ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2012

NXP SEMICONDUCTORS N.V.

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, raise sufficient capital or refinance our debt at or before maturity to meet both our debt service and research and development and capital investment requirements, our ability to accurately estimate demand and match our production capacity accordingly 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.

In addition, this document contains information concerning the semiconductor industry and our business segments generally, which is forward-looking in nature and is based on a variety of assumptions regarding the ways in which the semiconductor industry, our market 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. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak to results only as of the date the statements were made; and, 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 publicly update or revise any forward-looking statements after we distribute this document, whether to reflect any future events or circumstances or otherwise. For a discussion of potential risks and uncertainties, please refer to the risk factors listed in our SEC filings. Copies of our filings are available from our Investor Relations department or from the SEC website, www.sec.gov.

Use of fair value measurements

In presenting the NXP 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 changes over time and are only valid as of the period end 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.

Basis of presentation

The accompanying financial information included in this document is based on International Financial Reporting Standards ("IFRS") as adopted by the European Union, unless otherwise indicated.

For internal and external reporting purposes, NXP follows accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP is NXP's primary accounting standard for the Company's setting of financial and operational performance targets.

Statutory financial statements

These Group financial statements and the Company financial statements of NXP Semiconductors N.V. contain the statutory financial statements of the Company prepared in accordance with Dutch law.

Contents

In this report the name "NXP" is sometimes used for convenience in contexts where reference is made to NXP Semiconductors N.V. and/or any of its subsidiaries in general. The name is also used where no useful purpose is served by identifying the particular company or companies.

Financial highlights

$ in millions, unless otherwise stated

	2012	2011
Revenue	**4,358**	4,194
Operating income (loss)	**435**	347
as a % of revenue	**10.0**	8.3
Income (loss) from continuing operations	**14**	(36)
Income (loss) from discontinued operations	**1**	428
Net income (loss)	**15**	392
- per common share in $:		
* basic	**(0.17)**	1.42
* diluted	**(0.17)**	1.42
Earnings before interest, tax, depreciation and amortization (EBITDA) [1)]	**1,295**	1,192
as a % of revenue	**29.7**	28.4
Cash flows before financing activities	**479**	(29)
Shareholders' equity	**1,773**	1,740
Employees at end of period	**25,358**	23,660

1) EBITDA is defined as operating income plus the results relating to equity accounted investees, excluding depreciation, amortization and impairment charges.

History and development of the company

Name and History

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

We were incorporated in the Netherlands as a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid)* under the name KASLION Acquisition B.V. on August 2, 2006, in connection with the sale by Philips of 80.1% of its semiconductor business to the “Private Equity Consortium”. Initially, the Private Equity Consortium invested in our Company through KASLION Holding B.V., a Dutch private company with limited liability.

On May 21, 2010, we converted into a Dutch public company with limited liability *(naamloze vennootschap)* and changed our name to NXP Semiconductors N.V. Concurrently, we amended our articles of association in order to effect a 1-for-20 reverse stock split of our shares of common stock.

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

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

On February 4, 2013, certain of our stockholders offered 30 million shares of our common stock, priced at $30.35 per share. We did not receive any proceeds from this secondary offering. The settlement date for the offering was February 7, 2013. On March 8, 2013, certain of our stockholders offered 25 million shares of our common stock, at a price of $31.40 per share. The offering was settled and closed on March 13, 2013. Subsequent to the settlement and closing, the consortium of funds advised by KKR, Bain, Silver Lake, APAX and Alpinvest collectively beneficially owns 34% of our shares of common stock as of that date. NXP did not receive any proceeds from the sale of shares in the offering.

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

Our corporate seat is in Eindhoven, the Netherlands. Our principal executive office is at High Tech Campus 60, 5656 AG Eindhoven, the Netherlands, and our telephone number is +31 40 2729233. Our website address is www.nxp.com.

NXP Repositioning

Since our separation from Philips in 2006, we have significantly repositioned our business and market strategy. Further, between 2008 and 2011, we executed our Redesign Program to better align our costs with our more focused business scope, and in November 2012 we announced the introduction of our OPEX Reduction Program focusing specifically on selling, general and administrative expenses and aimed at finding ways to run our company more efficiently in our cyclical industry. The estimated restructuring charge of $90 million associated with the 2012 OPEX Reduction Program was not yet recognized in the 2012 statement of income because at 31 December 2012 the Company had not yet announced the main features of the initiative to those affected by it, nor substantially implemented the initiatives.

Key elements of our repositioning are:

Focus on High Performance Mixed Signal solutions. We have implemented our strategy of focusing on High Performance Mixed Signal solutions because we believe it to be an attractive market in terms of growth, barriers to entry, relative market share, relative business and pricing stability, and capital intensity. Several transactions have been core to our strategic realignment and focus on High Performance Mixed Signal: in September 2007, we divested our cordless phone system-on-chip business to DSP Group, Inc. ("DSPG"); in July 2008, we contributed our wireless activities to the ST-NXP Wireless joint venture (our stake in which was subsequently sold, with the business being renamed "ST-Ericsson"); and in February 2010, we merged our television systems and set-top box business with Trident. Our primary motivations for exiting the system-on-chip markets for wireless activities and consumer applications were the significant research and development investment requirements and high customer concentration inherent in these markets. In addition, we sold two non-semiconductor component businesses.

On December 14, 2010, we sold NuTune Singapore Pte. Ltd. ("NuTune"), our joint venture with Technicolor S.A. that produces can tuner modules for all segments related to broadcast transmission, to AIAC. In July 2011, we sold our Sound Solutions business (formerly included in our Standard Products segment), which makes mobile speakers and receivers, to Knowles Electronics, an affiliate of Dover Corporation. This has enabled us to significantly increase our research and development investments in the High-Performance Mixed-Signal applications on which we focus. To further strengthen our High Performance Mixed Signal position, we have made a number of acquisitions in recent years, such as the acquisition on July 21, 2010 of Jennic Ltd., a developer of low power RF solutions for wireless applications. On April 12, 2012 we acquired Catena Holding B.V., a design and IP company, specialized in radio frequency communication, analog, mixed signal and digital signal processing.

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

During the fourth quarter of 2012 NXP adopted a cost savings and restructuring initiative designed to improve operational efficiency and to competitively position the Company for sustainable growth. This initiative primarily relates to a worldwide workforce reduction of approximately 650 employees, with the majority of the headcount reductions in Europe and the U.S. For additional information regarding our restructuring initiatives please refer to note 7 *Restructuring* of the consolidated financial statements.

Business overview

Our Company

We are a global semiconductor company and a long-standing supplier in the industry, with over 50 years of innovation and operating history. We provide leading High Performance Mixed Signal and Standard Product solutions that leverage our deep application insight and our technology and manufacturing expertise in RF, analog, power management, interface, security and digital processing products. Our product solutions are used in a wide range of applications such as: automotive, identification, wireless infrastructure, lighting, industrial, mobile, consumer and computing. We engage with leading original equipment manufacturers ("OEMs") worldwide and 62% of our revenue in 2012 was derived from Asia Pacific (excluding Japan).

Since our separation from Koninklijke Philips Electronics N.V. ("Philips") in 2006, we have significantly repositioned our business to focus on High Performance Mixed Signal solutions and have implemented a restructuring program and taken other restructuring initiatives aimed at achieving a world-class cost structure and streamlined processes. As of December 31, 2012, we had 25,358 full-time equivalent employees located in over 25 countries, with research and development activities in Asia, Europe and the United States, and manufacturing facilities in Asia and Europe. For the year ended December 31, 2012, we generated revenue of $4,358 million.

Markets, applications and products

We sell two categories of products, High Performance Mixed Signal product solutions and Standard Products. The first category, which consists of highly differentiated application-specific High Performance Mixed Signal semiconductors and system solutions, accounted for 80% of our total product revenue in 2012. We believe that High Performance Mixed Signal is an attractive market in terms of growth, barriers to entry, relative business and pricing stability and capital intensity. The second of our product categories, Standard Products, accounted for 20% of our total product revenue in 2012, and consists of devices that can be incorporated in many different types of electronics equipment and that are typically sold to a wide variety of customers, both directly and through distributors. Manufacturing cost, supply chain efficiency and continuous improvement of manufacturing processes drive the profitability of our Standard Products.

High Performance Mixed Signal

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

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

In 2012, we organized the High Performance Mixed Signal segment in four Business Units named: Automotive, Identification, Infrastructure & Industrial and Portable & Computing.

Standard Products

Our Standard Products business supplies a broad range of standard semiconductor components, such as small signal discretes, power discretes, protection and signal conditioning devices and linear devices, which we largely produce in dedicated in-house high-volume manufacturing operations. Our portfolio consists of a large variety of catalog products, using widely-known production techniques, with characteristics that are largely standardized throughout the industry as well as leading discrete solutions especially in the field of ESD protection / EMI filtering and low loss rectification and power switching. Our Standard Products are often sold as separate components, but in many cases, are used in conjunction with our High Performance Mixed Signal solutions, often within the same subsystems. Further, we are able to leverage customer engagements where we provide standard products devices, as discrete components, within a system to identify and pursue potential High Performance Mixed Signal opportunities.

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

Manufacturing

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

In addition, on a limited basis, we also produce and sell wafers and packaging services to our divested businesses (currently Entropic Communications, Sigma Designs, IDT and DSPG) in order to support their separation and, on a limited basis, their ongoing operations. As these divested businesses develop or acquire their own foundry and packaging capabilities, our revenue from these sources is declining. Our agreement with DSPG expired in December 2010 (although we have an ongoing obligation to supply services relating to certain specialty processes until December 2014), the supplies to ST-Ericsson have effectively been terminated except for a small number of identified products and the former agreement with Trident Microsystems was converted into two separate agreements with Entropic and Sigma after Trident’s bankruptcy. The agreement with IDT is the result of the sale of our high-speed data converter activity to IDT.

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

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

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

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

Our back-end manufacturing facilities test and package many different types of products using a wide variety of processes. To optimize flexibility, we use shared technology platforms for our back-end assembly operations. Most of our assembly and test activities are maintained in-house, as internal benchmarks indicate that we achieve a significant cost advantage over outsourcing options due to our scale and operational performance. In addition, control over these processes enables us to deliver better supply chain performance to our customers. Finally, a number of our High Performance Mixed Signal products enjoy significant packaging cost and innovation benefits due to the scale of our Standard Products business, which manufactures tens of billions of units per year.

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

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

(1) Joint venture with TSMC; we are entitled to 60% of the joint venture’s annual capacity.
(2) Joint venture with Jilin Sino-Microelectronics Co. Ltd.; we own 60% of the joint venture’s annual capacity.
(3) Closure foreseen for 2013.
(4) In back-end manufacturing we entered into a joint venture with ASE in Suzhou (ASEN), in which we currently hold a 40% interest.
(5) Closure foreseen for 2013.

We use a large number of raw materials in our front- and back-end manufacturing processes, including silicon wafers, chemicals, gases, lead frames, substrates, molding compounds and various types of precious and other metals. Our most important raw materials are the raw, or substrate, silicon wafers we use to make our semiconductors. We purchase these wafers, which must meet exacting specifications, from a limited number of suppliers in the geographic region in which our fabrication facilities are located. At our wholly owned fabrication plants, we use raw wafers ranging from 6 inches to 8 inches in size, while our joint venture plants use wafers ranging from 5 inches to 8 inches. In addition, our SSMC wafer fab facility, which produces 8 inch wafers, is jointly owned by TSMC and ourselves. We are leveraging our experience in that fab facility in optimizing our remaining wholly owned Nijmegen and Hamburg wafer fabs. Our other two remaining fabs are small and are focused exclusively on manufacturing power discretes. Emerging fabrication technologies employ larger wafer sizes and, accordingly, we expect that our production requirements will in the future shift towards larger substrate wafers.

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

Corporate and Other

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

The NXP Software solutions business develops audio and video multimedia solutions that enable mobile device manufacturers to produce differentiated hand held products that enhance the end-user experience. Our software has been incorporated into over 1 billion mobile devices produced by the world's leading mobile device manufacturers.

Sales, Marketing and Customers

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

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

Our sales and marketing strategy focuses on deepening our relationship with our top OEMs and electronic manufacturing service customers and distribution partners and becoming their preferred supplier, which we believe assists us in reducing sales volatility in challenging markets. We have long-standing customer relationships with most of our customers. Our 10 largest OEM customers are Apple, Bosch, Continental, Delphi, Gemalto, Giesecke/Devrient, Huawei, NSN, Panasonic and Samsung. When we target new customers, we generally focus on companies that are leaders in their markets either in terms of market share or leadership in driving innovation. We also have a strong position with our distribution partners, being the number two semiconductor supplier (other than microprocessors) through distribution worldwide. Our 3 largest distribution partners are Arrow, Avnet and WPG.

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

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

Research and Development, Patents and Licenses, etc.

We believe that our future success depends on our ability to both improve our existing products and to develop new products for both existing and new markets. We direct our research and development efforts largely to the development of new High Performance Mixed Signal semiconductor solutions where we see significant opportunities for growth. We target applications that require stringent overall system and subsystem performance. As new and challenging applications proliferate, we believe that many of these applications will benefit from our solutions. We have assembled a team of highly skilled semiconductor and embedded software design engineers with expertise in RF, analog, power management, interface, security and digital processing. As of December 31, 2012, we had approximately 3,500 employees in research and development, of which approximately 3,200 support our High Performance Mixed Signal businesses and approximately 300 support our Standard Products businesses. Our engineering design teams are located in India (Bangalore), China (Shanghai, Beijing), the United States (San Jose, Tempe), France (Caen, Suresnes), Germany (Hamburg, Dresden), Austria (Gratkorn), the Netherlands (Nijmegen, Eindhoven), Hong Kong, Singapore, the United Kingdom (Manchester, Sheffield), Switzerland (Zurich) and Belgium (Leuven).

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

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

Intellectual Property

The creation and use of intellectual property is a key aspect of our strategy to differentiate ourselves in the marketplace. We seek to protect our proprietary technologies by obtaining patents, retaining trade secrets and defending, enforcing and utilizing our intellectual property rights, where appropriate. We believe this strategy allows us to preserve the advantages of our products and technologies, and helps us to improve the return on our investment in research and development. Our portfolio of approximately 10,000 patents and patent applications, as well as our royalty-free licenses to patents held by Philips, give us the benefit of one of the largest patent portfolio positions in the High Performance Mixed Signal and Standard Products markets. To protect confidential technical information that is not subject to patent protection, we rely on trade secret law and frequently enter into confidentiality agreements with our employees, customers, suppliers and partners. In situations where we believe that a third party has infringed on our intellectual property, we enforce our rights through all available legal means to the extent that we determine the benefits of such actions to outweigh any costs involved.

We have engaged in licensing, selling and other activities aimed at generating income and other benefits from our intellectual property assets. We believe that there is an opportunity to generate additional income and other benefits from our intellectual property assets. This is a process that will take time before meaningful benefits can be reaped but the program has been further developed and is well underway.
While our patents and trade secrets constitute valuable assets, we do not view any one of them as being material to our operations as a whole. Instead, we believe it is the combination of our patents and trade secrets that creates an advantage for our business.

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

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

Competition

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

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

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

Environmental Regulation

In each jurisdiction in which we operate, we are subject to many environmental, health and safety laws and regulations that govern, among other things, emissions of pollutants into the air, wastewater discharges, the use and handling of hazardous substances, waste disposal, the investigation and remediation of soil and ground water contamination and the health and safety of our employees. We are also required to obtain environmental permits from governmental authorities for certain of our operations.

As with other companies engaged in similar activities or that own or operate real property, the Company faces inherent risks of environmental liability at our current and historical manufacturing facilities. Certain environmental laws impose liability on current or previous owners or operators of real property for the cost of removal or remediation of hazardous substances. Certain of these laws also assess liability on persons who arrange for hazardous substances to be sent to disposal or treatment facilities when such facilities are found to be contaminated.

Soil and groundwater contamination has been identified at our properties in Hamburg, Germany and Nijmegen, the Netherlands. The remediation processes have been ongoing for several years and are expected to continue for several years.

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

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

It is our belief that the outcome of any such claims, either individually or on a combined basis, will not have a material adverse effect on our consolidated financial position. However, such outcomes may be material to our consolidated statement of operations for a particular period.

Significant acquisitions and divestments

Effect of acquisition accounting

Our Formation

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

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

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

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

Other Significant Acquisitions

Since its Formation, NXP has acquired various companies and businesses. These acquisitions have been accounted for using the acquisition method, and the respective purchase prices have been allocated within the NXP group based on the fair values of the assets acquired and the liabilities assumed. This has also resulted in an allocation to goodwill for the excess of the purchase price over the estimated fair value of the net assets acquired. The related goodwill is not amortized but included in the annual impairment test.

Adjusting the carrying value of the assets acquired in the Formation and subsequent acquisitions to their fair value has had an adverse effect on our operating income for various reporting periods, stemming from amortization charges on intangible assets and higher depreciation charges on tangible fixed assets that are the result of acquisition accounting effects.

Divestments

2012

On July 19, 2012, we sold the High Speed Data Converter business (a product line of the High Performance Mixed Signal segment) to Integrated Device Technology (IDT). The negative deal result of $2 million, as included in other income (expense), is calculated as the difference between the selling price of $31 million and the carrying value of the business transferred, less any transaction-related direct costs.

2011

On July 4, 2011, we sold our Sound Solutions business (formerly included in our Standard Product (SP) segment) to Knowles Electronics for $855 million in cash. The transaction resulted in a gain of $404 million, net of post-closing settlements, transaction-related costs, including working capital settlements, cash divested and taxes, which is included in income from discontinued operations.

Alliances and investments

At the end of 2012, apart from Jilin NXP Semiconductor Ltd. (JNS) and Systems on Silicon Manufacturing Co. Pte. Ltd. (SSMC), which are consolidated, we participate in the following alliances through our wholly-owned subsidiary NXP B.V.:

Advanced Semiconductor Manufacturing Company

NXP B.V. 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. Through NXP B.V. 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) NXP B.V. established an assembly and test joint venture (ASEN) in China 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.

Introduction

The consolidated financial statements including notes thereon of NXP Semiconductors N.V. ('the Company' or 'NXP') that are included in this Annual Report are prepared on a basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. For the Company, this is entirely the same as IFRS as adopted by the International Accounting Standards Board (IASB).

For the IFRS accounting principles, we refer to note 2 *Significant accounting policies and new accounting standards to be adopted after 2012* of the consolidated financial statements.

The preparation of financial statements in conformity with IFRS requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

For internal and external reporting purposes, NXP follows accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP is NXP's primary accounting standard for the Company's setting of financial and operational performance targets.

Reconciliation from IFRS to U.S. GAAP

Differences IFRS versus U.S. GAAP

The main differences between the IFRS and U.S. GAAP operating income relate to the following:

- IFRS requires capitalization of development costs, if the relevant conditions are met, and subsequent amortization over the expected useful life. Under U.S. GAAP development costs are immediately recognized as an expense;
- Under IFRS the In-Process Research and Development costs from acquired companies are capitalized as an intangible asset and subsequently amortized over the expected useful life. Under U.S. GAAP these costs were recorded as expense immediately at acquisition date for acquisitions before January 1, 2009;
- Unlike U.S. GAAP, IFRS does not allow the application of the straight-line attribution method for awards with graded vesting in allocating share-based payment expenses but requires the application of the graded vesting attribution method;
- Unlike U.S. GAAP, previously recognized impairment losses (other than for goodwill) are under certain circumstances in accordance with IAS 36 *Impairment of Assets* reversed;
- Under IFRS an impairment loss is recognized when the carrying amount of the cash generating unit exceeds its recoverable amount. Such an impairment loss is allocated to goodwill first. Under U.S. GAAP the goodwill of a reporting unit is impaired when the carrying amount of the goodwill exceeds its implied fair value (two-step process);
- Under IFRS the recognition date of restructuring charges is sometimes different compared to U.S. GAAP;
- All other differences between IFRS and U.S. GAAP are of a minor importance and have no material impact.

Reconciliation of operating income (loss) from IFRS to U.S. GAAP

$ in millions	**2012**	2011
Operating income (loss) as per the consolidated statements of income on an IFRS basis	**435**	347
Adjustments to reconcile to U.S. GAAP:		
- Reversal of capitalized product development costs	**(261)**	(319)
- Reversal of amortization of product development assets	**169**	164
- Reversal impairment intangible assets (mainly product development assets)	**76**	97
Reversal derecognition development assets sold	**22**	-
- Reversal amortization IPR&D	**52**	59
- Additional amortization intangible assets	**4**	4
- Reversal IFRS adjustments share-based compensation	**7**	12
- Reversal IFRS adjustments restructuring	**(90)**	-
- Reversal interest-related items/onerous contracts	**(2)**	(5)
- Reversal additional step-up adj. from partial acquisitions of subsidiaries of NXP	**6**	8
- Other	**(6)**	(10)
Operating income (loss) as per the consolidated statement of income on a U.S. GAAP basis	**412**	357

Performance of the Group

Operating Results

For internal and external reporting purposes, NXP follows accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP is NXP's primary accounting standard for the Company's setting of financial and operational performance targets. Consequently, the information by reportable segment is presented on a U.S. GAAP basis, with, when applicable, a reconciling item to the IFRS basis.

The following table presents the aggregate by segment of Revenue and Operating income for the full year 2012 and 2011.

Revenue and Operating income

$ in millions	2012			2011		
	Revenue	**Operating income (loss)**	**%**	Revenue	Operating income (loss)	%
High Performance Mixed Signal	**3,282**	**527**	**16.1**	2,906	339	11.7
Standard Products	**832**	**37**	**4.4**	925	141	15.2
Manufacturing Operations	**211**	**(36)**	**(17.1)**	316	(60)	(19.0)
Corporate and Other	**33**	**(116)**	**-**	47	(63)	-
	4,358	**412**	**9.5**	4,194	357	8.5
Adjustments to reconcile to IFRS		**23**			(10)	
		435	**10.0**		347	8.3

Revenue

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

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

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

Our HPMS segment revenue grew 12.9% in 2012 to $3,282 million compared to $2,906 million in 2011. Within HPMS we saw robust growth within our Identification business, which was up 41% to $986 million, primarily driven by the accelerated ramp of our mobile transactions solutions and volume increases associated with our security identity product line. Our Portable & Computing business grew 14% year-on-year to $753 million as a result of increased volumes associated with specific design wins in the mobility market. Revenue from our Auto business grew one-percent versus 2011 to $939 million – with weakness in the European area offsetting very favorable results in North America and Asia. Our Industrial & Infrastructure business revenue declined 2 percent to $604 million versus the prior year primarily as a result of weak demand throughout most of the year for high-performance RF devices, even though design win momentum continues to be strong. We also faced price declines across most of our product lines and unfavorable foreign currency effects.

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

Revenue from our Manufacturing Operations segment was $211 million in 2012 compared to $316 million in 2011. The decline in revenue was primarily due to the expiration of contractual obligations to provide manufacturing services for previously divested businesses. As these divested businesses develop or acquire their own foundry and packaging capabilities, our revenue from these sources is further declining.

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

Gross profit

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

($ in millions, unless otherwise stated)	2012 Gross profit	2012 % of segment revenue	2011 Gross profit	2011 % of segment revenue
High Performance Mixed Signal	**1,745**	**53.2**	1,573	54.1
Standard Products	**238**	**28.6**	336	36.3
Manufacturing Operations	**(22)**	**(10.4)**	(48)	(15.2)
Corporate and Other	**27**	**81.8**	45	95.7
	1,988	**45.6**	1,906	45.4
Adjustments to reconcile to IFRS	**15**		2	
Total	**2,003**	**46.0**	1,908	45.5

Gross profit in 2012 increased $95 million to $2,003 million, or 46.0% of revenue, compared to $1,908 million or 45.5% of revenue in 2011. The increase was mainly attributable to volume increases, the reversal of partial accounts receivable valuation allowance of $51 million as a result of collection of accounts receivable amounts following a legal award and lower restructuring and related costs of $31 million. This was partially offset by price declines and unfavorable foreign currency effects. Our gross profit as a percentage of our revenue was also impacted by the dilutive effect of product sales at cost to divested businesses by our Manufacturing Operations. The 2012 adjustments to reconcile to IFRS primarily consist of $17 million restructuring charges that were not yet recognized in the 2012 IFRS statement of income because at 31 December 2012 the Company had not yet announced the main features of the restructuring plan to those affected by it, nor substantially implemented the restructuring initiatives.

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

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

Operating expenses

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

($ in millions, unless otherwise stated)	2012		2011	
	Operating expenses	**% of segment revenue**	Operating expenses	% of segment revenue
High Performance Mixed Signal	**1,238**	**37.7**	1,234	42.5
Standard Products	**204**	**24.5**	197	21.3
Manufacturing Operations	**17**	**8.1**	24	7.6
Corporate and Other	**146**	**-**	98	-
	1,605	**36.8**	1,553	37.0
Adjustments to reconcile to IFRS	**(24)**		12	
Total	**1,581**	**36.3**	1,565	37.3

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

($ in millions, unless otherwise stated)	**2012**	2011
Research and development	**628**	635
Selling, general and administrative	**977**	918
Adjustments to reconcile to IFRS	**(24)**	12
Operating expenses	**1,581**	1,565

Operating expenses amounted to $1,581 million, or 36.3% of revenue in 2012 compared to $1,565 million, or 37.3% of revenue in 2011. The increase in 2012 by $16 million as compared to 2011 primarily stems from the combined effect of an increased bonus charge of $30 million, increased stock based compensation of $16 million and lower restructuring and related costs of $37 million.

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

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

Operating expenses in Corporate and Other were $146 million in 2012 compared to $98 million in 2011. Taking into account the IFRS adjustment of $47 million with regard to restructuring charges not yet recognized in the 2012 IFRS statement of income (see also above), operating expenses in Corporate and Other amount to $99 million in 2012 compared to $98 million in 2011.

Other income and expense

Other income and expense resulted in an income of $13 million for 2012 compared to $4 million in 2011. The 2012 other income of $13 million includes a $5 million reversal of a prior year litigation provision.

Restructuring charges

Net restructuring and restructuring related costs that affected our operating income in 2012 were $21 million compared to $90 million in 2011.

In 2012, we had net restructuring charges of $9 million, recorded in the liabilities. In addition, we incurred $12 million of restructuring related costs in 2012 which were directly charged to our operating income.

At the end of 2012 we announced a cost savings and restructuring initiative (“the OPEX Reduction Program”), designed to improve operational efficiency and to competitively position the Company for sustainable growth. The estimated restructuring charge of $90 million associated with this initiative was not yet recognized in the 2012 statement of income because at 31 December 2012 the Company had not yet announced the main features of the initiative to those affected by it, nor substantially implemented the initiatives.

In 2011, we had restructuring charges of $66 million which were mainly related to the future closure of our ICN 4 wafer fabrication facility in Nijmegen, the Netherlands and actions to reduce headcount. These charges were partially offset by a release of restructuring liabilities of $8 million related to previous restructuring programs. Furthermore, we incurred $32 million of restructuring related costs in 2011 which were directly charged to our operating income. For additional information, see note 7 *Restructuring* of the consolidated financial statements

Financial income and expense

Financial income and expense (including the extinguishment of debt) was an expense of $440 million in 2012, compared to an expense of $260 million in 2011. Extinguishment of debt in 2012 amounted to a loss of $161 million compared to a loss of $32 million in 2011. In 2012, financial income and expense included a gain of $28 million as a result of changes in foreign exchange rates mainly applicable to re-measurement of our U.S. dollar-denominated notes and short term loans, which reside in a euro functional currency entity, compared to a gain of $128 million in 2011. The net interest expense amounted to $266 million in 2012 compared to $310 million in 2011. This mainly related to lower average debt outstanding in 2012, compared to 2011.

Income taxes

The income taxes expense was $ nil for the year ended December 31, 2012, compared to $19 million for the year ended December 31, 2011, and the effective income tax rates were nil% and 21.7%, respectively. The change in the effective tax rate for the year ended December 31, 2012 compared to the same period in the previous year was primarily due to an increase in losses recorded in jurisdictions where no deferred tax asset is recognized and in addition the year 2012 included more benefits for the effect of tax incentives in certain jurisdictions.

Results relating to equity-accounted Investees

Results relating to the equity-accounted investees amounted to a profit of $19 million, compared to a loss of $104 million in 2011. The 2012 $19 million profit includes the share of result of equity-accounted investees for a total amount of $7 million as well as gains related to our investments in Trident, ASMC and ASEN. In 2011 the loss was mainly related to our investment in Trident.

Income (loss) from discontinued operations

The income of discontinued operations, net of taxes was $1 million in 2012, compared to a gain of $428 million in 2011. This related entirely to the results of our Sound Solutions business, which was sold during 2011.

Non-controlling Interests

Non-controlling interests are related to the third party share in the results of consolidated companies, predominantly, SSMC. The share of non-controlling interests amounted to a profit of $57 million in 2012, compared to a profit of $38 million in 2011.

Liquidity and capital resources

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

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

Capital expenditures were $251 million in 2012, approximately in line with our guidance of 5% of revenues over the semiconductors business cycle, compared to $221 million in 2011. On a going-forward basis we expect our capital expenditures to be approximately 5% of revenues.

Since December 31, 2011, the book value of our total debt has been reduced from $3,752 million to $3,446 million as of December 31, 2012.

Several cash buybacks and debt redemptions partially offset by the entry into new term loans resulted in a total debt reduction of $306 million.

The total amount of cash used for financing activities amounted to $574 million.
At the end of 2012, we had a capacity of $580 million remaining under our Secured Revolving Credit Facility, net of outstanding bank guarantees, based on the end of year exchange rate. However, the amount of this availability varies with fluctuations between the euro and the U.S. dollar as the total amount of the facility, €620 million, is denominated in euro and the amounts drawn are denominated in U.S. dollars.

For the year ended December 31, 2012, we incurred total net interest expense of $266 million and the weighted average interest rate on our debt instruments as of the end of December 2012 was 5.4% compared to $310 million and 7.4% respectively in 2011.

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

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

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

Our sources of liquidity include cash on hand, cash flow from operations and amounts available under the Secured Revolving Credit Facility. We believe that, based on our current level of operations as reflected in our results of operations for the year ended December 31, 2012, these sources of liquidity will be sufficient to fund our operations, capital expenditures, and debt service for at least the next twelve months.

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions. In the future, we may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay principal, premium, if any, and interest on our indebtedness. Our business may not generate sufficient cash flow from operations, or we may not have enough capacity under our Secured Revolving Credit Facility, or from other sources in an amount sufficient to enable us to repay our indebtedness, including the Secured Revolving Credit Facility, the Term Loans, the Secured Notes and the Unsecured Notes or to fund our other liquidity needs, including working capital and capital expenditure requirements. In any such case, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness.

Cash flow from operating activities

In 2012, we generated $983 million of cash from operating activities compared to $493 million in 2011. The operating cash flows are directly impacted by the net income of $15 million (2011: a net income of $392 million). The net income includes non-cash items such as depreciation and amortization of $765 million (2011: $825 million) and impairment of intangible assets of $76 million (2011: $97 million).

Furthermore, the net income includes interest paid for an amount of $292 million (2011: $306 million), gains related to equity-accounted investees of $19 million (2011: losses of $104 million), costs related to stock-based compensation of $59 million (2011: $43 million) and losses related to extinguishment of debt of $161 million (2011: $32 million).

Furthermore, the net loss includes losses on the sale of assets of $1 million (2011: $10 million) and a gain related to exchange differences of $28 million (2011: $128 million).

Cash flow from investing activities

Net cash used for investing activities amounted to $504 million in 2012, compared to net cash used of $522 million in 2011. Our capital expenditures on property, plant and equipment increased to $251 million in 2012 compared to $221 million in 2011. Capital expenditures on development assets amounted to $261 million in 2012 compared to $319 million in 2011.

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

Cash flow from financing activities

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

2012 Financing Activities

2019 Term Loan

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

2017 Revolving Credit Facility

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

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

2013 Super Priority Notes

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

2020 Term Loan

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

2011 Financing Activities

2016 Floating Rate Notes

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

2017 Term Loans

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

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

2012 Revolving Credit Facility

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

Senior Notes 2015/2018

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

Cash Flow from Discontinued Operations

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

On July 4, 2011, we executed an agreement with Dover Corporation pursuant to which Dover Corporation's Knowles Electronics business acquired our Sound Solutions business. The divestiture of our Sound Solutions business resulted in net cash provided by investing activities through discontinued operations of $787 million in 2011.

Debt position

Short-term debt

In 2012, our short-term debt of $305 million included other short-term bank borrowings of $36 million, related to a local bank loan in China, and $269 million related to the current portion of long-term debt.

