	—	**—**
Fair value of plan assets at end of year	—	**—**
Funded status	(14)	**(15)**
Unrecognized net transition obligation	—	**—**
Unrecognized prior service cost	—	—
Unrecognized net loss	—	**—**
Net balance	(14)	**(15)**
Classification of the net balances is as follows:		
- Non-current provisions	(13)	**(15)**
- Current provisions	(1)	**—**
Total	(14)	**(15)**
Amounts recognized in accumulated other comprehensive income (before tax):		
- Net actuarial loss (gain)	—	**(1)**
- Prior service cost (credit)	12	**(2)**
Total	12	**(3)**

The weighted average assumptions used to calculate the projected post-retirement plan benefit obligations were as follows:

	As of December 31, 2007	As of December 31, 2008
Discount rate	6.1%	**6.2%**

The weighted average assumptions used to calculate the net periodic post-retirement plan costs were as follows:

	PREDECESSOR		SUCCESSOR	
	For the period January 1, 2006 - September 28, 2006	For the period September 29 2006 - December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Discount rate	—	—	6.1%	**6.2%**

Assumed healthcare cost trend rates were as follows:

	As of December 31, 2008
Healthcare cost trend rate assumed for next year	**10%**
Rate that the cost trend rate will gradually reach	**5%**
Year of reaching the rate at which it is assumed to remain	**2012**

The components of net periodic post-retirement plan costs were as follows:

	PREDECESSOR		SUCCESSOR	
	For the period January 1, 2006 - September 28, 2006	For the period September 29 2006 - December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Service cost	—	—	—	**1**
Interest cost on the accumulated postretirement benefit obligation	—	—	—	**1**
Expected return on plan assets	—	—	—	**—**
Net amortization of unrecognized net assets/liabilities	—	—	—	**—**
Net actuarial loss recognized	—	—	—	**—**
Amortization of unrecognized prior service cost	—	—	—	**1**

Other	1	1	1	—
Net periodic cost	1	1	1	**3**

Assumed health cost trend rates can have an effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have practically no effect on this year's cost, see the following table:

	PREDECESSOR	SUCCESSOR		
	For the period January 1, 2006 - September 28, 2006	For the period September 29 2006 - December 31, 2006	For the year ended December 31, 2007	For the year ended December 31, 2008
Effect on total of service cost and interest cost	—	—	—	**—**
Effect on postretirement benefit obligation	—	—	—	**—**
	—	—	—	**—**

The estimated net actuarial loss (gain) and prior service cost for the other defined benefit other post-retirement benefit plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year (2009) are nil and USD 3 million, respectively.

Estimated future pension benefit payments
The following benefit payments are expected to be made:

2009	**—**
2010	**—**
2011	**—**
2012	**1**
2013	**1**
Years 2014-2018	**5**

27 Other current liabilities

Other current liabilities are summarized as follows:

	As of December 31, 2007	As of December 31, 2008
Advances received from customers on orders not covered by work in process	3	**—**
Other taxes including social security premiums	58	**50**
Amounts payable under pension plans	6	**54**
Other short-term liabilities	6	**16**
Total	73	**120**

28 Short-term debt

	As of December 31, 2007	As of December 31, 2008
Short-term bank borrowings	6	**402**
Other short-term loans	—	**1**
Current portion of long-term debt	—	**—**
Total	6	**403**

As at the end of December 2008, short-term bank borrowings mainly consisted of the revolving credit facility. At the end of 2007 it related mainly to bank loans recorded in our Chinese organization in Jilin.

During 2008 the weighted average interest rate was 5% (2007: 6.0%).

29 Long-term debt

	Range of interest rates	Average rate of interest	Amount outstanding 2008	Due in 2009	Due after 2009	Due after 2013	Average remaining term (in years)	Amount outstanding December 31, 2007
Euro notes	**8.1-8.6**	**8.3**	**2,144**	**—**	**2,144**	**738**	**5.5**	2,248
USD notes	**7.5-9.5**	**8.3**	**3,811**	**—**	**3,811**	**2,276**	**5.7**	3,811
Liabilities arising	**4.0-12.7**	**4.7**	**5**	**—**	**5**	**2**	**4.6**	6

from capital lease transactions								
Other long-term debt	**2.6-2.8**	**2.7**	**4**	**—**	**4**	**2**	**4.4**	7
		8.3	**5,964**	**—**	**5,964**	**3,018**	**5.6**	6,072
Corresponding data previous year		8.2	6,072	—	6,072	6,065	6.6	

The following amounts of long-term debt as of December 31, 2008 are due in the next 5 years:

2009	—
2010	2
2011	1
2012	1
2013	2,942
	2,946
Corresponding amount previous year	7

At the end of December 2008, long-term debt mainly consisted of the notes issued in 2006 in relation with the Acquisition (Euro notes: USD 2,144 million; USD notes: USD 3,811 million, unchanged from 2007).

Related to the Acquisition, NXP issued on October 12, 2006 several series of notes with maturities ranging from 7 to 9 years and a mix of floating and fixed rates. Several series are denominated in US dollar and several series are euro denominated. The euro and US dollar notes represent 36% and 64% respectively of the total principal amount of the notes outstanding. The series with tenors of 7 and 8 years are secured as described below; the two series with a tenor of 9 years are unsecured. On June 19, 2007, the Company concluded an exchange offer for these notes in which investors could exchange their existing notes for identical notes registered under the U.S. Securities Act. This exchange offer did not affect NXP's capitalization or debt outstanding.

Euro notes

The Euro notes consist of the following two series:

- a EUR 1,000 million aggregate principal amount of floating rate senior secured notes due 2013 with an interest rate of three-month EURIBOR plus 2.75%, except that the interest rate for the period beginning on the date these notes were offered, October 12, 2006 through January 14, 2007 the interest rate was 6.214%; and
- a EUR 525 million aggregate principal amount of 8.625% senior notes due 2015.

No redemptions on any of these series have been made; both series are fully outstanding at their original principal euro amount at year-end 2008.

USD notes

The USD notes consist of the following three series:

- a USD 1,535 million aggregate principal amount of floating rate senior secured notes due 2013 with an interest rate of three-month LIBOR plus 2.75%, except that the interest rate for the period beginning on the date these notes were offered, October 12, 2006 through January 14, 2007 the interest rate was 8.118%; and
- a USD 1,026 million aggregate principal amount of 7.875% senior secured notes due 2014; and
- a USD 1,250 million aggregate principal amount of 9.5% senior notes due 2015.

No redemptions on any of these series have been made; all three series are fully outstanding at their original principal US dollar amount at year-end 2008.

Certain terms and Covenants of the Euro and USD notes

The Company is not required to make mandatory redemption payments or sinking fund payments with respect to the notes.

The indentures governing the notes contain covenants that, among other things, limit the Company's ability and that of restricted subsidiaries to incur additional indebtedness, create liens, pay dividends, redeem capital stock or make certain other restricted payments or investments; enter into agreements that restrict dividends from restricted subsidiaries; sell assets, including capital stock of restricted subsidiaries; engage in transactions with affiliates; and effect a consolidation or merger.

Certain portions of long-term and short-term debt as of December 31, 2008 in the amount of USD 4,373 million (2007: USD 4,035 million) have been secured by collateral on substantially all of the Company's assets and of certain of its subsidiaries.

The notes are fully and unconditionally guaranteed jointly and severally, on a senior basis by certain of the Company's current and future material wholly-owned subsidiaries ("Guarantors").

