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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 28, 2020

or

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

For the transition period from ______ to ______.

Commission File Number: **001-34841**

NXP Semiconductors N.V.
(Exact name of registrant as specified in its charter)

Netherlands	**98-1144352**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
60 High Tech Campus	
Eindhoven	
Netherlands	**5656 AG**
(Address of principal executive offices)	(Zip code)

+31 40 2729999

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common shares, EUR 0.20 par value	NXPI	The Nasdaq Global Select Market

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

Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of July 24, 2020, there were 279,224,213 shares of our common stock, €0.20 par value per share, issued and outstanding.

NXP Semiconductors N.V.
Form 10-Q
For the Fiscal Quarter Ended June 28, 2020
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

($ in millions, unless otherwise stated)

	For the three months ended		For the six months ended	
	June 28, 2020	June 30, 2019	**June 28, 2020**	June 30, 2019
Revenue	**1,817**	2,217	**3,838**	4,311
Cost of revenue	**(957)**	(1,066)	**(1,981)**	(2,088)
Gross profit	**860**	1,151	**1,857**	2,223
Research and development	**(402)**	(408)	**(827)**	(823)
Selling, general and administrative	**(222)**	(230)	**(455)**	(478)
Amortization of acquisition-related intangible assets	**(380)**	(355)	**(761)**	(712)
Total operating expenses	**(1,004)**	(993)	**(2,043)**	(2,013)
Other income (expense)	**(1)**	(1)	**109**	1
Operating income (loss)	**(145)**	157	**(77)**	211
Financial income (expense):				
Extinguishment of debt	**—**	(10)	**—**	(10)
Other financial income (expense)	**(96)**	(79)	**(174)**	(162)
Income (loss) before income taxes	**(241)**	68	**(251)**	39
Benefit (provision) for income taxes	**33**	(21)	**31**	(12)
Results relating to equity-accounted investees	**(1)**	(1)	**(2)**	3
Net income (loss)	**(209)**	46	**(222)**	30
Less: Net income (loss) attributable to non-controlling interests	**5**	5	**13**	10
Net income (loss) attributable to stockholders	**(214)**	41	**(235)**	20
Earnings per share data:				
Net income (loss) per common share attributable to stockholders in $				
Basic	**(0.77)**	0.15	**(0.84)**	0.07
Diluted	**(0.77)**	0.14	**(0.84)**	0.07
Weighted average number of shares of common stock outstanding during the period (in thousands):				
Basic	**279,142**	281,241	**279,533**	284,217
Diluted	**279,142**	285,088	**279,533**	286,858

See accompanying notes to the Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

($ in millions, unless otherwise stated)

	For the three months ended		For the six months ended	
	June 28, 2020	June 30, 2019	**June 28, 2020**	June 30, 2019
Net income (loss)	**(209)**	46	**(222)**	30
Other comprehensive income (loss), net of tax:				
Change in fair value cash flow hedges	**11**	5	**1**	5
Change in foreign currency translation adjustment	**26**	6	**(23)**	(6)
Change in net actuarial gain (loss)	**(1)**	(2)	**(3)**	(4)
Total other comprehensive income (loss)	**36**	9	**(25)**	(5)
Total comprehensive income (loss)	**(173)**	55	**(247)**	25
Less: Comprehensive income (loss) attributable to non-controlling interests	**5**	5	**13**	10
Total comprehensive income (loss) attributable to stockholders	**(178)**	50	**(260)**	15

See accompanying notes to the Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

($ in millions, unless otherwise stated)

	June 28, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	**3,266**	1,045
Accounts receivable, net	**481**	667
Assets held for sale	**—**	50
Inventories, net	**1,228**	1,192
Other current assets	**240**	313
Total current assets	**5,215**	3,267
Non-current assets:		
Other non-current assets	**760**	732
Property, plant and equipment, net of accumulated depreciation of $3,977 and $3,742	**2,312**	2,448
Identified intangible assets, net of accumulated amortization of $6,457 and $5,764	**2,824**	3,620
Goodwill	**9,946**	9,949
Total non-current assets	**15,842**	16,749
Total assets	**21,057**	20,016
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	**729**	944
Restructuring liabilities-current	**25**	32
Other current liabilities	**889**	815
Short-term debt	**1,349**	—
Total current liabilities	**2,992**	1,791
Non-current liabilities:		
Long-term debt	**8,004**	7,365
Deferred tax liabilities	**136**	282
Other non-current liabilities	**870**	923
Total non-current liabilities	**9,010**	8,570
Total liabilities	**12,002**	10,361
Equity:		
Non-controlling interests	**193**	214
Stockholders' equity:		
Common stock, par value €0.20 per share:	**64**	64
Capital in excess of par value	**15,228**	15,184
Treasury shares, at cost:		
36,306,688 shares (2019: 34,082,242 shares)	**(3,325)**	(3,037)
Accumulated other comprehensive income (loss)	**50**	75
Accumulated deficit	**(3,155)**	(2,845)
Total stockholders' equity	**8,862**	9,441
Total equity	**9,055**	9,655
Total liabilities and equity	**21,057**	20,016

See accompanying notes to the Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

($ in millions, unless otherwise stated)

	For the six months ended	
	June 28, 2020	June 30, 2019
Cash flows from operating activities:		
Net income (loss)	**(222)**	30
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	**1,083**	1,008
Share-based compensation	**212**	173
Amortization of discount (premium) on debt, net	**(1)**	22
Amortization of debt issuance costs	**4**	6
Net (gain) loss on sale of assets	**(110)**	1
(Gain) loss on extinguishment of debt	**—**	10
Results relating to equity-accounted investees	**2**	(3)
Deferred tax expense (benefit)	**(156)**	(93)
Changes in operating assets and liabilities:		
(Increase) decrease in receivables and other current assets	**251**	(11)
(Increase) decrease in inventories	**(35)**	122
Increase (decrease) in accounts payable and other liabilities	**(96)**	(468)
Decrease (increase) in other non-current assets	**(7)**	6
Exchange differences	**1**	7
Other items	**—**	3
Net cash provided by (used for) operating activities	**926**	813
Cash flows from investing activities:		
Purchase of identified intangible assets	**(73)**	(51)
Capital expenditures on property, plant and equipment	**(218)**	(250)
Proceeds from disposals of property, plant and equipment	**1**	—
Purchase of interests in businesses, net of cash acquired	**(21)**	—
Proceeds from sale of interests in businesses	**161**	37
Purchase of investments	**—**	(17)
Proceeds from sale of investments	**—**	1
Net cash provided by (used for) investing activities	**(150)**	(280)
Cash flows from financing activities:		
Repurchase of long-term debt	**—**	(553)
Proceeds from the issuance of long-term debt	**2,000**	1,750
Cash paid for debt issuance costs	**(15)**	(23)
Dividends paid to non-controlling interests	**—**	—
Dividends paid to common stockholders	**(210)**	(144)
Proceeds from issuance of common stock through stock plans	**37**	37
Purchase of treasury shares and restricted stock unit withholdings	**(358)**	(1,360)
Net cash provided by (used for) financing activities	**1,454**	(293)
Effect of changes in exchange rates on cash positions	**(9)**	1
Increase (decrease) in cash and cash equivalents	**2,221**	241
Cash and cash equivalents at beginning of period	**1,045**	2,789
Cash and cash equivalents at end of period	**3,266**	3,030
Supplemental disclosures to the condensed consolidated cash flows		
Net cash paid during the period for:		
Interest	**157**	103
Income taxes	**64**	275
Net gain (loss) on sale of assets:		
Cash proceeds from the sale of assets	**161**	37
Book value of these assets	**(51)**	(34)
Non-cash investing activities:		
Non-cash capital expenditures	**54**	178

See accompanying notes to the Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)

($ in millions, unless otherwise stated)

	Outstanding number of shares (in thousands)	Common stock	Capital in excess of par value	Treasury shares at cost	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stock-holders' equity	Non-controlling interests	Total equity
Balance as of December 31, 2019	281,437	64	15,184	(3,037)	75	(2,845)	9,441	214	9,655
Net income (loss)						(21)	(21)	8	(13)
Other comprehensive income					(61)		(61)		(61)
Share-based compensation plans			108				108		108
Shares issued pursuant to stock awards	497			47		(18)	29		29
Treasury shares and restricted stock unit withholdings	(2,933)			(355)			(355)		(355)
Expiration of stock purchase warrants			(56)			56	—		—
Dividends common stock ($0.375 per share)						(105)	(105)		(105)
Balance as of March 29, 2020	**279,001**	**64**	**15,236**	**(3,345)**	**14**	**(2,933)**	**9,036**	**222**	**9,258**
Net income (loss)						(214)	(214)	5	(209)
Other comprehensive income					36		36		36
Share-based compensation plans			104				104		104
Shares issued pursuant to stock awards	252			23		(15)	8		8
Treasury shares and restricted stock unit withholdings	(40)			(3)			(3)		(3)
Expiration of stock purchase warrants			(112)			112	—		—
Dividends non-controlling interests								(34)	(34)
Dividends common stock ($0.375 per share)						(105)	(105)		(105)
Balance as of June 28, 2020	**279,213**	**64**	**15,228**	**(3,325)**	**50**	**(3,155)**	**8,862**	**193**	**9,055**

	Outstanding number of shares (in thousands)	Common stock	Capital in excess of par value	Treasury shares at cost	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stock-holders' equity	Non-controlling interests	Total equity
Balance as of December 31, 2018	292,790	67	15,460	(3,238)	123	(1,907)	10,505	185	10,690
Net income (loss)						(21)	(21)	5	(16)
Other comprehensive income					(14)		(14)		(14)
Share-based compensation plans			87				87		87
Shares issued pursuant to stock awards	867			83		(51)	32		32
Treasury shares and restricted stock unit withholdings	(8,482)			(715)			(715)		(715)
Shareholder tax on repurchased shares						(62)	(62)		(62)
Dividends common stock ($0.25 per share)						(71)	(71)		(71)
Balance as of March 31, 2019	285,175	67	15,547	(3,870)	109	(2,112)	9,741	190	9,931
Net income (loss)						41	41	5	46
Other comprehensive income					9		9		9
Share-based compensation plans			88				88		88
Shares issued pursuant to stock awards	194			18		(12)	6		6
Treasury shares and restricted stock unit withholdings	(6,616)			(645)			(645)		(645)
Shareholder tax on repurchased shares						155	155		155
Dividends common stock ($0.25 per share)						(70)	(70)		(70)
Balance as of June 30, 2019	278,753	67	15,635	(4,497)	118	(1,998)	9,325	195	9,520

See accompanying notes to the Condensed Consolidated Financial Statements

1 Basis of Presentation and Overview

We prepared our interim condensed consolidated financial statements that accompany these notes in conformity with U.S. generally accepted accounting principles, consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended December 31, 2019.

We have made estimates and judgments affecting the amounts reported in our condensed consolidated financial statements and the accompanying notes. The actual results that we experience may differ materially from our estimates. The interim financial information is unaudited, but reflects all normal adjustments that are, in our opinion, necessary to provide a fair statement of results for the interim periods presented. This interim information should be read in conjunction with the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2019.

On May 27, 2020, NXP announced that at its Annual General Meeting of Shareholders, shareholders approved the appointment of Kurt Sievers as President and Chief Executive Officer, effective immediately. Mr. Sievers succeeded Richard “Rick” Clemmer, who previously led NXP for 11 years. Mr. Clemmer will remain a strategic advisor to NXP.

2 Significant Accounting Policies and Recent Accounting Pronouncements

Significant Accounting Policies
Except for the changes below, no material changes have been made to the Company's significant accounting policies disclosed in Note 2 Significant Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2019. The accounting policy information below is to aid in the understanding of the financial information disclosed.

New accounting standards not yet adopted
In August 2018, the FASB issued ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. ASU 2018-14 removes disclosures that no longer are considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. ASU 2018-14 should be applied on a retrospective basis to all periods presented and is effective for annual reporting periods ending after December 15, 2020, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on our financial statement disclosures.

Accounting standards recently adopted
In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard changes the accounting for recognizing impairments of financial assets. Under the new guidance, credit losses for certain types of financial instruments are estimated based on expected losses. The new guidance also modifies the impairment models for available-for-sale debt securities and for purchased financial assets with credit deterioration since their origination. The new accounting guidance generally requires the modified retrospective transition method, with the cumulative effect of applying the new accounting guidance recognized as an adjustment to opening retained earnings in the year of adoption, except for certain financial assets where the prospective transition method is required, such as available-for-sale debt securities for which an other-than-temporary impairment has been recorded. The ASUs became effective for us on January 1, 2020. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Instead, the one step quantitative impairment test calculates goodwill impairment as the excess of the carrying value of a reporting unit over its fair value, up to the carrying value of the goodwill. The ASU should be applied on a prospective basis. ASU 2017-04 became effective for us on January 1, 2020. The adoption of this update did not have a material impact on the Company's consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, Fair Value measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 removes certain disclosure requirements, including the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. ASU 2018-13 also adds disclosure requirements, including changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements, and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments on changes in unrealized gains and losses, and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. ASU 2018-13 became effective for us on January 1, 2020. The adoption of this update did not have a material impact on the Company's consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. ASU 2018-15 requires a customer in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. Therefore, a customer in a hosting arrangement that is a service contract determines which project stage an implementation activity relates to. Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and post-implementation stages are expensed as the activities are performed. ASU 2018-15 also requires the customer to expense the capitalized implementation costs over the term of the hosting arrangement, and to apply the existing impairment guidance in Subtopic 350-40 to the capitalized implementation costs as if the costs were long-lived assets. ASU 2018-15 can be applied either retrospectively or prospectively and is effective for annual reporting periods beginning after December 15, 2019, and interim periods therein, with early adoption permitted. ASU 2018-15 became effective for us on January 1, 2020. We have elected to apply the standard prospectively. The adoption of this update did not have a material impact on the Company's consolidated financial statements and related disclosures.

No other new accounting pronouncements were issued or became effective in the period that had, or are expected to have, a material impact on our Consolidated Financial Statements.

3 Acquisitions and Divestments

2020

There were no material acquisitions during the first six months of 2020. On February 3, 2020, we completed the sale of the Company's Voice and Audio Solutions (VAS) assets, pursuant to the definitive agreement dated August 16, 2019 and which was previously classified as held for sale, with Shenzhen Goodix Technology Co., Ltd. ("Goodix") from China, for a net cash amount of $161 million inclusive of final working capital adjustments. This resulted in a gain of $110 million recorded in Other income (expense) on the Consolidated Statements of Operations.

