
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

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 001-35184

FREESCALE SEMICONDUCTOR, LTD.

(Exact name of registrant as specified in its charter)

BERMUDA

(Jurisdiction)

**6501 William Cannon Drive West
Austin, Texas**

(Address of principal executive offices)

98-0522138

(I.R.S. Employer Identification No.)

78735

(Zip Code)

(512) 895-2000

(Registrant's telephone number)

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

Title of each class:

Common Shares, par value \$0.01 per share

Name of each exchange on which registered:

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large Accelerated Filer

☒

Accelerated Filer

☐

Non-Accelerated Filer

☐

(Do not check if a smaller reporting company)

Smaller reporting company

☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting shares held by non-affiliates of the registrant was approximately \$2,559 million as of July 3, 2014 (the last business day of the most recently completed second fiscal quarter based on the closing price as quoted on the New York Stock Exchange on that date). As of February 2, 2015 there were 306,338,331 shares of the registrant's common shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information from the registrant's definitive proxy statement (the "2015 Proxy Statement") for the 2015 Annual General Meeting of Shareholders to be filed on or before April 30, 2015.

Table of Contents

	Page
PART I	
Item 1. Business	<u>3</u>
Item 1A. Risk Factors	<u>14</u>
Item 1B. Unresolved Staff Comments	<u>28</u>
Item 2. Properties	<u>28</u>
Item 3. Legal Proceedings	<u>29</u>
Item 4. Mine Safety Disclosures	<u>30</u>
PART II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	<u>31</u>
Item 6. Selected Financial Data	<u>33</u>
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>35</u>
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	<u>53</u>
Item 8. Financial Statements and Supplementary Data	<u>56</u>
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	<u>103</u>
Item 9A. Controls and Procedures	<u>103</u>
Item 9B. Other Information	<u>103</u>
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	<u>105</u>
Item 11. Executive Compensation	<u>105</u>
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>105</u>
Item 13. Certain Relationships and Related Transactions, and Director Independence	<u>105</u>
Item 14. Principal Accountant Fees and Services	<u>105</u>
PART IV	
Item 15. Exhibits, Financial Statement Schedules	<u>105</u>

PART I

Freescale Semiconductor Ltd. and its wholly-owned subsidiaries are collectively referred to as the “Company,” “Freescale,” “we,” “us” or “our,” as the context requires. Freescale, Coldfire, Kinetis, MagniV, PowerQUICC, QorIQ, QorIQ Qonverge, Qorivva, StarCore, VortiQa and Vybrid are our trademarks and copyrights. Other names used in this Annual Report on Form 10-K are for informational purposes only and may be trademarks of their respective owners. We were incorporated in Bermuda on November 9, 2006.

Item 1: Business

Overview

We are a global leader in microcontrollers and digital networking processors, commonly referred to as embedded processors. Embedded processors are the backbone of electronic systems, providing essential control, intelligence and security, while enhancing performance and power efficiency. We combine our embedded processors with our complementary analog, sensor and radio frequency (RF) devices, as well as a full suite of software and design tools, to provide highly integrated embedded processing solutions that streamline customer development efforts, lower their costs and shorten their time to market.

A number of trends are driving growth in our end markets, including advances in automotive safety and electronics, the expansion of cloud computing, the proliferation of low-power, energy-efficient control devices, the build-out of next generation communications infrastructure, and the Internet of Things (“IoT”), an emerging network of smart devices designed to help make our lives safer and more productive. Our product and strategic focus is to serve the need for increased connectivity and enhanced intelligence critical to fast growing semiconductor applications while keeping the connection secure. Our business is organized around five principal product groups: Microcontrollers, Digital Networking, Automotive MCU, Analog & Sensors, and RF. We provide our customers secure embedded processing solutions along with complementary devices for the automotive, networking, industrial and consumer end markets.

We have a heritage of innovation and product leadership spanning more than 50 years that has resulted in an extensive intellectual property portfolio. We leverage our intellectual property portfolio, deep customer relationships built over many years of close collaboration, extensive suite of software and design tools and technical expertise to introduce innovative new products and platform-level solutions for our target markets. We believe our ability to leverage our intellectual property across product lines and target markets enables us to be early to market with many of our products. As a result, we have established leadership positions in many of our core markets. In 2014, we derived over 80% of our net sales from products where we held the #1 or #2 market positions. For the year ended December 31, 2014, our revenues were \$4.6 billion, compared to \$4.2 billion for the year ended December 31, 2013.

Our Industry

Semiconductor Market Overview

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

Increasing Proliferation of Embedded Processing Solutions

Embedded processors are stand-alone semiconductors that perform dedicated computing functions in electronic systems. They provide the core functionality within electronic systems adding essential control and intelligence, optimizing power usage while lowering system costs and enhancing performance. These products can be programmed to address specific requirements of electronic systems in a wide variety of applications and products. Embedded processing solutions combine an embedded processor, most commonly a microcontroller (MCU), a single or multicore processor (MPU), a digital signal controller (DSC) or a digital signal processor (DSP), with software and various sensors, interfaces, analog, power management, RF and networking capabilities.

The proliferation of embedded processing solutions is being driven in part by IoT applications and the need for increased secure connectivity, superior performance, power efficiency, lower cost and faster time to market. Advances in semiconductor design have resulted in smaller and more energy-efficient embedded processors and solutions that enable design engineers to increase system intelligence and security across a broad and increasing variety of products. Embedded processors are well-suited to meet the demands of these products as they provide an efficient combination of processing capabilities per unit of

energy consumed. Embedded processing solutions enable our customers to offer products with higher performance at competitive costs.

Our Target Markets

Our product groups are focused on four primary markets that we believe are characterized by long-term, attractive growth opportunities and where we enjoy sustained, competitive differentiation through our technology leadership.

	Automotive	Networking	Industrial	Consumer
Key Applications	Driver information systems Safety & chassis Vehicle automation Powertrain & engine management Body & security Radar & vision systems Vehicle networking	Cloud computing & data centers Wired & wireless service-provider infrastructure Enterprise network & security Residential networking & consumer data storage	Building & factory automation Motor control robotics Portable medical devices Consumer appliances & home energy control Smart grid & smart energy meters	Smart mobile devices Electronic gaming Phone & game sensors Consumer wearables Human to machine interface
Growth Drivers	Increasing unit sales of automobiles worldwide Vehicle electrification and automation Government requirements & consumer demands for increased safety, reliability, comfort and efficiency	Rapid growth of smart mobile devices, mobile data Increasing demand for bandwidth, cloud computing IoT Efficient secure digital content creation, distribution and consumption	Increasing secure connectivity Energy efficiency Predictive maintenance automation IoT	Efficient secure digital content creation, distribution & consumption Rapid growth of smart mobile devices Gaming IoT

Automotive Market

Growth in semiconductor sales to the global automotive market relies on global economic trends and growth in semiconductor content per vehicle which is being driven by the proliferation of electronic features throughout the vehicle. Among the highest growth applications are advanced driver assistance systems (ADAS), infotainment (information, convenience and connectivity) and electrified powertrain (hybrid and electric vehicles). Due to the high degree of regulatory scrutiny and safety requirements, the automotive semiconductor market is characterized by stringent qualification processes, zero defect quality processes, functionally safe design architecture, high reliability, extensive design-in timeframes and long product life cycles which results in significant barriers to entry.

Semiconductor content per vehicle continues to increase due to government regulation of safety and emissions, standardization of higher-end options across a greater number of vehicle classes as well as consumer demand for greater fuel efficiency, advanced safety and multimedia applications. Automotive safety features are evolving from passive safety systems to active safety systems with ADAS such as radar and vision systems. Regulatory actions and consumer demand in the developed markets and China drive the increase in applications such as ADAS, electronic stability control and tire pressure monitoring. Semiconductor content is also increasing in engine management and fuel economy applications, comfort and convenience systems and user interface applications. In addition, the use of networking in automotive applications continues to increase as various subsystems communicate within the automobile and with external devices and networks. Data integrity and security hardware features for safeguarding memory, communication and system data are also increasing in importance.

Networking Market

Growth in the networking market is driven by strong demand for digital content, ubiquitous access, security, increased enterprise adoption of advanced video communications and the trend towards an increasingly global and mobile workforce. These factors have driven greater adoption of both mobile and fixed Internet services and smart devices, cloud computing environments, Internet Protocol television and online gaming. With the trend toward increasingly media-rich applications such as video sharing sites, social networks, high definition (HD) movie downloads, video conferencing, wireless connectivity and enterprise access, Internet traffic is increasing continuously. We expect growth in network traffic to continue, particularly as more people and devices are being connected with trends like IoT, Internet delivery of video to television and mobile devices and as cost-effective, HD interactive video communications proliferate.

The growth in data traffic is resulting in service providers, enterprises and consumers demanding an increase in the amount of wireless infrastructure, networking and electronic equipment. Providers of wireless infrastructure, networking and storage equipment are introducing new technologies and products with enhanced performance and functionality while reducing design and manufacturing costs. For example, in the wireless infrastructure market, equipment manufacturers are currently supplying carriers with wireless infrastructure equipment based on Long Term Evolution for cellular, or LTE, a specification generally being marketed as “4G” that provides downlink peak rates of at least 100 Mbps and uplink peak rates of at least 50 Mbps,

substantially faster than previous 3G networks. These transitions highlight the need for networking semiconductor providers to deliver higher performance, higher reliability, lower power multicore products along with enabling software, tools and reference designs to accommodate the increase in network usage. Additionally, the rise in business models, such as IT-as-a-Service, rapidly changing software applications and massive scale data centers, drive the need for more networking equipment flexibility and scalability. This increased flexibility and scalability can be more cost effectively achieved through the adoption of technologies such as Software Defined Networking (SDN) and Network Function Virtualization (NFV).

Industrial Market

The industrial market is comprised of a wide variety of diverse submarkets such as IoT connectivity, portable medical devices, home and building automation, smart energy, smart meters, robotics and consumer white goods. Secure IoT connectivity allows a device, such as a sensor or a meter, to capture an event and turn it into meaningful information or action. For example, in a commercial environment a wirelessly connected device can read a low inventory level and communicate that an item needs restocking or it can sense motor vibration that automatically sends a message that a device needs maintenance. The market for medical imaging, diagnostics, therapy and portable remote monitoring equipment is expected to benefit from aging populations in developed economies and the need for portability in emerging markets, which creates demand for precision analog, connectivity and ultra low-power components. In the white goods market, consumer appliances require more sophisticated electronic control systems to reduce resource consumption, such as electricity, water and gas, and to provide a richer user interface through connectivity to other devices and touch or motion controls. The demand for energy efficiency, including the increased adoption of electronic utility metering, also commonly known as smart meters, is driving increased semiconductor demand. These smart meters incorporate semiconductors to enable precision measurement and connectivity with the power grid and home networks. Security and tamper-detection capabilities are also becoming essential features of these IoT solutions.

Consumer Market

Growth in the consumer market is driven by the demand for an assortment of rich media content that is consumed on a variety of mobile devices, gaming equipment and consumer wearables, such as cameras and fitness devices. Microcontrollers address the needs of these consumer devices as they continue to get smaller, more networked and more power efficient. In addition, the application of sensors in consumer devices such as smart watches, fitness bands and sports gear has expanded in support of an increasing demand for active lifestyles. In the gaming market, sensors, microcontrollers and analog devices are enabling new and innovative experiences through controllers that sense and communicate the player's movements and commands at low energy consumption while increasing accuracy. To address and further stimulate consumer demand, electronics manufacturers have continued to drive advances in the security, performance, cost, quality and power consumption of their products and are continuously implementing advanced semiconductor technologies in new generations of electronic devices including application processors, power management and sensors.

Our Competitive Strengths

We possess a number of competitive strengths that we believe allow us to capitalize on growth opportunities in the semiconductor industry including the following:

Global leadership in embedded processing. We have one of the most comprehensive embedded processing portfolios in the industry. We historically have maintained leading global market positions in overall embedded processors and certain complementary devices, including communications processors, automotive MCUs and RF power devices for mobile wireless infrastructure. We have the ability to offer a full suite of embedded processors that range from 8-bit to 64-bit and leverage a mixture of open processor and proprietary architectures including ARM® and Power Architecture® technologies, with a variety of integrated features. We believe that our scale and breadth of products allow us to better serve our customers and maintain the appropriate investment level to continue introducing new products.

Security and integrity solutions. Since introducing security acceleration features in our communication processors 15 years ago, we have been protecting data transmission and storage without sacrificing system performance. Networking has some of the semiconductor industry's most stringent and complex security needs, and we are leveraging our networking security expertise to develop secure, embedded processing solutions for automotive, industrial and consumer IoT applications.

Strong system-level technology and applications expertise. We have deep system-level applications expertise as a result of our long standing customer relationships. Our design tools, reference designs and software and platform solutions allow our customers to efficiently adopt and integrate our products. We believe our unique system-level technology and applications expertise enhance our ability to anticipate industry trends and customer needs. This knowledge enables us to collaborate with our customers during each phase of their product development process, allowing us to be early to market with new, innovative products.

Extensive intellectual property portfolio. We are a technology leader in our industry with a strong track record of innovation dating back more than 50 years. We believe that our \$846 million investment in research and development in 2014,

which represented 18% of our net sales for the year, positions us to continue to grow our business over the long-term. We have a research and development staff of approximately 5,300 employees focusing on embedded processing, system-level solutions and software solutions. We have an extensive intellectual property portfolio that includes over 6,500 patent families covering key technologies used in products within our target markets. A patent family includes all of the equivalent patents and patent applications that protect the same invention across different geographical regions. By leveraging our extensive patent portfolio and intellectual property and continuing to invest in research and development, we are able to efficiently deliver market leading products.

Well-established, collaborative relationships with leading customers. We have established strong relationships with leading customers across our target markets through our highly experienced global sales and field engineering teams. Our close customer relationships have been built on years of collaborative product development and enable us to develop critical expertise regarding our customers' requirements. This system-level expertise, close collaboration with our customers and the mission critical role our products perform in electronic systems have allowed our products to be designed into multiple generations of our customers' products.

Efficient operating model with lean manufacturing base. Our variable and efficient operating model enabled by our lean manufacturing base allows us to operate with greater flexibility and at a competitive cost. We maintain our internal manufacturing capacity to produce the majority of our products that require our differentiated and specialty process technologies and exclusively utilize third party foundry partners for process nodes below 90-nanometers. This enables us to maximize our responsiveness to customer demand and to reduce our investments in manufacturing capacity and process technology.

Experienced and focused senior leadership team. Our president and CEO, Gregg Lowe, has 30 years of experience in the semiconductor industry and has assembled an experienced executive management team. He has focused the Company on growing revenue to gain market share and increasing our gross and operating margins to improve profitability. This strategy includes targeted research and development investment on our core product groups and expanded sales coverage in emerging markets, particularly in China, while efficiently managing costs and expenses.

Our Strategy

Our strategy is to capitalize on the proliferation of embedded processing demand in each of our target markets by leveraging our leading embedded processor technology and complementary analog, sensor and RF devices. We believe our scale, broad technology portfolio, focused research and development investment, differentiated products and close customer relationships position us to grow at rates in excess of those of our target markets. The key elements of this strategy are to:

Focus research and development on solutions that align with the macro trends driving growth in our target markets. We focus our research and development activities on some of the fastest growing applications in our target markets such as driver information systems, automotive automation and safety, vehicle efficiency, next generation wireless infrastructure, cloud computing and data centers, consumer wearables, portable medical devices, consumer appliances and smart devices. We intend to continue to invest in developing innovative embedded processing products and solutions to pursue attractive opportunities in our current markets and in new markets where our solutions improve time to market and reduce development costs for our customers.

Increase our net sales from distribution. Distributors provide us with an effective means of reaching a broader and more globally diversified customer base, particularly in emerging markets. Our distribution partners give us access to a significant number of potential customers. In 2014, we consolidated this network to increase long-term sales growth through increased sales into distribution. We provide training to our distribution partners' field application and sales engineers to provide coverage and support for our products to those distribution partners. We are making more of our products "distribution-ready" by focusing a portion of our research and development investment on products that are specifically tailored toward the distribution channel, such as our Kinetis, QorIQ and Layerscape lines of embedded processors, which incorporate ARM and Power Architecture technologies. Distribution sales to customers serviced exclusively through the distribution channel were approximately 27%, 25% and 23% of our total net sales for the three years ended December 31, 2014, 2013 and 2012, respectively.

Leverage our presence in Asia to drive growth. We believe that we are well positioned to significantly grow in Asian markets given our history in the region. We have established experienced, significant design resources and infrastructure in multiple Asian markets. Additionally, we have opened new sales offices in China over the course of the last two years and have increased resources in multiple markets, including China, Taiwan and Korea, to drive growth in our business. Our expansion across China has contributed to both increased revenue and demand creation across the region and we believe we have sufficient regional resources to continue this momentum.

Drive market share growth through innovative and highly differentiated solutions. We leverage our significant research and development investment, broad and deep customer relationships, intellectual property, system-level expertise and

complementary product portfolio across our target markets. This allows us to increase the rate of introduction of products and solutions in these markets. For example, our 32-bit Kinetis MCU products offer exceptional low-power performance and mixed signal and memory scalability; our QorIQ Qonverge platform of scalable, multimode wireless basestation processors, offer advantages in processing speed and power consumption in the networking market; our Layerscape architecture, the industry's first software-aware, core-agnostic networking multicore architecture, delivers greater efficiency and scale, and leverages our communications processors based on Power Architecture and ARM instruction set architectures; our highly integrated microcontrollers for automotive radar and camera systems enable the trend towards automated driving; our system basis chip products provide unique functional safety capability to enable safe systems for automotive and industrial applications; and our sensor fusion portfolio that includes accelerometers, gyros and pressure sensors programmed with software helps to track motions and enhance human to machine interaction. We intend to continue to leverage our research and development, including our software capabilities, to deliver innovative products and solutions.

Expand gross and operating margins and free cash flow. We continue to execute a plan for margin improvement which encompasses cost reduction, efficiency improvement via increased manufacturing yields, asset utilization, test time reductions, greater pricing efficiency and conversion from gold to copper materials in certain of our manufacturing processes. Given our streamlined manufacturing footprint and our strategy to utilize outsourced manufacturing partners for advanced process technology nodes, we expect to continue efficiently managing our capital expenditures. We believe we are well positioned to achieve improvements in margins and cash flow as we execute on our other margin initiatives.

Improve capital structure. In 2014, we reduced our outstanding indebtedness by more than \$900 million using the combination of proceeds from the issuance of equity and cash generated from operations. Additionally, we have extended our debt maturity profile so that all of our outstanding indebtedness matures in 2020 and beyond, excluding \$35 million of installment payments due annually on our term loans. Subsequent to the end of the fourth quarter of 2014, we announced the redemption of an additional \$250 million of senior notes to occur in February 2015. The combined impact of these transactions will reduce our cash interest expense annually by approximately \$115 million based on current interest rates. Over the course of the last two years and inclusive of the redemption in the first quarter of 2015, we have reduced our annualized cash interest expense by approximately \$190 million and have reduced our weighted average interest rate from 7.4% at December 31, 2012 to 5.3% at December 31, 2014 on a pro forma basis.

Products and Applications

Our key products are embedded processors, which include MCUs, single and multicore MPUs, DSCs, applications processors and wireless-infrastructure processors. We also offer customers a broad portfolio of differentiated semiconductor products that complement our embedded processors, including RF, power management, motor drivers, high voltage actuators, analog, mixed-signal devices and precision sensors. A key element of our strategy is to combine our embedded processors, complementary semiconductor devices and open architecture software to offer highly integrated and secure solutions that are increasingly sought by our customers to simplify their development efforts and shorten their time to market. We have over 1,000 software engineers who work in conjunction with our partners to develop robust design ecosystems for our solutions. These solutions can take various forms including devices which encompass a high level of integration within a single piece of silicon, the combination of several semiconductor devices into a single package or the highly integrated combination of multiple semiconductor devices and software into a subsystem.

Microcontrollers

We have been a provider of MCU solutions for more than 35 years. MCUs integrate all the major components of a computing system onto a single semiconductor device. Typically, this includes a programmable processor core, memory, interface circuitry and other components. MCUs provide the digital logic, or intelligence, for electronic applications, controlling electronic equipment or analyzing sensor inputs. We are a trusted, long-term supplier of MCUs to many of our customers, especially in the automotive and industrial markets. Our products provide the intelligence for many systems, ranging from engine management systems that reduce emissions, improve fuel efficiency and enhance driver performance to consumer appliance control systems that utilize resources such as water and energy more efficiently while increasing cleaning capability. Our portfolio is highly scalable, and coupled with our extensive software and design tools, enables our customers to design-in our products and use our MCUs in the same software environment as their systems change over time, become more complex and demand greater processing capabilities.

Our MCU product portfolio ranges from 8-bit products to higher performance 16-bit and 32-bit products with on-board flash memory. In the automotive market, our Qorivva product line, based on Power Architecture technology, is one of the industry's most powerful MCU developed utilizing 55-nanometer process technology. In the industrial market, we launched our 32-bit Kinetis and Vybrid products for the industrial market and many multi-media applications. We introduced the Kinetis family of 90-nanometer 32-bit MCUs based on the new ARM Cortex[®]-M0+ and M4 processors for the industrial and consumer markets to complement our existing Coldfire solutions. The Kinetis family is one of the most scalable portfolios of MCUs in the industry, featuring hardware and software compatible MCU families that offer exceptional low-power performance, security, mixed signal and memory scalability. Our 16-bit DSCs are primarily used in the consumer appliance market where

they manage motor control and enable quieter and more energy-efficient consumer appliances. Additionally, our highly integrated, mixed signal MagniV product line, enables further system level integration for a wide range of automotive applications, such as window lifts, wipers, instrument clusters and fuel pumps.

Wireless Connectivity

Our wireless connectivity products provide low-power wireless communications functionality for the industrial and consumer markets, focused on devices and applications that utilize a low data rate and require long battery life and secure networking. Our wireless products utilize and support multiple standards and frequencies, including the IEEE standard 802.15.4, which is also the basis for the ZigBee® wireless specification and sub-1 GHz solutions. We offer or integrate this technology with our embedded processors in solutions for medical devices, smart meters and smart energy, consumer appliances, RF remote controls and home automation.

Applications Processors

Applications processors consist of a computing core with embedded memory and special purpose hardware and software for secure multimedia applications such as graphics and video. Our products focus on mobile and home consumer devices, automotive driver information systems and industrial applications that require processing and multimedia capabilities. We provide highly integrated ARM-based i.MX application processors with integrated audio, video and graphics capability that are optimized for low-power and high-performance applications. Our i.MX family of processors is designed in conjunction with a broad suite of additional products including power management solutions, audio codecs, touch sensors and accelerometers to provide full systems solutions across a wide range of operating systems and applications. Our i.MX 6 family of applications processors integrates one, two or four ARM Cortex-A9 cores running up to 1.2 GHz and includes five devices: the single-core i.MX 6Solo and i.MX 6SoloLite, dual-core i.MX 6Dual and i.MX 6DualLite, and quad-core i.MX 6Quad processors. Together, these products provide a family of applications processors featuring software, power and pin compatibility across single, dual and quad core implementations. Software support includes Linux and Android implementations.

Communications Processors

Communications processors are programmable semiconductors that perform tasks related to control and management of digital data, as well as network interfaces. They are designed to handle tasks related to data transmission between nodes within a network, the manipulation of that data upon arrival at its destination and protocol conversion. Our product portfolio includes 32-bit and 64-bit offerings ranging from a single core to 28- and 45-nanometer multicore QorIQ communications processors. For more than 25 years, our communication processors have powered communication networks around the world. Our multicore QorIQ platforms use one or more high-performance 32-bit or 64-bit cores integrated with specific network accelerators, and support a wide range of networking equipment for cloud, enterprise, service provider and residential use. They are also used in various high-performance, general-purpose applications, including enterprise, industrial, military and aerospace systems. Our newest QorIQ product family, the Layerscape architecture (utilizing ARM and Power Architecture microprocessor cores), delivers greater efficiency and scale and targets both conventional network systems as well as newer virtualized networking designs.

A key component to our solutions utilizing communications processors is our ability to offer optimized silicon software that decreases the customer's burden of semiconductor integration into complex systems and allows customization of our products for individual applications. Our historical software acquisitions have provided the foundation for the VortiQa software suite. We continue to invest in the tools, applications and partnerships to create a suite of products built around standard platforms with the flexibility to be configured for specific vertical solutions. These resources are intended to allow us to create simpler, more integrated embedded software development environments to help our customers manage the growing complexity of multicore processors and the tools required to assimilate them into their end products.

Digital Signal Controllers

DSCs are a hybrid that combines the functionality of MCUs and the processing power of DSPs, often with an added set of peripherals. Our DSC families offer optimized solutions for digital power conversion, motor control and many other applications across consumer, industrial and healthcare markets requiring high speed and high resolution capability.

Wireless-Infrastructure Processors

Wireless-infrastructure processors combine communication processors with digital signal processors (DSPs) and specific wireless acceleration technology. DSPs are MPUs that can perform advanced calculations very rapidly on a real-time basis and excel at baseband modem processing. Our portfolio of secure wireless-infrastructure processors targets small cells and macro base stations. These products perform baseband processing and support multiple cellular-network air-interfaces such as LTE-Advanced, TD-LTE, LTE, HSPA+, TD-SCDMA, and CDMA2000K. Used by leading wireless infrastructure original equipment manufacturers (OEMs) worldwide, our broad portfolio of wireless-infrastructure and communications processors satisfy wireless infrastructure requirements.

Analog and Mixed-Signal Products

Our analog and mixed-signal products enable embedded systems with more reliable performance for bridging real world signals to the digital intelligence of embedded processors. Our portfolio features a variety of differentiated products for driving actuators (such as in motors, valves, and lights), switching large currents, regulating power to electronic components in a system, charging and cell balancing batteries, providing power efficient functional safety (self monitoring and redundant failsafe backup) for safety critical applications, and providing precision sense and control interfaces for complex analog systems. The product portfolio includes an array of system-on-a-chip (SoC) solutions integrating significant amounts of digital processing logic in conjunction with sophisticated analog functionality and power analog outputs for system automation and control. The support of high voltage and high current coupled with low-power and high accuracy measurement is a unique value that Freescale brings our customers. An example of how our analog and mixed-signal semiconductors play a differentiating role in key applications includes the highly efficient and safe battery management for hybrid and all-electric vehicles. We introduced the first integrated 77 GHz radar products which enable the convergence of active and passive safety systems in automobiles. Our system basis chip family of processors combines comprehensive functional safety features with efficient power management and low spurious emissions communication transceivers to enable highly integrated safe systems for mission critical automotive and industrial applications. Our precision direct fuel injection drivers improve combustion engine performance and efficiency while reducing fuel emissions. These products are sold into all of our markets, frequently as part of our embedded systems solutions bundled with microcontrollers, as well as specialized components.

Sensors

Sensors serve as a primary interface in embedded systems for advanced human interface and contextual awareness that mimic the human “5 senses” interaction with the external environment. We provide several categories of semiconductor-based environmental and inertial sensors, including pressure, inertial, magnetic and gyroscopic sensors that provide orientation detection, gesture recognition, tilt to scroll functionality and position detection in mobile devices and gaming applications. Within automotive, our inertial sensors enable vehicle stability control and airbag crash detection while our pressure sensors are well-positioned for continued growth in tire pressure monitoring, occupancy detection and engine control. Our smart sensor platforms combine inertial sensors and embedded processors with connectivity and power management supported by a reference software toolset for ease of design-in. This level of integration in a small package footprint enables contextual based processing and decision intelligence for IoT big data management.

Radio Frequency Devices

We have an extensive portfolio of high-power RF transistors serving the wireless infrastructure market, which has experienced rapid growth as increased mobile data traffic has led to the build-out of next generation wireless basestations in China and other emerging markets. The wireless infrastructure products utilize our latest Airfast RF portfolio and are designed to increase performance, while decreasing costs. The entire RF power portfolio includes solutions from 1 watt to more than 1 kilowatt. Our low-power portfolio provides a broad mix of RF small signal and low-power products ranging from general purpose transistors, gain blocks and signal control products to feature-rich, low noise transistors and high-performance RF integrated circuits. Beyond this, we are leveraging our leadership in the wireless infrastructure market into adjacent power transistor markets, such as lasers, avionics, mobile radio and military.

The following table exhibits our principal products, as summarized in greater detail above, and provides an indication of the key applications into which they are incorporated.

<i>Principal Products</i>	<i>Key Applications</i>
MCUs (Kinetis (ARM Cortex-M), Qorivva (Power Architecture), and proprietary 8-, 16- and 32-bit MCUs and DSCs) Communications processors (Layerscape, QorIQ, PowerQUICC single and multicore 32- and 64-bit processors built on Power Architecture, StarCore, and ARM technologies) RF Devices (next generation Airfast power transistors, power transistors, transistors, receivers, tuners) Applications processors (i.MX and Vybrid 32-bit single and multicore processors built on ARM architecture) Analog and mixed-signal products (system basis chips, auto engine control, stability and braking solutions, battery management, power management & motor control devices, CAN/LIN interface solutions, radar solutions and signal conditioners) Sensors (inertial, pressure, proximity, touch, magnetic) Wireless-infrastructure processors (processors for small cell and macro base stations, including our QorIQ Qonverge products) Wireless connectivity (IEEE 802.15.4 / ZigBee low-power, sub-1 GHz wireless)	- IoT - automotive powertrain & engine management - automotive body & security - automotive safety & chassis - automotive radar, vision & advanced driver assistance - automotive driver information systems - vehicle networking - building & factory automation - smart grid & smart energy appliances - portable medical devices - human-machine interface - consumer appliances & home energy control - smart mobile devices - electronic gaming - phone & game sensors - wired & wireless infrastructure (base stations) - enterprise network & security - wireless small cell base stations - cloud computing & data centers - industrial transportation & aerospace - point of sale equipment

Sales and Marketing

We sell our products directly to OEMs, distributors, original design manufacturers and contract manufacturers. Our global direct sales force is predominantly organized by customer end markets in order to bring dedicated expertise, knowledge and response to our customers. As of December 31, 2014, we had 51 sales offices located in 20 countries that align us with the development efforts of our customers and enable us to respond directly to customer requirements. We also maintain a network of distributors that we believe has the global infrastructure and logistics capabilities to serve a wide and diversified customer base for our products. Our distribution sales network provides an opportunity for us to offer our products and services to a wider array of customers. In 2014, we consolidated this network to increase long-term sales growth through increased sales into distribution. The distribution sales network has significantly expanded the number of resources dedicated to Freescale products. Distribution sales to customers serviced exclusively through the distribution channel were approximately 27%, 25% and 23% of our total net sales for the three years ended December 31, 2014, 2013 and 2012, respectively. The growth in sales into distribution has contributed to the gross margin expansion during 2014. As a result of the consolidation of our global distribution sales network in early 2014, Avnet, Inc. and Arrow Electronics, Inc. each exceeded 10% of our total net sales in 2014. Over the past two years, we have shifted sales resources to align with industry growth in Asian markets, opening new sales offices in China, and increasing resources in Korea and Taiwan. We believe this strategy will allow us to continue to provide for future growth in these markets. In addition, we have increased our participation in online communities which is helping to support sales growth in both China and in distribution.

For each of the last three years, greater than 80% of our products were sold into countries other than the United States. Our net product sales into the Asia-Pacific; Europe, Middle East and Africa (EMEA); Americas and Japan regions represented approximately 54%, 23%, 17% and 6%, respectively, of our net sales in 2014.

Our largest customer, Continental Automotive, represented 14%, 15% and 15% of our total net sales in 2014, 2013 and 2012, respectively.

Research and Development

Our research and development activities are comprised of both product and technology development. Our technology development programs, including software, packaging and process technology, support our product design engineering efforts. With regard to the design function, development of our key intellectual property, combined with third party intellectual property, form the basic building blocks that are integrated together in the form of a SoC which defines our product attributes. Package technology development is focused on meeting performance requirements in the extreme environmental conditions of the automotive market, achieving the high-performance requirements of the networking market and the high-power requirements of the RF market and the affordability required to compete in the consumer market. Specialty process technologies are also designed to provide differentiation and competitive advantage, such as embedded memories (particularly non-volatile), smart power, RF and mixed-signal technologies. We believe that this approach allows us to apply our investments in design and packaging and process technologies across a broad portfolio of products. We have a research and development staff of approximately 5,300 employees focusing on embedded processing, system-level solutions engineering and software solutions, inclusive of over 1,000 software engineers who work with our partners to develop robust design ecosystems for our solutions. Our research and development locations include facilities in Brazil, Canada, China, Czech Republic, France, Germany, India, Israel, Malaysia, Mexico, Romania, Russia, United Kingdom and the United States.

Research and development expense was \$846 million, \$755 million and \$742 million for 2014, 2013 and 2012, respectively and represented 18% of net sales in 2014. In 2015, we anticipate managing overall research and development spending levels near this rate as we invest in solutions that drive growth in our target markets.

Manufacturing

We manufacture our products either at our own facilities or obtain manufacturing services from contract manufacturers. This is intended to scale our supply chain capability as well as allow us to efficiently manage both our supply competitiveness and factory utilization in order to maximize cash flow and minimize the risk associated with changing market conditions. Our internal manufacturing capabilities scale to 200-millimeter wafers and down to 90-nanometer technologies. Due to the increasing costs associated with the development and production of advanced technologies, we outsource the manufacturing of all of our technologies below 90-nanometers. In addition, we have relationships with several wafer foundries and assembly and test subcontractors to provide flexibility and enhance cost effectiveness in meeting our manufacturing needs. The capabilities of our partners span 200-millimeter and 300-millimeter wafer sizes and scale down to 14-nanometer technologies.

Semiconductor manufacturing is comprised of two broad stages: wafer manufacturing, or “front-end,” and assembly and test, or “back-end.” Based on total units produced in 2014, approximately 36% of our front-end manufacturing was outsourced to wafer foundries and approximately 35% of our back-end manufacturing was outsourced to assembly and test subcontractors. Wafer foundry outsourcing will increase as our business requires more asset intensive process technologies and further reductions in geometry.

Our manufacturing operations include our fabrication facilities, assembly and test operations, planning, logistics, quality and technology organizations. We continually evaluate our manufacturing model in order to improve our supply competitiveness, gross margin and cash flows.

We own and operate five manufacturing facilities, of which three are wafer fabrication facilities and two are assembly and test facilities. These facilities are certified to the ISO/TS 16949:2009 international quality standards. This technical specification aligns existing U.S., German, French and Italian automotive quality system standards within the global automotive industry. These operations also are certified to ISO 9001:2008. Our ISO 14001 management systems are designed to meet and exceed regulatory requirements. All of our manufacturing operations are ISO 14001 certified. The following table describes our manufacturing facilities:

Location	Representative Products	Technologies Employed
WAFER FABS		
Oak Hill, Austin, Texas	Power management devices Sensors Drivers RF laterally diffused metal oxide semiconductor (LDMOS) devices RF transceivers / transistors	200 millimeter wafers CMOS, Bipolar CMOS (BiCMOS), Sensors, LDMOS Power CMOS, HDTMOS, 0.25 micron
Chandler, Arizona	MCUs Power management devices	200 millimeter wafers CMOS, Embedded NVM, Power CMOS, 0.25 micron, 0.50 micron
Austin Technology and Manufacturing Center, Austin, Texas	MPUs MCUs Power management devices	200 millimeter wafers Advanced CMOS, SoC Embedded NVM, Power CMOS, 90-nanometer, 0.18 micron
ASSEMBLY & TEST		
Kuala Lumpur, Malaysia	MPUs MCUs Power management devices Analog and mixed-signal devices RF devices Sensors	
Tianjin, China	MPUs MCUs Power management devices Analog and mixed-signal devices Baseband processors	

Our manufacturing processes require many raw materials, such as silicon wafers, mold compound, packaging substrates, wire and various chemicals and gases, and the necessary equipment for manufacturing. We obtain these materials and equipment from a large number of suppliers located throughout the world. These suppliers deliver products to us on a “just-in-time” basis, and we believe that they have sufficient supply to meet our current needs. However, we have experienced certain supply chain constraints in the past, and it is possible that we could experience supply chain constraints in the future due to a sudden worldwide surge in demand or supply chain disruption.

Our technology approach is to leverage multi-functional technical capabilities and innovation to create unique and differentiated products meeting customer requirements for systems and solutions. For our digital products such as DSPs, MPUs, DSCs and MCUs, we use both industry-standard processes and standard processes enhanced by us and our partners. To develop sensors, analog power and RF devices, we use specialized, differentiated internal processes.

Like many global companies, we develop, maintain and actively test plans to respond to external developments that may affect our employees, facilities or business operations. Business continuity is very important to us as we strive to ensure reliability of supply to our customers. TS16949 quality standards and our internal quality standards all require a business continuity plan to effectively return critical business functions to normal in the case of an unplanned event, and our operations are certified to all of these standards. We require our major foundries, assembly and test providers and other suppliers to have a business continuity plan as well. However, in the event that our manufacturing capacity, either internal or through contract manufacturers, is disrupted, we could experience difficulty fulfilling customer orders.

Our business continuity plan covers issues related to continuing operations (for example, continuity of manufacturing and supply to customers), crisis management of our business sites (for example, prevention and recovery from computer, data, hardware and software loss) and information protection. We perform annual risk assessments at each site, reviewing activities, scenarios, risks and actual events and conducting annual test drills. Generally, we maintain multiple sources of supply of high running qualified technologies. We also require our suppliers to maintain business continuity plans.

Competition

The semiconductor industry is highly competitive and characterized by constant and rapid technological change, short product life cycles, significant price erosion and evolving standards. Our competitors range from large, international companies offering a full range of products to smaller companies specializing in narrow markets within the semiconductor industry. The competitive environment is also changing as a result of increased alliances among our competitors and through strategic acquisitions, joint ventures and other alliances. Our competitors may have greater financial, personnel and other resources than we have in a particular market or overall. We expect competition in the markets in which we participate to continue to increase as existing competitors improve or expand their product offerings or as new participants enter our markets. Increased competition may result in reduced profitability and reduced market share. In addition, we could lose market share to new entrants that are able to more quickly adapt to technological changes despite our historical relationships with our customers.

We compete in our different product lines primarily on the basis of technology offered, product features, quality and availability of service, time-to-market, reputation and price. Our ability to develop new products to meet customer requirements and to meet customer delivery schedules are also critical factors. We believe that new products represent the most significant opportunity to overcome the increased competition and pricing pressure inherent in the semiconductor industry.

The majority of the markets in which we compete are mature and include established competitors with substantial experience. Although product life cycles and the degree of complexity varies by end market, our primary competitors generally offer products that have similar breadth, depth and design complexity. Our competitors include Analog Devices Incorporated, Applied Micro Circuits Corporation, Atmel Corporation, Broadcom Corporation, Cavium, Inc., Infineon Technologies AG, Intel Corporation, Marvell Technology Group, Microchip Technology Incorporated, NVIDIA Corporation, NXP Semiconductors N.V., Renesas Electronics Corporation, Spansion Inc., STMicroelectronics and Texas Instruments Incorporated.

Backlog

Our backlog was \$1,009 million at December 31, 2014 compared to \$1,033 million at December 31, 2013. Orders are placed by customers for delivery for up to twelve months in the future, but for purposes of calculating backlog, only orders expected to be fulfilled during the next 13 weeks are reported. An order is removed from backlog only when the product is shipped, the order is canceled or the order is rescheduled beyond the 13-week delivery window used for backlog reporting. In the semiconductor industry, backlog quantities and shipment and delivery schedules under outstanding purchase orders are frequently revised in response to changes in customer needs. While in certain instances, applicable terms of sale limit a customer's ability to cancel, revise or reschedule orders, historically we rarely enforce such limitations. For these reasons, the amount of backlog as of any particular date is not the sole indicator of future results.

Intellectual Property

We depend significantly on patents and other intellectual property rights to protect our products and proprietary design and fabrication processes against infringement or misappropriation by other companies. We rely primarily on patent, copyright, trademark and trade secret laws, as well as on nondisclosure and confidentiality agreements and other methods to protect our proprietary technologies. Protection of our patent portfolio and other intellectual property rights is very important to our operations. We have a broad portfolio of over 6,500 patent families and numerous licenses, covering manufacturing processes, packaging technology, software systems and circuit design. When and if issued, patents are typically valid for 20 years from the date of filing the application. We do not believe that any individual patent, or the expiration thereof, is or would be material to our business.