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

Long-term debt

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

($ in millions)	December 31, 2012	Currency Effects	Accrual of Debt Discount	Debt Exchanges/ Repurchases/ New Borrowings	Other[8]	December 31, 2011
Euro-denominated 10% super priority notes due July 2013[1]	**-**	**(1)**	**3**	**(31)**	**1**	**28**
U.S. dollar-denominated 10% super priority notes due July 2013[2]	**-**		**12**	**(205)**	**2**	**191**
Euro-denominated floating rate senior secured notes due October 2013[1][2]	**-**	**3**			**(186)**	**183**
U.S. dollar-denominated floating rate senior secured notes due October 2013[2]	**-**				**(57)**	**57**
Euro-denominated 8 5/8% senior notes due October 2015[1]	**-**	**6**		**(266)**		**260**
U.S. dollar-denominated 9 1/2% senior notes due October 2015	**-**			**(504)**		**504**
U.S. dollar-denominated floating senior secured notes due November 2016 [3]	**607**		**2**		**(1)**	**606**
U.S. dollar-denominated secured term credit agreement due April 2017 [4]	**479**		**1**	**(5)**	**1**	**482**
U.S. dollar-denominated secured term credit agreement due April 2017 [5]	**468**		**3**	**(5)**		**470**
U.S. dollar-denominated 9 3/4% senior secured notes due August 2018	**412**			**(500)**	**12**	**900**
U.S. dollar-denominated secured term credit agreement due March 2019 [6]	**456**		**1**	**464**	**(9)**	**-**
U.S. dollar-denominated secured term credit agreement due April 2020 [7]	**487**			**498**	**(11)**	**-**
	2,909	**8**	**22**	**(554)**	**(248)**	**3,681**
Revolving Credit Facility	**217**			**217**		
Other long-term debt	**15**			**(5)**	**1**	**19**
Total long-term debt	**3,141**	**8**	**22**	**(342)**	**(247)**	**3,700**

(1) Converted into U.S. dollars at $1.3190 per €1.00, the exchange rate in effect at December 31, 2012.

(2) Interest accrues at a rate of three-month EURIBOR plus 2.75%.

(3) Interest accrues at a rate of LIBOR plus 5.50%.

(4) On March 4, 2011, we entered into the First 2017 Term Loan for an initial $500 million at a rate of interest of LIBOR plus 3.25% with a floor of 1.25%.

(5) On November 18, 2011, we entered into the Second 2017 Term Loan for a second tranche of $500 million at a rate of interest of LIBOR plus 4.25% with a floor of 1.25%.

(6) On February 16, 2012 we entered into the 2019 Term Loan for an initial $475 million at a rate of interest of LIBOR plus 4% with a floor of 1.25%.

(7) On December 10, 2012, we entered into the 2020 Term Loan for an initial $500 million at a rate of interest of LIBOR plus 3.5% with a floor of 1.25%.

(8) Other mainly includes the reclassification of the current portion of long-term debt and amortization of bond fees.

We may from time to time continue to seek to retire or purchase our outstanding debt through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions or otherwise.

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

Private offering of 5.75% senior notes due 2023 to institutional investors
On March 5, 2013, the Company announced the upsizing (from $300 to $500 million aggregate principal amount) and pricing of a private offering to institutional investors of $500 million aggregate principal amount of U.S. dollar-denominated 5.75% senior notes due 2023 by us and our subsidiary NXP Funding LLC. This offering closed on March 12, 2013. We used the net proceeds of this private offering to repay amounts outstanding under our Term Loan B that was entered into on February 16, 2012.

Certain Terms and Covenants of the Notes
We are not required to make mandatory redemption payments or sinking fund payments with respect to the Secured Notes.
The Indentures governing the Existing Secured Notes contain covenants that, among other things, limit our ability and that of our restricted subsidiaries to incur additional indebtedness, create liens, pay dividends, redeem capital stock, make certain other restricted payments or investments, enter into agreements that restrict dividends from restricted subsidiaries, sell assets, including capital stock of restricted subsidiaries, engage in transactions with affiliates, and effect a consolidation or merger. As of December 31, 2012, and as of the date of filing of this Annual Report, we are in compliance with our restrictive covenants contained in the Indentures.

The Term Loans and the Secured Notes are fully and unconditionally guaranteed jointly and severally, on a senior basis by certain of our current and future material wholly owned subsidiaries.
Pursuant to various security documents related to the Term Loans, the Secured Notes and the Secured Revolving Credit Facility, we have granted first priority liens and security interests over substantially all of our assets, including the assets of our material wholly owned subsidiaries.

Employment

Employees

Employees by segment at year-end

	2012	2011
High Performance Mixed Signal	**3,224**	3,037
Standard Products	**1,654**	1,747
Manufacturing Operations	**16,490**	14,860
Corporate:		
Central research and development	**608**	624
Sales and marketing	**761**	775
Information technology	**333**	337
Other shared services	**1,914**	1,911
Other (including NXP Software)	**374**	369
Total	**25,358**	23,660

Risk management

Risk factors

The following section provides an overview of the risks to which our business is exposed. You should carefully consider the risk factors described below and all other information contained in this Annual Report, including the Consolidated Financial Statements and related Notes. The occurrence of the risks described below could have a material adverse impact on our business, financial condition or results of operations. Various statements in this Annual Report, including the following risk factors, contain forward-looking statements.

NXP's risk management and business control

Risk management and business control forms an integral part of business management. Our risk and control policies and principles encourage our management to closely monitor some of our day-to-day operations, ensure strict compliance with all legal requirements and safeguard the integrity of the financial reporting and related disclosures. Our management is responsible for identifying critical business risks and for implementing fit-for-purpose risk responses. Internal controls are regularly assessed and, if required, corrected.

We believe that a state-of-the-art corporate governance model is a critical factor to achieve business success. Our corporate governance model is based on, amongst other factors, our risk management and business control policies and principles and high ethical standards that are applied throughout every aspect of our business. Our risk management and business control policies and principles are an integral part of our corporate governance model.

The quality of our risk management and business control policies and principles and the findings of internal and external audits are reported to and discussed by the audit committee. Internal auditors monitor the quality of our risk management and business control policies and principles through risk-based operational audits, inspections of financial reporting controls and compliance audits.

The NXP Business Control Framework

The NXP Business Control Framework sets the standard for risk management and business controls at NXP. The objectives of the Business Control Framework are to maintain integrated management control of the Company's operations, to comply with all applicable laws and regulations, as well as to ensure integrity of the financial reporting and business processes.

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.

The Company has designed its internal control system in accordance with the recommendations of the Committee of Sponsoring Organizations of the Threadway Commission (COSO).

The NXP Business Code of Conduct

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

Risk factors

- The semiconductor industry is highly cyclical.
- Significantly increased volatility and instability and unfavorable economic conditions may adversely affect our business.
- The semiconductor industry is highly competitive. If we fail to introduce new technologies and products in a timely manner, this could adversely affect our business.
- In many of the market segments in which we compete, we depend on winning selection processes, and failure to be selected could adversely affect our business in those market segments.
- The demand for our products depends to a significant degree on the demand for our customers' end products.
- The semiconductor industry is characterized by significant price erosion, especially after a product has been on the market for a significant period of time.
- Our substantial amount of debt could adversely affect our financial health, which could adversely affect our results of operations.
- We may not be able to generate sufficient cash to service and repay all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.
- Goodwill and other identifiable intangible assets represent a significant portion of our total assets, and we may never realize the full value of our intangible assets.

- As our business is global, we need to comply with laws and regulations in countries across the world and are exposed to international business risks that could adversely affect our business.
- Interruptions in our information technology systems could adversely affect our business.
- In difficult market conditions, our high fixed costs combined with low revenue negatively affect our results of operations.
- 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.
- We are bound by the restrictions contained in the Secured Revolving Credit Facility, the Term Loans and the indentures related to the Notes, which may restrict our ability to pursue our business strategies.
- Our failure to comply with the covenants contained in our Secured Revolving Credit Facility, the Term Loans or the Indentures or our other debt agreements, including as a result of events beyond our control, could result in an event of default which could materially and adversely affect our operating results and our financial condition.
- 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.
- The intellectual property that was transferred or licensed to us from Philips may not be sufficient to protect our position in the industry.
- We may become party to intellectual property claims or litigation that could cause us to incur substantial costs, pay substantial damages or prohibit us from selling our products.
- We rely on strategic partnerships, joint ventures and alliances for manufacturing and research and development. However, we often do not control these partnerships and joint ventures, and actions taken by any of our partners or the termination of these partnerships or joint ventures could adversely affect our business.
- We have made and may continue to make acquisitions and engage in other transactions to complement or expand our existing businesses. However, we may not be successful in acquiring suitable targets at acceptable prices and integrating them into our operations, and any acquisitions we make may lead to a diversion of management resources.
- 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.
- We may from time to time restructure parts of our processes. Any such restructuring may impact customer satisfaction and the costs of implementation may be difficult to predict.
- 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.
- Our working capital needs are difficult to predict.
- Our business may be adversely affected by costs relating to product defects, and we could be faced with product liability and warranty claims.
- Our business has suffered, and could in the future suffer, from manufacturing problems.

- 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.
- Failure of our outside foundry suppliers to perform could adversely affect our ability to exploit growth opportunities.
- Loss of our key management and other personnel, or an inability to attract such management and other personnel, could affect our business.
- Disruptions in our relationships with any one of our key customers could adversely affect our business.
- We receive subsidies and grants in certain countries, and a reduction in the amount of governmental funding available to us or demands for repayment could increase our costs and affect our results of operations.
- Legal proceedings covering a range of matters are pending in various jurisdictions. Due to the uncertainty inherent in litigation, it is difficult to predict the final outcome. An adverse outcome might affect our results of operations.
- Fluctuations in foreign exchange rates may have an adverse effect on our financial results.
- We are exposed to a variety of financial risks, including currency risk, interest rate risk, liquidity risk, commodity price risk, credit risk and other non-insured risks, which may have an adverse effect on our financial results.
- The impact of a negative performance of financial markets and demographic trends on our defined benefit pension liabilities and costs cannot be predicted and may be severe.
- Changes in the tax deductibility of interest may adversely affect our financial position and our ability to service the obligations under our indebtedness.
- We are exposed to a number of different tax uncertainties, which could have an impact on tax results.
- There may from time to time exist deficiencies in our control systems that could adversely affect the accuracy and reliability of our periodic reporting.
- Environmental laws and regulations expose us to liability and compliance with these laws and regulations, and any such liability may adversely affect our business.
- Certain natural disasters, such as flooding, large earthquakes, volcanic eruptions or nuclear or other disasters, may negatively impact our business. There is increasing concern that climate change is occurring and may cause a rising number of natural disasters.
- The Private Equity Consortium is able to influence or has control over us and this control limits your ability to influence our significant corporate transactions. The Private Equity Consortium may have conflicts of interest with other stakeholders, including our stockholders.
- United States civil liabilities may not be enforceable against us.
- We are a Dutch public company with limited liability. The rights of our stockholders may be different from the rights of stockholders governed by the laws of U.S. jurisdictions.
- Our articles of association, Dutch corporate law and our current and future debt instruments contain provisions that may discourage a takeover attempt.
- We are a foreign private issuer and, as a result, are not subject to U.S. proxy rules but are subject to Exchange Act reporting obligations that, to some extent, are more lenient and less frequent than those of a U.S. issuer.

- We are a foreign private issuer and, as a result, in accordance with the listing requirements of the NASDAQ Global Select Market we rely on certain home country governance practices rather than the corporate governance requirements of the NASDAQ Global Select Market.
- The market price of our common stock may be volatile.
- We do not intend to pay dividends for the foreseeable future.
- Future sales of our shares of common stock could depress the market price of our outstanding shares of common stock.
- Our actual operating results may differ significantly from our guidance.

Subsequent events

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

Main features 2012 OPEX Reduction Program
As from mid January, 2013, the Company started the announcements of the main features of the OPEX Reduction Program (see also note 7 *Restructuring*) to those affected by it, in combination with the respective consultation processes with employee representatives, like works councils and unions.

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

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

Private offering of 5.75% senior notes due 2023 to institutional investors
On March 5, 2013, the Company announced the upsizing (from $300 to $500 million aggregate principal amount) and pricing of a private offering to institutional investors of $500 million aggregate principal amount of U.S. dollar-denominated 5.75% senior notes due 2023 by our wholly-owned subsidiaries NXP B.V. and NXP Funding LLC. This offering closed on March 12, 2013. We used the net proceeds of this private offering to repay amounts outstanding under our Term Loan B that was entered into on February 16, 2012.

Secondary offering of common shares
On March 8, 2013, we announced a secondary offering of 25,000,000 shares of our common stock to be sold by certain of our principal stockholders, pursuant to our shelf registration statement on Form F-3, at a price to the public of $31.40 per share. The offering was settled and closed on March 13, 2013. Subsequent to the settlement and closing, the consortium of funds advised by KKR, Bain, Silver Lake, APAX and Alpinvest collectively beneficially owns 34% of our shares of common stock as of that date. NXP did not receive any proceeds from the sale of shares in the offering.

Litigation
On April 2, 2013, the ICC arbitration tribunal issued a final award in a second arbitration commenced by STMicroelectronics (“ST”) to reverse the economic effect of the award by the ICC Tribunal in a first arbitration between ST and NXP of April 5, 2012. According to this first arbitration, ST paid to NXP approximately $59 million in the second quarter of 2012. By ruling of April 2, 2013, the ICC arbitration tribunal dismissed all claims made by ST in this second arbitration. No appeal is available to ST.

Realignment of Business Segments
On April 11, 2013 the Company announced the realignment of several product lines to better reflect underlying market dynamics, product complexity and the management of the business. The changes include the movement of product line General Purpose Logic (GPL) from segment High Performance Mixed Signal (HPMS), end-market Portable & Computing to segment Standard Products and the movement of product line NXP Software from Corporate and Other to segment HPMS, end-market Industrial & Infrastructure.

Eindhoven, May 1, 2013
Board of directors

NXP's Leadership

Board of Directors

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

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

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

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

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

- **Johannes P. Huth (1960, German).** Mr. Huth has been appointed as a non-executive director and vice-chairman of our board of directors in August 2010. Prior to that, Mr. Huth was a member and chairman of our supervisory board and a member and vice-chairman of NXP B.V.'s supervisory board from September 29, 2006. He is currently a member of the supervisory board of Bertelsmann Music Group (BMG), chairman of WMF AG and a director of Kohlberg Kravis Roberts & Co. Ltd, President of Kohlberg Kravis Roberts & Co. SAS, vice-chairman of the supervisory board of ProSieben Sat 1 Media AG and a member of the advisory board of Wild Flavors GmbH. Mr. Huth also serves on the supervisory board of KION Holding 1 GmbH.

- **Vikram Bhatia (1947, British).** Mr. Bhatia has been appointed as a non-executive director of our board of directors effective May 26, 2011. He has held numerous senior positions and various assignments in the past years, including in iSoftGroup Plc, Monarch Holdings PLC, Page and Moy Travel Group and the Claverley Group of companies. In May 2006, working with PricewaterhouseCoopers, he was appointed the Turnaround Programme Director in the Hull and East Yorkshire Hospital NHS Trust. Prior to these assignments, he fulfilled various other senior roles, which included Sithe Energy, British Telecom, Philips and Deloitte.

- **Nicolas Cattelain (1973, French).** Mr. Cattelain has been appointed as a non-executive director of our board of directors in August 2010. Mr. Cattelain became a member of our supervisory board and the supervisory board of NXP B.V. in February 2010 and was a director of Kohlberg Kravis Roberts & Co., Europe from 2000 to 2012. Before 2000, Mr. Cattelain was with the private equity firm Industri Kapital in London and prior to that he worked in the Mergers and Acquisitions Department of Merrill Lynch. Mr. Cattelain also serves on the board of Pagesjaunes Groupe where he sits in the remuneration and audit committees.

- **Egon Durban (1973, German).** Mr. Durban has been appointed as a non-executive director of our board of directors in August 2010. Prior to that, Mr. Durban was a member of our supervisory board and a member of NXP B.V.'s supervisory board from September 29, 2006. Mr. Durban is a Managing Partner and Managing Director of Silver Lake. Mr. Durban joined Silver Lake in 1999 as a founding principal and has worked in the firm's Menlo Park and New York offices and set-up and oversaw the Firm's London office from 2005 to 2010. Mr. Durban serves on the board of directors of Intelsat S.A., MultiPlan, Inc., and on the Executive Committee of William Morris Endeavor Entertainment, LLC. Mr. Durban also oversees the firm's investments in Groupon and Zynga and oversaw investments in Unity Media, Tandberg, and Intelsat debt. Previously, he served on the Board of Skype Global S.à r.l. and was the Chairman of its Operating Committee. Earlier, Mr. Durban worked in Morgan Stanley's Corporate Finance Technology and Equity Capital Markets Group. Mr. Durban graduated from Georgetown University with a B.S. in Finance.

- **Kenneth A. Goldman (1949, American).** Mr. Goldman has been appointed as a non-executive director of our board of directors effective August 6, 2010. Mr. Goldman is the chief financial officer of Yahoo!, Inc since October 2012. Prior to that, Mr. Goldman served as the senior vice president and chief financial officer of Fortinet, Inc, from 2006 to 2012 and as senior vice president, finance and administration, and chief financial officer of Siebel Systems, Inc. from 2000 to 2006. Mr. Goldman has also served as senior vice president and chief financial officer of Excite@Home Corporation and Sybase, Inc., as well as serving as chief financial officer of Cypress Semiconductor Corporation and VLSI. Technology, Inc. Mr. Goldman also serves on the board of directors of Infinera, Inc. and several private companies. Mr. Goldman also served as a member of the Treasury Advisory Committee on the Auditing Profession. He is also a member of the board of trustees of Cornell University.

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

- **Ian Loring (1966, American).** Mr. Loring has been appointed a non-executive director of our board of directors in August 2010. Mr. Loring became a member of our supervisory board and the supervisory board of NXP B.V. on September 29, 2006 and is a managing director of Bain Capital Partners, LLC. Prior to joining Bain Capital Partners in 1996, Mr. Loring worked at Berkshire Partners and has previously also worked at Drexel Burnham Lambert. He serves as a director of SkillSoft Limited, Clear Channel Communications Inc., The Weather Channel Inc., Denon & Marantz and Contec Co. Ltd. Mr. Loring previously served on the board of Warner Music Group Corporation, Cumulus Media Inc. and Echelon Telecom Inc.

- **Michel Plantevin (1956, French).** Mr. Plantevin has been appointed a non-executive director of our board of directors in August 2010. Mr. Plantevin became a member of our supervisory board and the supervisory board of NXP B.V. on September 29, 2006 and is a managing director of Bain Capital, LLC. Prior to joining Bain Capital LLC. 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, Bravida AB, Trinseo and IMCD.

- **Roy MacKenzie (1971, British).** Mr. MacKenzie has been appointed as a non-executive director of our board of directors effective May 30, 2012. Mr. Mackenzie is a Partner of Apax Partners LP and has worked in Apax's London and New York offices since joining the firm in 2003. He currently serves as a director of Epicor Software Corporation, Sophos Ltd, and King.com. Earlier in his career he was with McKinsey & Co in Palo Alto and served as a product manager at Psion Computers Ltd in London.

Management Team

Set forth below are the names, ages as of December 31, 2012, and positions of the executive officers who together with our chief executive officer, Mr. Clemmer, constitute our management team.

Name	Age	Position
Richard L. Clemmer	61	Executive director, president and chief executive officer
Chris Belden	52	Executive vice president and general manager of operations
Guido Dierick	53	Executive vice president and general counsel
Alexander Everke	49	Executive vice president and general manager HPMS Industrial and Infrastructure
Dave French	56	Executive vice president of R&D, and general manager HPMS Portable and Computing
Loh Kin Wah	58	Executive vice president sales & marketing
Peter Kelly *	55	Executive vice president and chief financial officer
Robert Rigby-Hall	47	Executive vice president and chief human resources officer
Sean Hunkler	50	Executive president and general manager of operations
Ruediger Stroh	50	Executive vice president and general manager HPMS Identification
Frans Scheper	50	Executive vice president and general manager Standard Products
Kurt Sievers	43	Executive vice president and general manager HPMS Automotive

* Mr. Kelly was appointed to replace Mr. Sundström, who resigned from the Company effective July, 2012.

- **Chris Belden (1960, American).** Mr. Belden is executive vice president, general manager of operations and member of the management team. He joined NXP as senior vice president, global manufacturing on March 1, 2008. Previously Mr. Belden worked for Applied Materials Inc., where he was responsible for global operations. Before that, he spent the majority of his career at Motorola, Inc. and Freescale Semiconductor Inc., where he was responsible for Freescale's global manufacturing operations.

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

- **Alexander Everke (1963, German).** Mr. Everke is executive vice president, member of the management team and general manager of our High Performance Mixed Signal businesses focused on the industrial and infrastructure application markets. He previously served in various senior management positions within NXP. Mr. Everke joined NXP in 2006 from Infineon Technologies AG, where he served last as general manager of the Chip Card & Security ICs business unit. Before Infineon, Mr. Everke worked for several years at Siemens AG.

- **Dave French (1956, American).** Mr. French is executive vice president of R&D, member of the management team and general manager of our High-Performance Mixed-Signal businesses focused on the portable and computing markets. Mr. French has more than 30 years experience in the semiconductor industry and has had direct experience in product development, marketing, manufacturing, strategic planning and business management. He started his career at Texas Instruments, working in microcontroller and DSP product line management and he later served as GM of logic products at Fairchild semiconductor, and GM of Analog Devices' DSP business line. Mr. French also served as President and CEO of Cirrus Logic from 1999-2007 and joined NXP in April 2012, after working as an advisor to several venture-backed companies.

- **Loh Kin Wah (1954, Malaysian).** Mr. Loh Kin Wah is executive vice president, member of the management team, responsible for sales & marketing. Mr. Loh joined NXP on October 1, 2011. He previously was the President and CEO of Qimonda AG following its spin-out from Infineon Technologies AG. Prior to this appointment, he was a member of the Infineon AG Executive Management Board responsible for the Communication Business Group and subsequently the Memories Product Group. Mr. Loh has held a series of management positions within Infineon AG and its parent company Siemens AG, both in Europe and Asia.

- **Peter Kelly (1957, American).** Mr. Kelly is executive vice president and chief financial officer of NXP and a member of the management team. He joined NXP on March 1, 2011. He previously shared responsibility with Mr. Belden for managing our overall operations. Mr. Kelly has over 25 years of applicable experience in the global technology industry and has extensive financial expertise having worked in financial management positions in several other companies, including as CFO of UGI Corp. and Agere Systems Inc. Mr. Kelly also serves on the board of Plexus, Corp.

- **Robert Rigby-Hall (1965, British).** Mr. Rigby-Hall is executive vice president, chief human resources officer and member of the management team since August 15, 2011. Previously, Mr. Rigby-Hall was chief HR officer of LexisNexis, a global provider of information and technology solutions, that is part of Anglo-Dutch group Reed Elsevier.

- **Sean Hunkler (1962, American).** Mr. Hunkler is executive vice president, general manager of operations and a member of the management team. He shares responsibility with Mr. Belden for managing the company's Global Operations. Mr. Hunkler joined NXP on July 16, 2012 with more than 28 years of experience in the semiconductor and materials industries in the US and Asia, including leading roles in internal and external manufacturing operations for MEMC and Freescale. Previously, Mr. Hunkler also served as a non-executive director on the board of SMIC and is a founding trustee of the Virginia Commonwealth University Engineering Foundation Board.

- **Ruediger Stroh (1962, German).** Mr. Stroh is executive vice president, member of the management team and general manager of our High Performance Mixed Signal businesses focused on the identification application markets. Before joining NXP on May 18, 2009, he led LSI Corporation's Storage Peripherals business, overseeing silicon solutions for hard disk and solid state drives addressing consumer and enterprise markets. Previously, he headed Agere System Inc's storage division and served as chief executive officer for a number of start-up companies. Mr. Stroh began his career at Siemens AG where he held multiple management positions before joining Infineon Technologies AG.

- **Frans Scheper (1962, Dutch).** Mr. Scheper has been executive vice president and general manager for the Standard Products business since November, 2009, and has been a member of the management team since January 1, 2010. He has previously served as general manager of the general applications (discretes) business line within the multimarket business and served in various positions at Philips since 2000.

- **Kurt Sievers (1969, German).** Mr. Sievers has been executive vice president and general manager of our High Performance Mixed Signal businesses focused on the automotive application markets since November, 2009 and since January 2010 he has been a member of the management team. He has previously managed the automotive safety and comfort business line and served in various positions at Philips since 1995.

Corporate governance

Introduction

NXP Semiconductors N.V., a company organized under Dutch law (the 'Company' or 'we'), is the parent company of the NXP group ('NXP'). The Company is a holding company whose only material assets are the direct ownership of 100% of the shares of NXP B.V., a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*).

We were incorporated in the Netherlands as a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the name KASLION Acquisition B.V. on August 2, 2006. On May 21, 2010, the Company was converted into a Dutch public company with limited liability (*naamloze vennootschap*) and changed its name to NXP Semiconductors N.V. Concurrently, the Company amended its articles of association in order to effect a 1-for-20 reverse stock split of its shares of common stock.

In August 2010, the Company listed its common stock on the NASDAQ Global Select Market.

The Dutch Corporate Governance Code

NXP is subject to various corporate governance requirements and best practice codes, the most relevant being those in the Netherlands and the United States. The Dutch corporate governance code (the 'Dutch corporate governance code' or the 'code'), as revised, became effective on January 1, 2009, and applies to all Dutch companies listed on a government-recognized stock exchange, whether in the Netherlands or elsewhere. The code is based on a "comply or explain" principle. Accordingly, companies are required to disclose in their annual reports filed in the Netherlands whether or not they are complying with the various rules of the Dutch corporate governance code that are addressed to the board of directors or, if any, the supervisory board of the company and if they do not apply those provisions, to give the reasons for such non-application. The code contains principles and best practice provisions for managing boards, supervisory boards, stockholders and general meetings of stockholders, financial reporting, auditors, disclosure, compliance and enforcement standards.

In this report, we address our overall corporate governance structure and state to what extent we apply the provisions of the Dutch corporate governance code. This report also includes the information which the Company is required to disclose pursuant to the governmental decree on corporate governance. The board of directors, which is responsible for the corporate governance structure of the Company, is of the opinion that the principles and best practice provisions of the Dutch corporate governance code that are addressed to the board of directors, interpreted and implemented in line with the best practices followed by the Company, are being applied. Deviations from aspects of the corporate governance structure of the Company, when deemed necessary in the interests of the Company, will be disclosed in the annual report. Substantial changes in the Company's corporate governance structure and in the Company's compliance with the Dutch corporate governance code are submitted to the general meeting of shareholders for discussion under a separate agenda item.

Board Practices

Management Structure

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

Powers, Composition and Function

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

The appointment of the directors will be made by our general meeting of stockholders upon a binding nomination of the board of directors. A resolution to appoint a director nominated by the board of directors shall be adopted by a simple majority of the votes cast. The board of directors shall make a list of candidates containing the names of at least the number of persons prescribed by law, which is currently one, for each vacancy to be filled. The nomination shall state whether the director is proposed to be an executive or non-executive director. The general meeting of stockholders may at all times overrule the binding nature of such a nomination by a resolution adopted by at least a two thirds majority of the votes cast, provided such majority represents more than half of our issued share capital. The board of directors may then make a new nomination, containing at least the number of persons prescribed by law, which currently is one. If a nomination has not been made or has not been made in due time, this shall be stated in the notice and the general meeting of stockholders shall be free to appoint a director at its discretion. The latter resolution of the general meeting of stockholders must also be adopted by at least two thirds majority of the votes cast, provided such majority represents more than half of our issued share capital.

The Private Equity Consortium is able to influence or has control over us and it, together with Philips, has entered into a shareholders' agreement that contains voting agreements with respect to, among other matters, the election of certain non-executive members to our board of directors. The shareholders' agreement provides that our board of directors shall be comprised of, among others, seven non-executive members and that certain stockholders have the right to designate such non-executive members, subject to their election by our general meeting of stockholders. So long as any fund advised by KKR, Bain, Silver Lake, Apax or AlpInvest beneficially owns at least 2.5% of the outstanding shares of our common stock, such fund shall have the right to designate either one or two members to our board of directors. The funds advised by KKR and Bain each have the right to designate two members of our board of directors and the funds advised by Silver Lake and Apax each have the right to designate one member to our board of directors. If any party's shareholding falls below the relevant threshold, it will cause the board member(s) nominated by it to promptly resign from the board of directors, unless otherwise agreed. The shareholders agreement will terminate upon the occurrence of certain events, including: (i) with respect to the individual parties to the agreement, upon such party ceasing to hold shares of common stock, (ii) with respect to Philips, upon the date that is three years after the consummation of the initial public offering in August 2010 and (iii) with respect to all parties, upon certain parties' collective shareholdings falling below specified thresholds.

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

Effective per January 1, 2013, Dutch law introduced a required gender balance for entities qualifying as large companies (as defined in article 2:397 of the Dutch Civil Code). We qualify as a large company. This means that at least 30% of the seats in our board of directors taken by men and at least 30% of the seats are taken by women. This rule will cease to have effect on January 1, 2016. Pursuant to that law, if we do not comply with the gender diversity rules, we will be required to explain this in our annual report. Currently, the Company does not meet aforementioned gender balance. Although the board of directors gives appropriate weight to the diversity requirements in the nomination and selection process in future vacancies, it is noted that various pragmatic reasons – such as the other relevant selection criteria – play a complicating role in achieving the set targets at the short term. In order to strive for the required gender balance as envisaged by this new legislation, the Company intends to pursue a policy to appoint a well-balanced mix of women and men to its board of directors, while taking into account the overall profile and selection criteria for appointments of suitable candidates to the board of directors.

(Term of) Appointment

Our directors are appointed for one year and will be re-electable each year at the general meeting of stockholders. The members of our board of directors may be suspended or dismissed at any time by the general meeting of stockholders. A resolution to suspend or dismiss a director will have to be adopted by at least a two thirds majority of the votes cast, provided such majority represents more than half of our issued share capital and unless the proposal to suspend or dismiss a member of the board of directors is made by the board of directors itself, in which case resolutions shall be adopted by a simple majority of votes cast. Per January 1, 2013 executive directors can under Dutch law be suspended by the board of directors.

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

Rules governing the board

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

The rules governing the board of directors are published on the Company's website. They include the charters of its committees, to which the plenary board of directors, while

retaining overall responsibility, has assigned certain tasks: the audit committee and the nomination & compensation committee. Each committee reports, and submits its minutes for information, to the board of directors.
The board of directors is assisted by the Secretary. The Secretary sees to it that correct procedures are followed and that the board of directors acts in accordance with its statutory obligations and its obligations under the articles of association. Furthermore, the Secretary assists the chairman of the board of directors (information, agenda, evaluation, introductory program). The Secretary, in this capacity, shall be appointed and dismissed by the board of directors.

Our non-executive directors will supervise the executive director and our general affairs and provide general advice to the executive director. Furthermore the non-executive directors will perform such acts that are delegated to them pursuant to our articles of association or by our board regulation. One of the non-executive directors has been appointed as chairman of the board and another non-executive director has been appointed as vice-chairman of the board of directors.
Each director owes a duty to us to properly perform the duties assigned to him and to act in the corporate interest of our company. Under Dutch law, the corporate interest extends to the interests of all corporate stakeholders, such as stockholders, creditors, employees, customers and suppliers.

Conflicts of interests

A conflict of interest between the Company and one or more of our directors is not expected to have any impact on the authority of directors to represent the Company. Under our board regulations, a conflict needs to be reported to the board of directors and the board of directors shall resolve on the consequences, if any. Under current Dutch law, the Dutch corporate governance code and our board regulations directors are not allowed to participate in discussions or vote on matters in which they have a conflict of interest. If all members of the board of directors have a conflict of interest, the resolution concerned will be adopted by the general meeting of shareholders, unless the articles of association provide otherwise. Our articles of association do not contain such alternative arrangements. If an executive director or a nonexecutive director does not comply with the provisions on conflicts of interest, the resolution concerned is subject to nullification (*vernietigbaar*) and the director concerned may be held liable towards us.

No decisions to enter into material transactions in which there are conflicts with members of the board of directors have occurred during the financial year 2012.

Compensation

General

In accordance with Dutch law, our stockholders have adopted a compensation policy for the board of directors. The remuneration of our executive directors is resolved upon by our board of directors, with due observance of our compensation policy. The respective executive director does not participate in the discussions of our board of directors on his compensation, nor does the chief executive officer vote on such a matter. Our chief executive officer is our only executive director. The remuneration of the non-executive directors has been resolved upon by our stockholders at a stockholder meeting at the proposal of our board of directors, prior to the consummation of our IPO in August 2010. To the extent the stockholders at a future stockholder meeting do not adopt the proposal of the board, the board must prepare a new proposal. After adoption of a proposal, only subsequent amendments will require stockholder approval. Furthermore, any proposed share or option-based director compensation (including any performance conditions relating to such compensation) must be submitted by our board to the general meeting of stockholders for its approval, detailing the number of shares or options over shares that may be awarded to the directors and the criteria that apply to such award or any modification of such rights. Prior to the consummation of the IPO in August 2010, our stockholders have approved such equity-based director compensation.