2019

On December 6, 2019, we completed the acquisition of Marvell’s Wireless WiFi Connectivity Business Unit, Bluetooth technology portfolio and related assets for total consideration of $1.7 billion, net of closing adjustments. The acquisition complements NXP’s processing, security and connectivity offerings in the Industrial & IoT, as well as in the Automotive and Communication Infrastructure markets.

The fair values of the assets acquired and liabilities assumed in the acquisition, by major class, were recognized as follows:

Tangible fixed assets	2
Inventory	50
Identified intangible assets	514
Goodwill	1,138
Deferred tax assets	1
Net assets acquired	1,705

Our valuation procedures related to the acquired assets and assumed liabilities was completed during the second quarter of 2020.

Goodwill arising from the acquisition is attributed to the anticipated growth from new product sales, sales to new customers, the assembled workforce and synergies expected from the combination. Substantially all of the goodwill recognized is expected to be deductible for income tax purposes.

The identified intangible assets assumed were recognized as follows:

	Fair Value	**Weighted Average Estimated Useful Life (in Years)**
Customer relationships (included in customer-related)	20	6
Developed technology (included in technology-based)	324	4.4
In-process research and development [(1)]	170	N/A
Total identified intangible assets	514	

1) Acquired in-process research and development (“IPR&D”) is an intangible asset classified as an indefinite lived asset until the completion or abandonment of the associated research and development effort. IPR&D will be amortized over an estimated useful life to be determined at the date the associated research and development effort is completed, or expensed immediately when, and if, the project is abandoned. Acquired IPR&D is not amortized during the period that it is considered indefinite lived, but rather is subject to annual testing for impairment or when there are indicators for impairment.

Variations of the income approach were applied to estimate the fair values of the intangible assets acquired. Developed technology and IPR&D were valued using the multi-period excess earnings method which reflects the present values of the projected cash flows that are expected to be generated by the existing technology and IPR&D less charges representing the contribution of other assets to those cash flows. Customer relationships were valued using the distributor method which uses market-based data to support the selection of profitability related to the customer relationship function.

Acquisition-related transaction costs ($5 million) such as legal, accounting and other related expenses were recorded as a component of selling, general and administrative expense in our consolidated statement of operations.

On March 27, 2019, we sold our remaining equity interest in WeEn, receiving net cash proceeds of $37 million.

4 Supplemental Financial Information

Statement of Operations Information:

Disaggregation of revenue

The following table presents revenue disaggregated by sales channel:

	For the three months ended		For the six months ended	
	June 28, 2020	June 30, 2019	**June 28, 2020**	June 30, 2019
Distributors	**1,059**	1,083	**2,043**	2,045
Original Equipment Manufacturers and Electronic Manufacturing Services	**712**	1,112	**1,712**	2,226
Other	**46**	22	**83**	40
Total	**1,817**	2,217	**3,838**	4,311

Depreciation, amortization and impairment

	For the three months ended		For the six months ended	
	June 28, 2020	June 30, 2019	**June 28, 2020**	June 30, 2019
Depreciation of property, plant and equipment	**136**	128	**269**	252
Amortization of internal use software	**1**	2	**3**	4
Amortization of other identified intangible assets	**406**	376	**811**	752
Total - Depreciation, amortization and impairment	**543**	506	**1,083**	1,008

Other income (expense)

Income derived from manufacturing service arrangements (“MSA”) and transitional service arrangements (“TSA”) that are put in place when we divest a business or activity, is included in other income (expense). These arrangements are short-term in nature and are expected to decrease as the divested business or activity becomes more established.

The following table presents the split of other income (expense):

	For the three months ended		For the six months ended	
	June 28, 2020	June 30, 2019	**June 28, 2020**	June 30, 2019
Result from MSA and TSA arrangements	**(1)**	**—**	**(1)**	**2**
Other, net	**—**	**(1)**	**110**	**(1)**
Total - Other income (expense)	**(1)**	**(1)**	**109**	**1**

Financial income and expense

	For the three months ended		For the six months ended	
	June 28, 2020	June 30, 2019	**June 28, 2020**	June 30, 2019
Interest income	**4**	12	**8**	25
Interest expense	**(94)**	(89)	**(176)**	(176)
Total interest expense, net	**(90)**	(77)	**(168)**	(151)
Extinguishment of debt	**—**	(10)	**—**	(10)
Foreign exchange rate results	**(5)**	(1)	**(1)**	(7)
Miscellaneous financing costs/income and other, net	**(1)**	(1)	**(5)**	(4)
Total other financial income/ (expense)	**(6)**	(12)	**(6)**	(21)
Total - Financial income and expenses	**(96)**	(89)	**(174)**	(172)

Earnings per share

The computation of earnings per share (EPS) is presented in the following table:

	For the three months ended		For the six months ended	
	June 28, 2020	June 30, 2019	**June 28, 2020**	June 30, 2019
Net income (loss)	**(209)**	46	**(222)**	30
Less: net income (loss) attributable to non-controlling interests	**5**	5	**13**	10
Net income (loss) attributable to stockholders	**(214)**	41	**(235)**	20
Weighted average number of shares outstanding (after deduction of treasury shares) during the year (in thousands)	**279,142**	281,241	**279,533**	284,217
Plus incremental shares from assumed conversion of:				
Options [1)]	**—**	767	**—**	771
Restricted Share Units, Performance Share Units and Equity Rights [2)]	**—**	3,080	**—**	1,870
Warrants [3)]	**—**	—	**—**	—
Dilutive potential common shares	**—**	3,847	**—**	2,641
Adjusted weighted average number of shares outstanding (after deduction of treasury shares) during the year (in thousands)	**279,142**	285,088	**279,533**	286,858
EPS attributable to stockholders in $:				
Basic net income (loss)	**(0.77)**	0.15	**(0.84)**	0.07
Diluted net income (loss)	**(0.77)**	0.14	**(0.84)**	0.07

Stock options to purchase up to 0.9 million shares of NXP’s common stock that were outstanding in Q2 2020 (Q2 2019: 0.1 million shares) and stock options to purchase up to 0.9 million shares of NXP's common stock that were outstanding YTD 2020 (YTD 2019: 0.1 million shares) were anti-dilutive and were not included in the computation of diluted EPS because the exercise price was greater than the average fair market value of the common stock or the number of shares assumed to be repurchased using the proceeds of unrecognized compensation expense and exercise prices was greater than the weighted average number of shares underlying outstanding stock options.

Unvested RSUs, PSUs and equity rights of 7.7 million shares that were outstanding in Q2 2020 (Q2 2019: 0.3 million shares) and unvested RSUs, PSUs and equity rights of 7.7 million shares that were outstanding YTD 2020 (YTD 2019: 0.3 million shares) were anti-dilutive and were not included in the computation of diluted EPS because the number of shares assumed to be repurchased using the proceeds of unrecognized compensation expense was greater than the weighted average number of outstanding unvested RSUs, PSUs and equity rights or the performance goal has not been met yet.

Warrants to purchase up to 11.3 million shares of NXP's common stock at a price of $131.84 per share were outstanding in Q2 2019, no warrants were outstanding at the end of Q2 2020. At the end of Q2 2019, the warrants were not included in the computation of diluted EPS because the warrants exercise price was greater than the average fair market value of the common shares.

Balance Sheet Information

Cash and cash equivalents

At June 28, 2020 and December 31, 2019, our cash balance was $3,266 million and $1,045 million, respectively, of which $250 million and $188 million was held by SSMC, our consolidated joint venture company with TSMC. Under the terms of our joint venture agreement with TSMC, a portion of this cash can be distributed by way of a dividend to us, but 38.8% of the dividend will be paid to our joint venture partner. During the first six months of 2020, $90 million has been declared by SSMC, distributed subsequent to the end of the second quarter of 2020, with 38.8% being paid to our joint venture partner. In 2019, no dividend was declared by SSMC.

Inventories

The portion of finished goods stored at customer locations under consignment amounted to $36 million as of June 28, 2020 (December 31, 2019: $41 million).

Inventories are summarized as follows:

	June 28, 2020	December 31, 2019
Raw materials	**71**	52
Work in process	**933**	894
Finished goods	**224**	246
	1,228	1,192

The amounts recorded above are net of allowance for obsolescence of $129 million as of June 28, 2020 (December 31, 2019: $114 million).

Accumulated other comprehensive income (loss)

Total comprehensive income (loss) represents net income (loss) plus the results of certain equity changes not reflected in the condensed consolidated statements of operations. The after-tax components of accumulated other comprehensive income (loss) and their corresponding changes are shown below:

	Currency translation differences	Change in fair value cash flow hedges	Net actuarial gain/(losses)	Accumulated Other Comprehensive Income (loss)
As of December 31, 2019	203	2	(130)	75
Other comprehensive income (loss) before reclassifications	**(23)**	**(7)**	**6**	**(24)**
Amounts reclassified out of accumulated other comprehensive income (loss)	**—**	**8**	**—**	**8**
Tax effects	**—**	**—**	**(9)**	**(9)**
Other comprehensive income (loss)	**(23)**	**1**	**(3)**	**(25)**
As of June 28, 2020	**180**	**3**	**(133)**	**50**

Cash dividends

The following dividends were declared during the first two quarters of 2020 and 2019 under NXP’s quarterly dividend program:

	Fiscal year 2020		Fiscal year 2019	
	Dividend per share	**Amount**	Dividend per share	Amount
First quarter	**0.375**	**105**	0.25	71
Second quarter	**0.375**	**105**	0.25	70
	0.750	**210**	0.50	141

The dividend declared in the second quarter (not yet paid) is classified in the condensed consolidated balance sheet in other current liabilities as of June 28, 2020 and subsequently paid on July 6, 2020.

5 Restructuring

At each reporting date, we evaluate our restructuring liabilities, which consist primarily of termination benefits, to ensure that our accruals are still appropriate.

The following table presents the changes in restructuring liabilities in 2020:

	As of January 1, 2020	Additions	Utilized	Released	Other changes	As of June 28, 2020
Restructuring liabilities	**32**	**17**	**(24)**	**—**	**—**	**25**

The restructuring charges consist of personnel lay-off costs of $19 million for the six month period ended June 28, 2020 (June 30, 2019: $30 million).

These restructuring charges recorded in operating income, for the periods indicated, are included in the following line items in the statement of operations:

	For the three months ended		For the six months ended	
	June 28, 2020	June 30, 2019	**June 28, 2020**	June 30, 2019
Cost of revenue	**—**	—	**3**	4
Research and development	**6**	5	**10**	16
Selling, general and administrative	**2**	—	**6**	10
Net restructuring charges	**8**	5	**19**	30

6 Income Taxes

Benefit/provision for income taxes:

	For the three months ended		For the six months ended	
	June 28, 2020	June 30, 2019	**June 28, 2020**	June 30, 2019
Tax expense (benefit)	**(33)**	21	**(31)**	12
Effective tax rate	**13.7 %**	30.9 %	**12.4 %**	30.8 %

Our effective tax rate reflects the impact of tax incentives, non-deductible expenses, change in valuation allowance, a portion of our earnings being taxed in foreign jurisdictions at rates different than the Netherlands statutory tax rate and the mix of income and losses in various jurisdictions. Our effective tax rate for the first six months of 2020 was a benefit of 12.4% on a pre-tax loss compared with an expense of 30.8% on a pre-tax income for the first six months of 2019. The movements in our effective tax rate, apart from being in an expense position in 2019 and a benefit in 2020, relate mainly to the net effect of the decrease in the valuation allowance when compared to the same period in 2019 as there were no Netherlands related interest expense that was impacted by the interest limitation rules ($13 million) offset by the increase in non deductible goodwill ($10 million), both linked to the divestiture of the VAS business, as well as a decrease of tax incentives ($14 million) mainly driven by a lower qualifying income in 2020 and our related adjustments for changes in estimates of prior positions ($5 million) expense for the first six months of 2020 compared to a $9 million benefit for the first six months of 2019).

The Company benefits from income tax 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 predominant income tax holiday is expected to expire at the end of 2026. The impact of this tax holiday decreased for the second quarter of 2020 by $2 million and decreased by $2 million for the second quarter 2019 (YTD 2020: a decrease of $5 million and YTD 2019: a decrease of $4 million). The benefit of this tax holiday on net income per share (diluted) was $0.01 for the second quarter of 2020 (YTD 2020: $0.02) and $0.01 for the second quarter of 2019 (YTD 2019: $0.02).

7 Identified Intangible Assets

Identified intangible assets as of June 28, 2020 and December 31, 2019, respectively, were composed of the following:

	June 28, 2020		December 31, 2019	
	Gross carrying amount	**Accumulated amortization**	Gross carrying amount	Accumulated amortization
In-process R&D (IPR&D) [1)]	**252**	**—**	272	—
Marketing-related	**82**	**(75)**	81	(67)
Customer-related	**966**	**(365)**	968	(340)
Technology-based	**7,981**	**(6,017)**	8,063	(5,357)
Identified intangible assets	**9,281**	**(6,457)**	9,384	(5,764)

(1) IPR&D is not subject to amortization until completion or abandonment of the associated research and development effort.

The estimated amortization expense for these identified intangible assets for each of the five succeeding years is:

2020 (remaining)	589
2021	670
2022	570
2023	341
2024	175
Thereafter	**479**

All intangible assets, excluding IPR&D and goodwill, are subject to amortization and have no assumed residual value.

The expected weighted average remaining life of identified intangibles is 3 years as of June 28, 2020 (December 31, 2019: 3 years).

8 Debt

On May 1, 2020, NXP B.V., together with NXP Funding LLC and NXP USA, Inc., issued $500 million of 2.7% senior unsecured notes due May 1, 2025, $500 million of 3.15% senior unsecured notes due May 1, 2027 and $1 billion of 3.4% senior unsecured notes due May 1, 2030.