The laws of certain countries in which we manufacture and design our products do not protect our intellectual property rights to the same extent as the laws of the United States. In the Office of the United States Trade Representative (USTR) annual "Special 301" Report released in April 2014, the adequacy and effectiveness of intellectual property protection in a number of foreign countries were analyzed. The report indicated that particular problems exist in China and India, among others, with respect to intellectual property rights protection, enforcement or market access for persons relying on intellectual property. The USTR report noted that despite signs of progress, serious obstacles to protection of intellectual property rights in China still exist, and in India, the report noted that intellectual property protection and enforcement challenges are growing. No other countries in which we have material operations are named in this report to the "Priority Watch List", and we believe that we have disclosed the differences in intellectual property protections of the countries material to these operations that could have a material negative impact on our business. The absence of consistent intellectual property protection laws and effective enforcement mechanisms makes it difficult to ensure adequate protection for our technologies and other intellectual property rights on a worldwide basis. As a result, it is possible for third parties to use our proprietary information in certain countries without us having the ability to fully enforce our rights in those countries, which could negatively impact our business in a material way. If our patents or trade secrets fail to protect our technology, we could lose some or all of our competitive advantage, which would enable our competitors to offer similar products. Any inability on our part to adequately protect our intellectual property may have a material negative impact on our business, financial condition and results of operations.

We generate revenue from licensing or selling our patents and certain technologies to third parties. Our future intellectual property revenue depends in part on the continued strength of our intellectual property portfolio and enforcement efforts and the sales and financial stability of our licensees; however, the marketplace for intellectual property transactions has been negatively affected by legislative actions and changes in judicial precedence in the U.S. in recent years. In situations where we believe that a third party has infringed on our intellectual property, we enforce our rights through appropriate legal means to the extent that we determine the potential benefits of such actions outweigh any costs involved. The revenue stream associated with intellectual property sales and licensing arrangements is generally high margin and can fluctuate significantly from quarter to quarter. While our intellectual property revenue during 2013 and 2012 significantly exceeded our historical average, we experienced significantly lower levels of intellectual property revenue during 2014 and believe this lower level will persist in future periods.

Environmental Matters

For a discussion of the material effects of compliance with environmental laws, please see the “Environmental Matters” discussion in “Item 3: Legal Proceedings.”

Employees

As of December 31, 2014, we employed approximately 17,300 full-time employees. Our U.S. employees are not represented by labor unions. A portion of our non-U.S. employees are represented by labor unions or work councils. We consider relations with our employees to be satisfactory.

Available Information

The Company’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are filed with the U.S. Securities and Exchange Commission (the “SEC”). Such reports and other information filed or furnished by the Company with the SEC are available free of charge on the Company’s website at <http://investors.freescall.com> as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents of these websites are not incorporated into this filing.

Financial Information about Geographic Areas

Refer to “Item 1A: Risk Factors” below for a discussion of the risks associated with our operations in certain geographic areas and to Note 12 to our accompanying Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for financial information by country.

Item 1A: Risk Factors

Set forth below, and elsewhere in this report and in other documents we file with the SEC, are risks and uncertainties that could cause our actual results to materially differ from the results contemplated. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations.

We operate in the highly cyclical semiconductor industry, which is subject to significant downturns. Failure to adjust our supply chain volume due to changing market conditions or failure to estimate our customers’ demand could adversely affect our results of operations.

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life-cycles and fluctuations in product supply and demand. The industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product cycles of both semiconductor companies’ and their customers’ products and declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, higher inventory levels and accelerated erosion of average selling prices. We have historically experienced adverse effects on our results of operations and cash flows during such downturns and may experience such adverse effects in future downturns. We may not be able to effectively respond to future downturns which could have a material negative impact on our business, financial condition and results of operations. Likewise, demand for our products is subject to considerable fluctuation. If we overestimate demand, we may experience underutilized capacity and excess inventory levels, and we may incur additional costs for labor overtime, capital expenditures and logistical complexities.

We make major decisions, including determining the levels of business that we will seek and accept, production schedules, levels of reliance on contract manufacturing and outsourcing, personnel needs and other resource requirements based on our estimates of future customer requirements. The short-term nature of commitments by many of our customers and the possibility of rapid changes in demand for their products reduces our ability to accurately estimate future customer requirements. Our results of operations could be adversely impacted if we are unable to adjust our supply chain volume to address market fluctuations, including those caused by the seasonal or cyclical nature of the markets in which we operate. The sale of our

products is largely dependent on customers whose industries are subject to seasonal or cyclical trends in the demand for their products. For example, the consumer electronics market is particularly volatile and is subject to seasonality related to the holiday selling season, making demand difficult to forecast. On occasion, customers may require rapid increases in production, which can challenge our resources and reduce margins. During a market upturn, we may not be able to satisfy unexpected customer demand with internal manufacturing resources, purchase sufficient supplies or components or secure sufficient contract manufacturing capacity to meet increasing product demand, which could harm our reputation, prevent us from taking advantage of opportunities and limit net sales growth. In addition, some parts are not readily available from alternate suppliers due to their unique design or the length of time necessary for design work.

In order to secure components for the production of our products, we may continue to enter into non-cancellable purchase commitments with vendors or make advance payments to suppliers, which could reduce our ability to adjust our inventory or expense levels during periods of declining market demand. Prior commitments of this type have resulted in an excess of parts when demand for our products has decreased. Downturns in the semiconductor industry have in the past caused, and may in the future cause, our customers to drastically reduce the amount of products ordered from us. If demand for our products is less than we expect, we may experience excess and obsolete inventories and be forced to incur additional charges. Because certain of our sales, research and development and internal manufacturing overhead expenses are relatively fixed, a reduction in customer demand may decrease our gross margin and operating earnings.

We are highly leveraged. The substantial leverage could adversely affect our ability to raise additional capital to fund our operations or capital expenditures, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under our debt agreements.

We are highly leveraged. As of December 31, 2014, the aggregate outstanding principal amount of our consolidated indebtedness, all of which has been incurred by our indirect subsidiary, Freescale Semiconductor, Inc., a Delaware corporation ("Freescale Inc."), was approximately \$5,595 million, and Freescale Inc. also has an additional \$384 million available for borrowing under a revolving credit facility after taking into account \$16 million in outstanding letters of credit. Historically, Freescale Inc. has been dependent upon the repatriation of earnings from its foreign operations to service this indebtedness. The repatriation of these funds could be subject to delay and potential tax consequences, principally with respect to withholding taxes paid in foreign jurisdictions. We are a guarantor of all of this debt. As a result of numerous refinancing transactions since our acquisition by a consortium of private equity funds, referred to as our "Sponsors," in 2006, our indebtedness currently consists of the senior credit facilities and the senior secured and senior unsecured notes. Freescale Inc. has not defaulted under any of this indebtedness.

This high degree of leverage could have important consequences, including:

- increasing our vulnerability to adverse economic, industry or competitive developments;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on the indebtedness, therefore reducing our ability to use cash flow to fund our operations, capital expenditures and future business opportunities;
- exposing us to the risk of increased interest rates because certain of the borrowings, including borrowings under the senior credit facilities, are at variable rates of interest;
- making it more difficult to satisfy obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the agreements governing the indebtedness;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting our flexibility in planning for, or reacting to, changes in our business or market conditions and placing us at a competitive disadvantage compared to competitors who are less highly leveraged and who therefore, may be able to take advantage of opportunities that our leverage prevents us from pursuing.

At December 31, 2014, our indebtedness included (i) the revolving credit facility with a committed capacity of \$400 million and no amounts outstanding thereunder (without giving effect to \$16 million in outstanding letters of credit), which will be available through February 1, 2019; (ii) \$2,692 million outstanding under a term loan due in 2020; (iii) \$790 million outstanding under a term loan due in 2021; (iv) \$653 million aggregate principal amount outstanding under senior unsecured notes due in 2020; (v) \$500 million aggregate principal amount outstanding under senior secured notes due in 2021 and (vi) \$960 million aggregate principal amount outstanding under senior secured notes due in 2022.

The loss of one or more of our significant customers or a decline in demand from one or more of these customers could have a material negative impact on net sales.

Historically, we have relied on a limited number of customers for a substantial portion of our total sales. Our ten largest end customers, excluding distributors, accounted for approximately 40%, 38% and 39% of our net sales in 2014, 2013 and

2012, respectively. Continental Automotive represented 14%, 15% and 15% of our total net sales in 2014, 2013 and 2012, respectively. As a result of the consolidation of our global distribution sales network in early 2014, Avnet, Inc. and Arrow Electronics, Inc. each represented more than 10% of our total net sales in 2014. Individually, neither distributor comprised more than 10% of our net sales in either 2013 or 2012. The loss of, or a reduction in demand from, one or more of these customers or distributors, either as a result of industry conditions or specific events relating to a particular customer or distributor, could have a material negative impact on our net sales.

We have a history of losses. If net sales do not grow and operational costs increase, we may be unable to achieve or maintain profitability.

We have high interest expense and have historically recorded high amortization expense, and as a result, we have previously incurred net and operating losses. We may not succeed in maintaining profitability on an annual basis and could incur quarterly or annual losses in future periods. In addition, we expect to make significant expenditures related to the development of our products, including research and development and sales and administrative expenses. We may also encounter unforeseen difficulties, complications, product delays and other unknown factors that require additional expenditures. As a result of these increased expenditures, we may have to generate and sustain substantially increased net sales to achieve or maintain profitability. Accordingly, we may not be able to achieve or maintain profitability and we may incur significant losses.

Our gross margin is dependent on a number of factors, including our level of factory utilization and product mix.

Semiconductor manufacturing requires extensive capital investment, leading to high fixed costs, including depreciation expense. Notwithstanding our utilization of third-party contract manufacturers, a majority of our production requirements are met by our own manufacturing facilities. If we are unable to maximize the utilization of our manufacturing facilities, the fixed costs associated with these facilities will not be fully absorbed, resulting in higher average unit costs and lower gross margin. In the past, we have experienced periods where our gross margin declined due to, among other things, reduced factory utilization resulting from reduced customer demand, reduced selling prices, and procurement and production inefficiencies. Market conditions in the future may adversely affect our utilization rates and consequently our future gross margin, and this, in turn, could have a material negative impact on our business, financial condition and results of operations. In addition, increased competition, the existence of product alternatives, a lack of success of our new product introductions, more complex engineering requirements, lower demand and other factors may lead to further price erosion, lower net sales and lower gross margin for us in the future.

Our gross margin is also affected by the mix of our products along with our product group revenues. A change in mix toward lower margin devices could have a material negative impact on our business, financial condition and results of operations.

We face fierce competitive pressures that may cause us to lose market share and harm our financial performance.

The semiconductor industry is highly competitive and characterized by constant and rapid technological change, short product life cycles, significant price erosion and evolving standards. Our growth objectives depend on competitive success and increased market share in our markets. If we fail to keep pace with the rest of the semiconductor industry, we could lose market share in the markets in which we compete. Any such loss in market share could have a material negative impact on our financial condition and results of operations.

Our competitors range from large, international companies offering a full range of products to smaller companies specializing in narrow markets within the semiconductor industry. The competitive environment is also changing as a result of increased alliances among our competitors and through strategic acquisitions, joint ventures and other alliances. Our competitors may have greater financial, personnel and other resources than we have in a particular market or overall. We expect competition in the markets in which we participate to continue to increase as existing competitors improve or expand their product offerings or as new participants enter our markets. Increased competition may result in reduced profitability and reduced market share for Freescale.

Technology and associated manufacturing processes are an important component of our business and growth strategy. If we fail to keep pace with technological advances in our industry and associated manufacturing processes, or if we pursue technologies that do not become commercially accepted, our products may not be as competitive, our customers may not buy our products and our business, financial condition and results of operations may be adversely affected.

We compete in our different product lines primarily on the basis of technology offered, product features, quality and availability of service, time-to-market, product quality, reputation and price. Our ability to develop new products to meet customer requirements and to meet customer delivery schedules are also critical factors. Technologies, standards or manufacturing processes may change during development, potentially rendering our products outdated or uncompetitive before their introduction. Our ability to develop products and related technologies to meet evolving industry requirements and at prices acceptable to our customers are major factors in determining our competitiveness in our target markets. If we are unable to keep pace with technology changes or successfully develop new products, our market share or net sales could decrease and our

business would be adversely affected. In addition, we could lose market share to new entrants that adapt more quickly to technological changes.

We outsource a portion of our manufacturing activities to third-party contract manufacturers. If our production or manufacturing capacity at one of these third-party facilities is delayed, interrupted or eliminated, we may not be able to satisfy customer demand.

We continue to expand our outsourcing arrangements for the manufacture, test and assembly of certain products and components. Based on total units produced in 2014, we outsourced approximately 36% of our wafer fabrication and approximately 35% of our assembly and test to third-party contract manufacturers. Our outsourced wafer fabrication is consolidated with a limited number of suppliers. If production or manufacturing capacity is delayed, reduced or eliminated at one or more of these facilities, the overall manufacturing process could be disrupted, we could have difficulties or delays in fulfilling our customer orders, and our net sales could decline, especially for certain advanced technologies that we are not capable of manufacturing internally. In addition, if a third-party contract manufacturer fails to deliver quality products and components on time and at reasonable prices, we could face these same challenges. As a result, our business, financial condition and results of operations could be adversely affected. Because we outsource the manufacturing of all our products with technologies below 90-nanometers, we rely on third-party contract manufacturers to produce our most technologically advanced products.

To the extent we rely on alliances and third-party design and/or manufacturing relationships, we face the following risks:

- reduced control over delivery schedules and product costs;
- manufacturing costs that are higher than anticipated;
- inability of our manufacturing partners to develop manufacturing methods and technology appropriate for our products and their unwillingness to devote adequate capacity to produce our products;
- decline in product reliability;
- inability to maintain continuing relationships with our suppliers; and
- restricted ability to meet customer demand when faced with product shortages.

In addition, purchasing rather than manufacturing these products may adversely affect our gross margin if the purchase costs of these products become higher than our own manufacturing costs would have been. Our internal manufacturing costs include depreciation and other fixed costs, while prices for products outsourced are based on market conditions. Prices for foundry products also vary depending on capacity utilization rates at our suppliers, quantities demanded, product technology and geometry. Furthermore, these outsourcing costs can vary materially from quarter-to-quarter and, in cases of industry shortages, can increase drastically, negatively impacting our gross margin.

If any of these risks are realized, we could experience an interruption in our supply chain or an increase in costs, which could delay or decrease our net sales or otherwise adversely affect our business, financial condition and results of operations.

The demand for our products depends in large part on continued growth in the industries into which they are sold. A market decline in any of these industries, or a decline in demand for particular products in those industries, could have a material negative impact on our results of operations.

Our growth is dependent, in part, on end-user demand for our customers' products. Our largest end-markets are automotive, networking and industrial, and we also provide products to targeted consumer electronics markets. Industry downturns that adversely affect our customers or their customers, including increases in bankruptcies in relevant industries, could adversely affect end-user demand for our customers' products, which would adversely affect demand for our products.

Growth in demand in the markets we serve has in the past and may in the future fluctuate significantly based on numerous factors, including:

- worldwide automotive production levels along with semiconductor content per vehicle;
- capital spending levels of our networking customers and continuing proliferation of long term evolution, or LTE;
- consumer spending;
- rate of adoption of new or alternative technologies;
- changes in consumer preferences;
- changes in regulation of products and services provided; and
- general economic conditions.

The rate, or extent to which, the industries we serve will grow, if at all, is not guaranteed. In addition, there can be no assurance that particular products within these industries will experience the growth in demand that we expect. The industries we serve could experience slower growth or a decline in demand, which could have a material negative impact on our business, financial condition and results of operations.

The semiconductor industry is characterized by drastic price erosion.

Competition in our core product markets could lead to price erosion, lower net sales growth rates and lower margin in the future. We believe that new products represent the most important opportunity to overcome the increased competition and pricing pressure inherent in the semiconductor industry. Should reductions in our manufacturing costs fail to keep pace with reductions in market prices for the products we sell or if our new products do not achieve adequate profitability, we could experience a material negative impact on our business, financial condition and results of operations. Furthermore, actual growth rates may be less than projected industry growth rates, resulting in spending on process and product development well ahead of market requirements, which could also have a material negative impact on our business, financial condition and results of operations.

In addition, the specific products in which our semiconductors are incorporated may not be successful or may experience price erosion or other competitive factors that affect the prices manufacturers are willing to pay us. One of the results of the rapid innovation that is exhibited by the semiconductor industry is that pricing pressure, especially on products containing older technology, can be intense. In order to profitably supply these products, we must reduce our production costs in line with the lower market prices we can expect to receive per unit. Usually, this must be accomplished through improvements in process technology and production efficiencies. If we cannot advance our process technologies or improve our efficiencies to a degree sufficient to maintain required margin, we will not be able to make a profit from the sale of these products. Moreover, we may not be able to cease production of such products, either due to contractual obligations or for customer relationship reasons, and as a result may incur losses on such products.

Winning business is subject to a competitive selection process that can be lengthy and requires us to incur significant expense even in the case we are not ultimately selected. After we win and begin a product design, a customer may decide then to cancel or change their product plans, which could cause us to generate no sales from a product and adversely affect our results of operations.

We participate in competitive bid selection processes to develop products for use in our customers' products. These selection processes can be lengthy and can require us to incur large design and development expenditures. We may not win the competitive selection process and may never generate any sales despite incurring the major design and development expenditures. Because of the rapid rate of technological change, the failure to win a particular selection process could result in our failure to offer a generation of a product. In addition, the failure to offer a generation of a product to a particular customer could prevent access to that customer for several years. These risks are particularly pronounced in the automotive market, which is characterized by long design cycles. Our failure to win a sufficient number of designs could result in lost sales and negatively impact our competitive position in future selection processes because we may not be perceived as a technology or industry leader, which could have a material negative impact on our business, financial condition and results of operations.

After winning a product design, we may still experience delays in generating sales from our products as a result of the lengthy development and design cycle. In addition, if there is a delay or cancellation of a customer's plans or if our customers fail to successfully market and sell their products, it could adversely affect our financial results, as we may have incurred large expenses and generated no sales.

If we cannot make scheduled payments on our indebtedness, we will be in default under one or more of our debt agreements and, as a result, we would need to take other action to satisfy our obligations or be forced into bankruptcy or liquidation. In addition, we are unable to engage in specified activities if we fail to meet specified ratios under our debt agreements.

Our cash interest expense for the years ended December 31, 2014, 2013 and 2012 was \$337 million, \$471 million and \$500 million, respectively. In addition, Freescale Inc. is also required to repay a portion of the term loans in quarterly installments in aggregate annual amounts of 1% of the initial loan balances, or approximately \$35 million annually. If we cannot make scheduled payments on our indebtedness, we will be in default under one or more of our debt agreements and, as a result, holders of our debt could declare all outstanding principal and interest due and payable and, in the case of our secured debt, foreclose against the assets securing the debt, and we could be forced into bankruptcy or liquidation.

Our ability to make scheduled payments or to refinance our indebtedness depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash flow from operations sufficient to permit us to pay the principal and interest on our indebtedness. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness at unfavorable terms. We may not be able to take any of these actions, and these actions may not be successful or permit us to meet our scheduled debt service obligations. Furthermore, these actions may not be permitted under the terms of our existing or future debt agreements.

We have in the past refinanced Freescale Inc.'s indebtedness by issuing new indebtedness and amending the terms of Freescale Inc.'s senior credit facilities to take advantage of market opportunities to improve our capital structure by extending the maturities of the indebtedness, reducing the total outstanding principal amount of our indebtedness by repaying debt, lowering cash interest expense and increasing flexibility under existing covenants for business planning purposes. The

refinancing activities have not been as a result of any default under those debt agreements. There can be no assurance that Freescale Inc.'s lenders would participate in any future refinancings, agree to any future amendments or certain of Freescale Inc.'s lenders may object to the validity of the terms of any such amendment or refinancing, which may impact the terms and conditions or timing of a refinancing transaction, preclude Freescale Inc. from completing any such transaction or subject Freescale Inc. to significant additional costs.

In the absence of sufficient operating results and resources to service our debt, or appropriate refinancing or amendments thereof, we could face substantial liquidity problems and may be required to dispose of material assets or operations to meet our debt service and other obligations. Our debt agreements restrict our ability to dispose of assets and, even if permitted, we may not be able to consummate any such dispositions, which could result in our inability to meet our debt service obligations. Much of our debt requires, and our future debt may also require, us to repurchase such debt upon an event that would constitute a change of control for the purposes of such debt. We may not be able to meet these repurchase obligations because we may not have sufficient financial resources to do so. Our failure to meet our repurchase obligations upon a change of control would cause a default under the agreements governing our debt.

Freescale Inc. is not subject to any maintenance covenants under its existing debt agreements and is therefore not required to meet any specified ratios on an on-going basis. However, our ability to engage in specified activities is tied to ratios under our debt agreements based on Adjusted EBITDA, in each case subject to certain exceptions. Our subsidiaries are unable to incur any indebtedness under the indentures and specified indebtedness under the existing senior secured credit facilities ("Credit Facility"), pay dividends, make certain investments and make other restricted payments, in each case not otherwise permitted by our debt agreements, unless, after giving effect to the proposed activity, the fixed charge coverage ratio (as defined in the applicable indenture) would be at least 2.00:1 and the senior secured first lien leverage ratio (as defined in the Credit Facility) would be no greater than 4.00:1. Also, our subsidiaries may not incur certain indebtedness in connection with acquisitions unless, prior to and after giving effect to the proposed transaction, the total leverage ratio (as defined in the Credit Facility) is no greater than 6.50:1, except as otherwise permitted by the Credit Facility. In addition, except as otherwise permitted by the applicable debt agreement, we may not designate any subsidiary as unrestricted or engage in certain mergers unless, after giving effect to the proposed transaction, the fixed charge coverage ratio would be at least 2.00:1 or equal to or greater than it was prior to the proposed transaction and the senior secured first lien leverage ratio would be no greater than 4.00:1. We are also unable to have liens on assets securing indebtedness without also securing our outstanding notes unless the consolidated secured debt ratio (as defined in the applicable indenture) would be no greater than 3.25:1 after giving effect to the proposed lien, except as otherwise permitted by the indentures. Accordingly, we believe it is useful to provide the calculation of Adjusted EBITDA to investors for purposes of determining our ability to engage in these activities. Freescale Inc. was in compliance with the covenants under the Credit Facility and the Indentures and met the fixed charge coverage ratio of 2.00:1, the total leverage ratio of 6.50:1 and the senior secured first lien leverage ratio of 4.00:1, but did not meet the consolidated secured debt ratio of 3.25:1. As of December 31, 2014, Freescale Inc.'s total leverage ratio was 4.52:1, senior secured first lien leverage ratio was 3.88:1, the fixed charge coverage ratio was 3.67:1 and the consolidated secured debt ratio was 4.52:1. Accordingly, we are currently restricted from making certain investments and incurring liens on assets securing indebtedness, except as otherwise permitted by the Credit Facility and the Indentures. The fact that we do not meet these ratios does not result in any default under the Credit Facility or the indentures.

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

An increase in prevailing interest rates could adversely affect our financial condition. LIBOR (the interest rate index on which our variable rate debt is based) fluctuates on a regular basis. At December 31, 2014, we had approximately \$3,482 million aggregate principal amount of variable interest rate indebtedness under the senior credit facilities, which is subject to LIBOR floors. Any increased interest expense associated with increases in interest rates affects our cash flow and our ability to service our debt. We have entered into agreements to fix the interest rate on a portion of our variable rate debt beginning in 2016 and continuing through 2018. However, such agreements will not completely protect us from increased interest expense and the counterparties to the agreements may fail to perform. Therefore, if the LIBOR rate exceeds the LIBOR floors on our term loans, our cash interest obligation would increase and could adversely affect our financial condition, results of operations and cash flows. At December 31, 2014, a 100 basis point increase in LIBOR rates from their current levels would result in an increase in our interest expense of \$5 million per year, excluding any benefit from our interest rate swap agreements which are not effective until 2016, as rates would remain below the 1.25% LIBOR floor on our term loans due in 2021.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

The agreements governing our indebtedness contain various covenants that limit our subsidiaries' ability to engage in specified types of transactions. These covenants limit our subsidiaries' ability to, among other things:

- pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;
- incur additional indebtedness or issue certain preferred shares;
- make certain investments;
- sell certain assets;

- create liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- enter into certain transactions with our affiliates.

A breach of any of these covenants could result in a default under one or more of these agreements, including as a result of cross default provisions and, in the case of the revolving credit facility, permit the lenders (or note holders, as applicable) to cease making loans to us. In the event of default under our debt agreements, the lenders could elect to declare all amounts outstanding to be immediately due and payable and, in the case of the revolving credit facility, terminate any commitments to extend further credit. Such actions by the lenders under any one of our debt agreements could cause cross defaults under our other indebtedness. If we were unable to repay amounts due to the lenders under the senior credit facilities or the note holders under the senior secured notes, those lenders could proceed against the collateral granted to them to secure that indebtedness. We have pledged a significant portion of our assets as collateral under the senior credit facilities and senior secured notes. If our lenders and/or note holders, as applicable, accelerate the repayment of borrowings, we may not have sufficient assets to repay our debt obligations.

Despite our high indebtedness level, we and our subsidiaries may be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. Although the agreements governing our outstanding indebtedness contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. In addition, \$384 million is available for borrowing under the revolving credit facility after taking into account \$16 million in outstanding letters of credit.

Our industry is highly capital intensive and, if we are unable to obtain the necessary capital, we may not remain competitive.

To remain competitive, we must constantly improve our facilities and process technologies and carry out extensive research and development, all of which requires investment of significant amounts of capital. This risk is magnified by our high level of indebtedness, which requires us to use a significant portion of our cash flow to service our debt and limits our ability to raise additional capital. If we are unable to generate sufficient cash or raise sufficient capital to meet both our debt service and capital investment requirements, or if we are unable to raise capital on favorable terms when needed, our business, financial condition and results of operations could be materially negatively impacted.

A reduction or disruption in our production capacity or our supplies, or an incorrect forecast, could negatively impact our business.

Our production capacity could be affected by manufacturing problems. Difficulties in the production process could reduce yields or interrupt production, and, as a result of such problems, we may not be able to deliver products on time or in a cost-effective, competitive manner. As the complexity of both our products and our fabrication processes has become more advanced, manufacturing tolerances have been reduced and requirements for precision have become more demanding. In the past, we have experienced delays in delivery and product quality. Our failure to adequately manage our capacity or maintain product quality could have a negative impact on net sales and harm our customer relationships.

Furthermore, we may suffer disruptions in our manufacturing operations, either due to production difficulties such as those described above or as a result of external factors beyond our control. We use highly combustible materials such as silane and hydrogen in our manufacturing processes and are therefore subject to the risk of explosions and fires, which can cause major disruptions to our operations. If operations at a manufacturing facility are interrupted, we may not be able to shift production to other facilities on a timely basis or at all. In addition, certain of our products are only capable of being produced at a single manufacturing facility due to qualification requirements and to the extent that any of these facilities fail to produce these products, this risk will be increased. Even if a transfer is possible, transitioning production of a particular type of semiconductor from one of our facilities to another can take between six to twelve months to accomplish, and in the interim period we would likely suffer extensive or total supply disruption and incur substantial costs. Such an event could have a material negative impact on our business, financial condition and results of operations. We have a concentration of manufacturing operations (including assembly and test) in Asia, primarily in China, Malaysia, Taiwan and Korea, either in our own facilities or in the facilities of third parties. If manufacturing in this region were disrupted, our overall production capacity could be significantly reduced.

Our ability to meet customer demands also depends on our ability to obtain timely and adequate delivery of materials, parts and components from our suppliers. From time to time, suppliers may extend lead times, limit the amounts supplied to us or increase prices due to capacity constraints or other factors. Supply disruptions may also occur due to shortages in critical resources, such as silicon wafers, specialized chemicals or energy or other general supplier disruptions. We have experienced shortages in the past that have adversely affected our operations and we may encounter these problems in the future. In addition, a number of our supplies are obtained from a single source. A reduction or interruption in supplies or a large increase

in the price of one or more supplies could have a material negative impact on our business, financial condition and results of operations.

Our business, financial condition and results of operations could be adversely affected by the political and economic conditions in the countries in which we conduct business and other factors related to our international operations.

We sell our products throughout the world. For each of the last three years, greater than 80% of our products were sold into countries other than the United States. In addition, a majority of our operations and employees are located outside of the United States. Multiple factors relating to our international operations and to particular countries in which we operate could have a material negative impact on our business, financial condition and results of operations. These factors include:

- negative economic developments in economies around the world;
- the instability of international governments, including the threat of war, terrorist attacks or civil unrest;
- adverse changes in laws and governmental policies, especially those affecting trade and investment;
- import or export licensing requirements imposed by governments;
- foreign currency exchange and transfer restrictions;
- differing labor standards and laws;
- differing levels of protection of intellectual property;
- the threat that our operations or property could be subject to nationalization and expropriation;
- varying practices of the regulatory, tax, judicial and administrative bodies in the jurisdictions where we operate;
- increasingly complex foreign and U.S. laws and regulations, including but not limited to anti-corruption laws, such as the Foreign Corrupt Practices Act and the UK Bribery Act and equivalent laws in other jurisdictions, antitrust or competition laws, and data privacy laws, among others;
- pandemics, such as the flu, which may adversely affect our workforce as well as our local suppliers and customers; and
- potentially burdensome taxation and changes in foreign tax laws.

International financial crisis and conflicts may create many economic and political uncertainties that impact the global economy and could negatively impact our operations and demand for our products.

In certain of the countries where we sell our products, effective protections for patents, trademarks, copyrights and trade secrets may be unavailable or limited in nature and scope as compared to the level of protection available in the United States. In addition, as we target increased sales in Asia, differing levels of protection of our intellectual property in Asian countries could have a significant negative impact on our business. The laws, the enforcement of laws or our efforts to obtain and enforce intellectual property protections in any of these jurisdictions may not be sufficient to protect our intellectual property. As a result, we may lose some or all of the competitive advantage we have over our competitors in such countries.

A majority of our products are manufactured in Asia, primarily in China, Malaysia, Taiwan and Korea. Any of the factors set forth above impacting these countries, or any other conflict or uncertainty in these countries, including due to political unrest, public health or safety concerns or natural disasters, could have a material negative impact on our business, financial condition and results of operations. In addition, if the government of any country in which our products are manufactured or sold sets technical standards for products made in or imported into their country that are not widely shared, it may lead certain of our customers to suspend imports of their products into that country, require manufacturers in that country to manufacture products with different technical standards and disrupt cross-border manufacturing partnerships which, in each case, could have a material negative impact on our business, financial condition and results of operations.

We rely on manufacturing capacity located in areas that have been impacted by natural disasters, which could affect the availability of supplies and services to us and our customers. Certain natural disasters, such as coastal flooding, large earthquakes or volcanic eruptions in those or other areas, may negatively impact our business.

We rely on internal manufacturing capacity, wafer fabrication foundries, logistics providers and other suppliers and sub-contractors in areas around the world which have been impacted by natural disasters. If coastal flooding, a large earthquake, volcanic eruption or other natural disaster were to directly damage, destroy or disrupt one of our manufacturing facilities, or those of our providers, subcontractors or third-party wafer fabrication foundries, it could disrupt our operations, cause temporary loss of capacity, delay new production and shipments of existing inventory or result in costly repairs, replacements or other costs, all of which would negatively impact our business, financial condition and results of operations. We may also be forced to move production to another manufacturing facility, which could result in additional production delays and unanticipated costs due to product requalification requirements, required modifications to the new facility to support production or other production challenges resulting from the transition. In addition, a large natural disaster may result in disruptions in our supply chains, including the availability and cost of key raw materials, utilities and equipment and other key services, which could negatively impact our business. Even if we are not directly impacted, such disruptions to our customers could result in

decreased demand for our products, which could negatively impact our net sales and margin. Any prolonged inability to utilize one of our manufacturing facilities, or those of our subcontractors or third-party wafer fabrication foundries, or any disruption in the operations of our logistics providers as a result of fire, natural disaster, unavailability of utilities or otherwise, could have a material negative effect on our business, financial condition and results of operations. The impact of such occurrences depends on the specific geographic circumstances but could be serious, as some of our facilities and our suppliers' facilities are located in geologically unstable locations including China, Malaysia and Taiwan.

For example, our wafer fabrication facility in Sendai, Japan was seriously damaged in 2011 by a 9.0-magnitude earthquake which struck off the coast of Japan near that city. As a result of the significant damage and our previously announced plans to close the facility at the end of 2011, we decided not to reopen the facility following the earthquake. During 2011 and 2012, we incurred asset impairments, inventory charges, employee termination benefits, contract termination and other on-going closure costs associated with earlier than expected closure of our Sendai, Japan facilities.

We may be subject to claims of infringement of third-party intellectual property rights or demands that we license third-party technology, which could impair our freedom to operate or result in significant expense to defend against such claims or obtain a license to such technology.

From time to time, third parties may and do assert against us their patent, copyright, trademark and other intellectual property rights relating to technologies that are important to our business. Any claims that our products or processes infringe these rights (including claims arising through our contractual indemnification of our customers and collaborators), regardless of their merit or resolution, could be costly and may divert the efforts and attention of our management and technical personnel. We may not prevail in such proceedings given the complex technical issues and inherent uncertainties in intellectual property litigation. If such proceedings result in an adverse outcome, we could be required to:

- pay substantial damages (potentially treble damages in the United States, including royalties on sales of our products);
- cease the manufacture, use or sale of the infringing products or processes;
- discontinue the use of the infringing technology;
- expend significant resources to develop non-infringing technology;
- license technology from the third party claiming infringement, which license may not be available on commercially reasonable terms or may not be available at all;
- comply with the terms of import restrictions imposed by the International Trade Commission (ITC), or similar administrative or regulatory authority; or
- forgo the opportunity to license our technology to others or to collect royalty payments based upon successful protection and assertion of our intellectual property against others.

Any of the foregoing could affect our ability to compete or otherwise have a material negative impact on our business, financial condition and results of operations.

We depend heavily on intellectual property rights to protect our technologies and products.

We depend heavily on patents and other intellectual property rights to protect our products and proprietary design and fabrication processes against infringement or misappropriation by others and to ensure that we have the ability to generate royalty and other licensing revenue. We rely primarily on patent, copyright, trademark and trade secret laws, as well as on nondisclosure and confidentiality agreements and other methods, to protect our proprietary technologies. Protection of our patent portfolio and other intellectual property rights is very important to our operations. We have a broad portfolio of over 6,500 patent families and numerous licenses, covering manufacturing processes, packaging technology, software systems and circuit design. A patent family includes all of the equivalent patents and patent applications that protect the same invention, covering different geographical regions. We cannot ensure that any of our currently filed or future patent applications will result in issued patents, or even if issued, predict the scope of the claims that may result from our patents. We do not believe that any individual patent, or the expiration thereof, is or would be material to our business.

We may not be successful in protecting our intellectual property rights or developing or licensing intellectual property, which may harm our ability to compete and may have a material negative impact on our results of operations.

We generate revenue from licensing or selling our patents and technologies to third parties. Our future intellectual property revenue depends in part on the continued strength of our intellectual property portfolio and enforcement efforts, a healthy marketplace for the transaction of intellectual property rights and the sales and financial stability of our licensees. In the past, we have found it necessary to engage in litigation with other companies to force those companies to execute license agreements with us or prohibit their use of our intellectual property. Some of these proceedings did, and future proceedings may, require us to expend significant resources and to divert the efforts and attention of our management from our business operations. Changes in the laws or judicial precedents of the United States or other countries that make it more difficult to enforce patents or affect the valuation of patents, or the prospect of such changes, could negatively impact revenues from licensing or selling our patents. In connection with our intellectual property:

- the steps we take to prevent misappropriation or infringement of our intellectual property may not be successful;
- our existing or future patents may be challenged, limited, invalidated or circumvented; and
- the measures described above may not provide meaningful protection or meaningful incentive for others to respect our intellectual property rights.

Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our technology without authorization, develop similar technology independently or design around our patents. Our trade secrets may be vulnerable to disclosure or misappropriation by employees, contractors and other persons. Further, we may not obtain patent protection or secure other intellectual property rights in all the countries in which we operate, and under the laws of such countries, enforcement of patents and other intellectual property rights may be unavailable or limited in scope. The laws of certain countries in which we manufacture and design our products do not protect our intellectual property rights to the same extent as the laws of the United States. In the Office of the United States Trade Representative ("USTR") annual "Special 301" Report released on April 2014, the adequacy and effectiveness of intellectual property protection in a number of foreign countries were analyzed. The report indicated that particular problems exist in China and India, among others, with respect to intellectual property rights protection, enforcement or market access for persons relying on intellectual property. The USTR report noted that despite signs of progress serious obstacles to protection of intellectual property rights in China still exist, and in India, the report noted that intellectual property protection and enforcement challenges are growing. No other countries in which we have material operations are named in this report to the "Priority Watch List", and we believe that we have disclosed the differences in intellectual property protections of the countries material to these operations that could have a material negative impact on our business. The absence of consistent intellectual property protection laws and effective enforcement mechanisms makes it difficult to ensure adequate protection for our technologies and other intellectual property rights on a worldwide basis. As a result, it is possible for third parties to use our proprietary information in certain countries without us having the ability to fully enforce our rights in those countries, which could negatively impact our business in a material way. If our patents or trade secrets fail to protect our technology, we could lose some or all of our competitive advantage, which would enable our competitors to offer similar products. Any inability on our part to adequately protect our intellectual property may have a material negative impact on our business, financial condition and results of operations.

We obtain some of the intellectual property we use in our operations through license agreements with third parties. Some of these license agreements contain provisions that may require the licensor's consent to remain in effect after a change of control. If we are unable to obtain any required consents under any license agreements in the event of a change of control, our rights to use intellectual property licensed under those agreements may be at risk. If any license agreements are terminated or expire, we could lose the right to use the subject intellectual property, which could result in a negative impact on our ability to manufacture and sell some of our existing products.

Our financial results are subject to substantial quarterly and annual fluctuations.

Our net sales and financial results have fluctuated in the past and are likely to fluctuate in the future. These fluctuations are due to a number of factors, many of which are beyond our control. These factors include, among others:

- changes in end-user demand for the products manufactured and sold by our customers;
- the timing of receipt, reduction or cancellation of important orders by customers;
- fluctuations in the levels of component inventories held by our customers;
- the gain or loss of significant customers;
- the inventory levels maintained by, performance of and our relationship with our key distributors;
- market acceptance of our products and our customers' products;
- our ability to develop, introduce and market new products and technologies on a timely basis;
- the timing and extent of product development costs;
- new product and technology introductions by competitors;
- fluctuations in manufacturing yields;
- availability and cost of products from our suppliers;
- changes in our product mix, customer mix or levels of intellectual property revenue;
- intellectual property disputes;
- natural disasters, such as floods, hurricanes and earthquakes, as well as interruptions in power supply resulting therefrom or due to other causes;
- loss of key personnel or the shortage of available skilled workers;
- the effects of competitive pricing pressures, including decreases in average selling prices of our products;
- the effects of adverse economic conditions in the U.S. and international markets, including the recent crisis in global credit and financial markets;

- the effectiveness of our efforts to refocus our operations and reduce our cost structure;
- manufacturing, assembly and test capacity;
- costs associated with debt redemption and refinancing activities; and
- our ability to hire, retain and motivate key employees to meet the demands of our customers.

The foregoing factors are difficult to forecast, and these, as well as other factors, could have a material negative impact on our quarterly or annual financial results. In addition, a majority amount of our operating expenses is relatively fixed in nature due to our research and development and manufacturing costs. If we cannot adjust spending quickly enough to compensate, it could have a material negative impact on our business, financial condition and results of operations.

Our products may be subject to product liability and warranty claims, which could be expensive and could divert management's attention.

We make highly complex electronic components and, accordingly, there is a risk that defects may occur in any of our products. Such defects may damage our reputation and can give rise to significant costs, including expenses relating to recalling products, replacing defective items, writing down defective inventory, delays in, cancellations of, rescheduling or return of orders or shipments and loss of potential sales. In addition, the occurrence of such defects may give rise to product liability and warranty claims, including liability for damages caused by such defects. We typically provide warranties on products we manufacture for a period of three years from the date of sale. These warranties typically provide that, on the date of shipment, our products will be free from defects in material and workmanship and will conform to our approved specifications. Subject to certain customary conditions, in the event of a defect, we will either refund the purchase price or repair or replace the product with the same or equivalent product at our cost. If we release defective products into the market, our reputation could suffer and we could lose sales opportunities and become liable to pay damages. Moreover, since the cost of replacing defective semiconductor devices is often much higher than the value of the devices themselves, we may at times face damage claims from customers in excess of our warranty obligations or the amounts they pay us for our products, including consequential damages.