Compensation Policy and Objectives

The objective in establishing the compensation policies for our chief executive officer, the other members of our management team and our other executives, will be to provide a compensation package that is aligned with our strategic goals and that enables us to attract, motivate and retain highly qualified professionals. We believe that the best way to achieve this is by linking executive compensation to individual performance targets, on the one hand, and to NXP's performance, on the other hand. Our executive compensation package will therefore include a significant variable part, consisting of an annual cash incentive and shares and stock options. Executive performance targets will be determined annually, at the beginning of the year, and assessed at the end of the year by, respectively, our nominating and compensation committee, our executive officers or the other members of our management team. The compensation package for our chief executive officer, the other members of our management team and our NXP executives is benchmarked on a regular basis against other companies in the high-tech and semiconductors industry. A full and detailed description of the composition of the remuneration of the individual members of the board of directors is included in note 33 of this annual report.

Our chief executive officer, the other members of our management team and most of our executives have a contract of employment for an indefinite term. On January 1, 2013 new legislation entered into effect stating that the legal relationship between listed entities and its directors is no longer qualified as an employment agreement. However, pre-existing employment agreements are not affected by this new legislation. The main elements of any new employment contract that we will enter into with a member of the board of directors will be made public no later than the date of the public notice convening the general meeting of shareholders at which the appointment of such member of the board of directors will be proposed.

Annual Incentive

Each year, our chief executive officer, the other members of our management team and our other executives can qualify to earn a variable cash incentive, subject to whether certain specific and challenging performance targets have been met. For our chief executive officer, the on-target cash incentive percentage as of 2011 was set at 75% of the base salary, with the maximum cash incentive set at 150% of the annual base salary (previously: 100% and 200%, respectively). The cash incentive pay-out in any year relates to the achievements of the preceding financial year in relation to agreed targets. In 2012, no annual cash incentive has been paid to our chief executive officer as annual incentive bonus for our performance in 2011. The total annual incentive bonus amount paid in 2012 to members of our management team, including our chief executive officer, is €70,200. In 2011, an amount of €2,284,000 has been paid to our chief executive officer, and a total amount of €9,290,000 has been paid as annual incentive bonus amount to members of our management team, including our chief executive officer.

Retirement plans

Our chief executive officer and eligible members of the management team participate in the executives' pension plan, which we set up in the Netherlands and which consists of a combination of a career average and a defined-contribution plan. The target retirement age under the plan is 62.5. The plan does not require employee contributions.

Share-based Compensation Plans

The purpose of our share-based compensation plans, including the Management Equity Stock Option Plan implemented prior to the consummation of our IPO in August 2010 and the Long-Term Incentive Plan 2010, 2011 and 2012 introduced in November 2010, November 2011 and October 2012, respectively, is to align the interests of management with those of our shareholders by providing additional incentives to improve our medium and long term performance, by offering the participants an opportunity to share in the success of NXP.

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

The so-called ultimum remedium clause and claw-back clause of best practice provisions II.2.10 and II.2.11 of the Dutch Corporate Governance Code is applicable to Annual Incentive payments and LTIP grants to all members of the board of directors. In respect of the LTIP grants, the ultimum remedium clause can be applied to the performance-related actual number of stock options and restricted share rights that is (unconditionally) granted.

Members of the board of directors hold shares in the Company for the purpose of long-term investment and are required to refrain from short-term transactions in NXP securities. According to the NXP Rules of Conduct on Inside Information, members of the board of directors are only allowed to trade in NXP securities (including the exercise of stock options) during 'trading windows' following the publication of annual and quarterly results (provided the person involved has no 'inside information' regarding NXP at that time) unless an exemption is available. Transactions in shares in the Company carried out by members of the board of directors are notified to the Netherlands Authority for the Financial Markets (AFM) in accordance with Dutch law and, if necessary, to other relevant authorities.

Limitation of Liability and Indemnification Matters

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

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

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

Board Committees

While retaining overall responsibility, our board of directors has assigned certain of its tasks to permanent committees. Members of the permanent committees will be appointed by the board of directors. The board of directors will also determine the tasks of each committee. Our board of directors has established an audit committee and a nominating and compensation committee, each of which will have the responsibilities and composition described on page 58 below.

Risk management approach

NXP's risk management and business control

Risk management and business control forms an integral part of business management. Our risk and control policies and principles encourage our management to closely monitor some of our day-to-day operations, ensure strict compliance with all legal requirements and safeguard the integrity of the financial reporting and related disclosures. Our management is responsible for identifying critical business risks and for implementing fit-for-purpose risk responses. Internal controls are regularly assessed and, if required, corrected.

We believe that a state-of-the-art corporate governance model is a critical factor to achieve business success. Our corporate governance model is based on, amongst other factors, our risk management and business control policies and principles and high ethical standards that are applied throughout every aspect of our business. Our risk management and business control policies and principles are an integral part of our corporate governance model.

The quality of our risk management and business control policies and principles and the findings of internal and external audits are reported to and discussed by the audit committee. Internal auditors monitor the quality of our risk management and business control policies and principles through risk-based operational audits, inspections of financial reporting controls and compliance audits.

The NXP Business Control Framework

The NXP Business Control Framework sets the standard for risk management and business controls at NXP. The objectives of the Business Control Framework are to maintain integrated management control of the Company's operations, to comply with all applicable laws and regulations, as well as to ensure integrity of the financial reporting and business processes.

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.

The Company has designed its internal control system in accordance with the recommendations of the Committee of Sponsoring Organizations of the Threadway Commission (COSO).

The NXP Business Code of Conduct

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

We have also adopted a Financial Code of Ethics applicable to certain of our senior employees, which constitutes a "code of ethics" as such term is defined by the SEC. Both the NXP Code of Conduct and our Financial Code of Ethics are available on our website at www.nxp.com.

General Meeting of Stockholders: Procedures, Admission and Voting Rights

Introduction

General meetings of stockholders will be held in the Netherlands in the municipalities of Amsterdam, Eindhoven, Haarlemmermeer, The Hague, Rotterdam or Utrecht. A general meeting of stockholders shall be held at least once per year within the period Dutch law requires us to convene a general meeting of stockholders, which is currently once per year, no later than six months after the end of our financial year. Our board of directors may decide whether electronic voting at the general meeting of stockholders is allowed and may subject electronic voting to certain conditions.

The agenda for the annual general meeting of stockholders shall contain, inter alia, items placed on the agenda in accordance with Dutch law and our articles of association, the consideration of the annual report, the adoption of our annual accounts, the proposal to pay a dividend (if applicable), proposals relating to the composition of the board of directors, including the filing of any vacancies in the board of directors, the proposals placed on the agenda by the board of directors, including, but not limited to, a proposal to grant discharge to the members of the board of directors for their management during the financial year, together with proposals made by stockholders in accordance with provisions of Dutch law and our articles of association.

Public notice of a general meeting of stockholders or an extraordinary meeting of stockholders shall be given by the board of directors, upon a term of at least such number of days prior to the day of the meeting as required by law, in accordance with the regulations of the stock exchange where our shares are officially listed at our request. This term is currently 15 days. The record date for each general meeting of stockholders is twenty-eight days prior to the date of the meeting. Any matter, the consideration of which has been requested by one or more stockholders, representing solely or jointly at least such part of the issued share capital as required by Dutch law, which is currently set at one percent of our issued and outstanding share capital or shares representing a value of at least

€50.0 million, will be placed in the notice convening the general meeting of stockholders or the extraordinary meeting of stockholders, but only if we received the request to consider such matter no later than on the 60th day prior to the day of the meeting. Effective July 1, 2013 Dutch law will be changed. As a result, the 1% mentioned will be increased to 3%. The €50.0 million requirement will then be abolished.
Extraordinary general meetings of stockholders shall be held as frequently as they are called by the board of directors, or whenever one or more stockholders representing at least ten percent of our issued capital so request the board of directors in writing.

Without prejudice to the relevant provisions of law dealing with reduction of share capital and amendments to the articles of association, the public notice convening the meeting shall either mention the business on the agenda or state that the agenda is open to inspection by the stockholders at our offices.

All stockholders shall be entitled to attend the general meetings of stockholders, to address the general meeting of stockholders and to vote, either in person or by appointing a proxy to act for them. In order to exercise the right to attend the general meetings of stockholders, to address the general meeting of stockholders and/or to vote at the general meetings of stockholders, stockholders must notify the Company in writing of their intention to do so, no later than on the day and at the place mentioned in the notice convening the meeting.
Next to the stockholders, holders of depositary receipts of shares issued with the cooperation of the Company and holders of a right of usufruct or pledge with voting rights are entitled to request an item to be placed on the agenda of the general meeting of stockholders, to attend the general meeting of stockholders, to address the general meeting of stockholders and to vote.

Members of the board of directors are authorized to attend general meetings of stockholders. They have an advisory vote. The general meeting of stockholders shall be presided over by the chairman. In the absence of the chairman, one of the other non-executive directors shall preside over the meeting.

Each share of common stock will confer the right to cast one vote at the general meeting of stockholders. Each stockholder may cast as many votes as he holds shares. Blank votes and invalid votes shall be regarded as not having been cast. Resolutions proposed to the general meeting of stockholders by the board of directors shall be adopted by a simple majority of votes cast, unless another majority of votes or quorum is required by virtue of Dutch law or our articles of association. All other resolutions shall be adopted by a two thirds majority of the votes cast, provided such majority represents at least half of the issued share capital, unless another majority of votes or quorum is required by virtue of Dutch law. In addition, we have authorized two series of preferred stock, which may have different dividend rights, as determined by our board.
Meetings of holders of shares of a particular class or classes shall be held as frequently and whenever such meeting is required by virtue of any statutory regulation or any regulation in our articles of association. Such meeting may be convoked by the board of directors or one or more stockholders and/or holders of depositary receipts, who jointly represent at least one-tenth of the capital issued and outstanding in the shares of the class concerned.

Stockholder Vote on Certain Reorganizations

Under Dutch law, the approval of our general meeting of stockholders is required for any significant change in the identity or nature of our company or business, including in the case of (i) a transfer of all or substantially all of our business to a third party, (ii) the entry into or termination by us or one of our subsidiaries of a significant long-term cooperation with another entity or (iii) the acquisition or divestment by us or one of our subsidiaries of a participating interest in the capital of a company having a value of at least one-third of the amount of our assets, as stated in our consolidated balance sheet in our latest adopted annual accounts.

Anti-Takeover Provisions

Dutch law permits us to adopt protective measures against takeovers. Although we have not and do not envisage to adopt any specific takeover measures, our board of directors has been designated for a period of five years from August 2, 2010 to issue shares and grant rights to subscribe for shares in the form of common or preferred stock, up to the amount of our authorized share capital. Our preferred shares are a separate class of equity securities that could be issued for defensive purposes. Such shares would typically have both a liquidation and dividend preference over our common stock and otherwise accrue cash dividends at a fixed rate.

Books and Records

Pursuant to Dutch law, our board of directors must provide all information to our stockholders' meeting, but is not obliged to provide such information to individual stockholders.

Amendment of the Articles of Association

Stockholders at the general meeting of stockholders will only be able to amend the articles of association at the proposal of the board of directors. A proposal to amend the articles of association whereby any change would be made in the rights which vest in the holders of shares of a specific class in their capacity as such, shall require the prior approval of the meeting of holders of the shares of that specific class.

Dissolution, Merger/Demerger

Stockholders at the general meeting of stockholders will only be able to dissolve the Company at the proposal of the board of directors.

The liquidation of the Company shall be carried out by the board of directors, if and to the extent the general meeting of stockholders has not appointed one or more other liquidators. The general meeting of stockholders shall determine the remuneration of the liquidators, if any.

Under Dutch law, a resolution to merge or demerge shall be adopted in the same manner as a resolution to amend the articles of association. The general meeting of stockholders may on proposal of the board of directors resolve to merge or demerge by a simple majority of votes cast, irrespective of the capital present or represented at the general meeting of stockholders.

Repurchase by the Company of its shares

Under Dutch law, a public company with limited liability (*naamloze vennootschap)* may acquire its own shares, subject to certain provisions of Dutch law and the articles of association, if (i) the company's stockholders' equity less the payment required to make the acquisition does not fall below the sum of paid-up and called up capital and any reserves required by Dutch law or the articles of association and (ii) the company and its subsidiaries would not thereafter hold shares or hold a pledge over shares with an aggregate par value exceeding 50% of its current issued share capital. Such company may only acquire its own shares if its general meeting of stockholders has granted the board of directors the authority to effect such acquisitions. Our stockholders have authorized the board of directors to acquire our own shares up to the maximum number allowed under Dutch law. These shares may be used to deliver shares under our equity-based compensation plans.

If we would decide to repurchase any of our shares, no votes could be cast at a general meeting of stockholders on the shares held by us or our subsidiaries or on shares for which we or our subsidiaries hold depositary receipts. Nonetheless, the holders of a right of usufruct and the holders of a right of pledge in respect of shares held by us or our subsidiaries in our share capital are not excluded from the right to vote on such shares, if the right of usufruct or the right of pledge was granted prior to the time such shares were acquired by us or any of our subsidiaries. Neither we nor any of our subsidiaries may cast votes in respect of a share on which we or such subsidiary holds a right of usufruct or a right of pledge.

Squeeze-out

In accordance with Dutch law, a stockholder who for its own account holds at least 95% of a company's issued capital may institute proceedings against the company's other stockholders jointly for the transfer of their shares to the claimant. The proceedings are held before the Enterprise Chamber and can be instituted by means of a writ of summons served upon each of the minority stockholders in accordance with the provisions of the Dutch Civil Code. The Enterprise Chamber may grant the claim for the squeeze-out in relation to all minority stockholders and will determine the price to be paid for the shares, if necessary after appointment of one or three experts who will offer an opinion to the Enterprise Chamber on the value of the shares. Once the order to transfer has become final, the acquirer must give written notice of the price, and the date on which and the place where the price is payable to the minority stockholders whose addresses are known to it. Unless all addresses are known to the acquirer, it shall also publish the same in a daily newspaper with nationwide distribution.

Dutch Market Abuse Regulation

The Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht,* the "FMSA") provides for specific rules intended to prevent market abuse, such as the prohibitions on insider trading, divulging inside information and tipping, and market manipulation. The Company is subject to the Dutch insider trading prohibition (in particular, if it trades in its own shares or in financial instruments the value of which is (co)determined by the value of the shares), the Dutch prohibition on divulging insider information and tipping and the Dutch prohibition on market manipulation. The Dutch prohibition on market manipulation may mean that certain restrictions apply to the ability of the Company to buy-back its shares. In certain circumstances, the Company's investors can also be subject to the Dutch market abuse rules.

Pursuant to the FMSA rules on market abuse, members of the board of directors and any other person who has (co)managerial responsibilities in respect of the Company or who has the authority to make decisions affecting the Company's future developments and business prospects and who may have regular access to inside information relating, directly or indirectly, to the Company, must notify the Netherlands Authority for the Financial Markets

(*Stichting Autoriteit Financiële Markten*, the “AFM”) of all transactions with respect to the shares or in financial instruments the value of which is (co)determined by the value of the shares, conducted for its own account.

In addition, certain persons closely associated with members of the board of directors or any of the other persons as described above and designated by the FMSA Decree on Market Abuse (*Besluit Marktmisbruik Wft*) must also notify the AFM of any transactions conducted for their own account relating to the shares or in financial instruments the value of which is (co)determined by the value of the shares. The FMSA Decree on Market Abuse determines the following categories of persons: (i) the spouse or any partner considered by national law as equivalent to the spouse, (ii) dependent children, (iii) other relatives who have shared the same household for at least one year at the relevant transaction date and (iv) any legal person, trust or partnership whose, among other things, managerial responsibilities are discharged by a person referred to under (i), (ii) or (iii) above or by the relevant member of the board of directors or other person with any authority in respect of the Company as described above.

These notifications must be made by means of a standard form and by no later than the fifth business day following the transaction date. The notification may be postponed until the moment that the value of the transactions performed for that person’s own account, together with the transactions carried out by the persons closely associated with that person, reach or exceed an amount of €5,000 in the calendar year in question.

The AFM keeps a public register of all notification under the FMSA on its website (www.afm.nl). Third parties can request to be notified automatically by e-mail of changes to the public register.

Pursuant to the rules on market abuse, we have adopted an internal insider trading regulation policy, which is available on our website. This regulation provides for, among other things, rules on the possession of and transactions by members of the board of directors and employees in the shares or in financial instruments the value of which is (co)determined by the value of the shares.

Audit of the financial reporting and the position of the external auditor

The annual financial statements are prepared by the board of directors upon the advice of its audit committee and taking into account the report of the external auditor. The accounts are signed by all members of the board of directors and are published together with the final opinion of the external auditor. The board of management is responsible for the quality and completeness of such publicly disclosed financial reports. The annual financial statements are presented for discussion and adoption to the annual general meeting of shareholders, to be convened subsequently. NXP, under U.S. securities regulations, separately files its annual U.S. GAAP report.

Internal controls and disclosure policies

Annually, our management, with the participation of our chief executive officer and chief financial officer, conducts an evaluation pursuant to Rule 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”) of the effectiveness of the design and operation of our disclosure controls and procedures. In addition, specific IFRS matters, including a review of the financial statements are subject to a process of internal review.

As part of these procedures, a disclosure committee (the ‘committee’) has been appointed by the board of directors to oversee the Company’s disclosure activities and to assist the board of directors in fulfilling its responsibilities in this respect. The committee’s purpose is to ensure that the Company implements and maintains internal procedures for the timely collection, evaluation and disclosure, as appropriate, of information potentially subject to public disclosure under the legal, regulatory and stock exchange requirements to which the Company is subject. Such procedures are designed to capture information that is relevant to an assessment of the need to disclose developments and risks that pertain to the Company's various businesses, and their effectiveness for this purpose will be reviewed periodically.

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

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

The effectiveness of the Company's internal control over financial reporting shall be assessed based on the criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

Auditor information

In accordance with the procedures laid down in the NXP Policy on auditor independence ("auditor policy") and as mandatory required by Dutch law, the external auditor of the Company is appointed by the general meeting of shareholders, after having been advised by the audit committee and the board of management. Under the auditor policy, once every three years the board of directors 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. Pursuant to the auditor policy our stockholders, upon the proposal of the board of directors, have selected KPMG Accountants N.V. ("KPMG") as external independent auditor for the three reporting periods commencing January 1, 2009. The external auditor shall attend the annual general meeting of shareholders. Questions may be put to him at the meeting about his report. The audit committee of the board of directors shall report on their dealings with the external auditor to the board of directors on an annual basis, particularly with regard to the auditor's independence. The board of directors 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. At his request, the external auditor will attend the meeting of the board of directors at which the report of the external auditor with respect to the audit of the annual accounts is discussed, and at which the annual accounts are approved. In its audit report on the annual accounts to the board of directors, the external auditor refers to the financial reporting risks and issues that were identified during the audit, internal control matters, and any other matters, as appropriate, requiring communication under the auditing standards generally accepted in the Netherlands and the United States.

Auditor policy

The Company maintains a policy of auditor independence (the "auditor policy"), and this policy restricts the use of its auditing firm for non-audit services, in line with U.S. 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.

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 services 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 2012, there were no services provided to the Company by the external auditor which were not preapproved by the audit committee.

Compliance with the Dutch corporate governance code

We are required to state in our annual report whether we comply or will comply with the Principles and best practice provisions of the Dutch corporate governance code and, if we don't comply, to explain the reasons for this. The text that follows sets out certain statements that the Dutch corporate governance code invites us to make to our shareholders that are not included elsewhere in this annual report as well as areas of non-compliance.

- Best practice provisions II.2.4 and II.2.5 state that stock options granted to members of our board shall, in any event, not be exercised in the first three years after the date of granting and shares granted to board members without financial consideration shall be retained for a period of at least five years or until at least the end of the employment, if this period is shorter. Under our equity incentive schemes, part of the stock options granted to our chief executive officer in November 2010, November 2011 and October 2012 are exercisable one year after the date of grant, and members of our board who received restrictive shares and performance shares in November 2010, November 2011 and October 2012 are not required to retain these shares for at least five years.

Although a deviation from the Corporate Governance Code, we hold the view that the combination of equity incentives granted to our chief executive officer, in relation to his obligation to invest in the Company and the applicable strict vesting and performance criteria, as well as the limited exercise possibility for pre-IPO MEP stock options granted to him, will enhance the goal of promoting long-term investments in the Company. The same is true for the equity grants made to other members of our board, which also have very strict vesting criteria with the purpose of creating long-term commitment to the Company.

- Best practice provision II.2.8 states that the remuneration of a member of our board in the event of dismissal may not exceed one year's salary. If the maximum of one year's salary would be manifestly unreasonable for a management board member who is dismissed during his first term of office, such board member shall be eligible for severance pay not exceeding twice the annual salary. Agreed upon prior to the IPO of August 2010, also considering that all our board members are appointed for one year – being re-electable each year at the general meeting of stockholders - our chief executive officer shall be eligible for a severance payment of twice his annual base salary in case of termination.
- Best practice provision III.8.4 states that the majority of the members of the board shall be independent. In our board of directors, four non-executive members are independent. It is our view that given the nature of our business and the practice in our industry and considering our stockholder structure, it is justified that only four non-executive directors are independent.
- Pursuant to best practice provision IV.1.1, a general meeting of stockholders should be empowered to cancel binding nominations of candidates for appointment to the board, and to dismiss members of the board by a simple majority of votes of those in attendance, although the company may require that such majority represents a minimum number of outstanding shares, which number may not exceed one third of the voting rights outstanding. If a majority of those in attendance vote in favor of the proposal, but this majority does not represent the minimum number of outstanding voting rights required, a second meeting may be convened and its vote will be binding, even without any minimum requirement. Our articles of association currently state that the general meeting of stockholders may at all times overrule a binding nomination by a resolution adopted by at least a two-thirds majority of the votes cast, if such majority represents more than half of the issued share capital. Although a deviation from provision IV.1.1 of the Dutch Corporate Governance Code, we hold the view that these provisions will enhance the continuity of the Company's management and policies. The Dutch corporate governance code, as well as our board rules, does not allow directors to vote on a matter with regard to which they have an interest. Best practice provision IV.1.4. states that the policy of the company on additions to reserves and on dividends (the level and purpose of the addition to reserves, the amount of the dividend and the type of dividend) shall be dealt with and explained as a separate agenda item at the general meeting.

  We note that our ability to pay dividends on our common stock is limited by the covenants of our Secured Revolving Credit Facility, the Term Loans and the Indentures and may be limited by the terms of any future debt or preferred securities. As a result, we currently expect to retain future earnings for use in the operation and expansion of our business and the repayment of our debt, and do not anticipate paying any cash dividends in the foreseeable future. Whether or not dividends will be paid in the future will depend on, among other things, our results of operations, financial condition, level of indebtedness, cash requirements, contractual restrictions and other factors that our board of directors and our stockholders may deem relevant. If, in the future, our board of directors decides not to allocate profits to our reserves (making such profits available to be distributed as dividends), any decision to pay dividends on our common stock will be at the discretion of our stockholders.

- Best practice provision IV.3.13 states that the company shall formulate an outline policy on bilateral contacts with the shareholders and publish this policy on its website. We are continually striving to improve relations with our shareholders. We elaborate on our financial results during (public) conference calls, which are broadly accessible. We publish informative annual and quarterly reports and press releases, and inform investors via our extensive website. We are strict in our compliance with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders. Furthermore, we engage in bilateral communications with investors. These communications either take place at our initiative or at the initiative of individual investors. During these communications we are generally represented by our VP Investor Relations, on a number of occasions accompanied by one or more members of the management team. The subject matter of the bilateral communications ranges from single queries from investors to more elaborate discussions on the back of disclosures that we have made such as our annual and quarterly reports. Also here, we are strict in our compliance with applicable rules and regulations on fair and non-selective disclosure and equal treatment of shareholders.

In addition to the Risk management paragraph on page 31 we have a structured self assessment and monitoring process in place to assess and monitor compliance related to the achievement of business objectives and critical business processes. Risk factors are described in the risk management paragraph on page 31 and following. Internal representations received from management, management reviews, reviews of the design and effectiveness of the internal controls and reviews are integral parts of our risk management approach. On the basis thereof, we confirm that our internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies and confirms that these controls have functioned properly in the financial year 2012. Please note that the above does not imply that these systems and procedures provide certainty as to the realization of operational and financial business objectives, nor can they prevent all misstatements, inaccuracies, errors, fraud and non-compliance with rules and regulations. The aforementioned statements are not statements in accordance with the requirements of Section 404 of the U.S. Sarbanes-Oxley Act.

In view of the above the Board of Directors believes that it is in compliance with the requirements of recommendation II.1.4 of the Dutch Corporate Governance Code

In accordance with the governmental decree of December 10, 2009, we comply with the Dutch Corporate Governance Code and apply all its principles and best practice provisions with the exception of those mentioned above. The full text of the Dutch Corporate Governance Code can be found at the website of the Monitoring Commission Corporate Governance Code (www.commissiecorporategovernance.nl).

Report of the Nominating and compensation committee

Our nominating and compensation committee consists of three non-executive directors, Messrs. Huth and Plantevin and Sir Peter Bonfield, who is also an independent director. Mr. Plantevin is appointed as chairman of this committee. The nominating & compensation committee will determine selection criteria and appointment procedures for members of our board of directors, to periodically assess the scope and composition of our board of directors and to evaluate the performance of its individual members. It will be responsible for recommending to the board of directors the compensation package for our executive directors, with due observance of the remuneration policy adopted by the general meeting of stockholders. It will review employment contracts entered into with our executive directors, make recommendations to our board of directors with respect to major employment-related policies and oversee compliance with our employment and compensation-related disclosure obligations under applicable laws.

Report of the Audit committee

Our audit committee consists of three independent non-executive directors, Messrs. Goldman, Kaeser and Bhatia. Mr. Goldman, who is appointed as chairman of the audit committee, will qualify as an "audit committee financial expert" as such term is defined in Item 407(d)(5) of Regulation S-K and as determined by our board of directors. Our audit committee will assist the board of directors in supervising, monitoring and advising the board of directors on financial reporting, risk management, compliance with relevant legislation and regulations and our Code of Conduct. It will oversee the preparation of our financial statements, our financial reporting process, our system of internal business controls and risk management, our internal and external audit process and our internal and external auditor's qualifications, independence and performance. Our audit committee also will review our annual and interim financial statements and other public disclosures, prior to publication. At least once per year, the non-executive directors who are part of the audit committee will report their findings to the plenary board of directors. Our audit committee also recommends to our stockholders the appointment of external auditors. The external auditor attends, 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 audit committee met 8 times in 2012 and reported its findings to the board of directors.

Auditor information

In accordance with the "auditor policy and as mandatory required by Dutch law, the external auditor of the Company is appointed by the general meeting of shareholders, after having been advised by the audit committee and the board of management. Under the auditor policy, once every three years the board of directors 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. Pursuant to the auditor policy our stockholders, upon the proposal of the board of directors, have selected KPMG Accountants N.V. ("KPMG") as external independent auditor for the reporting periods commencing January 1, 2009. For the reporting periods commencing January 1, 2009, there have been no disagreements, respectively, with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. The audit committee reports on their dealings with the external auditor to the board of directors on an annual basis, particularly with regard to the auditor's independence. The board of directors 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 board of directors at which the report of the external auditor with respect to the audit of the annual accounts is discussed, and at which the annual accounts are approved. In its audit report on the annual accounts to the board of directors, the external auditor refers to the financial reporting risks and issues that were identified during the audit, internal control matters, and any other matters, as appropriate, requiring communication under the auditing standards generally accepted in the Netherlands and the United States.

Audited financial statements

The consolidated financial statements of the Company for the year ended December 31, 2012 included in this Annual Report, as presented by the board of directors, have been audited by KPMG Accountants N.V., an independent registered public accounting firm.
The reports of the independent registered public accounting firm appear on pages 148 and 156 of this Annual Report. The board of directors has approved these financial statements.

The aggregate fees billed for professional services rendered for the fiscal periods 2012 and 2011 were as follows:

Aggregate fees KPMG

$ in millions	**2012**	2011
Audit fees	**3.3**	3.7
Audit-related fees	**0.9**	1.4
Other fees	**0.2**	0.1
	4.4	5.2

Audit fees consist of fees for the examination of both the consolidated and statutory financial statements under IFRS and U.S. GAAP. Audit-related fees consist of fees in connection with audits of acquisitions and divestments and registration statements. Tax fees consist of fees for professional services in relation to tax compliance, tax advice and tax planning.

May 1, 2013
Board of directors

Group Financial Statements

Consolidated statements of income of NXP Semiconductors N.V. for the years ended December 31

$ in millions, unless otherwise stated

		2012	2011
	Revenue	**4,358**	4,194
	Cost of revenue	**(2,355)**	(2,286)
	Gross profit	**2,003**	1,908
	Selling, general and administrative expenses	**(939)**	(935)
	Research and development expenses	**(642)**	(630)
	Other income	**16**	25
	Other expense	**(3)**	(21)
6,7	**Operating income (loss)**	**435**	347
8	Financial income (expense):		
	– Extinguishment of debt	**(161)**	(32)
	– Other financial income	**32**	133
	– Other financial expense	**(311)**	(361)
	Income (loss) before income taxes	**(5)**	87
9	Income tax (expense) benefit	**-**	(19)
	Income (loss) after income taxes	**(5)**	68
10	Results relating to equity-accounted investees:		
	– Share of result of equity-accounted investees	**7**	(77)
	– Impairment and other	**12**	(27)
	Income (loss) from continuing operations	**14**	(36)
3	Income (loss) from discontinued operations, net of tax	**1**	428
	Net income (loss)	**15**	392
	Attribution of net income (loss):		
	Net income (loss) attributable to shareholders of NXP	**(42)**	354
11	Net income (loss) attributable to non-controlling interests	**57**	38
	Net income (loss)	**15**	392
12	**Earnings per share data:**		
	Basic and diluted earnings per common share attributable to shareholders of NXP in $:		
	– Income (loss) from continuing operations	**(0.17)**	(0.30)
	– Income (loss) from discontinued operations	**-**	1.72
	– Net income (loss)	**(0.17)**	1.42
	Weighted average number of share of common stock outstanding during the year (in thousands)		
	– Basic and diluted	**248,064**	248,812

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of comprehensive income of NXP Semiconductors N.V. for the years ended December 31

$ in millions, unless otherwise stated

		2012	2011
	Net income (loss)	**15**	392
	Other comprehensive income		
	• Foreign currency translation adjustments	**13**	(28)
	• Foreign currency translation adjustments reclassified to profit or loss	**-**	(2)
	• Net investment hedge	**26**	(203)
	• Income tax on other comprehensive income	**-**	-
	Other comprehensive income (loss)	**39**	(233)
	Total comprehensive income (loss)	**54**	159
	Attributable to:		
	Shareholders of NXP	**(3)**	121
11	Non-controlling interests	**57**	38
	Total comprehensive income (loss)	**54**	159

The accompanying notes are an integral part of these consolidated financial statements.

Group Financial Statements

Consolidated statements of financial position of NXP Semiconductors N.V. as of December 31

$ in millions, unless otherwise stated

Assets

		December 31, 2012	December 31, 2011
	Non-current assets		
13,29	Property, plant and equipment	**1,078**	1,072
14	Goodwill	**2,041**	1,998
15	Intangible assets	**1,770**	2,036
10	Equity-accounted investees	**46**	39
9	Deferred tax assets	**50**	35
16	Other non-current assets	**75**	79
	Total non-current assets	**5,060**	5,259
	Current assets		
17	Inventories	**715**	618
18	Other current assets	**80**	72
	Assets held for sale	**10**	39
19	Receivables	**510**	479
20	Cash and cash equivalents	**617**	743
	Total current assets	**1,932**	1,951
	Total assets	**6,992**	7,210

The accompanying notes are an integral part of these consolidated financial statements.