The following table summarizes the outstanding debt as of June 28, 2020 and December 31, 2019:

		June 28, 2020		December 31, 2019	
	Maturities	**Amount**	**Effective rate**	Amount	Effective rate
Fixed-rate 4.125% senior unsecured notes	Jun, 2021	**1,350**	**4.125**	1,350	4.125
Fixed-rate 4.625% senior unsecured notes	Jun, 2022	**400**	**4.625**	400	4.625
Fixed-rate 3.875% senior unsecured notes	Sep, 2022	**1,000**	**3.875**	1,000	3.875
Fixed-rate 4.625% senior unsecured notes	Jun, 2023	**900**	**4.625**	900	4.625
Fixed-rate 4.875% senior unsecured notes	Mar, 2024	**1,000**	**4.875**	1,000	4.875
Fixed-rate 2.7% senior unsecured notes	May, 2025	**500**	**2.700**	—	—
Fixed-rate 5.35% senior unsecured notes	Mar, 2026	**500**	**5.350**	500	5.350
Fixed-rate 3.875% senior unsecured notes	Jun, 2026	**750**	**3.875**	750	3.875
Fixed-rate 3.15% senior unsecured notes	May, 2027	**500**	**3.150**	—	—
Fixed-rate 5.55% senior unsecured notes	Dec, 2028	**500**	**5.550**	500	5.550
Fixed-rate 4.3% senior unsecured notes	Jun, 2029	**1,000**	**4.300**	1,000	4.300
Fixed-rate 3.4% senior unsecured notes	May, 2030	**1,000**	**3.400**	—	—
Floating-rate revolving credit facility (RCF)	Jun, 2024	**—**	**—**	—	—
Total principal		**9,400**		7,400	
Unamortized discounts, premiums and debt issuance costs		**(47)**		(35)	
Total debt, including unamortized discounts, premiums, debt issuance costs and fair value adjustments		**9,353**		7,365	
Less: current portion of long-term debt		**1,349**		—	
Long-term debt		**8,004**		7,365	

9 Leases

Operating and finance lease assets relate to buildings (corporate offices, research and development and manufacturing facilities and datacenters), land, machinery and installations and other equipment (vehicles and certain office equipment). These leases, except for land leases, have remaining lease terms of 1 to 30 years (land leases 48 to 90 years), some of which may include options to extend the leases for up to 5 years, and some of which may include options to terminate the leases within 1 year. As of June 28, 2020, assets recorded under finance leases were $82 million and accumulated depreciation associated with finance leases was $11 million. Finance lease liabilities amount to $25 million as of June 28, 2020 ($25 million as of December 31, 2019).

The components of operating lease expense were as follows:

	For the three months ended		For the six months ended	
	June 28, 2020	June 30, 2019	**June 28, 2020**	June 30, 2019
Operating lease cost	**16**	13	**32**	26

Other information related to operating leases was as follows:

	For the three months ended		For the six months ended	
	June 28, 2020	June 30, 2019	**June 28, 2020**	June 30, 2019
Right-of-use assets obtained in exchange for lease obligations:				
Operating leases [1)]	**14**	10	**19**	198
1) $188 million recorded on January 1, 2019 in accordance with the adoption of ASC 842.				
Weighted average remaining lease term:				
Operating leases			**6 years**	5 years
Weighted average discount rate:				
Operating leases			3 %	3 %

Future minimum lease payments as of June 28, 2020 were as follows:

	As of
	June 28, 2020
	Operating leases
2020 (remaining)	**32**
2021	**54**
2022	**41**
2023	**33**
2024	**23**
Thereafter	**59**
Total future minimum lease payments	**242**
Less: imputed interest	**(20)**
Total	**222**

Lease liabilities related to leases are split between current and non-current:

	Operating leases	
	As of	
	June 28, 2020	December 31, 2019
Other current liabilities	**59**	62
Other non-current liabilities	**163**	176
Total	**222**	238

Operating lease right-of-use assets are $216 million as of June 28, 2020 (December 31, 2019: $226 million) and are included in other non-current assets in the condensed consolidated balance sheet.

10 Related-Party Transactions

The Company's related parties are the members of the board of directors of NXP, the executive officers of NXP and equity-accounted investees. As of the divestment of the SP business on February 7, 2017, the newly formed Nexperia has become a related party.

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

The following table presents the amounts related to revenue and other income and purchase of goods and services incurred in transactions with these related parties:

	For the three months ended		For the six months ended	
	June 28, 2020	June 30, 2019	**June 28, 2020**	June 30, 2019
Revenue and other income	**18**	21	**36**	44
Purchase of goods and services	**14**	16	**26**	35

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

	June 28, 2020	December 31, 2019
Receivables	**7**	21
Payables	**10**	9

As part of the divestment of the SP business, we entered into a lease commitment and related services to Nexperia, which is $59 million as of June 28, 2020, and committed $50 million to an investment fund affiliated with Nexperia's owners. The lease commitments are reflected in our recorded lease liabilities in other current and non-current liabilities.

11 Fair Value Measurements

The following table summarizes the estimated fair value of our financial instruments which are measured at fair value on a recurring basis:

		Estimated fair value	
	Fair value hierarchy	**June 28, 2020**	December 31, 2019
Assets:			
Money market funds	1	**2,007**	6
Marketable equity	1	**12**	1
Derivative instruments-assets	2	**6**	10
Liabilities:			
Derivative instruments-liabilities	2	**(6)**	(1)

The following methods and assumptions were used to estimate the fair value of financial instruments:

Assets and liabilities measured at fair value on a recurring basis
Investments in money market funds (as part of our cash and cash equivalents) and marketable equity securities have fair value measurements which are all based on quoted prices in active markets for identical assets or liabilities. For derivatives the fair value is based upon significant other observable inputs depending on the nature of the derivative.

Assets and liabilities recorded at fair value on a non-recurring basis
We measure and record our non-marketable equity securities, equity method investments and non-financial assets, such as intangible assets and property, plant and equipment, at fair value when an impairment charge is required.

Assets and liabilities not recorded at fair value on a recurring basis
Financial instruments not recorded at fair value on a recurring basis include non-marketable equity securities and equity method investments that have not been remeasured or impaired in the current period and debt.

As of June 28, 2020, the estimated fair value of debt, including the current portion, was $10.3 billion ($7.9 billion as of December 31, 2019). The fair value is estimated on the basis of broker-dealer quotes, which are Level 2 inputs. Accrued interest is included under accrued liabilities and not within the carrying amount or estimated fair value of debt.

12 Litigation

We are regularly involved as plaintiffs or defendants in claims and litigation relating to a variety of matters such as contractual disputes, personal injury claims, employee grievances and intellectual property litigation. In addition, our acquisitions, divestments and financial transactions sometimes result in, or are followed by, claims or litigation. Some of these claims may possibly be recovered from insurance reimbursements. Although the ultimate disposition of asserted claims cannot be predicted with certainty, it is our belief that the outcome of any such claims, either individually or on a combined basis, will not have a material adverse effect on our consolidated financial position. However, such outcomes may be material to our condensed consolidated statement of operations for a particular period. The Company records an accrual for any claim that arises whenever it considers that it is probable that it is exposed to a loss contingency and the amount of the loss contingency can be reasonably estimated. Legal fees are expensed when incurred.

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 $18 million accrued for potential and current legal proceedings pending as of June 28, 2020, compared to $44 million accrued at December 31, 2019. The accruals are included in “Other current liabilities” and “Other non-current liabilities”. As of June 28, 2020, the Company’s balance related to insurance reimbursements was $8 million (December 31, 2019: $25 million) and is included in “Other current assets” and “Other non-current assets”.

The Company also estimates the aggregate range of reasonably possible losses in excess of the amount accrued based on currently available information for those cases for which such estimate can be made. The estimated aggregate range requires significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants (including the Company) in such claims whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the claims, and the attendant uncertainty of the various potential outcomes of such claims. Accordingly, the Company’s estimate will change from time to time, and actual losses may be more than the current estimate. As at June 28, 2020, the Company believes that for all litigation pending its potential aggregate exposure to loss in excess of the amount accrued (without reduction for any amounts that may possibly be recovered under insurance programs) could range between $0 and $23 million. Based upon our past experience with these matters, the Company would expect to receive insurance reimbursement on certain of these claims that would offset the potential maximum exposure of up to $15 million.

In addition, the Company is currently assisting Motorola in the defense of personal injury lawsuits due to indemnity obligations included in the agreement that separated Freescale from Motorola in 2004. The multi-plaintiff Motorola lawsuits are pending in Cook County, Illinois. These claims allege a link between working in semiconductor manufacturing clean room facilities and birth defects in 18 individuals. The Motorola suits allege exposures between 1981 and 2005. Each claim seeks an unspecified amount of damages for the alleged injuries; however, legal counsel representing the plaintiffs has indicated they will seek substantial compensatory and punitive damages from Motorola for the entire inventory of claims which, if proven and recovered, the Company considers to be material. In the Motorola suits, a portion of any indemnity due to Motorola will be reimbursed to NXP if Motorola receives an indemnification payment from its insurance coverage. Motorola has potential insurance coverage for many of the years indicated above, but with differing types and levels of coverage, self-insurance retention amounts and deductibles. We are in discussions with Motorola and their insurers regarding the availability of applicable insurance coverage for each of the individual cases. Motorola and NXP have denied liability for these alleged injuries based on numerous defenses.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This interim Management’s Discussion and Analysis ("MD&A") should be read in conjunction with our consolidated financial statements and notes and the MD&A in our Annual Report on Form 10-K for the year ended December 31, 2019. This discussion contains forward-looking statements that involve a number of risks and uncertainties, including any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, uncertain events or assumptions, and other characterizations of future events or circumstances, including our response to the current global pandemic and the potential impact the pandemic will have on our operations, liquidity, customers, facilities and supply chain. Such statements are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing, including the risk factor set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q specifically related to the coronavirus outbreak and measures taken in response thereto, and in “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K. Our actual results may differ materially from those contained in any forward-looking statements. We undertake no obligation to update any forward-looking statement to reflect subsequent events or circumstances.

Our MD&A is provided in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition and cash flows. MD&A is organized as follows:

- *Overview* - Overall analysis of financial and other highlights to provide context for the MD&A
- *Results of Operations* - An analysis of our financial results
- *Liquidity and Capital Resources* - An analysis of changes in our balance sheets and cash flows
- *Contractual Obligations* - An update on contractual obligations as of December 31, 2019
- *Off-balance Sheet Arrangements* - An update on off-balance sheet arrangements as of December 31, 2019

Overview

($ in millions, unless otherwise stated)	**Q2 2020**	Q2 2019	**YTD 2020**	YTD 2019
Revenue	**1,817**	2,217	**3,838**	4,311
Gross profit	**860**	1,151	**1,857**	2,223
Operating income (loss)	**(145)**	157	**(77)**	211
Cash flow from operating activities	**414**	517	**926**	813
Total debt	**9,353**	8,538	**9,353**	8,538
Net debt	**6,087**	5,508	**6,087**	5,508
Diluted weighted average number of shares outstanding	**279,142**	285,088	**279,533**	286,858
Diluted net income per share	**(0.77)**	0.14	**(0.84)**	0.07
Dividends per common share	**0.375**	0.25	**0.75**	0.50

Q2 2020 compared to Q2 2019

Revenue for the three months ended June 28, 2020 was down 18.0% from the three months ended June 30, 2019 against a very challenging economic backdrop, due to the COVID-19 pandemic. Revenues decreased by 34.6% in our largest end market, Automotive, 14.1% in the Mobile end market, and 9.2% in the Communications & Infrastructure end market, which were slightly offset by an increase of 11.5% in our Industrial and IOT end market. When aggregating all end markets, the decrease in revenue was mostly related to lower sales to Original Equipment Manufacturers, across all regions, but in particular in EMEA, Americas and Japan.

Our gross profit percentage for the second quarter of 2020 decreased from 51.9% in the second quarter of 2019 to 47.3%, essentially due to lower revenue and the absorption of excess manufacturing fixed costs as a result of abnormal under-loading in our front-end factories due to the COVID-19 crisis.

Notwithstanding the challenging operating environment we currently face, we continue to execute on our strategy within our target markets and focus on driving profitability.

We continue to generate strong operating cash flows, with $414 million in cash flows from operations for the second quarter of 2020. We returned $108 million to our shareholders during the second quarter of 2020. Our cash position at the end of the second quarter of 2020 was $3,266 million. This includes the net proceeds of the $2 billion of senior unsecured debt issued by NXP on May 1, 2020. On May 28, 2020, the NXP Board of Directors approved a cash dividend of $0.375 per common share for the second quarter of 2020.

YTD 2020 compared to YTD 2019

Revenue for the six months ended June 28, 2020 was down 11.0% from the six months ended June 30, 2019 against a very challenging economic backdrop, due to the COVID-19 pandemic. Revenues decreased by 19.3% in our largest end market, Automotive, 6.7% in the Mobile end market, and 9.6% in the Communications & Infrastructure end market, which were slightly offset by an increase of 7.0% in our Industrial and IOT end market. When aggregating all end markets, the decrease in revenue was mostly related to lower sales to Original Equipment Manufacturers, across regions EMEA, Americas, Japan, and Greater China (including Asia Pacific).

Our gross profit percentage for the six months ended June 28, 2020 decreased from 51.6% for the six months ended June 30, 2019 to 48.4%, primarily due to lower revenue and the absorption of excess manufacturing fixed costs as a result of abnormal under-loading in our front-end factories due to the COVID-19 crisis and the purchase accounting effect on inventory ($17 million) due to the Marvell acquisition.

On February 3, 2020, we completed the sale of the Company's Voice and Audio Solutions (VAS) assets, receiving proceeds of $161 million resulting in a gain of $110 million.

Cash flow from operation for the first six months of 2020 was $926 million, remaining strong in a challenging environment. Total shareholder return for the first six months of 2020 was $568 million. Our cash position remains solid, with the net proceeds of the $2 billion in newly issued debt adding to our cash and cash equivalents.

Update on the impact of COVID-19

Our global communities continue to face unprecedented challenges posed by the COVID-19 pandemic, but NXP continues to respond actively by addressing the COVID-19 situation and its impact globally with global crisis response teams, working to mitigate the potential impacts to our people and our business.

With our strong business model and with demonstrated financial discipline, which is a keystone of our culture, we continue to believe that we will emerge from this time well positioned for long-term growth. That being said, we cannot reasonably estimate the duration and severity of this global pandemic or its ultimate impact on the global economy and our business and results.