Pursuant to various security documents related to the above mentioned secured notes and the USD 703 million (denominated EUR 500 million) committed revolving credit facility, the Company and each Guarantor has granted first priority liens and security interests in, amongst others, the following, subject to the grant of further permitted collateral liens:

(a) all present and future shares of capital stock of (or other ownership or profit interests in) each of its present and future direct subsidiaries, other than SMST Unterstützungskasse GmbH, and material joint venture entities;

(b) all present and future intercompany debt of the Company and each Guarantor;

(c) all of the present and future property and assets, real and personal, of the Company, and each Guarantor, including, but not limited to, machinery and equipment, inventory and other goods, accounts receivable, owned real estate, leaseholds, fixtures, general intangibles, license rights, patents, trademarks, trade names, copyrights, chattel paper, insurance proceeds, contract rights, hedge agreements, documents, instruments, indemnification rights, tax refunds, but excluding cash and bank accounts; and

(d) all proceeds and products of the property and assets described above.

Notwithstanding the foregoing, certain assets may not be pledged (or the liens not perfected) in accordance with agreed security principles, including:

- if the cost of providing security is not proportionate to the benefit accruing to the holders;

- if providing such security requires consent of a third party and such consent cannot be obtained after the use of commercially reasonable efforts; and

- if providing such security would be prohibited by applicable law, general statutory limitations, financial assistance, corporate benefit, fraudulent preference, “thin capitalization” rules or similar matters or providing security would be outside the applicable pledgor’s capacity or conflict with fiduciary duties of directors or cause material risk of personal or criminal liability after using commercially reasonable efforts to overcome such obstacles;

- if providing such security would have a material adverse effect (as reasonably determined in good faith by such subsidiary) on the ability of such subsidiary to conduct its operations and business in the ordinary course as otherwise permitted by the indenture; and
- if providing such security or perfecting liens thereon would require giving notice (i) in the case of receivables security, to customers or (ii) in the case of bank accounts, to the banks with whom the accounts are maintained. Such notice will only be provided after the secured notes are accelerated.

Subject to agreed security principles, if material property is acquired by the Company or a Guarantor that is not automatically subject to a perfected security interest under the security documents, then the Company or relevant Guarantor will within 60 days provide security over this property and deliver certain certificates and opinions in respect thereof as specified in the indenture governing the notes.

Credit facilities

At December 31, 2008, the Company had a senior secured revolving credit facility of USD 703 million (denominated: EUR 500 million) (2007: USD 737 million) entered into as from September 29, 2006, in order to finance the working capital requirements and general corporate purposes of which USD 298 million (2007: USD 733 million) was unused. This committed revolving credit facility has a tenor of 5 years and expires in 2012.

Although the revolving credit facility expires in 2012, the Company has the flexibility of drawing and repaying under this facility and therefore the amount drawn is classified under short-term debt.

All of the Guarantors of the secured notes described above are also guarantor of our obligations under this committed revolving credit facility and similar security (on a first priority basis) as granted under the secured notes has been granted for the benefit of the lenders under this facility.

30 Other non-current liabilities

Other non-current liabilities are summarized as follows:

	As of December 31, 2007	As of December 31, 2008
Accrued pension costs	87	**79**
Asset retirement obligations	10	**12**
Other	9	**16**
	106	**107**

31 Contractual obligations

For an explanation of long-term debt and other long-term liabilities, see note 29.

Capital leases

Property, plant and equipment includes USD 5 million as of December 31, 2008 (2007: USD 6 million) for capital leases and other beneficial rights of use, such as building rights and hire purchase agreements. The financial obligations arising from these contractual

agreements are reflected in long-term debt.

Operating leases

Long-term operating lease commitments totaled USD 240 million as of December 31, 2008 (2007: USD 162 million). The long-term operating leases are mainly related to the rental of buildings. These leases expire at various dates during the next 30 years. The future payments that fall due in connection with these obligations are as follows:

2009	43
2010	40
2011	34
2012	26
2013	17
Later	80
Total	240

32 Contingent liabilities

Guarantees

In the normal course of business, the Company issues certain guarantees. Guarantees issued or modified after December 31, 2002, having characteristics defined in FIN 45, are measured at fair value and recognized on the balance sheet. At the end of 2008 there were no material guarantees recognized by the Company.

Guarantees issued before December 31, 2002 and not modified afterwards, and certain guarantees issued after December 31, 2002, which do not have characteristics as defined in FIN 45, remain off-balance sheet. At the end of 2008 there were no such guarantees recognized.

Capital contributions

NXP has a contractual agreement to contribute USD 18 million in its ASEN venture if our venture partner also contributes its contractually agreed amounts; the contribution is expected to take place in the first half of 2009.

Other commitments

The Company has made certain commitments to SSMC, whereby the Company is obligated to make cash payments to SSMC should it fail to purchase 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. In the periods presented in these financial statements no such payments were made. Furthermore, other commitments exist with respect to long-term obligations for a joint development contract with Catena Holding BV of USD 15 million and with respect to long-term software license contracts of USD 143 million, among others with Synopsis and Cadence.

Environmental remediation

The Company accrues for losses associated with environmental obligations when such losses are probable and reasonably estimable. Refer to note 24 to the combined and consolidated financial statements for a specification of provisions for environmental remediation.

Litigation

The Company and certain of its businesses are involved as plaintiffs or defendants in litigation relating to such matters as commercial transactions, intellectual property rights and product liability. Although the ultimate disposition of asserted claims and proceedings cannot be predicted with certainty, it is the opinion of the Company's management that the outcome of any such claims, either individually or on a combined basis, will not have a material adverse effect on the Company's combined or consolidated financial position, but may be material to the consolidated statement of operations of the Company for a particular period.

On January 7, 2009, the European Commission issued a release in which it confirms it will start investigations in the smart card chip sector. The European Commission has reason to believe that the companies concerned may have violated European Union competition rules prohibiting certain practices such as price fixing, customer allocation and the exchange of commercially sensitive information. As one of the companies active in the smart card chip sector, NXP is subject to a number of these ongoing investigations and is assisting the regulatory authorities in these investigations. The investigations are in their initial stages and it is currently impossible to reliably estimate the outcome of the investigations.

33 Shareholder's equity

The Company has issued and paid up 40 ordinary shares at a par value of EUR 455 each or a nominal share capital of EUR 18,200 (in the balance sheet rounded to zero).

The Company's parent, KASLION Acquisition B.V., has granted stock options and equity rights to receive KASLION shares or depository receipts in future (refer to note 34).

34 Share-based compensation

Successor

The Company's parent, KASLION Acquisition BV, granted stock options to the members of the Board of Management and certain other executives of NXP starting in 2007. Under the stock option plans the participants acquire the right to receive a depositary receipt over KASLION shares upon exercise and payment of the exercise price after the stock options have vested and the change in control event that triggers exercise has taken place. Also, equity rights were granted by KASLION to certain non-executive employees of the Company also starting in 2007. These rights offer the participants the right to acquire KASLION shares or depository receipts for no consideration after the rights have vested and a change in control event that triggers exercise has taken place. The purpose of these share-based compensation plans is to align the interests of management with those of the shareholders by providing additional incentives to improve the Company's performance on a long-term basis by offering the participants to share in the benefits for the shareholders of a sale or change in control of the Company.

In accordance with SFAS No. 123(R), the fair value of share-based payments is required to be based upon an option valuation model. Since neither KASLION's stock options nor its shares are traded on any exchange and exercise is dependent upon a sale or change of control of the Company, employees can receive no value nor derive any benefit from holding these options or rights without the fulfillment of the conditions for exercise. The Company has concluded that the fair value of the share-based payments can best be estimated by the use of a binomial option-pricing model because such models take into account

the various conditions and subjective assumptions that determine the estimated value. The assumptions used are:

- Expected life of the options and equity rights is calculated as the difference between the grant dates and an exercise triggering event not before the end of 2011; which resulted in expected lives of 4.25 and 3.25 years for options and rights granted in respectively 2007 and 2008;
- Risk-free interest rate is 4.1% for 2007 awards and 3.8% for 2008 awards;
- Expected asset volatility is approximately 27%;
- Dividend pay-out ratio of nil;
- Lack of marketability discount is 35% for 2007 awards and 26% for 2008 awards.