Equity and liabilities

Note		December 31, 2012	2011
	Equity		
21	Shareholders' equity: Share capital, par value € 0.20 per share: Authorized : 430,503,000 shares (2011: 430,503,000 shares) Issued and fully paid : 251,751,500 shares (2011: 251,751,500 shares)	**51**	51
	Capital in excess of par value	**7,062**	7,025
	Treasury shares: 2,726,000 shares (2011: 3,915,144 shares)	**(58)**	(57)
	Accumulated deficit	**(4,618)**	(4,576)
	Other comprehensive income (loss)	**(664)**	(703)
	Total shareholders' equity	**1,773**	1,740
11	Non-controlling interests	**265**	248
	Total equity	**2,038**	1,988
	Non-current liabilities		
22	Long-term debt	**3,141**	3,700
24	Post-employment benefits	**243**	231
23	Long-term provisions	**36**	94
9	Deferred tax liabilities	**87**	97
25	Other non-current liabilities	**64**	56
	Total non-current liabilities	**3,571**	4,178
	Current liabilities		
26	Short-term debt	**305**	52
	Accounts payable	**562**	455
27	Accrued liabilities	**348**	328
	Liabilities held for sale	**-**	21
23,30	Short-term provisions	**91**	114
24	Post-employment benefits	**10**	9
28	Other current liabilities	**67**	65
	Total current liabilities	**1,383**	1,044
	Total equity and liabilities	**6,992**	7,210

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flows of NXP Semiconductors N.V. for the years ended December 31

$ in millions, unless otherwise stated

	2012	2011
Cash flows from operating activities:		
Net income (loss)	**15**	392
(Income) loss from discontinued operations, net of tax	**(1)**	(428)
Income (loss) from continuing operations	**14**	(36)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	**765**	825
Impairment intangibles	**76**	97
Share-based payments	**59**	43
(Gain) loss on sale of assets	**1**	10
Net interest expense	**266**	310
(Gain) loss on extinguishment of debt	**161**	32
Results equity-accounted investees	**(19)**	104
Changes in operating assets and liabilities:		
(Increase) decrease in receivables and other current assets	**2**	(38)
(Increase) decrease in inventories	**(61)**	(104)
Increase (decrease) in accounts payable and accrued liabilities	**44**	(300)
Decrease (increase) in other non-current assets	**38**	58
Increase (decrease) in provisions	**(19)**	(54)
Exchange differences included in financial result	**(28)**	(128)
Net cash generated by operations [1)]	**1,299**	819
Interest paid	**(292)**	(306)
Interest received	**4**	5
Income taxes paid	**(28)**	(25)
Net cash provided by operating activities	**983**	493
Cash flows from investing activities:		
Purchase of intangible assets	**(29)**	(10)
Capital expenditures on development assets	**(261)**	(319)
Capital expenditures on property, plant and equipment	**(251)**	(221)
Proceeds from disposals of property, plant and equipment	**2**	14
Proceeds from disposals of assets held for sale	**-**	11
Purchase of other non-current assets	**(4)**	(1)
Proceeds from the sale of other non-current assets	**3**	4
Purchase of interests in businesses	**(2)**	-
Proceeds from (consideration related to) sale of interests in businesses	**26**	-
Proceeds from return of equity investment	**12**	-
Net cash (used for) provided by investing activities	**(504)**	(522)
Cash flows from financing activities:		
Net (repayments) proceeds from short-term debt	**-**	17
Amounts drawn under the revolving credit facility	**760**	200
Repayments under the revolving credit facility	**(530)**	(600)
Repurchase of long-term debt	**(1,676)**	(1,997)
Net proceeds from the issuance of long-term debt	**958**	1,578
Principal payments on long-term debt	**(20)**	(10)
Dividends paid to non-controlling interests	**(40)**	(67)
Cash proceeds from the exercise of stock options	**14**	10
Purchase of treasury shares	**(40)**	(57)
Net cash provided by (used for) financing activities	**(574)**	(926)
Net cash provided by (used for) continuing operations	**(95)**	(955)

For a number of reasons, principally the effects of currency translation differences and consolidation changes, certain items in the statement of cash flows do not correspond with the differences between the statement of financial position amounts for the respective items.

[1)] To enhance transparency on net cash generated by operations, this subtotal was included and the 2011 comparative figures were amended accordingly.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flows of NXP Semiconductors N.V. for the years ended December 31 (continued)

$ in millions, unless otherwise stated

	2012	2011
Cash flows from discontinued operations:		
Net cash provided by (used for) operating activities	**-**	24
Net cash provided by (used for) investing activities	**(45)**	787
Net cash provided by (used for) financing activities	**-**	(2)
Net cash provided by (used for) discontinued operations	**(45)**	809
Net cash provided by (used for) continuing and discontinued operations	**(140)**	(146)
Effect of changes in exchange rates on cash positions	**14**	(19)
Increase (decrease) in cash and cash equivalents	**(126)**	(165)
Cash and cash equivalents at beginning of period	**743**	908
Cash and cash equivalents as reported	**617**	743

For a number of reasons, principally the effects of currency translation differences and consolidation changes, certain items in the statement of cash flows do not correspond with the differences between the statement of financial position amounts for the respective items.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of changes in equity of NXP Semiconductors N.V. as of December 31

$ in millions, unless otherwise stated

	Outstand-ing number of shares (in thousands)	Share capital	Capital in excess of par value	Treasury shares reserve	Accumulated deficit	Other comprehensive income (loss): Foreign currency translation reserve	Net investment hedging reserve	Total other comprehen-sive income (loss)	Total shareholders' equity	Non-controlling interests	Total equity
Balance as of December 31, 2010	250,752	51	6,972	-	(4,930)	(470)		(470)	1,623	277	1,900
Net income (loss)					354				354	38	392
Other comprehensive income (loss):											
- Current period change						(28)	(203)	(231)	(231)		(231)
- Reclassification to income (loss)						(2)		(2)	(2)		(2)
- Income tax on current period changes						-	-	-	-		
Total comprehensive income (loss)					354	(30)	(203)	(233)	121	38	159
Share-based compensation plans			43						43		43
Dividends non-controlling interests										(67)	(67)
Transactions with owners of the Company recognized directly in equity:											
- Net proceeds from the issuance of share capital (IPO)	1,000										
– Purchase of treasury shares	(5,689)			(57)					(57)		(57)
– Re-issuance of treasury shares	1,774		10						10		10
Balance as of December 31, 2011	247,837	51	7,025	(57)	(4,576)	(500)	(203)	(703)	1,740	248	1,988
Net income (loss)					**(42)**				**(42)**	**57**	**15**
Other comprehensive income (loss):											
- Current period change						**13**	**26**	**39**	**39**		**39**
- Reclassification to income (loss)						**-**	**-**				
- Income tax on current period changes						**-**	**-**				
Total comprehensive income (loss)					**(42)**	**13**	**26**	**39**	**(3)**	**57**	**54**
Share-based compensation plans			**59**						**59**		**59**
Dividends non-controlling interests										**(40)**	**(40)**
Transactions with owners of the Company recognized directly in equity:											
- Net proceeds from the issuance of share capital											
– Purchase of treasury shares	**(1,844)**			**(40)**					**(40)**		**(40)**
– Re-issuance of treasury shares	**3,033**		**(11)**	**39**					**28**		**28**
Equity classified financial instruments	**-**	**-**	**(11)**	**-**	**-**	**-**	**-**	**-**	**(11)**	**-**	**(11)**
Balance as of December 31, 2012	**249,026**	**51**	**7,062**	**(58)**	**(4,618)**	**(487)**	**(177)**	**(664)**	**1,773**	**265**	**2,038**

Notes to the consolidated financial statements of NXP Semiconductors N.V.

All amounts in millions of $ unless otherwise stated

1 Introduction

The consolidated financial statements include the accounts of NXP Semiconductors N.V. and its consolidated subsidiaries, including NXP B.V. (together referred to as “NXP” or “the Company” or “the Group”). The financial statements were authorized for issue by the board of directors on May 1, 2013.

Reverse stock split

In connection with the IPO, the Company amended its Articles of Association on August 2, 2010 in order to effect a 1-for-20 reverse stock split of its shares of common stock. As a consequence, the number of shares outstanding on August 2, 2010 (4,305,030,000 shares) has been adjusted to 215,251,500 shares retrospectively to reflect the reverse stock-split in all periods presented. Basic and diluted weighted average shares outstanding and earnings per share have been adjusted retrospectively to reflect the reverse stock split in all periods presented. Also, the exercise price and the number of shares of common stock issuable under the Company’s share based compensation plans were proportionately adjusted retrospectively to reflect the reverse stock split. In addition, authorized and issued share capital has been adjusted retrospectively to reflect the reverse stock split.

Conversion

In addition to the reverse stock split, the Company has also amended its Articles of Association in order to convert a certain percentage of previously authorized common stock to preferred stock. Including the shares issued upon the public offering in August 2010 and the subsequent issuance of shares of common stock under equity incentive plans in November 2010 and 2011, the share capital of the Company as of December 31, 2012 and December 31, 2011 consists of 1,076,257,500 authorized shares, including 430,503,000 authorized shares of common stock (of which 251,751,500 are issued and outstanding), as well as 645,754,500 authorized but unissued shares of preferred stock.

Reclassifications

Certain items previously reported under specific financial statement captions have been reclassified to conform to the current period presentation. These reclassifications are disclosed in the respective statements and notes.

2 Significant accounting policies and new accounting standards to be adopted after 2012

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. NXP did not apply any European carve-outs from IFRS meaning that our financials fully comply with IFRS. The Company has not applied early any new IFRS requirements that are not yet effective in 2012.

Basis of measurement

Historical cost is used as the measurement basis unless otherwise indicated.

The significant accounting policies are set out below.

Basis of consolidation

The consolidated financial statements include the accounts of NXP B.V., a wholly-owned subsidiary of NXP Semiconductors N.V. (NXP N.V. or the Company) and all subsidiaries that are controlled by the Company through its power to govern the financial and operating policies of a subsidiary so as to obtain benefits from its activities. All intercompany balances and transactions have been eliminated in the consolidated financial statements. The non-controlling interests are disclosed separately in the consolidated statement of income and statement of comprehensive income as part of profit allocation and in the consolidated statement of financial position as a separate component of equity, measured initially for non-controlling interests acquired before January 1, 2009 at the non-controlling interest's proportion of the net fair value of the assets and liabilities of the subsidiary, and for non-controlling interests acquired after December 31, 2008 at the non-controlling interest's proportion of the fair value of the subsidiary at the acquisition date.

Business combinations are accounted for using the acquisition method. Under the acquisition method, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree are recognized as at the acquisition date, which is the date on which control is transferred to the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

For acquisitions on or after 1 January 2010, the Company measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognized amount of any non-controlling interests in the acquiree;
- plus, if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the Statement of income.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in the Statement of income.

Fair value measurement

Fair value is the price we would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for an identical asset or liability, we develop assumptions based on market observable data and, in the absence of such data, utilize internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. Priority is given to observable inputs. These two types of inputs form the basis for the following fair value hierarchy.

- Level 1: Quoted prices for identical assets or liabilities in active markets.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for similar or identical assets or liabilities in markets that are not active; and valuations based on models where the inputs are observable or where the significant value drivers are observable.
- Level 3: Significant inputs to the valuation model are unobservable.

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 equity accounted investees is included in results relating to equity-accounted investees in the consolidated statement of income. The Company recognizes an impairment loss when the recoverable amount of the investment is less than its carrying amount.

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. Equity-accounted investees include loans from the Company to these investees.

Accounting for capital transactions of a subsidiary or an equity-accounted investee

The Company recognizes dilution gains or losses related to changes in ownership of consolidated entities directly in equity. In the case of loss of control of a subsidiary any dilution gain or loss is recognized in the consolidated statement of operations in the line item other income and expense. Dilution gains and losses related to equity-accounted investees are presented in the line item results relating to equity-accounted investees.

Loss of control

Upon the loss of control, the Company derecognizes the assets and liabilities of the subsidiary, any non-controlling interest and the other components of equity related to the subsidiary. If the Company retains a non-controlling interest in the entity, such interest is measured at fair value at the date that control is lost. Subsequently, the non-controlling interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset, depending on the level of influence retained by NXP.

Foreign currencies

The Group uses the U.S. dollar as its reporting currency in order to improve comparability with its peer companies that generally use the U.S. dollar as their reporting currency. The functional currency of NXP Semiconductors N.V. (the Holding company) is the euro. For consolidation purposes, the financial statements of the entities within the Group with a functional currency other than the U.S. dollar, are translated into U.S. dollars. Assets and liabilities are translated using the exchange rates on the applicable period end dates. Items in the Statement of income, Statement of comprehensive income and Statement of cash flow are translated at monthly exchange rates in the periods involved.

The resulting translation adjustments are recognized in other comprehensive income and presented in the Currency translation differences reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is recorded under non-controlling interests. When the Company's ownership interest in a foreign operation is disposed of such that control, significant influence or joint control is lost, the related Currency translation differences reserve is reclassified to the Statement of income as part of the gain or loss on the disposal. When the Company disposes only a part of its ownership interest in a foreign subsidiary while retaining control, the relevant proportion of the cumulative Currency translation difference reserve is reattributed to non-controlling interests. When the Company disposes of only part of its investment in a foreign equity-accounted investee while retaining significant influence or joint control, the relevant proportion of the cumulative Currency translation difference reserve is reclassified to the Statement of income as part of the gain or loss on the disposal. Currency translation results from the Company's functional currency (euro) into the Company's reporting currency (U.S. dollar) are not reclassified to the Statement of income as long as there is the assumption that the proceeds from the sale are reinvested.

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

			$ 1 per €	
	period end	average[1)]	high	low
2012	1.3190	1.2887	1.2238	1.3347
2011	1.2938	1.3908	1.2938	1.4531

[1)] The average rates are the 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 Group's reporting currency instead of their local currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of income, except when the foreign exchange exposure is part of a qualifying cash flow or net investment hedge accounting relationship, in which case the related foreign exchange gains and losses are recognized directly in other comprehensive income to the extent that the hedge is effective and presented in respectively the Currency translation differences reserve or Net investment hedging reserve; within equity. To the extent that a hedge is ineffective, the related foreign exchange gains and losses are recognized in the Statement of income. Currency gains and losses on intercompany loans that have the nature of a permanent investment are recognized as translation differences in other comprehensive income and are presented in the Currency translation differences reserve in equity.
When the hedged net investment is disposed of, the corresponding amount in the Currency translation differences reserve is transferred to the Statement of income as part of the profit or loss on disposal.

Discontinued operations, disposal groups and non-current assets held for sale

Non-current assets and disposal groups (comprising assets and liabilities) that are expected to be recovered primarily through a sale transaction rather than through continuing use are classified as held for sale. 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.

A discontinued operation is a component of the Group 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 Group in terms of operations and comprehensive income 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 or (iii) is a subsidiary acquired exclusively with a view to resale. Generally, a major line of business is a segment or business unit.

Non-current assets held for sale and discontinued operations are carried at the lower of carrying amount and fair value less cost to sell. Upon classification as held for sale depreciation and amortization of the related assets is terminated. Results from discontinued operations until the date of disposal are presented separately as a single amount in the consolidated statement of income together with any gain or loss from disposal. Results from discontinued operations as of the period end 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 with regard to discontinued operations is excluded from the respective captions in the consolidated financial statements and related notes for all years presented, except for the consolidated statement of cash flows for all years presented; for which no reclassification is made.

Use of estimates and judgments

The preparation of financial statements requires management to make estimates, judgments and assumptions that affect amounts reported in the consolidated financial statements in order to conform to IFRS. 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 estimates under different assumptions or conditions. If actual results differ significantly from management's estimates, there could be a material adverse effect on reported amounts of revenue and expenses during the reporting period, the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements.

Estimates significantly impact goodwill and intangible assets acquired, impairments, liabilities from employee benefit plans, other provisions, recoverability of capitalized development costs, fair value of derivatives, useful lives of property, plant and equipment, tax and other contingencies. The fair values of acquired identifiable intangibles are based on an assessment of future cash flows. Impairment analysis of goodwill is performed annually and whenever a triggering event has occurred to determine whether the carrying value exceeds the recoverable amount. These analyses are based on estimates of future cash flows.

Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the other components of the Company, and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and to assess its performance. Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and deferred income tax assets and liabilities.

NXP's reportable segments comprise High Performance Mixed Signal, Standard Products, and Manufacturing Operations.

For internal and external reporting purposes, NXP follows accounting principles generally accepted in the United States of America ("U.S. GAAP"), U.S. GAAP is NXP's primary accounting standard for the Company's setting of financial and operational performance targets. Consequently, the information by reportable segment is presented on a U.S. GAAP basis, with a reconciling item to the IFRS basis.

Earnings per share

Basic earnings per share attributable to shareholders of NXP is calculated by dividing net income or loss attributable to shareholders of NXP by the weighted average number of common shares outstanding during the period, adjusted for treasury shares held.

Diluted earnings per share attributable to shareholders of NXP is determined by dividing net income or loss attributable to shareholders of NXP by the weighted average number of common shares outstanding, adjusted for treasury shares held, for the effects of all potentially dilutive common shares, which comprise share options and equity rights granted to employees.

Revenue recognition

The Group's revenue is primarily derived from made-to-order sales to Original Equipment Manufacturers ("OEM's") and similar customers. The Group's revenue is also derived from sales to distributors.

The Company recognizes revenue when the significant risks and rewards of ownership have been transferred to the buyer, collection of the consideration is probable, the associated costs incurred or to be incurred in respect of the transaction can be measured reliably, there is no continuing involvement nor effective control with the goods sold, and the amount of revenue can be measured reliably. Transfer of risks and rewards varies depending on the individual terms of the contract of sale. For made-to-order sales, these criteria are met at the time the product is shipped and delivered to the customer and title and risk have passed to the customer. Examples of delivery conditions typically meeting these criteria are 'Free on Board point of delivery' and 'Costs, Insurance Paid point of delivery'. Generally, the point of delivery is the customer's warehouse. Acceptance of the product by the customer is generally not contractually required, since, for made-to-order customers, manufacturing commences after design approval and subsequently delivery follows without further acceptance protocols. Payment terms used are those that are customary in the local markets. 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 local markets. Other return conditions relate to circumstances arising at the end of a product life cycle, when certain distributors are permitted to return products purchased during a pre-defined period after the Company has announced a products pending discontinuance. Long notice periods associated with these announcements prevent significant amounts of product from being returned, however. Repurchase agreements with OEM's or distributors are not entered into by the Group.

For sales where return rights exist, the Group has determined, based on historical data, that only a very small percentage of the sales to distributors is actually returned. Based on these historical data, a pro rata portion of the sales to these distributors is not recognized but deferred until the return period has lapsed or the other return conditions no longer apply.

Revenue is recorded net of sales taxes, customer discounts, rebates and other contingent discounts granted to distributors. Shipping and handling costs billed to customers are recognized as revenue. 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. 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 revenue pro rata over the term of the contract unless a separate earnings process has been completed and risks and rewards associated with ownership have transferred to the buyer. Income from the sale of patents is also reported as revenue. The carrying value of the sold patents is reported as cost of sales.

Income from the sale of Property, plant and equipment is reported as other income. The carrying value of these sold assets is reported as other expense at the time of sale.

Government grants

Government grants, other than those relating to purchases of assets, are recognized as a reduction of expenditure as qualified expenditures are made.

Employee benefits

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the Statement of income in the periods during which services are rendered by employees. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Group employees participate in pension and other post-employment benefit plans in many countries. The costs of pension and other post-employment benefits and related assets and liabilities with respect to the Group employees participating in defined-benefit plans have been recognized in the financial statements based upon actuarial valuations.

Some of the Group’s defined-benefit pension plans are funded with plan assets that have been segregated and restricted in a trust, foundation or insurance company to provide for the pension benefits to which the Group has committed itself.

The net pension liability or asset recognized in the Statement of financial position in respect of defined benefit pension plans is the present value of the projected defined benefit obligation less the fair value of plan assets at the period end date together with adjustments for unrecognized prior service cost and unrecognized net loss (gain).

Most of our plans result in a pension provision (in case the plan is unfunded) or a net pension liability (for funded plans). The projected defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method.

For the Group's major plans, the discount rate is derived from market yields on high quality corporate bonds. Plans in countries without a deep corporate bond market use a discount rate based on the local government bond rates.

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 and net of employee contributions.

Actuarial gains and losses arise mainly from changes in actuarial assumptions and differences between actuarial assumptions and what has actually occurred. They are recognized in the Statement of income over the expected average remaining service periods of the employees and applying the corridor method.
Events, which invoke a curtailment or a settlement of a benefit plan are recognized in the Statement of income.

In certain countries, the Group also provides post-employment benefits other than pensions. The cost relating to such plans consists primarily of the present value of the benefits attributed on an equal basis to each year of service and interest cost on the accumulated post-employment benefit obligation, which is a discounted amount.
Unrecognized prior-service costs related to pension plans and other post-employment benefits are being amortized by assigning a proportional amount to the Statement of income of a number of years, reflecting the average remaining service period of the active employees until vesting occurs.

Share-based compensation

Share-based payment plans were introduced by NXP Semiconductors N.V. for NXP employees in 2007 and new plans were introduced, after NXP Semiconductors' initial public offering of common shares in the United States in 2010. The Company measures the estimated fair values of the equity instruments granted to employees at the grant date. For the grants issued up to August 2010, when NXP became a listed company, the Company used a binomial option-pricing model to determine the estimated fair value of the options and determined the fair value of the equity rights on the basis of the estimated fair value of the Company, using a discounted cash flow technique. For grants issued since August 2010, the Company uses the Black-Scholes-Merton method. The estimated fair value of the equity instruments is recognized as compensation expense over the vesting period taking into account estimated forfeitures.
The share-based compensation plans that the Company's employees participate in contain contingent cash settlement features upon an exit or a 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 concluded that these cash settlement features do not meet the cash settlement provisions and subsequent accounting as liability is not applicable. If it is determined that vested share-based payment rights will become cash settled such instruments will be recorded as liabilities at fair value at the date of such event.

Financial income and expense

Financial income comprises interest income on funds invested and the net gain on the disposal of other financial assets.
Financial expense comprise interest expense on borrowings, accretion of the discount on provisions and contingent consideration, losses on disposal of financial assets, impairment losses recognized on financial assets (other than trade receivables) and losses on hedging instruments recognized in the Statement of income.
Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the Statement of income using the effective interest method.

Foreign currency gains and losses, not related to accounts receivable, accounts payable and intercompany current accounts, are reported on a net basis as either financial income or financial expense in the Statement of income, depending on whether the foreign currency movements result in a net gain or net loss position. Foreign currency gains and losses on accounts receivable, accounts payable and intercompany current accounts that are not part of a net investment hedge are reported under Cost of revenue in the Statement of income.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the Statement of income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantially enacted at the period end date, and any adjustment to tax payable in respect of previous years. Deferred tax assets and liabilities are recognized, using the balance sheet liability method, for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is not recognized for temporary differences arising from the initial recognition of goodwill or the initial recognition of assets and liabilities in a transaction that is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss. The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Measurement of deferred tax assets and liabilities is based upon the enacted or substantially 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 carry forwards, are recognized if it is probable future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit or a portion thereof 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 equity-accounted investees to the extent that these withholding taxes are not expected to be refundable or deductible.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, which intend either to settle current tax liabilities and assets on a net basis or realize the tax assets and settle the liabilities simultaneously.

Changes in tax rates are reflected in the period when the change has been enacted or substantively enacted by the period end date.

In determining the amount of current and deferred taxes, NXP takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses. Assets constructed by the Group include direct costs, overheads and interest charges incurred for qualifying assets 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 also based on the straight-line method unless a depreciation method other than the straight-line method better represents the consumption pattern. The useful lives and residual values are evaluated every year to determine whether events and circumstances warrant a revision of the remaining useful lives or the residual values. Gains and losses on the sale of property, plant and equipment are included in the respective line items Other income and Other expense. Costs related to repair and maintenance activities are expensed in the period in which they are incurred.

Under the provisions of IFRIC Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* the Group recognizes the net present 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 related asset. The adjusted depreciable amount of the asset is depreciated over its useful life.

Leases

The Group leases various office space and equipment. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in the Statement of income on a straight-line basis over the term of the lease.

Leases in which the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property or the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the Statement of income over the lease period so as to achieve a constant periodic rate of interest on the remaining balance of the lease obligation for each period. The lease obligations are included in other current and other non-current liabilities. The property, plant and equipment acquired under finance leases are depreciated, using the straight-line method over the shorter of the useful life of the assets or the lease term.

Goodwill and impairment of goodwill

The Company initially measures the amount of goodwill as the excess of the considerations transferred to acquire an entity over the fair value of the identifiable assets and liabilities assumed at the acquisition date. Goodwill is not amortized but tested for impairment annually in the fourth quarter or more frequently if events and circumstances indicate that goodwill may be impaired. The Company identified its business operating segments as its cash generating units. Cash flows on this level are substantially independent from other cash flows and this is the lowest level at which goodwill is monitored by the Board. A goodwill impairment loss is recognized in the Statement of income whenever and to the extent the carrying amount of a cash generating unit exceeds the recoverable amount of that unit. The recoverable amount is the greater of an asset's net selling price (the amount that could be realized from the sale of an asset by means of an arms' length transaction, less costs of disposal) or its value in use (the present value of estimated future cash flows expected to be realized from the continuing use of an asset and from its disposal at the end of its useful life).The recoverable amount of the cash generating units of the Company is determined on the basis of value in use in case not otherwise stated. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. An impairment loss in respect of goodwill is not reversed.

Intangible assets

Intangible assets arising from acquisitions are amortized over their useful lifes using the straight-line method. 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. Software and intangible development assets are generally amortized over a period of 3 years. Patents, trademarks and other intangible assets acquired from third parties are capitalized and amortized over their remaining useful lives.

Expenditures on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized as an intangible asset if development costs can be measured reliably, if the product or process is technically and commercially feasible, future economic benefits are probable, the Group has sufficient resources and the intention to complete development and to use or sell the asset. The development expenditure capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads. Other development expenditure and expenditure on research activities are recognized in the Statement of income as an expense as incurred. Capitalized development expenditure is stated at costs less accumulated amortization and impairment losses. Amortization of capitalized development expenditure is charged to the Statement of income on a straight-line basis over the estimated useful lives of the intangible assets. 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.

Impairment or disposal of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are 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 assessed by a comparison of the carrying amount of an asset with the greater of its value in use and its fair value less cost to sell. Value in use is measured as the present value of future cash flows expected to be generated by the asset. Fair value is measured based on externally acquired or available information. If the carrying amount of an asset is not recoverable, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the recoverable amount. The review for impairment is carried out at the level where discrete cash flows occur that are independent of other cash flows.

For the Manufacturing Operations segment, the review of impairment of intangible assets and property, plant and equipment is carried out on a Group-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 costs to sell.

An impairment loss related to intangible assets or property, plant and equipment is reversed if and to the extent there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the Statement of income.

Impairment 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. Any impairment loss is charged to the Statement of income.

An impairment loss related to financial assets is reversed if in a subsequent period, the fair value increases and the increase can be related objectively to an event occurring after the impairment loss was recognized. The loss is reversed only to the extent the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognized. Reversals of impairments are recognized in the Statement of income.

Inventories

Inventories are stated at the lower of cost and net realizable value, 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 and the normal capacity of production facilities. Abnormal amounts of idle facility expense and waste are not capitalized in inventory. The cost of inventories is determined using the first-in, first-out (FIFO) method. Inventory is reduced for the estimated losses due to obsolescence. This reduction is determined for groups of products based on purchases in the recent past and/or expected future demand and market conditions. Net realizable value is the estimated selling price in the ordinary course of business, less estimated marketing, distribution and selling expenses.

Receivables

Receivables are carried at amortized cost, less impairment losses and net of rebates and other contingent discounts granted to distributors. 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.

Derivative financial instruments

The Group uses derivative financial instruments in the management of its foreign currency risks and the input costs of gold for a portion of our anticipated purchases within the next 12 months. The Company measures all derivative financial instruments based on fair values derived from market prices of the instruments or from option pricing models, as appropriate, and recognizes these as assets or liabilities in the Statement of financial position. Changes in the fair values are immediately recognized in the Statement of income unless cash flow hedge accounting is applied.

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 Group.

On initial designation of the hedge relationship between the hedging instrument and hedged item, the Company documents this relationship, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80-125 percent.

When cash flow hedge accounting is discontinued because it is 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 statements of financial position at its fair value, and gains and losses that were accumulated in other comprehensive income are recognized immediately in the Statement of income. In situations in which hedge accounting is discontinued, the Company continues to carry the derivative at its fair value on the consolidated statements of financial position, and recognizes any changes in its fair value in the Statement of income.

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 date that are readily convertible into known amounts of cash. It also includes cash balances that cannot be freely repatriated.

Provisions and accruals

Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.
Provisions of a long-term nature are measured at present value when the amount and timing of related cash payments are fixed or reliably determinable using a pre-tax discount rate. Short-term provisions are stated at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.
The Group accrues for losses associated with environmental obligations when such losses are probable and reliably estimable. Measurement of liabilities is based on current legal requirements and existing technology. Liabilities and virtually certain 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. Insurance recoveries are recognized when they have been received or when receipt is virtually certain.

Restructuring

The provision for restructuring relates to the estimated costs of initiated reorganizations that have been approved by the management team 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. A provision is recognized for those costs only when the Group has a detailed formal plan for the restructuring and has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Guarantees

The Company recognizes a liability at the fair value of the obligation at the inception of a financial guarantee contract. The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognized.

Debt and other liabilities

Debt and other liabilities, excluding provisions, are initially recognized at fair value and subsequently measured at amortized cost. Debt issue costs are not expensed immediately but included in the amortized cost of the related debt through the use of the effective interest rate method.

Debt that has been exchanged for other debt is initially measured at fair value. Any gain or loss resulting from the exchange is immediately recognized in the Statement of income on the line item "Financial income (expense)". The Company determines the fair value based on quoted prices for the instruments or quoted prices for similar instruments. In the rare cases that such observable inputs are not available the Company determines the fair value based on discounted projected cash flows.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

When NXP buys its own shares, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognized as a deduction from equity under treasury shares. Any gain or loss on the subsequent sale or reissuance of treasury shares is recognized directly in equity on the line item capital in excess of par value. Losses are also recognized in that line item in as far as gains from previous sales are included herein. Otherwise, losses are charged to retained earnings/accumulated deficit. When issued, shares are removed from treasury shares on a first in, first out (FIFO) basis.

Cash flow statements

Cash flow statements have been prepared using the indirect method. Cash flows in foreign currencies have been translated into U.S. dollar using the weighted average rates of exchange for the periods involved.

Cash flows from derivative instruments are classified consistent with the classification of the hedged items.

Accounting standards adopted in 2012

In 2012 there were no new accounting standards adopted by the Company.

New accounting standards after 2012

The following standards and amendments to existing standards have been published and are mandatory for the Company beginning on or after January 1, 2013 or later periods, but the Company has not early adopted them:

IFRS 9 *Financial Instruments (2010),* IFRS 9 *Financial Instruments (2009)*

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of IFRS 9 (2010) is expected to have a limited impact on the Company's financial assets, but not any impact on the Company's financial liabilities.

IFRS 10 *Consolidated Financial Statements*

In May 2011 the IASB published IFRS 10 Consolidated Financial Statements. IFRS 10 requires that an entity must be consolidated if the power to control results in an effect on the returns the Company receives from the entity. Additionally, protective and participating rights for determining whether or not a controlling interest exists are now introduced under IFRS.

The Standard becomes effective on January 1, 2014.

The Company assessed that this new standard will not result in any change to the consolidation or non-consolidation of an entity.

IFRS 11 *Joint Arrangements*

IFRS 11 Joint Arrangements was published by the IASB in May 2011. The standard requires classifying joint arrangements in which participants have joint control either as joint operations or as joint ventures. A joint operation is accounted for by consolidating the assets, liabilities, revenue and costs in as far as the Company has rights or obligations. Joint ventures are accounted for in accordance with the equity method. The standard becomes effective on January 1, 2014.

The Company has evaluated the impact that this new standard will have on NXPs consolidated financial statements and concluded that the new standard will not have any impact for the Company.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 Disclosure of interests in Other Entities was published by the IASB in May 2011. This standard affects disclosures only. The main new requirements are: Providing financial information (assets, liabilities, revenue, net income, cash flows, etc.) for each material subsidiary with a non-controlling interest. Disclosure of significant restrictions on the ability to use the assets of the group. For each material associate or joint venture summarized financial information, extending beyond the currently provided information, needs to be disclosed.

The Standard becomes effective on January 1, 2014. The Company has evaluated that this new standard will result in additional disclosures.

IFRS 13 *Fair Value Measurement*

IFRS 13 *Fair Value Measurement* was published by the IASB in May 2011. The new standard provides guidance about fair value measurement and related disclosures. The standard is applicable to the Company on January 1 2013 and is not expected to have a significant impact on the Company's fair value measurements. The disclosure requirements will not result in more extensive disclosures about valuation processes and sensitivity analysis.

IAS 19 *Employee Benefits*

In June 2011 the IASB published improvements to the accounting requirements for post-employment benefits. The amendments are significant and can be summarized as follows:

- Full balance sheet recognition of pension surpluses and deficits. Previous deferral mechanism known as the corridor approach has been removed. The actuarial gains and losses; remeasurements as they are named in the amended IAS 19 standard, must be recognized in other comprehensive income as they occur rather than in profit or loss, and are not allowed to be reclassified to profit or loss subsequently;
- Past-service costs will need to be recognized when a plan is amended; unvested benefits can no longer be spread over the vesting period;
- Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability;
- Short and long-term benefits will now be distinguished based on the expected timing of settlement, rather than employee entitlement;
- Medium and long-term remuneration plans must be recognized and measured in the same way as pensions. However, all actuarial gains and losses and past service costs will continue to be recorded in profit and loss;
- A termination benefit is now recognized at the earlier of:
  - when the entity recognizes costs for a restructuring within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* that includes the payment of termination benefits; and
  - when the entity can no longer withdraw the offer of the termination benefits;
- Additional disclosures are required to present the characteristics of benefit plans, the amounts recognized in the financial statements, and the risks arising from defined benefit plans and multi-employer plans.