The impact of COVID-19 and measures to prevent its spread are affecting how we operate in a number of ways. In response, we have implemented measures to focus on the safety of our employees, while at the same time seeking to mitigate the impact on our financial position and operations. These measures include, but are not limited to, the following:

Our People
Our top priority during the COVID-19 pandemic remains and always will be protecting the health and safety of our employees. As governments throughout the world evaluate and adjust their responses, we continue working to ensure that we comply with regulatory requirements balanced with maintaining business continuity for essential operations in our factories. We have significantly reduced the number of people working in our offices, helping to protect our employees who work in our labs and factories and who are essential to keeping our business running.

Facilities and Supply Chain
From an operational perspective all our manufacturing facilities continue to operate around the world in accordance with guidance issued by local and national government authorities, and we are not experiencing any major supply chain issues. We have been extremely fortunate that the virus has not significantly impacted our broad employee base.

Liquidity and Capital Resources
Thanks to our financial strength, we expect to be able to maintain adequate liquidity as we manage through the current environment. As we operate our business in this uncertain environment, our priorities will remain the health and safety of our people, providing our essential products to consumers around the world, and remained focused on having our business deliver long-term growth. Over the years, NXP has created a business that generates significant cash, thanks to its large and diverse revenue stream. We therefore believe we have sufficient liquidity to satisfy our cash needs. However, we will continue to monitor, evaluate and take action, as necessary, to preserve adequate liquidity and ensure that our business can continue to operate during these uncertain times.

In May we had a well-received debt issuance, obtaining $2 billion in funds that will be used in part to finance or refinance eligible green products and in part to build cash and short-term investment reserves to opportunistically repay other outstanding debt or for certain corporate expenditures. In addition, as we have demonstrated as one of our strengths in the past, we continue to successfully constrain discretionary spending across the organization, re-prioritizing our capital projects, while simultaneously maintaining critical investments in areas that will assure NXP’s long-term success.

Customer Demand and Near-Term Business Outlook
For the second quarter, our revenue was modestly better than the mid-point of our original guidance. Our automotive end-market was significantly impacted by the effects of the COVID-19 pandemic on the global macro-economic environment, though we did experience better than anticipated sequential trends in our other end-markets. We are encouraged by the early positive trends we experienced in China and sales out of our distribution channel improved sequentially. We expect improved sales trends through the second half of this year, as a result of company specific program ramps and the ongoing stabilization of our end-markets. However, we want to balance our enthusiasm as it is too early to make a broad statement regarding a complete return to normalized demand or the specifics of the shape of the recovery. We note that several of ultimate end-customers of our products, especially the automotive OEMs in Europe, North America and Japan are not running at full capacity yet. Our best course of action remains to be focused on the aspects of our business we can directly control. For example, in order to maintain appropriate levels of inventory, we plan to continue to run our internal front-end factories at a much lower utilization rate, below our normal capacity, going into the third quarter.

In summary, we still find ourselves navigating a challenging and fluid environment, but we continue to have ample financial liquidity and strength to weather the current environment and maintain the critical investments in areas that will assure NXP’s long-term success in its chosen strategy.

Results of operations

The following table presents operating income for each of the three and six month periods ended June 28, 2020 and June 30, 2019, respectively:

($ in millions, unless otherwise stated)	**Q2 2020**	Q2 2019	**YTD 2020**	YTD 2019
Revenue	**1,817**	2,217	**3,838**	4,311
% nominal growth	**(18.0)**	(3.2)	**(11.0)**	(5.4)
Gross profit	**860**	1,151	**1,857**	2,223
Research and development	**(402)**	(408)	**(827)**	(823)
Selling, general and administrative	**(222)**	(230)	**(455)**	(478)
Amortization of acquisition-related intangible assets	**(380)**	(355)	**(761)**	(712)
Other income (expense)	**(1)**	(1)	**109**	1
Operating income (loss)	**(145)**	157	**(77)**	211

Revenue

Q2 2020 compared to Q2 2019

Revenue for the three months ended June 28, 2020 was $1,817 million compared to $2,217 for the three months ended June 30, 2019, a decrease of $400 million or 18%. The decrease is essentially related to lower sales in our Automotive end market, followed by our Communication & Infrastructure and Mobile end markets, which were in particular impacted by COVID-19 pandemic; offset by an increase in Industrial IoT end market.

YTD 2020 compared to YTD 2019

Revenue for the six months ended June 28, 2020 was $3,838 million compared to $4,311 million for the six months ended June 30, 2019, a decrease of $473 million or 11%. The decrease is attributed to the impact of the COVID-19 pandemic in our primary end-markets, including YTD over YTD decreases in our Automotive, Communication & Infrastructure, and Mobile end markets.

Revenue by end-market was as follows:

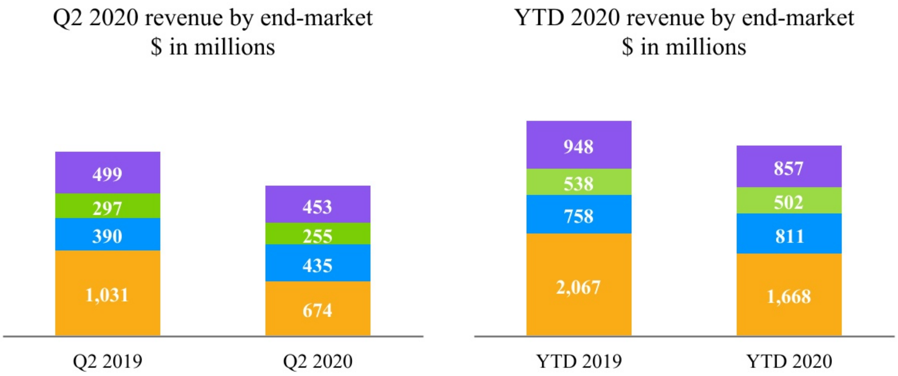
($ in millions, unless otherwise stated)	**Q2 2020**	Q2 2019	Change	**YTD 2020**	YTD 2019	Change
Automotive	**674**	1,031	(34.6) %	**1,668**	2,067	(19.3) %
Industrial & IoT	**435**	390	11.5 %	**811**	758	7.0 %
Mobile	**255**	297	(14.1) %	**502**	538	(6.7) %
Communication Infrastructure & Other	**453**	499	(9.2) %	**857**	948	(9.6) %
Revenue	**1,817**	2,217	(18.0) %	**3,838**	4,311	(11.0) %

Revenue by sales channel was as follows:

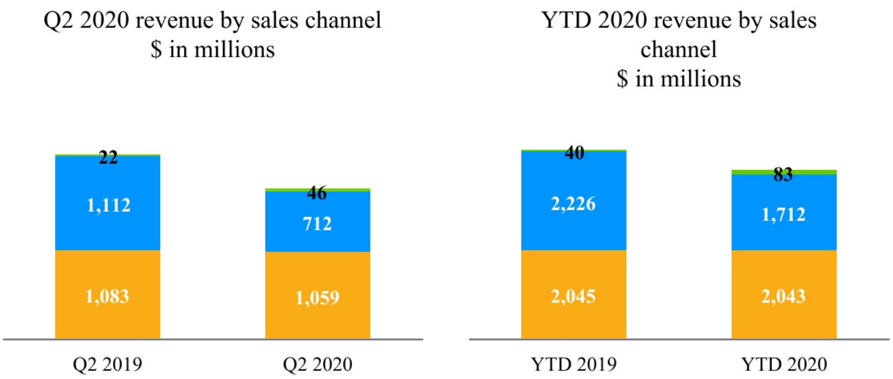
($ in millions, unless otherwise stated)	**Q2 2020**	Q2 2019	Change	**YTD 2020**	YTD 2019	Change
Distributors	**1,059**	1,083	(2.2) %	**2,043**	2,045	(0.1) %
OEM/EMS	**712**	1,112	(36.0) %	**1,712**	2,226	(23.1) %
Other	**46**	22	109.1 %	**83**	40	107.5 %
Revenue	**1,817**	2,217	(18.0) %	**3,838**	4,311	(11.0) %

Revenue by geographic region, which is based on the customer's shipped-to location (except for intellectual property license revenue which is attributable to the Netherlands or the USA) was as follows:

($ in millions, unless otherwise stated)	**Q2 2020**	Q2 2019	Change	**YTD 2020**	YTD 2019	Change
Greater China (including Asia Pacific)	**1,165**	1,247	(6.6) %	**2,233**	2,345	(4.8) %
EMEA (Europe, the Middle East and Africa)	**265**	429	(38.2) %	**706**	870	(18.9) %
Americas	**167**	271	(38.4) %	**421**	539	(21.9) %
Japan	**146**	191	(23.6) %	**316**	398	(20.6) %
South Korea	**74**	79	(6.3) %	**162**	159	1.9 %
Revenue	**1,817**	2,217	(18.0) %	**3,838**	4,311	(11.0) %



- Automotive
- Industrial IoT
- Mobile
- Comm Infra & Other



- Distributors
- OEM/EMS
- Other

Q2 2020 compared to Q2 2019

Revenue associated with the Automotive market declined $357 million year-on-year. The decline was due to the COVID-19 pandemic, which impacted automotive supply chains and resulted in many auto OEMs outside of China shutting car production sites, especially in North America and within the European Union. During the second quarter revenue, we experienced year on year declines across all product lines, both in our core and growth areas due to the previously mentioned auto OEM factory closures.

Revenue derived from the Industrial and IoT market increased $45 million year-on-year due to the contribution of revenue associated with the recently acquired Marvell wireless connectivity assets for connected IoT solutions. Additionally, we saw an increase in demand for smart power, general purpose microcontroller and application processors, primarily in the distribution channel due to the increase in mass market demand resulting from improvements in Greater China recovery from COVID-19.

Within the Mobile end-market, revenue decreased $42 million year-on-year. The decrease was predominantly associated with the divestment of the Voice and Audio Solutions, which closed early in the first quarter of 2020. During the second quarter, NXP experienced continued customer adoption of secure mobile wallet solutions and decreased demand for embedded power solutions, both of which are primarily serviced through our global distribution channels.

Revenue in the Communication Infrastructure and Other end-market declined $46 million year-on-year. The decline was related to reduced demand for High-Performance Radio Frequency (HPRF) power amplifiers used in 4G cellular base stations as a result of strong customer network densification programs in the year ago period. This was modestly offset by a combination of year-on-year increased demand for network communication processors by OEM customers and new revenue contribution related to the acquisition of the Marvell wireless connectivity assets used in access solutions.

YTD 2020 compared to YTD 2019

Revenue associated with the Automotive market declined $399 million year-to-date. The decline was due to the COVID-19 pandemic, which impacted automotive supply chains and resulted in many auto OEMs outside of China shutting car production sites. The year on year declines were most notable in our core auto products which are more susceptible to variances in auto production rates, including our mainstream auto processors, advanced analog, and sensor products. The declines were partially offset by the increase in sales of connectivity solutions, stemming from the Marvell connectivity acquisition, for automotive applications, as well as early ramps of battery management solutions for electric vehicles.

Revenue derived from the Industrial and IoT market increased $53 million year-to-year date due to to a contribution of revenue from the recently acquired Marvell wireless connectivity assets for connected IoT solutions. Additionally, the increase in demand for smart power, general-purpose microcontrollers and high performance analog products, primarily in the distribution channel in Greater China supported the year to date revenue trends.
Within the Mobile end-market, revenue decreased $36 million year-to-date. The decrease was predominantly associated with the divestment of the Voice and Audio Solutions which closed early in the first quarter of 2020. During the first half, NXP experienced continued customer adoption of secure mobile wallet solutions and increased demand for embedded power solutions, both of which are primarily serviced through our global distribution channels.

Revenue in the Communication Infrastructure and Other end-market declined $91 million year-to-date. The decline was related to reduced demand for High-Performance Radio Frequency (HPRF) power amplifiers used in 4G cellular base stations, as well as lower demand for network communication processors by OEM customers in Europe and Greater China (including Asia Pacific). These declines were partially offset by a combination of demand for the company’s secure card solutions and new revenue contribution related to the acquisition of the Marvell wireless connectivity assets used in access solutions.

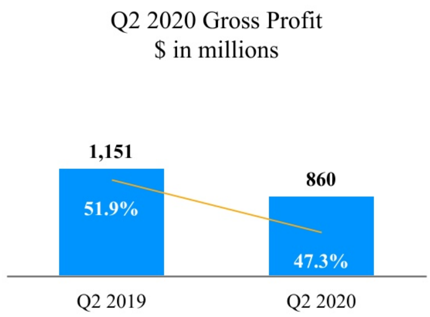
Gross profit

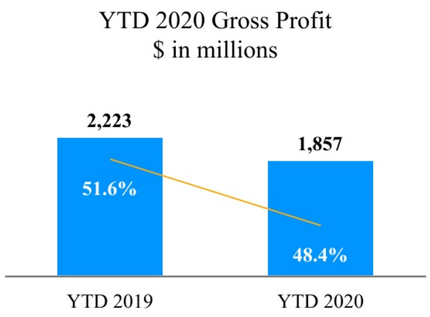
Q2 2020 compared to Q2 2019

Gross profit for the three months ended June 28, 2020 was $860 million, or 47.3% of revenue, compared to $1,151 million, or 51.9% of revenue for the three months ended June 30, 2019. The decrease of $291 million was essentially driven by lower revenue and the absorption of excess manufacturing fixed costs as a result of abnormal under-loading in our front-end factories due to the COVID-19 crisis.

YTD 2020 compared to YTD 2019

Gross profit for the six months ended June 28, 2020 was $1,857 million, or 48.4% of revenue, compared to $2,223 million, or 51.6% of revenue for the six months ended June 30, 2019. The decrease of $366 million was primarily driven by lower revenue and the absorption of excess manufacturing fixed costs as a result of abnormal under-loading in our front-end factories due to the COVID-19 crisis as well as the purchase accounting effect on inventory ($17 million) resulting from the Marvell acquisition.