Because the options and rights are not traded, an option-based approach (the Finnerty model) was used to calculate an appropriate discount for lack of marketability. The expected life of the options and rights is an estimate based on the time period private equity on average takes to liquidate its investment. The volatility assumption has been based on the average volatility of comparable companies over an equivalent period to the period from valuation date to exit date.

The vesting date of most of the equity rights granted in 2007 is April 1, 2010. The options vest gradually in 4 equal annual portions until October 1, 2010. The first portion of the 2007 grant 25% vested on October 1, 2007, which was also the grant date. The vesting date of the options granted in 2008 is in 2012, 4 years after the date of grant. Also these options vest gradually over 4 years.

The assumptions were used for these calculations only and do not represent an indication of management's expectations of future developments. Changes in the assumptions can materially affect the fair value estimate.

A charge of USD 35 million was recorded in 2008 (2007: USD 28 million, 2006: nil) for share-based compensation.

The following table summarizes the information about KASLION stock options granted in 2007 and in 2008 and changes during those years.

Stock options

	2007		2008	
	Stock options	Weighted average exercise price in EUR	Stock options	Weighted average exercise price in EUR
Outstanding at January 1	—	—	**684,492,800**	**1.64**
Granted	684,492,800	1.64	**206,374,500**	**1.51**
Exercised	—	—	**—**	**—**
Forfeited	—	—	**(237,251,160)**	**1.59**
Outstanding at December 31	684,492,800	1.64	**653,616,140**	**1.61**
Weighted average grant-date fair value of options granted during 2008 and 2007 in EUR		0.11		**0.08**

The number of vested options at December 31, 2008 was 281,638,588 with a weighted average exercise price of EUR 1.61

At December 31, 2008, there was a total of USD 52 million of unrecognized compensation cost related to non-vested stock options. This cost is expected to be recognized over a weighted-average period of 2.1 years.

A summary of the status of KASLION's equity rights granted in 2008 and changes during 2008 is presented below. All equity rights have an exercise price of nil euros.

Equity rights

	2007		2008	
	Shares	Weighted average grant date fair value in EUR	Shares	Weighted average grant date fair value in EUR
Outstanding at January 1	—	—	**198,315(*)**	**26.65**
Increase resulting from the conversion of preferred stock Kaslion Acquisition B.V.			**7,932,600**	**0.65**
Granted	198,540	26.65	**10,177,490**	**0.29**
Vested/Issued	—		**0**	**—**
Forfeited	(225)		**(3,629,535)**	**0.56**
Outstanding at December 31	198,315	26.65	**14,678,870**	**0.42**

(*) Due to the conversion of preferred stock into common stock in Kaslion acquisition B.V., the equity rights granted in 2007 were increased with a multiplier of 41, identical to the conversion rate of the preferred stock.

The number of vested equity rights at December 31, 2008 was nil.

At December 31, 2008, there was a total of USD 4 million of unrecognized compensation cost related to non-vested equity rights. This cost is expected to be recognized over a weighted-average period of 1.9 years.

None of the options and equity rights is currently exercisable.

Predecessor

Until the Separation from Philips, on September 28, 2006, the Company participated in Philips' share-based compensation plans. Under these plans, Philips has granted share options on its common shares and rights to receive common shares in the future (restricted share rights) to certain Company employees. The employee awards were previously granted by Philips to its employees and have been subsequently allocated to the Company. Under the Philips plans, options were granted at fair market value on the date of grant.

Immediately before the date of acquisition of our Company by KASLION, Philips announced all outstanding unvested stock options and restricted share rights related to employees of the semiconductor businesses of Philips would become fully vested and exercisable on October 16, 2006, which was recorded as part of the purchase allocation.

For the successor period ending December 31, 2006, there was no share-based plan in place for non-executive employees and, as such, no new share-based compensation arrangements were granted to non-executive employees in the period from September 29, 2006 through December 31, 2006.

From 2003 to September 28, 2006, Philips issued restricted share rights to certain Company's employees that vest in equal annual installments over a three-year period. Restricted shares are Philips shares that the grantee will receive in three successive years, provided the grantee is still with Philips on the respective delivery dates. If the grantee still holds the shares after three years from the delivery date, Philips will grant 20% additional (premium) shares, provided the grantee is still with Philips.

From 2002, Philips granted fixed share options to certain Company's employees that expire upon the earlier of 10 years after the grant, or 5 years after the termination of the grantee's employment with Philips. Generally, the options vest after 3 years; however, a limited number of options granted to certain employees of acquired businesses contain accelerated vesting. In prior years, fixed and variable (performance) options were issued with terms of ten years, vesting one to three years after grant. In contrast to 2001 and certain prior years, when variable (performance) share options were issued, the share-based compensation grants from 2002 consider the performance of Philips versus a peer group of multinationals.

USD-denominated share options and restricted share rights are granted to employees in the United States only.

In The Netherlands, and through September 28, 2006, Philips issued personnel debentures to the Company's employees with a 5-year right of conversion into common shares of Philips. The conversion price is equal to the current share price at the date of issuance. The fair value of the conversion option of EUR 6.41 in 2006 (predecessor period) was recorded as compensation expense.

Effective January 1, 2006, the Company adopted SFAS 123(R) using the modified prospective method for the transition. Since the Company had previously adopted the fair value provisions of SFAS 123 prospectively for all employee awards granted, modified or settled after January 1, 2003, the adoption of SFAS 123(R) did not have a material impact on the Company's financial position or results of operations.

An expense of USD 19 million was recorded in the period January 1, 2006 through September 28, 2006 for share-based compensation.

Prior to 2003, the Company accounted for share-based compensation using the intrinsic value method, and the recognition and measurement provisions of APB Opinion No. 25, 'Accounting for Stock Issued to Employees', and related interpretations.

Since awards issued under Philips plans prior to 2003 vested over three years, there was no impact for 2006.

In accordance with SFAS 123(R), the fair value of share options granted is required to be based upon a statistical option valuation model.

Since the Philips share options are not traded on any exchange, employees can neither receive any value nor derive any benefit from holding these share options without an increase in the market price of Philips' shares.

The fair value of the Philips option grants was estimated using a Black-Scholes option valuation model and the following weighted average assumptions:

	For the period January 1, 2006 – September 28, 2006 (EUR-denominated)
Risk-free interest rate	3.63%
Expected dividend yield	1.8%
Expected stock price volatility	39%
Expected option life	6 yrs

	For the period January 1, 2006 – September 28, 2006 (USD-denominated)
Risk-free interest rate	4.73%
Expected dividend yield	1.8%
Expected stock price volatility	38%
Expected option life	6 yrs

The assumptions were used for these calculations only and do not necessarily represent an indication of Management's expectations of future developments.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected share price volatility.

The Philips employee share options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate.