The amended IAS 19 becomes effective on January 1, 2013 and must be applied retrospectively to all periods presented.

Additionally, it is observed that there are minor wording changes that potentially offer relief for classifying certain pension plans as defined contribution plans instead of defined benefit plans.

The improvements of IAS 19 require NXP to:

- Revisit the classification of the pension plans into defined contribution or defined benefit plans;
- Calculate the effect of abolishing the corridor approach;
- Determine the impact of presenting remeasurement effects in other comprehensive income instead of profit and loss;
- Investigate whether there are any other medium or long-term employee remuneration plans than pension plans that would require accounting in accordance with the amended IAS 19 standard;
- Prepare for the additional disclosures, particularly regarding the sensitivity of measurements.

The Company concluded that the new IAS 19 requirements will result in an increase of the net post-employment benefits obligation by $30 million as of December 31, 2012 and a decrease of the net post-employment benefits obligation by $22 million as of December 31, 2011, while the net deferred tax liability will increase by $1 million at December 31, 2012 and increase by $2 million at December 31, 2011. The net impact on equity of $31 million at December 31, 2012 and $20 million at December 31, 2011 will primarily be recognized as a loss/benefit in other comprehensive income. The impact of the adoption of the new IAS19 requirements on the 2012 net periodic post-employment cost is not significant.

IAS 27 *Separate Financial Statements*

The new IAS 27 *Separate Financial Statements* was issued by the IASB simultaneously with IFRS 10 *Consolidated Financial Statements* and contains the consequential amendments arising from IFRS 10. The new standard will not have a material impact for the Company. The amended standard becomes effective for the Company on January 1, 2014.

IAS 28 *Investments in Associates and Joint Ventures*

The amended IAS 28 *Investments in Associates and Joint Ventures* was issued simultaneously with IFRS 11 *Joint Arrangements* and contains the consequential amendments arising from issuing IFRS 11 and withdrawing IAS 31 *Interests in Joint Ventures,* following the publication of IFRS 11 *Joint Arrangements* (see above). The main change concerns the prohibition of proportional consolidation of joint ventures and the mandatory application of equity accounting. The amendments will not have a material impact for the Company. The amended IAS 28 becomes effective for the Company on January 1, 2014.

Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

In June 2011 the IASB published amendments to IAS 1 *Presentation of Financial Statements* with regard to the presentation of items of other comprehensive income. The main change from existing IFRS requirements is that other comprehensive income must be split in two sections containing items that will be reclassified to the Statement of income at a certain point in time and items that will never be reclassified to the Statement of income. The new guidance must be applied in annual periods starting on or after July 1 2012, which is for the Company effectively in 2013.

Amendments to IFRS 7 *Disclosures* – Offsetting Financial Assets and Financial Liabilities

The IFRS 7 amendment was issued by the IASB in December 2011 with an effective date for NXP of January 1, 2013, and requiring retrospective application to prior periods reported in the financial statements.

The amendment primarily requires more extensive disclosures about financial assets and financial liabilities that have been offset in the statement of financial position or that were allowed to be offset but for which the Company made an accounting policy choice not to offset. The disclosures are either by type of financial asset and financial liability or by counterparty. The offsetting conditions were not changed by this amendment. The impact for the Company on its disclosures is limited.

3 Discontinued operations

On July 4, 2011, we sold our Sound Solutions business (formerly included in our Standard Products segment) to Knowles Electronics, LLC ("Knowles Electronics"), an affiliate of Dover Corporation for $855 million in cash. The transaction resulted in a gain of $404 million, net of post-closing settlements, transaction-related costs, including working capital settlement, cash divested and taxes, which is included in income from discontinued operations. The financial information attributable to the Company's divested interest in Sound Solutions has been presented separately as discontinued operations in the 2011 consolidated financial statements, for the period up to divestment on July 4, 2011.

The following table summarizes the results of the Sound Solutions business included in the consolidated statement of income as discontinued operations for 2011 and 2012 (for the period up to divestment on July 4, 2011):

	2012	2011
Revenue		140
Costs and expenses		(112)
Income attributable to discontinued operations		28
Income taxes		(4)
Income attributable to discontinued operations, net of taxes, before disposal		24
Gain on disposal of discontinued operations (net of taxes)	**1**	404
Income from discontinued operations after disposal	**1**	428

The following table shows the components of the gain on the disposal of our Sound Solution business, net of taxes, as included in income from discontinued operations:

	2011
Consideration gross	855
Transaction-related costs, incl. working capital settlements	(31)
Cash divested	(8)
Consideration net	816
Carrying value of net assets disposed	(339)
Other costs of disposal	(69)
Gain on disposal before taxes	408
Income taxes	(4)
Gain on disposal net of taxes	404

4 Information by segment and main countries

NXP is organized into three reportable segments including two market-oriented business segments, High Performance Mixed Signal ("HPMS") and Standard Products ("SP") and one other reportable segment, Manufacturing Operations. Corporate and Other represents the remaining portion to reconcile to the Consolidated Financial Statements along with the Divested Home activities, which were divested in 2010.

Our Chief Executive Officer, who is our Chief Operating Decision Maker, or CODM, regularly reviews financial information at the reporting segment level in order to make decisions about resources to be allocated to the segments and to assess their performance. Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and deferred income tax assets and liabilities.

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

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

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

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

For internal and external reporting purposes, NXP follows accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP is NXP's primary accounting standard for the Company's setting of financial and operational performance targets. Consequently, the information by reportable segment is presented on a U.S. GAAP basis, with a reconciling item to the IFRS basis.

Detailed information by segment for the years 2012 and 2011 is presented in the following tables.

Segments

	Revenue	Research and development expenses	Operating income (loss)	Operating income (loss) as a % of revenue	Results relating to equity-accounted investees
2012					
HPMS	**3,282**	**539**	**527**	**16.1**	**-**
SP	**832**	**43**	**37**	**4.4**	**-**
Manufacturing Operations	**211**	**1**	**(36)**	**(17.1)**	**-**
Corporate and Other [1]	**33**	**45**	**(116)**	**-**	**19**
	4,358	**628**	**412**	**9.5**	**19**
Adjustments to reconcile to IFRS		**14**	**23**		**-**
		642	**435**	**10.0**	**19**
2011					
HPMS	2,906	554	339	11.7	-
SP	925	37	141	15.2	-
Manufacturing Operations	316	-	(60)	(19.0)	-
Corporate and Other [1]	47	44	(63)	-	(77)
	4,194	635	357	8.5	(77)
Adjustments to reconcile to IFRS		(5)	(10)		(27)
		630	347	8.3	(104)

[1] Corporate and Other is not a segment under IFRS 8 *Segment Reporting*

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

	Inventories	Long-lived[1] assets	Total liabilities excl. debt	Gross capital expenditures property, plant and equipment	Depreciation[3] Property, plant and equipment
2012					
HPMS	**388**	**2,248**	**300**	**12**	**12**
SP	**182**	**706**	**102**	**11**	**26**
Manufacturing Operations	**145**	**1,041**	**666**	**200**	**163**
Corporate and Other [2]	**-**	**317**	**595**	**28**	**46**
	715	**4,312**	**1,663**	**251**	**247**
Adjustments to reconcile to IFRS		**577**	**(155)**		**1**
		4,889	**1,508**		**248**
2011					
HPMS	340	2,390	258	14	13
SP	161	760	152	17	41
Manufacturing Operations	117	1,014	489	162	179
Corporate and Other [2]	-	301	557	28	57
	618	4,465	1,456	221	290
Adjustments to reconcile to IFRS		641	14		3
		5,106	1,470		293

[1] Long-lived assets include property, plant and equipment, intangible assets and goodwill.
[2] Corporate and Other is not a segment under IFRS 8 *Segment Reporting*.
[3] Differently from 2011, the caption was changed from Amortization and depreciation of long-lived assets to depreciation property, plant and equipment in conformity with our US GAAP reporting.

Main countries

	Total revenue	Property, plant[1] and equipment	Gross capital expenditures property , plant and equipment
2012			
China	**1,699**	**131**	**43**
Netherlands	**94**	**180**	**22**
Taiwan	**112**	**80**	**32**
United States	**303**	**8**	**2**
Singapore	**436**	**226**	**58**
Germany	**447**	**88**	**17**
South Korea	**238**	**-**	**-**
Other countries	**1,029**	**357**	**77**
	4,358	**1,070**	**251**
Adjustments to reconcile to IFRS		**8**	
		1,078	
2011			
China	1,514	120	40
Netherlands	123	187	23
Taiwan	80	70	18
United States	329	9	2
Singapore	383	229	64
Germany	508	96	17
South Korea	216	-	-
Other countries	1,041	352	57
	4,194	1,063	221
Adjustments to reconcile to IFRS		9	
		1,072	

1) Differently from 2011, the caption was charged from non-current assets to property, plant and equipment in conformity with our US GAAP reporting.

Note 14 *Goodwill* discloses our goodwill by segment.

5 Acquisitions and divestments

2012

In April 2012, the Company acquired Catena, an electronic design and IP company. The purchase price consideration of $20 million, including the issuance of 599,000 treasury shares with a fair value of $14 million was allocated to goodwill of $11 million, other intangible assets with an amortization period of five years of $9 million, assets acquired of $7 million and liabilities assumed of $7 million. The goodwill is not deductible for income tax purposes.

NXP has committed to buy back the NXP Semiconductors N.V. shares issued to the former shareholders of the acquired Catena business should the stock price of NXP shares drop below pre-defined levels in the next four years. The terms of the agreement also provide NXP with the right to call the shares from the former Catena shareholders during that period. The fair values of these put and call options have been calculated using a Level 3 Black Scholes model, resulting in a $4 million benefit and $2 million charge, respectively, recognized directly in equity. Due to the put option on the treasury shares issued as part of the purchase price consideration, a corresponding liability of $13 million was recognized in the statement of financial position.

On July 19, 2012, we sold the High Speed Data Converter business (a product line of the High Performance Mixed Signal segment) to Integrated Device Technology (IDT). The negative deal result of $2 million, as included in other income (expense), is calculated as the difference between the selling price of $31 million and the carrying value of the business transferred less any transaction-related direct costs.

2011

On July 4, 2011, we sold our Sound Solutions business (formerly included in our Standard Products segment) to Knowles Electronics, LLC ("Knowles Electronics"), an affiliate of Dover Corporation for $855 million in cash. The transaction resulted in a gain of $404 million, net of post-closing settlements, transaction-related costs, including working capital settlements, cash divested and taxes, which is included in the 2011 income from discontinued operations. The financial information attributable to the Company's divested interest in Sound Solutions has been presented separately as discontinued operations in the 2011 consolidated financial statements, for the period up to divestment on July 4, 2011. Liabilities for the other costs of this disposal were included in the accrued liabilities and provisions for continuing operations. Cash payments related to these liabilities and provisions are reported as cash flows from discontinued operations.

6 Operating income (loss)

For information related to revenue and operating income on a business and geographical basis, see note 4 *Information by segment and main countries* of this Annual Report.

Revenue composition

	2012	2011
Goods	**4,346**	4,170
Patents and licenses	**12**	24
	4,358	4,194

Salaries and wages

	2012	2011
Salaries and wages	**1,146**	1,139
Pension and other post-employment costs	**85**	85
Other social security and similar charges:		
- Required by law	**119**	117
- Voluntary	**14**	10
	1,364	1,351

Salaries and wages in 2012 include $11 million (2011: $66 million) relating to restructuring charges. Pension and other post-employment costs include the costs of pension benefits, and other post-employment benefits. Part of salaries and wages were capitalized as product development assets.

See note 24 *Post-employment benefits* for further information regarding pension and other post-employment benefits and notes 32 *Share-based compensation* and 33 *Information on remuneration board of directors* for further information about remuneration and share-based payments to executives and non-executives.

Depreciation, amortization and impairment

Depreciation, amortization and impairment charges can be detailed as follows:

	2012	2011
Depreciation of property, plant and equipment	**248**	293
Amortization of internal use software	**24**	10
Amortization of intangible assets	**493**	522
Impairment intangible assets	**76**	97
	841	922

Depreciation of property, plant and equipment includes an additional write-off in connection with the retirement of property, plant and equipment amounting to $1 million (2011: $1 million). Furthermore, depreciation of property, plant and equipment includes $2 million relating to write-downs and impairment charges (2011: $6 million).

Depreciation of property, plant and equipment and amortization of software are primarily included in cost of revenue. Amortization of intangible assets is primarily reported in the Selling, general and administrative expenses and Research and development expenses.

Impairments

Our goodwill is tested for impairment on an annual basis in accordance with IAS 36 *Impairment of Assets*. To test our goodwill for impairment, the recoverable amount of each cash-generating unit to which goodwill has been allocated is determined on the basis of its value in use. If the carrying amount of the net assets of a cash-generating unit exceeds the recoverable amount of that cash-generating unit, we record an impairment loss for the difference between the carrying amount and the recoverable amount.

The determination of the recoverable amount of cash-generating units requires us to make significant judgments and estimates, including projections of future cash flows from the business. 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 cash-generating units.

Based on analysis of the 2012 events and circumstances, NXP assessed at the end of 2012 that the likelihood that the current recoverable amount determination would be less than the current carrying amount of a cash-generating unit was remote. As the assets and liabilities making up the cash generating units to which goodwill has been allocated have not changed significantly since the most recent recoverable amount calculations in 2011, and those calculations resulted in an amount that exceeded the carrying amount of the units by a substantial margin, these calculations were used in the 2012 goodwill impairment testing. Consequently, no new detailed calculations were made for the recoverable amounts at the end of 2012; as provided for by IAS 36.99.

The key assumptions considered in our 2011 quantitative approach for computing the recoverable amount of cash-generating units included: (a) cash flows based on financial projections for periods ranging from 2011 through 2014 and which were extrapolated until 2022, (b) terminal values based on terminal growth rates not exceeding 2.5% and (c) discount rates based on the weighted average cost of capital ranging from 10.5% to 13.7%.

Cash-generating unit	Discount rate	Terminal value growth rate
HPMS	13.7%	2.5%
Automotive	10.5%	2.5%
Identification	10.5%	2.5%
Standard Products	11.6%	2.5%
Manufacturing Operations	10.6%	0%

When performing the impairment test in 2011, NXP conducted sensitivity analyses. These analyses, in which long-term growth rates become approximately zero and the weighted average cost of capital is increased by 200 basis points, indicated that for all cash-generating units, the recoverable amount exceeds the carrying value substantially. As a result, these 2011 sensitivity analyses support the above 2012 conclusion that there was no goodwill impairment as at 31 December 2012.

During the year, impairment events for intangible assets resulted in a total impairment charge of $76 million, which is included under research and development expenses (2011: $97 million) – see also note 15 *Intangible assets*.

Foreign exchange differences

In 2012, cost of revenue includes foreign exchange differences amounting to a loss of $4 million (2011: a gain of $9 million).

Rent

Rent expenses in 2012 amounted to $54 million (2011: $51 million).

Selling, general and administrative expenses

Selling, general and administrative expenses amounted to $939 million in 2012 (2011: $935 million). Our sales and marketing expense consists primarily of compensation and associated costs for sales and marketing personnel including field application engineers and overhead, revenue commissions paid to our independent sales representatives, costs of advertising, trade shows, corporate marketing, promotion, travel related to our sales and marketing operations, related occupancy and equipment costs and other marketing costs. Our general and administrative expense consists primarily of compensation and associated costs for management, finance, human resources and other administrative personnel, outside professional fees, allocated facilities costs and other corporate expenses. General and administrative expenses also include amortization and impairment charges for intangibles assets, impairment charges for goodwill and impairment charges for assets held for sale.

Research and development expenses

The 2012 research and development expenses amounted to $642 million (2011: $630 million). Government grants with regard to research and development activities were recognized in the statement of income for a total amount of $48 million (2011: $60 million). For information related to research and development expenses on a segment basis, we refer to note 4 *Information by segment and main countries*.

Other income and expense

Other income and expense consists of the following:

	2012	2011
Other income		
Gain on disposal of properties	**1**	8
Other	**15**	17
	16	25
Other expense		
Loss on disposal of properties	**-**	(18)
Loss on disposal of businesses	**(2)**	-
Other	**(1)**	(3)
	(3)	(21)

In 2012, the gain on disposal of properties consists of various small items. In 2011, the result on disposal of properties mainly related to the sale of land and buildings in San Jose, USA (a loss of $17 million) and the sale of equipment in Nijmegen, the Netherlands (a gain of $5 million). Furthermore, the sale of a building in Southampton, UK, which was classified as assets held for sale, resulted in a gain of $2 million.

The 2012 other income includes a $5 million reversal of a prior year litigation provision.

In 2012, the loss on disposal of businesses related to the sale of our High Speed Data Converter business.

The remaining income and expense on other items consists of various smaller items for all periods presented.

7 Restructuring

The most significant projects for restructuring in 2012

At the end of 2012 we announced a cost savings and restructuring initiative ("the OPEX Reduction Program"), designed to improve operational efficiency and to competitively position the Company for sustainable growth. The estimated restructuring charge of $90 million associated with this initiative was not yet recognized in the 2012 statement of income because at 31 December 2012 the Company had not yet announced the main features of the initiative to those affected by it, nor substantially implemented the initiatives. The OPEX Reduction Program relates primarily to the consolidation of MOS technologies from our German fabrication facility in Hamburg to the Company's 8-inch Dutch facility in Nijmegen, and the consolidation of Selling, general and administrative and Research and development resources, resulting in an estimated worldwide workforce reduction of 650 employees in primarily Europe and the U.S. The estimated restructuring charge of $90 million mainly consists of severance and employee benefit related costs. The OPEX Reduction Program is expected to be completed mid 2015.

The most significant projects for restructuring in 2011

In 2011 NXP undertook restructuring actions which include:

- the future closure of ICN 4 wafer fabrication facilities in Nijmegen, the Netherlands.
- actions to lower headcount, primarily in locations within Europe.

The ICN 6 wafer fabrication facility in Nijmegen is expected to be closed in 2013.

The 2012 changes in the provision and accrued liabilities for restructuring by segment are as follows:

	Total	HPMS	SP	Manufacturing Operations	Corporate and Other
Balance as of January 1,2012	**99**	**59**	**4**	**20**	**16**
Changes:					
Additions	**13**	**3**	**-**	**2**	**8**
Utilized	**(29)**	**(4)**	**(3)**	**(6)**	**(16)**
Released	**(4)**	**(2)**	**(1)**	**-**	**(1)**
Effects of movements in exchange rates and other	**1**	**-**	**1**	**(9)**	**9**
Balance as of December 31, 2012	**80**	**56**	**1**	**7**	**16**

The total restructuring liability as of December 31, 2012 is classified in the statement of financial position under provisions for $76 million (short-term: $69 million; long-term: $7 million) and under accrued liabilities for $4 million.

	Total	HPMS	SP	Manufacturing Operations	Corporate and Other
Balance as of January 1,2011	97	24	1	44	28
Changes:					
Additions	66	43	4	11	8
Utilized	(54)	(3)	(1)	(30)	(20)
Released	(8)	(2)	-	(3)	(3)
Effect of movements in exchange rates and other	(2)	(3)	-	(2)	3
Balance as of December 31, 2011	99	59	4	20	16

The total restructuring liability as of December 31, 2011 is classified in the statement of financial position under provisions for $97 million (short-term: $45 million; long-term: $52 million) and under accrued liabilities for $2 million.

The utilization of the restructuring liabilities mainly reflects the execution of ongoing restructuring programs the Company initiated in earlier years.

Releases of restructuring liabilities of $4 million were recorded in 2012 (2011: $8 million), primarily attributable to lower severance payments due to attrition and employees that were transferred to other positions in NXP, who were originally expected to be laid off.

The components of restructuring charges less releases recorded in the liabilities in 2012 and 2011 are as follows:

	2012	2011
Personnel lay-off costs	**11**	66
Lease and contract terminations	**2**	-
Release of provisions/accruals	**(4)**	(8)
Net restructuring charges	**9**	58

The following table summarizes the significant activity within, and components of, the Company's restructuring obligations:

	Personnel lay-off costs	**Impairment of assets**	Lease and Contract Terminations	Total
Balance at December 31, 2011	98	-	1	99
Expense	7	-	2	9
Utilized [1]	(29)	-	-	(29)
Other changes [2]	1			1
Balance at December 31, 2012	77	-	3	80

[1] Represents cash payments.
[2] Other changes primarily related to translation differences

The restructuring charges less releases recorded in operating income are included in the following line items in the Statement of income:

	2012	2011
Cost of revenue	**1**	24
Selling, general and administrative expenses	**7**	15
Research and development expenses	**1**	19
Net restructuring charges	**9**	58

In addition, restructuring related costs (excluding product transfers) amounting to $12 million were directly charged to operating income in 2012 (2011: $32 million), and included in the following line items:

	2012	2011
Cost of revenue	**5**	13
Selling, general and administrative expenses	**8**	16
Research and development expenses	**-**	3
Other income and expense	**(1)**	-
Net restructuring charges	**12**	32

These restructuring related costs can be detailed as follows:

	2012	2011
HPMS	**(1)**	2
SP	**3**	2
Manufacturing Operations	**3**	4
Corporate and Other	**7**	24
Divested Home activities	**-**	-
	12	32

In total, restructuring charges less releases and restructuring related costs charged to operating income for 2012 amounted to $21 million (2011: $90 million).

8 Financial income and expense

	2012	2011
Interest income	**4**	5
Interest expense	**(270)**	(315)
Total interest expense, net	**(266)**	(310)
Net gain (loss) on extinguishment of debt	**(161)**	(32)
Foreign exchange rate results	**28**	128
Miscellaneous financing costs/income, net	**(41)**	(46)
Total other financial income and expense	**(174)**	50
Total	**(440)**	(260)

In 2012, interest expense, net, of $266 million (2011: $310 million) was mainly related to the interest expense on the euro-denominated and U.S. dollar-denominated notes. The lower interest expense in 2012 resulted from several transactions to optimize our debt portfolio (see note 22 *Long-term debt*). The non-cash interest expense due to applying the effective interest rate method amounted to $22 million (2011: $18 million).

Furthermore in 2012, a net loss on extinguishment of debt of $161 million (2011 a loss of $32 million) was recorded in connection with various bond exchange and repurchase offers (see note 22 *Long-term debt*).

In 2012 foreign exchange results amounted to a gain of $28 million (2011: a gain of $128 million) and are composed of the following exchange rate fluctuations:

- the remeasurement of the U.S. dollar-denominated notes and short-term loans, which reside in a euro functional currency entity, a gain of $9 million (2011: a gain of $124 million);
- intercompany financing resulting in a gain of $3 million (2011: a loss of $7 million);
- the Company's foreign currency cash and cash equivalents resulting in a gain of $16 million (2011: a gain of $10 million);
- foreign currency contracts resulting in a loss of $1 million (2011: a gain of $1 million); and
- remaining items, a gain of $1 million in 2012 (2011: no material results).

Included in miscellaneous financing costs in 2012 is the amortization of capitalized debt issuance costs of $32 million (2011: $27 million). In 2011, this position also included incidental interest on capital lease obligations of $10 million.

The Company has applied net investment hedging since May, 2011. The U.S. dollar exposure of the net investment in U.S. dollar functional currency subsidiaries of $1.7 billion has been hedged by our U.S. dollar-denominated notes. As a result in 2012 a gain of $26 million (2011: a charge of $203 million) was recorded in other comprehensive income, relating to the foreign currency result on the U.S. dollar-denominated notes that are recorded in a euro functional currency entity. Absent the application of net investment hedging this amount would have been recorded as a gain within financial income (expense) in the statement of income. No amount resulting from ineffectiveness of net investment hedge accounting was recognized in the statement of income in 2012 (2011: no amount).

9 Income taxes

The tax expense on the net income before income tax recognized in the statement of income amounted to $ nil (2011: a tax expense of $19 million). The components of income tax (expense) benefit are as follows:

	2012	2011
Netherlands:		
Current taxes	**(1)**	(3)
Deferred taxes	**(3)**	(10)
	(4)	(13)
Foreign:		
Current taxes	**(23)**	(24)
Deferred taxes	**27**	18
	4	(6)
Income tax (expense) benefit	**-**	(19)

The Company's operations are subject to income taxes in various jurisdictions. Excluding certain tax incentives, the statutory income tax rates vary from 15.0% to 37.8%.

The current tax expense consists of the following items:

	2012	2011
Current year	**(27)**	(25)
Adjustments for prior years	**3**	(2)

The deferred tax benefit of 2012 and 2011 recognized in the statement of income consists of the following items:

	2012	2011
Origination and reversal of temporary differences	**27**	1
Prior year adjustments and other	**(3)**	7

The tax (expense) relating to continued and discontinued operations is as follows:

	2012	2011
Income tax benefit (expense) from continuing operations	**-**	(19)
Income tax (expense) from discontinued operations	**-**	(4)
Income tax (expense) on gain on disposal	**-**	(4)

The reconciliation of the statutory income tax rate in the Netherlands with the effective income tax rate can be summarized as follows:

	2012		2011	
	%	**$ million**	%	$ million
Income (loss) before taxes		**(5)**		87
Income tax (expense) benefit		**-**		(19)
Income (loss) after tax		**(5)**		68
Statutory income tax in the Netherlands	**25.0%**	**1**	25.0%	(22)
Rate differential local statutory rates versus statutory rate of the Netherlands	**220.0%**	**11**	(17.2%)	15
Loss carryforwards (arising during the year) not expected to be realized	**(755.0%)**	**(38)**	14.9%	(13)
Changes previous year's tax effect	**40.0%**	**2**	(5.7%)	5
Non-taxable income	**200.0%**	**10**	(12.6%)	11
Non-tax-deductible expenses	**(380.0%)**	**(19)**	26.4%	(23)
Withholding and other taxes	**(40.0%)**	**(2)**	8.0%	(7)
Tax incentives and other	**690.0%**	**35**	(17.1%)	15
Effective tax rate	**0.0%**	**-**	21.7%	(19)

The difference between the 2012 and 2011 effective tax rate is mainly due to the effect of higher deferred tax assets not recognized in 2012 due to uncertain realization. We currently benefit from income tax holiday incentives in certain jurisdictions which provide that we pay reduced income taxes in those jurisdictions for a fixed period of time that varies depending on the jurisdiction. The income tax holiday of one of our subsidiaries that was due to expire at the end of 2016 has in 2012 been extended until the end of 2021.

Tax recognized directly in equity

During 2011 and 2012, no income taxes were recognized directly in equity.

Tax recognized in other comprehensive income

	2012			2011		
	Before tax	**Tax (expense) benefit**	**Net of tax**	Before tax	Tax (expense) benefit	Net of tax
Currency translation reserve	**(487)**	**-**	**(487)**	(500)	-	(500)
Hedging reserve	**(177)**	**-**	**(177)**	(203)	-	(203)
	(664)	**-**	**(664)**	(703)	-	(703)

The net income tax payables as of December 31, 2012 amounted to $25 million (2011: $29 million) and includes amounts directly payable to or receivable from tax authorities.

Tax years that remain subject to examination by major tax jurisdictions (mainly related to the Netherlands, Germany, USA, China, Taiwan, Thailand and the Philippines) are 2007, 2008, 2009, 2010 and 2011 and 2012.

Deferred tax assets and liabilities

Deferred tax assets and liabilities for 2012 and 2011 relate to the following statement of financial position captions:

	Balance January 1, 2012	**Recognized in income**	**Other [1)]**	**Balance December 31, 2012**
Intangible assets	**(437)**	**59**	**(5)**	**(383)**
Property, plant and equipment	**6**	**(6)**	**-**	**-**
Inventories	**(3)**	**12**	**-**	**9**
Receivables	**(13)**	**14**	**-**	**1**
Other assets	**(5)**	**1**	**-**	**(4)**
Post-employment benefits	**27**	**-**	**(2)**	**25**
Provisions:				
– Restructuring	**14**	**3**	**-**	**17**
– Other	**4**	**(1)**	**-**	**3**
Long-term debt	**(22)**	**16**	**-**	**(6)**
Other liabilities	**16**	**(1)**	**1**	**16**
Undistributed earnings subsidiaries	**(27)**	**-**	**-**	**(27)**
Tax loss carryforward (including tax credit carryforwards)	**378**	**(73)**	**7**	**312**
Net deferred tax assets (liabilities)	**(62)**	**24**	**1**	**(37)**

	Balance January 1, 2011	Recognized in income	Other [1)]	Balance December 31, 2011
Intangible assets	(503)	48	18	(437)
Property, plant and equipment	(4)	8	2	6
Inventories	8	(9)	(2)	(3)
Receivables	(1)	(8)	(4)	(13)
Other assets	1	(5)	(1)	(5)
Post-employment benefits	41	(5)	(9)	27
Provisions:				
– Restructuring	13	3	(2)	14
– Other	5	1	(2)	4
Long-term debt	(79)	11	46	(22)
Other liabilities	12	19	(15)	16
Undistributed earnings subsidiaries	(24)	(3)	-	(27)
Tax loss carryforward (including tax credit carryforwards)	471	(52)	(41)	378
Net deferred tax assets (liabilities)	(60)	8	(10)	(62)

[1)] Other includes the effect of currency translation differences.

The gross amounts of deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012	2011	**2012**	2011	**2012**	2011
Intangible assets	**10**	22	**(393)**	(459)	**(383)**	(437)
Property, plant and equipment	**30**	34	**(30)**	(28)	**-**	6
Inventories	**9**	1	**-**	(4)	**9**	(3)
Receivables	**1**	-	**-**	(13)	**1**	(13)
Other assets	**2**	-	**(6)**	(5)	**(4)**	(5)
Post-employment benefits	**26**	29	**(1)**	(2)	**25**	27
Provisions:						
– Restructuring	**17**	14	**-**	-	**17**	14
– Other	**3**	4	**-**	-	**3**	4
Long-term debt	**1**	-	**(7)**	(22)	**(6)**	(22)
Other liabilities	**16**	17	**-**	(1)	**16**	16
Undistributed earnings subsidiaries	**-**	-	**(27)**	(27)	**(27)**	(27)
Tax loss carryforward (including tax credit carryforwards)	**312**	378	**-**	-	**312**	378
Deferred taxes	**427**	499	**(464)**	(561)	**(37)**	(62)
Offsetting between assets and liabilities	**(377)**	(464)	**377**	464	**-**	-
Net deferred taxes recognized	**50**	35	**(87)**	(97)	**(37)**	(62)

The Company has significant deferred tax assets resulting from net operating loss carryforwards, tax credit carryforwards and deductible temporary differences that may reduce taxable income in future periods. The realization of our deferred tax assets depends on our ability to generate sufficient taxable income within the carryback or carryforward periods provided for in the tax law for each applicable tax jurisdiction.

The 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 assessing the Company's ability to realize deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax strategies in making this assessment.

In order to fully realize the deferred tax asset, the Company will need to generate future taxable income in the countries where the net operating losses were incurred (mainly the Netherlands, Germany, USA and France). Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is not probable that the Company will realize all aforementioned benefits.

At December 31, the amounts of deductible temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognized are as follows:

	2012	2011
Deductible temporary differences	**25**	45
Tax losses	**1,103**	946
Tax credits	**41**	45

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

The unused tax losses for which no deferred tax asset is recognized expire as follows:

Total	2013	2014	2015	2016	2017	2018-2022	later	unlimited
1,103	1	5	191	434	9	17	156	290

The unused tax credits for which no deferred tax asset is recognized expire as follows:

Total	2013	2014	2015	2016	2017	2018-2022	later	unlimited
41	-	-	-	-	-	-	10	31

10 Equity-accounted investees

Results relating to equity-accounted investees

	2012	2011
Share of result of equity-accounted investees	**7**	(77)
Impairment	**-**	(27)
Other results	**12**	-
	19	(104)

Share of result of equity-accounted investees

	2012	**2011**
Trident	**-**	(82)
ASMC	**3**	3
Asen	**4**	2
	7	(77)

Impairment equity accounted investees

Due to an other-than-temporary decline of the fair value of the shareholding in ASMC, the Company recorded in 2011 an impairment charge of $27 million.

Other results

Other results in 2012 concern a gain of $12 million related to a partial recovery of our equity investment in Trident.

Investments in equity-accounted investees

The changes in equity-accounted investees are as follows:

	2012	2011
Balance as of January 1,	**39**	161
Changes:		
Deductions	**-**	(18)
Share in income (loss)	**7**	(77)
Impairment	**-**	(27)
Effect of movements in exchange rates	**-**	-
Balance as of December 31,	**46**	39

The total carrying value of equity-accounted investees as of December 31, is summarized as follows:

	2012		2011	
	Shareholding %	**Amount**	Shareholding %	Amount
ASMC	**27**	**18**	27	16
ASEN	**40**	**28**	40	23
Trident	**-**	**-**	57	-
		46		39

Equity-accounted investees are included in Corporate and Other.

The fair value of NXP's shareholding in the publicly listed company ASMC based on the quoted market price at December 31, 2012 is $18 million.