We also face exposure to potential liability resulting from the fact that our customers typically integrate the semiconductors we sell into numerous products, which are then in turn sold into the marketplace. We may be named in product liability claims even if there is no evidence that our products caused a loss. Product liability claims could result in large expenses relating to defense costs or damages awards. In particular, the sale of systems and components for the transportation and medical industries involves a high degree of risk that such claims may be made. In addition, we may be required to participate in a recall if any of our systems prove to be defective, or we may voluntarily initiate a recall or make payments related to such claims as a result of various industry or business practices or in order to maintain good customer relationships. Each of these actions would likely harm our reputation and lead to substantial expense. Any product recall or product liability claim could have a material negative impact on our reputation, business, financial condition and results of operations.

We may be subject to liabilities as a result of personal injury claims based on alleged links between the semiconductor manufacturing process and certain illnesses and birth defects.

There continues to be litigation, media scrutiny and associated reports alleging a link between working in semiconductor manufacturing clean room environments and certain illnesses and birth defects. Because we utilize these clean rooms, we may become subject to liability as a result of current and future claims alleging personal injury. A judgment against us or material defense costs could harm our business, financial condition and results of operations.

We have recorded significant charges for reorganization of business activities in the past and may do so again in the future, which could have a material negative impact on our business.

In the past, we recorded significant cash costs for restructuring and non-cash asset impairment charges relating to our efforts to consolidate manufacturing operations and streamline our global organizational structure. In 2014, 2013 and 2012, we recorded cash and non-cash charges of \$30 million, \$33 million and \$52 million, respectively, in connection with reallocating research and development resources, realigning sales resources along with other activities associated with the implementation of the strategic plan initiated in the fourth quarter of 2012. Due to a combination of the constant and rapid change experienced in the semiconductor industry, we may incur cash costs for employee termination and exit costs and non-cash asset impairment charges in the future and such charges may have a material negative impact on our business, financial condition and results of operations.

From time to time we may also decide to divest product lines and businesses or restructure our operations, including through the contribution of assets to joint ventures. However, our ability to successfully extricate ourselves from product lines and businesses, or to close or consolidate operations, depends on a number of factors, many of which are outside of our control. For example, if we are seeking a buyer for a particular product line, none may be available. In some cases, particularly with respect to our European operations, there may be laws or other legal impediments affecting our ability to carry out such sales or restructuring. As a result, we may be unable to exit a product line or business, or to restructure our operations, in a manner we deem to be advantageous.

We may engage in acquisitions, joint ventures and other transactions intended to complement or expand our business. We may not be able to complete these transactions and, if executed, these transactions could pose major risks and could have a negative effect on our operations.

Our future success may be dependent on opportunities to buy other businesses or technologies or enter into joint ventures that could complement, enhance or expand our current business or products or that we believe might otherwise offer us growth opportunities. If we are unable to identify suitable targets, our growth prospects may suffer, and we may not be able to realize sufficient scale advantages to compete effectively in all markets. In addition, in pursuing acquisitions, we may face competition from other companies in the semiconductor industry. Our ability to acquire targets may also be limited by applicable antitrust laws and other regulations in the United States, the European Union and other jurisdictions in which we do business. To the extent that we are successful in making acquisitions, we may have to expend substantial amounts of cash, incur debt, assume loss-making divisions and incur other types of expenses. We may not be able to complete such transactions for reasons including, but not limited to, a failure to secure financing or as a result of restrictive covenants in our debt agreements. Any transactions that we are able to identify and complete may involve a number of risks, including:

- the diversion of our management's attention from our existing business to integrate the operations and personnel of the acquired or combined business or joint venture;
- negative impacts on our operating results during the integration process; and
- our inability to achieve the intended objectives of the transaction.

In addition, we may not be able to successfully or profitably integrate, operate, maintain and manage our newly acquired operations or employees. We may not be able to maintain uniform standards, controls, procedures and policies, and this may lead to operational inefficiencies.

Loss of our key management and other personnel, an inability to attract key management and other personnel, or an unsuccessful transition of key responsibilities could impact our business.

We depend on our senior executive officers and other key personnel to run our business and on technical experts to develop new products and technologies. Turnover in these positions could adversely affect our operations. Competition for qualified employees among companies that rely heavily on engineering and technology is intense, and the loss of qualified employees or an inability to attract, retain and motivate additional highly skilled employees required for the operation and expansion of our business could hinder our ability to conduct research and development activities successfully and develop marketable products.

Our results of operations could be adversely affected by changes in tax-related matters.

We conduct operations in more than 25 countries worldwide and as a result are subject to taxation and audit by a number of taxing authorities. Tax rates vary among the jurisdictions in which we operate. Changes in tax laws, regulations, and related interpretations in the countries in which we operate may adversely affect our results of operations. Our results of operations could also be affected by market opportunities or decisions we make that cause us to increase or decrease operations in one or more countries, or by changes in applicable tax rates or audits by the taxing authorities in countries in which we operate.

In addition, we are subject to laws and regulations in various jurisdictions that determine how much profit has been earned and when it is subject to taxation in that jurisdiction. Changes in these laws and regulations could affect the locations where we are deemed to earn income, which could in turn adversely affect our results of operations. We have deferred tax assets on our balance sheet. Changes in applicable tax laws and regulations or in our business performance could affect our ability to realize those deferred tax assets, which could also adversely affect our business, financial condition and results of operations.

We currently operate under tax holidays and favorable tax incentives in certain foreign jurisdictions. Such tax holidays and incentives often require us to meet specified employment and investment criteria in such jurisdictions. We cannot ensure that we will continue to meet such criteria or enjoy such tax holidays and incentives, or realize any net tax benefits from these tax holidays or incentives. If any of our tax holidays or incentives are terminated, our results of operations may be materially and negatively impacted.

We are subject to environmental, health and safety laws, which could increase our costs and restrict our operations in the future.

Our operations are subject to a variety of environmental laws and regulations in each of the jurisdictions in which we operate that govern, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. We could incur considerable costs as a result of any failure by us to comply with, or any liability we may incur under, environmental, health and safety laws and regulations, including the limitation or suspension of production, monetary fines or civil or criminal sanctions, clean-up costs or other future liabilities in excess of our reserves. Further, compliance with environmental, health and safety requirements could restrict our ability to expand our facilities or require us to acquire costly pollution control equipment, incur other expenses or modify our manufacturing processes. We also are subject to cleanup obligations at certain properties. In the event of the discovery of new or previously unknown contamination, additional requirements with respect to existing contamination, or the imposition of other cleanup obligations at these or other sites for which we are responsible, we may be required to take

remedial or other measures that could have a material negative impact on our business, financial condition and results of operations. In addition to the costs of complying with environmental, health and safety requirements, we have incurred, are currently incurring, and may in the future incur, costs defending against environmental litigation brought by government agencies and private parties. We have been, are, and may be in the future, defendants in lawsuits brought by parties alleging environmental damage, personal injury or property damage. A significant judgment against us could harm our business, financial condition and results of operations.

We are also subject to laws and regulations governing the recycling of our products, the materials that may be included in our products, and our obligation to dispose of our products at the end of their useful life. For example, the European Directive 2002/95/Ec on restriction of hazardous substances (RoHS Directive) bans placing new electrical and electronic equipment containing more than specified levels of lead and other hazardous compounds on the European Union market. As more countries enact requirements like the RoHS Directive, and as exemptions are phased out, we could incur substantial additional costs to convert the remainder of our portfolio, conduct required research and development, alter manufacturing processes, or adjust supply chain management. Such changes could also result in significant inventory obsolescence.

Breaches or disruptions of our information technology systems could adversely affect our operating results and our reputation.

We may be subject to breaches or disruptions of our information technology systems caused by computer viruses, unauthorized access, sabotage, vandalism, terrorism or system failures. The failure or compromise of our information technology systems could result in a disruption to our manufacturing and other operations, unauthorized release of our, our customers' or our suppliers' confidential or proprietary information, or the release of employee personal data, any of which could adversely affect our operating results and our reputation.

We are a “controlled company” within the meaning of the rules of the New York Stock Exchange (NYSE), and, as a result, we qualify for, and rely on, exemptions from certain corporate governance requirements. Our shareholders do not have the same protections afforded to shareholders of companies that are subject to such requirements.

Our Sponsors control Freescale Holdings L.P., a Cayman Island limited partnership, (“Freescale LP”), which owns approximately 64% of our outstanding common shares. As a result, we are a “controlled company” within the meaning of the corporate governance standards of the NYSE. Under these rules, a listed company of which more than 50% of the voting power is held by an individual, group or another company is a “controlled company” and may elect not to comply with certain corporate governance requirements, including:

- the requirement that a majority of the board of directors consist of independent directors;
- the requirement that the listed company have a nomination and corporate governance committee that is composed entirely of independent directors;
- the requirement that the listed company have a compensation committee that is composed entirely of independent directors; and
- the requirement for an annual performance evaluation of the nomination and corporate governance and compensation committees.

As a controlled company, these exemptions are available to us. Therefore, we do not have a majority of independent directors, our nomination and corporate governance committee and compensation committee do not consist entirely of independent directors and such committees are not required to conduct annual performance evaluations. Accordingly, our shareholders do not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the NYSE.

Our Sponsors control us and may act in a manner that advances their best interests and not necessarily those of other shareholders.

Our Sponsors control a majority of the voting power of our issued and outstanding common shares through their ownership of Freescale LP. In addition, each of our four Sponsors has the contractual right to select two individuals to serve on our Board of Directors (the “Board”). As a result, our Sponsors control our Board and will be able to influence or control all matters requiring approval by our shareholders, including:

- the election of directors;
- mergers, amalgamations, consolidations, takeovers or other business combinations involving us;
- the sale of all or substantially all of our assets and other decisions affecting our capital structure;
- the amendment of our memorandum of association and our bye-laws; and
- our winding up and dissolution.

In addition, we are parties to the shareholders agreement with our Sponsors and Freescale LP that provides, among other things, that for so long as Freescale LP and our Sponsors collectively own, in the aggregate, at least 50% of our outstanding

common shares, certain actions by us or our subsidiaries will require the approval of at least a majority of our Sponsors acting through their respective director designees in addition to any other vote by our Board or shareholders. The actions requiring Sponsor approval include change of control transactions, the acquisition or sale of any asset in excess of \$150 million, the incurrence of indebtedness in excess of \$250 million, making any loan, advance or capital contribution in excess of \$150 million, equity issuances in excess of \$25 million, the approval and registration of equity securities in connection with a public offering, changes in the nature of our or our subsidiaries' business, changes to our jurisdiction of incorporation, hiring or removing the CEO, the commencement or settlement of any litigation over \$50 million and changing the number of directors on the Board.

The contractual rights and significant ownership by the Sponsors may delay, deter or prevent acts that may be favored by our other shareholders, including a change of control of us. The interests of the Sponsors may not always coincide with our interests or the interests of our other shareholders, and the Sponsors may seek to cause us to take courses of action that, in their judgment, could enhance their investment in us, but which might involve risks to our other shareholders or adversely affect us or our other shareholders.

Our Sponsors are also in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. Our Sponsors may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us. So long as our Sponsors, or other funds controlled by or associated with our Sponsors, have these contractual rights or continue to indirectly own a significant amount of our issued and outstanding common shares, even if such amount is less than 50%, our Sponsors will continue to be able to strongly influence or effectively control our decisions.

We are a Bermuda company and it may be difficult for you to enforce judgments against us or certain of our directors or officers.

We are a Bermuda exempted company. The significance of our being a Bermuda company is that the rights of holders of our common shares will be governed by Bermuda law and our memorandum of association and bye-laws. The rights of shareholders under Bermuda law may differ from the rights of shareholders of companies incorporated in other jurisdictions. In addition, one of our directors is not a resident of the United States, and a substantial portion of our assets are located outside the United States. As a result, it may be difficult for investors to effect service of process on such director or any future non-resident directors or officers in the United States or to enforce in the United States judgments obtained in U.S. courts against us or those persons based on the civil liability provisions of the U.S. federal securities laws. Uncertainty exists as to whether courts in Bermuda will enforce judgments obtained in other jurisdictions, including the United States, against us or our directors or officers under the securities laws of those jurisdictions or entertain actions in Bermuda against us or our directors or officers under the securities laws of other jurisdictions. We have been advised by Conyers Dill & Pearman Limited, our special Bermuda counsel, that there is no treaty in effect between the United States and Bermuda providing for enforcement of judgments of U.S. courts and that there are grounds upon which Bermuda courts may not enforce judgments of U.S. courts.

Furthermore, we have been advised by Conyers Dill & Pearman Limited, our special Bermuda counsel, that the Bermuda courts will not recognize or give effect to U.S. federal securities laws that such Bermuda courts consider to be procedural in nature, are revenue or penal laws or the application of which would be inconsistent with public policy in Bermuda. Certain remedies available under the laws of U.S. jurisdictions, including certain remedies under U.S. federal securities laws, will not be recognized or given effect to in any action brought before a court of competent jurisdiction in Bermuda where the application of such remedies would be inconsistent with public policy in Bermuda. Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violations of U.S. federal securities laws because those laws do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law. Shareholders of a Bermuda company may have a cause of action against the company or its directors for breach of any duty in the bye-laws or any shareholder's agreement owed personally by the company to the shareholder. Directors of a Bermuda company may be liable to the company for breach of their duties as directors to that company under the Companies Act 1981, as amended, of Bermuda (the "Companies Act") and at common law. Such actions must, as a general rule, be brought by the company. Where the directors have carried on an act which is ultra vires or illegal, then the shareholder has the right, with leave of the court, to bring a derivative action to sue the directors on behalf of the company with any damages awarded going to the company itself. Shareholders are also able to take action against a company if the affairs of the company are being conducted in a manner which is oppressive or unfairly prejudicial to the shareholders or some number of them and to seek either a winding-up order or an alternative remedy, if a winding-up order would be unfairly prejudicial to them.

Our bye-laws restrict shareholders from bringing legal action against our officers and directors.

Our bye-laws contain a broad waiver by our shareholders of any claim or right of action, both individually and on our behalf, against any of our officers or directors. The waiver applies to any action taken by an officer or director, or the failure of an officer or director to take any action, in the performance of his or her duties, except with respect to any matter involving any

fraud or dishonesty on the part of the officer or director. This waiver limits the right of shareholders to assert claims against our officers and directors unless the act or failure to act involves fraud or dishonesty.

Our bye-laws contain a provision renouncing our interest and expectancy in certain corporate opportunities, which could adversely affect our business or prospects.

Our bye-laws provide that, except as otherwise agreed in writing by the Sponsors and their affiliates and us, (i) each Sponsor shall have the right to, and shall have no duty not to, engage in the same or similar business activities or lines of business as us, including those deemed to be competing with us, and (ii) in the event that a Sponsor or any of its affiliates acquires knowledge of a potential transaction or matter that may be a corporate opportunity for us, the Sponsor shall have no duty (contractual or otherwise) to communicate or present such corporate opportunity to us, unless presented to an employee or agent of the Sponsor in its capacity as one of our directors or officers, and shall not be liable for breach of any duty (contractual or otherwise) by reason of the fact that the Sponsor or any of its affiliates directly or indirectly pursues or acquires such opportunity for itself, directs such opportunity to another person, or does not present such opportunity to us. In addition, the shareholders agreement that we have entered into with our Sponsors and Freescale LP contains substantially identical provisions with respect to corporate opportunities as the provisions in our bye-laws described above. As a result, we may be in competition with our Sponsors or their affiliates, and we may not have knowledge of, or be able to pursue, a transaction that could potentially be beneficial to us. Accordingly, we may lose a corporate opportunity or suffer competitive harm, which could negatively impact our business or prospects.

We have provisions in our bye-laws that may discourage a change of control.

Our bye-laws contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board. These include, among others:

- restrictions on the time period in which directors may be nominated;
- no provision in our bye-laws for cumulative voting in the election of directors, which means that the holders of a majority of the issued and outstanding common shares can elect all the directors standing for election; and
- the ability of our board of directors to determine the powers, preferences and rights of our preference shares and to issue preference shares without shareholder approval.

These provisions could make it more difficult for a third party to acquire us, even if the third party's offer may be considered beneficial by many shareholders. As a result, shareholders may be limited in their ability to obtain a premium for their shares.

We are a holding company and rely on dividends, distributions and other payments, advances and transfers of funds from our subsidiaries to meet our obligations.

We have no direct operations and derive all of our cash flow from our subsidiaries. Because we conduct our operations through our subsidiaries, we depend on those entities for dividends and other payments or distributions to meet our operating needs. Legal and contractual restrictions in any existing and future outstanding indebtedness we or our subsidiaries incur, including the senior credit facilities and the indentures governing Freescale Inc.'s senior notes, may limit our ability to obtain cash from our subsidiaries. The deterioration of the earnings from, or other available assets of, our subsidiaries for any reason could limit or impair their ability to pay dividends or other distributions to us.

Item 1B: Unresolved Staff Comments

Not applicable.

Item 2: Properties

Our principal executive offices are at 6501 William Cannon Drive West, in Austin, Texas. We also operate manufacturing facilities, design centers and sales offices throughout the world. As of December 31, 2014 we owned 9 facilities and leased 70 facilities. Our total square footage consists of approximately eight million square feet, of which approximately 6.2 million square feet is owned and approximately 1.4 million square feet is leased. Our remaining lease terms range from one to eight years. The following table describes our facilities as of December 31, 2014:

Region	Description	Principal Locations	Total Owned Square Footage	Total Leased Square Footage
Americas	3 owned facilities ⁽¹⁾ 18 leased facilities	Austin, Texas Chandler, Arizona Tempe, Arizona	3.8 million	0.7 million
Asia	4 owned facilities 30 leased facilities	Kuala Lumpur, Malaysia Noida, India Tianjin, China	1.5 million	0.4 million
Europe and the Middle East	2 owned facilities 22 leased facilities	Toulouse, France ⁽²⁾ Munich, Germany	0.9 million	0.3 million

(1) Each of our owned facilities in the United States are subject to mortgages under our secured credit facility and secured bonds.

(2) The manufacturing operations at this facility ceased in the third quarter of 2012.

We believe that all of our facilities and equipment are in good condition, are well maintained and are adequate for our present operations.

We have a concentration of manufacturing operations (including assembly and test) in Asia, primarily in China, Malaysia, Taiwan and Korea, either in our own facilities or in the facilities of third parties. If manufacturing in this region were disrupted, our overall production capacity could be significantly reduced. Please refer to "Item 1A: Risk Factors" for a discussion of the risks associated with our operations in this region.

Item 3: Legal Proceedings

Legal Proceedings

We are a defendant in various lawsuits and are subject to various claims which arise in the normal course of business. We record an associated liability when a loss is probable and the amount is reasonably estimable.

From time to time, we are involved in legal proceedings arising in the ordinary course of business, including tort, contractual and customer disputes, claims before the United States Equal Employment Opportunity Commission and other employee grievances, and intellectual property litigation and infringement claims. Under agreements with Motorola, Inc. ("Motorola"), Freescale Inc. must indemnify Motorola for certain liabilities related to our business incurred prior to our separation from Motorola.

The resolution of intellectual property litigation may require us to pay damages for past infringement or to obtain a license under the other party's intellectual property rights that could require one-time license fees or ongoing royalties, require us to make material changes to our products and/or manufacturing processes, require us to cross-license certain of our patents or other intellectual property and/or prohibit us from manufacturing or selling one or more products in certain jurisdictions, which could adversely impact our operating results in future periods. If any of those events were to occur, our business, financial condition and results of operations could be adversely affected.

Environmental Matters

Our operations are subject to a variety of environmental laws and regulations in the United States and other jurisdictions in which we operate that govern, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination, and employee health and safety. As with other companies engaged in similar industries, environmental compliance obligations and liability risks are inherent in many of our manufacturing and other activities. In the United States, certain environmental remediation laws, such as the federal "Superfund" law, can impose the entire cost of site clean-up, regardless of fault, upon any single potentially responsible party, including companies that owned, operated, or sent wastes to a site. Environmental requirements may become more stringent in the future, which could affect our ability to obtain or maintain necessary authorizations and approvals or could result in increased environmental compliance costs. We believe that our operations are in compliance in all material respects with current requirements under applicable environmental laws. Please refer to Note 8, "Commitments and Contingencies," to our accompanying Consolidated Financial Statements for additional information regarding the amounts we have accrued related to our environmental remediation obligations.

Motorola was identified as a potentially responsible party at certain locations in the past, and has been engaged in investigations, administrative proceedings and/or cleanup processes with respect to past chemical releases into the environment. Freescale Inc. agreed to indemnify Motorola for certain environmental liabilities related to its business, including the sites described below. Potential future liability at these or other sites for which we are responsible may adversely affect our results of operations.

52nd Street Facility, Phoenix, AZ. In 1983, a trichloroethane leak from a solvent tank led to the discovery of chlorinated solvents in the groundwater underlying a former Motorola facility located on 52nd Street in Phoenix, Arizona, which resulted in the facility and adjacent areas being placed on the federal National Priorities List of Superfund sites. The 52nd Street site was subsequently divided into three operable units by the Environmental Protection Agency (EPA), which is overseeing site investigations and cleanup actions with the Arizona Department of Environmental Quality (ADEQ). To date, two separate soil cleanup actions have been completed at the first operable unit (“Operable Unit One”), for which Motorola received letters stating that no further action would be required with respect to the soils. We also implemented and are operating a system to treat contaminated groundwater in Operable Unit One and prevent migration of the groundwater from Operable Unit One. In addition, we entered into an agreement with the EPA to test for vapors emanating from the soil in Operable Unit One and in residential areas adjacent to Operable Unit One. We have agreed to undertake certain limited remedial actions in areas where the results of the vapor studies exceeded certain EPA standards. We do not expect the cost of these remedial actions to be material. The EPA has not announced a final remedy for Operable Unit One, and it is therefore possible that costs to be incurred at this operable unit in future periods may vary from our estimates. In relation to the second operable unit (“Operable Unit Two”), the EPA issued a Record of Decision in July 1994, and subsequently issued a Consent Decree, which required Motorola to design a remediation plan targeted at containing and cleaning up solvent groundwater contamination downgradient of Operable Unit One. That remedy is now being implemented by Freescale Inc. and another potentially responsible party pursuant to an administrative order. Of our total reserve for environmental remediation liabilities of \$43 million as of December 31, 2014, approximately 79% was for Operable Unit One and Operable Unit Two. The EPA and ADEQ are currently performing a remedial investigation at the third operable unit (“Operable Unit Three”) to determine the extent of groundwater contamination. A number of additional potentially responsible parties, including Motorola and Freescale, have been identified in relation to Operable Unit Three. Because these investigations are in the early stages, we cannot predict at this time whether or to what extent we may be held liable for cleanup at Operable Unit Three, or whether any such liability would be material. In addition, Maricopa County has filed a third party complaint against Freescale and others, seeking contribution in the event that Maricopa County is held liable for any contamination in an area downgradient of Operable Unit Three (the “West Van Buren Area”). Because these proceedings are in the early stages, we cannot predict at this time whether or to what extent Maricopa County or we may be held liable for cleanup in the West Van Buren Area, or whether any such liability would be material.

Item 4: Mine Safety Disclosures

Not applicable.

PART II

Item 5: Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

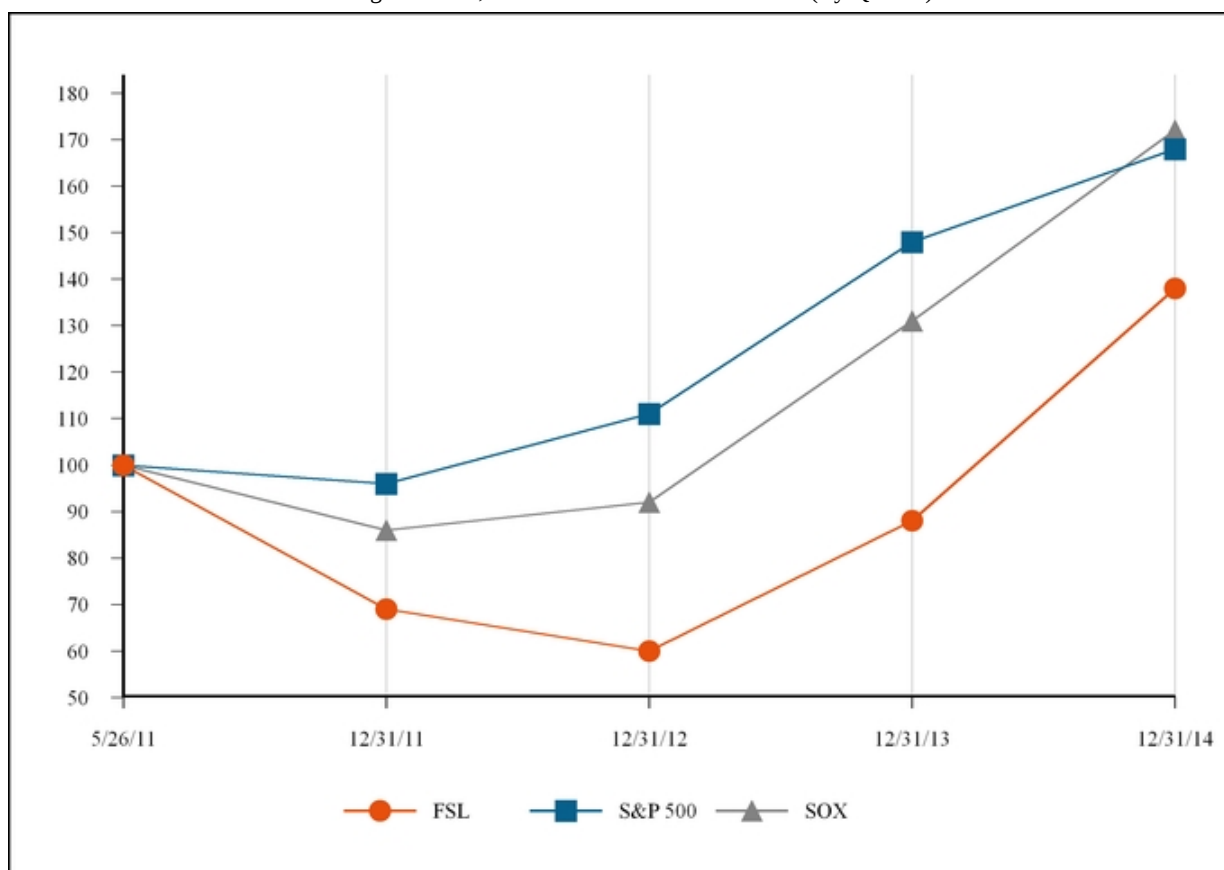
Our common shares have traded on the New York Stock Exchange (NYSE) under the symbol “FSL” since our initial public offering (IPO) on May 26, 2011. Prior to that date, there was no public trading market for our common shares. The following table sets forth, for the periods indicated, the high and low sales prices per share of our common shares, as reported by the NYSE:

	Market Prices	
	High	Low
Year Ended December 31, 2014:		
First Quarter ended April 4, 2014	\$ 26.00	\$ 14.71
Second Quarter ended July 4, 2014	\$ 25.90	\$ 20.81
Third Quarter ended October 3, 2014	\$ 24.49	\$ 18.05
Fourth Quarter ended December 31, 2014	\$ 25.90	\$ 15.29
Year Ended December 31, 2013:		
First Quarter ended March 29, 2013	\$ 16.15	\$ 10.38
Second Quarter ended June 28, 2013	\$ 17.44	\$ 12.35
Third Quarter ended September 27, 2013	\$ 17.44	\$ 13.47
Fourth Quarter ended December 31, 2013	\$ 17.82	\$ 13.95

Share Performance Graph

The graph and table below compare the cumulative total shareholder return of our common shares with the cumulative total return of the S&P 500 Index and the PHLX Semiconductor Sector Index (SOX), an index composed of companies whose primary business is involved in the design, distribution, manufacture and sale of semiconductors, from May 26, 2011 through December 31, 2014. The graph assumes that \$100 was invested on May 26, 2011 in our common shares, and in each index and that any dividends were reinvested. No cash dividends have been declared on our common shares since our IPO.

Comparison of Cumulative Total Return⁽¹⁾
Among Freescale, the S&P 500 Index and the SOX (By Quarter)



Cumulative Total Return⁽¹⁾

Quarter ended	Company/Index		
	FSL	S&P 500	SOX
May 26, 2011	\$100	\$100	\$100
December 31, 2011 ⁽²⁾	\$69	\$96	\$86
December 31, 2012	\$60	\$111	\$92
December 31, 2013	\$88	\$148	\$131
December 31, 2014	\$138	\$168	\$172

(1) The share performance included in this graph and table is not necessarily indicative of future performance.

(2) Last trading day for 2011 was December 30, 2011.

Holders

As of January 29, 2015, there were approximately 15,300 individual shareholders of our common shares.

Dividend Policy

We have not paid cash dividends on our common shares in the last three years. We do not intend to pay cash dividends on our common shares in the foreseeable future. We anticipate that we will retain all of our future earnings, if any, for use in the development and expansion of our business, reducing our debt and for general corporate purposes. In addition, our ability to pay cash dividends on our common shares or to receive distributions or other transfers from our subsidiaries to enable us to pay cash dividends on our common shares is limited by restrictions under the terms of the agreements governing our and our subsidiaries' existing and future outstanding indebtedness, including the Credit Facility and the indentures governing Freescale

Inc.'s notes. Subject to the foregoing, the payment of dividends in the future, if any, will be at the discretion of our board of directors and will depend upon such factors as earnings levels, capital requirements, contractual restrictions, our overall financial condition and any other factors deemed relevant by our board of directors. In addition, pursuant to Bermuda law and our bye-laws, no dividends may be declared or paid if there are reasonable grounds for believing that: (i) we are, or would after the payment be, unable to pay our liabilities as they become due; or (ii) that the realizable value of our assets would thereby be less than our liabilities.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 6: Selected Financial Data

Freescale Semiconductor, Ltd. Five Year Financial Summary						
(in millions, except per share amounts)	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010	
Operating Results						
Net sales	\$ 4,634	\$ 4,186	\$ 3,945	\$ 4,572	\$ 4,458	
Cost of sales	2,509	2,399	2,304	2,677	2,768	
Gross margin	2,125	1,787	1,641	1,895	1,690	
Selling, general and administrative	499	464	438	510	502	
Research and development	846	755	742	797	782	
Amortization expense for acquired intangible assets ⁽¹⁾	15	13	13	232	467	
Reorganization of businesses and other ⁽²⁾	37	24	(15)	82	—	
Operating earnings (loss)	728	531	463	274	(61)	
Loss on extinguishment or modification of long-term debt, net ⁽³⁾	(79)	(217)	(32)	(97)	(417)	
Other expense, net ⁽⁴⁾	(345)	(482)	(531)	(559)	(600)	
Earnings (loss) before income taxes	304	(168)	(100)	(382)	(1,078)	
Income tax expense (benefit)	53	40	2	28	(25)	
Net earnings (loss)	\$ 251	\$ (208)	\$ (102)	\$ (410)	\$ (1,053)	
Net earnings (loss) per share						
Basic	\$ 0.84	\$ (0.81)	\$ (0.41)	\$ (1.82)	\$ (5.35)	
Diluted	\$ 0.83	\$ (0.81)	\$ (0.41)	\$ (1.82)	\$ (5.35)	
Weighted average common shares outstanding⁽⁵⁾						
Basic	298	256	248	226	197	
Diluted	303	256	248	226	197	
Consolidated Balance Sheet Data						
Total cash and cash equivalents	\$ 696	\$ 747	\$ 711	\$ 772	\$ 1,043	
Total assets	\$ 3,275	\$ 3,047	\$ 3,171	\$ 3,415	\$ 4,269	
Total carrying value of debt and capital lease obligations	\$ 5,570	\$ 6,480	\$ 6,381	\$ 6,592	\$ 7,618	
Total shareholders' deficit	\$ (3,581)	\$ (4,594)	\$ (4,531)	\$ (4,480)	\$ (4,934)	

- (1) Relates primarily to the amortization of assets acquired as a part of the Merger, a significant portion of which became fully amortized during 2011. (Refer to Note 1, "Summary of Significant Accounting Policies," and to Note 14, "Supplemental Guarantor Condensed Consolidating Financial Statements," in the accompanying Consolidated Financial Statements for the definition and discussion of the term Merger.)
- (2) Charges in 2014 and 2013 were largely related to continued execution of the change in strategic direction which began in 2012 and on-going closure, decommissioning and demolition costs for our former manufacturing facilities located in Toulouse, France and Sendai, Japan, partially offset by the net proceeds from the sale of certain equipment and property at these sites. Benefits in 2012 were primarily related to insurance recoveries from the 2011 Sendai, Japan earthquake offset by charges related to the hiring of our CEO and the change in our strategic direction. Charges in 2011 were related to the

termination of management agreements with affiliates and advisors of the Sponsors recorded in connection with the IPO and charges related to damage caused by the earthquake; these charges were partially offset by insurance recoveries related to the event. (Refer to Note 10 "Reorganization of Business and Other," in the accompanying Consolidated Financial Statements for further description of charges incurred and benefits received during the three years ended December 31, 2014.)

- (3) Charges related to multiple debt refinancing and redemption transactions occurring over each period and were comprised of call premiums, the write-off of remaining original issue discount and unamortized debt issuance costs along with other charges not eligible for capitalization, as applicable. The charges in 2010 were partially offset by a net gain related to open-market repurchases of Freescale Inc.'s existing notes during the period. (Refer to Note 2, "Other Financial Data," in the accompanying Consolidated Financial Statements for further description of charges incurred during the three years ended December 31, 2014.)
- (4) Primarily reflects interest expense associated with our long-term debt.
- (5) Year ended December 31, 2010 was adjusted for the impact of the reverse stock split accomplished in advance of our 2011 IPO.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following is a discussion and analysis of our results of operations for each of the three years ended December 31, 2014, 2013 and 2012 and our financial condition as of December 31, 2014 and 2013. The following discussion of our results of operations and financial condition should be read in conjunction with our consolidated financial statements and the notes in "Item 8: Financial Statements and Supplementary Data" of this Annual Report on Form 10-K ("Annual Report"). This discussion contains forward looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" in Part I, Item 1A of this Annual Report. Actual results may differ materially from those contained in any forward looking statements. Freescale Semiconductor, Ltd. and its wholly-owned subsidiaries, including Freescale Semiconductor, Inc. ("Freescale Inc."), are collectively referred to as the "Company," "Freescale," "we," "us" or "our," as the context requires.

Our Business. We are a global leader in microcontrollers and digital networking processors, commonly referred to as embedded processors. Embedded processors are the backbone of electronic systems, providing essential control, intelligence and security, while enhancing performance and power efficiency. We combine our embedded processors with our complementary analog, sensor and radio frequency (RF) devices, as well as a full suite of software and design tools, to provide highly integrated embedded processing solutions that streamline customer development efforts, lower their costs and shorten their time to market.

A number of trends are driving growth in our end markets, including advances in automotive safety and electronics, the expansion of cloud computing, the proliferation of low-power, energy-efficient control devices, the build-out of next generation communications infrastructure and the Internet of Things ("IoT"), an emerging network of smart devices designed to help make our lives safer and more productive. Our product and strategic focus is to serve the need for increased connectivity and enhanced intelligence critical to fast growing semiconductor applications while keeping the connection secure. Our business is organized around five principal product groups: Microcontrollers, Digital Networking, Automotive MCU, Analog & Sensors, and RF. We provide our customers with secure embedded processing solutions along with complementary devices for the automotive, networking, industrial and consumer end markets.

We have a heritage of innovation and product leadership spanning over 50 years and an extensive intellectual property portfolio. We leverage our intellectual property portfolio, deep customer relationships built over many years of close collaboration, extensive suite of software and design tools and technical expertise to introduce innovative new products and platform-level solutions for our target markets.

We sell our products to original equipment manufacturers, distributors, original design manufacturers and contract manufacturers through our global sales force. Our ten largest end customers, excluding distributors, accounted for approximately 40%, 38% and 39% of our net sales in 2014, 2013 and 2012, respectively. Continental Automotive represented 14%, 15% and 15% of our total net sales in 2014, 2013 and 2012, respectively. As a result of the consolidation of our global distribution sales network in early 2014, Avnet, Inc. and Arrow Electronics, Inc. each represented more than 10% of our net sales in 2014. Individually, neither distributor comprised more than 10% of our net sales in either 2013 or 2012. For each of the last three years, greater than 80% of our products were sold into countries other than the United States. Our net product sales into the Asia-Pacific; Europe, Middle East and Africa (EMEA); Americas and Japan regions represented approximately 54%, 23%, 17% and 6%, respectively, of our net sales in 2014.

The trend for increased connectivity, security, content and capabilities along with higher performance, power efficiency, lower cost and faster time to market are the primary drivers of the growth of embedded processing solutions in electronic devices. The majority of our net sales is derived from five product groups. Our Microcontrollers product group represented 21%, 20% and 18% of our total net sales in 2014, 2013 and 2012, respectively. MCUs are a self-contained embedded control system with processors, memory and peripherals on a chip. Combined with applications processors, we deliver solutions for automotive, industrial, smart energy, healthcare and multimedia applications while enabling the IoT. Our Digital Networking product group represented 22% of our total net sales in each of 2014, 2013 and 2012. We offer a scalable portfolio of multicore communication processors and wireless-infrastructure processors for the networking and communication markets. Our products provide enhanced intelligence and connectivity to the telecommunications equipment, network infrastructure and general embedded connectivity nodes that enable the IoT. Our Automotive MCU product group represented 26%, 25% and 25% of our total net sales in 2014, 2013 and 2012, respectively. Our Automotive MCUs are developed specifically for the critical performance and quality requirements of the automotive industry. We enable the latest developments in advanced driver assistance systems, infotainment and electrified powertrain. Our Analog & Sensors product group represented 17%, 18% and 18% of our total net sales in 2014, 2013 and 2012, respectively. Our analog, mixed-signal analog and sensor products capture, manage and transmit data from the real-world environment for use in embedded processing applications in the automotive, industrial and consumer markets. These devices complement our MCUs in applications such as robotics, factory automation, automotive radar, braking and airbag control. Our RF product group represented 12%, 8% and 8% of our total net sales in 2014, 2013 and 2012, respectively. We supply RF high-power products into the wireless infrastructure market and are expanding our

portfolio to leverage our RF technology leadership into adjacent power transistor markets, such as lasers, avionics, mobile radio and military. The significant driver behind the increasing RF net sales has been the continued growth of next generation wireless basestation spending, primarily in China.

Conditions Impacting Our Business. Our business results are impacted by demand for electronic content in automobiles, networking and wireless infrastructure equipment, industrial and factory automation and consumer electronic devices. We operate in an industry that is cyclical and subject to technological changes, product obsolescence, price erosion, evolving standards, short product life-cycles, changing customer inventory levels and fluctuations in product supply and demand.

Our total net sales in the fourth quarter of 2014 decreased by \$110 million, or 9%, compared to the third quarter of 2014. The decline in revenue was attributable to lower demand from certain service provider customers, reduced sales into the industrial market, a more than seasonal decline in automotive revenue as our customers managed their year-end inventory levels along with seasonal declines in consumer sales, partially offset by LTE wireless basestation expansion, particularly in China, benefiting RF revenue. Despite the lower revenue level and lower fixed cost leverage as a result of lower utilization, our gross margin increased 90 basis points in the fourth quarter of 2014 as compared to the third quarter of 2014, due primarily to operational efficiencies and procurement savings, lower incentive compensation and the reclassification of our patent costs from Cost of Sales to Selling, General and Administrative expense, which accounted for approximately 40 basis points of the sequential gross margin improvement. Capital expenditures were \$74 million, or 7% of net sales, in the fourth quarter of 2014 and \$63 million, or 5% of net sales, in the third quarter of 2014, reflecting continued capacity increases for our RF products.

Net sales in the near term will depend on general global economic activity and our ability to meet unscheduled or temporary increases in demand in our target markets, among other factors. We anticipate that our total net sales will increase on a sequential basis as compared to the fourth quarter of 2014 due to increased sales into the automotive market along with higher sales of RF products to our wireless infrastructure customers as we continue to make progress to address demand. We expect our gross margin to remain relatively flat into the first quarter as we expect improvements in sales growth, utilization and productivity will be offset by the impact of decreases in average selling prices resulting from our annual negotiations with our customers that will go into effect in the first quarter of 2015, the nonrecurrence of certain purchasing rebates achieved in 2014 and the impact of annual merit increases. For more information on trends and other factors affecting our business, refer to Part I, Item 1A: "Risk Factors" included in our Annual Report.