Operating expenses

Q2 2020 compared to Q2 2019

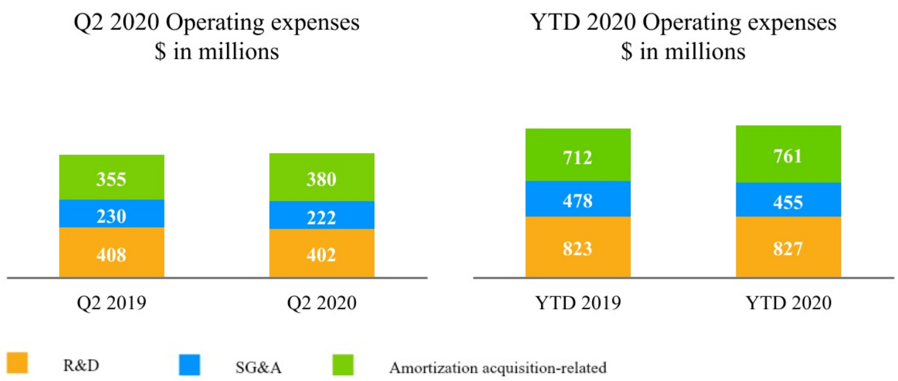
Operating expenses for the three months ended June 28, 2020 totaled $1,004 million, or 55.3% of revenue, compared to $993 million, or 44.8% of revenue, for the three months ended June 30, 2019.

YTD 2020 compared to YTD 2019

Operating expenses for the six months ended June 28, 2020 totaled $2,043 million, or 53.2% of revenue, compared to $2,013 million, or 46.7% of revenue, for the six months ended June 30, 2019.

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

($ in millions, unless otherwise stated)	**Q2 2020**	Q2 2019	**YTD 2020**	YTD 2019
Research and development	**402**	408	**827**	823
Selling, general and administrative	**222**	230	**455**	478
Amortization of acquisition-related intangible assets	**380**	355	**761**	712
Total operating expenses	**1,004**	993	**2,043**	2,013



Q2 2020 compared to Q2 2019

The increase in operating expenses was a result of the following items:

Research and development (R&D) costs primarily consist of engineer salaries and wages (including share based compensation and other variable compensation), engineering related costs (including outside services, fixed-asset, IP and other licenses related costs), shared service center costs and other pre-production related expenses. R&D costs for the three months ended June 28, 2020 decreased by $6 million, or 1.5%, when compared to the three months ended June 30, 2019 driven by:

\- lower personnel-related costs, including variable compensation costs;

\- lower engineering material costs;

\- lower cost related to the sale of the Voice and Audio Solutions (VAS), which was divested on February 3, 2020; and

\+ higher cost related to Marvell activities, which were acquired in the last month of the fourth quarter of 2019.

Selling, general and administrative (SG&A) costs primarily consist of personnel salaries and wages (including share based compensation and other variable compensation), communication and IT related costs, fixed-asset related costs and sales and marketing costs (including travel expenses). SG&A costs for the three months ended June 28, 2020 decreased by $8 million, or 3.5%, when compared to the three months ended June 30, 2019 mainly due to:

\- lower personnel-related costs, including variable compensation costs;

\- lower travel costs;

\- lower merger-related costs; and

\+ higher share-based compensation expenses primarily as a result of the CEO transition.

Amortization of acquisition-related intangible assets increased by $25 million, or 7.0%, when compared to the three months ended June 30, 2019 driven by:

\+ the start of amortization of intangible assets related to the Marvell acquisition; and

\- certain intangibles became fully amortized during 2019.

YTD 2020 compared to YTD 2019

The increase in operating expenses was a result of the following items:

Research and development (R&D) costs primarily consist of engineer salaries and wages (including share based compensation and other variable compensation), engineering related costs (including outside services, fixed-asset, IP and other licenses related costs), shared service center costs and other pre-production related expenses. R&D costs for the six months ended June 28, 2020 increased by $4 million, or 0.5%, when compared to the six months ended June 30, 2019 driven by:

+ higher cost related to Marvell activities, which were acquired in the last month of the fourth quarter of 2019;

- lower cost related to the sale of the Voice and Audio Solutions (VAS), which was divested on February 3, 2020; and

- lower personnel-related costs, including variable compensation costs.

Selling, general and administrative (SG&A) costs primarily consist of personnel salaries and wages (including share based compensation and other variable compensation), communication and IT related costs, fixed-asset related costs and sales and marketing costs (including travel expenses). SG&A costs for the six months ended June 28, 2020 decreased by $23 million, or 4.8%, when compared to the six months ended June 30, 2019 mainly due to:

- lower personnel-related costs, including variable compensation costs;

- lower travel costs;

- lower merger-related costs; and

+ higher share-based compensation expenses as a result of the CEO transition.

Amortization of acquisition-related intangible assets increased by $49 million, or 6.9%, when compared to the six months ended June 30, 2019 driven by:

+ the start of amortization of intangible assets related to the Marvell acquisition; and

- certain intangibles became fully amortized during 2019.

Other income (expense)

Income and expenses derived from manufacturing service arrangements (“MSA”) and transitional service arrangements (“TSA”) that are put into place when we divest a business or activity, are included in other income (expense). These arrangements are short-term in nature and are expected to decrease as the divested business or activity becomes more established.

The following table presents the split of other income (expense) for each of the three and six month periods ended June 28, 2020 and June 30, 2019:

($ in millions)	**Q2 2020**	Q2 2019	**YTD 2020**	YTD 2019
Income from MSA and TSA arrangements	**15**	23	**31**	49
Expenses from MSA and TSA arrangements	**(16)**	(23)	**(32)**	(47)
Result from MSA and TSA arrangements	**(1)**	—	**(1)**	2
Other, net	**—**	(1)	**110**	(1)
Total	**(1)**	(1)	**109**	1

Q2 2020 compared to Q2 2019

Other income (expense) reflects an expense of $1 million for both three month periods ended June 28, 2020 and June 30, 2019.

YTD 2020 compared to YTD 2019

Other income (expense) reflects income of $109 million for the six month period ended June 28, 2020, compared to income of $1 million for the six month period ended June 30, 2019. Included in 2020 is the net gain on the sale of the Voice and Audio Solutions (VAS) assets of $110 million.

Financial income (expense)

The following table presents the details of financial income and expenses:

($ in millions, unless otherwise stated)	**Q2 2020**	Q2 2019	**YTD 2020**	YTD 2019
Interest income	**4**	12	**8**	25
Interest expense	**(94)**	(89)	**(176)**	(176)
Total interest expense, net	**(90)**	(77)	**(168)**	(151)
Foreign exchange rate results	**(5)**	(1)	**(1)**	(7)
Extinguishment of debt	**—**	(10)	**—**	(10)
Miscellaneous financing costs/income and other, net	**(1)**	(1)	**(5)**	(4)
Total other financial income (expense)	**(6)**	(12)	**(6)**	(21)
Total	**(96)**	(89)	**(174)**	(172)

Q2 2020 compared to Q2 2019

Financial income (expense) was an expense of $96 million in the second quarter of 2020 compared to an expense of $89 million in the second quarter of 2019. The change in financial income (expense) is primarily attributable to a decrease in interest income ($8 million) as a result of lower interest rates, an increase in interest expense ($5 million) as a result of newly issued debt and more unfavorable foreign exchange rate results ($4 million) in Q2 2020. This is partially offset by debt extinguishment cost ($10 million) that were paid in the second quarter of 2019.

YTD 2020 compared to YTD 2019

Financial income (expense) was an expense of $174 million in the first six months of 2020 compared to an expense of $172 million in the first six months of 2019. The change in financial income (expense) is primarily attributable to a decrease in interest income ($17 million) as a result of a lower average cash level and lower interest rates. This is partially offset by less unfavorable foreign exchange rate results ($6 million) in the first six months of 2020 and debt extinguishment cost ($10 million) that were paid in the second quarter of 2019.

Benefit (provision) for income taxes

Q2 2020 compared to Q2 2019

Our effective tax rate reflects the impact of tax incentives, non-deductible expenses, change in valuation allowance, a portion of our earnings being taxed in foreign jurisdictions at rates different than the Netherlands statutory tax rate, and the mix of income and losses in various jurisdictions. Our effective tax rate for the second quarter of 2020 was a benefit of 13.7% compared with an expense of 30.9% for the second quarter of 2019. The movement in our effective tax rate, apart from being in an expense position in 2019 and a benefit in 2020, reflects mainly the decrease in tax incentives ($11 million) primarily driven by a lower qualifying income in second quarter of 2020 and our related adjustments for changes in estimates of prior positions ($7 million expense for the second quarter 2020 compared to a $10 million benefit for the second quarter 2019).

YTD 2020 compared to YTD 2019

Our effective tax rate reflects the impact of tax incentives, non-deductible expenses, change in valuation allowance, a portion of our earnings being taxed in foreign jurisdictions at rates different than the Netherlands statutory tax rate and the mix of income and losses in various jurisdictions. Our effective tax rate for the first six months of 2020 was a benefit of 12.4% on a pre-tax loss compared with an expense of 30.8% on a pre-tax income for the first six months of 2019. The movements in our effective tax rate, apart from being in an expense position in 2019 and a benefit in 2020, relate mainly to the net effect of the decrease in the valuation allowance when compared to the same period in 2019 as there were no Netherlands related interest expense that was impacted by the interest limitation rules ($13 million) offset by the increase in non deductible goodwill ($10 million), both linked to the divestiture of the VAS business, as well as a decrease of tax incentives ($14 million) mainly driven by a lower qualifying income in 2020 and our related adjustments for changes in estimates of prior positions ($5 million) expense for the first six months of 2020 compared to a $9 million benefit for the first six months of 2019).

Net income (loss)

The following table presents the composition of net income for the periods reported:

($ in millions, unless otherwise stated)	**Q2 2020**	Q2 2019	**YTD 2020**	YTD 2019
Operating income (loss)	**(145)**	157	(77)	211
Financial income (expense):	**(96)**	(89)	(174)	(172)
Benefit (provision) for income taxes	**33**	(21)	31	(12)
Results relating to equity-accounted investees	**(1)**	(1)	**(2)**	3
Net income (loss)	**(209)**	46	**(222)**	30

Liquidity and Capital Resources

We derive our liquidity and capital resources primarily from our cash flows from operations. We continue to generate strong positive operating cash flows. At the end of the second quarter of 2020, our cash balance was $3,266 million, an increase of $2,221 million compared to December 31, 2019. Taking into account the available amount of the Unsecured Revolving Credit Facility of $1,500 million, we had access to $4,766 million of liquidity as of June 28, 2020.

We currently use cash to fund operations, meet working capital requirements, for capital expenditures and for potential common stock repurchases, dividends and strategic investments. Based on past performance and current expectations, we believe that our current available sources of funds (including cash and cash equivalents, RCF Agreement, plus anticipated cash generated from operations) will be adequate to finance our operations, working capital requirements, capital expenditures and potential dividends for at least the next twelve months. Our capital expenditures were $218 million in the first six months of 2020, compared to $250 million in the first six months of 2019. During the six month period ended June 28, 2020, we repurchased $358 million, or 3 million shares of our common stock pursuant to our share buyback program at a weighted average price of $120.57 per share.

Our total debt amounted to $9,353 million as of Q2 2020, an increase of $2 billion compared to December 31, 2019 ($7,365 million). On May 1, 2020, NXP issued 2.7% senior notes due in 2025 ($500 million), 3.15% senior notes due in 2027 ($500 million) and 3.4% senior notes due in 2030 ($1 billion). The net proceeds of the 3.4% Senior Notes due 2030 ("2030 Notes") will be used to finance or refinance eligible green projects. Pending allocation of these net proceeds to finance or refinance eligible green projects, the net proceeds of the 2030 Notes, together with the net proceeds of the 2.7% Senior Notes due 2025 and 3.15% Senior Notes due 2027, will temporarily be held as cash and other short-term securities or temporarily used for the repayment of indebtedness, which may include the refinancing of the $1,350 million aggregate principal amount of outstanding 4.125% Senior Notes due 2021, and other corporate expenditures.

At June 28, 2020, our cash balance was $3,266 million of which $250 million was held by SSMC, our consolidated joint venture company with TSMC. Under the terms of our joint venture agreement with TSMC, a portion of this cash can be distributed by way of a dividend to us, but 38.8% of the dividend will be paid to our joint venture partner. During the first six months of 2020, $90 million has been declared by SSMC, distributed subsequent to the end of the second quarter of 2020, with 38.8% being paid to our joint venture partner. In 2019, no dividend was declared by SSMC.

Cash flows

Our cash and cash equivalents during the first six months of 2020 increased by $2,230 million (excluding the effect of changes in exchange rates on our cash position of $(9) million) as follows:

($ in millions, unless otherwise stated)	**YTD 2020**	YTD 2019
Net cash provided by (used for) operating activities	**926**	813
Net cash (used for) provided by investing activities	**(150)**	(280)
Net cash provided by (used for) financing activities	**1,454**	(293)
Increase (decrease) in cash and cash equivalents	**2,230**	240

Cash Flow from Operating Activities

For the first six months of 2020 our operating activities provided $926 million in cash. This was primarily the result of net loss of ($222) million, adjustments to reconcile the net loss of $1,034 million and changes in operating assets and liabilities of $113 million. Adjustments to net loss includes offsetting non-cash items, such as depreciation and amortization of $1,083 million, share-based compensation of $212 million, amortization of the discount (premium) on debt and debt issuance costs of $3 million, a gain on sale of assets of assets of ($110) million, results relating to equity-accounted investees of $2 million and changes in deferred taxes of ($156) million.

The change in operating assets and liabilities (working capital accounts) was attributable to the following:

The $251 million decrease in receivables and other current assets was primarily driven by the linearity in revenue and the related timing of cash collections in the first six months of 2020 compared with the same period in 2019.

The $35 million increase in inventories was primarily related to management's efforts to align inventory on hand with the current demand forecasts in the first six months of 2020 compared with the same period in 2019.

The $96 million decrease in accounts payable and other liabilities for the six months ended June 28, 2020 was primarily related to a decrease of $215 million in trade accounts payable and a $32 million decrease related to the accruals for employee related compensation and restructuring, partially offset by a net increase in income and social tax payables of $83 million, a net increase of $7 million in interest payable and $61 million of other movements including the non-cash adjustment for capital expenditures.

For the first six months of 2019 our operating activities provided $813 million in cash. This was primarily the result of net income of $30 million, adjustments to reconcile the net income of $1,124 million and changes in operating assets and liabilities of ($351) million. Net loss includes offsetting non-cash items, such as depreciation and amortization of $1,008 million, share-based compensation of $173 million, amortization of the discount on debt and debt issuance costs of $28 million, results relating to equity-accounted investees of ($3) million and changes in deferred taxes of ($93) million.