A summary of the status of the Philips share options granted to Company employees as of September 28, 2006 and changes during the periods then ended is presented below:

Fixed option plans

	Shares	Weighted average exercise (price in EUR)
Outstanding at January 1, 2006	4,640,812	28.17
Granted	816,150	26.27
Exercised	(111,653)	16.85
Forfeited	(74,972)	44.05
Outstanding at September 28, 2006	5,270,337	27.89
Weighted average fair value of options granted during the period in EUR	9.74	
		(price in USD)
Outstanding at January 1, 2006	6,237,756	28.19
Granted	592,254	32.23
Exercised	(1,128,954)	25.97
Forfeited	(975,339)	29.09
Outstanding at September 28, 2006	4,725,717	29.04
Weighted average fair value of options granted during the period in USD	12.29	

Variable plans

	Shares	Weighted average exercise (price in EUR)

Outstanding at January 1, 2006	790,664	34.43
Granted	—	—
Exercised	—	—
Forfeited	(48,993)	38.67
Outstanding at September 28, 2006	741,671	34.15

		(price in USD)
Outstanding at January 1, 2006	1,121,780	32.79
Granted	—	—
Exercised	(202,766)	25.78
Forfeited	(184,906)	35.87
Outstanding at September 28, 2006	734,108	33.95

Transfers of employees from and to other Philips businesses are reflected in the table above.

A summary of the status of the Philips restricted share rights granted to Company employees as of the period and changes during the period is presented below:

Restricted share rights*

	EUR-denominated shares	USD-denominated shares
Outstanding at January 1, 2006	448,341	470,566
Granted	278,169	197,418
Vested/Issued	(218,900)	(227,669)
Forfeited	8,322	(59,404)
Outstanding at September 28, 2006	515,932	380,911
Weighted average fair value at grant date	EUR 22.84	USD 28.43

* Excludes incremental shares that may be received if shares awarded under the restricted share rights plan are not sold for a three-year period.

35 Fair value of financial assets and liabilities

The estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methods. The estimates presented are not necessarily indicative of the amounts that the Company could realize in a current market exchange or the value that will ultimately be realized by the Company upon maturity or disposal. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

SFAS 157 “Fair Value Measurements” requires to make quantitative disclose for financial assets and liabilities that are measured at fair value on a recurring basis. In the table below the column “Fair value hierarchy” the indicated level explains how fair value measurements have been arrived at.

- Level 1 measures fair value based on quoted prices in active markets for identical assets or liabilities;
- Level 2 measures fair value based on significant other observable inputs such as quoted prices for similar assets or liabilities in markets, observable interest rates or yield curves, etc.;
- Level 3 measures of fair value are based on unobservable inputs such as internally developed or used techniques.

		SUCCESSOR			
		As of December 31, 2007		As of December 31, 2008	
	Fair value hierarchy	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Assets;					
Cash and cash equivalents (*)	1	1,041	1,041	**1,796**	**1,796**
Securities (*)	1	—	—	**33**	**33**
Accounts receivable — current	2	764	764	**517**	**517**
Other financial assets (*)	1	64	64	**18**	**18**
Derivative instruments — assets (*)	1	53	53	**37**	**37**
Liabilities:					
Accounts payable	2	(1,001)	(1,001)	**(619)**	**(619)**
Debt	2	(6,078)	(5,528)	**(6,367)**	**(2,065)**
Derivative instruments — liabilities (*)	1	(47)	(47)	**(55)**	**(55)**

(*) Represent assets and liabilities measured at fair value on a recurring basis.

For the fair value measurements of pension plan assets, and projected benefit obligations under these defined benefit plans you are referred to note 25.

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and cash equivalents, accounts receivable and payable

The carrying amounts approximate fair value because of the short maturity of these instruments.

Other financial assets and derivative instruments

For other financial assets, fair value is based upon the quoted market prices.

Debt

The fair value is estimated on the basis of the quoted market prices for certain issues, or on the basis of discounted cash flow analyses based upon the incremental borrowing rates for similar types of borrowing arrangements with comparable terms and maturities. Accrued interest is included under accounts payable and not within the carrying amount or estimated fair value of debt.

36 Other financial instruments, derivatives and currency risk

The Company does not purchase or hold financial derivative instruments for trading purposes. Assets and liabilities related to derivative instruments are disclosed in note 17 and note 23. Currency fluctuations may impact the Company's financial results. The Company has a structural currency mismatch between costs and revenues, as a proportion of its production, administration and research and development costs is denominated in US dollars or US dollar-related, while a higher proportion of its revenues is denominated in US dollars or US dollar-related.

The Company's transactions are denominated in a variety of currencies. The Company uses financial instruments to reduce its exposure to the effects of currency fluctuations. The Company generally hedges foreign currency exposures in relation to transaction exposures, such as receivables/payables resulting from such transactions and part of anticipated sales and purchases. The Company generally uses forwards to hedge these exposures.

Changes in the fair value of foreign currency accounts receivable/payable as well as changes in the fair value of the hedges of accounts receivable/payable are reported in the statement of operations under cost of sales. The hedges related to anticipated transactions are recorded as cash flow hedges. The results from such hedges were deferred in equity until 2007. From December 2007 going forward, the application of cash flow hedge accounting for foreign currency risks is limited to transactions that represent a substantial currency risk that could materially affect the financial position of the Company. Consequently, the application of cash flow hedge accounting seldom occurs. Changes in the fair value of these forward currency transactions that are not designated to anticipated transactions are immediately reported in the statement of operations under cost of sales.

For the predecessor period, hedges entered into by the Company were generally concluded by Philips.

Derivative instruments relate to

- hedged balance sheet items,
- hedged anticipated currency exposures with a duration of up to 12 months.

The derivative assets amounted to USD 53 million and USD 37 million, whereas derivative liabilities amounted to USD 47 million and USD 55 million as of December 31, 2007 and 2008, respectively, and are included in other current assets and accrued liabilities on the combined and consolidated balance sheets, respectively.

Currency risk

A higher proportion of our revenues is in US dollars or US dollar- related, compared to our costs. Accordingly, our results of operations may be affected by changes in foreign exchange rates, particularly between the euro and US dollar. A strengthening of the euro against US dollar during any reporting period will reduce income from operations of NXP.

It is NXP's policy that transaction exposures are hedged. Accordingly, the Company's organizations identify and measure their exposures from transactions denominated in other than their own functional currency.

We calculate our net exposure on a cash flow basis considering balance sheet items, actual orders received or made and anticipated revenues and expenses.

Committed foreign currency exposures are required to be fully hedged using forward contracts. The net exposures related to anticipated transactions are hedged with a combination of forward transactions up to a maximum tenor of 12 months and a cash position in both euro and dollar. The currency exposure related to our bonds has not been hedged.

The table below outlines the foreign currency transactions outstanding per December 31, 2008:

In millions of USD equivalents	Aggregate Contract amount buy/ (sell) (1)	Weighted Average Tenor (in months)
Foreign currency forward contracts(1)		
Euro/ US dollar	512	5
US dollar/ Japanese Yen	(1)	3
Great Britain pound/ US dollar	7	2
US dollar/ Swedish kroner	(16)	2
US dollar/ Singapore dollar	(9)	2
US dollar/ Thailand baht	9	2
Euro/ Great Britain pound	6	2
Euro/ Polish zloty	7	2

(1) USD equivalent

Interest rate risk

NXP has significant outstanding debt, which creates an inherent interest rate risk. On October 12, 2006, NXP issued several series of notes with maturities ranging from 7 to 9 years and a mix of floating and fixed rates. The euro and US dollar denominated notes represent 36% and 64% respectively of the total notes outstanding.

The following table summarizes the outstanding notes per December 31, 2008:

	Principal amount (*)	Fixed/ floating	Current coupon rate	Maturity date
Senior Secured Notes	EUR1,000	Floating	7,5025	2013
Senior Secured Notes	USD 1,535	Floating	8,0680	2013
Senior Secured Notes	USD 1,026	Fixed	7,8750	2014
Senior Notes	EUR525	Fixed	8,6250	2015
Senior Notes	USD 1,250	Fixed	9,5000	2015

(*) amount in millions

A sensitivity analysis shows that if interest rates were to increase/decrease instantaneously by 1% from the level of December 31, 2008 all other variables held constant, the annualized net interest expense would increase/decrease by USD 30 million. This impact is based on the outstanding net debt position as per December 31, 2008.