Capital Restructuring Activities. During the first quarter of 2014, we completed an equity issuance from which we received net proceeds totaling approximately \$717 million, which were used, along with cash on hand, to redeem \$680 million of outstanding indebtedness and pay related call premiums. Also during the first quarter of 2014, Freescale Inc. completed a debt refinancing transaction which extended the maturity of \$347 million of our indebtedness and reduced the interest rate on \$2.7 billion of indebtedness. During the third and fourth quarters of 2014, Freescale Inc. redeemed \$200 million principal amount of outstanding indebtedness. Subsequent to the end of the fourth quarter of 2014, Freescale Inc. delivered notice of redemption of the remaining \$180 million of 8.05% Unsecured Notes and redemption of \$70 million of 10.75% Unsecured Notes to occur in the first quarter of 2015. The combined impact of these transactions will reduce our annualized cash interest expense by approximately \$115 million based on current interest rates. (Refer to Note 4, "Debt," in the accompanying Consolidated Financial Statements and "Liquidity and Capital Resources - Financing Activities" for additional discussion of these transactions.)

Selected Statement of Operations Items

Orders

Orders are placed by customers for delivery for up to as much as twelve months in the future. However, only orders expected to be fulfilled during the 13 weeks following the last day of a quarter are included in orders for that quarter. Orders presented as of the end of a year are the sum of orders for each of the quarters in that fiscal year. Typically, agreements calling for the sale of specific quantities at specific prices are contractually subject to price or quantity revisions and are, as a matter of industry practice, rarely formally enforced. Therefore, most of our orders are cancellable. We track orders because we believe that it provides visibility into our potential future net sales.

Net Sales

Our net sales originate from the sale of our embedded processors and other semiconductor products and the licensing and sale of our intellectual property. The majority of our net sales are derived from our five major product groups: Microcontrollers, Digital Networking, Automotive MCU, Analog & Sensors, and RF. We also derive net sales from "Other" which consists of product sales associated with end markets outside of our target markets, including the cellular market, intellectual property licensing and sales, foundry wafer sales to other semiconductor companies and net sales from sources other than semiconductors. We sell our products primarily through our direct sales force. We also use distributors for a portion of our sales and recognize net sales upon the delivery of our products to the distributors. Distributor net sales are reduced for estimated returns and distributor sales incentives.

Cost of Sales

Cost of sales are costs incurred in providing products and services to our customers. These costs consist primarily of the cost of semiconductor wafers and other materials, the cost of assembly and test operations, shipping and handling costs associated with product sales and provisions for estimated costs related to product warranties (which are made at the time the related sale is recorded based on historic trends).

We currently manufacture the majority of our products internally at our three wafer fabrication facilities and two assembly and test facilities. We track our inventory and cost of sales by using standard costs that are reviewed at least twice a year and are valued at the lower of cost or estimated net realizable value.

Gross Margin

Our gross margin is significantly influenced by the utilization rates in our owned wafer fabrication facilities. Utilization refers only to our wafer fabrication facilities and is based on the capacity of the installed equipment. As utilization rates increase, operating leverage increases because fixed manufacturing costs are spread over higher output. We experienced an increase in our utilization rate to 90% during 2014 compared to 86% during 2013.

Selling, General and Administrative

Selling, general and administrative expenses are costs incurred in the selling and marketing of our products and services to customers, corporate overhead and other operating costs. Selling expenses consist primarily of compensation and associated costs for sales and marketing personnel, costs of advertising, trade shows and corporate marketing. General and administrative expense consists primarily of compensation and associated costs for executive management, finance, legal, human resources, information technology and other administrative personnel, outside professional fees and other corporate expenses.

Research and Development

Research and development expenses are expensed as incurred and include the cost of activities attributable to development and pre-production efforts associated with designing, developing and testing new or significantly enhanced products or process and packaging technology. These costs consist primarily of compensation and associated costs for our engineers engaged in the design and development of our products and technologies, amortization of purchased technology, engineering design development software and hardware tools, depreciation of equipment used in research and development, software to support new products and design environments, project material costs and third-party fees paid to consultants.

Amortization Expense for Acquired Intangible Assets

Amortization expense for acquired intangible assets largely consists of the amortization of assets acquired as a part of the Merger which are being amortized on a straight line basis over their respective estimated useful lives ranging from two to ten years, and which will end in 2016. Additionally, we are recording amortization expense for intangible assets acquired in connection with two business acquisitions completed during 2014. These assets are being amortized over their estimated useful lives ranging from one to three years, ending in 2017. (Refer to Note 1, "Summary of Significant Accounting Policies," and to Note 14, "Supplemental Guarantor Condensed Consolidating Financial Statements," in the accompanying Consolidated Financial Statements for the definition and discussion of the term Merger. Refer to Note 2, "Other Financial Data" for discussion of the acquisition transactions.)

Results of Operations

(in millions, unaudited)	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Orders	\$ 4,662	\$ 4,322	\$ 4,004
Net sales	\$ 4,634	\$ 4,186	\$ 3,945
Cost of sales	2,509	2,399	2,304
Gross margin	2,125	1,787	1,641
Selling, general and administrative	499	464	438
Research and development	846	755	742
Amortization expense for acquired intangible assets	15	13	13
Reorganization of business and other	37	24	(15)
Operating earnings	728	531	463
Loss on extinguishment or modification of long-term debt	(79)	(217)	(32)
Other expense, net	(345)	(482)	(531)
Earnings (loss) before income taxes	304	(168)	(100)
Income tax expense	53	40	2
Net earnings (loss)	\$ 251	\$ (208)	\$ (102)

Percentage of Net Sales

(unaudited)	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Orders	100.6%	103.2%	101.5%
Net sales	100.0%	100.0%	100.0%
Cost of sales	54.1%	57.3%	58.4%
Gross margin	45.9%	42.7%	41.6%
Selling, general and administrative	10.8%	11.1%	11.1%
Research and development	18.3%	18.0%	18.8%
Amortization expense for acquired intangible assets	0.3%	0.3%	0.3%
Reorganization of business and other	0.8%	0.6%	*
Operating earnings	15.7%	12.7%	11.7%
Loss on extinguishment or modification of long-term debt	*	*	*
Other expense, net	*	*	*
Earnings (loss) before income taxes	6.6%	*	*
Income tax expense	1.1%	1.0%	0.1%
Net earnings (loss)	5.4%	*	*
* Not meaningful.			

Net Sales

Our net sales increased by \$448 million, or 11%, and our orders increased by 8% in 2014 compared to 2013 driven by growth across all of our product groups and end markets. This sales growth was partially offset by lower intellectual property revenue and declines in sales of legacy products into the cellular market. Distribution sales to customers serviced exclusively through the distribution channel were approximately 27% of net sales in 2014 compared to 25% of net sales in 2013. Distribution sales increased \$208 million, or 20%, in 2014 compared to 2013. Distribution inventory, in dollars, was 10.0 weeks at December 31, 2014, compared to 9.1 weeks at December 31, 2013. The increase in weeks of distribution inventory was due to lower sales during the fourth quarter of 2014 along with the consolidation of our global distribution network earlier in the year. As a result of the consolidation of our global distribution sales network in early 2014, Avnet, Inc. and Arrow Electronics, Inc. each represented more than 10% of our net sales in 2014.

Our net sales increased by \$241 million, or 6%, and our orders increased 8% in 2013 compared to 2012 driven by growth across all of our product groups with significant growth in the automotive, networking and industrial end markets along with

higher intellectual property revenue. This sales growth was partially offset by declines in sales of legacy products into the cellular market. Distribution sales were approximately 25% of net sales in 2013 and represented an increase of 14% compared to 2012. Distribution inventory, in dollars, was 9.1 weeks at December 31, 2013, compared to 9.7 weeks at December 31, 2012. The decrease in weeks of distribution inventory, as compared to the prior year, was due to our distributors continuing to closely manage their inventory levels.

Net sales by product group for the three and year ended December 31, 2014 and December 31, 2013 were as follows:

(in millions, unaudited)	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Microcontrollers	\$ 951	\$ 826	\$ 707
Digital Networking	1,038	915	852
Automotive MCU	1,186	1,063	986
Analog & Sensors	797	736	722
RF	554	352	303
Other	108	294	375
Total net sales	<u>\$ 4,634</u>	<u>\$ 4,186</u>	<u>\$ 3,945</u>

Microcontrollers

Microcontrollers' net sales increased by \$125 million, or 15%, in 2014 compared to 2013 driven by growth in both microcontrollers and applications processors. The increase in microcontroller revenue was largely due to increasing sales of our 32-bit microcontrollers sold through distribution into several markets including medical and industrial along with strength in sales of legacy products. The increase in applications processors revenue was driven by increased sales both into the worldwide automotive and consumer markets and higher sales through distribution.

Microcontrollers' net sales increased by \$119 million, or 17%, in 2013 compared to 2012 driven by growth in microcontrollers and applications processors. The increase in microcontrollers related to higher sales to original equipment manufacturers, while the increase in applications processors related to increased sales into the automotive market. Additionally, we experienced higher net sales through our distribution channel in all our key geographies.

Digital Networking

Digital Networking's net sales increased by \$123 million, or 13%, in 2014 compared to 2013. Sales growth in both periods was broad-based with higher sales of service provider equipment including wireless basestations in China, general embedded products sold into the distribution channel and next generation enterprise systems. During the fourth quarter of 2014, net sales were impacted by lower demand from certain service provider customers and lower sales into the industrial market.

Digital Networking's net sales increased by \$63 million, or 7%, in 2013 compared to 2012. Sales growth was broad-based with higher sales of next generation enterprise systems, service provider equipment and general embedded products sold into the distribution channel, partially offset by declines in certain legacy equipment sales.

Automotive MCU

Automotive MCU's net sales increased by \$123 million, or 12%, in 2014 compared to 2013. The growth was due to an increase in worldwide automotive production, growth in vehicle semiconductor content along with increased sales into the distribution channel.

Automotive MCU's net sales increased by \$77 million, or 8%, in 2013 compared to 2012. We experienced increased revenue due to higher worldwide automotive production in geographies where we have a significant presence, such as the U.S., China and Europe.

Analog & Sensors

Analog & Sensors' net sales increased by \$61 million, or 8%, during 2014 compared to 2013. Over 85% of our Analog & Sensors sales are into the automotive market. We experienced higher net sales due to growth in the automotive market for both our Analog & Sensor products due primarily to increased semiconductor content driven by fuel efficiency requirements and safety features coupled with an increase in worldwide automotive production.

Analog & Sensors' net sales increased by \$14 million, or 2%, during 2013 compared to 2012. We experienced higher net sales due to growth in the automotive and industrial markets during 2013. Total net sales into the automotive market were partially offset as a result of end of life shipments in 2012 in connection with the closure of our Toulouse, France manufacturing facility.

RF

RF's net sales increased by \$202 million, or 57%, in 2014 compared to 2013 and by \$49 million, or 16%, in 2013 compared to 2012 driven by continued growth in next generation wireless basestation spending, primarily in China. Our RF product group represented 12%, 8% and 8% of our total net sales in 2014, 2013 and 2012, respectively. The growth in RF net sales continues to be impacted by supply constraints associated with demand related to wireless basestation expansion. We are investing in capital and working with suppliers to improve supply in 2015.

Other

Other net sales decreased by \$186 million, or 63%, in 2014 compared to 2013 and by \$81 million, or 22%, in 2013 compared to 2012 primarily due to lower intellectual property revenue in 2014 and decreased cellular product sales throughout 2013 and 2014. As a percentage of net sales, intellectual property revenue was 1%, 5% and 5% in 2014, 2013 and 2012, respectively. Our intellectual property revenue during 2013 and 2012 significantly exceeded our historical average of approximately 3% of net sales and benefited from certain agreements entered into during 2012. The revenue stream attributed to these agreements ended in 2013. Agreements of similar size may not occur in the future, and we expect lower levels of intellectual property revenue to persist.

Gross Margin

Our gross margin increased by \$338 million, or 19%, during 2014 compared to 2013 which was primarily driven by a 11% increase in our net sales. As a percentage of net sales, gross margin was 45.9% in 2014, reflecting an increase of 320 basis points compared to 2013. Improvement in gross margin as a percentage of net sales was largely attributable to procurement savings, operational efficiencies and an increase in utilization of our manufacturing assets, which contributed to improvements in operating leverage of our fixed manufacturing costs and higher revenues. Front-end wafer manufacturing facility utilization improved from 86% during 2013 to 90% during 2014 due to increased demand. The higher level of utilization has impacted our ability to meet customer demand for certain of our products. We expect to make further progress in 2015 to continue to better address RF demand with the installation of additional capacity. We also transitioned personnel from roles focusing on manufacturing cost reduction, factory closure and customer qualification efforts to roles supporting various new product development initiatives, and reclassified a portion of our patent costs from cost of sales to selling, general and administrative expense, both which had a positive impact on the year over year improvement in gross margin. These improvements were partially offset by lower intellectual property revenue, the impact of decreases in average selling prices resulting from our annual negotiations with our customers that went into effect during the first quarter of 2014 along with higher incentive compensation and merit increases.

Our gross margin increased by \$146 million, or 9%, during 2013 compared to 2012 which was primarily driven by a 6% increase in our net sales. As a percentage of net sales, gross margin was 42.7%, reflecting an increase of 110 basis points compared to 2012. Improvement in gross margin as a percentage of net sales was largely attributable to an increase in utilization of our front-end manufacturing assets, which contributed to improvements in operating leverage of our fixed manufacturing costs. Front-end wafer manufacturing facility utilization improved from 77% during 2012 to 86% during 2013 due to increased demand and the transfer of production from our Toulouse, France manufacturing facility to our 200 millimeter manufacturing facilities. Additional factors benefiting gross margin included procurement savings and operational efficiencies. These improvements were partially offset by the impact of decreases in average selling price resulting from our annual negotiations with our customers that went into effect during the first quarter of 2013, adverse changes in product sales mix and higher incentive compensation.

Selling, General and Administrative

Our selling, general and administrative expenses increased by \$35 million, or 8%, in 2014 compared to 2013. This increase was primarily due to higher incentive compensation and additional resources and strategic spend on sales and marketing efforts. Partially offsetting these increases were lower litigation costs in 2014 and the impact of the settlement of intellectual property litigation during 2013. As a percentage of net sales, our selling, general and administrative expenses were relatively flat in 2014 compared to 2013 at approximately 11%.

Our selling, general and administrative expenses increased by \$26 million, or 6%, in 2013 compared to 2012. This increase is primarily the result of higher incentive compensation, settlement of intellectual property litigation and commitments for charitable contributions to the Freescale Foundation, a nonprofit, 501(c)(3) organization we established to support science, technology, engineering and math (STEM) education initiatives. These increases were partially offset by lower marketing spending and the elimination of costs associated with the lease of our corporate aircraft, which we terminated in 2012. As a percentage of net sales, our selling, general and administrative expenses remained flat at 11% in both 2013 and 2012.

Research and Development

Our research and development expenses increased by \$91 million, or 12%, in 2014 compared to 2013. This increase was related to additional investment in our strategic areas and next generation technologies, including the aforementioned personnel move from manufacturing cost reduction activities to roles focusing on new product development initiatives, along with higher

incentive compensation. As a percentage of net sales, our research and development expenses were relatively flat in 2014 compared to 2013 at approximately 18%.

Our research and development expenses increased by \$13 million, or 2%, in 2013 compared to 2012. The increase is related to additional investment in our strategic areas and higher incentive compensation partially offset by cost savings as a result of the employee transitions related to the strategic transformation program implemented in the fourth quarter of 2012. As a percentage of net sales, our research and development expenses were 18% in 2013 reflecting a decrease of 80 basis points compared to 2012.

Amortization Expense for Acquired Intangible Assets

Amortization expense for acquired intangible assets related to tradenames/trademarks, customer relationships and developed technology increased by \$2 million, or 15%, in 2014 as compared to 2013 as a result of incremental amortization associated with two business acquisitions completed during 2014. In connection with these acquisitions, we recorded \$18 million of intangible assets, largely comprised of customer relationships, which will be amortized over periods ranging from one to three years. Amortization expense remained relatively flat in 2013 as compared to 2012 as the majority of the intangible assets established in connection with the Merger had reached a normalized amortization run rate during those periods.

Reorganization of Business and Other

During 2014, we recorded (i) \$8 million in charges related to on-going closure and decommissioning costs for our Toulouse, France manufacturing facility, (ii) \$30 million in net charges primarily related to employee separation costs in connection with the continued execution of the reorganization plan initiated in 2012 (the "Strategic Realignment") and (iii) \$7 million in charges largely related to the write-down of the net book value of certain assets to their fair market values less the expected cost to sell associated with the classification of the assets as available for sale during the year. These charges were partially offset by a net benefit of \$8 million related to the sale of the land at our former manufacturing facility located in Sendai, Japan after accounting for the associated demolition costs. (Refer to Note 10, "Reorganization of Business and Other," in the accompanying Consolidated Financial Statements for more information on the charges discussed in this section.)

During 2013, we recorded \$36 million of charges primarily related to (i) the continued execution of the Strategic Realignment, (ii) exit costs for the consolidation of workspace in both Austin, Texas and Israel, (iii) the write down of specific manufacturing assets to fair value and a related contract termination charge due to the elimination of certain manufacturing processes for some of our next generation products and (iv) charges related to indemnification provisions included in our current CEO's employment agreement. These charges were partially offset by (i) a net benefit of \$7 million associated with our Toulouse, France manufacturing facility, which included a benefit for proceeds received for the sale of certain of our equipment and machinery partially offset by charges related to on-going closure and decommissioning costs for this site and (ii) a net benefit of \$5 million related to the sale of a portion of our former manufacturing facility center located in Sendai, Japan.

In 2012, we recorded a benefit of \$90 million for earthquake-related business interruption insurance recoveries related to our Sendai, Japan fabrication facility, which suffered extensive damage from the March 2011 earthquake. We also recorded a benefit of \$9 million related to proceeds received in connection with the sale of the Sendai, Japan design center. These benefits were partially offset by \$9 million of expenses related to on-going closure costs and other costs associated with the dissolution of the Sendai, Japan entity. Additionally, we recorded benefits totaling \$16 million primarily related to the expiration of contractual obligations associated with the wind down of our cellular handset business and the expiration of indemnification obligations under a contract previously executed outside the ordinary course of business. These benefits were partially offset by charges of \$52 million including a non-cash accelerated amortization charge and cash costs for employee termination benefits and other exit costs recorded in connection with the Strategic Realignment. Additionally we recorded charges of \$39 million primarily for (i) exit costs related to the termination of various supply agreements, on-going closure and decommissioning costs incurred in connection with the closure of our Toulouse, France manufacturing facility, (ii) the change in the executive leadership of the Company and (iii) costs recorded in connection with the termination of our corporate aircraft lease agreement.

Loss on Extinguishment or Modification of Long-Term Debt

During 2014, we recorded charges of \$79 million associated with the redemption of outstanding indebtedness and refinancing transactions. These charges consisted of call premiums, the write-off of unamortized debt issuance costs and original issue discount ("OID") associated with the extinguished debt along with other expenses not eligible for capitalization. (Refer to Note 4, "Debt," in the accompanying Consolidated Financial Statements for further discussion about the transactions discussed in this section.)

During 2013, we recorded charges of \$217 million associated with the redemption of outstanding indebtedness, the extinguishment and modification of existing debt and the issuance of new term loans. These charges consisted of call premiums, the write-off of unamortized debt issuance costs, OID and other expenses not eligible for capitalization.

During 2012, we recorded charges of \$32 million associated with the extinguishment and modification of existing debt, the issuance of a new term loan and the redemption of outstanding indebtedness. These charges consisted of call premiums, the write-off of unamortized debt issuance costs and other costs not eligible for capitalization.

Other Expense, Net

Net interest expense in 2014, 2013 and 2012 included interest expense of \$353 million, \$490 million and \$519 million, respectively, partially offset by interest income of \$10 million, \$7 million and \$9 million, respectively. The decrease in interest expense is due to the reduction in our outstanding indebtedness along with a lower weighted average interest rate over the comparative periods.

As a result of multiple debt refinancing and redemption transactions along with the quarterly term loan amortization payments, we have reduced our outstanding indebtedness by approximately \$790 million and lowered our annualized interest expense by approximately \$170 million, based on current interest rates, since the beginning of 2013, and have reduced our weighted average cash interest rate from 7.4% at December 31, 2012 to 5.4% at December 31, 2014. (Refer to Note 4, "Debt," in the accompanying Consolidated Financial Statements for more discussion of these refinancing and redemption transactions.)

During 2012, we also recorded losses in other, net of \$21 million attributable to the realized results and changes in the fair value associated with our interest rate swap agreements and foreign currency fluctuations.

Income Tax Expense

During 2014, we recorded an income tax provision of \$53 million predominately related to our foreign operations. This income tax provision included income tax expense of \$17 million associated with discrete events largely related to (i) a partial release of a foreign valuation allowance due to realizability of foreign research credits, (ii) the impact of adjustments necessary in connection with tax returns filed during the period, (iii) an increase in the domestic valuation allowance resulting from the deferred tax asset created by the excess tax benefit from share-based awards during the period and (iv) the impact of revaluing deferred tax assets that are expected to qualify for an incentive tax rate. Excluding discrete tax items, income tax expense was \$36 million in 2014. This amount primarily reflects tax expense attributable to income earned in non-U.S. jurisdictions.

In 2013, we recorded an income tax provision of \$40 million, which included a net income tax expense of \$4 million attributable to discrete events related primarily to withholding tax on intellectual property royalties. The increase in tax expense in 2014 as compared to 2013 is primarily the result of changes in foreign tax rates on deferred tax assets attributable to certain of our non-U.S. operations.

In 2012, we recorded an income tax provision of \$2 million, which included a \$34 million net tax benefit primarily related to the reversal of reserves for unrecognized tax benefits from foreign audit activity and statute lapses as well as tax benefits from deferred tax positions in China. Excluding discrete tax items, income tax expense was \$36 million in both 2013 and 2012. These amounts primarily reflect tax expense attributable to income earned in non-U.S. jurisdictions.

Although the Company is a Bermuda entity with a statutory income tax rate of zero, the earnings of many of the Company's subsidiaries are subject to taxation in the U.S. and other foreign jurisdictions. Our annual effective tax rate is impacted by the mix of earnings and losses by taxing jurisdiction and was different from the Bermuda statutory rate of zero due to (i) income tax expense incurred by subsidiaries operating in jurisdictions that impose an income tax, (ii) the mix of earnings and losses across various taxing jurisdictions, (iii) a foreign capital investment incentive providing for enhanced tax deductions associated with capital expenditures in one of our foreign manufacturing facilities and (iv) the effect of valuation allowances and uncertain tax positions. We record minimal tax expense on our U.S. earnings due to valuation allowances recorded on substantially all the Company's U.S. net deferred tax assets as we have concluded that it is more-likely-than-not that our domestic deferred tax assets will not be realized in their entirety. In our assessment of the need for a domestic valuation allowance, we heavily weighted the following negative evidence: (i) a lack of operational profitability in the U.S. Company, exclusive of foreign intercompany dividends, (ii) forecasted reversal of existing temporary differences does not create taxable income and (iii) the Company operates in a highly cyclical industry. (Refer to Note 7, "Income Taxes," in the accompanying Consolidated Financial Statements for more information regarding our income tax expense.)

Liquidity and Capital Resources**Cash and Cash Equivalents**

Of the \$696 million of cash and cash equivalents at December 31, 2014, \$298 million is attributable to our U.S. subsidiaries and \$398 million is attributable to our foreign subsidiaries. The repatriation of the funds of these foreign subsidiaries could be subject to delay and potential tax consequences, principally with respect to withholding taxes paid in foreign jurisdictions.

Operating Activities

We generated cash flow from operations of \$504 million, \$321 million and \$350 million in 2014, 2013 and 2012, respectively. The increase in cash generated from operations in 2014 compared to 2013 is primarily attributable (i) higher sales and resulting profitability, (ii) lower cash paid for interest as a result of various debt redemption and refinancing transactions that occurred during 2013 and 2014, and (iii) lower payments for employee severance. These benefits were partially offset by an increase in receivables, as described below, a strategic increase in days inventory on hand, higher payments for incentive

compensation during 2014 along with higher intellectual property transaction proceeds and the receipt of a withholding tax rebate during 2013.

The decrease in cash generated from operations in 2013 as compared to 2012 is primarily attributable to proceeds from the Sendai, Japan earthquake-related insurance recoveries received during 2012, higher intellectual property transaction proceeds in 2012 along with higher payments for incentive compensation during 2013. These declines were partially offset by (i) higher revenues, (ii) the strategic reduction of days of inventory on hand and (iii) lower cash paid for interest as a result of the various debt redemption and refinancing transactions that occurred during 2013.

Our days of inventory on hand increased to 116 days at December 31, 2014 from 110 days at December 31, 2013 and decreased from 125 days at December 31, 2012. The increase in days of inventory on hand from 2013 is due to the strategic inventory build based on the anticipated revenue levels in the automotive market in the first quarter of 2015. Our days sales outstanding increased to 46 days at December 31, 2014 from 33 days at December 31, 2013 and 37 days at December 31, 2012. The increase in days sales outstanding was the result of changes in payment terms implemented with specific customers and sales linearity during the fourth quarter of 2014. We expect days sales outstanding to decrease slightly going forward. Our days purchases outstanding increased to 65 days at December 31, 2014 from 60 days at December 31, 2013 and 51 days at December 31, 2012, reflecting the timing of payments on our payables.

Investing Activities

Our net cash utilized for investing activities was \$334 million, \$210 million and \$176 million in 2014, 2013 and 2012, respectively. Our investing activities are driven primarily by capital expenditures and payments for purchased licenses and other assets. The cash utilized for investing activities in 2014 increased from the prior years and was predominately the result of increased capital expenditures, which were \$249 million, \$151 million and \$123 million for 2014, 2013 and 2012, respectively, and represented 5%, 4% and 3% of net sales, respectively. The higher capital expenditures are associated with increasing our manufacturing capacity to fulfill demand primarily from our RF and microcontroller customers. In addition, the cash paid for purchased licenses and other assets increased to \$81 million from \$70 million in 2013 and \$73 million in 2012. The remaining \$20 million of cash utilized in 2014 largely related to two business acquisitions, the value of which was primarily intangible assets and inventory. During 2014, we received \$16 million in net proceeds from the sale of property, plant and equipment predominately related to the sale of the land located at the site of our former manufacturing facility in Sendai, Japan. The \$11 million of net proceeds received in 2013 were primarily attributable to the sale of certain tools and equipment located at our Toulouse, France manufacturing facility and the sale of a portion of our former manufacturing facility in Sendai, Japan. We received \$20 million of proceeds in 2012 primarily as a result of the sale of the Sendai, Japan design center and the sale of certain tools and equipment located at our Toulouse, France manufacturing facility.

Financing Activities

Our net cash utilized for financing activities was \$207 million, \$71 million and \$232 million in 2014, 2013 and 2012, respectively. Cash flows utilized for financing activities in 2014 included \$1.6 billion of payments on debt obligations comprised of (i) payments of \$718 million associated with the extinguishment of approximately \$680 million of indebtedness along with \$38 million of call premiums in connection with the use of proceeds from the equity offering completed during the first quarter of 2014, (ii) payments of \$597 million to lenders in connection with the \$2.7 billion term loan refinancing transaction completed in the first quarter of 2014, (iii) \$35 million of amortization payments on the term loans and (iv) payments of \$217 million associated with the debt redemptions that occurred during the second half of 2014. Cash provided by financing activities in 2014 included (i) \$590 million of proceeds, net of transaction costs, related to funds received from lenders under the term loan refinancing and revolver modification transactions which occurred in the first quarter of 2014 and (ii) \$717 million of net proceeds from the equity offering completed during the first quarter of 2014. Additionally, cash provided by financing activities in 2014 included \$47 million of proceeds from the exercise of stock options and employee share purchase program (ESPP) share purchases and \$7 million of excess tax benefits resulting from deductions related to equity compensation in excess of compensation recognized for financial reporting. (Refer to Note 6, "Employee Benefit and Incentive Plans," in the accompanying Consolidated Financial Statements for further information on ESPP and stock options and Note 7, "Income Taxes," for further information on the tax benefit.)

Cash flows related to financing activities in 2013 included (i) the prepayment of term loans totaling \$2,711 million in connection with the refinancing transaction in the first quarter of 2013, (ii) the redemption of a portion of our secured notes, including payment of the related make-whole premiums, totaling \$495 million in connection with the refinancing transaction in the second quarter of 2013, (iii) the redemption of \$98 million principal amount of unsecured notes during the third quarter of 2013, (iv) the redemption of secured notes and payment of the related make-whole premiums totaling \$782 million made as part of the refinancing transaction initiated during the third quarter which closed during the fourth quarter, (v) the redemption of secured notes and payment of the related make-whole premiums totaling \$953 million in connection with the fourth quarter of 2013 refinancing transaction, along with (vi) \$23 million primarily related to the quarterly principal payments on the term loans. These outflows were partially offset by the receipt of (i) \$2,707 million in net proceeds from the issuance of term loans during the first quarter of 2013, (ii) \$493 million in net proceeds from the issuance of secured notes during the second quarter

of 2013, (iii) \$782 million in net proceeds from the issuance of term loans during the third quarter of 2013 and (iv) \$947 million in net proceeds from the issuance of secured notes during the fourth quarter of 2013. Additionally, cash provided by financing activities in 2013 included \$62 million of proceeds from the exercise of stock options and ESPP share purchases.

Cash flows related to financing activities in 2012 included (i) the repayment of \$500 million of senior subordinated notes in connection with the refinancing transaction in the first quarter of 2012, along with call premiums of \$25 million, (ii) the repayment of \$200 million of unsecured notes during the third and fourth quarters of 2012, along with call premiums of \$2 million and (iii) \$7 million primarily related to the quarterly principal payments on term loans. These payments were partially offset by the receipt of \$481 million of net proceeds from the issuance of the term loans in the first quarter of 2012. Additionally, cash provided by financing activities during 2012 included \$21 million of proceeds from the exercise of stock options and ESPP share purchases.

Third and Fourth Quarter of 2014 Debt Redemption Transactions

On September 29, 2014, after the requisite notice period, Freescale Inc. utilized \$110 million to redeem \$100 million principal amount of the senior unsecured 8.05% notes due 2020 (the "8.05% Unsecured Notes") and pay call premiums of \$9 million and accrued interest of \$1 million.

On November 10, 2014, after the requisite notice period, Freescale Inc. utilized approximately \$110 million to redeem \$100 million principal amount of the 8.05% Unsecured Notes and pay call premiums of \$8 million and accrued interest of \$2 million.

First Quarter of 2014 Revolver Amendment and Debt Redemption Transactions

On February 10, 2014, Freescale Inc. entered into an amendment to its existing revolving credit facility which became effective on February 18, 2014 (the "Q1 2014 Revolver Amendment"). Pursuant to the amendment, the existing revolving credit facility was replaced with a new revolving credit facility with an aggregate of \$400 million of commitments (the "2019 Revolver"). The amendment also extended the maturity of the new revolving credit facility to February 1, 2019. The 2019 Revolver is subject to substantially the same terms and conditions as the prior revolving credit facility including the same pro rata split between United States Dollar and alternative currency availability.

On March 20, 2014, after the requisite notice period, Freescale Inc. utilized approximately \$717 million of net proceeds from the equity offering, along with cash on hand, to redeem \$264 million of outstanding senior subordinated 10.125% notes due 2016, \$57 million of outstanding senior unsecured floating rate notes due 2014 and \$359 million of 8.05% Unsecured Notes and to pay call premiums of \$38 million and accrued interest of \$11 million.

First Quarter of 2014 Term Loan Refinancing Transaction

On March 4, 2014, Freescale, Inc. entered into an amendment and refinancing agreement to its senior secured term loan facilities, which effectively (i) lowered the interest rate of our existing \$347 million senior secured term loan facility maturing in December 2016 (the "2016 Term Loan") and extended the maturity of the 2016 Term Loan to March 2020 to coincide with the maturity of its existing \$2.37 billion senior secured term loan facility maturing in March 2020 (the "2020 Term Loan"), and (ii) lowered the interest rate applicable to the 2020 Term Loan in a transaction referred to as the "Q1 2014 Term Loan Refinancing Transaction."

In connection with this transaction, (i) a portion of the existing lenders under the 2016 Term Loan agreed to the lower interest rate and extended maturity, (ii) a portion of the existing lenders under the 2020 Term Loan agreed to the lower interest rate, and (iii) Freescale used the proceeds of new senior secured term loans to refinance in full the 2016 Term Loan lenders and the 2020 Term Loan lenders who did not agree to the amendment. As a result, the amended 2016 Term Loan, the amended 2020 Term Loan and the new senior secured term loan, now have identical terms and are treated as a single tranche of senior secured term loans with an aggregate outstanding principal amount of \$2.72 billion, collectively referred to as the "Amended 2020 Term Loan."

The Amended 2020 Term Loan was issued at par, but was originally recorded at a \$21 million discount, reflecting a portion of the remaining OID previously attributable to the 2020 Term Loan which was deemed exchanged for the Amended 2020 Term Loan. A portion of the proceeds from the issuance of the Amended 2020 Term Loan were used to prepay portions of the 2016 and 2020 Term Loans, thus relieving Freescale Inc., Freescale Ltd. and certain other Freescale Ltd. subsidiaries of their obligations associated with that liability. A significant portion of our lenders under the Amended 2020 Term Loan were previously lenders under the 2016 and 2020 Term Loans, while some of the funds from the issuance of the Amended 2020 Term Loan were from new lenders.

Credit Facility

At December 31, 2014, Freescale Inc.'s senior secured credit facilities (the "Credit Facility") included (i) \$2,692 million outstanding under the Amended 2020 Term Loan, (ii) \$790 million outstanding under the senior secured term loan facility maturing in 2021 ("2021 Term Loan") and (iii) the 2019 Revolver, including letters of credit and swing line loan sub-facilities, with a committed capacity of \$400 million. The spread over LIBOR with respect to the Amended 2020 Term Loan is 3.25%,

with a LIBOR floor of 1.00%, resulting in an effective interest rate of 4.25% at December 31, 2014. The spread over LIBOR with respect to 2021 Term Loan is 3.75%, with a LIBOR floor of 1.25%, resulting in an effective interest rate of 5.00% at December 31, 2014. At December 31, 2014, the available capacity under the 2019 Revolver was \$384 million, as reduced by \$16 million of outstanding letters of credit. Under the third amended and restated credit agreement as of March 1, 2013 as amended by the Q1 2014 Revolver Amendment and the Q1 2014 Term Loan Refinancing Transaction (the "Credit Agreement"), Freescale Inc. is required to repay a portion both of the Amended 2020 Term Loan and 2021 Term Loan in quarterly installments in aggregate annual amounts equal to 1% of the initial outstanding balance, or approximately \$35 million annually.

Senior Notes

Freescale Inc. had an aggregate principal amount of \$2,113 million in senior notes outstanding at December 31, 2014, consisting of (i) \$500 million of 5.00% senior secured notes due 2021 ("5.00% Secured Notes"), (ii) \$960 million of 6.00% senior secured notes due 2022 ("6.00% Secured Notes"), (iii) \$473 million of 10.75% senior unsecured notes due 2020 ("10.75% Unsecured Notes") and (iv) \$180 million of 8.05% Unsecured Notes (collectively, the "Senior Notes"). With regard to these notes, interest is payable semi-annually in arrears as follows: (i) every May 15th and November 15th for the 5.00% Secured Notes; (ii) every May 15th and November 15th for the 6.00% Secured Notes; (iii) every February 1st and August 1st for the 10.75% Unsecured Notes; and (iv) every February 1st and August 1st for the 8.05% Unsecured Notes.

Hedging Transactions

During 2014, we entered into cash flow designated interest rate swap agreements to hedge a portion of our variable rate debt against exposure to increasing LIBOR rates which may exceed the LIBOR floor on the Amended 2020 Term Loan in future periods. Under these agreements, we are required to pay the counterparties a stream of fixed rate interest payments at a weighted average rate of: (i) 1.62% on a notional amount of \$1.4 billion in 2016, (ii) 2.43% on a notional amount of \$1.1 billion in 2017 and (iii) 2.95% on a notional amount of \$800 million in 2018. (Refer to Note 5, "Risk Management," in the accompanying Consolidated Financial Statements for further details of these hedging agreements.)

Prior to 2013, Freescale Inc. utilized interest rate swap and interest rate cap agreements with various counterparties as a hedge of the variable cash flows of our variable interest rate debt through 2016. In connection with the refinancing transaction in the first quarter of 2013, under which the majority of our debt essentially became fixed rate debt as long as LIBOR rates remain below the respective LIBOR floors on our variable rate term loans, we effectively terminated these previous agreements and fixed the remaining payment stream.

Debt Service

We are required to make debt service principal payments under the terms of our debt agreements. As of December 31, 2014, future obligated debt payments are \$35 million each year from 2015 through 2019 and \$5,420 million thereafter. Subsequent to the end of the fourth quarter of 2014, Freescale Inc. delivered notice of a \$180 million redemption of 8.05% Unsecured Notes and a \$70 million redemption of 10.75% Unsecured Notes to occur in the first quarter of 2015. Accordingly, \$250 million of principal payments previously obligated in 2020 will be paid in February 2015.

Fair Value

At December 31, 2014, the fair value of the aggregate principal amount of our long-term debt was approximately \$5,568 million, exclusive of \$35 million of current maturities, which was determined based upon quoted market prices. Since considerable judgment is required in interpreting market information, the fair value of the long-term debt is not necessarily the amount which could be realized in a current market exchange.

Refer to Note 4, "Debt," in the accompanying Consolidated Financial Statements for more detail on the indebtedness described in this section.

Adjusted EBITDA

Adjusted EBITDA is calculated in accordance with the Credit Agreement and the indentures governing the senior secured and senior unsecured notes (the "Indentures"). Adjusted EBITDA is net earnings (loss) adjusted for certain non-cash and other items that are included in net earnings (loss). Freescale Inc. is not subject to any maintenance covenants under its existing debt agreements and is therefore not required to maintain any minimum specified level of Adjusted EBITDA or maintain any ratio based on Adjusted EBITDA or otherwise. However, our ability to engage in specified activities is tied to ratios under Freescale Inc.'s debt agreements based on Adjusted EBITDA, in each case subject to certain exceptions. Our subsidiaries are unable to incur any indebtedness under the Indentures and specified indebtedness under the Credit Agreement, pay dividends, make certain investments and make other restricted payments, in each case not otherwise permitted by our debt agreements, unless, after giving effect to the proposed activity, the fixed charge coverage ratio (as defined in the applicable indenture) would be at least 2.00:1 and the senior secured first lien leverage ratio (as defined in the Credit Agreement) would be no greater than 4.00:1. Also, our subsidiaries may not incur certain indebtedness in connection with acquisitions unless, prior to and after giving effect to the proposed transaction, the total leverage ratio (as defined in the Credit Agreement) is no greater than 6.50:1.

except as otherwise permitted by the Credit Agreement. In addition, except as otherwise permitted by the applicable debt agreement, we may not designate any subsidiary as unrestricted or engage in certain mergers unless, after giving effect to the proposed transaction, the fixed charge coverage ratio would be at least 2.00:1 or equal to or greater than it was prior to the proposed transaction and the senior secured first lien leverage ratio would be no greater than 4.00:1. We are also unable to have liens on assets securing indebtedness without also securing the notes unless the consolidated secured debt ratio (as defined in the applicable indenture) would be no greater than 3.25:1 after giving effect to the proposed lien, except as otherwise permitted by the Indentures. Accordingly, we believe it is useful to provide the calculation of Adjusted EBITDA to investors for purposes of determining our ability to engage in these activities. As of December 31, 2014, Freescale Inc. was in compliance with the covenants under the Credit Facility and the Indentures and met the total leverage ratio, the senior secured first lien leverage ratio and the fixed charge coverage ratio but did not meet the consolidated secured debt ratio. As of December 31, 2014, Freescale Inc.'s total leverage ratio was 4.52:1, senior secured first lien leverage ratio was 3.88:1, the fixed charge coverage ratio was 3.67:1 and the consolidated secured debt ratio was 4.52:1. Accordingly, we are currently restricted from incurring liens on assets securing indebtedness, except as otherwise permitted by the Indentures. The fact that we did not meet one of these ratios does not result in any default under the Credit Agreement or the Indentures.