Cash Flow from Investing Activities

Net cash used for investing activities amounted to $150 million for the first six months of 2020 and principally consisted of the cash outflows for purchases of interests in businesses (net of cash) of $21 million, capital expenditures of $218 million and $73 million for the purchase of identified intangible assets, partly offset by proceeds of $161 million from the sale of businesses (net of cash), related to the the sale of our Voice and Audio Solutions assets.

Net cash used for investing activities amounted to $280 million for the first six months of 2019 and principally consisted of the cash outflows for capital expenditures of $250 million and $51 million for the purchase of identified intangible assets, and cash used for purchase of investments of $17 million, partly offset by proceeds of $37 million from the sale of businesses (net of cash) and $1 million proceeds from sale of investments.

Cash Flow from Financing Activities

Net cash provided by financing activities was $1,454 million for the first six months of 2020 compared to net cash used for financing activities of $293 million for the first six months of 2019, detailed in the table below:

($ in millions)	**YTD 2020**	YTD 2019
Repurchase of long-term debt	—	(553)
Proceeds from the issuance of long-term debt	2,000	1,750
Cash paid for debt issuance costs	(15)	(23)
Dividends paid to common stockholders	(210)	(144)
Cash proceeds from exercise of stock options and savings from ESPP	37	37
Purchase of treasury shares	(358)	(1,360)

Contractual Obligations

During the first six months of 2020, our contractual obligations increased by $100 million resulting from normal business operations.

Off-balance Sheet Arrangements

At the end of the second quarter of 2020, we had no off-balance sheet arrangements other than commitments resulting from normal business operations. None of these arrangements has or is likely to have a material effect on our financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the Company’s market risk during the first three months of 2020. For a discussion of the Company’s exposure to market risk, refer to the Company’s market risk disclosures set forth in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer (Certifying Officers), evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) on June 28, 2020. Based on that evaluation, the Certifying Officers concluded the Company's disclosure controls and procedures were effective as of June 28, 2020.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three month period ended June 28, 2020, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 1A. Risk Factors

The extent to which the coronavirus (COVID-19) outbreak and measures taken in response thereto could materially adversely affect our financial condition and results of operations will depend on future developments, which are highly uncertain and are difficult to predict.

The novel strain of the coronavirus identified in China in late 2019 has globally spread throughout other areas such as Asia, Europe, the Middle East, and North America and has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders, and shutdowns. These measures have impacted and may further impact our workforce and operations, the operations of our customers, and those of our respective vendors and suppliers. We have significant manufacturing operations in China, Malaysia, Thailand, Singapore, Taiwan, The Netherlands and the U.S., and each of these countries has been affected by the outbreak and taken measures to try to contain it. There is considerable uncertainty regarding such measures and potential future measures, and restrictions on our access to our manufacturing facilities or on our support operations or workforce, or similar limitations for our vendors and suppliers, and restrictions or disruptions of transportation, such as reduced availability of air transport, port closures, and increased border controls or closures, could limit our capacity to meet customer demand and have a material adverse effect on our financial condition and results of operations.

The outbreak has significantly increased economic and demand uncertainty. The current outbreak has caused, and the continued spread of COVID-19 may exacerbate an economic slowdown, and it is possible that it could lead to a global recession. Risks related to a slowdown or recession are described in our risk factor titled “Significantly increased volatility and instability and unfavorable economic conditions may adversely affect our business” under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2019.

The spread of COVID-19 has caused us to modify our business practices (including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers, partners, and suppliers. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, and our ability to perform critical functions could be harmed.

The degree to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may experience material adverse impacts to our business as a result of the global economic impact and any recession that has occurred or may occur in the future. To the extent the COVID-19 pandemic adversely affects our business, results of operations, financial condition and cash flows, it may also heighten many of the other risks described in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2019. There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak on our operations and financial results is highly uncertain and subject to change.

For a description of other applicable risk factors, please refer to Part I, Item 1A: “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In November 2019, the board of directors of NXP (the "Board"), as authorized by the 2019 annual general meeting of shareholders, authorized the repurchase of $2 billion of shares. In addition, the Board approved the purchase of shares from participants in the Company's equity programs who trade shares as trade for tax. This authorization will remain in effect until terminated by the Board. Under Dutch tax law, the repurchase of a company's shares by an entity domiciled in the Netherlands results in a taxable event. The tax on the repurchased shares is attributed to the shareholders, with NXP making the payment on the shareholders' behalf. As such, the tax on the repurchased shares is accounted for within stockholders' equity.

The following share repurchase activity occurred under these programs during the three months ended June 28, 2020:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Number of Shares Purchased as Part of Publicly Announced Buy Back Programs	Maximum Number of Shares That May Yet Be Purchased Under the Buy Back Program	Number of Shares Purchased as Trade for Tax (1)
March 30, 2020 – May 3, 2020	28,695	$96.30	—	17,246,947	28,695
May 4, 2020 – May 31, 2020	11,290	$99.10	—	17,127,623	11,290
June 1, 2020 – June 28, 2020	90	$113.26	—	15,219,181	90
Total	40,075		—		40,075

(1) Reflects shares surrendered by participants to satisfy tax withholding obligations in connection with the Company's equity programs.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit Number	Exhibit Description
3.1*	Articles of Association of NXP Semiconductors N.V. dated June 9, 2020
4.1	Indenture, dated as of May 1, 2020, among the Issuers, the Company and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K of NXP Semiconductors N.V., filed on May 1, 2020)
4.2	Registration Rights Agreement, dated May 1, 2020, among the Issuers, the Company and Goldman Sachs & Co. LLC, BofA Securities, Inc., Deutsche Bank Securities Inc., Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC, as Initial Purchasers (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K of NXP Semiconductors N.V., filed on May 1, 2020)
4.3	Form of Note for 2.700% Senior Notes due 2025 (incorporated by reference to Exhibit 4.1 (included as part of 4.1 thereto) to the Company's Current Report on Form 8-K of NXP Semiconductors N.V., filed on May 1, 2020)
4.4	Form of Note for 3.150% Senior Notes due 2027 (incorporated by reference to Exhibit 4.1 (included as part of 4.1 thereto) to the Company's Current Report on Form 8-K of NXP Semiconductors N.V., filed on May 1, 2020)
4.5	Form of Note for 3.400% Senior Notes due 2030 (incorporated by reference to Exhibit 4.1 (included as part of 4.1 thereto) to the Company's Current Report on Form 8-K of NXP Semiconductors N.V., filed on May 1, 2020)
10.1	Purchase Agreement, dated April 29, 2020, among the Issuers, the Company and Goldman Sachs & Co. LLC, BofA Securities, Inc., Deutsche Bank Securities Inc., Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC, as Initial Purchasers. (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K of NXP Semiconductors N.V., filed on May 1, 2020)
31.1*	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer
31.2*	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer
32.1*	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 2020, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations for the three and six months ended June 28, 2020 and June 30, 2019; (ii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 28, 2020 and June 30, 2019; (iii) Condensed Consolidated Balance Sheets as of June 28, 2020 and December 31, 2019; (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 28, 2020 and June 30, 2019; (v) Condensed Consolidated Statements of Changes in Equity for the three and six months ended June 28, 2020 and June 30, 2019; and (vi) Notes to the Unaudited Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed or furnished herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: July 28, 2020

NXP Semiconductors N.V.

/s/ P. Kelly

Name: P. Kelly, CFO

Exhibit 31.1

CERTIFICATION

I, Kurt Sievers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NXP Semiconductors N.V.;

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

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

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

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

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

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

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

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

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

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

Date: July 28, 2020

By: /s/ Kurt Sievers

Kurt Sievers

President & Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Peter Kelly, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NXP Semiconductors N.V.;

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

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

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

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

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

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

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

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

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

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

Date: July 28, 2020

By: /s/ Peter Kelly

Peter Kelly
Chief Financial Officer

Exhibit 32.1

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Kurt Sievers, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of NXP Semiconductors N.V. on Form 10-Q for the period ended June 28, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of NXP Semiconductors N.V. at the dates and for the periods indicated.

Date: July 28, 2020

By: /s/ Kurt Sievers

Kurt Sievers

President & Chief Executive Officer

I, Peter Kelly, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of NXP Semiconductors N.V. on Form 10-Q for the period ended June 28, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents in all material respects the financial condition and results of operations of NXP Semiconductors N.V. at the dates and for the periods indicated.

Date: July 28, 2020

By: /s/ Peter Kelly

Peter Kelly

Chief Financial Officer

Exhibit 3.1

UNOFFICIAL TRANSLATION
ARTICLES OF ASSOCIATION
of:
NXP Semiconductors N.V.
with corporate seat in Eindhoven, the Netherlands
dated 9 June 2020

Name. Corporate seat.
Article 1.
The name of the company is: NXP Semiconductors N.V.
Its corporate seat is in Eindhoven.
Objects.
Article 2.
The objects of the company are to participate in, to take an interest in any other way in, to conduct the management of other business enterprises of whatever nature, to provide services to other business enterprises of whatever nature, furthermore to finance third parties, in any way to provide security or undertake the obligations of third parties and finally all activities which are incidental to or which may be conducive to any of the foregoing.
Definitions.
Article 3.
In these articles of association the following terms shall have the following meaning:

Articles of Association:	these articles of association;
Board:	the board of directors of the Company;
Company:	NXP Semiconductors N.V., previously named KASLION Acquisition B.V., incorporated on the second day of August two thousand and six;
depositary receipt for a share:	depositary receipt for a share in the capital of the Company issued with the co-operation of the Company;
Executive Director:	a member of the Board appointed as executive director;
General Meeting:	the corporate body the general meeting of shareholders or a meeting of such corporate body;
Chief Executive Officer:	the Chief Executive Officer referred to in article 14, paragraph 2;
holder of a depositary receipt:	a holder of a depositary receipt for a share in the capital of the Company issued with the co-operation of the Company or a person to whom by law the same rights are attributed vis-à-vis the Company as those which are attributed to a holder of a depositary receipt for a share;
law:	the law of the Netherlands;
Non-Executive Director:	a member of the Board appointed as non executive director;
person:	a natural person or a legal entity;
person authorised to attend and to vote at a General Meeting:	(a) a shareholder entitled to vote, (b) a holder of a right of usufruct or a right of pledge, who is entitled to the voting right attached to the share which is subject to the right of

	usufruct or the right of pledge, and (c) such other persons referred to in article 26, paragraph 1;
person authorised to attend a General Meeting:	(a) a shareholder, (b) a holder of a depositary receipt for a share, and (c) a holder of a right of usufruct or a right of pledge, but excluding the holder of such right in respect of a share of which the voting right vests in the holder of such share and in respect of whom at the time that the right of usufruct or the right of pledge was granted the rights which by law are conferred upon holders of depositary receipts for shares issued with the co-operation of a company were withheld, and (d) such other persons referred to in article 26, paragraph 1;
preferred share:	(a) a cumulative preferred share series PA and (b) a cumulative preferred share series PB;
rights of holders of depositary receipts:	the rights conferred by law on holders of depositary receipts for shares issued with the cooperation of a company, such as inter alia the right to receive notices of general meetings, the right to attend such meetings, the right to address such meetings and the right to inspect the annual accounts as prepared by the board, the annual report and the additional information thereto, at the office of the company, and to obtain a copy thereof at no cost;
Secretary:	the secretary of the Company referred to in article 20;
shareholder:	a holder of a share in the capital of the Company or the joint holders of a share referred to in article 11;
statutory regulations:	regulations by or pursuant to the law of the Netherlands.

<u>Share capital and shares.</u>
<u>Article 4.</u>

4.1. The authorised share capital of the Company amounts to two hundred fifteen million two hundred fifty-one thousand five hundred euro (EUR 215,251,500). It is divided into:
   a. four hundred thirty million five hundred three thousand (430,503,000) common shares of twenty eurocent (EUR 0.20) each;
   b. six hundred forty-five million seven hundred fifty-four thousand five hundred (645,754,500) cumulative preferred shares of twenty eurocent (EUR 0.20) each, divided in:
      - one series numbered PA of four hundred thirty million five hundred three thousand (430,503,000) cumulative preferred shares; and
      - one series numbered PB of two hundred fifteen million two hundred fifty-one thousand five hundred (215,251,500) cumulative preferred shares.

4.2. The shares shall consecutively be numbered, the common shares from 1 onwards, the cumulative preferred shares from PA1, respectively PB1 onwards. Each of the series of cumulative preferred shares constitutes a separate class of shares.

4.3. Where in the Articles of Association reference is made to shares and shareholders this shall include the shares of each class and the holders of shares of each class respectively, unless explicitly provided otherwise.

Issue of shares.

Article 5.

5.1. Shares shall be issued pursuant to a resolution proposed by the Board and adopted by the General Meeting, or pursuant to a resolution of the Board if by resolution of the General Meeting the Board has been authorised for a specific period not exceeding five (5) years to issue shares. The resolution granting the aforesaid authorisation must determine the number and class of the shares that may be issued. The authorisation may from time to time be extended for a period not exceeding five (5) years. Unless otherwise stipulated at its grant, the authorisation cannot be withdrawn.

5.2. The General Meeting, or the Board, if authorised for that purpose, shall determine the price and the further conditions of issue in its resolution to issue shares. Save for the provisions of section 80 of Book 2 of the Dutch Civil Code, the issue-price may not be below par value.

5.3. Common shares may be issued only against payment in full of the amount at which such shares are issued and with due observance of the provisions of sections 80a and 80b of Book 2 of the Dutch Civil Code.
Preferred shares series may be issued against partial payment.
The Company may at its discretion make a call in respect of the monies unpaid on such shares.

5.4. The preceding paragraphs of this article shall apply mutatis mutandis to the granting of rights to subscribe for shares, but not to the issue of shares to a person who exercises a previously acquired right to subscribe for shares.

5.5. The Company may grant loans for the purpose of a subscription for or an acquisition of shares in its share capital or depositary receipts for such shares subject to any applicable statutory provisions.

Pre-emptive rights.

Article 6.

6.1. Upon the issue of shares, each shareholder shall have a pre-emptive right to acquire such newly issued shares in proportion to the aggregate amount of his common shares, it being understood that this pre-emptive right shall not apply to:

a. any issue of shares to employees of the Company or employees of a group company;
b. shares which are issued against payment in kind;
c. preferred shares;
d. holders of preferred shares at the issue of shares.