37 Supplemental Guarantor Information

Certain of the wholly-owned subsidiaries of NXP provide joint and several unconditional guarantees of NXP's obligations under the notes issued in connection with the acquisition of NXP. Pursuant to Rule 3-10 of Regulation S-X of the Securities and Exchange Commission, the following consolidated financial information of the guarantors and non-guarantors, detailed in restricted and unrestricted, is provided in lieu of financial statements of such guarantor entities, and are determined based on the assets, liabilities and operations of the entities which are included in the guarantor and non-guarantor subsidiaries of NXP.

Supplemental consolidated statement of operations for the year ended December 31, 2008

(SUCCESSOR)	NXP B.V.	Guarantors	Non-guarantors (restricted)	Sub-total	Non-guarantors (unrestricted)	Eliminations/ reclassifications	Consolidated
Sales	**—**	**4,027**	**1,276**	**5,303**	**140**	**—**	**5,443**
Intercompany sales	**—**	**1,081**	**411**	**1,492**	**303**	**(1,795)**	**—**
Total sales	**—**	**5,108**	**1,687**	**6,795**	**443**	**(1,795)**	**5,443**
Cost of sales	**(121)**	**(3,851)**	**(1,555)**	**(5,527)**	**(355)**	**1,657**	**(4,225)**
Gross margin	**(121)**	**1,257**	**132**	**1,268**	**88**	**(138)**	**1,218**
Selling expenses	**—**	**(308)**	**(142)**	**(450)**	**—**	**50**	**(400)**
General and administrative expenses	**(1,248)**	**(564)**	**(74)**	**(1,886)**	**—**	**11**	**(1,875)**
Research and development expenses	**12**	**(883)**	**(405)**	**(1,276)**	**—**	**77**	**(1,199)**
Write-off of acquired in-process research and development	**(26)**	**—**	**—**	**(26)**	**—**	**—**	**(26)**
Other business income (loss)	**(1,456)**	**453**	**650**	**(353)**	**(11)**	**—**	**(364)**
Income (loss) from operations	**(2,839)**	**(45)**	**161**	**(2,723)**	**77**	**—**	**(2,646)**
Financial income and expenses	**(372)**	**(249)**	**3**	**(618)**	**4**	**—**	**(614)**

Income subsidiaries	**(405)**	**—**	**—**	**(405)**	**—**	**405**	**—**
Income (loss) before taxes	**(3,616)**	**(294)**	**164**	**(3,746)**	**81**	**405**	**(3,260)**
Income tax benefit (expense)	**284**	**(246)**	**(79)**	**(41)**	**(5)**	**—**	**(46)**
Income (loss) after taxes	**(3,332)**	**(540)**	**85**	**(3,787)**	**76**	**405**	**(3,306)**
Results relating to equity-accounted investees	**(268)**	**—**	**—**	**(268)**	**—**	**—**	**(268)**
Minority interests	**—**	**—**	**3**	**3**	**(29)**	**—**	**(26)**
Net income (loss)	**(3,600)**	**(540)**	**88**	**(4,052)**	**47**	**405**	**(3,600)**

Supplemental consolidated statement of operations for the year ended December 31, 2007

(SUCCESSOR)	**NXP B.V.**	**Guarantors**	**Non-guarantors (restricted)**	**Sub-total**	**Non-guarantors (unrestricted)**	**Eliminations/ reclassifications**	**Consolidated**
Sales	—	4,643	1,513	6,156	165	—	6,321
Intercompany sales	—	1,335	477	1,812	331	(2,143)	—
Total sales	—	5,978	1,990	7,968	496	(2,143)	6,321
Cost of sales	(143)	(3,908)	(1,910)	(5,961)	(375)	2,060	(4,276)
Gross margin	(143)	2,070	80	2,007	121	(83)	2,045
Selling expenses	—	(315)	(115)	(430)	—	5	(425)
General and administrative expenses	(638)	(467)	(85)	(1,190)	—	1	(1,189)
Research and development expenses	—	(852)	(553)	(1,405)	—	77	(1,328)
Write-off of acquired in-process research and development	(15)	—	—	(15)	—	—	(15)
Other business income (loss)	(60)	(457)	660	143	(9)	—	134
Income (loss) from operations	(856)	(21)	(13)	(890)	112	—	(778)
Financial income and expenses	58	(220)	(26)	(188)	7	—	(181)
Income subsidiaries	(85)	—	—	(85)	—	85	—
Income (loss) before taxes	(883)	(241)	(39)	(1,163)	119	85	(959)
Income tax benefit (expense)	273	55	69	397	(1)	—	396
Income (loss) after taxes	(610)	(186)	30	(766)	118	85	(563)
Results relating to equity-accounted investees	(40)	—	—	(40)	—	—	(40)
Minority interests	—	—	—	—	(47)	—	(47)
Net income (loss)	(650)	(186)	30	(806)	71	85	(650)

Supplemental consolidated statement of operations for the period September 29, 2006 through December 31, 2006

(SUCCESSOR)	**NXP B.V.**	**Guarantors**	**Non-guarantors (restricted)**	**Sub-total**	**Non-guarantors (unrestricted)**	**Eliminations/ reclassifications**	**Consolidated**
Sales	—	1,132	366	1,498	35	—	1,533
Intercompany sales	—	437	92	529	71	(600)	—
Total sales	—	1,569	458	2,027	106	(600)	1,533
Cost of sales	(202)	(1,033)	(434)	(1,669)	(96)	584	(1,181)
Gross margin	(202)	536	24	358	10	(16)	352
Selling expenses	—	(88)	(27)	(115)	—	1	(114)
General and administrative expenses	(154)	(78)	(19)	(251)	—	1	(250)
Research and development expenses	—	(214)	(132)	(346)	—	14	(332)
Write-off of acquired in-process research and development	(664)	—	—	(664)	—	—	(664)
Other business income (loss)	(37)	(129)	172	6	(2)	—	4
Income (loss) from operations	(1,057)	27	18	(1,012)	8	—	(1,004)
Financial income and expenses	(32)	(58)	(5)	(95)	1	—	(94)
Income subsidiaries	5	—	—	5	—	(5)	—
Income (loss) before taxes	(1,084)	(31)	13	(1,102)	9	(5)	(1,098)
Income tax benefit (expense)	293	23	(4)	312	—	—	312
Income (loss) after taxes	(791)	(8)	9	(790)	9	(5)	(786)
Results relating to equity-accounted investees	(3)	—	—	(3)	—	—	(3)
Minority interests	—	—	—	—	(5)	—	(5)
Net income (loss)	(794)	(8)	9	(793)	4	(5)	(794)

Supplemental combined statement of operations for the period January 1, 2006 through September 28, 2006

(PREDECESSOR)	**Guarantors**	**Non-guarantors**	**Eliminations**	**Combined**
Sales	3,528	1,092	—	4,620
Intercompany and sales to Philips companies	878	708	(1,501)	85
Total sales	4,406	1,800	(1,501)	4,705
Cost of sales	(2,753)	(1,621)	1,465	(2,909)
Gross margin	1,653	179	(36)	1,796
Selling expenses	(271)	(77)	5	(343)

General and administrative expenses	(303)	(80)	1	(382)
Research and development expenses	(593)	(357)	30	(920)
Other business income (loss)	(407)	429	—	22
Income (loss) from operations	79	94	—	173
Financial income and expenses	(18)	(9)	—	(27)
Income (loss) before taxes	61	85	—	146
Income tax expense	(74)	(7)	—	(81)
Income (loss) after taxes	(13)	78	—	65
Results relating to equity-accounted investees	(32)	—	36	4
Minority interests	—	(63)	—	(63)
Net income (loss)	(45)	15	36	6