Adjusted EBITDA is a non-U.S. GAAP measure. Adjusted EBITDA does not represent, and should not be considered an alternative to, net earnings (loss), operating earnings (loss), or cash flow from operations as those terms are defined by accounting principles generally accepted in the United States of America (U.S. GAAP), and does not necessarily indicate whether cash flows will be sufficient to fund cash needs. Although Adjusted EBITDA and similar measures are frequently used as measures of operations and the ability to meet debt service requirements by other companies, our calculation of Adjusted EBITDA is not necessarily comparable to such other similarly titled captions of other companies. The calculation of Adjusted EBITDA in the Indentures and the Credit Facility allows us to add back certain charges that are deducted in calculating net earnings (loss). However, some of these expenses may recur, vary greatly and are difficult to predict. Further, our debt instruments require that Adjusted EBITDA be calculated for the most recent four fiscal quarters. We do not present Adjusted EBITDA on a quarterly basis. In addition, the measure can be disproportionately affected by quarterly fluctuations in our operating results, and it may not be comparable to the measure for any subsequent four-quarter period or any complete fiscal year.

The following is a reconciliation of net earnings, which is a U.S. GAAP measure of our operating results, to Adjusted EBITDA, as calculated pursuant to Freescale Inc.'s debt agreements for the most recent four fiscal quarter period as required by such agreements.

(in millions)	Year ended December 31, 2014
Net earnings	\$ 251
Interest expense, net	343
Income tax expense	53
Depreciation and amortization expense ⁽¹⁾	257
Non-cash share-based compensation expense ⁽²⁾	67
Loss on extinguishment or modification of long-term debt ⁽³⁾	79
Reorganization of business and other ⁽⁴⁾	37
Other terms ⁽⁵⁾	8
Adjusted EBITDA	<u>\$ 1,095</u>

(1) Excludes amortization of debt issuance costs, which are included in interest expense, net.

(2) Reflects non-cash, share-based compensation expense under the provisions of ASC Topic 718, "Compensation – Stock Compensation."

(3) Reflects losses on extinguishments and modifications of our long-term debt.

(4) Reflects items related to our reorganization of business programs and other charges.

(5) Reflects adjustments required by our debt instruments, including business optimization expenses, relocation expenses and other items.

Contractual Obligations

We own most of our major facilities, but we do lease certain office, factory and warehouse space, as well as data processing and other equipment primarily under non-cancellable operating leases.

Summarized in the table below are our obligations and commitments to make future payments in connection with our debt, minimum lease payment obligations (net of minimum sublease income), software, service, supply and other contracts, and product purchase commitments as of December 31, 2014.

(in millions)	Payments Due by Period						
	2015	2016	2017	2018	2019	Thereafter	Total
Debt obligations (including short-term debt) ⁽¹⁾	\$ 35	\$ 35	\$ 35	\$ 35	\$ 35	\$ 5,420	\$ 5,595
Operating leases	26	17	13	8	1	1	66
Software licenses	39	24	8	—	—	—	71
Service and other obligations ⁽²⁾	58	35	19	7	6	9	134
Foundry commitments ⁽³⁾	111	—	—	—	—	—	111
Purchase commitments	19	—	—	—	—	—	19
Total cash contractual obligations ⁽⁴⁾	\$ 288	\$ 111	\$ 75	\$ 50	\$ 42	\$ 5,430	\$ 5,996

- (1) Reflects the principal payments under the Credit Facility and the notes. Subsequent to the end of the fourth quarter of 2014, Freescale Inc. delivered notice of redemption of \$250 million of outstanding unsecured notes to occur in the first quarter of 2015. Accordingly, \$250 million of principal payments previously obligated in 2020 will be paid in 2015. The above amounts exclude estimated cash interest payments of approximately \$296 million in 2015, \$288 million in 2016, \$308 million in 2017, \$316 million in 2018, \$321 million in 2019 and \$280 million thereafter (based on currently applicable interest rate curves in the case of variable interest rate debt, and all of which contemplate the impact of the above discussed Q1 2015 redemption). (Refer to Note 4, "Debt," for further discussion of this redemption transaction.)
- (2) Includes capital lease obligations of less than \$1 million in the aggregate which are payable through 2017.
- (3) Foundry commitments associated with our strategic manufacturing relationships are based on volume commitments for work in progress and forecasted demand based on 18-month rolling forecasts, which are adjusted monthly.
- (4) As of December 31, 2014, we had reserves of \$138 million recorded for uncertain tax positions, including interest and penalties. We are not including this amount in the long-term contractual obligations table presented because of the difficulty in making reasonably reliable estimates of the timing of cash settlements, if any, with the respective taxing authorities.

Future Financing Activities

Our primary future cash needs on a recurring basis will be for working capital, capital expenditures and debt service obligations, including debt service principal payments on the term loans. Subsequent to the end of the fourth quarter of 2014, Freescale Inc. delivered notice of a \$250 million redemption of unsecured notes to occur in the first quarter of 2015 for which we will pay call premiums approximating \$18 million. In addition, we expect to spend approximately \$28 million during 2015 and approximately \$7 million thereafter in connection with the reorganization plan initiated during 2012 and the closure of the Toulouse, France manufacturing facility; however, the timing of these payments depends on many factors, including the timing of the decommissioning of the manufacturing facility and local employment laws, and actual amounts paid may vary based on currency fluctuation. During 2015, we plan to use cash on hand and cash flows generated from operations to redeem the majority of our remaining 10.75% Unsecured Notes. This will result in a reduction of cash and cash equivalents from the current level to a target level of approximately \$500 million prospectively. We believe such a level of cash and cash equivalents combined with cash flows from operations will be sufficient to fund our working capital needs, capital expenditures, restructuring plan and other business requirements for at least the next twelve months. In addition, our ability to borrow under the 2019 Revolver was \$384 million as of December 31, 2014, as reduced by \$16 million of outstanding letters of credit. (Refer to Note 4, "Debt," and Note 10, "Reorganization of Business and Other," in the accompanying Consolidated Financial Statements for additional discussion of the borrowing abilities and reorganization actions described in this section.)

If our cash flows from operations are less than we expect or we require funds to consummate acquisitions of other businesses, assets, products or technologies, we may need to incur additional debt, sell or monetize certain existing assets or utilize our cash and cash equivalents. In the event additional funding is required, there can be no assurance that future funding will be available on terms favorable to us or at all. Furthermore, our debt agreements contain restrictive covenants that limit our ability to, among other things, incur additional debt and sell assets. We are highly leveraged, and this could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our non-hedged variable rate debt and prevent us from meeting our obligations under one or more of our debt agreements. During 2014, we entered into interest rate swap agreements which effectively fix the interest rates on a portion of our variable rate debt beginning in 2016 and continuing through 2018. In the absence of sufficient operating results and resources to service our debt, or as the result of the inability to complete appropriate refinancings and amendments of our debt, we could face substantial liquidity problems and may be required to seek the disposal of material assets or operations to meet our debt service and other obligations. If we cannot make scheduled payments on our indebtedness, we will be in default under one or more of our debt agreements and, as a result, we would need to take other action to satisfy our obligations or be forced into bankruptcy or liquidation.

As market conditions warrant, or as repurchase obligations under the agreements governing our Credit Facility and Senior Notes may require, we and our major equity holders may from time to time repurchase or redeem debt securities issued by Freescale Inc. through redemptions under the terms of the Indentures, in privately negotiated or open-market transactions, by tender offer or otherwise, or issue new debt in order to refinance or prepay amounts outstanding under the Credit Facility or Senior Notes or for other permitted purposes. Further, depending on market conditions, the strategy for our capital structure and

other factors, we also may issue equity securities from time to time in public or private offerings. There can be no assurance, however, that any issuance of equity or debt will occur or be successful.

Off-Balance Sheet Arrangements

We use customary off-balance sheet arrangements, such as operating leases and letters of credit, to finance our business. None of these arrangements has or is likely to have a material effect on our results of operations, financial condition or liquidity.

Critical Accounting Policies and Estimates

The preparation of our financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the presentation of our financial condition and results of operations and the disclosure of contingent assets and liabilities. These estimates and assumptions generally require difficult and subjective accounting judgments and often involve matters that are inherently uncertain.

The estimates that shape our critical accounting policies are assessed on an on-going basis. Our management bases its estimates and judgments on historical experience, current economic and industry conditions and on various other factors that are believed to be reasonable under the circumstances. This forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions or conditions which might cause a material impact on our financial statements. Our management believes the following accounting policies to be those most critical to the portrayal of our financial condition and those that require the most subjective judgment:

- product sales and intellectual property revenue recognition and valuation;
- accounting for income taxes;
- inventory valuation methodology;
- restructuring activities;
- valuation of long-lived assets; and
- share-based compensation.

We have other significant accounting policies that either do not generally require estimates and judgments that are as difficult or subjective, or it is less likely that such accounting policies would have a material impact on our results. Refer to Note 1, “Summary of Significant Accounting Policies,” in the accompanying Consolidated Financial Statements for further detail on these policies.

Product Sales and Intellectual Property Revenue Recognition and Valuation

We generally market our products to a wide variety of end users and a network of distributors. Our policy is to record revenue for product sales when title transfers, the risks and rewards of ownership have been transferred to the customer, the fee is fixed or determinable and collection of the related receivable is reasonably assured, which is generally at the time of shipment. We record reductions to sales associated with reserves for allowances for collectability, discounts, price protection, product returns and distributor incentive programs at the time the related sale is recognized. The establishment of such reserves is dependent on a variety of factors, including contractual terms, analysis of historical data, current economic conditions, industry demand and both the current and forecasted pricing environments. The process of evaluating these factors is highly subjective and requires significant estimates, including, but not limited to, forecasted demand, returns, industry pricing assumptions, distributor resales and inventory levels. In future periods, additional provisions may be necessary due to (i) a deterioration in the semiconductor pricing environment, (ii) reductions in anticipated demand for semiconductor products and/or (iii) lack of market acceptance for new products. If these factors result in a significant adjustment to our reserves, they could significantly impact our future operating results.

Distributor reserves estimate the impact of credits granted to distributors under certain programs common in the semiconductor industry whereby distributors receive certain price adjustments to meet individual competitive opportunities, or are allowed to return or scrap a limited amount of product in accordance with contractual terms agreed upon with the distributor, or receive price protection credits when our standard published prices are lowered from the price the distributor paid for product still in its inventory. The Company’s policy is to use a rolling historical experience rate, as well as a prospective view of products and pricing in the distribution channel for distributors who participate in our volume rebate incentive program, in order to estimate the proper provision for this program at the end of any given reporting period. We continually monitor the actual claimed allowances against our estimates, and we adjust our estimates as appropriate to reflect trends in pricing environments and distributor resales and inventory levels. Distributor reserves are also adjusted when recent historical data does not represent anticipated future activity. In 2014, 2013 and 2012, 27%, 25% and 23% of our revenue, respectively, was generated from sales of our products to distributors for customers serviced exclusively through the distribution channel.

In revenue arrangements that include multiple deliverables, judgment is required to properly identify the accounting units of such multiple deliverable transactions and to determine the manner in which revenue should be allocated among those

accounting units. Net sales from contracts with multiple deliverables are recognized as each deliverable is earned based on the relative fair value of each deliverable or based on each deliverable's relative selling price depending on the underlying terms of the arrangement. When using each deliverable's relative selling price various inputs may be required including, but not limited to, our pricing practices, gross margin objectives, internal costs and industry specific information. Changes in any number of these factors may have a substantial impact on the selling price as assigned to each deliverable. These inputs and assumptions represent management's best estimates at the time of the transaction. Applicable receivables are discounted in accordance with U.S. GAAP.

Accounting for Income Taxes

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits and deductions, and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of the recognition of revenue and expense for tax and financial statement purposes, as well as the interest and penalties relating to uncertain tax positions. As a multinational corporation, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets, liabilities, net operating loss and other tax carryforwards. Significant management judgment is required in determining whether these deferred tax assets will be realized in full or in part. When it is more-likely-than-not that all or some portion of these deferred tax assets will not be realized, a valuation allowance must be established for the amount of the deferred tax assets that cannot be realized. We consider all available positive and negative evidence on a jurisdiction-by-jurisdiction basis when assessing whether it is more-likely-than-not that deferred tax assets are recoverable. The weight given to the evidence is commensurate with the extent to which the evidence can be objectively verified. If negative evidence exists, positive evidence with greater weighting is necessary to support a conclusion that a valuation allowance is not needed. Our framework for assessing the recoverability of deferred tax assets requires us to weigh all available evidence, including:

- Nature, frequency, and severity of recent losses. Cumulative losses in recent years are heavily weighted negative evidence. We compute cumulative losses by adjusting pre-tax results (excluding the cumulative effects of accounting method changes and including "non-recurring" items such as restructuring or impairment charges) for permanent items on a rolling twelve quarter basis. Because the Company provides deferred taxes for the repatriation of foreign earnings, we give no weight to foreign intercompany dividends in our evaluation of profitability as this is not indicative of our ability to realize net deferred tax assets.
- Strength and trend of earnings as well as other relevant factors. The semiconductor industry is highly cyclical, so forecasting future profitability is uncertain. Furthermore, the Company has required repatriation of foreign earnings to meet domestic cash needs, including debt service, research and development expenses and capital investments. A sustained period of profitability in our operations is required before we would change our judgment regarding the need for a valuation allowance.
- Sources of future taxable income. Future reversals of existing temporary differences are heavily weighted sources of objectively verifiable positive evidence. Projections of future taxable income exclusive of reversing temporary differences are considered inherently subjective and generally will not be sufficient to overcome negative evidence that includes cumulative losses in recent years. In such cases, we generally give these projections of future taxable income limited weight for the purposes of our valuation allowance assessment.
- Tax planning strategies. If necessary and available, tax planning strategies would be implemented to accelerate taxable amounts to utilize expiring carryforwards.

As of December 31, 2014, we have concluded that it is more-likely-than-not that our domestic deferred tax assets will not be realized in their entirety, and therefore, we have retained a valuation allowance against substantially all the domestic deferred tax assets. In our assessment of the need for a domestic valuation allowance, we heavily weighted the following negative evidence: i) a lack of operational profitability in the U.S. Company, exclusive of foreign intercompany dividends, ii) forecasted reversal of existing temporary differences does not create taxable income, and iii) the Company operates in a highly cyclical industry. Valuation allowances of \$1,193 million have been recorded on substantially all our U.S. deferred tax assets as of December 31, 2014.

At the end of each quarter, we evaluate the valuation allowance by reviewing the factors discussed above. This ongoing assessment is based on estimates and requires significant management judgment. At this time, the Company believes it will not have cumulative losses (as described above) on a rolling twelve quarter basis at some point in the next twelve to 18 months, and it is reasonably possible such positive evidence may result in reversal of the valuation allowance within this time frame. For example, if the 2014 trend in quarterly domestic operational profitability continues throughout 2015, such valuation allowance reversal may occur in the next twelve to 18 months. Until we reverse the valuation allowance, consumption of tax attributes to offset profits will reduce the overall level of deferred tax assets subject to valuation allowance. Any release of the domestic valuation allowance will be recorded as a non-cash deferred tax benefit, significantly increasing net earnings in the

quarter in which the allowance is released. After the valuation allowance is released, we anticipate an effective tax rate approaching the U.S. statutory rate of 35%. The release of the valuation allowance has a minimal, if any, impact on current or projected cash income taxes. Cash taxes paid by the Company will continue to be driven by income in foreign jurisdictions until domestic income exceeds available tax attributes.

Additionally, in certain foreign jurisdictions, we record valuation allowances to reduce our net deferred tax assets to the amount we believe is more-likely-than-not to be realized after considering all positive and negative factors as to the recoverability of these assets. At December 31, 2014, valuation allowances of \$43 million have also been recorded on certain deferred tax assets in foreign jurisdictions.

We have reserves for taxes, associated interest, and other related costs that may become payable in future years as a result of audits by tax authorities. Although we believe that the positions taken on previously filed tax returns are fully supported, we have established reserves recognizing that various taxing authorities may challenge certain positions and our tax positions may not be fully sustained. The tax reserves are reviewed quarterly and adjusted as events occur that affect our potential liability for additional taxes, such as lapsing of applicable statutes of limitations, proposed assessments by tax authorities, resolution of tax audits, negotiations between tax authorities of different countries concerning our transfer prices, identification of new issues, and issuance of new regulations or new case law. The amounts ultimately paid upon resolution of audits could be different from the amounts previously included in our income tax expense and therefore could have an impact on our tax provision, net earnings and cash flows. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to record additional income tax expense (benefit) or adjust valuation allowances.

We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and may not accurately anticipate actual outcomes. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. As of December 31, 2014, we had reserves of \$138 million for taxes, associated interest, and other related costs that may become payable in future years as a result of audits by tax authorities.

The Company is a Bermuda exempted company and is not subject to income taxes in Bermuda. The Company has asserted the permanent reinvestment exception in ASC 740 on approximately \$130 million of undistributed earnings of the U.S. Company and therefore, U.S. withholding taxes of approximately \$39 million are not provided on those earnings. Our intentions are to utilize those earnings in the Company's U.S. operations due to debt service obligations and for other liquidity needs. The undistributed earnings of the non-U.S. subsidiaries that are owned directly and indirectly by the U.S. Company are not permanently reinvested and a deferred tax liability of \$343 million related to those undistributed earnings was recorded in the consolidated financial statements as of December 31, 2014.

Inventory Valuation Methodology

Inventory is valued at the lower of standard cost or estimated net realizable value. We regularly review our inventories and write down our inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand. Future demand is affected by market conditions, technological obsolescence, new products and strategic plans, each of which is subject to change with little or no forewarning. In estimating obsolescence, we utilize our backlog information for the next 13 weeks as well as projecting future demand.

We balance the need to maintain strategic inventory levels to ensure competitive delivery performance to our customers with the risk of inventory obsolescence due to rapidly changing technology and customer requirements. We also consider pending cancellation of product lines due to technology changes, long life cycle products, lifetime buys at the end of supplier production runs, business exits and a shift of production to outsourcing.

As of December 31, 2014 and 2013, we recorded \$62 million and \$65 million, respectively, in reserves for inventory deemed obsolete or in excess of forecasted demand and for any inventory where the cost exceeds the estimated net realizable value. Inventory impairment charges establish a new cost basis for inventory and are recorded in cost of sales. The change in our reserves for inventory from 2014 to 2013 was primarily due to the normal review and accrual of obsolete or excess inventory. If actual future demand or market conditions are less favorable than those projected by our management, additional inventory write-downs may be required.

Restructuring Activities

We have undertaken, and may continue to undertake, significant restructuring initiatives which have required us, or may require us in the future, to implement plans to reduce our workforce, close facilities, discontinue product lines, refocus our business strategies and consolidate manufacturing, research and design centers and administrative operations. We initiate these plans in an effort to improve our operational effectiveness, reduce costs or simplify our product portfolio. The restructuring reserves include estimated payments for employee termination benefits, such as severance payments, and exit costs, such as termination fees associated with leases or other contracts and other costs related to the closure of facilities. Given the

significance and importance of successful execution of our restructuring activities, the complex process requires extensive reviews of plan estimates.

We operate in a highly cyclical industry; and therefore, we monitor and evaluate business conditions on a regular basis. At each reporting date, we evaluate our accruals for exit costs and employee separation costs to ensure that the accruals are still appropriate. In certain circumstances, accruals are no longer required because of efficiencies in carrying out the plans or because employees previously identified for separation resigned from the Company unexpectedly and did not receive severance or were redeployed due to circumstances not foreseen when the original plans were initiated. We reverse accruals to earnings when it is determined they are no longer required. In addition, we may incur additional charges for new plans or as a result of changes in estimates for plans previously recorded.

Following the appointment of Gregg Lowe as president and CEO of Freescale in 2012, we completed a detailed review of our strategic direction with the overall objective of identifying opportunities that would accelerate revenue growth and improve profitability. We recorded cash and non-cash charges of \$30 million, \$33 million and \$52 million in 2014, 2013 and 2012, respectively, in connection with re-allocating research and development resources, re-aligning sales resources and making our operations more efficient. (Refer to Note 10, “Reorganization of Business and Other,” in the accompanying Consolidated Financial Statements for more information on the activities described in this section.)

Valuation of Long-Lived Assets

We assess the impairment of long-lived assets, which include our property, plant and equipment (PP&E) and identifiable intangible assets, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that may trigger an impairment analysis for our long-lived assets include significant under-performance of the business, considerable negative industry or economic trends, major changes in our use of the asset and rapid technological changes. Management must make subjective judgments regarding the estimated future cash flows of the asset and its remaining useful life to determine if impairment is necessary. Additionally, if an impairment loss exists, the underlying facts used to determine the original charge may change or estimates may prove to be inaccurate, which could warrant additional impairment charges in future periods.

We determine the fair value of our intangible assets and PP&E in accordance with ASC Topic 820, “Fair Value Measurements and Disclosures.” Our impairment evaluation of identifiable intangible assets and PP&E includes an analysis of estimated future undiscounted net cash flows expected to be generated by the asset group over their remaining estimated useful lives. If the estimated future undiscounted net cash flows are insufficient to recover the carrying value of the asset group over the remaining estimated useful lives, we record an impairment loss in the amount by which the carrying value of the asset group exceeds the fair value. We determine fair value based on either market quotes, if available, or discounted cash flows using a discount rate commensurate with the risk inherent in our current business model for the specific asset being valued.

Major factors that influence our cash flow analysis are our estimates for future net sales and expenses and the discount rate associated with the asset. These estimates are based upon historical information and future projections for the Company. Different estimates could have a significant impact on the results of our evaluation. If, as a result of our analysis, we determine that our intangible assets or PP&E has been impaired, we will recognize an impairment loss in the period in which the impairment is determined. Any such impairment charge could be significant and could have a material negative effect on our results of operations.

The net book values of these tangible and intangible long-lived assets at December 31, 2014 and 2013 were as follows:

(in millions)	December 31, 2014	December 31, 2013
Property, plant and equipment	\$ 750	\$ 681
Intangible assets	59	52
Total net book value	<u>\$ 809</u>	<u>\$ 733</u>

Share-Based Compensation

We account for awards granted under our share-based employee compensation plans using the fair-value recognition provisions of ASC Topic 718, “Compensation-Stock Compensation” (“ASC Topic 718”). These plans are more fully described in Note 6, “Employee Benefits and Incentive Plans” in the accompanying Consolidated Financial Statements.

In accordance with ASC Topic 718 and for purposes of determining share-based compensation expense, we estimated the fair values of non-qualified stock options granted under the 2011 Omnibus Plan, as amended and restated, using the Black-Scholes option-pricing model with the weighted-average assumptions indicated below:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Weighted average grant date fair value per share	\$ 6.98	\$ 7.05	\$ 6.93
Weighted average assumptions used:			
Expected volatility	48.79%	60.71%	63.00%
Expected lives (in years)	4.75	4.75	5.00
Risk free interest rate	1.43%	0.75%	0.92%
Expected dividend yield	—%	—%	—%

Due to our continued lack of extensive history as a public company, the computation of the expected volatility assumptions used in the Black-Scholes calculations for grants was based on historical volatilities and implied volatilities of our peer group companies. When establishing the expected life assumption, we used the “simplified” method prescribed in ASC Topic 718 for companies that do not have adequate historical data. The risk-free interest rate is measured as the prevailing yield for a U.S. Treasury security with a maturity similar to the expected life assumption. We also must estimate a forfeiture rate at the time of grant and revise this rate in subsequent periods if actual forfeitures or vesting differ from the original estimates. In addition, for certain of our performance-based awards, we must make subjective assumptions regarding the likelihood that the related performance metrics will be met. These assumptions are based on various operational and market results.

Also, we estimated the fair value of market-based restricted share units granted to certain executives awarded using the Monte Carlo valuation model, which includes a modifier for market results. The number of units that will vest will range from 0% to 150% of the target share awards based on the relative Total Shareholder Return (TSR) of the Company's share price as compared to a set of peer companies. The total compensation cost of these awards, net of forfeitures, will be amortized on a straight-line basis over a period of three years. The assumptions, in addition to projections of market results, used in the Monte Carlo model are outlined in the following table:

	Year ended December 31, 2014	Year ended December 31, 2013
Weighted average grant date fair value per share	\$ 16.13	\$ 17.01
Weighted average assumptions used:		
Expected volatility	48.40%	48.32%
Expected lives (in years)	2.98	2.75
Risk free interest rate	0.80%	0.33%
Expected dividend yield	—%	—%

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

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers” (Topic 606), which supersedes the revenue recognition requirements in ASC Topic 605, “Revenue Recognition,” and most industry-specific guidance. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The amendments in the ASU must be applied using either the retrospective or cumulative effect transition method and are effective for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted. We are evaluating the effects, if any, adoption of this guidance will have on our consolidated financial statements.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

As a multinational company, our transactions are denominated in a variety of currencies. We have a foreign exchange hedging process to manage currency risks resulting from transactions in currencies other than the functional currency of our subsidiaries. We use financial instruments to hedge, and therefore attempt to reduce our overall exposure to the effects of currency fluctuations on cash flows. Our policy prohibits us from speculating in financial instruments for profit on exchange rate price fluctuations, from trading in currencies for which there are no underlying exposures, and from entering into trades for any currency to intentionally increase the underlying exposure.

A significant variation of the value of the U.S. dollar against currencies other than the U.S. dollar could result in a favorable impact on our net earnings in the case of an appreciation of the U.S. dollar, or a negative impact on our net earnings if the U.S. dollar depreciates relative to these currencies. Currency exchange rate fluctuations affect our results of operations because our reporting currency is the U.S. dollar, in which we receive the majority of our net sales, while we incur a significant portion of our costs in currencies other than the U.S. dollar. Certain significant costs incurred by us, such as manufacturing labor costs, research and development, and selling, general and administrative expenses are incurred in the currencies of the countries in which our operations are located.

In order to reduce the exposure of our financial results to fluctuations in exchange rates, our principal strategy has been to naturally hedge the foreign currency-denominated liabilities on our balance sheet against corresponding foreign currency-denominated assets such that any changes in liabilities due to fluctuations in exchange rates are inversely offset by changes in their corresponding foreign currency assets. In order to further reduce our exposure to U.S. dollar exchange rate fluctuations, we have entered into foreign currency hedge agreements related to the currency and the amount of expenses we expect to incur in countries in which our operations are located. No assurance can be given that our hedging transactions will prevent us from incurring higher foreign currency-denominated costs when translated into our U.S. dollar-based accounts in the event of a weakening of the U.S. dollar on the non-hedged portion of our costs and expenses. (Refer to Note 5, "Risk Management," in our accompanying Consolidated Financial Statements for further discussion.)

At December 31, 2014, we had net outstanding foreign currency exchange contracts not designated as accounting hedges with notional amounts totaling approximately \$97 million. These forward contracts have original maturities of less than three months. The fair value of the forward contracts was a net unrealized loss of \$1 million at December 31, 2014. Forward contract losses of \$5 million for 2014 were recorded in Other expense, net in the accompanying Consolidated Statement of Operations related to our realized and unrealized results associated with these foreign exchange contracts. Management believes that these financial instruments will not subject us to undue risk of foreign exchange movements because gains and losses on these contracts should offset losses and gains on the assets and liabilities being hedged. The following table shows, in millions of U.S. dollars, the notional amounts of the most significant net foreign exchange hedge positions for outstanding foreign exchange contracts not designated as accounting hedges:

Buy	December 31, 2014
Malaysian Ringgit	\$ 32
Chinese Renminbi	\$ 30
Euro	\$ 9
Japanese Yen	\$ 5
Canadian Dollar	\$ 4

Foreign exchange financial instruments that are subject to the effects of currency fluctuations, which may affect reported earnings, include financial instruments which are not denominated in the functional currency of the legal entity holding the instrument. Derivative financial instruments consist primarily of forward contracts. Other financial instruments, which are not denominated in the functional currency of the legal entity holding the instrument, consist primarily of cash and cash equivalents, notes and accounts payable and accounts receivable. The fair value of these foreign exchange derivative instruments would hypothetically decrease by \$8 million as of December 31, 2014, if the U.S. dollar were to appreciate against all other currencies by 10% of current levels. This hypothetical amount is suggestive of the effect on future cash flows under the following conditions: (i) all current payables and receivables that are hedged were not realized, (ii) all hedged commitments and anticipated transactions were not realized or canceled, and (iii) hedges of these amounts were not canceled or offset. We do not expect that any of these conditions will be realized. We expect that gains and losses on the derivative financial instruments should offset losses and gains on the assets and liabilities being hedged. If the hedged instruments were included in the sensitivity analysis, the hypothetical change in fair value would be immaterial. The foreign exchange financial instruments are held for purposes other than trading.

Instruments used as cash flow hedges must be effective at reducing the risk associated with the exposure being hedged and must be designated as a cash flow hedge at the inception of the hedging relationship. Accordingly, changes in the fair values of

such hedge instruments must be highly correlated with changes in the fair values of underlying hedged items both at inception of the hedge and over the life of the hedge contract. At December 31, 2014, we had forward contracts designated as foreign currency cash flow hedges with a total fair value of a net unrealized loss of \$15 million. These contracts have original maturities of less than 15 months. The following table shows, in millions of U.S. dollars, the notional amounts of the foreign exchange hedge positions for outstanding foreign exchange contracts designated as cash flow hedges as of December 31, 2014:

Buy (Sell)	December 31, 2014	Hedged Exposure
Malaysian Ringgit	\$ 93	Cost of sales
Chinese Renminbi	\$ 84	Cost of sales
	\$ 21	Selling, general and administrative
	\$ 21	Research and development
Japanese Yen	\$ 42	Cost of sales
	16	Selling, general and administrative
Euro	\$ (39)	Net sales

Gains of less than \$1 million in 2014 were recorded in the accompanying Consolidated Statement of Operations related to our realized results associated with these cash flow hedges. The fair value of these cash flow designated foreign exchange derivative instruments would hypothetically decrease by \$20 million as of December 31, 2014, if the U.S. dollar were to appreciate against all other currencies by 10% of current levels.

Commodity Price Risk

We use gold swap contracts to hedge our exposure to increases in the price of gold wire used in our manufacturing processes. At December 31, 2014, we had outstanding gold swap contracts designated as cash flow hedges with notional amounts totaling 11,000 ounces. All of these outstanding contracts had original maturities of 15 months or less. The fair value of these gold swap contracts was a net unrealized loss of \$1 million at December 31, 2014. During 2014, losses of \$1 million were recorded in cost of sales related to the realized results attributable to these contracts. Based on expected gold purchases for the next twelve months, a 10% increase in the price of gold from the price at December 31, 2014 would increase our cost of sales by \$3 million annually, absent our outstanding gold swap contracts, while increasing the fair value of our gold swap contracts by \$1 million. Management believes that these financial instruments will not subject us to undue risk due to fluctuations in the price of gold bullion because gains and losses on these swap contracts should offset losses and gains on the forecasted gold wire expense being hedged.

Interest Rate Risk

At December 31, 2014, we had total indebtedness with an outstanding principal amount of \$5,595 million, including \$3,482 million of variable interest rate debt based on LIBOR. All of our variable rate debt had LIBOR floors that were above the current LIBOR rates, and therefore, is effectively fixed rate debt while LIBOR rates remain below these LIBOR floors. A 100 basis point increase in LIBOR rates from their current levels would result in an increase in our interest expense of only \$5 million per year, as the rates would remain below the LIBOR floor on the 2021 Term Loan.

During 2013, we effectively terminated our previous interest rate swap agreements that hedged exposure through 2016 by entering into offsetting agreements and as such, a change in LIBOR rates would not affect the cash flows under these interest rate swap arrangements because we have fixed the remaining payment stream under these agreements. During 2014, we entered into additional cash flow designated interest rate swap agreements to hedge a portion of our variable rate debt against exposure to increasing LIBOR rates which may exceed the LIBOR floor on our Amended 2020 Term Loan in future periods. These agreements fix the interest rate on a portion of our variable rate debt beginning in 2016. We are required to pay the counterparties a stream of fixed rate interest payments at a weighted average rate of: (i) 1.62% on a notional amount of \$1.4 billion in 2016, (ii) 2.43% on a notional amount of \$1.1 billion in 2017 and (iii) 2.95% on a notional amount of \$800 million in 2018. In connection with these interest rate swap agreements, we will receive variable rate payments from the counterparties based on 1-month LIBOR, subject to a LIBOR floor of 1%, which coincides with the LIBOR floor on the Amended 2020 Term Loan. The fair value of our interest rate swap agreements (including outstanding historical swap agreements and their offsetting swap agreements) was a net obligation of \$12 million, which was estimated based on the yield curve at December 31, 2014. A 100 basis point increase in LIBOR rates would reduce the obligation under our interest rate swap agreements by approximately \$28 million as the payments due to us under the agreements would exceed amounts payable to the counterparties.

The fair value of the aggregate principal amount of our long-term debt, exclusive of \$35 million of current maturities, was \$5,568 million at December 31, 2014, based upon quoted market prices. Since considerable judgment is required in interpreting market information, the fair value of the long-term debt is not necessarily indicative of the amount which could be realized in a current market exchange. A 100 basis point change in corresponding interest rates would impact the fair value of our long-term debt by \$72 million.

Refer to Note 2, “Other Financial Data,” Note 3, “Fair Value Measurement,” Note 4, “Debt,” and Note 5, “Risk Management,” in the accompanying Consolidated Financial Statements for more information about these financial instruments, their fair values and the financial impact recorded in our results of operations. Other than the change to the fair value of our long-term debt, we experienced no significant changes in market risk during 2014. We cannot provide assurance that future changes in foreign currency rates, commodity prices or interest rates will not have a significant effect on our consolidated financial position, results of operations or cash flows.

Counterparty Risk

Outstanding financial derivative instruments expose us to credit loss in the event of nonperformance by the counterparties to the agreements. We also enter into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow counterparties to net settle amounts owed to each other as a result of multiple, separate derivative transactions. The credit exposure related to these financial instruments is represented by the fair value of contracts with a positive fair value at the reporting date. On a periodic basis, we review the credit ratings of our counterparties and adjust our exposure as deemed appropriate. As of December 31, 2014, we believe that our exposure to counterparty risk is immaterial.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Freescal Semiconductor, Ltd.:

We have audited the accompanying consolidated balance sheets of Freescal Semiconductor, Ltd. and subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive earnings (loss), shareholders’ deficit and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Freescal Semiconductor, Ltd. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Freescal Semiconductor, Ltd.’s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 6, 2015 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ KPMG LLP

Austin, Texas

February 6, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Freescal Semiconductor, Ltd.:

We have audited Freescal Semiconductor, Ltd.'s (the "Company") internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Freescal Semiconductor, Ltd.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Freescal Semiconductor, Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Freescal Semiconductor, Ltd. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive earnings (loss), shareholders' deficit and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 6, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Austin, Texas

February 6, 2015

Freescale Semiconductor, Ltd.
Consolidated Statements of Operations

(in millions, except per share amounts)	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Net sales	\$ 4,634	\$ 4,186	\$ 3,945
Cost of sales	2,509	2,399	2,304
Gross margin	2,125	1,787	1,641
Selling, general and administrative	499	464	438
Research and development	846	755	742
Amortization expense for acquired intangible assets	15	13	13
Reorganization of business and other	37	24	(15)
Operating earnings	728	531	463
Loss on extinguishment or modification of long-term debt	(79)	(217)	(32)
Other expense, net	(345)	(482)	(531)
Earnings (loss) before income taxes	304	(168)	(100)
Income tax expense	53	40	2
Net earnings (loss)	\$ 251	\$ (208)	\$ (102)
Net earnings (loss) per share:			
Basic	\$ 0.84	\$ (0.81)	\$ (0.41)
Diluted	\$ 0.83	\$ (0.81)	\$ (0.41)
Weighted average common shares outstanding:			
Basic	298	256	248
Diluted	303	256	248

See accompanying notes.

Freescale Semiconductor, Ltd.
Consolidated Statements of Comprehensive Earnings (Loss)

(in millions)	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Net earnings (loss)	\$ 251	\$ (208)	\$ (102)
Other comprehensive (loss) earnings, net of tax:			
Foreign currency translation adjustments	—	(6)	—
Derivative instruments adjustments:			
Unrealized (losses) gains arising during the period	(21)	(8)	6
Reclassification adjustment for items included in net earnings (loss)	1	—	1
Post-retirement adjustments:			
(Losses) gains arising during the period	(53)	47	(18)
Amortization of actuarial (losses) gains included in net earnings (loss)	(2)	2	—
Other comprehensive (loss) earnings	(75)	35	(11)
Comprehensive earnings (loss)	\$ 176	\$ (173)	\$ (113)

See accompanying notes.

Freescal Semiconductor, Ltd.
Consolidated Balance Sheets

(in millions)	December 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	\$ 696	\$ 747
Accounts receivable, net	562	388
Inventory, net	745	733
Other current assets	166	127
Total current assets	2,169	1,995
Property, plant and equipment, net	750	681
Intangible assets, net	59	52
Other assets, net	297	319
Total assets	<u>\$ 3,275</u>	<u>\$ 3,047</u>
LIABILITIES AND SHAREHOLDERS' DEFICIT		
<i>Liabilities:</i>		
Current portion of long-term debt and capital lease obligations	\$ 35	\$ 93
Accounts payable	413	398
Accrued liabilities and other	397	371
Total current liabilities	845	862
Long-term debt	5,535	6,386
Other liabilities	476	393
Total liabilities	6,856	7,641
<i>Shareholders' deficit:</i>		
Preferred shares, par value \$0.01 per share; 100 shares authorized, no shares issued and outstanding at December 31, 2014 or 2013	—	—
Common shares, par value \$0.01 per share; 900 shares authorized, 305 and 258 issued and outstanding at December 31, 2014 and 2013, respectively	3	3
Additional paid-in capital	9,163	8,326
Accumulated other comprehensive (loss) earnings	(26)	49
Accumulated deficit	(12,721)	(12,972)
Total shareholders' deficit	(3,581)	(4,594)
Total liabilities and shareholders' deficit	<u>\$ 3,275</u>	<u>\$ 3,047</u>

See accompanying notes.

Freescale Semiconductor, Ltd.
Consolidated Statements of Shareholders' Deficit

(in millions)	Common Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Earnings (Loss)	Accumulated Deficit	Total Shareholders' Deficit
	Common Shares	Amount				
Balances at January 1, 2012	246	\$ 2	\$ 8,155	\$ 25	\$ (12,662)	\$ (4,480)
Net loss	—	—	—	—	(102)	(102)
Net cash flow derivative instrument adjustments (net of tax effect)	—	—	—	7	—	7
Post-retirement obligation adjustment (net of tax effect)	—	—	—	(18)	—	(18)
Share-based compensation expense	—	—	39	—	—	39
Issuance of common shares under share-based compensation awards	2	—	9	—	—	9
Issuance of common shares under employee share purchase plan	1	—	14	—	—	14
Balances at December 31, 2012	249	\$ 2	\$ 8,217	\$ 14	\$ (12,764)	\$ (4,531)
Net loss	—	—	—	—	(208)	(208)
Net foreign currency translation adjustments (net of tax effect)	—	—	—	(6)	—	(6)
Net cash flow derivative instrument adjustments (net of tax effect)	—	—	—	(8)	—	(8)
Post-retirement obligation adjustment (net of tax effect)	—	—	—	49	—	49
Share-based compensation expense	—	—	43	—	—	43
Issuance of common shares under share-based compensation awards	7	1	39	—	—	40
Issuance of common shares under employee share purchase plan	2	—	27	—	—	27
Balances at December 31, 2013	258	\$ 3	\$ 8,326	\$ 49	\$ (12,972)	\$ (4,594)
Net earnings	—	—	—	—	251	251
Net cash flow derivative instrument adjustments (net of tax effect)	—	—	—	(20)	—	(20)
Post-retirement obligation adjustment (net of tax effect)	—	—	—	(55)	—	(55)
Share-based compensation expense	—	—	62	—	—	62
Issuance of common shares under share-based compensation awards	5	—	20	—	—	20
Issuance of common shares under employee share purchase plan	2	—	31	—	—	31
Issuance of common shares under equity offering	40	—	717	—	—	717
Excess tax benefits from share-based compensation plans	—	—	7	—	—	7
Balances at December 31, 2014	305	\$ 3	\$ 9,163	\$ (26)	\$ (12,721)	\$ (3,581)

See accompanying notes.