On January 4, 2012, Trident and one of its subsidiaries, Trident Microsystems (Far East) Ltd., filed voluntary petitions under Chapter 11 of the United States Bankruptcy code, in the U.S. Bankruptcy Court for the District of Delaware and was subsequently delisted from the NASDAQ. The U.S. Bankruptcy Court approved the plan of liquidation and entered an order confirming such plan on December 13, 2012. An initial distribution to shareholders took place on December 21, 2012. In view of the aforementioned distribution, NXP B.V. returned its shares in Trident.

In 2011, the share in net loss of NXP's equity accounted participation in Trident is based on the losses reported by Trident in its unaudited condensed consolidated financial information for the financial year ended December 31, 2011, which has been furnished to the SEC on a Form 8-K on March 8, 2012. Based on the equity accounting methodology used to account for NXP's equity interest in Trident, and irrespective of the Chapter 11 filing, the carrying value of the investment on NXP's statement of financial position is written down to zero as of December 31, 2011.

Summarized information of investments in equity-accounted investees

Summarized financial information for the Company's investments in equity-accounted investees, on a combined basis and not adjusted for the percentage ownership of the Group, is presented below:

	2012	2011
Revenue	**270**	545
Income (loss) before taxes	**22**	(127)
Provision for income taxes	**(1)**	(8)
Net income (loss)	**21**	(135)
NXP's share of result of equity-accounted investees recognized in the Statement of income	**7**	(77)

	2012	2011
Current assets	**163**	275
Non-current assets	**153**	234
	316	509
Current liabilities	**(82)**	(151)
Non-current liabilities	**(26)**	(91)
	(108)	(242)
Net asset value	**208**	267
NXP's equity-accounted investees included in the consolidated statement of financial position	**46**	39

The 2012 summarized information of equity-accounted investees in the tables above does not include summarized financial information of Trident. The 2011 information includes summarized financial information of Trident based on Trident's unaudited condensed consolidated financial information.

11 Non-controlling interests

The share of non-controlling interests in the results of the Company amounted to a profit of $57 million in 2012 (2011: profit of $38 million). As of December 31, 2012, non-controlling interests in equity totaled $265million (2011: $248 million).
Non-controlling interests predominantly relate to the shareholding in SSMC.

12 Earnings per share

The earnings per share (EPS) data have been calculated as follows:

	2012	2011
Income (loss) from continuing operations	**14**	(36)
Less: Net income (loss) attributable to non-controlling interests	**57**	38
Income (loss) from continuing operations attributable to shareholders of NXP	**(43)**	(74)
Income (loss) from discontinued operations attributable to shareholders of NXP	**1**	428
Net income (loss) attributable to shareholders of NXP	**(42)**	354
Weighted average number of shares outstanding (in thousands)	**248,064**	248,812
Basic Diluted		
Basic/diluted EPS attributable to shareholders of NXP in $: [1)]		
Income (loss) from continuing operations	**(0.17)**	(0.30)
Income (loss) from discontinued operations	**-**	1.72
Net income (loss)	**(0.17)**	1.42

1) In 2012, 32,394,794 securities (2011: 27,789,634 securities) that could potentially dilute basic EPS were not included in the computation of dilutive EPS because the effect would have been anti-dilutive for the periods presented.

13 Property, plant and equipment

The changes in property, plant and equipment in 2012 and 2011 were as follows:

	Total	**Land and buildings**	**Machinery and installations**	**Other equipment**	**Prepayments and construction in progress**
Balance as of January 1, 2012:					
Cost	**2,097**	**511**	**1,347**	**185**	**54**
Accumulated depreciation and impairments	**(1,025)**	**(91)**	**(822)**	**(112)**	**-**
Book value	**1,072**	**420**	**525**	**73**	**54**
Changes in book value:					
Capital expenditures	**251**	**-**	**-**	**-**	**251**
Transfer assets put into use	**-**	**26**	**193**	**19**	**(238)**
Retirements and sales	**(2)**	**-**	**(1)**	**(1)**	**-**
Depreciation	**(245)**	**(47)**	**(179)**	**(19)**	**-**
Write-downs and impairments	**(2)**	**(1)**	**-**	**(1)**	**-**
Transfer to assets held for sale	**(3)**	**(3)**	**-**	**-**	**-**
Consolidation changes	**-**	**-**	**1**	**(1)**	**-**
Effect of movements in exchange rates	**7**	**2**	**3**	**1**	**1**
Total changes	**6**	**(23)**	**17**	**(2)**	**14**
Balance as of December 31, 2012:					
Cost	**2,135**	**527**	**1,354**	**186**	**68**
Accumulated depreciation and impairments	**(1,057)**	**(130)**	**(812)**	**(115)**	**-**
Book value	**1,078**	**397**	**542**	**71**	**68**

	Total	Land and buildings	Machinery and installations	Other equipment	Prepayments and construction in progress
Balance as of January 1, 2011:					
Cost	2,171	633	1,283	191	64
Accumulated depreciation and impairments	(996)	(136)	(752)	(108)	-
Book value	1,175	497	531	83	64
Changes in book value:					
Reclassifications	12	-	12	-	-
Capital expenditures	221	-	-	-	221
Transfer assets put into use	-	11	203	17	(231)
Retirements and sales	(30)	(24)	(6)	-	-
Depreciation	(286)	(48)	(213)	(25)	-
Write-downs and impairments	(6)	(6)	-	-	-
Transfer to assets held for sale	(7)	(7)	-	-	-
Effect of movements in exchange rates	(7)	(3)	(2)	(2)	-
Total changes	(103)	(77)	(6)	(10)	(10)
Balance as of December 31, 2011:					
Cost	2,097	511	1,347	185	54
Accumulated depreciation and impairments	(1,025)	(91)	(822)	(112)	-
Book value	1,072	420	525	73	54

Land with a book value of $59 million (2011: $62 million) is not depreciated.

The useful lives of property, plant and equipment as of December 31, 2012 are as follows:

Buildings	from 9 to 50 years
Machinery and installations	from 2 to 7 years
Other equipment	from 1 to 5 years

There was no significant construction in progress and therefore no related capitalized interest.

14 Goodwill

The changes in goodwill in 2011 and 2012 were as follows:

	2012	2011
Balances as of January 1		
Cost	**2,485**	2,560
Accumulated impairment	**(487)**	(503)
Book value	**1,998**	2,057
Changes in book value:		
Acquisitions	**11**	-
Divestments	**(4)**	-
Effect of movements in exchange rates	**36**	(59)
Total changes	**43**	(59)
Balances as of December 31		
Cost	**2,533**	2,485
Accumulated impairment	**(492)**	(487)
Book value	**2,041**	1,998

Acquisitions in 2012 relate to the acquisition of the Catena Group. Divestments in 2012 relate to the divestment of the High Speed Data Converter business.

Goodwill assigned to the cash-generating units is as follows:

	Carrying amount at January 1, 2012	**Acquisitions**	**Divestments**	**Translation differences and other changes**	**Carrying amount at December 31, 2012**
Infrastructure & Industrial	**97**	**-**	**(4)**	**1**	**94**
Portable & Computing	**230**	**-**	**-**	**3**	**233**
Automotive	**284**	**11**	**-**	**6**	**301**
Identification	**842**	**-**	**-**	**17**	**859**
SP	**261**	**-**	**-**	**4**	**265**
Manufacturing Operations	**284**	**-**	**-**	**5**	**289**
	1,998	**11**	**(4)**	**36**	**2,041**

In the beginning of 2012, we split the High Performance Mixed Signal business unit into Infrastructure & Industrial and Portable & Computing, and accordingly performed a goodwill impairment test. The carrying amount at January 1, 2012 was spit accordingly in the table above.

The 2012 annual impairment test confirmed that the Company's cash generating units' recoverable amount substantially exceeded its carrying value. The Company concluded that in 2012 and 2011 there were no impairment charges. Details on our goodwill impairment testing are disclosed in note 6 *Operating income (loss).*

We refer to note 5 *Acquisitions and divestments* for more information on the Company's acquisitions and divestments.

15 Intangible assets

The changes in intangible assets in 2012 and 2011 were as follows:

	Total	**Other intangible assets**	**Product development assets**	**Software**
Balance as of January 1, 2012:				
Cost	**3,944**	**2,523**	**1,358**	**63**
Accumulated amortization and impairments	**(1,908)**	**(1,313)**	**(545)**	**(50)**
Book value	**2,036**	**1,210**	**813**	**13**
Changes in book value:				
Additions from internal development	**261**	**-**	**261**	**-**
Additions from separate acquisitions	**65**	**11**	**-**	**54**
Divestments	**(22)**	**-**	**(22)**	**-**
Amortization	**(517)**	**(271)**	**(222)**	**(24)**
Impairment	**(76)**	**-**	**(76)**	**-**
Effect of movements in exchange rates and other	**23**	**8**	**15**	**-**
Total changes	**(266)**	**(252)**	**(44)**	**30**
Balance as of December 31, 2012:				
Cost	**3,987**	**2,548**	**1,326**	**113**
Accumulated amortization and impairments	**(2,217)**	**(1,590)**	**(557)**	**(70)**
Book value	**1,770**	**958**	**769**	**43**

	Total	Other intangible assets	Product development assets	Software
Balance as of January 1, 2011:				
Cost	4,322	2,934	1,329	59
Accumulated amortization and impairments	(1,942)	(1,408)	(489)	(45)
Book value	2,380	1,526	840	14
Changes in book value:				
Additions from internal development	319	-	319	-
Additions from separate acquisitions	10	-	-	10
Amortization	(532)	(287)	(235)	(10)
Impairment	(97)	(13)	(84)	
Effect of movements in exchange rates and other	(44)	(16)	(27)	(1)
Total changes	(344)	(316)	(27)	(1)
Balance as of December 31, 2011:				
Cost	3,944	2,523	1,358	63
Accumulated amortization and impairments	(1,908)	(1,313)	(545)	(50)
Book value	2,036	1,210	813	13

Other intangible assets and product development, as of December 31 consist of:

	2012		2011	
	Gross	Accumulated amortization	Gross	Accumulated amortization
Marketing-related	**18**	**(15)**	18	(15)
Customer-related	**427**	**(164)**	411	(129)
Technology-based	**3,429**	**(1,968)**	3,452	(1,714)
	3,874	**(2,147)**	3,881	(1,858)

All intangible assets are subject to amortization and have no assumed residual value.

The 2012 divestments of $22 million (2011: nil) relate to the sale of our High Speed Data Converter business – see also note 6 *Operating income (loss)*.

Amortization expenses are generally recorded in the Statement of income under Selling, general and administrative expenses and with regard to product development under Research and Development expenses.

The useful lives of intangible assets varies between 3 and 14 years as of December 31, 2012.

The expected weighted average remaining useful life of software is 2 year as of December 31, 2012.

There was no significant capitalized interest related to the construction in progress in years reported.

16 Other non-current assets

Other non-current assets as of December 31, 2012, mainly consist of prepaid pension costs of $30 million (2011: $31 million), prepaid expenses and accrued income of $27 million (2011: $32 million) and $6 million (2011: $6 million) guarantee deposits.

17 Inventories

Inventories are summarized as follows:

	2012	2011
Raw materials	**70**	69
Work in process	**515**	415
Finished goods	**130**	134
	715	618

The amounts recorded above are net of an allowance for obsolescence of $61 million as of December 31, 2012 (2011: $62 million).

The portion of the finished goods stored at customer locations under consignment amounted to $20 million as of December 31, 2012 (2011: $15 million).

Inventories expensed are recorded under Cost of revenue in the Statement of income.

The changes in the allowance for obsolescence inventories are as follows:

	2012	2011
Balance as of January 1	**62**	86
Additions charged to income	**33**	35
Deductions from allowance	**(25)**	(57)
Other movements[1)]	**(9)**	(2)
Balance as of December 31	**61**	62

1) Includes the effect of currency translation differences, acquisitions and divestments (referred to as consolidation changes).

18 Other current assets

Other current assets as of December 31, 2012, consist primarily of subsidies to collect for $46 million (2011: $34 million) and prepaid expenses of $31 million (2011: $37 million).

19 Receivables

Receivables are summarized as follows:

	2012	2011
Accounts receivable from third parties	**463**	425
Less: allowance for doubtful accounts	**(4)**	(4)
Accounts receivable from equity-accounted investees (net)	**-**	20
Other receivables	**51**	38
	510	479

Income taxes receivable current portion totaling $3 million (2011: $14 million) are included under other receivables.

The aging of accounts receivable that were not impaired at the reporting date was as follows:

	2012	2011
Not past due	**448**	430
1-15 days past due	**9**	9
More than 16 days past due	**2**	2
	459	441

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

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

Our sales and marketing strategy focuses on deepening our relationship with our top OEMs and electronic manufacturing service customers and distribution partners and becoming their preferred supplier, which we believe assists us in reducing sales volatility in challenging markets. We have long-standing customer relationships with most of our customers. Our 10 largest direct customers are Apple, Bosch, Continental, Delphi, Gemalto, Giesecke/Devrient, Huaei, NSN, Panasonic and Samsung. When we target new customers, we generally focus on companies that are leaders in their markets either in terms of market share or leadership in driving innovation. We also have a strong position with our distribution partners, being the number two semiconductor supplier (other than microprocessors) through distribution worldwide. Our 3 largest distribution partners are Arrow, Avnet and WPG.
Based on total revenue during 2012, excluding the revenue from Manufacturing Operations, our top 40 OEM customers accounted for 49% of our total revenue, our ten largest OEM customers accounted for approximately 28% of our total revenue and no customer represented more than 7% of our total revenue. We generated approximately 27% of our total revenue through our three largest distribution partners, of which WPG was the only larger than 10% customer with 12% of total revenues and another 26% with our other distributors.

The changes in allowances for doubtful accounts are as follows:

	2012	2011
Balance as of January 1,	**4**	6
Additions charged to income	**1**	2
Deductions from allowance [1)]	**(1)**	(2)
Other movements [2)]	**-**	(2)
Balance end of period	**4**	4

1) Write-offs for which an allowance was previously provided

2) Includes the effect of currency translation differences and consolidation changes

20 Cash and cash equivalents

At December 31, 2012, our cash balance was $617 million (2011: $743 million), of which $288 million (2011: $261 million) was held by SSMC, our joint venture company with TSMC. A portion of this cash can be distributed by way of dividend to us, but 38.8% of the dividend will be paid to our joint venture partner as well. In 2012, there was a dividend distribution from SSMC amounting to $100 million (2011: $170 million) of which $39 million (2011: $66 million) was paid to TSMC.

21 Shareholders' equity

The Company amended its Articles of Association on August 2, 2010 in order to effect a 1-for-20 reverse stock split of its shares of common stock. As a consequence, the number of shares outstanding on August 2, 2010 (4,305,030,000 shares) has been adjusted to 215,251,500 shares. The exercise price and the number of shares of common stock issuable under the Company's share-based compensation plans were proportionately adjusted to reflect the reverse stock split. Basic and diluted weighted average shares outstanding and earnings per share have been calculated to reflect the reverse stock split in all periods presented. The share capital of the Company as of December 31, 2012 and 2011 consists of 1,076,257,500 authorized shares, including 430,503,000 authorized shares of common stock, and 645,754,500 authorized but unissued shares of preferred stock.

In 2010, the Company completed its initial public offering of 34 million shares of common stock, priced at $14 per share, resulting in net proceeds of $448 million, after deducting underwriting discounts and commissions and offering expenses totaling $28 million. As a result, the number of common shares increased from 215,251,500 shares to 249,251,500 shares. In connection with long-term equity incentive plans introduced in November 2010 and 2011, the Company has issued a total number of 2,500,000 additional shares of common stock.

At December 31 2012, the Company has issued and paid up 251,751,500 shares (2011: 251,751,500 shares) of common stock each having a par value of €0.20 each or a nominal share capital of €50 million.

The Company has granted stock options, restricted share units and equity rights to the employees of the Company and its subsidiaries to receive the Company's shares or depository receipts in the future (see also note 32 *Share-based compensation*).

Treasury shares

In connection with the Company's share repurchase programs, which commenced in 2011, and in accordance with the Company's policy to provide share awards from its treasury share inventory, shares which have been repurchased and are held in treasury for delivery upon exercise of options and under restricted share programs, are accounted for as a reduction of stockholders' equity. Treasury shares are recorded at cost, representing the market price on the acquisition date. When issued, shares are removed from treasury shares on a first-in, first-out (FIFO) basis.

Differences between the cost and the proceeds received when treasury shares are reissued, are recorded in capital in excess of par value. Deficiencies in excess of net gains arising from previous treasury share issuances are charged to retained earnings.

The following treasury share transactions took place in 2012:

	2012
Total shares in treasury at beginning of year	**3,915,144**
Total cost	**57**
Shares acquired under repurchase program	**1,843,694**
Average cost price in $ per share	**21.70**
Amount paid	**40**
Shares re-issued	**3,032,838**
Average price in $ per share	**12.97**
Amount received	**15**
Total shares in treasury at year-end	**2,726,000**
Total cost	**58**

22 Long-term debt

	Range of interest rates	Average rate of interest	Amount outstanding 2012	Due in 2013	Due after 2013	Due after 2017	Average remaining term (in years)	Amount outstanding December 31, 2011
Euro notes	**3.0**	**3.0**	**187**	**187**	**-**	**-**	**0.8**	**471**
U.S. dollar notes	**3.1-9.8**	**5.8**	**2,985**	**76**	**2,909**	**1,317**	**5.0**	**3,220**
Revolving Credit Facility	**2.7**	**2.7**	**217**	**-**	**217**	**-**	**4.2**	**-**
Bank borrowings	**2.0**	**2.0**	**5**	**-**	**5**	**-**	**2.0**	**4**
Liabilities arising from capital lease transactions	**2.6-13.8**	**5.8**	**16**	**6**	**10**	**-**	**2.0**	**22**
		5.4	**3,410**	**269**	**3,141**	**1,317**		**3,717**
Corresponding data of previous year		**7.4**	**3,717**	**17**	**3,700**	**1,812**	**4.7**	

Total outstanding debt of $3,410 million (including $269 million due within 1 year) at December 31, 2012 matures as follows:

2013	269
2014	28
2015	25
2016	627
2017	1,144
Due after 5 years	1,317
	3,410

As of December 31, 2012, the Company's euro-denominated notes and U.S. dollar-denominated notes represented 6% and 94% respectively, of the total principal amount of the notes outstanding with maturities ranging from 1 to 8 years. The fixed rate notes and floating rate notes represented 13% and 87% respectively of the total principal amount of the notes outstanding at December 31, 2012. The remaining tenor of secured debt is on average 4.7 years.

Debt exchange and repurchase

At December 31, 2012, the total long-term debt has been reduced to $3,141 million from $3,700 million at December 31, 2011. The decrease of $559 million is mainly due to the full repayment of the Senior Notes 2015, the full repayment of the Super Priority Notes 2013 and the partial repayment of the Senior Notes 2018 offset in part by issuance of a new Term Loan due 2019, a new Term Loan due 2020 and borrowings under a new Revolving Credit Facility due 2017. Extinguishment of debt in 2012 amounted to a loss of $161 million compared to a loss of $32 million in 2011. The Senior Secured notes due 2013, outstanding as of December 31, 2012 and due within one year are classified within short-term debt.

2019 Term Loan

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

2017 Revolving Credit Facility

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

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

2013 Super Priority Notes

During 2012, we repurchased all of our Euro denominated Super Priority Notes 2013 for a principal amount of €29 million and all USD denominated Super Priority Notes 2013 for a principal amount of $221 million.

2020 Term Loan

On December 10, 2012, our subsidiary, NXP B.V. together with NXP Funding LLC entered into a new $500 million aggregate principal amount Senior Secured Term Loan Facility due January 11, 2020. The Term Loan was issued with an original issue discount at 99.5% of par and was recorded at its fair value of $498 million on the accompanying Consolidated Balance Sheet. The net proceeds of this issuance, together with a $100 million draw-down under our existing Revolving Credit Facility and approximately $12 million of cash on hand, were used to settle our tender offer for $500 million of the U.S. dollar-denominated 9¾% Senior Notes due 2018, and pay related call premiums of $86 million, accrued interest of $18 million and debt issuance costs of $6 million.

The Company may from time to time continue to seek to retire or purchase its outstanding debt through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions or otherwise.

Other effects on the total long-term debt position relate to the translation of euro-denominated notes outstanding.

Euro notes

The Euro note outstanding as of the end of December 2012 consists of the following:

- a €142 million aggregate principal amount of floating rate senior secured notes due 2013 with an interest rate of three-month EURIBOR plus 2.75%.

U.S. dollar-denominated notes

The U.S. dollar-denominated notes consist of the following seven series:

- a $58 million aggregate principal amount of floating rate senior secured notes due 2013 with an interest rate of three-month LIBOR plus 2.75%; and
- a $616 million aggregate principal amount of floating rate senior secured notes due 2016 with an interest rate of three-month LIBOR plus 5.5%; and
- a $491 million aggregate principal amount of floating rate senior secured term loan due 2017 with an interest rate of LIBOR plus 3.25% with a floor of 1.25%; and
- a $494 million aggregate principal amount of floating rate senior secured term loan due 2017 with an interest rate of LIBOR plus 4.25% with a floor of 1.25%; and
- a $422 million aggregate principal amount of 9.75% senior secured notes due 2018; and
- a $471 million aggregate principal amount of floating rate senior secured term loan due 2019 with an interest rate of LIBOR plus 4% with a floor of 1.25%; and
- a $500 million aggregate principal amount of floating rate senior secured term loan due 2020 with an interest rate of LIBOR plus 3.50% with a floor of 1.25%.

Estimated interest payable during future periods on our notes is as follows:

	Total	2013	2014	2015	2016	2017	2018 and thereafter
Interest on the notes [1)]	**923**	**189**	**181**	**180**	**180**	**97**	**96**

1) The interest on the notes was determined on the basis of LIBOR and EURIBOR interest rates for floating rate instruments and on the basis of contractual agreed interest rates for other debt instruments. The euro-denominated interest amounts were converted into U.S. dollars based on the balance sheet rate as at December 31, 2012 of $1.3190 per €1.00.

Certain terms and Covenants of the euro and U.S. dollar-denominated notes

The Company is not required to make mandatory redemption payments or sinking fund payments with respect to the notes. With respect to the Term Loans, the Company is required to repay $20 million annually ($5 million per Term Loan).

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, 2012 in the principal amount of $3,470 million (2011: $3,033 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 $818 million (denominated €620 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:

- all present and future shares of capital stock of (or other ownership or profit interests in) each of its present and future direct subsidiaries, other than SMST Unterstützungskasse GmbH, and material joint venture entities;
- (b) all present and future intercompany debt of the Company and each Guarantor;
- (c) all of the present and future property and assets, real and personal, of the Company, and each Guarantor, including, but not limited to, machinery and equipment, inventory and other goods, accounts receivable, owned real estate, leaseholds, fixtures, general intangibles, license rights, patents, trademarks, trade names, copyrights, chattel paper, insurance proceeds, contract rights, hedge agreements, documents, instruments, indemnification rights, tax refunds, but excluding cash and bank accounts; and
- (d) all proceeds and products of the property and assets described above.

Notwithstanding the foregoing, certain assets may not be pledged (or the liens not perfected) in accordance with agreed security principles, including:

- if the cost of providing security is not proportionate to the benefit accruing to the holders; and
- if providing such security requires consent of a third party and such consent cannot be obtained after the use of commercially reasonable efforts; and
- if providing such security would be prohibited by applicable law, general statutory limitations, financial assistance, corporate benefit, fraudulent preference, "thin capitalization" rules or similar matters or providing security would be outside the applicable pledgor's capacity or conflict with fiduciary duties of directors or cause material risk of personal or criminal liability after using commercially reasonable efforts to overcome such obstacles; and
- if providing such security would have a material adverse effect (as reasonably determined in good faith by such subsidiary) on the ability of such subsidiary to conduct its operations and business in the ordinary course as otherwise permitted by the indenture; and
- if providing such security or perfecting liens thereon would require giving notice (i) in the case of receivables security, to customers or (ii) in the case of bank accounts, to the banks with whom the accounts are maintained. Such notice will only be provided after the secured notes are accelerated.

Subject to agreed security principles, if material property is acquired by the Company or a Guarantor that is not automatically subject to a perfected security interest under the security documents, then the Company or relevant Guarantor will within 60 days provide security over this property and deliver certain certificates and opinions in respect thereof as specified in the indenture governing the notes.

23 Provisions

Provisions can be summarized as follows:

	2012		2011	
	Long-term	**Short-term**	Long-term	Short-term
Restructuring	**7**	**69**	52	45
Other provisions	**29**	**22**	42	69
Total	**36**	**91**	94	114

Restructuring

The restructuring provision covers the following:

- benefits provided to former or inactive employees after employment but before retirement, including salary continuation, supplemental unemployment benefits and disability-related benefits;
- 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.

Further details with regard to restructuring liabilities are disclosed in note 7 *Restructuring*.

Other provisions

Other provisions include provisions for employee jubilee funds totaling $22 million as of December 31, 2012 (2011: $21 million) and provisions for litigation totaling $9 million (2011: $15 million). Further, other short-term provisions as of December 31, 2011 included approximately $45 million liabilities incurred in connection with the sale of the Sound Solutions business.

The changes in other provisions are as follows:

	2012	2011
Balance as of January 1,	**111**	91
Changes:		
Additions	**58**	71
Utilizations	**(49)**	(26)
Releases	**(68)**	(20)
Effect of movements in exchange rates	**(1)**	(5)
Balance as of December 31,	**51**	111

The 2012 additions and releases relate primarily to the dismissed claims made by ST Microelectronics – see also note 30 *Contingent liabilities* and note 36 *Subsequent events*. The Company did not incur any expected losses recorded with respect to environmental remediation and product liability obligations.

24 Post-employment benefits

Amounts recognized in the statement of financial position with regard to post-employment benefits can be summarized as follows:

	2012		2011	
	Long-term	**Short-term**	Long-term	Short-term
Overfunded pension plans - assets *)	**19**	**-**	17	-
Unfunded defined benefit pension plans	**(160)**	**(9)**	(152)	(9)
Unfunded other post-employment benefits	**(8)**	**-**	(7)	-
Accrued pension costs-underfunded plans	**(75)**	**(1)**	(72)	-
Post-employment benefits - liabilities	**(243)**	**(10)**	(231)	(9)
Net balance	**(224)**	**(10)**	(214)	(9)

*) Included in prepaid pension costs as part of the other non-current assets see 16 *Other non-current assets.*

Pension plans

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 majority of defined-benefit pension plans can be typed as career average pay and final pay plans.

The group has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements of the plans of the respective jurisdictions, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. This determination is made on a plan-by-plan basis. As such, no decrease in the defined benefit asset is necessary at 31 December 2012 (31 December 2011; no decrease in defined benefit asset).

The Company's employees in The Netherlands participate in a multi-employer plan, implemented for the employees of the Metal and Electrical Engineering Industry ("Bedrijfstakpensioenfonds Metalektro or PME") in accordance with the mandatory affiliation to PME effective for the industry in which NXP operates. As this affiliation is a legal requirement for the Metal and Electrical Engineering Industry it has no expiration date. This PME multi-employer plan (a career average plan) covers approximately 1,250 companies and 630,000 participants. The plan monitors its risk on an aggregate basis, not by company or participant and can therefore not be accounted for as a defined benefit plan. The pension fund rules state that the only obligation for affiliated companies will be to pay the annual contributions. There is no obligation for affiliated companies for additional funding to recover from plan deficits. Affiliated companies will also have no entitlements to any possible surpluses in the pension fund.

Every participating company contributes the same fixed percentage of its total pension base, being pensionable salary minus an individual offset. The Company's pension cost for any period is the amount of contributions due for that period.

The coverage ratio of the PME plan was 93.9% as of December 31, 2012. Regulations require PME to have a coverage ratio (ratio of the plan's assets to its obligations) of 104.3% for the total plan as of December 31, 2013, which needs to be achieved via a Recovery Plan. As the coverage ratio as of December 31, 2012 is below the path indicated in the Recovery Plan, PME has announced a reduction of pension rights of 5.1% as of April 1, 2013. In case the coverage ratio is still lower than 104.3% as of December 31, 2013 an additional reduction of the pension rights may be required. The contribution rate will increase from 26.5% (2012) to 27.0% (2013) to meet the funding requirements for the accrual of new pension rights.

PME multi-employer plan	**2012**	2011	2010
Total Company's contributions to the plan	**53**	59	53
(including employees' contributions)	**4**	2	2
Average number of Company's active employees participating in the plan	**3,229**	3,256	3,537
Company's contribution to plan exceeded more than 5 percent of total contribution (as of December 31 of the plan's year end)?	**No**	No	No

Post-employment benefits other than pensions

In addition to providing pension benefits, the Company provides other post-employment benefits, primarily retiree healthcare benefits in the USA. The Company funds these other post-employment benefit plans as claims are incurred.

Amounts included in the consolidated Statements of income

The amounts included in the consolidated Statements of income for 2012 for all post-employment benefits are an expense of $85 million (2011: $88 million).

A summary of the pre-tax cost for pensions and other post-employment benefits is as follows:

	2012	2011
Defined benefit plans	**18**	17
Defined contribution plans excluding multi-employer plans	**19**	16
Multi-employer plans	**47**	54
Post-employment Medical Plans	**1**	1
	85	88

Defined benefit post-employment plans

With regard to the recognition of actuarial gains and losses of all defined benefit post-employment plans NXP has adopted the corridor method where the excess of cumulative unrecognized actuarial gains and losses will be recognized over the employees expected average remaining service years for the portion that these exceed the higher of 10% of the defined benefit obligation and 10% of the fair value of plan assets.

The table below provides a summary of the changes in the benefit obligations and defined-benefit plan assets for 2012 and 2011, with respect to the Company's dedicated pension and post-employment plans, and a reconciliation of the funded status of these plans to the amounts recognized in the consolidated Statement of financial position.

	2012	2011
Projected benefit obligation		
Projected benefit obligation at the beginning of year	**349**	355
Additions	**-**	3
Service cost	**12**	11
Interest cost	**15**	16
Actuarial (gains) and losses	**61**	(5)
Curtailments & settlements	**(2)**	(6)
Plan amendments	**-**	(1)
Benefits paid	**(18)**	(14)
Effect of movements in exchange rates	**10**	(10)
Projected benefit obligation at end of year	**427**	349
Present value of funded obligations at end of year	**225**	189
Present value of unfunded obligations at end of year	**202**	160
Plan assets		
Fair value of plan assets at beginning of year	**147**	148
Expected return on plan assets	**6**	6
Actuarial gains (losses) on plan assets	**8**	4
Employer contributions	**15**	13
Curtailments & settlements	**-**	(6)
Benefits paid	**(18)**	(14)
Effect of movements in exchange rates	**4**	(4)
Fair value of plan assets at end of year	**162**	147
Funded status	**(265)**	(202)
Unrecognized prior service cost	**3**	5
Unrecognized net loss (gain)	**28**	(26)
Net balance	**(234)**	(223)

The weighted average assumptions used to calculate the projected benefit obligations as of December 31 were as follows:

	2012	2011
Discount rate	**3.5%**	4.4%
Expected rate of compensation increase	**2.3%**	3.0%

The weighted average assumptions used to calculate the net periodic post-employment cost for years ended December 31 were as follows:

	2012	2011
Discount rate	**4.4%**	4.3%
Expected returns on plan assets	**4.1%**	4.2%
Expected rate of compensation increase (if applicable)	**3.0%**	2.9%

For the Company's major plans, the discount rate used is based on high quality corporate bonds (iBoxx Corporate euro AA 10+). Plans in countries without a deep corporate bond market use a discount rate based on the local sovereign rate and the plans maturity (Bloomberg Government Bond Yields).

Expected returns per asset class are based on the assumption that asset valuations tend to return to their respective long-term equilibria. The Expected Return on Assets for any funded plan equals the average of the expected returns per asset class weighted by their portfolio weights in accordance with the fund's strategic asset allocation.

The mortality tables used in the actuarial valuations of the Company's most significant plans are:

- Germany: Richttafelen 2005 G by K. Heubeck;
- Taiwan: Taiwan Standard Ordinary Mortality Table of 2002; and
- Thailand: Thailand TMO 08 table.

The components of net periodic post-employment costs for years ended December 31 were as follows:

	2012	2011
Service cost	**12**	11
Interest cost on the projected benefit obligation	**15**	16
Expected return on plan assets	**(6)**	(6)
Net amortization of unrecognized prior service cost	**1**	(1)
Net actuarial gain/loss recognized	**(1)**	(1)
Curtailments & settlements	**(2)**	(1)
Other	**-**	-
Net periodic post-employment cost	**19**	18

The expense of post-employment plans is recognized in the following line items of the consolidated statement of income:

	2012	2011
Cost of revenue	**10**	8
Selling expenses	**2**	2
General and administrative expenses	**5**	5
Research and development expenses	**2**	3
Net periodic pension cost	**19**	18

A sensitivity analysis shows that if the discount rate increases by 1% from the level of December 31, 2012, with all other variables held constant, the net periodic post-employment cost would increase by $2 million. If the discount rate decreases by 1% from the level of December 31, 2012, with all other variables held constant, the net periodic post-employment cost would decrease by $2 million.