Supplemental condensed consolidated balance sheet at December 31, 2008

(SUCCESSOR)	NXP B.V.	Guarantors	Non-guarantors (restricted)	Sub-total	Non-guarantors (unrestricted)	Eliminations/ reclassifications	Consolidated
Assets							
Current assets:							
Cash and cash equivalents	1,110	405	89	1,604	192	—	1,796
Securities	33	—	—	33	—	—	33
Receivables	—	362	150	512	5	—	517
Intercompany accounts receivable	127	216	56	399	50	(449)	—
Inventories	—	537	71	608	22	—	630
Other current assets	57	121	31	209	3	—	212
Total current assets	1,327	1,641	397	3,365	272	(449)	3,188
Non-current assets:							
Investments in equity-accounted investees	140	—	18	158	—	—	158
Investments in affiliated companies	1,467	—	—	1,467	—	(1,467)	—
Other non-current financial assets	1	15	2	18	—	—	18
Other non-current assets	289	152	28	469	—	—	469
Property, plant and equipment:	231	1,133	168	1,532	275	—	1,807
Intangible assets excluding goodwill	2,326	49	7	2,382	2	—	2,384
Goodwill	2,661	—	—	2,661	—	—	2,661
Total non-current assets	7,115	1,349	223	8,687	277	(1,467)	7,497
Total assets	8,442	2,990	620	12,052	549	(1,916)	10,685
Liabilities and Shareholder's equity							
Current liabilities:							
Accounts and notes payable	—	536	71	607	12	—	619
Intercompany accounts payable	36	153	256	445	4	(449)	—
Accrued liabilities	332	466	166	964	19	—	983
Short-term provisions	(5)	130	4	129	—	—	129
Other current liabilities	3	103	14	120	—	—	120
Short-term debt	400	—	3	403	—	—	403
Intercompany financing	—	3,280	(140)	3,140	12	(3,152)	—
Total current liabilities	766	4,668	374	5,808	47	(3,601)	2,254
Non-current liabilities:							
Long-term debt	5,955	4	5	5,964	—	—	5,964
Long-term provisions	643	290	133	1,066	6	—	1,072
Other non-current liabilities	3	86	10	99	8	—	107
Total non-current liabilities	6,601	380	148	7,129	14	—	7,143
Minority interests	—	—	23	23	190	—	213
Shareholder's equity	1,075	(2,058)	75	(908)	298	1,685	1,075
Total liabilities and Shareholder's equity	8,442	2,990	620	12,052	549	(1,916)	10,685

Supplemental condensed consolidated balance sheet at December 31, 2007

(SUCCESSOR)	NXP B.V.	Guarantors	Non-guarantors (restricted)	Sub-total	Non-guarantors (unrestricted)	Eliminations/ reclassifications	Consolidated
Assets							
Current assets:							
Cash and cash equivalents	339	366	74	779	262	—	1,041
Receivables	9	475	262	746	18	—	764
Intercompany accounts receivable	46	1,493	154	1,693	50	(1,743)	—
Inventories	—	848	71	919	39	—	958
Assets held for sale	—	—	130	130	—	—	130
Other current assets	85	72	78	235	2	—	237
Total current assets	479	3,254	769	4,502	371	(1,743)	3,130
Non-current assets:							
Investments in equity-accounted investees	67	—	9	76	—	—	76
Investments in affiliated companies	2,956	—	—	2,956	—	(2,956)	—
Other non-current financial assets	52	11	1	64	—	—	64
Other non-current assets	112	262	110	484	2	—	486
Property, plant and equipment:	405	1,474	246	2,125	375	—	2,500
Intangible assets excluding goodwill	3,781	53	10	3,844	—	—	3,844
Goodwill	3,716	—	—	3,716	—	—	3,716
Total non-current assets	11,089	1,800	376	13,265	377	(2,956)	10,686

Total assets	11,568	5,054	1,145	17,767	748	(4,699)	13,816
Liabilities and Shareholder's equity							
Current liabilities:							
Accounts and notes payable	—	843	125	968	33	—	1,001
Intercompany accounts payable	171	1,295	272	1,738	5	(1,743)	—
Accrued liabilities	257	448	205	910	25	—	935
Short-term provisions	—	37	3	40	—	—	40
Other current liabilities	1	22	51	74	(1)	—	73
Short-term debt	—	—	1	1	5	—	6
Intercompany financing	—	3,948	199	4,147	13	(4,160)	—
Total current liabilities	429	6,593	856	7,878	80	(5,903)	2,055
Non-current liabilities:							
Long-term debt	6,059	4	9	6,072	—	—	6,072
Long-term provisions	549	221	28	798	—	—	798
Other non-current liabilities	3	83	14	100	6	—	106
Total non-current liabilities	6,611	308	51	6,970	6	—	6,976
Minority interests	—	—	—	—	257	—	257
Shareholder's equity	4,528	(1,847)	238	2,919	405	1,204	4,528
Total liabilities and Shareholder's equity	11,568	5,054	1,145	17,767	748	(4,699)	13,816

Supplemental condensed consolidated statement of cash flows for the year ended December 31, 2008

(SUCCESSOR)	**NXP B.V.**	**Guarantors**	**Non-guarantors (restricted)**	**Sub-Total**	**Non-guarantors (unrestricted)**	**Eliminations**	**Consolidated**
Cash flows from operating activities:							
Net income (loss)	**(3,600)**	**(540)**	**88**	**(4,052)**	**47**	**405**	**(3,600)**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:							
Elimination (income) loss subsidiaries	**405**	**—**	**—**	**405**	**—**	**(405)**	**—**
Depreciation and amortization	**1,427**	**401**	**63**	**1,891**	**119**	**—**	**2,010**
Net gain on sale of assets	**1,422**	**(826)**	**(227)**	**369**	**—**	**—**	**369**
Results relating to equity-accounted investees	**268**	**—**	**—**	**268**	**—**	**—**	**268**
Minority interests	**—**	**—**	**(3)**	**(3)**	**10**	**—**	**7**
Decrease (increase) in receivables and other current assets	**(1)**	**69**	**75**	**143**	**16**	**—**	**159**
Decrease in inventories	**—**	**112**	**(7)**	**105**	**17**	**—**	**122**
Increase (decrease) in accounts payable, accrued and other liabilities	**(47)**	**(238)**	**(46)**	**(331)**	**(25)**	**—**	**(356)**
Decrease (increase) intercompany current accounts	**(338)**	**245**	**94**	**1**	**(1)**	**—**	**—**
Increase in non-current receivables/other assets	**(172)**	**150**	**(44)**	**(66)**	**(1)**	**—**	**(67)**
Increase (decrease) in provisions	**71**	**159**	**111**	**341**	**5**	**—**	**346**
Other items	**102**	**23**	**(6)**	**119**	**1**	**—**	**120**
Net cash provided by (used for) operating activities	**(463)**	**(445)**	**98**	**(810)**	**188**	**—**	**(622)**
Cash flows from investing activities:							
Purchase of intangible assets	**—**	**(29)**	**(5)**	**(34)**	**(2)**	**—**	**(36)**
Capital expenditures on property, plant and equipment	**—**	**(288)**	**(73)**	**(361)**	**(18)**	**—**	**(379)**
Proceeds from disposals of property, plant and equipment	**—**	**60**	**1**	**61**	**—**	**—**	**61**
Proceeds from disposals of assets held for sale	**—**	**—**	**130**	**130**	**—**	**—**	**130**
Purchase of other non-current financial assets	**—**	**(14)**	**—**	**(14)**	**—**	**—**	**(14)**
Proceeds from the sale of other non-current financial assets	**4**	**6**	**—**	**10**	**—**	**—**	**10**
Purchase of interest in businesses	**(198)**	**—**	**(8)**	**(206)**	**—**	**—**	**(206)**
Proceeds from sale of interests in businesses	**1,447**	**1**	**1**	**1,449**	**—**	**—**	**1,449**
Net cash (used for) provided by investing activities	**1,253**	**(264)**	**46**	**1,035**	**(20)**	**—**	**1,015**
Cash flows from financing activities:							
Increase (decrease) in short-term debt	**401**	**(3)**	**—**	**398**	**(4)**	**—**	**394**
Capital repayment to minority shareholders	**—**	**—**	**—**	**—**	**(78)**	**—**	**(78)**
Net changes in intercompany financing	**(474)**	**567**	**(90)**	**3**	**(3)**	**—**	**—**
Net changes in intercompany equity	**(6)**	**180**	**(21)**	**153**	**(153)**	**—**	**—**
Net cash provided by (used for) financing activities	**(79)**	**744**	**(111)**	**554**	**(238)**	**—**	**316**
Effect of changes in exchange rates on cash positions	**60**	**4**	**(18)**	**46**	**—**	**—**	**46**
Increase (decrease) in cash and cash equivalents	**771**	**39**	**15**	**825**	**(70)**	**—**	**755**