Freescal Semiconductor, Ltd.
Consolidated Statements of Cash Flows

(in millions)	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Cash flows from operating activities:			
Net earnings (loss)	\$ 251	\$ (208)	\$ (102)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	269	275	275
Reorganization of business and other	37	24	(15)
Share-based compensation	67	48	43
Excess tax benefits from share-based compensation plans	(7)	—	—
Deferred incomes taxes	23	58	25
Loss on extinguishment or modification of long-term debt, net	79	217	32
Proceeds from business interruption insurance recoveries	—	—	96
Deferred intellectual property revenue	—	(86)	86
Other non-cash items	59	—	4
Changes in operating assets and liabilities:			
Accounts receivable, net	(219)	(32)	83
Inventory, net	(4)	60	17
Accounts payable and accrued liabilities	(6)	(38)	(145)
Other operating assets and liabilities	(45)	3	(49)
Net cash provided by operating activities	<u>504</u>	<u>321</u>	<u>350</u>
Cash flows from investing activities:			
Purchases of property, plant and equipment	(249)	(151)	(123)
Acquisitions and strategic investment activity	(20)	—	1
Proceeds from the sale of property, plant and equipment	16	11	19
Payments for purchased licenses and other assets	(81)	(70)	(73)
Net cash used for investing activities	<u>(334)</u>	<u>(210)</u>	<u>(176)</u>
Cash flows from financing activities:			
Retirements of and payments for long-term debt and capital lease obligations ⁽¹⁾	(1,568)	(5,062)	(734)
Debt issuance proceeds, net of debt issuance costs ⁽¹⁾	590	4,929	481
Proceeds from equity offering, net of offering costs	717	—	—
Proceeds from stock option exercises and ESPP share purchases	47	62	21
Excess tax benefits from share-based compensation plans	7	—	—
Net cash used for financing activities	<u>(207)</u>	<u>(71)</u>	<u>(232)</u>
Effect of exchange rate changes on cash and cash equivalents	(14)	(4)	(3)
Net (decrease) increase in cash and cash equivalents	(51)	36	(61)
Cash and cash equivalents, beginning of period	747	711	772
Cash and cash equivalents, end of period	<u>\$ 696</u>	<u>\$ 747</u>	<u>\$ 711</u>

(1) As discussed in Note 4, "Debt," Freescale Inc. issued a \$2.7 billion term loan in the first quarter of 2014, of which \$2.1 billion was a non-cash exchange with existing lenders and is not reflected in the above presentation.

See accompanying notes.

Freescale Semiconductor, Ltd.
Notes to the Consolidated Financial Statements
(Dollars in millions, except as noted)

(1) Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation: Freescale Semiconductor, Inc. ("Freescale Inc.") was incorporated in Delaware in 2003. In the second quarter of 2004, Motorola, Inc. ("Motorola") transferred substantially all of its semiconductor businesses' assets and liabilities to Freescale Inc. (the "Contribution") in anticipation of an initial public offering (IPO) of Freescale Inc. Class A common stock; the IPO was completed on July 21, 2004. Prior to the IPO, Freescale Inc. was a wholly owned subsidiary of Motorola. All of the Freescale Inc. Class B shares of common stock were held by Motorola until Motorola distributed its remaining ownership interest in Freescale Inc. by means of a special dividend to its common stockholders (the "Distribution") on December 2, 2004 (the "Distribution Date").

On December 1, 2006, Freescale Inc. was acquired by a consortium of private equity funds (the "Merger"). The consortium includes The Blackstone Group, The Carlyle Group, funds advised by Permira Advisers, LLC, TPG Capital and others (collectively, the "Sponsors"). Pursuant to the terms of the Merger, Freescale Inc. continues as a wholly owned indirect subsidiary of Freescale Semiconductor, Ltd. ("Freescale Ltd."). At the close of the Merger, Freescale Inc. became a subsidiary of Freescale Semiconductor Holdings V, Inc. ("Holdings V"), which is wholly owned by Freescale Semiconductor Holdings IV, Ltd. ("Holdings IV"), which is wholly owned by Freescale Semiconductor Holdings III, Ltd. ("Holdings III"), which is wholly owned by Freescale Semiconductor Holdings II, Ltd. ("Holdings II"), which is wholly owned by Freescale Ltd. All five of these companies were formed for the purposes of facilitating the Merger and are collectively referred to as the "Parent Companies." Freescale Holdings L.P., a Cayman Islands limited partnership ("Freescale LP"), an entity controlled by the Sponsors, owns the majority of the outstanding shares of Freescale Ltd. as of December 31, 2014. The reporting entity subsequent to the Merger is Freescale Ltd. Freescale Ltd. refers to the operations of Freescale Ltd. and its subsidiaries and may be referred to as the "Company," "Freescale," "we," "us" or "our," as the context requires.

During the second quarter of 2011, we completed an IPO with an over-allotment option under which we sold a total of 49 million of our common shares at a public offering price of \$18.00 per share, the net proceeds from which were largely used to repay or redeem a portion of our outstanding indebtedness. During the first quarter of 2014, we completed an equity issuance in which we sold 40.25 million of our common shares, including the exercise of the underwriters' option, at a public offering price of \$18.50 per share (the "Q1 2014 Equity Offering"). The net proceeds of this offering were approximately \$717 million, after deducting the costs directly attributable to the transaction including underwriters' discounts and commissions and offering expenses. We contributed the net proceeds to Freescale Inc. to redeem, along with cash on hand, an aggregate of approximately \$680 million in outstanding indebtedness and to pay approximately \$38 million in call premiums associated with the debt extinguishment. (Refer to Note 4, "Debt," for further discussion of the redemption and related transactions referenced in this section.)

Our consolidated financial statements include all majority-owned subsidiaries and assets and liabilities of the Company. Investments in which the Company exercises significant influence, but which it does not control, are accounted for under the equity method of accounting. Investments in which the Company does not exercise significant influence are recorded at cost. All intercompany transactions between and among the Company and its subsidiaries have been eliminated.

We consider events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

Risks and Uncertainties: Our business is significantly impacted by demand for electronic content in automobiles, networking and wireless infrastructure equipment, various industrial devices relating to factory automation, energy conservation and medical equipment, and consumer electronic devices. We operate in an industry that is cyclical and subject to constant and rapid technological change, product obsolescence, price erosion, evolving standards, short product life-cycles and fluctuations in product supply and demand.

We continue to focus our resources on our core automotive, networking, industrial and consumer products. Our future net sales and profitability will be affected by, among other factors, the general global economic environment, our ability to meet unscheduled or temporary increases in demand and our ability to meet product development launch cycles in our targeted markets, among other factors.

Revenue Recognition: We recognize revenue from product sales when title transfers, the risks and rewards of ownership have been transferred to the customer, the fee is fixed or determinable, and collection of the related receivable is reasonably assured, which is generally at the time of shipment. Sales with destination point terms are recognized upon delivery. Accruals are established, with the associated reduction to net sales at the time the related revenue is recognized, for allowances for discounts and product returns based on actual historical experience. Revenue for services is recognized ratably over the contract term or as services are performed.

Net sales from contracts with multiple deliverables are recognized as each deliverable is earned based on the relative fair value of each deliverable when there are no undelivered items that are essential to the functionality of the delivered items and when the amount is not contingent upon delivery of the undelivered items. More specifically, the deliverables under each arrangement are analyzed to determine whether they are separate units of accounting, and if so, the total arrangement consideration is allocated based on each deliverable's relative selling price using vendor-specific objective evidence ("VSOE"), third-party evidence ("TPE"), or estimated selling prices ("ESP"). When we are unable to establish selling price using VSOE or TPE, we use ESP in our allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact a sale if the product or service was sold on a standalone basis. The ESP is determined by considering multiple factors including, but not limited to, our pricing practices, gross margin objectives, internal costs and industry specific information. Changes in any number of these factors may have a substantial impact on the selling price as assigned to each deliverable. These inputs and assumptions represent management's best estimates at the time of the transaction. Applicable receivables are discounted in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Revenue related to licensing agreements is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection of resulting receivables is reasonably assured. Revenue from upfront payments for the licensing of our patents is recognized when the arrangement is mutually signed, if there is no future delivery or future performance obligations and all other criteria are met. When patent licensing arrangements include royalties for future sales of the licensees' products using our licensed patented technology, revenue is recognized based on royalty reports received from the licensee, provided that all other criteria have been met. As a percentage of sales, revenue related to intellectual property sales or licensing agreements represented 1%, 5% and 5% for the years ended December 31, 2014, 2013 and 2012, respectively.

Distributor Sales: Revenue from sales to distributors of our products is recognized when title transfers, the risks and rewards of ownership have been transferred to the customer, the fee is fixed or determinable, and collection of the related receivable is reasonably assured, which is generally at the time of shipment. In response to competitive market conditions, we offer incentive programs common to the semiconductor industry whereby distributors receive certain price adjustments to meet individual competitive opportunities, or are allowed to return or scrap a limited amount of product in accordance with contractual terms agreed upon with the distributor, or receive price protection credits when our standard published prices are lowered from the price the distributor paid for product still in its inventory. Accruals for the estimated distributor incentives are established at the time of the sale, along with a related reduction to net sales, based on the terms of the various incentive programs, historical experience with such programs, prevailing market conditions and current distributor inventory levels. The Company's policy is to use a rolling historical experience rate, as well as a prospective view of products and pricing in the distributor channel for distributors who participate in our volume rebate incentive program, in order to estimate the proper provision for this program at the end of any given reporting period. We continually monitor the actual claimed allowances against our estimates, and we adjust our estimates as appropriate to reflect trends in pricing environments and distributor resales and inventory levels. Distributor reserves are also adjusted when recent historical data does not represent anticipated future activity. As a percentage of sales, revenue derived from distributors for customers serviced exclusively through the distribution channel represented 27%, 25% and 23% for the years ended December 31, 2014, 2013 and 2012, respectively.

Product-Related Expenses: Shipping and handling costs associated with product sales are included in cost of sales. Expenditures for advertising are expensed as incurred, and are included in selling, general and administrative expenses. Provisions for estimated costs related to product warranties are made at the time the related sale is recorded, based on historic trends and are included in cost of sales. Research and development costs are expensed as incurred.

Share-Based Compensation Costs: We have several share-based employee compensation plans, which are more fully described in Note 6, "Employee Benefit and Incentive Plans." We account for awards granted under those plans using the fair-value recognition provisions of ASC Topic 718, "Compensation-Stock Compensation" ("ASC Topic 718"). We estimate the fair value of non-qualified options using the Black-Scholes option-pricing model with the weighted-average assumptions listed in Note 6 or using the Monte Carlo valuation model, as appropriate.

Foreign Currency Transactions: The effects of remeasuring the non-functional currency assets or liabilities into the functional currency as well as gains and losses on hedges of existing assets or liabilities are marked-to-market, and the result is included within other expense, net in the accompanying Consolidated Statements of Operations. Gains and losses on financial instruments that hedge future cash flows are deferred until such time as the underlying transactions are recognized or are recorded immediately when it is probable the transaction will not occur. Gains or losses on financial instruments that do not qualify as hedges are recognized immediately as income or expense. These financial instruments are presented on a gross basis in the Consolidated Balance Sheets.

Prior to the change in functional currency, the effects of translating the financial position and results of operations of local currency functional operations for certain of our non-U.S. subsidiaries into U.S. dollars were included in a separate component of shareholders' deficit.

Cash and Cash Equivalents: We consider all highly liquid investments, not considered short-term investments, purchased with an original maturity of three months or less to be cash equivalents.

Inventory: Inventory is stated at the lower of cost or estimated net realizable value. Cost is generally computed on a currently adjusted standard cost basis, which approximates average costs on a first-in first-out basis. Standard costs are based on the normal utilization of installed factory capacity. Costs associated with underutilization of capacity are expensed as incurred. We review inventory quarterly for salability and obsolescence. A specific allowance is provided for inventory considered unlikely to be sold. We write-off inventory in the period in which disposal occurs.

Property, Plant and Equipment: Property, plant and equipment are stated at cost less accumulated amortization and depreciation. Depreciation is recorded using the straight-line method, based on the lesser of the estimated useful or contractual lives of the assets (buildings and building equipment, 5-40 years; machinery and equipment, 3-7 years), and commences once the assets are ready for their intended use.

Assets Held for Sale: When management determines that an asset is to be sold and that it is available for immediate sale subject only to terms that are usual and customary, the asset is no longer depreciated and is reclassified to assets held for sale. Assets held for sale are reported in other current assets at the lower of the carrying amount or fair value less costs to sell.

Intangible Assets: Our intangible assets are amortized on a straight-line basis over their respective estimated useful lives primarily ranging from two to ten years. The useful lives of the intangible assets acquired by Freescale Ltd. as part of the Merger were established in connection with the allocation of fair values at December 2, 2006 and were largely fully amortized as of December 31, 2011. We have no intangible assets with indefinite useful lives.

Impairment of Long-Lived Assets: Long-lived assets held and used by us and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. We evaluate recoverability of assets to be held and used by comparing the carrying amount of an asset to future net undiscounted cash flows to be generated by the asset group. If such assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset group exceeds the fair value of the assets. We determine fair value based on either market quotes, if available, or discounted cash flows using a discount rate commensurate with the risk inherent in our current business model for the specific asset being valued.

Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and also for net operating loss and credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

We have reserves for taxes, associated interest, and other related costs that may become payable in future years as a result of audits by tax authorities. Although we believe that the positions taken on previously filed tax returns are fully supported, we nevertheless have established reserves recognizing that various taxing authorities may challenge certain positions, which may not be fully sustained. The tax reserves are reviewed quarterly and adjusted as events occur that affect our potential liability for additional taxes, such as lapsing of applicable statutes of limitations, proposed assessments by tax authorities, resolution of tax audits, negotiations between tax authorities of different countries concerning our transfer prices, identification of new issues and issuance of new regulations or new case law.

Debt Issuance Costs: We capitalize direct costs incurred to obtain financings and amortize these costs over the terms of the related debt instrument using the effective interest method. Upon the extinguishment of the related debt, any unamortized debt issuance costs are immediately expensed.

Fair Values of Financial Instruments: The fair values of financial instruments are determined based on quoted market prices and market interest rates as of the end of the reporting period. Our financial instruments include cash and cash equivalents, accounts receivable, investments, accounts payable, accrued liabilities, derivative contracts and long-term debt. Except for the fair value of our long-term debt, the fair values of these financial instruments were not materially different from their carrying or contract values at December 31, 2014 and 2013. See Note 3, "Fair Value Measurement," Note 4, "Debt," Note 5, "Risk Management" and Note 6, "Employee Benefit and Incentive Plans" for further details concerning fair value measurement, the fair value of our long-term debt, derivative contracts and pension plan assets, respectively.

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

Reclassifications: Certain amounts reported in previous periods have been reclassified to conform to the current presentation.

Business Segments: Management believes the current organizational structure of our sales and marketing, new product introduction, and supply chain operations enables us to execute to our strategic growth initiatives. We design, develop, manufacture and market high-performance semiconductor products. Our Chief Executive Officer (“CEO”) has been identified as the Chief Operating Decision Maker (“CODM”) as defined by ASC Topic 280, “Segment Reporting” (“ASC Topic 280”). Under the leadership of our CODM, our Company is structured and organized around standardized roles and responsibilities based on the following centralized corporate functions: Sell (sales and marketing/strategy), Design (research and development, product design and new product introduction) and Build (manufacturing, supply chain operations, quality and process technology) along with our corporate support functions (finance, information technology, human resources and legal). This centralized structure supports a uniform global operating strategy in which the CODM executes strategic planning based on our target markets, capital investment and resource allocation decisions at the total Company level.

We have five product groups that have similar products, production processes, types of customers and methods for distribution. In addition, the tools and technology used in the design of our products are shared among the various product groups. These product groups engage in business activities that earn revenue; however the majority of the expenses generated by each product group are allocated to the product group by other centralized functions. The operational results of the product groups are provided on a supporting basis to our CODM along with other financial, operating and market data on the overall Company to facilitate management supervision over, and measure the efficiency of, the Company’s operations at level higher than the individual products.

In regards to the “Sell” component of our strategy, it is the role of our global sales and marketing team, as directed by our CODM, to identify new business opportunities across our target markets. The members of our sales and marketing team are organized by customer and are responsible for maximizing the total Company market share within each customer. Our product groups have been established to manage the “Design” element of our Company strategy via product design and new product introduction. The General Managers (“GMs”) of the product groups, under the direction of the CODM, coordinate the achievement of design wins, revenue, gross margin and certain other performance targets. However, the CODM can override decisions made by the GMs at any time. Manufacturing operations, by following the strategic roadmap established by the CODM, is responsible for the “Build” element which is achieved through the planning of production, prioritization of our manufacturing capabilities, and new product costing assessments to ensure we are using our manufacturing capacity effectively to support our product roadmaps and fulfill customer requirements. The GMs of the product groups are not segment managers as evidenced by the lack of autonomous control each GM has over their respective product groups.

Based upon the current organizational structure, we operate and account for our results in one operating segment, as defined by ASC Topic 280, and therefore, the aggregation criteria to determine reportable segments are not applicable.

(2) Other Financial Data

Statements of Operations Supplemental Information

Intellectual Property Revenue

Intellectual property revenue for 2014, 2013 and 2012 was \$54 million, \$203 million and \$191 million, respectively. Of these amounts, for 2013 and 2012, we recorded intellectual property revenue of \$164 million and \$136 million, respectively, related to multiple deliverable arrangements entered into during the second quarter of 2012. These arrangements included (i) multi-year patent license agreements, ranging from six to eight years, and renewal options upon the expiration of such license agreement and (ii) patent sales and services. The total consideration received under these agreements was \$304 million, of which \$5 million, \$78 million and \$198 million was received in 2014, 2013 and 2012, respectively. The remaining cash of \$23 million will be received in connection with one of these deliverable arrangements over the next five years, with \$5 million anticipated to be received within the next twelve months.

Loss on Extinguishment or Modification of Long-Term Debt

During 2014, we recorded charges totaling \$79 million associated with the debt redemptions that occurred during the third and fourth quarters of 2014 along with the extinguishment of debt and the amendments to our senior secured credit facilities completed during the first quarter of 2014. These charges consisted of call premiums, the write-off of unamortized debt issuance costs and original issue discount (“OID”) associated with the extinguished debt and other expenses not eligible for capitalization in accordance with ASC Subtopic 470-50, “Modifications and Extinguishments” (“ASC Subtopic 470-50”). (Refer to Note 4, “Debt,” for discussion of the transactions referenced in this section.)

During 2013, we recorded charges totaling \$217 million associated with the extinguishment and modification of existing debt and the issuance of secured notes and term loans. These charges consisted of the write-off of unamortized debt issuance costs, OID and other expenses not eligible for capitalization.

During 2012, we recorded charges totaling \$32 million associated with (i) the refinancing of a portion of our subordinated notes, which included both the extinguishment and modification of existing debt and the issuance of a term loan,

and (ii) the redemption of a portion of our senior notes. These charges consisted of call premiums, the write-off of unamortized debt issuance costs associated with the extinguished debt and other expenses not eligible for capitalization.

Other Expense, Net

The following table displays the amounts comprising Other expense, net in the Consolidated Statements of Operations:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Interest expense	\$ (353)	\$ (490)	\$ (519)
Interest income	10	7	9
Interest expense, net	(343)	(483)	(510)
Other, net	(2)	1	(21)
Other expense, net	<u>\$ (345)</u>	<u>\$ (482)</u>	<u>\$ (531)</u>

Cash paid for interest was \$360 million, \$497 million and \$511 million during 2014, 2013 and 2012, respectively.

During 2012, we recorded losses in other, net of \$21 million primarily attributable to the realized results and changes in the fair value associated with our non-cash flow designated interest rate swap agreements, as recorded in accordance with ASC Topic 815, "Derivatives and Hedging" ("ASC Topic 815"), partially offset by foreign currency fluctuations.

Net Earnings (Loss) Per Share

We calculate earnings per share (EPS) in accordance with ASC Topic 260, "Earnings per Share," using the treasury stock method. Basic EPS is computed based on the weighted average number of common shares outstanding and unissued shares underlying vested restricted share units (RSUs) during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the net earnings of the Company. Approximately 12 million, 25 million and 27 million for 2014, 2013 and 2012, respectively, of the Company's stock options, RSUs and a warrant were excluded from the calculation of diluted EPS because the inclusion of these awards would have been anti-dilutive. These awards could be dilutive in the future if the average estimated fair value of the common shares increases and is greater than the exercise price of these awards and the assumed repurchases of shares under the treasury stock method.

The following is a reconciliation of the numerators and denominators of the basic and diluted net earnings (loss) per common share computations for the periods presented:

(in millions, except per share amounts)	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Basic net earnings (loss) per share:			
<i>Numerator:</i>			
Net earnings (loss)	\$ 251	\$ (208)	\$ (102)
<i>Denominator:</i>			
Weighted average common shares outstanding ⁽¹⁾	298	256	248
Basic net earnings (loss) per share	<u>\$ 0.84</u>	<u>\$ (0.81)</u>	<u>\$ (0.41)</u>
Diluted net earnings (loss) per share:			
<i>Numerator:</i>			
Net earnings (loss)	\$ 251	\$ (208)	\$ (102)
<i>Denominator:</i>			
Number of shares used in basic computation ⁽¹⁾	298	256	248
Add: Incremental shares for dilutive effect of warrants ⁽²⁾	—	—	—
Add: Incremental shares for dilutive effect of stock options ⁽³⁾	2	—	—
Add: Incremental shares for dilutive effect of unvested RSUs ⁽⁴⁾	3	—	—
Adjusted weighted average common shares outstanding	<u>303</u>	<u>256</u>	<u>248</u>
Diluted net earnings (loss) per share	<u>\$ 0.83</u>	<u>\$ (0.81)</u>	<u>\$ (0.41)</u>

(1) Weighted average common shares outstanding includes outstanding common shares of the Company and unissued common shares underlying vested RSUs. The increase in weighted average common shares outstanding during 2014 is largely the result of the Q1 2014 Equity Issuance.

- (2) A warrant to purchase an aggregate of 10 million common shares at \$36.12 per share was outstanding during all periods presented but was not included in the 2014 computation of diluted EPS because the warrant's exercise price was greater than the average fair market value of the common shares. For 2013 and 2012, the warrant was not included in the computation of diluted EPS as a net loss was incurred in both periods.
- (3) Stock options to purchase an aggregate of 2 million common shares that were outstanding during 2014 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 shares or the number of shares assumed to be repurchased using the proceeds of unrecognized compensation expense, potential windfall tax benefits and exercise prices was greater than the weighted average number of shares underlying outstanding stock options. Stock options to purchase an aggregate of 8 million and 13 million common shares that were outstanding during 2013 and 2012, respectively, were not included in the computation of diluted EPS as a net loss was incurred in both periods.
- (4) Unvested RSUs of less than 1 million for 2014 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 and potential windfall tax benefits was greater than the weighted average number of outstanding unvested RSUs. Unvested RSUs of 7 million and 4 million that were outstanding during 2013 and 2012, respectively, were not included in the computation of diluted EPS as a net loss was incurred in both periods.

Balance Sheets Supplemental Information

Inventory, Net

Inventory, net consisted of the following:

	December 31, 2014	December 31, 2013
Work in process and raw materials	\$ 517	\$ 497
Finished goods	228	236
Inventory, net	<u>\$ 745</u>	<u>\$ 733</u>

As of December 31, 2014 and 2013, we had \$62 million and \$65 million, respectively, in reserves for inventory deemed obsolete or in excess of forecasted demand and for any inventory where the cost exceeds the estimated net realizable value. If actual future demand or market conditions are less favorable than those projected by our management, additional inventory write-downs may be required.

Other Current Assets

Other current assets consisted of the following:

	December 31, 2014	December 31, 2013
Deferred income taxes	\$ 84	\$ 54
Prepaid expenses	32	27
Miscellaneous receivables	25	19
Income tax receivable	6	6
Other	19	21
Total other current assets	<u>\$ 166</u>	<u>\$ 127</u>

Property, Plant and Equipment, Net

Property, plant and equipment, net consisted of the following:

	December 31, 2014	December 31, 2013
Land	\$ 56	\$ 56
Buildings and improvements	821	862
Machinery and equipment	2,656	2,513
Assets not yet placed in service	54	24
Total	<u>3,587</u>	<u>3,455</u>
Less accumulated depreciation and amortization	<u>(2,837)</u>	<u>(2,774)</u>
Property, plant and equipment, net	<u>\$ 750</u>	<u>\$ 681</u>

Depreciation and amortization expense was \$173 million, \$181 million and \$179 million for 2014, 2013 and 2012, respectively. Included in property, plant and equipment, net are capital lease assets of less than \$1 million and \$1 million as of

December 31, 2014 and 2013, respectively. These capital lease amounts are net of accumulated amortization of \$5 million and \$20 million as of December 31, 2014 and 2013, respectively.

Intangible Assets, Net

Intangible assets, net of \$59 million and \$52 million at December 31, 2014 and 2013, respectively, were composed of the following:

	December 31, 2014		December 31, 2013	
	Amortizable Cost	Accumulated Amortization	Amortizable Cost	Accumulated Amortization
Developed technology/purchased licenses	\$ 46	\$ 26	\$ 40	\$ 25
Trademarks/tradenames	144	119	144	107
Customer relationships	16	2	—	—
Intangible assets	<u>\$ 206</u>	<u>\$ 147</u>	<u>\$ 184</u>	<u>\$ 132</u>

Amortization expense for these intangible assets was \$31 million, \$27 million and \$29 million for 2014, 2013 and 2012, respectively. Amortization expense is estimated to be \$31 million in 2015, \$25 million in 2016 and \$6 million in 2017. There is currently no amortization expense scheduled past 2017. As a result of two acquisitions completed during 2014, we recorded \$18 million of intangible assets, largely comprised of customer relationships, to be amortized over periods ranging from one to three years. In connection with the Strategic Realignment, we recorded an \$11 million accelerated amortization charge to reorganization of business and other in 2012 associated with the change in remaining useful lives of certain of our purchased licenses. As a result, operating earnings decreased and net loss increased by approximately the same amount, or by \$0.04 per share. (Refer Note 10, “Reorganization of Business and Other” for further details regarding this charge.)

Other Assets, Net

Other assets, net consisted of the following:

	December 31, 2014	December 31, 2013
Deferred income taxes	\$ 79	\$ 92
Debt issuance costs, net	76	102
Tool and die, net	64	56
Other long-term receivables	38	34
Asia land leases	18	18
Income tax receivable	16	11
Other	6	6
Total other assets, net	<u>\$ 297</u>	<u>\$ 319</u>

Accrued Liabilities and Other

Accrued liabilities consisted of the following:

	December 31, 2014	December 31, 2013
Employee compensation	\$ 156	\$ 150
Interest payable	52	75
Severance	30	31
Unrealized forward contracts	19	5
Taxes other than income taxes	16	16
Deferred revenue	15	1
Other	109	93
Total accrued liabilities and other	<u>\$ 397</u>	<u>\$ 371</u>

Other Liabilities

Other liabilities consisted of the following:

	December 31, 2014	December 31, 2013
Retiree healthcare obligation	\$ 147	\$ 117
Pension obligations	134	107
Deferred income taxes	95	65
Environmental reserves	38	39
Income taxes payable	25	28
Interest rate swap and related agreements	13	9
Other	24	28
Total other liabilities	<u>\$ 476</u>	<u>\$ 393</u>

Accumulated Other Comprehensive (Loss) Earnings

Accumulated other comprehensive (loss) earnings consisted of the following:

	Unrealized (Losses) Gains on Derivatives	Unrealized Gains (Losses) on Post-retirement Obligations	Foreign Currency Translation	Total
Balance at of January 1, 2012	\$ (5)	\$ 5	\$ 25	\$ 25
2012 net change	7	(18)	—	(11)
Balance at December 31, 2012	2	(13)	25	14
2013 net change	(8)	49	(6)	35
Balance at December 31, 2013	\$ (6)	\$ 36	\$ 19	\$ 49
2014 net change	(20)	(55)	—	(75)
Balance at December 31, 2014	<u>\$ (26)</u>	<u>\$ (19)</u>	<u>\$ 19</u>	<u>\$ (26)</u>

(3) Fair Value Measurement

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Authoritative guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are market inputs participants would use in valuing the asset or liability and are developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect management's assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – quoted prices for similar assets and liabilities in active markets or inputs that are observable; and,

Level 3 – inputs that are unobservable (for example, cash flow modeling inputs based on assumptions).

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

We measure cash and cash equivalents, derivative contracts and certain other assets and liabilities, as required, at fair value on a recurring basis. The tables below set forth, by level, the fair value of these assets and liabilities as of December 31, 2014 and December 31, 2013, respectively. The table does not include assets and liabilities which are measured at historical cost or on any basis other than fair value. During both 2014 and 2013, there were no transfers between Level 1 and Level 2. We had no Level 3 instruments at December 31, 2014 or December 31, 2013.

		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
As of December 31, 2014	Total	(Level 1)	(Level 2)
Assets			
Time deposits ⁽¹⁾	\$ 344	\$ 344	\$ —
Money market mutual funds ⁽¹⁾	7	7	—
Foreign currency derivative contracts ⁽²⁾	3	—	3
Interest rate swap agreements ⁽³⁾	1	—	1
Total assets	\$ 355	\$ 351	\$ 4
Liabilities			
Foreign currency derivative contracts ⁽²⁾	\$ 19	\$ —	\$ 19
Interest rate swap agreements ⁽³⁾	13	—	13
Commodity derivative contracts ⁽⁴⁾	1	—	1
Total liabilities	\$ 33	\$ —	\$ 33

		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
As of December 31, 2013	Total	(Level 1)	(Level 2)
Assets			
Time deposits ⁽¹⁾	\$ 339	\$ 339	\$ —
Money market mutual funds ⁽¹⁾	5	5	—
Foreign currency derivative contracts ⁽²⁾	2	—	2
Interest rate swap agreements ⁽³⁾	1	—	1
Total assets	\$ 347	\$ 344	\$ 3
Liabilities			
Foreign currency derivative contracts ⁽²⁾	\$ 5	\$ —	\$ 5
Interest rate swap agreements ⁽³⁾	6	—	6
Commodity derivative contracts ⁽⁴⁾	3	—	3
Total liabilities	\$ 14	\$ —	\$ 14

The following footnotes indicate where the noted items are reported in our Consolidated Balance Sheets at December 31, 2014 and December 31, 2013:

- (1) Time deposits and money market mutual funds are reported as cash and cash equivalents.
- (2) Foreign currency derivative contracts are reported as other current assets or accrued liabilities and other.
- (3) Interest rate swap arrangements are reported as current assets, accrued liabilities and other or other liabilities.
- (4) Commodity derivative contracts are reported as accrued liabilities and other.

Valuation Methodologies

In determining the fair value of our interest rate swap derivatives, we use the present value of expected cash flows based on market observable interest rate yield curves commensurate with the term of each instrument. For foreign currency and commodity derivatives, our approach is to use forward contract valuation models employing market observable inputs, such as spot and forward rates for currencies and commodities. Since we only use observable inputs in our valuation of our derivative assets and liabilities, they are considered Level 2. Refer to Note 5, "Risk Management," for further information on our foreign currency and commodity derivative contracts and our interest rate swap agreements.

Fair Value of Other Financial Instruments

In addition to the assets and liabilities described above, our financial instruments also include accounts receivable, other investments, accounts payable, accrued liabilities and long-term debt. Except for the fair value of our long-term debt, which was approximately \$5,568 million, exclusive of \$35 million of current maturities, at December 31, 2014, and approximately

\$6,566 million, exclusive of \$93 million of current maturities, at December 31, 2013, the fair values of these financial instruments were not materially different from their carrying or contract values on those dates. The fair value of our long-term debt is considered a Level 1 input based on broker trading prices in active markets.

(4) Debt

The carrying value of our long-term debt at December 31, 2014 and December 31, 2013 consisted of the following:

	December 31, 2014	December 31, 2013
2016 Term Loan	\$ —	\$ 347
2020 Term Loan	—	2,349
Amended 2020 Term Loan	2,674	—
2021 Term Loan	783	790
2019 Revolver	—	—
Senior secured 5.00% notes due 2021	500	500
Senior secured 6.00% notes due 2022	960	960
Senior unsecured floating rate notes due 2014	—	57
Senior unsecured 10.75% notes due 2020	473	473
Senior unsecured 8.05% notes due 2020	180	739
Senior subordinated 10.125% notes due 2016	—	264
Total debt	5,570	6,479
Less: current maturities	(35)	(93)
Total long-term debt	\$ 5,535	\$ 6,386

Third and Fourth Quarter of 2014 Debt Redemption Transactions

On September 29, 2014, after the requisite notice period, Freescale Inc. redeemed \$100 million principal amount of the senior unsecured 8.05% notes due 2020 (the "8.05% Unsecured Notes") and recorded a \$10 million charge, reflective of call premiums and the write-off of unamortized debt issuance costs on the extinguished notes.

On November 10, 2014, after the requisite notice period, Freescale Inc. redeemed an additional \$100 million principal amount of the 8.05% Unsecured Notes and recorded an incremental \$10 million charge, reflective of call premiums and the write-off of unamortized debt issuance costs on the extinguished notes.

First Quarter of 2014 Revolver Amendment and Debt Redemption Transactions

On February 10, 2014, Freescale Inc. entered into an amendment to its existing revolving credit facility which became effective on February 18, 2014 (the "Q1 2014 Revolver Amendment"). Pursuant to the amendment, the existing revolving credit facility was replaced with a new revolving credit facility with an aggregate of \$400 million of commitments (the "2019 Revolver"). The amendment also extended the maturity of the new revolving credit facility to February 1, 2019. Except as described above, the 2019 Revolver is subject to substantially the same terms and conditions as the prior revolving credit facility, including the same pro rata split between United States Dollar and alternative currency availability.

On March 20, 2014, after the requisite notice period, Freescale Inc. utilized approximately \$717 million of net proceeds from the Q1 2014 Equity Offering, which were contributed to Freescale Inc. by Freescale Ltd. and certain of its subsidiaries, along with cash on hand, to redeem (i) the remaining \$264 million of senior subordinated 10.125% notes due 2016, (ii) the remaining \$57 million of senior unsecured floating rate notes due 2014 and (iii) \$359 million of the outstanding principal amount of the 8.05% Unsecured Notes and to pay call premiums of \$38 million and accrued interest of \$11 million. Because cash proceeds were used for the redemption of debt, which relieved Freescale Inc., Freescale Ltd. and certain other Freescale Ltd. subsidiaries of their obligations associated with the aforementioned liabilities outstanding under these notes, the transaction was accounted for as an extinguishment of debt in accordance with ASC Subtopic 470-50.

In connection with these transactions, we recorded a charge of \$48 million in the Consolidated Statement of Operations during 2014 comprised of call premiums totaling \$38 million along with the write-off of unamortized debt issuance costs and other expenses not eligible for capitalization under ASC Topic 470-50.

First Quarter of 2014 Term Loan Refinancing Transaction

On March 4, 2014, Freescale, Inc. entered into an amendment and refinancing agreement to its senior secured term loan facilities, which effectively (i) lowered the interest rate of our existing \$347 million senior secured term loan facility maturing in December 2016 (the "2016 Term Loan"), (ii) extended the maturity of the 2016 Term Loan to March 2020 to coincide with the maturity of its existing \$2.37 billion senior secured term loan facility maturing in March 2020 (the "2020 Term Loan") and

(iii) lowered the interest rate applicable to the 2020 Term Loan. This transaction was referred to as the "Q1 2014 Term Loan Refinancing Transaction."

In connection with this transaction, (i) a portion of the existing lenders under the 2016 Term Loan agreed to the lower interest rate and extended maturity, (ii) a portion of the existing lenders under the 2020 Term Loan agreed to the lower interest rate and (iii) Freescale used the proceeds of new senior secured term loans to refinance in full the 2016 Term Loan lenders and the 2020 Term Loan lenders who did not agree to the amendment. As a result, the amended 2016 Term Loan, the amended 2020 Term Loan and the new senior secured term loans, now have identical terms and are treated as a single tranche of senior secured term loans with an initial aggregate principal amount of \$2.72 billion, collectively referred to as the "Amended 2020 Term Loan." (Refer to further discussion of the key terms of this instrument described in the Credit Facility discussion below.)

The Amended 2020 Term Loan was issued at par, but was originally recorded at a \$21 million discount, reflecting a portion of the remaining OID previously attributable to the 2020 Term Loan which was deemed exchanged for the Amended 2020 Term Loan. A portion of the proceeds from the issuance of the Amended 2020 Term Loan was used to prepay portions of the 2016 and 2020 Term Loans, thus relieving Freescale Inc., Freescale Ltd. and certain other Freescale Ltd. subsidiaries of their obligations associated with that liability. This portion of the Q1 2014 Term Loan Refinancing Transaction constitutes an extinguishment of debt under ASC Subtopic 470-50 and was accounted for accordingly. A significant portion of our lenders under the Amended 2020 Term Loan were lenders under the 2016 and 2020 Term Loans. Effectively, these lenders exchanged a portion of the previous loans for the Amended 2020 Term Loan. This portion of the transaction was accounted for as an exchange that was a non-substantial modification of debt under ASC Subtopic 470-50, as the difference between the present value of the cash flows under the Amended 2020 Term Loan and the present value of the cash flows under each of the 2016 and 2020 Term Loans held by these lenders was less than 10%. The remaining portion of the Amended 2020 Term Loan related to new funds committed and was accounted for as a new debt issuance.

In connection with this transaction, we incurred approximately \$6 million of fees and expenses, of which \$1 million was capitalized and will be amortized over the term of the Amended 2020 Term Loan. We recorded a charge of \$11 million during 2014 associated with this transaction, which was comprised of the write-off of unamortized debt issuance costs, OID and other expenses not eligible for capitalization under ASC Subtopic 470-50.

Credit Facility

At December 31, 2014, Freescale Inc.'s senior secured credit facilities (the "Credit Facility") included (i) the Amended 2020 Term Loan, (ii) the senior secured term loan facility maturing in 2021 (the "2021 Term Loan") and (iii) the 2019 Revolver, including letters of credit and swing line loan sub-facilities, with a committed capacity of \$400 million. At December 31, 2014, the interest rate on the Amended 2020 Term Loan and the 2021 Term Loan was 4.25% and 5.00%, respectively. The available capacity under the 2019 Revolver was \$384 million, as reduced by \$16 million of outstanding letters of credit at December 31, 2014.

Amended 2020 Term Loan

At December 31, 2014, \$2,692 million was outstanding under the Amended 2020 Term Loan, which will mature on March 1, 2020. The Amended 2020 Term Loan bears interest, at Freescale Inc.'s option, at a rate equal to a spread over either (i) a base rate equal to the higher of either (a) the prime rate of Citibank, N.A. or (b) the federal funds rate, plus one-half of 1%; or (ii) a LIBOR rate based on the cost of funds for deposit in the currency of borrowing for the relevant interest period, adjusted for certain additional costs. The third amended and restated credit agreement as of March 1, 2013 as amended by the Q1 2014 Revolver Amendment and the Q1 2014 Term Loan Refinancing transaction (the "Credit Agreement") governs the terms of the Credit Facility and based on our total leverage ratio provides that the spread over LIBOR with respect to the Amended 2020 Term Loan is 3.25%, with a LIBOR floor of 1.00%. Under the Credit Agreement, Freescale Inc. is required to repay a portion of the Amended 2020 Term Loan in quarterly installments in aggregate annual amounts equal to 1% of the initial balance of the Amended 2020 Term Loan, or \$27 million annually. At December 31, 2014, the Amended 2020 Term Loan was recorded on the Consolidated Balance Sheet at a \$18 million discount which is subject to accretion to par value over the term of the loan using the effective interest method.

2021 Term Loan

At December 31, 2014, \$790 million was outstanding under the 2021 Term Loan, which will mature on January 15, 2021. The 2021 Term Loan bears interest, at Freescale Inc.'s option, at a rate equal to a spread over either (i) a base rate equal to the higher of either (a) the prime rate of Citibank, N.A. or (b) the federal funds rate, plus one-half of 1%; or (ii) a LIBOR rate based on the cost of funds for deposit in the currency of borrowing for the relevant interest period, adjusted for certain additional costs. Based on our total leverage ratio, the Credit Agreement provides that the spread over LIBOR with respect to the 2021 Term Loan is 3.75%, with a LIBOR floor of 1.25%. Under the Credit Agreement, Freescale Inc. is required to repay a portion of the 2021 Term Loan in quarterly installments in aggregate annual amounts equal to 1% of the initial outstanding balance, or \$8 million annually. At December 31, 2014, the 2021 Term Loan was recorded on the Consolidated Balance Sheet at a \$7 million discount which is subject to accretion to par value over the term of the loan using the effective interest method.