Cash flow 2013

The Company currently expects to make cash outflows of $84 million in 2013, consisting of $4 million employer contributions to defined benefit post-employment plans, $22 million employer contributions to defined-contribution pension plans, $49 million employer contributions to multi-employer plans and $9 million of expected cash payments in relation to unfunded defined benefit post-employment plans.

The expected cash outflows for post-employment obligations in 2013 and subsequent years are uncertain and may change as a consequence of statutory funding requirements as well as changes in actual versus currently assumed discount rates, estimations of compensation increases and returns on pension plan assets.

Estimated future post-employment benefit payments

The following benefit payments are expected to be made (including those for funded plans):

2013	16
2014	13
2015	15
2016	14
2017	14
Years 2018-2022	95

Plan assets

The actual post-employment plan asset allocation at December 31, 2011 and 2012 is as follows:

	2012	2011
Asset category:		
Equity securities	**26%**	21%
Debt securities	**58%**	64%
Insurance contracts	**3%**	4%
Other	**13%**	11%
	100%	100%

We met our target plan asset allocation. The investment objectives for the post-employment plan assets are designed to generate returns that, along with the future contributions, will enable the post-employment plans to meet their future obligations. The investments in our major defined benefit plans largely consist of government bonds, "Level 2" Corporate Bonds and cash to mitigate the risk of interest fluctuations. The asset mix of equity, bonds, cash and other categories is evaluated every three years by an asset-liability modeling study for our largest plan. The assets of funded plans in other countries mostly have a large proportion of fixed income securities with return characteristics that are aligned with changes in the liabilities caused by discount rate volatility. Total pension plan assets of $162 million include $149 million related to the German, Swiss and Philippine pension funds.
The following table summarizes the classification of these assets:

	2012			2011		
	Level I	**Level II**	**Level III**	Level I	Level II	Level III
Equity securities	**3**	**38**	**-**	1	29	-
Debt securities	**20**	**68**	**-**	17	71	-
Other	**13**	**4**	**3**	7	5	4
	36	**110**	**3**	25	105	4

From the remaining assets of $13 million an amount of $4 million relates to assets held by insurance companies.

The actual return on assets equals $14 million in 2012 ($10 million in 2011).

Historical data

The present value of defined benefit obligations and plan assets and the experience adjustments at December 31 is as follows:

	2012	2011	2010	2009	2008
Present value of defined benefit obligations	**427**	349	355	342	347
Fair value of plan assets	**162**	147	148	152	137
(Deficit) or surplus	**(265)**	(202)	(207)	(190)	(210)
Experience adjustments in % on					
- defined benefit obligations gain (loss)	**1%**	1%	1%	7%	-
- fair value of plan assets gain (loss)	**5%**	3%	2%	3%	(8%)

25 Other non-current liabilities

Other non-current liabilities are summarized as follows:

	2012	2011
Asset retirement obligations	**8**	7
Income tax payable non-current	**-**	11
Amounts payable under pension plans	**11**	10
Others	**45**	28
	64	56

As a result of applying IAS 12 *Income Taxes*, the amounts of income tax benefits recognized in the statement of financial position may differ from the amounts taken or expected to be taken in the related tax returns. Such differences are referred to as “unrecognized tax benefits”. At December 31, 2012 a liability of $17 million (2011: $11 million) was included under “Others” with regard to unrecognized tax benefits reflecting the Company’s potential future obligation to the taxing authorities.

26 Short-term debt

	2012	2011
Short-term bank borrowings	**36**	35
Current portion of long-term debt	**269**	17
Total	**305**	52

At December 31, 2012, short-term bank borrowings of $36 million (2011: $35 million) consisted of a local bank borrowing by our Chinese subsidiary.

The applicable weighted average interest rate during 2012 was 3.6% (2011: 4.4%).

27 Accrued Liabilities

Accrued liabilities are summarized as follows:

	2012	2011
Personnel-related costs:		
- Salaries and wages	**99**	54
- Accrued vacation entitlements	**37**	37
- Other personnel-related costs	**27**	19
Utilities, rent and other	**28**	17
Income tax payable (see also note 9)	**28**	32
Communication & IT costs (including accruals related to EDA contracts)	**25**	10
Distribution costs	**9**	7
Sales-related costs	**12**	13
Purchase-related costs	**4**	5
Interest accruals	**25**	74
Derivative instruments – liabilities	**2**	3
Liabilities for restructuring costs (see also note 7)	**4**	2
Other accrued liabilities	**48**	55
	348	328

Other accrued liabilities consist of various smaller items.

28 Other current liabilities

Other current liabilities are summarized as follows:

	2012	2011
Other taxes including social security premiums	**27**	16
Amounts payable under pension plans	**11**	12
Other short-term liabilities	**29**	37
Total	**67**	65

29 Contractual obligations

The Company's contractual long-term obligations with regard to purchase contracts can be summarized as follows:

	Total	**2013**	**2014**	**2015**	**2016**	**2017**	**2018 and thereafter**
Long-term purchase contracts	**115**	**82**	**21**	**8**	**2**	**2**	**-**

Finance lease liabilities

Property, plant and equipment includes $12 million as of December 31, 2012 (2011: $18 million) for finance 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.

The details of the finance lease obligations are as follows:

	Future minimum lease payments
2013	7
2014	7
2015	2
2016	1
2017	1
Thereafter	-
Total future minimum leases payments	18
Less: amount representing interest	2
Present value of future minimum lease payments	16

Operating leases

Operating lease commitments totaled $153 million as of December 31, 2012 (2011: $171 million), mainly relating to the rental of buildings. These non-cancellable operating leases expire at various dates during the next 30 years.

Non-cancellable operating leases are payable as follows:

2013	30
2014	29
2015	27
2016	18
2017	12
Thereafter	37
Total	153

Rent expense amounted to $54 million in 2012 (2011: $51 million).

30 Contingent liabilities

Guarantees

At the end of 2012 there were no material guarantees recognized by the Company.

Other commitments

The Company has made certain commitments to TSMC, whereby the Company is obligated to make cash payments to TSMC with respect to long-term obligations for a joint development process should it fail to purchase an agreed-upon accumulative volume of wafers. The maximum commitment is $18 million and expires at the end of 2015.

Environmental remediation

In each jurisdiction in which we operate, we are subject to many environmental, health and safety laws and regulations that govern, among other things, emissions of pollutants into the air, wastewater discharges, the use and handling of hazardous substances, waste disposal, the investigation and remediation of soil and ground water contamination and the health and safety of our employees. We are also required to obtain environmental permits from governmental authorities for certain of our operations.

As with other companies engaged in similar activities or that own or operate real property, the Company faces inherent risks of environmental liability at our current and historical manufacturing facilities. Certain environmental laws impose liability on current or previous owners or operators of real property for the cost of removal or remediation of hazardous substances. Certain of these laws also assess liability on persons who arrange for hazardous substances to be sent to disposal or treatment facilities when such facilities are found to be contaminated.

Soil and groundwater contamination has been identified at our properties in Hamburg, Germany and Nijmegen, the Netherlands. The remediation processes have been ongoing for several years and are expected to continue for several years.

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

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

Litigation

We are regularly involved as plaintiffs or defendants in claims and litigation relating to matters such as commercial transactions and intellectual property rights. In addition, our divestments sometimes result in, or are followed by, claims or litigation by either party. From time to time, we also are subject to alleged patent infringement claims. We rigorously defend ourselves against these alleged patent infringement claims, and we rarely participate in settlement discussions. Although the ultimate disposition of asserted claims and proceedings cannot be predicted with certainty, it is our belief that the outcome of any such claims, either individually or on a combined basis, will not have a material adverse effect on our consolidated financial position. However, such outcomes may be material to our consolidated statement of operations for a particular period.

With the support from its in-house and outside counsel and based on its best estimate, the Company records an accrual for any claim that arises whenever it considers that it is probable that it is exposed to a loss contingency and the amount of the loss contingency can be reasonably estimated. Based on the most current information available to it and based on its best estimate, the Company also reevaluates at least on a quarterly basis the claims that have arisen to determine whether any new accruals need to be made or whether any accruals made need to be adjusted.

Based on the procedures described above, the Company has an aggregate amount of approximately $9 million accrued for legal proceedings pending as of December 31, 2012, compared to approximately $15 million as of December 31, 2011. Such accruals are part of the “Other accrued liabilities” as referred to in note 27 *Accrued liabilities*. There can be no assurance that the Company’s accruals will be sufficient to cover the extent of its potential exposure to losses. Historically, legal actions have not had a material adverse effect on the Company’s business, results of operations or financial condition.

Set forth below are descriptions of our most important legal proceedings pending as of December 31, 2012, for which the related loss contingency is either probable or reasonably possible, including the legal proceedings for which accruals have been made:

- Three former employees of Signetics Corp, a predecessor of NXP Semiconductors USA, Inc. and their respective children each separately filed various counts against NXP Semiconductors USA, Inc. (negligence, premises liability, strict liability, abnormal and ultrahazardous activity, willful and wanton misconduct and loss of consortium) asserting exposure to harmful chemicals and substances while the employees concerned were working in a factory “clean room” of Signetics Corp., resulting in alleged physical injuries and eventual birth defects to their children (cases No. N09C-10-032 JRJ, N10C-05-137 JRJ and 1-10-CV-188679). Initial discovery has commenced by both sides in above mentioned cases. Actual substantive responses are pending. Trial dates for Case No. N09C-10 032 and Case No. N10C-05-137 have been set at October 7, 2013 and April 28, 2014, respectively. In Case No. 1-10-CV-188679 a trial setting conference is scheduled for Q2, 2013.
- Norit Winkelsteeg B.V. and Vitens N.V. alleged that NXP Semiconductors Netherlands B.V. breached a contract it had entered into with them to build a so-called “permeate-water” factory or, in the alternative, had terminated negotiations to enter into such contract in bad faith. Claimants hold NXP Semiconductors Netherlands B.V. liable for all costs, expenses and damages, including loss of profit. In an interim judgment dated January 27, 2009, the Court of Appeal in Arnhem, the Netherlands, recognized that part of the claim related to costs and expenses could be awarded but the Court further stated that reticence must be observed in awarding compensation for loss of profits. The Court ruled on April 9, 2013 and ordered NXP to pay part of the claim related to costs and expenses plus interest over part of that amount. The interest is currently under review and NXP will make payment during Q2 2013 for which it will utilize the provision made for this claim.
- In 2007, certain former employees of NXP Semiconductors France SAS employed by a subsidiary of the DSP Group, Inc. filed a claim against NXP Semiconductors France SAS before the Tribunal de Grande Instance in an emergency procedure (procédure de référé) to demand re-integration within NXP Semiconductors France SAS, following the closure of the DSP Group’s activities in France and the consequent termination of their employment agreements. The claim was rejected by the Tribunal de Grande Instance. The employees concerned then brought the same claim before the Social Court (Conseil de Prud’hommes) in Caen which, on April 27, 2010, also ruled in favor of NXP Semiconductors France SAS. The claimants filed for an appeal in last resort on May 18, 2010, which is still pending.

On April 5, 2012, the ICC arbitration tribunal arrived at an award in a dispute between NXP and STMicroelectronics (“ST”) about the interpretation of the contractual arrangements concerning underloading in the NXP wafer fabs and ST’s liability for the associated costs. Based on the award, ST paid NXP approximately $59 million in the second quarter of 2012. No appeal is available to ST on this award, however, ST commenced a separate arbitration aiming to convince the ICC Tribunal to reverse the economic effect of its award in the first arbitration. On April 2, 2013 the ICC arbitration tribunal dismissed the aforementioned claim from ST.

The estimated aggregate range of reasonably possible losses is based on currently available information in relation to the claims that have arisen and on the Company's best estimate of such losses for those cases for which such estimate can be made. For certain claims, the Company believes that an estimate cannot currently be made. The estimated aggregate range requires significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants (including the Company) in such claims whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the claims, and the attendant uncertainty of the various potential outcomes of such claims. Accordingly, the Company's estimate will change from time to time, and actual losses may be more than the current estimate. As at December 31, 2012, the Company believes that for all litigation pending its aggregate exposure to loss in excess of the amount accrued could range between $0 and approximately $4 million.

31 Related-party transactions

The Company's related parties are the Private Equity Consortium, the members of the board of directors of NXP Semiconductors N.V., Philips, the members of the management team of NXP Semiconductors N.V., equity-accounted investees and post-employment benefit plans.

Advisory Services Agreements

The members of the Private Equity Consortium provide certain advisory services to NXP Semiconductors N.V. We have entered into separate agreements in this regard with the respective parties, under which each of the various legal entities receive an annual advisory fee of $25,000 (with an aggregate total amount of $125,000 annually).

Shareholders' Agreement

Prior to the consummation of the initial public offering of NXP Semiconductors N.V. in August 2010, the members of the Private Equity Consortium restructured their indirect shareholding in the common stock of NXP Semiconductors N.V. such that each of them holds directly, or indirectly through a separate Luxembourg holding company, shares of its common stock. At the same time, KASLION Holding B.V. ceased to hold shares of common stock of NXP Semiconductors N.V. In connection with this restructuring, the members of the Private Equity Consortium, Philips and the Management Foundation (together, the "Existing Shareholders") entered into a new shareholders' agreement among themselves, which replaced the shareholders' agreement entered into on September 29, 2006. NXP is not a party to the new shareholders' agreement.

Other

We have a number of strategic alliances and joint ventures. We have relationships with certain of our equity-accounted investees in the ordinary course of business whereby we enter into various sale and purchase transactions, generally on terms comparable to transactions with third parties. However, in certain instances upon divestment of former businesses where we enter into supply arrangements with the former owned business, sales are conducted at cost.

The following table presents the amounts related to revenue and expenses incurred in transactions with these related parties:

	2012	2011
Revenue	**33**	133
Purchase of goods and services	**204**	137

The following table presents the amounts related to accounts receivable and payable balances with these related parties:

	2012	2011
Receivables (net)	**-**	20
Payables	**30**	38

On September 7, 2010, Philips Pension Trustees Limited purchased Philips' 42,715,650 shares of common stock in the Company ("Transfer Shares") in a private transaction. In a subsequent private transaction, on October 29, 2010, PPTL Investment LP purchased the Transfer Shares from Philips Pension Trustees Limited by way of a transfer agreement, to which also Philips is a party ("Amended Transfer Agreement"). PPTL Investment LP acquired the Transfer Shares for the purpose of owning and managing such assets as may be contributed to Philips Pension Trustees Limited. In the period running from the aforementioned acquisition to December 31, 2012, PPTL Investment LP disposed of 22,141,217 shares of common stock in six separate transactions.

For transactions with post-employment benefit plans we refer to note 24 *Post-employment benefits.*

For disclosures of transactions with key management personnel we refer to note 33 *Information on remuneration board of directors*.

32 Share-based compensation

We account for share-based compensation arrangements in accordance with IFRS 2 *Share-based Payments*. IFRS 2 requires share-based payment arrangements to be recorded in the financial statements based upon their respective grant date fair value.

Share-based compensation plans for employees were introduced in 2007. Subsequent to becoming a listed company in August 2010, the Company introduced additional share-based compensation plans for eligible employees in November 2010. The plans introduced in November 2010 are referred to as the “Post-IPO Plans” and the plans introduced prior to November 2010 are referred to as the “Pre-IPO Plans”.

Share-based compensation expense is included in the following line items in our statement of operations:

	2012	2011
Cost of revenue	**2**	1
Research and development	**6**	3
Selling, general and administrative	**51**	39
	59	43

Post-IPO Plan

Under the Post-IPO Plan performance shares, stock options and restricted shares were granted to eligible employees. The options have a strike price equal to the closing share price on the grant date. The fair value of the options has been calculated with the Black-Scholes-Merton formula, using the following assumptions:

- an expected life of 6.25 years, calculated for plain vanilla options using the simplified method, since our equity shares have been publicly traded for only a limited period of time and we do not have sufficient historical exercise data;
- a risk-free interest rate varying from 0.8% to 1.3% (2011 grant 1.2% to 2.78%);
- no expected dividend payments; and
- a volatility of 45% based on the volatility of a set of peer companies. Peer company data has been used given the short period of time our shares have been publicly traded.

Changes in the assumptions can materially affect the fair value estimate.

Stock options vest ratably on a yearly basis over 4 years from the date of grant. Performance share units and restricted share units vest, subject to relevant performance criteria being met, ratably on a yearly basis over 3 years from the date of grant.

A charge of $53 million was recorded in 2012 for Post-IPO Plans (2011: $31 million).

A summary of the status of NXP’s Post-IPO stock options and share rights and changes during 2012 and 2011 is presented below.

Stock options

	2012		2011	
	Stock options	**Weighted average exercise price in USD**	Stock options	Weighted average exercise price in USD
Outstanding at January 1	**7,366,908**	**15.49**	3,749,932	13.27
Granted	**4,972,081**	**23.36**	4,045,537	17.35
Exercised	**(637,858)**	**14.14**	(71,542)	13.27
Forfeited	**(791,017)**	**15.94**	(357,019)	13.65
Outstanding at December 31	**10,910,114**	**19.12**	7,366,908	15.49
Exercisable at December 31	**1,819,243**	**15.05**	853,732	13.27

The number of vested stock options at December 31, 2012 was 1,819,243 (2011: 853,732) with a weighted average exercise price of USD 15.05 (2011: 13.27).

The weighted average per share grant date fair value of stock options per share granted in 2012 was $10.44 (2011: $7.81).

The intrinsic value of the exercised options was $7 million (2011: $0.3 million), whereas the amount received by NXP was $9 million (2011: $1 million).

At December 31, 2012, there was a total of $50 million of unrecognized compensation cost related to non-vested stock options (at December 31, 2011: $31 million). This cost is expected to be recognized over a weighted-average period of 3.4 years (2011: 3.6 years).

The outstanding options issued under the Post-IPO Plans are categorized in by exercise price as follows:

USD-denominated

Year granted	**Exercise price**	**Shares**	**Intrinsic value in millions**	**Weighted average remaining contractual term**
2012	**23.49**	**4,047,450**	**11**	**9.8**
2012	**22.62**	**197,550**	**1**	**9.6**
2012	**26.32**	**158,930**	**-**	**9.3**
2012	**21.63**	**493,865**	**2**	**9.1**
2011	**25.01**	**86,492**	**-**	**8.1**
2011	**31.81**	**61,040**	**-**	**8.3**
2011	**19.78**	**82,365**	**1**	**8.6**
2011	**16.84**	**3,298,913**	**31**	**8.8**
2010	**13.27**	**2,483,509**	**32**	**7.8**

The aggregate intrinsic value in the tables and text above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of 2012 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders if the options had been exercised on December 31, 2012.

Performance share units

	2012		2011	
	Shares	**Weighted average grant date fair value in USD**	Shares	Weighted average grant date fair value in USD
Outstanding at January 1	**1,487,149**	**16.00**	846,819	13.27
Granted	**1,171,600**	**23.35**	987,225	17.38
Vested	**(30,311)**	**22.66**	(249,962)	13.27
Forfeited	**(219,964)**	**15.28**	(96,933)	13.27
Outstanding at December 31	**2,408,474**	**19.55**	1,487,149	16.00

The weighted average grant date fair value of performance share units granted in 2012 was $23.35 (2011: $17.38). The number of vested performance share units at December 31, 2012 is 280,273 (2011 was 249,962). The fair value of the performance share units at the timing of vesting was $1 million (2011: $4 million).

At December 31, 2012, there was a total of $29 million (2011: $15 million) of unrecognized compensation cost related to non-vested performance share units. This cost is expected to be recognized over a weighted-average period of 1.9 years (2011: 2.6 years).

Restricted share units

	2012		2011	
	Shares	**Weighted average grant date fair value in $**	Shares	Weighted average grant date fair value in $
Outstanding at January 1	**2,360,806**	**16.08**	1,283,295	13.27
Granted	**2,021,918**	**23.31**	1,571,236	17.52
Vested	**(849,289)**	**15.72**	(400,835)	13.27
Forfeited	**(233,312)**	**16.74**	(92,890)	13.81
Outstanding at December 31	**3,300,123**	**20.56**	2,360,806	16.08

The weighted average grant date fair value of restricted share units granted in 2012 was $23.31 (2011: $17.52). The number of vested restricted share units at December 31, 2012 was 1,250,124 (2011; 400,835). The fair value of the restricted share units at the time of vesting was $21 million (2011: $7 million).

At December 31, 2012, there was a total of $43 million (2011: $25 million) of unrecognized compensation cost related to non-vested restricted share units. This cost is expected to be recognized over a weighted-average period of 2.5 years (2011: 2.6 years).

Pre-IPO Plans

Under these plans, stock options were issued to certain employees of the Company. In addition, certain members of our management have the right to purchase depository receipts of shares of common stock of NXP Semiconductors N.V. upon exercise and payment of the exercise price, after these rights have vested and only upon a sale of shares by the Private Equity Consortium or upon a change of control (in particular, the Private Equity Consortium no longer jointly holding at least 30% of our common stock). In addition, exercise of stock options is also contingent upon a sale of shares by the Private Equity Consortium or upon a change of control as defined above.

The exercise prices of stock options granted in 2007 and 2008 range from €20.00 to €50.00 after taking into account the reverse stock split in August, 2010. Also, equity rights were granted to certain non-executive employees containing the right to acquire our shares of common stock for no consideration after the rights have vested and upon a change of control (in particular, the Private Equity Consortium no longer jointly holding 30% of our common stock).

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

- 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 2012. For the options granted under the Pre-IPO Plans, expected lives varying from 4.25 to 3 years have been assumed;
- Risk-free interest rate, varying from 4.1% to 1.6%;
- Expected asset volatility, varying from 27% to 38% (based on the average volatility of comparable companies over an equivalent period from valuation date to exit date);
- Dividend pay-out ratio of nil;
- Lack of marketability discounts 26% to 35%; and
- The Business Economic Value of the Company based on projected discounted cash flows as derived from our business plan for the next 3 years, extrapolated until 2021 with 3% terminal growth rates (the discount factor was based on a weighted average cost of capital of 12.4%).

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 from valuation date to exit date.

In May 2009, we executed a stock option exchange program for stock options previously granted which were deeply out of the money. Under this stock option exchange program, stock options with new exercise prices, different volumes and, in certain cases, revised vesting schedules, were granted to eligible individuals, in exchange for their owned stock options. By accepting the new stock options all stock options (vested and unvested) owned by the eligible individuals were cancelled. The number of employees eligible for and affected by the stock option exchange program was approximately 120. Since May 2009, stock options have been granted to eligible individuals under the revised stock options program. The exercise prices of these stock options ranged from €2.00 to €40.00. No modifications occurred with respect to the equity rights of the non-executive employees.

After the Company's initial public offering, it amended the terms of its Pre-IPO plan for those participants who voluntarily exchanged the right to accelerated vesting of their Pre-IPO options upon an exit event for a five year exercise period commencing upon the date of an exit event. This modification resulted in an additional cost of $4 million.

In accordance with the provisions of IFRS 2 *Share-based Payment* the unrecognized portion of the compensation costs of the cancelled options continues to be recognized over their remaining requisite vesting period. For the replacement options the incremental compensation costs are determined as the difference between the fair value of the cancelled options immediately before the grant date of the replacement options and the fair value of these replacement options at the grant date. This incremental compensation cost will be recognized over a weighted average period of 2.0 years.

In 2012 there was $6 million compensation cost recorded (2011: $12 million) for Pre-IPO Plans, of which $6 million related to incremental compensation costs for the modified stock option scheme (2011: $12 million) and including the $4 million modification described above.

The requisite service period for stock options is 4 years.

The following table summarizes the information about NXP's outstanding Pre-IPO stock options and changes during 2012 and 2011.

Stock options

	2012		2011	
	Stock options	**Weighted average exercise price in €**	Stock options	Weighted average exercise price in €
Outstanding at January 1	**16,128,196**	**24.46**	18,050,123	23.30
Exercised	**(544,462)**	**7.65**	(1,051,993)	6.61
Forfeited	**(469,518)**	**21.86**	(869,934)	22.08
Outstanding at December 31	**15,114,216**	**25.14**	16,128,196	24.46
Exercisable at December 31	**2,372,254**	**11.96**	2,875,053	12.46

The exercise prices range from €2.00 to €50.00.

The intrinsic value of exercised options was $8 million (2011: $19 million), whereas the amount received by NXP was $6 million (2011: $9 million).

The number of vested options at December 31, 2012 was 13,603,205 (2011: 12,194,166) with a weighted average exercise price of €22.96 (2011: €25.78).

Upon completion of the secondary offering on April 5, 2011, in total up to 22% of the options under the Pre-IPO Plans became exercisable, subject to the applicable laws and regulations.

Upon completion of the secondary offering on February 7, 2013, in total up to 38% of the options under the Pre-IPO Plans became exercisable, subject to applicable laws and regulations. If the secondary offering had occurred before the end of 2012, then the exercisable number of options would have been 5,173,338 with a weighted average exercise price of €14.65.

Upon completion of the secondary offering on March 13, 2013, in total up to 50% of the options under the Pre-IPO Plans became exercisable, subject to applicable laws and regulations. If the secondary offering had occurred before the end of 2012, then the exercisable number of options would have been 7,237,494 with a weighted average exercise price of €16.42.

	Weighted average fair value in €
Weighted average grant-date fair value in euros of options granted during:	
2010	**1.20**
2009	**1.80**

None of the options will expire as a result of exceeding the maximum contractual term because such maximum term is not applicable.
The outstanding options issued under the Pre-IPO plans are categorized in exercise prices as follows:

Euro-denominated

exercise price	Shares	Intrinsic value in millions
2.00 – 9.50	**1,260,268**	**29**
15.00	**4,957,155**	**32**
20.00	**1,479,889**	**-**
30.00	**3,083,343**	**-**
40.00	**3,612,921**	**-**
50.00	**720,640**	**-**
	15,114,216	**61**

The aggregate intrinsic value in the tables and text above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of 2012 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders if the options had been exercised on December 31, 2012.

At December 31, 2012, there was a total of $1 million of unrecognized compensation cost related to non-vested stock options. This cost is expected to be recognized over a weighted-average period of 1 year.

A summary of the status of NXP's Pre-IPO equity rights and changes during 2012 and 2011 is presented below. All equity rights have an exercise price of nil.

Equity rights

	2012		2011	
	Shares	**Weighted average grant date fair value in €**	Shares	Weighted average grant date fair value in €
Outstanding at January 1	**444,395**	**9.34**	472,742	9.13
Released	**(381,630)**	**9.10**	-	-
Forfeited	**-**	**-**	(28,347)	5.80
Outstanding at December 31	**62,765**	**10.80**	444,395	9.34
Exercisable at December 31	**-**	**-**	-	-

In 2012 and 2011 there were no new equity rights issued. The number of vested equity rights at December 31, 2012 was 62,765 (December 31, 2011: 444,395).

At December 31, 2012, no amount of unrecognized compensation cost related to non-vested equity rights remains.

As resolved by the Board of Directors of the Company, the Equity Rights of participants still employed by the Company were automatically exercised on April 27, 2012. As a consequence, 381,630 NXP shares were delivered to these participants. The remaining equity rights outstanding as of December 31, 2012 relate to vested rights of former employees subject to the original terms and conditions of the Pre-IPO plan and are only exercisable upon a sale of shares by the Private Equity Consortium or upon a change of control (in particular, the Private Equity Consortium no longer jointly holding at least 30% of our common stock). The accelerated exercise of the equity rights was not foreseen in the terms and conditions of the Pre-IPO plan and was accounted for as a modification resulting in an additional cost of $1.0 million.

33 Information on remuneration board of directors

We currently pay our chief executive officer an annual base salary of €1,142,000, the chairman of our board of directors an annual fixed fee of €275,000 and the other members of our board of directors an annual fixed fee of $85,000 gross. Members of our Audit Committee and the Nominating & Compensation Committee receive an additional annual fixed fee of $6,000 gross and the chairmen of both committees receive an additional annual fixed fee of $10,000 and $8,000 gross, respectively. For the year ended December 31, 2012, the members of our management team as a group (in total 14 members) received a total aggregate compensation of €7,800,000, compared to a total aggregate compensation of €6,900,000 (in total 14 members) in 2011.

Our chief executive officer, the other members of our management team and most of our executives have a contract of employment for an indefinite term. The main elements of any new employment contract that we will enter into with a member of the board of directors will be made public no later than the date of the public notice convening the general meeting of stockholders at which the appointment of such member of the board of directors will be proposed.

Annual Incentive

Each year, our chief executive officer, the other members of our management team and our other executives can qualify to earn a variable cash incentive, subject to whether certain specific and challenging performance targets have been met. For our chief executive officer, the on-target cash incentive percentage as of 2011 was set at 75% of the base salary, with the maximum cash incentive set at 150% of the annual base salary (previously: 100% and 200%, respectively). The cash incentive pay-out in any year relates to the achievements of the preceding financial year in relation to agreed targets. In 2012, no annual cash incentive has been paid to our chief executive officer as annual incentive bonus for our performance in 2011. The total annual incentive bonus amount paid in 2012 to members of our management team, including our chief executive officer, is €70,200. In 2011, an amount of

€2,284,000 has been paid to our chief executive officer, and a total amount of €9,290,000 has been paid as annual incentive bonus amount to members of our management team, including our chief executive officer.

Share-based Compensation Plans

The purpose of our share-based compensation plans, including the Management Equity Stock Option Plan implemented prior to the consummation of our initial public offering in August 2010 and the Long-Term Incentive Plan 2010, 2011 and 2012 introduced in November 2010 and 2011 and October 2012, respectively, is to align the interests of management with those of our stockholders by providing additional incentives to improve our medium and long term performance, by offering the participants an opportunity to share in the success of NXP.

We granted stock options to the members of our management team and to approximately 135 of our other executives in 2007 and 2008 under the Management Equity Stock Option Plan. In May 2009, we executed a stock option exchange program, under which stock options, with new exercise prices, different volumes and—in certain cases—revised vesting schedules, were granted to eligible individuals, in exchange for their owned stock options. By accepting the new stock options all previously granted stock options (vested and unvested) owned by the eligible individual were cancelled. As of May 2009, when the stock options exchange program was consummated, stock options have been granted to eligible individuals under the revised Management Equity Stock Option Plan. Under this stock option plan the participants acquire the right to purchase a certain number of shares of common stock at a predetermined price, i.e. exercise price, provided that certain conditions are met. The stock options have a vesting schedule as specified upon the grant to the individuals. Pursuant to our Management Equity Stock Option Plan, members of our management team and certain other executives will be allowed to exercise, from time to time, their vested options. The proportion of options available for exercise cannot exceed the proportion of the aggregate number of shares of common stock sold by our co-investors, including the Private Equity Consortium, to the total number of shares of common stock owned by such co-investors. Following the completion of the secondary offering on April 5, 2011 by NXP Semiconductors N.V., in total up to 22% of the options under the Management Equity Stock Option Plan have become exercisable, subject to the applicable laws and regulations. As of December 31, 2012, a total of 15,114,216 stock options were granted and outstanding under the Management Equity Stock Option Plan to a group of approximately 110 (current and former) NXP executives (which includes our chief executive officer and other members of the management team and our chairman of the board of directors). These stock options can be exercised at exercise prices which vary from €2.00 to €50.00 per stock option.

In November 2010, we introduced a new Long Term Incentive Plan 2010, under which performance stock, restricted stock and stock options may be granted to the members of our board of directors, management team, our other executives, selected other key employees/talents of NXP and selected new hires. Under the Long Term Incentive Plan 2010, equity incentives may be granted on, or the day after, the dates NXP publishes its quarterly financials, beginning on November 2, 2010. Performance stock and restricted stock vest over a period of three years, subject to relevant performance criteria relating to operating income being met, and stock options vest over four years. The size of the annual equity pool available for Long Term Incentive Plan 2010 awards from November 2, 2010 up to the fourth quarter of 2011 is for an aggregate of up to 7,200,000 common shares in our share capital. On December 31, 2012, grants to 854 participants were outstanding, in total representing some 3,601,837 shares of common stock, consisting of 464,652 performance stock, 423,779 restricted stock units and 2,713,406 stock options.

In November 2011, we introduced a new Long Term Incentive Plan 2011, under which performance stock, restricted stock and stock options may be granted to the members of our board of directors, management team, our other executives, selected other key employees/talents of NXP and selected new hires. Under the Long Term Incentive Plan 2011, equity incentives may be granted on, or the day after, the dates NXP publishes its quarterly financials, beginning on November 1, 2011. Performance stock and restricted stock vest over a period of three years, subject to relevant performance criteria being met, and stock options vest over four years. The size of the annual equity pool available for Long Term Incentive Plan 2011 awards from November 1, 2011 up to the fourth quarter of 2012 is for an aggregate of up to 8,570,000 (including a number of 1,370,000 which remained from the 2010 LTIP pool) common shares in our share capital. On December 31, 2012, grants to 995 participants were outstanding, in total representing 6,548,734 shares of common stock, consisting of 1,170,322 performance stock, 1,229,154 restricted stock units and 4,149,258 stock options.