Cash and cash equivalents at beginning of period	**339**	**366**	**74**	**779**	**262**	**—**	**1,041**
Cash and cash equivalents at end of period	**1,110**	**405**	**89**	**1,604**	**192**	**—**	**1,796**

Supplemental condensed consolidated statement of cash flows for the year ended December 31, 2007

(SUCCESSOR)	**NXP B.V.**	**Guarantors**	**Non-guarantors (restricted)**	**Sub-total**	**Non-guarantors (unrestricted)**	**Eliminations**	**Consolidated**
Cash flows from operating activities:							
Net income (loss)	(650)	(186)	30	(806)	71	85	(650)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:							
Elimination (income) loss subsidiaries	85	—	—	85	—	(85)	—
Depreciation and amortization	783	423	199	1,405	142	—	1,547
Net gain on sale of assets	(63)	(62)	11	(114)	—	—	(114)
Results relating to equity-accounted investees	40	—	—	40	—	—	40
Minority interests	—	—	—	—	44	—	44
Decrease (increase) in receivables and other current assets	(47)	15	(16)	(48)	10	—	(38)
Decrease in inventories	—	(64)	(2)	(66)	(4)	—	(70)
Increase (decrease) in accounts payable, accrued and other liabilities	125	309	55	489	6	—	495
Decrease (increase) intercompany current accounts	(78)	30	70	22	(22)	—	—
Increase in non-current receivables/other assets	(7)	(137)	(91)	(235)	(2)	—	(237)
Increase (decrease) in provisions	(254)	24	(3)	(233)	—	—	(233)
Other items	(282)	32	(1)	(251)	—	—	(251)
Net cash provided by operating activities	(348)	384	252	288	245	—	533
Cash flows from investing activities:							
Purchase of intangible assets	(19)	(13)	(5)	(37)	—	—	(37)
Capital expenditures on property, plant and equipment	—	(322)	(132)	(454)	(95)	—	(549)
Proceeds from disposals of property, plant and equipment	—	44	136	180	—	—	180
Purchase of other non-current financial assets	—	(6)	—	(6)	—	—	(6)
Proceeds from the sale of other non-current financial assets	—	—	2	2	2	—	4
Purchase of interest in businesses	(434)	—	(8)	(442)	—	—	(442)
Proceeds from sale of interests in businesses	105	59	8	172	—	—	172
Net cash used for investing activities	(348)	(238)	1	(585)	(93)	—	(678)
Cash flows from financing activities:							
Net decrease in debt	—	—	(19)	(19)	(3)	—	(22)
Net changes in intercompany financing	558	(314)	(244)	—	—	—	—
Net changes in intercompany equity	(326)	318	8	—	—	—	—
Net cash provided by financing activities	232	4	(255)	(19)	(3)	—	(22)
Effect of changes in exchange rates on cash positions	(1)	4	(27)	(24)	—	—	(24)
Increase in cash and cash equivalents	(465)	154	(29)	(340)	149	—	(191)
Cash and cash equivalents at beginning of period	804	212	103	1,119	113	—	1,232
Cash and cash equivalents at end of period	339	366	74	779	262	—	1,041

Supplemental condensed consolidated statement of cash flows for the period September 29, 2006 through December 31, 2006

(SUCCESSOR)	**NXP B.V.**	**Guarantors**	**Non-guarantors (restricted)**	**Sub-Total**	**Non-guarantors (unrestricted)**	**Eliminations**	**Consolidated**
Cash flows from operating activities:							
Net income (loss)	(794)	(8)	9	(793)	4	(5)	(794)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:							
Elimination (income) loss subsidiaries	(5)	—	—	(5)	—	5	—
Depreciation and amortization	850	103	51	1,004	41	—	1,045
Net gain on sale of assets	12	(1)	(16)	(5)	—	—	(5)
Results relating to equity-accounted investees	3	—	—	3	—	—	3
Minority interests	—	—	—	—	5	—	5
Decrease (increase) in receivables and other current assets	109	246	(23)	332	10	—	342
Decrease in inventories	168	30	13	211	6	—	217
Increase (decrease) in accounts payable, accrued and other liabilities	88	(106)	20	2	(6)	—	(4)
Decrease (increase) intercompany current accounts	209	(130)	(76)	3	(3)	—	—
Increase in non-current receivables/other assets	(92)	(14)	—	(106)	—	—	(106)
Increase (decrease) in provisions	(276)	14	(3)	(265)	—	—	(265)
Other items	(68)	6	—	(62)	—	—	(62)
Net cash provided by (used for) operating activities	204	140	(25)	319	57	—	376
Cash flows from investing activities:							
Purchase of intangible assets	—	(4)	(3)	(7)	—	—	(7)
Capital expenditures on property, plant and equipment	—	(77)	(40)	(117)	(26)	—	(143)
Proceeds from disposals of property, plant and equipment	—	8	20	28	—	—	28
Purchase of other non-current financial assets	—	(1)	(1)	(2)	—	—	(2)
Purchase of interest in businesses	(62)	—	—	(62)	(58)	—	(120)
Proceeds from sale of interests in businesses	—	—	7	7	—	—	7
Net cash (used for) provided by investing activities	(62)	(74)	(17)	(153)	(84)	—	(237)
Cash flows from financing activities:							
Increase (decrease) in short-term debt	(61)	58	23	20	2	—	22
Net changes in intercompany financing	71	(45)	(21)	5	(5)	—	—
Proceeds from bridge loan, net	5,670	—	—	5,670	—	—	5,670
Repayment of loan Philips, net of settlements	(4,773)	—	—	(4,773)	—	—	(4,773)
Principal payments on long-term debt (incl. bridge	(5,850)	—	—	(5,850)	—	—	(5,850)

loan)							
Proceeds from the issuance of notes	5,836	—	—	5,836	—	—	5,836
Net change in intercompany financing	71	(45)	(21)	5	(5)	—	—
Net changes in intercompany equity	(214)	57	99	(58)	58	—	—
Net cash provided by (used for) financing activities	679	70	101	850	55	—	905
Effect of changes in exchange rates on cash positions	(17)	—	1	(16)	—	—	(16)
Increase (decrease) in cash and cash equivalents	804	136	60	1,000	28	—	1,028
Cash and cash equivalents at beginning of period	—	76	43	119	85	—	204
Cash and cash equivalents at end of period	804	212	103	1,119	113	—	1,232