6.2. The pre-emptive right may be restricted or excluded by a resolution proposed by the Board and adopted by the General Meeting.
In the proposal for such resolution the reasons for the proposal and the choice of the intended price of issue must be explained in writing. If the Board has been designated as the body authorised to issue shares, the General Meeting may by resolution also designate the Board for a period not exceeding five (5) years as the body authorised to restrict or exclude the pre-emptive right. This authorisation may from time to time be extended for a period not exceeding five (5) years. Unless otherwise stipulated at its grant, the authorisation cannot be withdrawn.

6.3. For the purposes of this article the granting of rights to subscribe for shares shall be considered the equivalent of the issue of shares, and the provisions of this article shall not apply in respect of shares issued to a person who exercises a previously acquired right to subscribe for shares.

Acquisition.

Article 7.

7.1. Subject to authorisation by the General Meeting and subject to the applicable statutory provisions, the Board may cause the Company to acquire fully paid-up shares in its share capital, as well as depositary receipts for such shares, for a consideration.

7.2. The authorisation of the General Meeting as referred to in paragraph 1 of this article shall not be required if the Company acquires fully paid-up shares in its own share capital or depositary receipts for such shares for the purpose of transferring such shares or depositary receipts, by virtue of an applicable employee stock purchase plan, to persons employed by the Company or by a group company, provided such shares or depositary receipts are quoted on the official list of any stock exchange.

Reduction of share capital.

Article 8.

8.1. With due observance of the statutory requirements the General Meeting may resolve to reduce the issued share capital by (i) reducing the par value of shares by amending the Articles of Association, or (ii) cancelling:

a. shares in its own capital which the Company holds itself or depositary receipts for shares in the Company's share capital held by the Company;

b. all issued shares one class against repayment of the amount paid-up on those shares and, to the extent applicable, repayment of the share premium reserve, attached to the relevant class of shares; and against a simultaneous release from the obligation to pay any further calls on the shares to the extent that the shares had not been fully paid-up.

8.2. Partial repayment on shares pursuant to a resolution to reduce their par value may also be made exclusively on the shares of a specific class.

Shares. Share register.

Article 9.

9.1. Shares shall be issued in registered form only.

9.2. Shares shall be available in the form of an entry in the share register. Share certificates will not be issued.

9.3. With due observance of the applicable statutory provisions in respect of registered shares, a share register shall be kept by or on behalf of the Company, which register shall be regularly updated and, at the discretion of the Board, may, in whole or in part, be kept in more than one copy and at more than one address.
Part of the register may be kept abroad in order to comply with applicable foreign statutory provisions or applicable listing rules.

9.4. Each shareholder's name, his address and such further information as required by law or considered appropriate by the Board, shall be recorded in the share register.

9.5. The form and the contents of the share register shall be determined by the Board with due observance of the paragraphs 3 and 4 of this article.

9.6. Upon his request a shareholder shall be provided with written evidence of the contents of the share register with regard to the shares registered in his name free of charge, and the statement so issued may be validly signed on behalf of the Company by a person to be designated for that purpose by the Board.

9.7. The provisions of paragraphs 3 up to and including 6 of this article shall equally apply to persons who hold a right of usufruct or a right of pledge on one or more shares.

Pledge of shares.

Article 10.

10.1. Shares in the capital of the Company may be pledged as security for a debt.

10.2. If a common share is encumbered with a pledge, the voting right attached to that share shall vest in the shareholder, unless at the creation of the pledge the voting right has been granted to the pledgee.
If a preferred share is encumbered with a pledge, the voting right cannot be granted to the pledgee. The voting right attached to that share shall vest exclusively in the shareholder.

Jointly owned shares or depositary receipts.

Article 11.

If through any cause whatsoever one or more shares or depositary receipts are jointly held by two or more persons, such persons may jointly exercise the rights arising from those shares or depositary receipts, provided that these persons be represented for that purpose by one from their midst or by a third party authorised by them for that purpose by a written power of attorney. The Board may, whether or not subject to certain conditions, grant an exemption for the provision of the previous sentence.

Approval required for the transfer of preferred shares.

Article 12.

12.1. Any transfer of preferred shares shall require the approval of the Board.
The request for approval shall be made in writing and must specify the name and the address of the proposed transferee and the price or other consideration which the proposed transferee is willing to pay or give.

12.2. If its approval is withheld the Board must at the same time designate one or several interested buyers who are willing and able to buy against payment in cash all the shares to which the request for approval relates, at a price to be determined in mutual agreement by the transferor and the Board within two (2) months after the interested buyers have been so designated.

12.3. If within three (3) months of receipt by the Company of the request for approval of the intended transfer the transferor has not received from the Company a written notice rejecting the request which notice was combined with the designation of one or several interested buyers to whom the shares may be transferred in accordance with the provisions of this article, then upon the expiry of said period or after receipt of the notice of rejection, as the case may be, the approval of the transfer shall be deemed to have been granted.

12.4. If the transferor and the Board have not reached agreement on the price as referred to in paragraph 2 of this article within two (2) months after the date of the written notice of rejection which was combined with the designation of one (1) or several interested buyers to whom the shares concerned may be transferred in accordance with the provisions of this article, that price shall then be determined by an expert to be appointed by the transferor and the Board in mutual agreement or, failing reaching such agreement within three (3) months after the notice of rejection, by the chairman of the Chamber of Commerce and Industry in the place where the Company has its actual seat acting at the request of either of the parties.

12.5. The transferor may decide against transferring his shares, provided he shall notify the Board of that decision within one (1) month after he has been informed of the name(s) of the designated interested buyer(s) and of the price determined in the manner as described above.

12.6. If approval of the transfer has been granted or is deemed to have been granted, during a period of three (3) months thereafter the transferor shall be at liberty to transfer all the shares to which his request related to the transferee proposed in his request and at the price or for the consideration as referred to in the second sentence of paragraph 1 of this article.

12.7. Those expenses incidental to the transfer incurred by the Company may be charged to the transferee.

12.8. The provisions of this article shall apply mutatis mutandis at the apportionment of preferred shares from any community of property.

Transfer of shares.

Article 13.

13.1. The transfer of a share shall require a deed executed for that purpose and, save in the event that the Company itself is a party to the transaction, written acknowledgement by the Company of the transfer. The acknowledgement is to be made either in the transfer deed, or by a dated statement endorsed upon the transfer deed or upon a copy of or extract from that deed certified by a notary (notaris) or bailiff (deurwaarder), or in the manner as referred to below in paragraph 2. Service of notice of the transfer deed or of the aforesaid copy or extract upon the Company shall be the equivalent of acknowledgement as stated in this paragraph.

13.2. The preceding paragraph shall apply mutatis mutandis to the transfer of any qualified interest in a share, provided that a pledge may also be created without acknowledgement by or service of notice upon the Company and that section 239 of Book 3 of the Dutch Civil Code shall apply, in which case acknowledgement by or service of notice upon the Company shall replace the announcement referred to in subsection 3 of section 239 of Book 3 of the Dutch Civil Code.

Management.

Article 14.

14.1. The management of the Company shall be conducted by a Board.

14.2. The Board shall consist of one or more Executive Directors and Non-Executive Directors.

The Board shall determine the number of Executive Directors and the number of Non-Executive Directors. The Board will appoint one of the Executive Directors as Chief Executive Officer for such period as the Board may decide. In addition, the Board may grant other titles to Executive Directors

Only natural persons can be Non-Executive Directors.

14.3. The Executive Directors and Non-Executive Directors shall be appointed as such by the General Meeting at the binding nomination of the Board.

14.4. If a Board member is to be appointed, the Board shall make a nomination of at least the number of persons prescribed by law.
The General Meeting may at all times overrule the binding nomination by at least a two thirds majority, provided such majority represents more than half of the issued share capital. If the General Meeting overruled the binding nomination, the Board shall make a new nomination.
The nomination shall be included in the notice of the General Meeting at which the appointment shall be considered.

14.5. 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 shall be free to appoint a managing director at its discretion.
A resolution to appoint a member of the Board that was not nominated by the Board, may only be appointed by a two thirds majority of the votes cast, provided such majority represents more than half the issued share capital.
With regard to subjects referred to in this paragraph and the previous paragraph, a second General Meeting may not be convened pursuant to section 2:120, subsection 3 of the Civil Code.

14.6. The Company must establish a policy in respect of the remuneration of the Board. The policy is adopted by the General Meeting upon the proposal of the Board.
The remuneration of the Executive Directors shall be determined by the Board with due observance of the remuneration policy adopted by the General Meeting. The remuneration of the Non-Executive Directors shall be determined by the General Meeting with due observance of the remuneration policy adopted by the General Meeting.
A proposal with respect to remuneration schemes in the form of shares or rights to shares is submitted by the Board to the general meeting for its approval.
This proposal must set out at least the maximum number of shares or rights to shares to be granted to members of the Board and the criteria for granting or amendment.

14.7. Unless law provides otherwise, the following shall be reimbursed to current and former members of the Board:

a. the reasonable costs of conducting a defence against claims (also including claims by the Company) based on acts or failures to act in the exercise of their duties or any other duties currently or previously performed by them at the Company's request;
b. any damages payable by them as a result of an act or failure to act as referred to under a;
c. the reasonable costs of appearing in other legal proceedings in which they are involved as current or former members of the Board, with the exception of proceedings primarily aimed at pursuing a claim on their own behalf.

14.8. There shall be no entitlement to reimbursement as referred to in paragraph 7 above 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 characterised as wilful (opzettelijk), intentionally reckless (bewust roekeloos) or seriously culpable (ernstig verwijtbaar) conduct, unless 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. If and to the extent that it has been established by a Dutch court in a final and conclusive decision that the person concerned is not entitled to reimbursement as referred to above, he shall immediately repay the amount reimbursed by the Company. The Company may request that the person concerned provide security for his repayment obligation. The Company may take out liability insurance for the benefit of the persons concerned. The Board may by agreement or otherwise give further implementation to the above.

Resignation and dismissal.

Article 15.

15.1. Each director shall retire at the close of the annual General Meeting held in the financial year one year after his appointment.

15.2. The General Meeting may at any time remove or suspend any member of the Board. If and to the extent law permits this, Executive Directors may also be suspended by the Board.

Chairman of the Board.

Article 16.

16.1. The Board shall appoint one of its non-executive members to be its chairman for such period as the Board may decide.

16.2. The Board may appoint one or more of its non-executive members as vice-chairman of the Board for such period as the Board may decide. If the chairman is absent or unwilling to take the chair, a vice-chairman shall be entrusted with such of the duties of the chairman entrusted to him by the Board may decide.

16.3. If no chairman has been appointed or if the chairman is absent or unwilling to take the chair, a meeting of the Board shall be presided over by a vice-chairman or in the event of his absence or unwillingness to take the chair, by a member of the Board or another person present designated for such purpose by the meeting.

Meetings.

Article 17.

17.1. Meetings of the Board may be called at any time, either by one or more members of the Board or, on his or their instructions, by the Secretary.

17.2. The Secretary may attend the meetings of the Board.
The Board may decide to permit others to attend a meeting as well.

Powers, restrictions.

Article 18.

18.1. The Board shall be entrusted with the management of the Company and shall for such purpose have all the powers within the limits of the law that are not granted by the Articles of Association to others.

18.2. The Board may divide its duties among the directors by regulation referred to in article 21, paragraph 1.

18.3. The Board may establish such committees as it may deem necessary which committees may consist of one or more members of the Board or of other persons. The Board appoints the members of each committee and determines the tasks of each committee. The Board may at any time change the duties and the composition of each committee.

18.4. The Executive Directors shall timely provide the Non-Executive Directors with all information required for the exercise of their duties.

18.5. Without prejudice to its other powers and duties, the Board is authorised to enter into transactions:

a. in respect of a subscription for shares imposing special obligations upon the Company;

b. concerning the acquisition of shares upon terms differing from those upon which membership in the Company is offered to the public;

c. having for their object to secure some advantage to one of the founders of the Company or to a third party concerned in its formation;

d. relative to payments upon shares other than in cash, without being subject to any restriction in this respect.

18.6. Without prejudice to any other applicable provisions of the Articles of Association, the Board shall require the approval of the General Meeting for resolutions of the Board regarding a significant change in the identity or nature of the Company or the enterprise, including in any event:

a. the transfer of the enterprise or practically the entire enterprise to a third party;

b. the conclusion or cancellation of any long-lasting cooperation by the Company or a subsidiary (dochtermaatschappij) with any other legal person or company or as a fully liable general partner of a limited partnership or a general partnership, provided that such cooperation or the cancellation thereof is of essential importance to the Company; and

c. the acquisition or disposal of a participating interest in the capital of a company with a value of at least one-third of the sum of the assets according to the consolidated balance sheet with explanatory notes thereto according to the last adopted annual accounts of the Company, by the Company or a subsidiary.

18.7. In the event of the absence or inability to act of one or more members of the Board, the powers of the Board remain intact, provided that:

(i) in the event of the absence or inability to act of all Executive Directors, the Non-Executive Directors shall be authorised to temporarily entrust the management to others;

(ii) in the event of the absence or inability to act of the Non-Executive Directors or of all members of the Board, the Secretary shall temporarily be responsible for the management of the Company until the vacancies have been filled. In the event of the absence or inability to act of all Non-Executive Directors or all members of the Board, the Secretary will as soon as possible take the necessary measures required for a permanent solution.

<u>Representation.</u>

<u>Article 19.</u>

19.1. The Board shall represent the Company.

19.2. The Company shall also be represented by the Chief Executive Officer as well as by two other Executive Directors acting jointly.
The Board shall have the power, without prejudice to its responsibility, to cause the 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 the Articles of Association, by the Board.
19.3. In the event that a member of the Board has a conflict of interest with the Company, the Company nonetheless can be represented by the person(s) referred to in paragraphs 1 and 2 above.

Secretary.

Article 20.

20.1. The Board shall appoint a Secretary from outside its members.
20.2. The Secretary shall have such powers as are assigned to him by the Articles of Association and, subject to the Articles of Association, by the Board on or after his appointment.
20.3. The Secretary may be removed from office at any time by the Board.

Regulations.

Article 21.

21.1. With due observance of the Articles of Association the Board shall adopt one or more sets of regulations dealing with such matters as its internal organisation, the manner in which decisions are taken, the composition, the duties and organisation of committees and any other matters concerning the Board, the Chief Executive Officer, the Executive Directors, the Non-Executive Directors and the committees established by the Board.
21.2. Regulations dealing with matters concerning General Meetings will be placed on the Company's website.