In October 2012, we introduced a new Long Term Incentive Plan 2012, under which performance stock, restricted stock and stock options may be granted to the members of our board of directors, management team, our other executives, selected other key employees/talents of NXP and selected new hires. Under the Long Term Incentive Plan 2012, equity incentives may be granted on, or the day after, the dates NXP publishes its quarterly financials, beginning on October 25, 2012. Performance stock and restricted stock vest over a period of three years, subject to relevant performance criteria being met, and stock options vest over four years. The size of the annual equity pool available for Long Term Incentive Plan 2012 awards from October 25, 2012 up to the fourth quarter of 2013 is for an aggregate of up to 9.3 million (including 2.1 million which remained from the 2011 LTIP pool) common shares in our share capital. On December 31, 2012, grants to 1,079 participants were outstanding, in total representing 6,468,140 shares of common stock, consisting of 773,500 performance stock, 1,647,190 restricted stock units and 4,047,450 stock options.

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

As of December 31, 2012, the following stock options, restricted stock, performance stock and shares of common stock were outstanding with members of our board of directors:

Richard L. Clemmer, CEO and president

As of December 31, 2012, our chief executive officer held 106,125 shares and had been granted the following stock options and performance stock units, which were outstanding:

Series	Number of Stock Options	Exercise Price (in $)	Number of Stock Options per vesting schedule			
			10/25/13	10/25/14	10/25/15	10/25/16
2012/October	410,000	23.49	102,500	102,500	102,500	102,500

Series	Number of Stock Options	Exercise Price (in $)	Number of Stock Options per vesting schedule			
			11/01/12	11/01/13	11/01/14	11/01/15
2011/November	410,000	16.84	102,500	102,500	102,500	102,500

Series	Number of Stock Options	Exercise Price (in $)	Number of Stock Options per vesting schedule			
			11/02/11	11/02/12	11/02/13	11/02/14
2010/November	360,252	13.27	90,063	90,063	90,063	90,063

Series	Number of Stock Options	Exercise Price (in €)	Number of Stock Options per vesting schedule			
			01/01/10	01/01/11	01/01/12	01/01/13
2009/1	415,000	2.00	103,750	103,750	103,750	103,750
2009/2	1,400,000	15.00	350,000	350,000	350,000	350,000
2009/3	234,000	30.00	58,500	58,500	58,500	58,500
2009/4	374,252	40.00	93,563	93,563	93,563	93,563
Total	2,423,252		605,813	605,813	605,813	605,813

Series	Number of Performance Stock Options	Number of Performance Stock Options per vesting schedule			
		10/25/13	10/25/14	10/25/15	10/25/16
2012/October	300,000	Maximum 33% of total	Maximum 67% of total	Up to 100% of total	Up to 100% of total

Series	Number of Performance Stock Units	Number of Performance Stock Units per vesting schedule		
		02/09/13	02/09/14	02/09/15
2011/November	300,000	Maximum 33% of total	Maximum 67% of total	Up to 100% of total

Series	Number of Performance Stock Units	Number of Performance Stock Units per vesting schedule	
		11/02/12	11/02/13
2010/November	160,108	Maximum 67% of total	Up to 100% of total

Sir Peter Bonfield, chairman of the board of directors

As of December 31, 2012, the chairman of our board of directors held 9,999 shares from vested stock units, and the following stock options and restricted stock units had been granted to him and were outstanding:

Series	Number of Restricted Stock Units	Number of Stock Units per vesting schedule		
		10/25/13	10/25/14	10/25/15
2012/October	10,000	3,333	3,333	3,334

Series	Number of Restricted Stock Units	Number of Stock Units per vesting schedule	
		11/01/13	11/01/14
2011/November	6,667	3,333	3,334

Series	Number of Restricted Stock Units	Number of Stock Units per vesting schedule
		11/02/13
2010/November	3,334	3,334

Series	Number of vested Stock Options	Exercise Price (in €)
2009/2	23,550	15.00
2009/3	23,550	30.00
Total	47,100	

Other members of our board of directors

As of December 31, 2012, the other members of our board of directors held the following number of shares:

Mr. Huth: 79,999 of which 9,999 are from vested stock units

Mr. Cattelain: 9,999 from vested stock units

Mr. Durban: 20,499 of which 9,999 are from vested stock units

Mr. Goldman: 14,999 of which 9,999 are from vested stock units

Mr. Kaeser: 9,999 from vested stock units

Mr. Loring: 9,999 from vested stock units

Mr. Plantevin: 9,999 from vested stock units

Mr. Bhatia: 3,333 from vested stock units

To each of Messrs. Huth, Cattelain, Durban, Goldman, Kaeser, Loring and Plantevin, all being member of our board of directors, the following restricted stock units had been granted and were outstanding as of December 31, 2012:

Series	Number of Restricted Stock Units	Number of Stock Units per vesting schedule		
		11/01/13	11/01/14	11/01/15
2012/October	10,000	3,333	3,333	3,334

Series	Number of Restricted Stock Units	Number of Stock Units per vesting schedule		
			11/01/13	11/01/14
2011/November	6,667		3,333	3,334

Series	Number of Restricted Stock Units	Number of Stock Units per vesting schedule		
				11/02/13
2010/November	3,334			3,334

To Mr. Bhatia, in 2011 being appointed as member of our board of directors, the following restricted stock units had been granted and were outstanding as of December 31, 2012:

Series	Number of Restricted Stock Units	Number of Stock Units per vesting schedule		
		11/01/13	11/01/14	11/01/15
2012/October	10,000	3,333	3,333	3,334

Series	Number of Restricted Stock Units	Number of Stock Units per vesting schedule		
			11/01/13	11/01/14
2011/November	6,667		3,333	3,334

To Mr. MacKenzie, in 2012 being appointed as member of our board of directors, the following restricted stock units had been granted and were outstanding as of December 31, 2012:

Series	Number of Restricted Stock Units	Number of Stock Units per vesting schedule		
		11/01/13	11/01/14	11/01/15
2012/October	10,000	3,333	3,333	3,334

Pensions

Our chief executive officer and eligible members of the management team participate in the executives' pension plan, which we set up in the Netherlands and which consists of a combination of a career average and a defined-contribution plan. The plan does not require employee contributions. We paid for our chief executive officer a total pension plan contribution of €572,369 in 2012 (2011: €569,340). We also paid a total pension plan contribution in the aggregate of €1,260,000 (2011: €1,540,000) to the members of our management team.

Additional Arrangements

In addition to the main conditions of employment, a number of additional arrangements apply to our chief executive officer and other members of the management team. These additional arrangements, such as housing compensation and relocation allowances, medical insurance, accident insurance, school fee compensation and company car arrangements are broadly in line with those for the NXP executives globally. In the event of disablement, our chief executive officer and other members of the management team are entitled to benefits in line with those for other NXP executives. In line with regulatory requirements, the Company's policy forbids personal loans, guarantees or similar arrangements to members of our board, and consequently no loans, guarantees or similar arrangements were granted to such members since 2010, nor were any such loans outstanding as of December 31, 2012.

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

Summary Compensation Table

The following table sets forth the annual compensation paid or granted during the year ended December 31, 2012 to the members of our board of directors on an individual basis for services in all capacities.

	Salary and/or fees	Performance related compensation (€)	Number of stock, stock options and stock units granted	Non-equity incentive plan compensation or benefits in kind (€)	Pension, retirement or similar benefits (€)
Richard L. Clemmer	1,142,000 (1)	-	710,000	840,000	572,369
Sir Peter Bonfield	275,000 (1)	-	10,000	-	-
	6,000 (2)	-	-	-	-
Johannes P. Huth	91,000 (2)	-	10,000	-	-
Vikram Bhatia	91,000 (2)	-	10,000	-	-
Nicolas Cattelain	85,000 (2)	-	10,000	-	-
Egon Durban	85,000 (2)	-	10,000	-	-
Kenneth A. Goldman	101,000 (2)	-	10,000	-	-
Josef Kaeser	91,000 (2)	-	10,000	-	-
Ian Loring	85,000 (2)	-	10,000	-	-
Michel Plantevin	99,000 (2)	-	10,000	-	-
Richard Wilson	35,416 (2)	-	-	-	-
Roy MacKenzie	49,584 (2)		10,000	-	-
Total:	1,417,000 (1)	-	810,000	840,000	572,369
	819,000 (2)				

1) in €
2) in $

During 2012, a one-time crisis levy of 16% was imposed by the Dutch government on employee compensations exceeding EUR 150,000 per annum. For the members of our board of directors this one-time crisis levy charge amounted to $0.2 million. This expense does not form part of the compensations listed in the above table.

The following table sets forth the annual compensation paid or granted during the year ended December 31, 2011 to the members of our board of directors on an individual basis for services in all capacities.

	Salary and/or fees (1 in €; 2 in $)		Performance related compensation (€)	Number of stock, stock options of stock units outstanding	Non-equity incentive plan compensation or benefits in kind (€)	Pension, retirement or similar benefits (€)
Richard L. Clemmer	1,142,000	(1)	2,284,000	710,000	680,474	569,340
Sir Peter Bonfield	275,000	(1)	-	10,000	-	-
	12,000		-	-	-	-
Johannes P. Huth	91,000	(2)	-	10,000	-	-
Vikram Bhatia	53,083	(2)		10,000		
Nicolas Cattelain	85,000	(2)	-	10,000	-	-
Eric Coutinho	35,417	(2)	-	-	-	-
Egon Durban	85,000	(2)	-	10,000	-	-
Kenneth A. Goldman	101,000	(2)	-	10,000	-	-
Josef Kaeser	91,000	(2)	-	10,000	-	-
Ian Loring	85,000	(2)	-	10,000	-	-
Michel Plantevin	99,000	(2)	-	10,000	-	-
Richard Wilson	85,000	(2)	-	10,000	-	-
Total:	1,417,000	(1)	2,284,000	810,000	680,474	569,340
	822,500	(2)				

1) in €
2) in $

34 Fair value of financial instruments

The following table summarizes the estimated fair value and carrying amount of financial instruments measured on a recurring basis.

	Fair value[1] hierarchy	December 31, 2012 Carrying amount	December 31, 2012 Estimated fair value	December 31, 2011 Carrying amount	December 31, 2011 Estimated fair value
Assets;					
Other financial assets	2	**18**	**18**	17	17
Derivative instruments – assets	2	**1**	**1**	2	2
Liabilities:					
Short-term debt	2	**(42)**	**(42)**	(52)	(52)
Short-term debt (bonds)	1	**(263)**	**(267)**	-	-
Long-term debt (bonds)	1	**(2,302)**	**(2,453)**	(3,075)	(3,296)
Long-term debt (bonds) [2]	2	**(607)**	**(635)**	(606)	(609)
Other long-term debt	2	**(232)**	**(245)**	(19)	(19)
Derivative instruments – liabilities	2	**(2)**	**(2)**	(3)	(3)

1) Transfers between the levels of fair value hierarchy are recognized when a change in circumstances would require it. There were no transfers during the reporting periods presented in the table above.
2) Represent bonds which are privately held (floating rate secured notes 2016).

For the fair value measurements of pension plan assets, and projected benefit obligations under defined benefit plans we refer to note 24 *Post-employment benefits*.
The following methods and assumptions were used to estimate the fair value of financial instruments:

Other financial assets
For other financial assets, fair value is based upon significant other observable inputs depending on the nature of the other financial asset.

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.

Assets and liabilities recorded at fair value on a non-recurring basis
We measure and record our non-marketable equity investments (non-marketable equity method and cost method investments) and non-financial assets, such as intangible assets and property, plant and equipment, at fair value when an impairment charge is required.

35 Financial instruments and financial risk management

We conduct business in diverse markets around the world and employ a variety of risk management strategies and techniques to manage foreign currency exchange rate, interest rate and commodity price risks. Our risk management program focuses on the unpredictability of financial markets and seeks to minimize the potentially adverse effects that the volatility of these markets may have on our operating results. One way we achieve this is through the active hedging of risks through the selective use of derivative instruments.

Derivatives are recorded on our consolidated statements of financial position at fair value which fluctuates based on changing market conditions.

The Company does not purchase or hold financial derivative instruments for trading purposes.

The aim of the capital management strategy of NXP is to secure the Company's continued business operations, to enhance its enterprise value, to create solid capital resources to finance its profitable growth. When analyzing NXP’s capital structure the Company uses the same debt/equity classifications as applied in the IFRS reporting.

In managing capital we seek to:

- maintain sufficient, financial strength in accordance with risk appetite to support business growth and satisfy the requirements of our regulators and other stakeholders giving both our customers and shareholders assurance of our financial strength;
- optimise our overall debt to equity structure to enhance our returns to shareholders, subject to our capital risk appetite and balancing the requirements of the range of stakeholders;

- retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.

Currency risk

Currency fluctuations may impact the Company's financial results. A higher proportion of our revenue is in U.S. dollars or U.S. dollar- related currencies, compared to our costs and expenses resulting in a structural currency mismatch. Accordingly, our results of operations may be affected by changes in foreign exchange rates, particularly between the euro and the U.S. dollar. A strengthening of the euro against the U.S. dollar during any reporting period will reduce the operating income of the Company.

In addition, the U.S. dollar-denominated debt held by our Dutch subsidiary which has a euro functional currency may generate adverse currency results in financial income and expenses depending on the exchange rate movement between the euro and the U.S. dollar. This exposure has been partially mitigated by the application of net investment hedge accounting. In accordance with the provisions in IAS 39 *Financial Instruments: Recognition and Measurement*, the Company has applied net investment hedging since May 2011. The U.S. dollar exposure of our net investment in U.S. dollar functional currency subsidiaries has been hedged by our U.S. dollar denominated debt for an amount of $1.7 billion. The hedging relationship is assumed to be highly effective. Foreign currency gains or losses on this U.S. dollar debt that is recorded in a euro functional currency entity that are designated as, and to the extent they are effective as, a hedge of the net investment in our U.S. dollar foreign entities, are reported as a translation adjustment in other comprehensive income within equity, and offset in whole or in part the foreign currency changes to the net investment that are also reported in other comprehensive income. As a result, in 2012, a benefit of $26 million (2011: a charge of $203 million) was recorded in other comprehensive income relating to the foreign currency result on the U.S. dollar-denominated notes that are recorded in a euro functional currency entity. Absent the application of net investment hedging, this amount would have been recorded as a gain within financial income (expense) in the statement of operations. No amount resulting from ineffectiveness of net investment hedge accounting was recognized in the statement of income in 2012 (2011: no amount).

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 revenue. Cash flow hedge accounting for foreign currency risk is not applied.

Derivative instruments relate to

- hedged balance sheet items,
- hedged anticipated currency exposures with a duration of up to 12 months.

The fair value of our derivative assets at the end of 2012 was less than $1 million (December 31, 2011: $2 million) whereas the fair value of our derivative liabilities amounted to $1 million (December 31, 2011: $3 million) and are included in other current assets and accrued liabilities, respectively, in the consolidated statements of financial position.

It is the Company'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 revenue and expenses.

Interest rate risk

The Company has significant outstanding debt, which creates an inherent interest rate risk. Through a combination of several private and open market transactions since 2009, the Company's long-term debt profile has been improved. At December 31, 2012, long-term debt has been reduced to $3,141 million from $3,700 million at December 31, 2011.

The following table summarizes the outstanding notes as of December 31, 2012:

		Principal amount*	Fixed/ floating	Current coupon rate	Maturity date
Senior Secured Notes	$	422	Fixed	9.75%	2018
Senior Secured Notes	$	616	Floating	5.81%	2016
Senior Secured Notes	€	142	Floating	2.96%	2013
Senior Secured Notes	$	58	Floating	3.09%	2013
Term Loan	$	491	Floating	4.5%	2017
Term Loan	$	494	Floating	5.5%	2017
Revolving Credit Facility	$	230	Floating	2.71%	2017
Term Loan	$	471	Floating	5.25%	2019
Term Loan	$	500	Floating	4.75%	2020

* amount in millions

A sensitivity analysis in relation to our long-term debt shows that if interest rates were to increase by 1% from the level of December 31, 2012 with all other variables held constant, the annualized interest expense would increase by $12 million. If interest rates were to decrease by 1% from the level of December 31, 2012 with all other variables held constant, the annualized interest expense would decrease by $3 million. This impact is based on the outstanding debt position as of December 31, 2012.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The rating of the Company's debt by major rating agencies or banks may improve or deteriorate. As a result, NXP's borrowing capacity and financing costs may be impacted. At the end of 2012 our cash balance was $617 million.
Taking into account the available undrawn amount of the Secured Revolving Credit Facility, we had access to $1,197 million of liquidity as of December 31, 2012.

Commodity price risk

We are exposed to price risk related to forecasted purchases of gold that we use as raw material in many of our products. Gold forward contracts generally are not subject to the accounting requirements for derivative instruments and hedging activities under the normal purchases exception. We do not, by policy, use financial instruments for speculative purposes.

We may use gold forward contracts to hedge the input costs of gold for a portion of our anticipated purchases within the next 12 months. During the second quarter of 2012, we entered into non-deliverable forward contracts for gold which require net-settlement. These derivative instruments are highly effective and qualify for hedge accounting treatment. As of and for the year ended December 31, 2012 the impact to our financial statements related our gold forward contracts designated as cash flow hedges was not material. As of December 31, 2012, the notional value of our gold futures contracts was less than $1 million.

Credit risk

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 the trade receivables of NXP. 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.

NXP invests 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.

Insurable risk

Global insurance policies are in place to cover NXP for possible losses resulting from various types of risks in the areas of property damage, business interruption, general and product liability, transport, directors and officers liability, employment practice liability, and criminal liability. To lower exposures and to avoid potential losses, NXP has a worldwide risk engineering program in place. The main focus in this program is on property damage and business interruption risks.

36 Subsequent events

Management change

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

Main features 2012 OPEX Reduction Program

As from mid January, 2013, the Company started the announcements of the main features of the OPEX Reduction Program (see also note 7 *Restructuring*) to those affected by it, in combination with the respective consultation processes with employee representatives, like works councils and unions.

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

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

Secondary offering of common shares

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

Private offering of 5.75% senior notes due 2023 to institutional investors

On March 5, 2013, the Company announced the upsizing (from $300 to $500 million aggregate principal amount) and pricing of a private offering to institutional investors of $500 million aggregate principal amount of U.S. dollar-denominated 5.75% senior notes due 2023 by our wholly-owned subsidiaries NXP B.V. and NXP Funding LLC. This offering closed on March 12, 2013. We used the net proceeds of this private offering to repay amounts outstanding under our Term Loan B that was entered into on February 16, 2012.

Secondary offering of common shares

On March 8, 2013, we announced a secondary offering of 25,000,000 shares of our common stock to be sold by certain of our principal stockholders, pursuant to our shelf registration statement on Form F-3, at a price to the public of $31.40 per share. The offering was settled and closed on March 13, 2013. Subsequent to the settlement and closing, the consortium of funds advised by KKR, Bain, Silver Lake, APAX and Alpinvest collectively beneficially owns 34% of our shares of common stock as of that date. NXP did not receive any proceeds from the sale of shares in the offering.

Litigation

On April 2, 2013, the ICC arbitration tribunal issued a final award in a second arbitration commenced by STMicroelectronics (“ST”) to reverse the economic effect of the award by the ICC Tribunal in a first arbitration between ST and NXP of April 5, 2012. According to this first arbitration, ST paid to NXP approximately $59 million in the second quarter of 2012. By ruling of April 2, 2013, the ICC arbitration tribunal dismissed all claims made by ST in this second arbitration. No appeal is available to ST.

Realignment of Business Segments

On April 11, 2013 the Company announced the realignment of several product lines to better reflect underlying market dynamics, product complexity and the management of the business. The changes include the movement of product line General Purpose Logic (GPL) from segment High Performance Mixed Signal (HPMS), end-market Portable & Computing to segment Standard Products and the movement of product line NXP Software from Corporate and Other to segment HPMS, end-market Industrial & Infrastructure.

Independent auditor's report

To the Board of directors and Stockholders of NXP Semiconductors N.V.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements 2012 which are part of the financial statements of NXP Semiconductors N.V., Eindhoven and comprise the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of financial position as at 31 December 2012, the consolidated statements of cash flows, the consolidated statements of changes in equity for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code and for the preparation of the report of the directors in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of NXP Semiconductors N.V. as at 31 December 2012 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the report of the directors, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the report of the directors, to the extent we can assess, is consistent with the consolidated financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Arnhem, The Netherlands, May 1, 2013

KPMG Accountants N.V.

M.J. de Vries RA

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Company Financial Statements

Statement of financial position of NXP Semiconductors N.V.

$ in millions, unless otherwise stated

The statement of financial position is presented before appropriation of profit.

		December 31, 2012		December 31, 2011	
	Assets				
2	Equity -accounted investees		**1,832**		1,783
	Total assets		**1,832**		1,783
	Liabilities and shareholders' equity				
3	Loan payable to subsidiary		**59**		43
4	Shareholders' equity:				
	Share capital, par value € 0.20 per share:				
	- Authorized: 430,503,000 shares (2011: 430,503,000 shares)				
	- Issued and fully paid: 250,751,500 shares (2011: 250,751,500 shares)*)	**51**		51	
	Capital in excess of par value	**7,062**		7,025	
	Treasury shares	**(58)**		(57)	
	Legal reserves: currency translation differences	**(487)**		(500)	
	Legal reserves: hedging	**(177)**		(203)	
	Legal reserves: participating interests	**117**		13	
	Legal reserves: capitalized development expenses	**650**		644	
	Accumulated deficit	**(5,343)**		(5,574)	
	Net income (loss)	**(42)**		354	
			1,773		1,740
	Total equity and liabilities		**1,832**		1,783

*) Exchange rate 2012 € to $ 1.319 (2011: $ 1.294)

Statement of income of NXP Semiconductors N.V.

$ in millions, unless otherwise stated	2012	2011
Income (loss) from equity-accounted investees	**(40)**	354
Interest expense intercompany loan	**(2)**	
Net income (loss)	**(42)**	354

Notes to the company financial statements for the year ended 31 December 2012

$ in millions, unless otherwise stated

1 Summary of significant Accounting policies

NXP Semiconductors N.V.'s company financial statements in this section have been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Netherlands Civil Code, the recognition and measurement principles applied in these Company financial statements are since 2011 the same as those applied in the consolidated financial statements. Participating interests, over which significant influence is exercised, are stated on the basis of the equity method. Dutch law allows companies that apply IFRS as endorsed by the European Union in their consolidated financial statements to use the same accounting principles in the parent company financial statements. Company financial statements that are based on this provision qualify as financial statements under Dutch law.

The accounting principles are explained in note 2 *Significant accounting policies and new accounting standards to be adopted after 2012* of the consolidated financial statements of this Annual report.
The loan payable to subsidiary is carried at amortized cost using the effective interest method less any impairment.

Presentation of Company financial statements

The statement of income has been prepared in accordance with Section 402 Part 9 of Book 2 of the Netherlands Civil Code which allows a simplified statement of income in the event that a comprehensive statement of income is included in the consolidated group financial statements. The Company financial statements only contain an abbreviated statement of income.

2 Equity-accounted investees

Equity-accounted investees (including goodwill) are measured at their net asset value in accordance with the IFRS accounting policies used in the consolidated financial statements.

Movements in the book value of the equity-accounted investees are as follows:

	2012	2011
Balance as of January 1	**1,783**	1,623
Changes in book value:		
Share-based payments	**59**	43
Net income (loss)	**(40)**	354
Foreign currency translation differences	**41**	(237)
Equity classified financial instruments	**(11)**	
Balance as of December 31	**1,832**	1,783

A list of subsidiaries and affiliated companies, prepared in accordance with the relevant legal requirements (Netherlands Civil Code, Book 2, Sections 379 and 414), is deposited at the office of the Commercial Register in Eindhoven, Netherlands.

3 Loan payable to subsidiary

In 2011, NXP B.V. provided a loan to its parent Company NXP Semiconductors N.V. in the amount of $57 million. The loan matures on June 30, 2013. The applicable interest rate is LIBOR plus a margin equal to the credit spread for the NXP B.V.'s Revolving Credit Facility, plus the applicable one year CDS. Interest is payable on the maturity date of the loan. The Company applied the proceeds of the loan for repurchasing NXP shares in order to cover in part employee stock options and equity rights under its long-term incentive plans. The loan will be repaid from the proceeds of exercised stock options. In 2012 the loan from NXP B.V. increased by $42 million because of an additional loan granted, and decreased by $26 million because of repayments by the Company to NXP B.V.

4 Shareholders' equity

$ in millions, unless otherwise stated	Share capital	Capital in excess of par value	Treasury shares	Legal reserves: Currency translation differences	Legal reserves: Hedging	Legal reserves: Participating interests	Legal reserves: Capitalized development expenses	Accumulated deficit	Net income	Total Shareholders' equity
Balance as of January 1, 2011	51	6,972		(470)		2	609	(5,138)	(403)	1,623
Appropriation of prior year result								(403)	403	-
Net income (loss)									354	354
Allocation to legal reserve								(46)		(46)
Current period change				(28)	(203)	11	35			(185)
Reclassifications into income				(2)						(2)
Share-based compensation plans		43								43
Treasury shares transactions		10	(57)							(47)
Balance as of December 31, 2011	51	7,025	(57)	(500)	(203)	13	644	(5,587)	354	1,740
Appropriation of prior year result								**354**	**(354)**	
Net income (loss)									**(42)**	**(42)**
Allocation to legal reserve								**(110)**		**(110)**
Current period change				**13**	**26**	**104**	**6**			**149**
Reclassifications into income										
Share-based compensation plans		**59**								**59**
Treasury shares transactions		**(11)**	**(1)**							**(12)**
Equity classified fin. instruments		**(11)**								**(11)**
Balance as of December 31, 2012	**51**	**7,062**	**(58)**	**(487)**	**(177)**	**117**	**650**	**(5,343)**	**(42)**	**1,773**

The Company does not intend to pay dividends for the foreseeable future.

We also refer to the consolidated statements of changes in equity of the consolidated financial statements.

5 Employees

There were 14 persons employed by the Company at year-end 2012, which all are part of the management team. For the year ended December 31, 2012, the 14 members of the management team as a group received a total aggregate compensation of €7,800,000 (2011: €6,900,000). The total annual incentive bonus amount paid in 2012 to the 14 members of the management team is €70,200 (2011: 9,830,000). The Company paid a total pension plan contribution in the aggregate of €1,260,000 (2011: €1,540,000) to the members of the management team.

For the remuneration of the members of the board of directors, we refer to note 33 *Information on remuneration board of directors* of the consolidated financial statements.

6 Contingent liabilities

General guarantees as referred to in Section 403, Book 2, of the Dutch Civil Code, have been given by the Company on behalf of several group companies in the Netherlands.

The Company is head of a fiscal unity that contains the most significant Dutch wholly-owned group companies. The Company is therefore jointly and severally liable for the tax liabilities of the tax entity as a whole.

7 Auditor's fee

Reference is made to the aggregate auditor's fees as disclosed on page 59 of the Report of the board of directors.

8 Related parties

Reference is made to note 31 *Related-party transactions* of the consolidated financial statements. The Company maintains a General Service Agreement contract with NXP B.V. that stipulates that certain third party consultancy costs and other services, that are due by the Company (including salary costs of the Management Team members since August 2010) are paid by NXP B.V.

9 Subsequent events

For the subsequent events, we refer to note 36 *Subsequent events* of the consolidated financial statements.

May 1, 2013

Board of directors

Independent auditor's report

To the Board of directors and Stockholders of NXP Semiconductors N.V.

Report on the company financial statements

We have audited the accompanying company financial statements 2012 which are part of the financial statements of NXP Semiconductors N.V., Eindhoven, and comprise the company statement of financial position as at 31 December 2012 and the company statement of income for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the company financial statements and for the preparation of the report of the directors, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the company financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these company financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the company financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the company financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the company financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the company financial statements give a true and fair view of the financial position of NXP Semiconductors N.V. as at 31 December 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Other Information

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the report of the directors, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the report of the directors, to the extent we can assess, is consistent with the company financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Arnhem, The Netherlands, May 1, 2013

KPMG Accountants N.V.

M.J. de Vries RA

Statutory rules concerning appropriation of profit

Distributions.

Article 34.

34.1. The Board will keep a separate share premium account for each class of shares to which only the holders of the class of shares in question are entitled.

The amount or the value of the share premium paid on a specific class of shares issued by the Company will be booked separately on the share premium account in question.

34.2. The Company may make distributions on shares only to the extent that its shareholders' equity exceeds the sum of the paid-up and called-up part of the capital and the reserves which must be maintained by law.

34.3. Distributions of profit, meaning the net earnings after taxes shown by the adopted annual accounts, shall be made after the determining of the annual accounts from which it appears that they are justified, entirely without prejudice to any of the other provisions of the Articles of Association.

34.4. a. A dividend shall be paid out of the profit, if available for distribution, first of all on the preferred shares series PA in accordance with this paragraph. Subsequently, a dividend shall be paid out of the profit, if possible, on the preferred shares series PB in accordance with this paragraph.

b. The dividend paid on the preferred shares shall be based on the percentage, mentioned immediately below, of the amount called up and paid-up on those shares. The percentage referred to in the previous sentence shall be equal to the average of the EURIBOR interest charged for cash loans with a term of twelve months as set by the European Central Bank - weighted by the number of days to which this interest was applicable - during the financial year for which this distribution is made, increased by a maximum margin of three hundred (300) basis points to be fixed upon issue by the Board; EURIBOR shall mean the euro Interbank Offered Rate, which margin may vary per with each individual series.

c. If in the financial year over which the aforesaid dividend is paid the amount called up and paid-up on the preferred shares has been reduced or, pursuant to a resolution to make a further call on said shares, has been increased, the dividend shall be reduced or, if possible, increased by an amount equal to the aforesaid percentage of the amount of such reduction or increase, as the case may be, calculated from the date of the reduction or, as the case may be, from the date when the further call on the shares was made.

d. If and to the extent that the profit is not sufficient to pay in full the dividend referred to under a of this paragraph, the deficit shall be paid to the debit of the reserves, provided that doing so shall not be in violation of paragraph 2 of this article.

If and to the extent that the dividend referred to under a of this paragraph cannot be paid to the debit of the reserves either, the profits earned in subsequent years shall be applied first towards making to the holders of preferred shares such payment as will fully clear the deficit, before the provisions of the following paragraphs of this article can be applied. No further dividends on the preferred shares shall be paid than as stipulated in this article, in article 35 and in article 37.Interim dividends paid over any financial year in accordance with article 35 shall be deducted from the dividend paid by virtue of this paragraph 4.

e. If the profit earned in any financial year has been determined and in that financial year one (1) or more preferred shares have been cancelled against repayment, the persons who were the holders of those shares shall have an inalienable right to payment of dividend as described below. The amount of profit, if available for distribution, to be distributed to the aforesaid persons shall be equal to the amount of the dividend to which by virtue of the provision under a of this paragraph they would be entitled if on the date of determination of the profit they had still been the holders of the aforesaid preferred shares, calculated on the basis of the period during which in the financial year concerned said persons were holders of said shares, this dividend to be reduced by the amount of any interim dividend paid in accordance with article 35.

f. If in the course of any financial year preferred shares have been issued, with respect to that financial year the dividend to be paid on the shares concerned shall be reduced pro rata to the day of issue of said shares.

g. If the dividend percentage has been adjusted in the course of a financial year, then for the purposes of calculating the dividend over that financial year the applicable rate until the date of adjustment shall be the percentage in force prior to that adjustment and the applicable rate after the date of adjustment shall be the altered percentage.

34.5. Any amount remaining out of the profit, after application of paragraph 4, shall be carried to reserve as the Board may deem necessary.

34.6. The profit remaining after application of paragraphs 4 and 5 shall be at the disposal of the General Meeting, which may resolve to carry it to reserve or to distribute it among the holders of common shares.

34.7. On a proposal of the Board, the General Meeting may resolve to distribute to the holders of common shares a dividend in the form of common shares in the capital of the Company.

34.8. Subject to the other provisions of this article the General Meeting may, on a proposal made by the Board, resolve to make distributions to the holders of common shares to the debit of one (1) or several reserves which the Company is not prohibited from distributing by virtue of the law.

34.9. No dividends shall be paid to the Company on shares held by the Company or where the Company holds the depositary receipts issued for such shares, unless such shares or depositary receipts are encumbered with a right of usufruct or pledge.

34.10. Any change to an addition as referred to in paragraph 4 under b and g in relation to an addition previously determined by the Board shall require the approval of the meeting of holders of preferred shares of the series concerned. If the approval is withheld the previously determined addition shall remain in force.

Special statutory voting rights

There are no special statutory voting rights.

Subsequent events

For information on subsequent events, refer to note 36 *Subsequent events* of the consolidated financial statements.

Corporate seat and head office

We were incorporated in The Netherlands as a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the name KASLION Acquisition B.V. on August 2, 2006. On May 21, 2010 we converted into a public company with limited liability (*naamloze vennootschap*) and changed our name to NXP Semiconductors N.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, Part 9 of 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. 34253298).

Our registered office is:
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