Supplemental condensed combined statement of cash flows for the period January 1, 2006 through September 28, 2006

(PREDECESSOR)	Guarantors	Non-guarantors	Eliminations	Combined
Cash flows from operating activities:				
Net income (loss)	(45)	15	36	6
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	371	217	—	588
Net gain on sale of assets	(8)	(1)	—	(9)
Results relating to equity-accounted investees	32	—	(36)	(4)
Minority interests	—	63	—	63
Increase in receivables and other current assets	(141)	(22)	—	(163)
Increase in inventories	(77)	(8)	—	(85)
Increase in accounts payable, accrued and other liabilities	180	12	—	192
Decrease (increase) in current accounts Phillips	(153)	122	—	(31)
Increase (decrease) in non-current receivables/other assets	(80)	50	—	(30)
Increase (decrease) in provisions	78	(37)	—	41
Other items	16	—	—	16
Net cash provided by operating activities	173	411	—	584
Cash flows from investing activities:				
Purchase of intangible assets	(12)	(3)	—	(15)
Capital expenditures on property, plant and equipment	(296)	(284)	—	(580)
Proceeds from disposals of property, plant and equipment	33	—	—	33
Purchase of other non-current financial assets	(1)	(3)	—	(4)
Purchase of interest in businesses	(4)	—	—	(4)
Proceeds from sale of interests in unconsolidated businesses	—	—	—	—
Net cash used for investing activities	(280)	(290)	—	(570)
Cash flows from financing activities:				
Net decrease in debt	(186)	(216)	—	(402)
Net repayments of loans to Philips Companies	(620)	—	—	(620)
Net transactions with Philips	991	91	—	1,082
Net cash (used for) provided by financing activities	185	(125)	—	60
Effect of changes in exchange rates on cash positions	(2)	1	—	(1)
Increase (decrease) in cash and cash equivalents	76	(3)	—	73
Cash and cash equivalents at beginning of period	—	131	—	131
Cash and cash equivalents at end of period	76	128	—	204

38 Subsequent events

On April 2, 2009, we announced the closing of two separate private offers to exchange existing unsecured and secured notes for new U.S. dollar and euro-denominated super priority notes upon the terms and subject to the conditions set forth in the confidential offering memorandum relating to the exchange offers. The purpose of the exchange offers, commenced on March 3, 2009, is to reduce our overall indebtedness and related interest expense. As a result, overall indebtedness will be reduced by approximately USD 465 million, with a corresponding increase in net income, taking into account tax effects, if any. Furthermore, the related annual interest expense will be reduced by approximately USD 30 million.

On March 13, 2009, Singapore based Systems on Silicon Manufacturing Company Pte. Ltd. (“SSMC”) (in which we have a 61.2% ownership share) paid USD 73 million cash dividend for 2008 to its shareholders. As a consequence, the USD 29 million that was paid to TSMC (our joint-venture partner in SSMC) reduced the consolidated cash position which will be reflected in the first quarter 2009 cash flow from operating activities.

On March 13, 2009, we announced the completion of the sale and repurchase of our stake in DSPG (approximately 4.2 million shares or 16% outstanding common stock of DSPG) currently held by us and obtained in 2007 following the divestment of our Cordless & VoIP

Terminal operations. The agreed repurchase price amounted to approximately USD 20 million. Effective the same date, we have surrendered our seat on the board of directors of DSPG in accordance with the Stock Repurchase Agreement.

On February 13, 2009, we drew an additional USD 200 million under our senior secured revolving credit facility, bringing the total amount drawn under this facility to USD 600 million, without taking into account USD 5 million of outstanding bank guarantees under the facility. As of that date, we had approximately EUR 39 million of remaining availability under the facility, after taking into account outstanding bank guarantees under the facility.

On February 2, 2009, STMicroelectronics purchased our 20% stake in ST-NXP. The agreed purchase price, based on the sales and EBITDA performance of the ST-NXP business in the last twelve months, was USD 92 million.

Auditors' Reports

Report of Independent Registered Public Accounting Firm

To the Board of Management of NXP B.V.

We have audited the accompanying combined statements of operations, changes in business' equity and cash flows of NXP B.V. (formerly known as Philips Semiconductors International B.V.) and the semiconductor businesses of Philips (Predecessor) for the period January 1, 2006 to September 28, 2006 (Predecessor period) appearing on pages 112 to 203. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined results of operations and cash flows of NXP B.V. (formerly known as Philips Semiconductors International B.V.) and the semiconductor businesses of Philips (Predecessor) for the period January 1, 2006 to September 28, 2006 (Predecessor period) in conformity with U.S. generally accepted accounting principles.

As disclosed under Reporting Currency in Note 1 to the combined and consolidated financial statements on page 118, effective from January 1, 2008, NXP B.V. changed its reporting currency from Euro to U.S. dollars. This change has been applied on a retrospective basis. Accordingly, the accompanying combined financials statements for the period January 1, 2006 to September 28, 2006 (Predecessor period) differ from those previously reported.

KPMG ACCOUNTANTS N.V.

Amstelveen, The Netherlands
March 22, 2007 except for Note 1 under Reporting Currency on page 118
to which the date is March 3, 2009.

Report of Independent Registered Public Accounting Firm

To the Board of Management and Shareholders of NXP B.V.

We have audited the accompanying consolidated balance sheets of NXP B.V. and subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for the two years then ended and the period from September 29, 2006 to December 31, 2006 (Successor period) as set out on page 112 until page 203. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of NXP B.V. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the two years then ended and the

period from September 29, 2006 to December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

Deloitte Accountants B.V.

M.J. van der Vegte

Amsterdam, The Netherlands
March 3, 2009
(April 7, 2009 as to Note 38)

Corporate seat and head office
We were incorporated in The Netherlands as a Dutch private company with limited liability (*besloten vennootschap*) on December 21, 1990 as a wholly-owned subsidiary of Koninklijke Philips Electronics N.V. On September 29, 2006 we changed our name from Philips Semiconductors International B.V. to NXP B.V. Our corporate seat is in Eindhoven, The Netherlands, and the statutory list of all subsidiaries and affiliated companies, prepared in accordance with the relevant legal requirements (Netherlands Civil Code, Book 2, Sections 379 and 414), forms part of the notes to the consolidated financial statements and is deposited at the office of the Commercial Register in Eindhoven, Netherlands (file no. 17070622).

Our registered office is:
NXP Semiconductors
High Tech Campus 60,
PO Box 80073, 5600 KA Eindhoven

The Netherlands
Switchboard telephone: +31-40-27 29999

Investor Information
Activities
NXP is in contact with its investors via broker conferences, roadshows, conference calls and meetings. The purpose hereof is to inform the market on the results, strategy and decisions made.

Financial calendar	
First quarterly report 2009	April 29, 2009(*)
Second quarterly report 2009	July 23, 2009(*)
Third quarterly report 2009	October 27, 2009(*)
Fourth quarterly report 2009/Annual Report 2009	February 23, 2010(*)

(*) These dates are subject to final confirmation

Credit ratings (as per December 31, 2008)(*)

Agency	Standard & Poor's	Moody's
Corporate rating	CCC	Caa1
Senior Secured notes	CCC	Caa1
Senior unsecured notes	CCC-	Caa3
Secured revolving credit facility	B	

(*) The Standard & Poor's and Moody's ratings have a negative outlook.

Website
Detailed information for investors is available on our Investor Relations website http://www.nxp.com/investor/.
Next to financial reports and presentations, the site provides a financial calendar, recent company news, a subscription possibility and contact information.

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Date of release: April 2009
Printed in the Netherlands