The obligations under the Credit Agreement are unconditionally guaranteed by the same parties and in the same manner as under the credit agreement that was in effect prior to the Q1 2014 Revolver Amendment and the Q1 2014 Term Loan Refinancing Transaction.

Senior Notes

Freescall Inc. had an aggregate principal amount of \$2,113 million in senior notes outstanding at December 31, 2014, consisting of (i) \$500 million of 5.00% senior secured notes due 2021 (the "5.00% Secured Notes"), (ii) \$960 million of 6.00% senior secured notes due 2022 (the "6.00% Secured Notes"), (iii) \$473 million of 10.75% senior unsecured notes due 2020 (the "10.75% Unsecured Notes") and (iv) \$180 million of 8.05% Unsecured Notes (collectively, the "Senior Notes"). With regard to these notes, interest is payable semi-annually in arrears as follows: (i) every May 15th and November 15th for the 5.00% Secured Notes; (ii) every May 15th and November 15th for the 6.00% Secured Notes; (iii) every February 1st and August 1st for the 10.75% Unsecured Notes; and (iv) every February 1st and August 1st for the 8.05% Unsecured Notes.

Guarantees and Right of Payment

The obligations under the Credit Facility are unconditionally guaranteed by certain of the Parent Companies and, subject to certain exceptions, each of our material domestic wholly-owned "Restricted Subsidiaries," as defined in the Credit Facility agreement. As of December 31, 2014, Freescale Inc. had no material domestic wholly owned Restricted Subsidiaries. All obligations under the Credit Facility, and the guarantees of those obligations, are secured by substantially all the following assets of Freescale Inc. and each guarantor, subject to certain exceptions: (i) a pledge of 100% of the capital stock of each of Holdings III, Holdings IV and Holdings V, a pledge of 100% of the capital stock of Freescale Inc., 100% of the capital stock of our subsidiary SigmaTel, Inc. and 65% of the voting stock (and 100% of the non-voting stock) of each of our material wholly owned foreign subsidiaries, in each case that are directly owned by Freescale Inc. or one of the guarantors; and (ii) a security interest in, and mortgages on, substantially all tangible and intangible assets of each of Holdings IV, Holdings V and Freescale Inc. In addition, in the event that Freescale Inc. (i) transfers foreign subsidiaries to, or forms new foreign subsidiaries under, Holdings III or another foreign entity (but not any entity directly or indirectly owned by a U.S. entity) or (ii) transfers assets to such foreign subsidiaries, Freescale Inc. will be required to pledge 100% of the voting stock of those wholly owned foreign subsidiaries so transferred or formed, and such foreign subsidiaries would be required to guarantee our obligations under the Credit Agreement. There are prepayment requirements under the Credit Facility in certain circumstances and subject to certain exceptions. These potential prepayment requirements include (i) 50% of annual excess cash flow as defined in the Credit Agreement, subject to an incremental, full step-down based upon attaining certain leverage ratios; (ii) 100% of net cash proceeds of all non-ordinary course assets sales or other dispositions by Holdings III and its restricted subsidiaries if the net cash proceeds are not reinvested in the business; and (iii) 100% of the net proceeds of any issuance or incurrence of debt by Holdings III or any of its restricted subsidiaries, other than debt permitted under our Credit Facility. The foregoing mandatory prepayments will be applied ratably to each class of term loan then outstanding and will be applied to scheduled quarterly installments of such term loans in direct order of maturity.

The 5.00% Secured Notes are governed by the indenture dated as of May 21, 2013 (the "5.00% Indenture"), and the 6.00% Secured Notes are governed by the indenture dated as of November 1, 2013 (the "6.00% Indenture"). The Guarantors also guarantee, jointly and severally, the 5.00% Secured Notes and 6.00% Secured Notes on a senior secured basis. The 10.75% Unsecured Notes are governed by the indenture dated as of September 30, 2010 (the "10.75% Indenture") and the 8.05% Unsecured Notes are governed by the Indenture dated as of June 10, 2011 (the "8.05% Indenture"). The 10.75% Unsecured Notes and the 8.05% Unsecured Notes are guaranteed, jointly and severally, on a senior unsecured basis by the Guarantors. (Refer to definition and discussion of the Guarantors in Note 14, "Supplemental Guarantor Condensed Consolidating Financial Statements.")

Relative to our overall indebtedness, the 5.00% Secured Notes and the 6.00% Secured Notes rank in right of payment (i) pari passu to our existing senior secured indebtedness and (ii) senior to senior unsecured indebtedness to the extent of the value of any underlying collateral, but otherwise pari passu to such senior unsecured indebtedness. The 10.75% Unsecured Notes and the 8.05% Unsecured Notes rank in right of payment (i) junior to senior secured indebtedness to the extent of the value of any underlying collateral, but otherwise pari passu to such senior secured indebtedness and (ii) pari passu to our existing senior unsecured indebtedness.

Redemption

Freescale Inc. may redeem the 5.00% Secured Notes, in whole or in part, at any time prior to May 15, 2016, at a redemption price equal to 100% of the principal amount of the notes plus accrued and unpaid interest to the redemption date, plus the applicable make-whole premium, as described in the 5.00% Indenture. Freescale Inc. may redeem the notes, in whole or in part, at any time on or after May 15, 2016 at a redemption price equal to a fixed percentage of the notes' principal balance ranging from 103.75% to 100%, depending upon the redemption date, plus accrued and unpaid interest as described in the indenture governing these notes. In addition, at any time on or prior to May 15, 2016, Freescale Inc. may redeem up to 35% of the aggregate principal amount of the notes with the proceeds of certain equity offerings at a redemption price equal to 105% of the aggregate principal amount as described in the 5.00% Indenture. If Freescale Inc. experiences certain change of control

events, the 5.00% Secured Note holders may require Freescale Inc. to repurchase all or part of their notes at 101% of the principal amount of the notes, plus accrued and unpaid interest to the repurchase date.

Freescale Inc. may redeem the 6.00% Secured Notes, in whole or in part, at any time prior to November 15, 2016, at a redemption price equal to 100% of the principal amount of the notes plus accrued and unpaid interest to the redemption date, plus the applicable make-whole premium, as described in the 6.00% Indenture. Freescale Inc. may redeem the notes, in whole or in part, at any time on or after November 15, 2016 at a redemption price equal to a fixed percentage of the notes' principal balance ranging from 104.5% to 100%, depending upon the redemption date, plus accrued and unpaid interest as described in the indenture governing these notes. In addition, at any time on or prior to November 15, 2016, Freescale Inc. may redeem up to 35% of the aggregate principal amount of the notes with the proceeds of certain equity offerings at a redemption price equal to 106% of the aggregate principal amount as described in the 6.00% Indenture. If Freescale Inc. experiences certain change of control events, the 6.00% Secured Note holders may require Freescale to repurchase all or part of their notes at 101% of the principal amount of the notes, plus accrued and unpaid interest to the repurchase date.

Freescale Inc. may redeem, in whole or in part, the 10.75% Unsecured Notes at any time prior to August 1, 2015 at a redemption price equal to 100% of the principal balance, plus accrued and unpaid interest to the redemption date, plus the applicable make-whole premium, as described in the 10.75% Indenture. Freescale Inc. may redeem the notes, in whole or in part, at any time on or after August 1, 2015 at a redemption price equal to a fixed percentage of the notes' principal balance ranging from 105.375% to 100%, depending upon the redemption date, plus accrued and unpaid interest as described in the indenture governing these notes. If Freescale Inc. experiences certain change of control events, holders of the 10.75% Unsecured Notes may require Freescale Inc. to repurchase all or part of their notes at 101% of the principal balance, plus accrued and unpaid interest.

Freescale Inc. may redeem, in whole or in part, the 8.05% Unsecured Notes at any time prior to June 1, 2015 at a redemption price equal to 100% of the principal balance, plus accrued and unpaid interest to the redemption date, plus the applicable make-whole premium, as defined in the 8.05% Indenture. Freescale Inc. may redeem, in whole or in part, the 8.05% Unsecured Notes, at any time on or after June 1, 2015 at a redemption price equal to a fixed percentage of the notes' principal balance ranging from 104.025%, to 100% depending upon the redemption date, plus accrued and unpaid interest as described in the indenture governing these notes. If Freescale Inc. experiences certain change of control events, holders of the 8.05% Unsecured Notes may require Freescale Inc. to repurchase all or part of their 8.05% Unsecured Notes at 101% of the principal balance, plus accrued and unpaid interest.

Covenant Compliance

The Credit Agreement and the indentures governing the senior secured and senior unsecured notes (the "Indentures") contain restrictive covenants that limit the ability of our subsidiaries to, among other things, incur or guarantee additional indebtedness or issue preferred shares, pay dividends and make other restricted payments, impose limitations on the ability of our restricted subsidiaries to pay dividends or make other distributions, create or incur certain liens, make certain investments, transfer or sell assets, engage in transactions with affiliates and merge or consolidate with other companies or transfer all or substantially all of our assets. Under the Credit Agreement and Indentures, Freescale Inc. must comply with conditions precedent that must be satisfied prior to any borrowing.

As of December 31, 2014, Freescale Inc. was in compliance with the covenants under the Credit Facility and the Indentures and met the total leverage ratio of 6.50:1 or lower, the senior secured first lien leverage ratio of 4.00:1 or lower and the fixed charge coverage ratio of 2.00:1 or greater but did not meet the consolidated secured debt ratio of 3.25:1 or lower. As of December 31, 2014, Freescale Inc.'s total leverage ratio was 4.52:1, senior secured first lien leverage ratio was 3.88:1, fixed charge coverage ratio was 3.67:1 and consolidated secured debt ratio was 4.52:1. Accordingly, we are currently restricted from incurring liens on assets securing indebtedness, except as otherwise permitted by the Indentures. The fact that we did not meet one of these ratios does not result in any default under the Credit Agreement or the Indentures.

Hedging Transactions

During 2014, we entered into cash flow designated interest rate swap agreements to hedge a portion of our variable rate debt against exposure to increasing LIBOR rates which may exceed the LIBOR floor on the Amended 2020 Term Loan in future periods. These agreements fix the interest rate on a portion of our variable rate debt beginning in 2016 and continuing through 2018. (Refer to Note 5, "Risk Management," for further details of these hedging agreements.)

Prior to 2013, Freescale Inc. utilized interest rate swap and interest rate cap agreements with various counterparties as a hedge of the variable cash flows of our variable interest rate debt through 2016. In connection with the refinancing transaction in the first quarter of 2013, under which the majority of our debt essentially became fixed rate debt as long as LIBOR rates remain below the respective LIBOR floors on our variable rate term loans, we effectively terminated these previous agreements and fixed the remaining payment stream.

Debt Service

We are required to make debt service principal payments under the terms of our debt agreements. As of December 31, 2014, future obligated debt payments are \$35 million each year from 2015 through 2019 and \$5,420 million thereafter. Subsequent to the end of the fourth quarter of 2014, Freescale Inc. delivered notice of redemption for the remaining \$180 million of 8.05% Unsecured Notes and for \$70 million of the outstanding 10.75% Unsecured Notes to occur in the first quarter of 2015. Accordingly, \$250 million of principal payments previously obligated in 2020 will be paid in February 2015. We expect to record a charge of approximately \$20 million in connection with this redemption, reflective of call premiums and the write-off of unamortized debt issuance costs.

(5) Risk Management

Foreign Currency Risk

The functional currency for all of our foreign operations is the U.S. dollar. Accordingly, exchange rate gains and losses are recognized on transactions in currencies other than the U.S. dollar and included in operations for the period in which the exchange rates changed.

In order to reduce the exposure of our financial results resulting from fluctuations in exchange rates, our principal strategy has been to naturally hedge the foreign currency-denominated liabilities on our balance sheet against corresponding foreign currency-denominated assets such that any changes in liabilities due to fluctuations in exchange rates are inversely offset by changes in their corresponding foreign currency assets. In order to further reduce our exposure to U.S. dollar exchange rate fluctuations, we have entered into foreign currency hedge agreements related to the currency and the amount of expenses we expect to incur in jurisdictions in which our operations are located. No assurance can be given that our hedging transactions will prevent us from incurring higher foreign currency-denominated costs when translated into our U.S. dollar-based accounts in the event of a weakening of the U.S. dollar on the non-hedged portion of our costs and expenses.

At December 31, 2014 and December 31, 2013, we had net outstanding foreign currency exchange contracts not designated as accounting hedges with notional amounts totaling approximately \$97 million and \$112 million, respectively, which are accounted for at fair value. These forward contracts have original maturities of less than 15 months. The fair value of the forward contracts was a net unrealized loss of \$1 million at both December 31, 2014 and December 31, 2013. Forward contract losses of \$5 million, \$6 million and \$2 million for 2014, 2013 and 2012, respectively, were recorded in Other expense, net in the Consolidated Statements of Operations related to our realized and unrealized results associated with these foreign exchange contracts. Management believes that these financial instruments will not subject us to undue risk of foreign exchange movements because gains and losses on these contracts should offset losses and gains on the assets and liabilities being hedged. The following table shows, in millions of U.S. dollars, the notional amounts of the most significant net foreign exchange hedge positions for outstanding foreign exchange contracts not designated as accounting hedges as of December 31, 2014 and December 31, 2013:

Buy	December 31, 2014	December 31, 2013
Malaysian Ringgit	\$ 32	\$ 16
Chinese Renminbi	\$ 30	\$ 30
Euro	\$ 9	\$ 29
Japanese Yen	\$ 5	\$ 15
Canadian Dollar	\$ 4	\$ 2

Cash Flow Hedges

We use foreign currency exchange contracts to hedge future expected cash flows associated with Net sales, Cost of sales, Selling, general and administrative expenses and Research and development expenses. These forward contracts have original maturities of less than 15 months. The following table shows, in millions of U.S. dollars, the notional amounts of the foreign exchange hedge positions for outstanding foreign exchange contracts designated as cash flow hedges under ASC Topic 815 as of December 31, 2014 and December 31, 2013:

Buy (Sell)	December 31, 2014	December 31, 2013	Hedged Exposure
Malaysian Ringgit	\$ 93	\$ 80	Cost of sales
Chinese Renminbi	\$ 84	\$ 93	Cost of sales
	\$ 21	\$ 23	Selling, general and administrative
	\$ 21	\$ 23	Research and development
Japanese Yen	\$ 42	\$ 35	Cost of sales
	\$ 16	\$ —	Selling, general and administrative
Euro	\$ (39)	\$ (33)	Net sales

At December 31, 2014 and December 31, 2013, we had cash flow designated forward contracts with a total fair value of net unrealized losses of \$15 million and \$2 million, respectively. Gains of less than \$1 million, \$3 million and \$1 million during 2014, 2013 and 2012, respectively, were recorded in the Consolidated Statements of Operations related to our realized results associated with these cash flow hedges. Management believes that these financial instruments will not subject us to undue risk of foreign exchange movements because gains and losses on these contracts should offset losses and gains on the forecasted exposures being hedged.

Commodity Price Risk

We operate facilities that consume commodities, and we have established forecasted transaction risk management programs to mitigate fluctuations in the fair value and the volatility of future cash flows caused by changes in commodity prices. These programs reduce, but do not always entirely eliminate, the impact of commodity price movements.

We use gold swap contracts to hedge our exposure to increases in the price of gold and designate such contracts as cash flow hedges under ASC Topic 815. At December 31, 2014 and December 31, 2013, these contracts had net outstanding notional amounts totaling 11,000 ounces and 27,500 ounces, respectively, and are accounted for at fair value. All of these outstanding gold swap contracts have original maturities of 15 months or less. The fair value of these contracts was a net unrealized loss of \$1 million and \$3 million at December 31, 2014 and December 31, 2013, respectively. Losses of \$1 million, \$5 million and \$3 million were recorded in Cost of Sales during 2014, 2013 and 2012, respectively, related to our realized results attributable to these gold swap contracts. Management believes that these financial instruments will not subject us to undue risk of fluctuations in the price of gold because gains and losses on these swap contracts should offset losses and gains on the forecasted gold wire expense being hedged.

Interest Rate Risk

We use interest rate swaps to assist in managing the interest rate risk associated with the variable rate portion of our debt portfolio. During 2014, we entered into cash flow designated interest rate swap agreements that fix the interest rate on a portion of our variable rate debt beginning in 2016. We are required to pay the counterparties a stream of fixed rate interest payments at a weighted average rate of: (i) 1.62% on a notional amount of \$1.4 billion in 2016, (ii) 2.43% on a notional amount of \$1.1 billion in 2017 and (iii) 2.95% on a notional amount of \$800 million in 2018. In connection with these interest rate swap agreements, we will receive variable rate payments from the counterparties based on 1-month LIBOR, subject to a LIBOR floor of 1%, which coincides with the LIBOR floor on the Amended 2020 Term Loan. The fair value of these interest rate swap agreements was an unrealized loss of \$9 million at December 31, 2014. (Refer to Note 4, "Debt," for further details of our variable rate indebtedness.)

Prior to 2013, we used interest rate swap agreements to assist in managing the variable rate portion of our debt portfolio. In connection with the debt refinancing transaction that occurred during the first quarter of 2013, under which the majority of our debt became effectively fixed rate debt as long as LIBOR rates remain below the respective LIBOR floors on our variable rate term loans, we either terminated or, in lieu of terminating the agreements and incurring a penalty, entered into offsetting interest rate swap agreements. This resulted in a \$15 million liability to be paid through December 1, 2016, the end of the original expiration of the interest rate swap agreements. The balance of this obligation at December 31, 2014 was \$9 million, after \$4 million of this liability was paid during 2014. The change in fair value arising from the offsetting swap agreements along with the existing agreements are recorded in Other expense, net in the Consolidated Statements of Operations.

Counterparty Risk

Outstanding financial derivative instruments expose us to credit losses in the event of nonperformance by the counterparties to the agreements. We also enter into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow counterparties to net settle amounts owed to each other as a result of multiple, separate derivative transactions. The credit exposure related to these financial instruments is represented by the contracts with a positive fair value at the reporting date. On a periodic basis, we review the credit ratings of our counterparties and adjust our exposure as deemed appropriate. As of December 31, 2014, we believe that our exposure to counterparty risk is immaterial.

(6) Employee Benefit and Incentive Plans

Share and Equity-based Compensation

Our total share and equity-based compensation expense is presented below:

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Cost of sales	\$ 14	\$ 11	\$ 8
Selling, general and administrative	34	26	27
Research and development	19	11	8
Total	<u>\$ 67</u>	<u>\$ 48</u>	<u>\$ 43</u>

2011 Omnibus Incentive Plan

Non-qualified Options

During 2014, we granted approximately 2.5 million stock options under the 2011 Omnibus Incentive Plan, as amended and restated, (the "2011 Plan") to certain executives and employees. Included in this amount were 2.1 million stock options granted on January 5, 2014 as part of the annual long-term incentive grants (the "2014 Annual Grant"). The awards granted in connection with the 2014 Annual Grant had a grant date fair value of \$6.67 per share and an exercise price of \$15.37 per share, which was equal to the stock price on January 3, 2014, the last trading day before the award date. Total compensation costs associated with the stock options under the 2014 Annual Grant was \$11 million, net of estimated forfeitures.

Under the 2011 Plan, we have granted approximately 7 million non-qualified stock options in Freescale Ltd. (the "2011 Options") with exercise prices ranging from \$8.73 to \$24.79 per share, to certain executives and employees, which remain outstanding as of December 31, 2014. The 2011 Options generally vest at a rate of 25% of the total grant on each of the first, second, third and fourth anniversaries of the date of grant, and are subject to the terms and conditions of the 2011 Plan and related award agreements. As of December 31, 2014, we had approximately \$26 million of unamortized expense, net of estimated forfeitures, which is being amortized on a straight-line basis over a period of four years to additional paid-in capital.

The fair value of the 2011 Options was estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used in the model are outlined in the following table:

	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Weighted average grant date fair value per share	\$ 6.98	\$ 7.05	\$ 6.93
Weighted average assumptions used:			
Expected volatility	48.79%	60.71%	63.00%
Expected lives (in years)	4.75	4.75	5.00
Risk free interest rate	1.43%	0.75%	0.92%
Expected dividend yield	—%	—%	—%

In accordance with ASC Topic 718, the computation of the expected volatility assumptions used in the Black-Scholes calculations for grants was based on historical volatilities and implied volatilities of peer companies. The Company utilized the volatilities of peer companies due to our lack of extensive history as a public company and the fact that our current equity was not publicly traded prior to May 26, 2011. The peer companies operate in the semiconductor industry and are of similar size. When establishing the expected life assumptions, we use the "simplified" method prescribed in ASC Topic 718 for companies that do not have adequate historical data. The risk-free interest rate is measured as the prevailing yield for a U.S. Treasury security with a maturity similar to the expected life assumption.

A summary of changes in the 2011 Options outstanding during 2014 is presented below:

	Stock Options (in thousands)	Wtd. Avg. Exercise Price Per Share	Wtd. Avg. Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Balance at January 1, 2014	5,807	\$ 13.09	6	\$ 17
Granted	2,491	\$ 16.55		
Terminated, canceled or expired	(411)	\$ 14.56		
Exercised	(900)	\$ 12.73		
Balance at December 31, 2014	6,987	\$ 14.28	5	\$ 76
Exercisable options at December 31, 2014	1,509	\$ 12.90	5	\$ 19

The intrinsic value of options exercised under this plan during 2014 and 2013 was \$7 million and \$1 million, respectively.

Restricted Share Units

During 2014, we granted approximately 4.2 million RSUs to certain executives and employees under the 2011 Plan. Included in this amount were 3.8 million RSUs granted in connection with the 2014 Annual Grant with a grant date fair value of \$15.37 per RSU and total compensation cost of \$45 million, net of estimated forfeitures. While RSUs generally vest at a rate of 25% of the total grant on the first, second, third and fourth anniversaries of the date of grant, some RSUs vest at a rate of one-third of the total grant on each of the first, second and third anniversaries of the date of grant, or other vesting schedule depending on the award, and are subject to the terms and conditions of the 2011 Plan and related award agreements. RSUs are not entitled to dividends or voting rights, if any, until the underlying common shares are delivered. The fair value of the RSU awards is recognized on a straight-line basis over the vesting period.

Also during 2014, we granted approximately 0.9 million performance-based RSUs ("TSR") to certain executives largely in connection with the 2014 Annual Grant. Each TSR cliff vests on the third anniversary of the date of grant upon certification of performance by the Compensation and Leadership Committee of the Board of Directors after the completion of the performance period, and entitles the grant recipient to receive from 0 to 1.50 common shares for each of the target units awarded based on the relative total shareholder return of the Company's share price as compared to a set of peer companies. The Company estimates the fair value of the TSRs using a Monte Carlo valuation model, which includes a modifier for market results. The grant date fair value for the TSRs granted in connection with the Annual Grant was \$15.98 per TSR, with a total compensation cost of \$12 million, net of estimated forfeitures. TSRs are amortized on a straight-line basis over a period of three years to additional paid-in capital. The assumptions used in the Monte Carlo model, outside of projections of market results, are outlined in the following table:

	Year Ended December 31, 2014	Year Ended December 31, 2013
Weighted average grant date fair value per share	\$ 16.13	\$ 17.01
Weighted average assumptions used:		
Expected volatility	48.40%	48.32%
Expected lives (in years)	2.98	2.75
Risk free interest rate	0.80%	0.33%
Expected dividend yield	—%	—%

We also have outstanding performance-based RSUs ("PRSU") that were granted to certain executives of the Company under the 2011 Plan. The PRSUs granted, to the extent earned, vest at a rate of one-third of the total grant on each of the first, second and third anniversaries of the date of grant for certain executives or vest fully on the third anniversary of the date of grant for PRSUs granted to our CEO. The number of common shares underlying each PRSU is contingent on Company performance measured by annual revenue and earnings per share goals established by the Compensation and Leadership Committee of the Board of Directors for each annual performance period. Each PRSU entitles the grant recipient to receive from 0 to 1.50 common shares for certain executives or 0 to 1.0 common shares for PRSUs granted to our CEO based on the Company's achievement of the performance goals for each performance period.

As of December 31, 2014 we had approximately \$79 million of unamortized expense, net of expected forfeitures, which is being amortized on a straight-line basis to additional paid-in capital over a period of three or four years, depending on the award, for RSUs and three years for TSRs and PRSUs. Under the terms of the RSU, TSR and PRSU award agreements,

common shares underlying these awards are issued to the participant upon vesting of the award based on the passage of time for the RSUs and based on both the passage of time and performance results for the TSRs and PRSUs.

A summary of changes in the RSUs, TSRs and PRSUs outstanding under the 2011 Plan during 2014 is presented below:

	RSUs, TSRs and PRSUs (in thousands)	Wtd. Avg. Grant Date Fair Value Per Share
Non-vested RSU, TSR and PRSU balance at January 1, 2014	7,291	\$ 14.04
Granted	5,107	\$ 15.94
Issued	(2,059)	\$ 13.93
Terminated, canceled or expired	(581)	\$ 14.57
Non-vested RSU, TSR and PRSU balance at December 31, 2014	9,758	\$ 15.03

The weighted average grant date fair value of all RSUs, TSRs and PRSUs granted during 2014, 2013 and 2012 was \$15.94 per share, \$13.98 per share and \$14.71 per share, respectively. The total intrinsic value of RSUs, TSRs and PRSUs issued under this plan during 2014, 2013 and 2012 was \$49 million, \$16 million and \$3 million, respectively.

2015 Annual Grant

On January 5, 2015, we granted approximately 1.6 million stock options and 3.6 million RSUs under the 2011 Plan to certain executives and employees as part of our annual long-term incentive grants ("2015 Annual Grant"). The stock options and RSUs generally vest 25% on each of the first, second, third and fourth anniversaries of the date of grant. The grant date fair value of the stock options was \$9.83 and the exercise price for these awards was equal to the closing price on January 5, 2015, the last active trading day prior to the grant date, of \$24.63. The grant date fair value for these RSUs was \$24.63 per RSU. Total compensation costs associated with these awards of \$81 million, net of estimated forfeitures, will be amortized on a straight-line basis over a period of four years to additional paid-in capital.

Also, as part of the 2015 Annual Grant, we granted TSRs to certain executives. The target units awarded were approximately 0.6 million, which cliff vest on the third anniversary of the date of grant upon certification of performance by the Compensation and Leadership Committee of the Board of Directors after the completion of the performance period. The number of units that will vest will range from 0% to 150% of the target shares awarded based on the relative total shareholder return of the Company's share price as compared to a set of peer companies. The grant date fair value for these TSR awards was \$25.87 per TSR, as determined using the Monte-Carlo valuation model, and total compensation costs of \$13 million, net of estimated forfeitures, will be amortized on a straight-line basis over a period of three years to additional paid-in capital.

2006 Management Incentive Plan and 2007 Employee Incentive Plan

Upon completion of the IPO, the shares reserved for issuance under the 2006 Management Incentive Plan (the "2006 MIP") and 2007 Employee Incentive Plan (the "2007 EIP") that were not issued or subject to outstanding grants became available under the 2011 Plan, and no further awards will be made under the 2006 MIP or 2007 EIP. In the event that any outstanding award under the 2011 Plan, the 2007 EIP or the 2006 MIP is forfeited for any reason, terminates, expires or lapses, any shares subject to such award will be available for issuance under the 2011 Plan.

During 2014, approximately 994 thousand and 299 thousand stock options were exercised under the 2006 MIP and the 2007 EIP, respectively, with weighted average strike prices of \$6.80 and \$6.40, respectively. As of December 31, 2014, there were 537 thousand and 556 thousand stock options outstanding under the 2006 MIP and the 2007 EIP, respectively.

Employee Share Purchase Plan

Our Employee Share Purchase Plan ("ESPP"), as amended and restated, has approximately 7 million remaining common shares reserved for future issuance after taking into account the shares issued on January 6, 2015. Under the ESPP, eligible participants are allowed to purchase common shares of Freescale through payroll deductions of up to 15% of their compensation on an after-tax basis. The price an employee pays per share is 85% of the fair market value of the common shares on the close of the last trading day of the purchase period. The ESPP has two six-month purchase periods, the first of which begins on January 1 and the second of which begins on July 1. On January 3, 2014, approximately 902 thousand common shares of Freescale were issued to participating employees under the ESPP for the second half of 2013 purchase period at a discounted price of \$13.64 per share. On July 3, 2014, approximately 722 thousand common shares of Freescale were issued to participating employees under the ESPP for the first half of 2014 purchase period at a discounted price of \$19.98 per share. On January 6, 2015, approximately 690 thousand common shares of Freescale were issued to participating employees under the ESPP for the second half of 2014 purchase period at a discounted price of \$21.45 per share. During 2014, 2013 and 2012, we recognized \$5 million, \$4 million and \$4 million, respectively, of compensation costs related to the 15% discount offered under this plan.

Defined Contribution Plans

We have a retirement savings plan covering substantially all eligible U.S. employees (the “Plan”). The Plan provides for employer matching contributions which may be made in amounts up to a 100% match of each participant’s pre-tax and/or post-tax contributions to the Plan not to exceed 5% of the participant’s eligible earnings. Under our defined contribution plans, matching contributions totaled \$30 million in 2014, \$27 million in 2013 and \$29 million in 2012.

Other Incentive Plan

Semi-annual short-term cash awards are governed by the Freescale Semiconductor, Inc. 2011 Incentive Plan under which Freescale Inc. has the authority to pay cash bonuses to eligible employees through underlying bonus plans covering six-month periods. Freescale Inc. allocates a bonus target to each participating employee for each semi-annual period during the calendar year. The employee’s incentive award is determined based on the employee’s bonus target as a percent of their eligible earnings, the employee’s individual performance and the Company’s achievement of performance against pre-established business performance objectives, subject to adjustment at the discretion of the Compensation and Leadership Committee. We recognized expense of \$91 million in 2014 and \$51 million in 2013 related to this program. No expense was recorded in 2012, as the Company did not achieve the pre-established performance objectives under the bonus plan.

Pension and Post-retirement Benefit Plans

In accordance with the provisions of ASC Topic 715, “Compensation – Retirement Benefits,” we recognize the funded status of our defined benefit post-retirement plans on our accompanying Consolidated Balance Sheets, and changes in the funded status are reflected in comprehensive earnings in the accompanying Consolidated Statements of Comprehensive Earnings (Loss). The measurement date for all U.S. and non-U.S. plans was December 31st for 2014 and 2013.

Pension Benefits

At the Distribution Date, the pension benefits for all active U.S. employees were frozen. Obligations related to retired and other vested participants as of the Distribution Date remained the responsibility of Motorola. We did not adopt a new U.S. pension plan. Most of Freescale Inc.’s non-U.S. retirement benefit plans were also frozen as of the Distribution, with respect to our employees, with the obligation for retirees and vested participants remaining the responsibility of Motorola, and Freescale Inc. no longer participating in the Motorola plans. We continue to offer defined benefit plans to approximately 2,700 non-U.S. employees.

Net periodic benefit cost for pension plans was \$12 million, \$13 million and \$11 million in 2014, 2013 and 2012, respectively. Our contributions to these plans aggregated to \$3 million, \$2 million and \$3 million in 2014, 2013 and 2012, respectively. The estimated amount of net actuarial loss included in accumulated other comprehensive earnings as of December 31, 2014, that is expected to be amortized into net periodic benefit cost over the next fiscal year is \$4 million for the non-U.S. defined benefit plans.

The weighted average assumptions for these benefit plans as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Discount rates	2.00%	3.00%
Expected return on plan assets	2.20%	3.40%
Rate of compensation increase	3.10%	3.20%

Benefit payments, which reflect expected future service, are estimated to be \$2 million in 2015, \$3 million in 2016, \$3 million in 2017, \$4 million in 2018, \$4 million in 2019 and \$27 million for the next five years thereafter.

The overall expected long-term rate of return on plan assets is based on expected returns on individual asset types included in asset portfolios provided by pension plan fund managers, as well as expected interest on insurance contracts purchased to fund pension benefits.

The accumulated benefit obligation (ABO) for all defined benefit plans was \$161 million and \$142 million at December 31, 2014 and 2013, respectively. The projected benefit obligation of these plans was \$183 million and \$158 million at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, plan assets of approximately \$51 million and \$53 million, respectively, were principally invested in equity, debt and guaranteed investment securities.

Plan Assets Underlying Pension Plans

The pension plans for certain of our foreign subsidiaries have underlying assets, while pension plans of other foreign subsidiaries are unfunded. Our overall investment strategy with regard to these pension assets is to achieve a wide diversification of asset types, fund strategies and fund managers with resulting future cash flows associated with such investments sufficient to fund anticipated future pension payments. The target allocations for plan assets are 30% equity securities and 70% fixed income securities with minimal cash investment, although the actual plan asset allocations may be within a specified range of these targets. Equity securities primarily include investments in U.S. and international large-cap

and mid-cap companies. Fixed income securities include international government securities, corporate bonds from diversified industries, municipal bonds, and U.S. Treasury securities. Cash investments primarily include cash balances and investments in time deposits. The actual asset allocations are reviewed and rebalanced on a periodic basis to maintain the target allocations. The portfolio diversification provides protection against a single security or class of securities having a disproportionate impact on aggregate performance.

The fair values of our pension plan assets at December 31, 2014 and 2013 by asset category, utilizing the fair value hierarchy discussed in Note 3, "Fair Value Measurements," are as follows:

As of December 31, 2014	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
		(Level 1)	(Level 2)
Assets			
Common collective trust	\$ 38	\$ —	\$ 38
Insurance contracts	13	—	13
Total assets	<u>\$ 51</u>	<u>\$ —</u>	<u>\$ 51</u>
As of December 31, 2013	Total	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
		(Level 1)	(Level 2)
Assets			
Common collective trust	\$ 39	\$ —	\$ 39
Insurance contracts	14	—	14
Total assets	<u>\$ 53</u>	<u>\$ —</u>	<u>\$ 53</u>

Our interest in the common collective trust investments are managed by one custodian. Consistent with our investment strategy, the custodian has invested the assets across a widely diversified portfolio of U.S. and international equity and fixed income securities. Fair values of each security within the collective trust as of December 31, 2014 and 2013 were obtained from the custodian and are based on quoted market prices of individual investments; however, since the fund itself does not have immediate liquidity or a quoted market price, these assets are considered Level 2.

Our insurance contract pension assets represent a claim on a policy value which are independent from the value of investments underlying it, as the insurer is obliged to guarantee this amount regardless of (i) how the amount is invested, (ii) the value of the insurer's investment at a point in time and (iii) the future fluctuations in value of the insurer's assets underlying the policies. This guaranty is demanded by the German Federal Insurance Board, and any insurer must accept and declare this guaranty in its business terms, otherwise their terms are not approved. The value of the insurance contracts is considered Level 2. There were no Level 3 instruments at December 31, 2014 or 2013.

Post-retirement Health Care Benefits

Certain retiree benefits are available to eligible U.S. employees meeting certain age and service requirements upon termination of employment through the Motorola Post-retirement Healthcare Plan ("Post-retirement Healthcare Plan"). At the Distribution Date, Freescale Inc. assumed responsibility for the retiree medical benefit obligation for all eligible retired participants, active vested participants, and active participants who vested within the three year period following the Distribution.

The components of the expense we incurred under the Post-retirement Healthcare Plan were as follows:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Service cost	\$ —	\$ 1	\$ 1
Interest cost	6	6	7
Net amortization of gains	(4)	(1)	(1)
Post-retirement expense	<u>\$ 2</u>	<u>\$ 6</u>	<u>\$ 7</u>

The measurement date for the valuation of our obligations and assets for the Post-retirement Healthcare Plan was December 31st for 2014 and 2013. Our obligation consists of an ABO and represents the actuarial present value of benefits payable to plan participants for services rendered at the valuation date. Our obligation under the Post-retirement Healthcare Plan is as follows:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Beginning of year	\$ 122	\$ 166	\$ 158
Service cost	—	1	1
Interest cost	6	6	7
Actuarial loss (gain)	30	(45)	10
Benefits paid, net	(6)	(6)	(6)
Prior service cost	—	—	(5)
Other	—	—	1
Total benefit obligation	<u>\$ 152</u>	<u>\$ 122</u>	<u>\$ 166</u>

Benefit payments, which reflect expected future service, are estimated to be \$5 million in 2015, \$7 million in 2016, \$8 million in 2017, \$9 million in 2018, \$10 million in 2019 and \$53 million for the next five years thereafter. The estimated amount of net actuarial gain and unrecognized prior service credit included in accumulated other comprehensive earnings as of December 31, 2014, that are expected to be amortized into net periodic benefit cost over the next fiscal year is \$1 million for the Post-retirement Healthcare Plan.

The weighted average assumptions for these retiree medical benefits as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Discount rate	4.00%	4.75%
Assumed health care trend rate for next year	7.11%	6.72%
Assumed ultimate health care trend rate	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2026	2026

The assumed discount rate is based on market rates as of the measurement date and is utilized in calculating the actuarial present value of our obligation, periodic expense and health care cost trend rate for the Post-retirement Healthcare Plan.

The assumed health care cost trend rate represents our estimate of the annual rates of change in the costs of the health care benefits currently provided by the Post-retirement Healthcare Plan. The estimated effect of a 1% increase in assumed health care cost trends would increase 2015 costs by \$1 million and increase the benefit obligation at December 31, 2014 by \$17 million. The estimated effect of a 1% decrease in assumed health care cost trends would decrease 2015 costs by \$1 million and decrease the benefit obligation at December 31, 2014 by \$14 million.

The reconciliation of the funded status of the Post-retirement Healthcare Plan is as follows:

	December 31, 2014	December 31, 2013
Benefit obligation	\$ (152)	\$ (122)
Fair value of plan assets	—	—
Funded status	(152)	(122)
Unrecognized net gain	(33)	(67)
Unrecognized prior service cost	(4)	(4)
Accrued cost	<u>\$ (189)</u>	<u>\$ (193)</u>

(7) Income Taxes

The Company is a Bermuda exempted company. Bermuda does not impose a corporate income tax. Our operations are conducted through our various subsidiaries in a number of countries throughout the world. Consequently, income taxes have been provided based on the laws and rates in effect in the countries in which operations are conducted or in which we or our subsidiaries are considered resident for income tax purposes.

Components of earnings (loss) before income taxes are as follows:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Bermuda	\$ (9)	\$ (8)	\$ (8)
United States	81	(388)	(301)
Foreign	232	228	209
Earnings (loss) before income taxes	<u>\$ 304</u>	<u>\$ (168)</u>	<u>\$ (100)</u>

Components of income tax expense are as follows:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Current:			
United States	\$ —	\$ —	\$ —
Foreign	31	22	23
Total current	<u>\$ 31</u>	<u>\$ 22</u>	<u>\$ 23</u>
Deferred:			
United States	\$ 6	\$ 44	\$ 11
Foreign	17	14	14
Total deferred	<u>\$ 23</u>	<u>\$ 58</u>	<u>\$ 25</u>
Non-current:			
United States	\$ —	\$ (44)	\$ (10)
Foreign	(1)	4	(36)
Total non-current	<u>\$ (1)</u>	<u>\$ (40)</u>	<u>\$ (46)</u>
Total expense for income taxes	<u>\$ 53</u>	<u>\$ 40</u>	<u>\$ 2</u>

Cash paid for taxes was \$35 million, \$5 million and \$18 million during 2014, 2013 and 2012, respectively. Cash paid for taxes in 2014 and 2013 was net of refunds including withholding tax refunds of \$5 million and \$13 million, respectively.

We record minimal income tax expense in the U.S. due to the domestic valuation allowance. ASC Topic 740, “Income Taxes” (“ASC Topic 740”) requires that deferred tax assets be reduced by a valuation allowance if, based on all available evidence, it is considered more-likely-than-not that some portion or all of the recorded deferred tax assets will not be realized in a future period. Such assessment is required on a jurisdiction by jurisdiction basis. We have concluded that it is more-likely-than-not that our domestic deferred tax assets will not be realized in their entirety, and therefore, we have retained a valuation allowance against substantially all the domestic deferred tax assets. In our assessment of the need for a domestic valuation allowance, we heavily weighted the following negative evidence: (i) a lack of operational profitability in the U.S. Company, exclusive of foreign intercompany dividends, (ii) forecasted reversal of existing temporary differences does not create taxable income and (iii) the Company operates in a highly cyclical industry. In addition, we recorded valuation allowances in certain foreign jurisdictions after considering all positive and negative factors as to the recoverability of these assets.