Article 22.

General Meetings shall be held in the municipalities of Amsterdam, Eindhoven, Haarlemmermeer, Rotterdam, The Hague or Utrecht. Further information to persons authorised to attend a General Meeting with regard to the venue of the meeting shall be given in the notice convoking the meeting.

Article 23.

23.1. A General Meeting shall be held once a year, no later than six months after the end of the financial year of the Company.
23.2. The agenda of the annual meeting shall contain, inter alia, the following items:
   a. consideration of the annual report, the annual accounts and the particulars to be added thereto pursuant to the statutory regulations;
   b. adoption of the annual accounts;
   c. if applicable, the proposal to pay a dividend;
   d. proposals relating to the composition of the Board, including the filling of any vacancies in the Board;
   e. the proposals placed on the agenda by the Board, including, but not limited to, a proposal to grant discharge to the directors for their management during the financial year, together with proposals made by shareholders in accordance with provisions of the law and the provisions of the Articles of Association.

23.3. The Board shall provide the General Meeting with all requested information unless this would be contrary to an overriding interest of the Company. If the Board invokes an overriding interest, it must give reasons.

23.4. Matters will only be put to vote if and to the extent that the General Meeting is authorised by law or the Articles of Association to resolve on the subject matter. All other matters are put on the agenda for discussion purposes only.

Extraordinary General Meeting.

Article 24.

Extraordinary General Meetings shall be convened by the Board, or whenever one or more shareholders and/or holders of depositary receipts representing the minimum percentage of at least one-tenth of the issued and outstanding capital so request the Board in writing. Such request shall specify and elucidate the subjects which the applicants wish to be discussed.

General Meeting. Notice and agenda.

Article 25.

25.1. Notice of the General Meeting shall be given by the Board upon a term of at least such number of days prior to the day of the meeting as required by law, in accordance with law and the regulations of the stock exchange where shares in the share capital of the Company are officially listed at the Company's request.

25.2. The Board may decide that the convocation letter in respect of a person authorised to attend a General Meeting who agrees thereto, is replaced by a legible and reproducible message sent by electronic mail to the address indicated by him to the Company for such purpose.

25.3. The notice shall state the subjects on the agenda or shall inform the persons authorised to attend a General Meeting that they may inspect the agenda at the office of the Company and that copies thereof are obtainable at such places as are specified in the notice.

25.4. A matter, the consideration of which has been requested in writing by one or more holders of shares or depositary receipts for shares, representing solely or jointly at least such part of the issued share capital as required by law, will be placed on the notice convening a meeting or will be announced in the same manner if the Company has received the request not later than on the sixtieth day prior to the day of the meeting.

25.5. The Board shall inform the General Meeting by means of a shareholders' circular or explanatory notes to the agenda of all facts and circumstances relevant to the proposals on the agenda.

25.6. Written requests as referred to in article 24 and this article 25 paragraph 4, may not be submitted electronically. Written requests as referred to in article 24 and this article 25 paragraph 4 shall comply with conditions stipulated by the Board, which conditions shall be posted on the Company's website.

Article 26.

26.1. The persons who are entitled to attend the meeting are persons who:

(i) are a shareholder or a person who is otherwise entitled to attend the meeting as per a certain date, determined by the Board, such date hereinafter referred to as: the "record date",

(ii) who are as such registered in a register (or one or more parts thereof) designated thereto by the Board, hereinafter referred to as: the "register", and

(iii) who have given notice in writing to the Company prior to a date set in the notice to attend a General Meeting,

regardless of who will be shareholder or holder of depositary receipts at the time of the meeting. The notice will contain the name and the number of shares the person will represent in the meeting. The provision above under (iii) concerning the notice to the Company also applies to the proxy holder of a person authorised to attend a General Meeting.

26.2. The Board may decide that persons entitled to attend shareholders' meetings and vote thereat may, within a period prior to the shareholders' meeting to be set by the Board, which period cannot begin prior to the registration date as meant in the previous paragraph, cast their votes electronically in a manner to be decided by the Board. Votes cast in accordance with the previous sentence are equal to votes cast at the meeting.

26.3. The notice of convocation of the meeting will contain the place of meeting and the proceedings for registration.

26.4. The written proxies must be deposited at the office of the Company prior to a date set in the notice of the meeting.

26.5. The Board may decide that the business transacted at a shareholders' meeting can be taken note of by electronic means of communication.

26.6. The Board may decide that each person entitled to attend shareholders' meetings and vote thereat may, either in person or by written proxy, vote at that meeting by electronic means of communication, provided that such person can be identified via the electronic means of communication and furthermore provided that such person can directly take note of the business transacted at the shareholders' meeting concerned. The Board may attach conditions to the use of the electronic means of communication, which conditions shall be announced at the convocation of the shareholders' meeting and shall be posted on the Company's website.

General Meeting. Meeting proceedings and reporting.

Article 27.

27.1. The General Meeting shall be presided by the chairman of the Board or, if he is absent, by one of the other members of the other Non-Executive Directors designated for that purpose by the Board. If no Non-Executive Directors are present at the meeting, the meeting shall be presided by one of the Executive Directors designated for that purpose by the Board.

27.2. The chairman of the meeting shall determine the order of proceedings at the meeting with due observance of the agenda and he may restrict the allotted speaking time or take other measures to ensure orderly progress of the meeting.

27.3. A certificate signed by the chairman of the meeting and the Secretary confirming that the General Meeting has adopted a particular resolution, shall constitute evidence of such resolution vis-à-vis third parties.

27.4. Minutes of the meeting shall be kept by a person to be designated by the chairman of the meeting and shall be confirmed and signed by the chairman of the meeting and the person who has kept the minutes, unless the business transacted at the meeting is officially recorded by a notary.

Article 28.

28.1. Subject to any provision of mandatory law and any higher quorum requirement stipulated by the Articles of Association, the General Meeting can only pass resolutions if at least the majority of the issued and outstanding shares in the Company's capital are present or represented at such General Meeting.
Resolutions proposed to the General Meeting by the Board shall be adopted by a simple majority unless the law or the Articles of Association determine otherwise.
Unless another majority of votes or quorum is required by virtue of the law, all other resolutions shall be adopted by at least a two thirds majority of the votes cast, provided such majority represents at least half of the issued share capital.
For the purpose of this paragraph 28.1, a second meeting referred to in article 120, paragraph 3 of Book 2 Dutch Civil Code cannot be convened.

28.2. The chairman of the meeting determines the method of voting.

28.3. Any and all disputes with regard to voting for which neither the law nor the Articles of Association provide shall be decided by the chairman of the meeting.

28.4. The ruling pronounced by the chairman of the meeting in respect of the outcome of any vote taken at a General Meeting shall be decisive. The same shall apply to the contents of any resolution passed.

Article 29.

29.1. Each share confers the right to cast one vote at the General Meeting.
Blank votes and invalid votes shall be regarded as not having been cast.

29.2. No votes may be cast at the General Meeting in respect of shares which are held by the Company or any of its subsidiaries, nor in respect of shares the depositary receipts for which are held by the Company or by any of its subsidiaries. Usufructuaries and pledgees of shares which belong to the Company or its subsidiaries shall not be excluded from the right to vote if the right of usufruct or pledge was created before the shares concerned were held by the Company or a subsidiary of the Company. The Company or a subsidiary of the Company may not cast votes for shares in respect of which the Company or the subsidiary holds a right of pledge or usufruct.

29.3. For the purpose of determining how many shareholders are voting and are present or represented, or how much of the capital is provided or represented, no account shall be taken of shares in respect whereof the law stipulates that no votes can be cast for them.

Article 30.

30.1. Members of the Board shall have admission to the General Meetings. They shall have an advisory vote at the General Meetings.

30.2. Furthermore, admission shall be given to the persons whose attendance at the meeting is approved by the chairman.

Meetings of holders of shares of a particular class.

Article 31.

31.1. Meetings of holders of shares of a particular class or classes shall be held as frequently and whenever such a meeting is required by virtue or any statutory regulation or any regulation in the Articles of Association.
Meetings as referred to in the previous paragraph may be convoked by the Board, and by one (1) or more shareholders and/or holders of depositary receipts who jointly

represent at least one-tenth of the capital issued and outstanding in shares of the class concerned.

31.2. The provisions of articles 22 and 24 through 30 shall apply mutatis mutandis, provided that paragraphs 1 and 2 of article 26 shall not apply to meetings of holders of preferred shares.

External auditor.

Article 32.

32.1. The General Meeting shall instruct a registered accountant or another expert as referred to in section 2:393, first subsection, of the Dutch Civil Code, both hereinafter also referred to as: the accountant - to audit the annual accounts prepared by the Board, in accordance with section 2:393, subsection 3, of the Dutch Civil Code. If the General Meeting fails to give these instructions, the Board shall be authorized to do so. The accountant shall report on his audit to the Board and shall present the result of his audit in a report.

With due observance of section 2:393 subsection 2 of the Dutch Civil Code, instructions to the accountant may be withdrawn at any time.

32.2. The Board may give instructions to the accountant referred to in paragraph 1 or another accountant at the Company's expense.

Financial year, annual report and annual accounts.

Article 33.

33.1. The financial year of the Company shall coincide with the calendar year.

33.2. Annually, within the term set by law, the Board shall prepare annual accounts.

The annual accounts shall be accompanied by the auditor's certificate referred to in article 32, if the assignment referred to in that article has been given, by the annual report, unless section 2:391 of the Civil Code does not apply to the Company, as well as the other particulars to be added to those documents by virtue of applicable statutory provisions.

The annual accounts shall be signed by all members of the Board if the signature of one or more of them is lacking, this shall be disclosed, stating the reasons thereof.

33.3. The annual accounts drawn up by the Board, the annual report and the other particulars to be added thereto by virtue of applicable statutory provisions shall be open to the inspection of the shareholders and holders of depositary receipts at the office of the Company from the date of notice convoking the General Meeting at which the aforesaid documents shall be dealt with. The Company shall make copies available to the shareholders and holders of depositary receipts free of charge, at their request.

33.4. Insofar as the documents referred to in the preceding paragraph must be made public, any member of the public may inspect these documents and obtain a copy thereof at a charge not exceeding cost. This right shall cease as soon as the documents have been deposited at the office of the trade register.

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.

<u>Interim distributions.</u>

<u>Article 35.</u>

35.1. An interim distribution shall be made to the holders of preferred shares of a specific series, at such conditions as the Board may determine, provided that an interim statement of assets and liabilities shows that the requirement of paragraph 2 of article 34 has been met.

The Board may resolve to make interim distributions to the shareholders or to holders of shares of a particular class if an interim statement of assets and liabilities shows that the requirement of paragraph 2 of article 34 has been met.

35.2. The interim statement of assets and liabilities shall relate to the condition of the assets and liabilities on a date no earlier than the first day of the third month preceding the month in which the resolution to distribute is published. It shall be prepared on the basis of generally acceptable valuation methods. The amounts to be reserved under the law and the Articles of Association shall be included in the statement of assets and liabilities. It shall be signed by the members of the Board. If one or more of their signatures are missing, this absence and the reason for this absence shall be stated.

35.3. In the event that all issued and outstanding shares of one or more series of preferred shares are cancelled against repayment, on the day of such repayment a dividend shall be paid, this dividend to be equal to the premium paid on the share concerned at its issue increased by a distribution to be calculated in accordance with the provisions of paragraph 4 of article 34 and over the period over which until the date of repayment no earlier distribution as referred to in the first sentence of paragraph 4 of article 34 has been made, all this provided that the requirement of paragraph 2 of article 34 has been met as demonstrated by an interim statement of assets and liabilities as referred to in paragraph 2.

<u>Article 36.</u>

36.1. Any proposal for distribution of dividend on common shares and any resolution to distribute an interim dividend on common shares shall immediately be published by the Board in accordance with the regulations of the stock exchange where the common shares are officially listed at the Company's request. The notification shall specify the date when and the place where the dividend shall be payable or - in the case of a proposal for distribution of dividend - is expected to be made payable.

36.2. Dividends shall be payable no later than thirty (30) days after the date when they were declared, unless the body declaring the dividend determines a different date.

36.3. Dividends which have not been claimed upon the expiry of five (5) years and one (1) day after the date when they became payable shall be forfeited to the Company and shall be carried to reserve.

36.4. The Board may determine that distributions on shares shall be made payable either in euro or in another currency.

<u>Amendment of the articles of association. Winding up. Liquidation.</u>

<u>Article 37.</u>

37.1. A resolution to amend the Articles of Association or to wind up the Company may only be adopted at the proposal of the Board.

37.2. On the dissolution of the Company, the liquidation shall be carried out by the Board, unless otherwise resolved by the General Meeting.

37.3. The resolution to dissolve the Company shall also set the remuneration of the liquidators.

37.4. Pending the liquidation the provisions of the Articles of Association shall remain in force to the fullest possible extent.

37.5. The surplus assets of the Company remaining after satisfaction of its debts shall be divided, in accordance with the provisions of section 2:23b of the Dutch Civil Code, as follows:

a. firstly, the holders of the preferred shares series PA shall be paid, if possible, the par value amount of their shares or, if those shares are not fully paid-up, the amount paid thereon, that payment to be increased by an amount equal to the percentage, referred to under b in paragraph 4 of article 34, of the amount called up and paid-up on the preferred shares series PA, calculated over each year or part of a year in the period beginning on the day following the period over which the last dividend on the preferred shares series PA was paid and ending on the day of the distribution, as referred to in this article, made on preferred shares series PA;

b. secondly, the holders of preferred shares series PB shall be paid, to the extent possible, the par value amount of their shares or, if those shares are not fully paid-up, the amount paid thereon, that payment increased by the premium paid on the share concerned at its issue, that payment to be increased by an amount equal to the percentage, referred to under b in paragraph 4 of article 34, on the amounts mentioned there, calculated over each year or part of a year in the period beginning on the day following the period over which the last dividend on those shares was paid and ending on the day of the distribution, as referred to in this article, made on preferred shares series PB.
If the Company's surplus assets are not sufficient to make the distributions as referred to in this sub-paragraph b, these distributions shall be made to the holders of the preferred shares series PB pro rata to the amounts that would be paid if the surplus assets were sufficient for distribution in full;

c. finally, the balance, if any, remaining after the payments referred to under a and b shall be for the benefit of the holders of common shares in proportion to the par value amount of common shares held by each of them.