The provision for income taxes differed from the amount computed by applying the Bermuda statutory rate of 0% to our earnings or loss before tax as follows:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Provision at Bermuda Statutory rate of zero	\$ —	\$ —	\$ —
Taxes on U.S. and foreign earnings (losses) which are different than the Bermuda rate	120	(23)	(55)
Valuation allowance on deferred taxes	(66)	153	131
Research credits	(21)	(32)	(12)
Foreign capital incentive	(24)	(12)	(7)
Other activity in unrecognized tax benefits	(2)	(45)	(44)
Impact of changes in tax rates on deferred taxes	45	1	(16)
Other	1	(2)	5
Total expense for income taxes	<u>\$ 53</u>	<u>\$ 40</u>	<u>\$ 2</u>

A portion of our operations are eligible for a reduced or zero tax rate under various tax holidays which expire in whole or in part through 2020. The income tax benefits attributable to the tax status of the subsidiaries with tax holidays are estimated to be approximately \$1 million, \$2 million and \$2 million for 2014, 2013 and 2012, respectively.

Significant components of deferred tax assets (liabilities) are as follows:

	December 31, 2014	December 31, 2013
Tax carryforwards	\$ 709	\$ 778
Accrued interest	466	461
Depreciation	142	180
Employee benefits	111	86
Other capitalized items	68	76
Accrued intercompany expenses	28	33
Other, net	25	17
Share-based compensation	24	23
Sales, bad debt and warranty reserves	22	25
Inventory	20	31
Environmental reserves	15	16
Foreign capital incentive	15	13
Investments	9	10
Deferred revenue	5	(1)
Debt issuance costs	(13)	(14)
Undistributed foreign earnings	(343)	(366)
Valuation allowance	(1,236)	(1,288)
Net deferred tax assets	<u>\$ 67</u>	<u>\$ 80</u>

We are a Bermuda exempted company and are not subject to income taxes in Bermuda. We have asserted the permanent reinvestment exception in ASC 740 on approximately \$130 million undistributed earnings of the U.S. Company and therefore, U.S. withholding taxes of approximately \$39 million are not provided on those earnings. Our intentions are to utilize those earnings in the Company's U.S. operations to service debt service obligations and for other liquidity needs. The undistributed earnings of the non-U.S. subsidiaries that are owned directly and indirectly by the U.S. Company are not permanently reinvested and a deferred tax liability of \$343 million related to those undistributed earnings was recorded as of December 31, 2014.

Gross deferred tax assets were \$1,805 million and \$1,888 million at December 31, 2014 and 2013, respectively. Gross deferred tax liabilities were \$502 million and \$520 million at December 31, 2014 and 2013, respectively. The Company's deferred tax positions are reflected in the following captions on the accompanying Consolidated Balance Sheets:

	December 31, 2014	December 31, 2013
Other current assets	\$ 84	\$ 54
Other assets	79	92
Accrued liabilities	(1)	(1)
Other liabilities	(95)	(65)
Net deferred tax assets	<u>\$ 67</u>	<u>\$ 80</u>

At December 31, 2014 and 2013, we had valuation allowances of \$1,193 million and \$1,230 million, respectively, against certain of our deferred tax assets in the United States, and valuation allowances of \$43 million and \$58 million, respectively, against deferred tax assets of certain foreign subsidiaries, respectively, to reflect the deferred tax assets at the net amounts that are more-likely-than-not to be realized. During 2014, we recorded a net decrease in our valuation allowance of \$52 million. This net decrease consisted of a \$37 million decrease in our U.S. valuation allowance and a \$15 million decrease in our overall foreign valuation allowance. The decrease in the U.S. valuation allowance is attributable to an overall decrease in U.S. net deferred tax assets, \$57 million of which was recorded through deferred tax benefit and a \$20 million expense was recorded in other comprehensive earnings. The decrease in the foreign valuation allowance is attributable to an overall decrease in foreign net deferred tax assets, \$9 million of which was recorded through deferred tax benefit and a \$6 million benefit was recorded in other comprehensive earnings.

At December 31, 2014, we had (i) U.S. federal net operating losses of \$101 million, which expire in the years 2023 through 2034, (ii) state net operating losses of \$331 million, which expire in the years 2015 through 2033, and (iii) foreign capital losses of \$48 million, which do not expire, and foreign net operating losses of \$125 million, which expire starting in 2015. We had (i) U.S. federal research credits of \$289 million, which expire in the years 2015 through 2034, (ii) state research credits of \$115 million, which expire in the years 2018 through 2033, and (iii) foreign research credits of \$10 million, which expire in the years 2027 through 2034. We also had U.S. foreign tax credits of \$308 million, which expire in the years 2015 through 2024. If certain substantial changes in the Company's ownership occur, there would be an annual limitation on the amount of U.S. federal carryforwards that can be utilized.

We account for uncertainty in tax positions in accordance with ASC Topic 740, which prescribes a recognition threshold and measurement criteria for financial statement recognition of a tax position taken or expected to be taken in a tax return. ASC Topic 740 requires us to recognize in our financial statements, the impact of a tax position, if that position is more-likely-than-not of being sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition.

For the years ended December 31, 2014, 2013 and 2012, the total amount of unrecognized tax benefits was as follows:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Balance as of beginning of year	\$ 132	\$ 168	\$ 207
Tax positions related to the current year:			
Additions	5	13	2
Reductions	—	—	—
Tax positions related to prior years:			
Additions	—	1	—
Reductions	(4)	(3)	(22)
Foreign currency translation adjustments	(2)	—	(1)
Settlements	—	(1)	(1)
Lapses in statutes of limitations	—	(46)	(17)
Balance as of end of year	<u>\$ 131</u>	<u>\$ 132</u>	<u>\$ 168</u>

As of December 31, 2014, 2013 and 2012, unrecognized tax benefits were \$131 million, \$132 million and \$168 million, respectively. The total liability for unrecognized tax benefits at December 31, 2014, 2013 and 2012, which includes interest and penalties, was \$138 million, \$138 million and \$173 million, respectively. The amount of tax benefits included in this total liability which, if recognized, would affect our effective tax rate is \$24 million, \$28 million and \$28 million as of December 31,

2014, 2013 and 2012, respectively. The remaining portion of the total liability in each year represents tax benefits that were offset by valuation allowances on our deferred tax assets and would not have an impact to the effective tax rate.

We recognized accrued interest and penalties associated with uncertain tax positions as part of the tax provision and these amounts are included in income tax expense. During 2014, we accrued \$1 million of reserves for interest and penalties. During 2013 our reserves for interest and penalties did not change. During 2012, we released \$4 million of reserves for interest and penalties. As of December 31, 2014 and 2013, we had accrued interest and penalties of \$7 million and \$6 million, respectively.

We file U.S., state and foreign income tax returns in jurisdictions with varying statutes of limitations. Our income tax returns for the 2004 through 2013 tax years are currently under examination by various taxing authorities around the world. Although the resolution of open audits is highly uncertain, management considers it unlikely that the results of these examinations will have a material negative impact on our financial condition or results of operations. It is reasonably possible that our existing liabilities for unrecognized tax benefits may increase or decrease in the next twelve months primarily due to the progression of open audits or the expiration of statutes of limitation. The Company does not expect the liability for unrecognized tax benefits to decrease substantially during the next twelve months. With few exceptions, we are not subject to tax examinations by tax authorities for years before 2004.

(8) Commitments and Contingencies

Leases

We own most of our major facilities; however, we do lease certain office and warehouse space, and information technology and other equipment under principally non-cancellable operating leases expiring through 2022. Rental expense, net of sublease income, for the years ended December 31, 2014, 2013 and 2012 was \$27 million, \$34 million and \$36 million, respectively. Future minimum lease payments, net of minimum sublease rentals, of such operating leases for each of the five years subsequent to December 31, 2014 are \$26 million, \$17 million, \$13 million, \$8 million and \$1 million, respectively, and \$1 million thereafter.

Commitments

Product purchase commitments associated with our strategic manufacturing relationships with our wafer foundries and for assembly and test services include take or pay provisions based on volume commitments for work in progress and forecasted demand based on 18-month rolling forecasts, which are adjusted monthly. The commitment under these relationships was \$130 million as of December 31, 2014.

We have multi-year commitments under various software, service, supply and other contracts requiring payments for each of the five years subsequent to December 31, 2014 of \$97 million, \$59 million, \$27 million, \$7 million and \$6 million, respectively, and \$9 million thereafter.

Contingencies

Environmental

Under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended (CERCLA, or Superfund), and equivalent state law, Motorola has been designated as a Potentially Responsible Party by the United States Environmental Protection Agency with respect to certain waste sites with which the Company's operations may have had direct or indirect involvement. Such designations are made regardless of the extent of Motorola's involvement. Pursuant to the master separation and distribution agreement entered into in connection with our spin-off from Motorola, Freescale Inc. has indemnified Motorola for these liabilities going forward. These claims are in various stages of administrative or judicial proceedings. They include demands for recovery of past governmental costs and for future investigations or remedial actions. The remedial efforts include environmental cleanup costs and communication programs. In many cases, the dollar amounts of the claims have not been specified and have been asserted against a number of other entities for the same cost recovery or other relief as was asserted against Freescale Inc. We accrue costs associated with environmental matters when they become probable and reasonably estimable by recording the future estimated cash flows associated with such costs on a discounted basis, as the amount and timing of cash payments become fixed or readily determinable, for the estimated remediation periods, ranging from six years to over 50 years.

Due to the uncertain nature, the actual costs that will be incurred could differ significantly from the amounts accrued. As of December 31, 2014 and 2013, the undiscounted future cash flows are estimated at \$79 million and \$82 million, respectively. The expected payments for 2015 through 2019 are \$5 million, \$4 million, \$4 million, \$4 million and \$4 million, respectively, with remaining expected payments of \$58 million anticipated thereafter. Accruals at December 31, 2014 and 2013 were \$43 million (utilizing a discount rate of 4.6%) and \$44 million (utilizing a discount rate of 4.7%), respectively, the majority of which are included in other liabilities on the accompanying Consolidated Balance Sheets, with related charges to operating earnings of \$2 million and \$3 million in 2013 and 2012, respectively. We recorded no net charges during 2014. These amounts represent only our estimated share of costs incurred in environmental cleanup sites without considering recovery of costs from any other party or insurer, since in most cases Potentially Responsible Parties other than us may exist and be held responsible.

Litigation

We are a defendant in various lawsuits and are subject to various claims which arise in the normal course of business. The Company records an associated liability when a loss is probable and the amount is reasonably estimable.

From time to time, we are involved in legal proceedings arising in the ordinary course of business, including tort, contractual and customer disputes, claims before the United States Equal Employment Opportunity Commission and other employee grievances, and intellectual property litigation and infringement claims. Intellectual property litigation and infringement claims could cause us to incur significant expenses or prevent us from selling our products. Under agreements with Motorola Inc. ("Motorola"), Freescale Inc. must indemnify Motorola for certain liabilities related to our business incurred prior to our separation from Motorola.

The resolution of intellectual property litigation may require us to pay damages for past infringement or to obtain a license under the other party's intellectual property rights that could require one-time license fees or ongoing royalties, require us to make material changes to our products and/or manufacturing processes, require us to cross-license certain of our patents and other intellectual property and/or prohibit us from manufacturing or selling one or more products in certain jurisdictions, which could adversely impact our operating results in future periods. If any of those events were to occur, our business, financial condition and results of operations could be adversely affected.

Other Contingencies

In the ordinary course of business, we regularly execute contracts that contain customary indemnification provisions. Additionally, from time to time we execute contracts considered outside the ordinary course of business, which may contain broader indemnification provisions, and other reimbursement obligations for costs related to epidemic failure of a Freescale product, late delivery, or breach of confidentiality. Examples of these types of agreements include customer supply contracts, business divestitures, business acquisitions, settlement agreements and third-party performance guarantees. In each of these circumstances, payment by us is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow us to challenge the other party's claims. Further, our obligations under these agreements may be limited in terms of duration and/or amounts not in excess of the contract value, and in some instances we may have recourse against third parties for certain payments made by us.

Historically, we have not made significant payments for indemnification provisions contained in these agreements. During 2012, we recorded a benefit of \$4 million to reorganization of business and other for the expiration of indemnification obligations under a contract previously executed outside the ordinary course of business. At December 31, 2014, we have no accruals related to known estimated indemnification obligations. We believe that if we were to incur additional losses with respect to any unknown matters at December 31, 2014, such losses would not have a material negative impact on our financial position, results of operations or cash flows.

(9) Asset Impairment Charges

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We evaluate the recoverability of long-lived assets to be held and used by comparing the carrying value of the assets to the estimated future net undiscounted cash flows expected to be generated by the asset group. An asset is considered impaired if the carrying value of the asset group is greater than its estimated future net undiscounted cash flows.

We measure the impairment to be recognized from assets to be held and used as the amount by which the carrying value of the asset group exceeds the fair value of the assets. The fair value of the asset is the quoted market price, if available, or discounted cash flows using a discount rate commensurate with the risk inherent in our current business model for the specific asset group being valued. To compute the estimated expected future cash flows on a discounted and undiscounted basis, we group assets at the lowest level for which there are identifiable cash flows. We base our estimates of future cash flows on historical and current financial results and management's best estimates of future operating trends. We project cash inflows and outflows until the operations will cease or significant capital re-investment would be required to continue operations, whichever is shorter. In evaluating assets held for use for impairment, we also consider whether the events that triggered the impairment analysis give rise to a change in the estimated useful lives of the associated assets. Asset useful lives are adjusted when appropriate. There have been no asset impairment charges during 2014, 2013 and 2012.

(10) Reorganization of Business and Other

Year ended December 31, 2014

Strategic Realignment

As a result of the strategic review initiated in 2012 (the "Strategic Realignment"), we identified opportunities to accelerate revenue growth and improve profitability. We have continued to shift our research and development investment and sales force to reflect this strategic realignment. Since the inception of the plan, we have recorded a total of \$115 million in net charges to

reorganization of business and other for employee termination benefits and other exit costs in connection with re-allocating research and development resources, re-aligning sales resources and reducing our infrastructure, as further described below.

At each reporting date, we evaluate our accruals for exit costs and employee separation costs, which consist primarily of termination benefits (principally severance payments), to ensure that our accruals are still appropriate. In certain circumstances, accruals are no longer required because of efficiencies in carrying out our plans or because employees previously identified for separation resign unexpectedly and do not receive severance or are redeployed due to circumstances not foreseen when the original plans were initiated. We reverse accruals to earnings when it is determined they are no longer required.

The following table displays a roll-forward from January 1, 2014 to December 31, 2014 of the employee separation and exit cost accruals established related to the Strategic Realignment:

(in millions, except headcount)	Accruals at January 1, 2014	Charges	Adjustments & Currency Impact	Usage	Accruals at December 31, 2014
Employee Separation Costs					
Supply chain	\$ 5	\$ 4	\$ —	\$ (5)	\$ 4
Selling, general and administrative	4	9	—	(6)	7
Research and development	2	18	(1)	(6)	13
Total	\$ 11	\$ 31	\$ (1)	\$ (17)	\$ 24
Related headcount	170	440	—	(235)	375
Exit and Other Costs	\$ 8	\$ —	\$ (1)	\$ (7)	\$ —

During 2014, we incurred \$31 million of additional employee separation charges related to the continued execution of this strategic plan. We adjusted our anticipated future severance payments by \$1 million to incorporate the currency impact in the above presentation reflecting the strengthening of the U.S. dollar against the Euro and Japanese Yen during 2014. The \$17 million used reflects cash payments made to employees separated as part of the plan during 2014. The accrual of \$24 million at December 31, 2014 reflects the estimated liability to be paid to the remaining 375 employees to be separated through 2016, along with previously separated employees still receiving severance benefits, based on current exchange rates.

Additionally, we recorded an adjustment of \$1 million to our previously estimated exit costs during 2014, of which \$7 million of the liability was paid during the period. These costs were estimated in accordance with ASC Topic 420 “Exit or Disposal Cost Obligations” (“ASC Topic 420”) and related to additional compensation for employees who were deemed crucial to the continuing implementation of the Strategic Realignment along with exit costs for underutilized office space vacated in connection with plans to consolidate workspace in Austin, Texas.

Reorganization of Business Program

In 2008, we began executing a series of restructuring initiatives that streamlined our cost structure and re-directed some research and development investments into expected growth markets (the “Reorganization of Business Program”). Since the inception of the plan, we have recorded \$242 million in net charges to reorganization of business and other. The only remaining actions relating to this reorganization program are the decommissioning of the land and buildings at our Toulouse, France manufacturing facility, along with payment of the remaining separation costs.

The following table displays a roll-forward from January 1, 2014 to December 31, 2014 of the employee separation cost accruals established related to the Reorganization of Business Program:

(in millions, except headcount)	Accruals at January 1, 2014	Charges	Adjustments & Currency Impact	Usage	Accruals at December 31, 2014
Employee Separation Costs					
Supply chain	\$ 17	\$ —	\$ (1)	\$ (8)	\$ 8
Selling, general and administrative	1	—	—	(1)	—
Research and development	1	—	—	—	1
Total	\$ 19	\$ —	\$ (1)	\$ (9)	\$ 9
Related headcount	30	—	—	(30)	—

The \$9 million used reflects cash payments made to employees separated as part of the Reorganization of Business Program during 2014. We adjusted our anticipated future severance payments by \$1 million to incorporate the currency impact in the above presentation reflecting the strengthening of the U.S. dollar against the Euro during 2014. The accrual of \$9 million at December 31, 2014 reflects the estimated liability to be paid through 2015 (i) to previously separated employees still receiving severance benefits and (ii) for outplacement services and other severance-related costs, based on current exchange rates.

Disposition Activities

During 2014, we recorded a net benefit of \$8 million related to the sale of our former manufacturing site located in Sendai, Japan partially offset by demolition costs incurred to prepare the site for sale along with other closing costs. Also during 2014, we recorded \$8 million of charges related to on-going closure and decommissioning costs for our Toulouse, France manufacturing facility. Additionally, we recorded \$7 million in charges largely related to the write-down of the net book value of certain assets to their fair market values less the expected cost to sell associated with the classification of the assets as held for sale during 2014.

Year ended December 31, 2013

Strategic Realignment

The following table displays a roll-forward from January 1, 2013 to December 31, 2013 of the employee separation and exit cost accruals established related to the Strategic Realignment:

(in millions, except headcount)	Accruals at January 1, 2013	Charges	Adjustments	Used	Accruals at December 31, 2013
Employee Separation Costs					
Supply chain	\$ 6	\$ 3	\$ —	\$ (4)	\$ 5
Selling, general and administrative	11	3	—	(10)	4
Research and development	13	—	—	(11)	2
Total	<u>\$ 30</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ (25)</u>	<u>\$ 11</u>
Related headcount	<u>270</u>	<u>120</u>	<u>—</u>	<u>(220)</u>	<u>170</u>
Exit and Other Costs	<u>\$ 2</u>	<u>\$ 28</u>	<u>\$ (2)</u>	<u>\$ (20)</u>	<u>\$ 8</u>

We incurred \$6 million of additional employee separation charges related to the continued execution of this plan. The \$25 million used reflects cash payments paid to employees separated as part of this plan during 2013. Additionally, we recorded \$28 million in exit and other costs related to (i) additional compensation for employees who were deemed crucial to the implementation of the plan, (ii) a lease termination charge associated with our plans to consolidate workspace in Israel and (iii) exit costs for underutilized office space vacated in connection with plans to consolidate workspace in Austin, Texas in accordance with ASC Topic 420, on which we recorded a \$2 million adjustment during 2013. In addition to the separation and exit costs associated with Strategic Realignment, a \$1 million net charge was recorded in reorganization of business and other related to indemnification provisions included in Gregg Lowe's (our president and CEO) employment agreement.

Reorganization of Business Program

The following table displays a roll-forward from January 1, 2013 to December 31, 2013 of the employee separation accruals established related to the Reorganization of Business Program:

(in millions, except headcount)	Accruals at January 1, 2013	Charges	Adjustments & Currency Impact	Usage	Accruals at December 31, 2013
Employee Separation Costs					
Supply chain	\$ 77	\$ —	\$ (1)	\$ (59)	\$ 17
Selling, general and administrative	2	—	(1)	—	1
Research and development	2	—	(1)	—	1
Total	<u>\$ 81</u>	<u>\$ —</u>	<u>\$ (3)</u>	<u>\$ (59)</u>	<u>\$ 19</u>
Related headcount	<u>520</u>	<u>—</u>	<u>—</u>	<u>(490)</u>	<u>30</u>

The \$59 million used reflects cash payments made to employees separated as part of the Reorganization of Business Program during 2013. We adjusted our anticipated future severance payments by \$3 million (i) related to the reduction of expected future cash payments required under this plan and (ii) to incorporate the currency impact in the above presentation to reflect the strengthening of the U.S. dollar against the Euro during 2013.

Disposition Activities

During the year ended December 31, 2013 and in connection with the closure of the Toulouse, France manufacturing facility, we recorded a benefit of \$13 million related to proceeds received for the sale of certain of our equipment and machinery located at this facility, which was partially offset by a \$6 million charge related to on-going closure and decommissioning costs. We also recorded a benefit of \$5 million related to the sale of a portion of our former manufacturing

facility located in Sendai, Japan, offset by a \$1 million charge related to demolition costs incurred in preparation of the remaining site for sale.

Additionally during 2013, we incurred a \$4 million charge primarily related to (i) the write-down of the net book value of certain manufacturing assets to their fair market values less the expected cost to sell in association with the classification of the assets as held for sale and (ii) a contract termination charge associated with similar manufacturing assets under a previous operating lease. These assets were no longer deemed necessary due to the strategic decision to eliminate certain processes for some of our next generation products.

Year Ended December 31, 2012

In 2012, we recorded a benefit of \$90 million for earthquake-related business interruption insurance recoveries related to our Sendai, Japan fabrication facility which suffered extensive damage from the March 2011 earthquake. We also recorded a benefit of \$9 million related to proceeds received in connection with the sale of the Sendai, Japan design center. These benefits were partially offset by \$9 million of expenses related to on-going closure costs and costs associated with the dissolution of the Sendai, Japan entity.

Additionally, we recorded benefits totaling \$16 million primarily related to the expiration of contractual obligations associated with the wind down of our cellular handset business and the expiration of indemnification obligations under a contract previously executed outside the ordinary course of business. These benefits were partially offset by charges of \$52 million including a non-cash accelerated amortization charge and cash costs for employee termination benefits and other exit costs recorded in connection with the Strategic Realignment. Additionally we recorded charges of \$39 million primarily for (i) exit costs related to the termination of various supply agreements, on-going closure and decommissioning costs incurred in connection with the closure of our Toulouse, France manufacturing facility, (ii) the change in the executive leadership of the Company and (iii) costs recorded in connection with the termination of our corporate aircraft lease agreement.

(11) Certain Relationships and Related Party Transactions

We have various agreements with affiliates of our Sponsors to provide certain administrative and support services under which we recognized \$22 million, \$20 million and \$15 million in selling, general and administrative expense in the accompanying Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012, respectively. As of both December 31, 2014 and 2013, we had an amount due to these related parties in connection with these arrangements of \$5 million.

(12) Supplemental Enterprise-Wide Information

Geographic Region Information

The following geographic region information includes net sales, as measured by each of our subsidiaries from which our products were sold to external customers, as well as property, plant and equipment based on physical location. Net sales by country for the years ended December 31, 2014, 2013 and 2012, as well as property, plant and equipment as of December 31, 2014 and 2013 were as follows:

	Net Sales		
	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Malaysia ⁽¹⁾	\$ 1,271	\$ 692	\$ 606
Switzerland	1,091	974	929
Hong Kong	996	1,191	1,107
United States	991	1,097	1,061
Japan	256	202	227
Other nations	29	30	15
Total net sales	<u>\$ 4,634</u>	<u>\$ 4,186</u>	<u>\$ 3,945</u>

(1) The sequential increase in net sales includes the impact of the migration of sales from Hong Kong to Malaysia beginning in the fourth quarter of 2014.

	Property, Plant and Equipment	
	December 31, 2014	December 31, 2013
United States	\$ 349	\$ 327
Malaysia	248	202
China	98	88
Other nations	55	64
Total property, plant and equipment, net	\$ 750	\$ 681

Product Group Revenues

Our product revenues are aligned into five focused product groups: Microcontrollers, Digital Networking, Automotive MCUs, Analog & Sensors and Radio Frequency. We also derive net sales from “Other” which consists of product sales associated with end markets outside of target markets, including the cellular market, intellectual property licensing and sales, foundry wafer sales to other semiconductor companies and net sales from sources other than semiconductors. Net sales by product group for the years ended December 31, 2014, 2013 and 2012 were as follows:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Microcontrollers	\$ 951	\$ 826	\$ 707
Digital Networking	1,038	915	852
Automotive MCUs	1,186	1,063	986
Analog & Sensors	797	736	722
Radio Frequency	554	352	303
Other	108	294	375
Total net sales	\$ 4,634	\$ 4,186	\$ 3,945

Major Customers

Continental Automotive, represented 14%, 15% and 15% of our total net sales in 2014, 2013 and 2012, respectively. Additionally, as a result of the consolidation of our global distribution sales network in early 2014, Avnet, Inc. and Arrow Electronics, Inc. each represented more than 10% of our total net sales in 2014. Individually, neither distributor comprised more than 10% of our net sales in either 2013 or 2012.

(13) Valuation and Qualifying Accounts

The following table presents the valuation and qualifying account activity for the years ended December 31, 2014, 2013 and 2012:

	Balance at beginning of period	Additions charged to costs & expenses	Deductions(1)	Balance at end of period
As of December 31, 2014:				
Allowance for doubtful accounts	\$ 2	\$ (2)	\$ —	\$ —
Product and service warranties	\$ 5	\$ 1	\$ (1)	\$ 5
As of December 31, 2013:				
Allowance for doubtful accounts	\$ 2	\$ 1	\$ (1)	\$ 2
Product and service warranties	\$ 6	\$ —	\$ (1)	\$ 5
As of December 31, 2012:				
Allowance for doubtful accounts	\$ 2	\$ —	\$ —	\$ 2
Product and service warranties	\$ 4	\$ 2	\$ —	\$ 6

(1) Accrual usage

(14) Supplemental Guarantor Condensed Consolidating Financial Statements

Pursuant to the terms of our acquisition by the Sponsors under the Merger in December 2006, Freescale Inc. continues as a wholly-owned indirect subsidiary of Freescale Ltd. The reporting entity subsequent to the Merger is Freescale Ltd.

As a result of the Merger and subsequent debt redemption and refinancing transactions, we had \$2,113 million aggregate principal amount of Senior Notes outstanding as of December 31, 2014, as further discussed in Note 4, "Debt." The senior secured notes are jointly and severally guaranteed on a secured, senior basis and the senior unsecured notes are jointly and severally guaranteed on an unsecured, senior basis, in each case, subject to certain exceptions, by Freescale Ltd., its wholly owned direct and indirect subsidiaries created in connection with the Merger, and SigmaTel, LLC (together, the "Guarantors"). Each Guarantor fully and unconditionally guarantees, jointly and severally with the other Guarantors, as a primary obligor and not merely as a surety, the due and punctual payment and performance of the obligations. As of December 31, 2014, other than SigmaTel, LLC, none of Freescale Inc.'s domestic or foreign subsidiaries ("Non-Guarantors") guarantee the Senior Notes or Credit Facility. In the future, other subsidiaries may be required to guarantee all or a portion of the Senior Notes, if and to the extent they guarantee the Credit Facility. (The relationship between the Company and the parent companies, along with the relationship of the Sponsors and the Merger transaction are defined and discussed in Note 1, "Basis of Presentation and Principles of Consolidation.")

The following tables present our results of operations, financial position and cash flows of Freescale Ltd., the Guarantors, Freescale Inc., the Non-Guarantors and eliminations for the years ended December 31, 2014, 2013 and 2012 and as of December 31, 2014 and December 31, 2013, to arrive at the information on a consolidated basis:

Supplemental Condensed Consolidating Statement of Operations
For the Year Ended December 31, 2014

(in millions)	Freescale Ltd.	Guarantors	Freescale Inc.	Non-Guarantors	Eliminations	Consolidated
Net sales	\$ —	\$ —	\$ 5,967	\$ 6,208	\$ (7,541)	\$ 4,634
Cost of sales	—	—	4,171	5,879	(7,541)	2,509
Gross margin	—	—	1,796	329	—	2,125
Selling, general and administrative	8	—	694	211	(414)	499
Research and development	—	—	550	296	—	846
Amortization expense for acquired intangible assets	—	—	15	—	—	15
Reorganization of business and other	—	—	17	20	—	37
Operating (loss) earnings	(8)	—	520	(198)	414	728
Loss on extinguishment or modification of long-term debt	—	—	(79)	—	—	(79)
Other income (expense), net	445	447	12	428	(1,677)	(345)
Earnings before income taxes	437	447	453	230	(1,263)	304
Income tax expense	—	—	7	46	—	53
Net earnings	\$ 437	\$ 447	\$ 446	\$ 184	\$ (1,263)	\$ 251

Supplemental Condensed Consolidating Statement of Comprehensive Earnings
For the Year Ended December 31, 2014

(in millions)	Freescall Ltd.	Guarantors	Freescall Inc.	Non-Guarantors	Eliminations	Consolidated
Net earnings	\$ 437	\$ 447	\$ 446	\$ 184	\$ (1,263)	\$ 251
Other comprehensive loss, net of tax:						
Foreign currency translation adjustments	—	—	—	—	—	—
Derivative instrument adjustments:						
Unrealized losses arising during the period	—	—	(21)	—	—	(21)
Reclassification adjustment for items included in net earnings	—	—	1	—	—	1
Post-retirement adjustments:						
Losses arising during the period	—	—	(30)	(23)	—	(53)
Amortization of actuarial (losses) gains included in net earnings	—	—	(4)	2	—	(2)
Other comprehensive loss	—	—	(54)	(21)	—	(75)
Comprehensive earnings	\$ 437	\$ 447	\$ 392	\$ 163	\$ (1,263)	\$ 176

Supplemental Condensed Consolidating Statement of Operations
For the Year Ended December 31, 2013

(in millions)	Freescall Ltd.	Guarantors	Freescall Inc.	Non-Guarantors	Eliminations	Consolidated
Net sales	\$ —	\$ —	\$ 5,363	\$ 5,482	\$ (6,659)	\$ 4,186
Cost of sales	—	—	3,885	5,173	(6,659)	2,399
Gross margin	—	—	1,478	309	—	1,787
Selling, general and administrative	7	—	640	194	(377)	464
Research and development	—	—	488	267	—	755
Amortization expense for acquired intangible assets	—	—	13	—	—	13
Reorganization of business and other	—	—	17	7	—	24
Operating (loss) earnings	(7)	—	320	(159)	377	531
Loss on extinguishment or modification of long-term debt	—	—	(217)	—	—	(217)
Other income (expense), net	218	220	119	387	(1,426)	(482)
Earnings (loss) before income taxes	211	220	222	228	(1,049)	(168)
Income tax expense	—	—	2	38	—	40
Net earnings (loss)	\$ 211	\$ 220	\$ 220	\$ 190	\$ (1,049)	\$ (208)

Supplemental Condensed Consolidating Statement of Comprehensive Earnings (Loss)
For the Year Ended December 31, 2013

(in millions)	Freescall Ltd.	Guarantors	Freescall Inc.	Non-Guarantors	Eliminations	Consolidated
Net earnings (loss)	\$ 211	\$ 220	\$ 220	\$ 190	\$ (1,049)	\$ (208)
Other comprehensive earnings, net of tax:						
Foreign currency translation adjustments	—	—	—	(6)	—	(6)
Derivative instrument adjustments:						
Unrealized losses arising during the period	—	—	(8)	—	—	(8)
Reclassification adjustment for items included in net earnings (loss)	—	—	—	—	—	—
Post-retirement adjustments:						
Gains arising during the period	—	—	44	3	—	47
Amortization of actuarial (losses) gains included in net earnings (loss)	—	—	(1)	3	—	2
Other comprehensive earnings	—	—	35	—	—	35
Comprehensive earnings (loss)	\$ 211	\$ 220	\$ 255	\$ 190	\$ (1,049)	\$ (173)

Supplemental Condensed Consolidating Statement of Operations
For the Year Ended December 31, 2012

(in millions)	Freescall Ltd.	Guarantors	Freescall Inc.	Non-Guarantors	Eliminations	Consolidated
Net sales	\$ —	\$ —	\$ 5,179	\$ 5,339	\$ (6,573)	\$ 3,945
Cost of sales	—	—	3,827	5,050	(6,573)	2,304
Gross margin	—	—	1,352	289	—	1,641
Selling, general and administrative	7	—	643	184	(396)	438
Research and development	—	—	471	271	—	742
Amortization expense for acquired intangible assets	—	—	13	—	—	13
Reorganization of business and other	—	—	(35)	20	—	(15)
Operating (loss) earnings	(7)	—	260	(186)	396	463
Loss on extinguishment or modification of long-term debt	—	—	(32)	—	—	(32)
Other income (expense), net	92	94	(141)	405	(981)	(531)
Earnings (loss) before income taxes	85	94	87	219	(585)	(100)
Income tax (benefit) expense	—	—	(7)	9	—	2
Net earnings (loss)	\$ 85	\$ 94	\$ 94	\$ 210	\$ (585)	\$ (102)

Supplemental Condensed Consolidating Statement of Comprehensive Earnings (Loss)
For the Year Ended December 31, 2012

(in millions)	Freescape Ltd.	Guarantors	Freescape Inc.	Non-Guarantors	Eliminations	Consolidated
Net earnings (loss)	\$ 85	\$ 94	\$ 94	\$ 210	\$ (585)	\$ (102)
Other comprehensive earnings (loss), net of tax:						
Foreign currency translation adjustments	—	—	—	—	—	—
Derivative instrument adjustments:						
Unrealized gains arising during the period	—	—	6	—	—	6
Reclassification adjustment for items included in net earnings (loss)	—	—	1	—	—	1
Post-retirement adjustments:						
Losses arising during the period	—	—	(6)	(12)	—	(18)
Amortization of actuarial gains included in net earnings (loss)	—	—	—	—	—	—
Other comprehensive earnings (loss)	—	—	1	(12)	—	(11)
Comprehensive earnings (loss)	\$ 85	\$ 94	\$ 95	\$ 198	\$ (585)	\$ (113)

Supplemental Condensed Consolidating Balance Sheet
December 31, 2014

(in millions)	Freescale Ltd.	Guarantors	Freescale Inc.	Non-Guarantors	Eliminations	Consolidated
Assets						
Cash and cash equivalents	\$ 4	\$ —	\$ 181	\$ 511	\$ —	\$ 696
Inter-company receivable	161	—	509	472	(1,142)	—
Accounts receivable, net	—	—	130	432	—	562
Inventory, net	—	—	335	410	—	745
Other current assets	—	—	105	61	—	166
Total current assets	165	—	1,260	1,886	(1,142)	2,169
Property, plant and equipment, net	—	—	349	401	—	750
Investment in affiliates	(3,710)	(3,710)	1,350	—	6,070	—
Intangible assets, net	—	—	51	8	—	59
Inter-company note receivable	—	123	1	166	(290)	—
Other assets, net	7	—	131	159	—	297
Total Assets	\$ (3,538)	\$ (3,587)	\$ 3,142	\$ 2,620	\$ 4,638	\$ 3,275
Liabilities and Shareholders' (Deficit) Equity						
Current portion of long-term debt and capital lease obligations						
	\$ —	\$ —	\$ 35	\$ —	\$ —	\$ 35
Inter-company payable	—	—	501	641	(1,142)	—
Accounts payable	—	—	251	162	—	413
Accrued liabilities and other	—	—	260	137	—	397
Total current liabilities	—	—	1,047	940	(1,142)	845
Long-term debt	—	—	5,535	—	—	5,535
Inter-company note payable	43	123	—	124	(290)	—
Other liabilities	—	—	270	206	—	476
Total liabilities	43	123	6,852	1,270	(1,432)	6,856
Total shareholders' (deficit) equity	(3,581)	(3,710)	(3,710)	1,350	6,070	(3,581)
Total Liabilities and Shareholders' (Deficit) Equity	\$ (3,538)	\$ (3,587)	\$ 3,142	\$ 2,620	\$ 4,638	\$ 3,275

Supplemental Condensed Consolidating Balance Sheet
December 31, 2013

(in millions)	Freescale Ltd.	Guarantors	Freescale Inc.	Non-Guarantors	Eliminations	Consolidated
Assets						
Cash and cash equivalents	\$ 1	\$ —	\$ 235	\$ 511	\$ —	\$ 747
Inter-company receivable	169	—	445	504	(1,118)	—
Accounts receivable, net	—	—	91	297	—	388
Inventory, net	—	—	276	457	—	733
Other current assets	—	—	74	53	—	127
Total current assets	170	—	1,121	1,822	(1,118)	1,995
Property, plant and equipment, net	—	—	327	354	—	681
Investment in affiliates	(4,721)	(4,721)	1,364	—	8,078	—
Intangible assets, net	—	—	52	—	—	52
Inter-company note receivable	—	118	—	161	(279)	—
Other assets, net	—	—	156	163	—	319
Total Assets	\$ (4,551)	\$ (4,603)	\$ 3,020	\$ 2,500	\$ 6,681	\$ 3,047
Liabilities and Shareholders' (Deficit) Equity						
Equity						
Current portion of long-term debt and capital lease obligations	\$ —	\$ —	\$ 93	\$ —	\$ —	\$ 93
Inter-company payable	—	—	565	553	(1,118)	—
Accounts payable	—	—	241	157	—	398
Accrued liabilities and other	—	—	245	126	—	371
Total current liabilities	—	—	1,144	836	(1,118)	862
Long-term debt	—	—	6,386	—	—	6,386
Inter-company note payable	43	118	—	118	(279)	—
Other liabilities	—	—	211	182	—	393
Total liabilities	43	118	7,741	1,136	(1,397)	7,641
Total shareholders' (deficit) equity	(4,594)	(4,721)	(4,721)	1,364	8,078	(4,594)
Total Liabilities and Shareholders' (Deficit) Equity	\$ (4,551)	\$ (4,603)	\$ 3,020	\$ 2,500	\$ 6,681	\$ 3,047

Supplemental Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 2014

(in millions)	Freescall Ltd.	Guarantors	Freescall Inc.	Non-Guarantors	Eliminations	Consolidated
Cash flow provided by operating activities	\$ 81	\$ —	\$ 242	\$ 366	\$ (185)	\$ 504
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	—	(101)	(148)	—	(249)
Acquisitions and strategic investment activity	—	—	(20)	—	—	(20)
Proceeds from the sale of property, plant and equipment	—	—	1	15	—	16
Payments for purchased licenses and other assets	—	—	(46)	(35)	—	(81)
Inter-company loans and capital transactions	(842)	(847)	(1)	(5)	1,695	—
Cash flow used for investing activities	(842)	(847)	(167)	(173)	1,695	(334)
Cash flows from financing activities:						
Retirements of and payments for long-term debt and capital lease obligations	—	—	(1,568)	—	—	(1,568)
Debt issuance proceeds, net of debt issuance costs	—	—	590	—	—	590
Proceeds from equity offering, net of offering costs	717	—	—	—	—	717
Proceeds from stock option exercises and ESPP share purchases	47	—	—	—	—	47
Excess tax benefits from share-based compensation plans	—	—	7	—	—	7
Inter-company loans, dividends and capital transactions	—	847	842	(179)	(1,510)	—
Cash flow provided by (used for) financing activities	764	847	(129)	(179)	(1,510)	(207)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(14)	—	(14)
Net increase (decrease) in cash and cash equivalents	3	—	(54)	—	—	(51)
Cash and cash equivalents, beginning of period	1	—	235	511	—	747
Cash and cash equivalents, end of period	\$ 4	\$ —	\$ 181	\$ 511	\$ —	\$ 696

Supplemental Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended December 31, 2013

(in millions)	Freescall Ltd.	Guarantors	Freescall Inc.	Non-Guarantors	Eliminations	Consolidated
Cash flow provided by operating activities	\$ 40	\$ —	\$ 235	\$ 465	\$ (419)	\$ 321
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	—	(68)	(83)	—	(151)
Proceeds from the sale of property, plant and equipment	—	—	—	12	—	11
Payments for purchased licenses and other assets	—	—	(30)	(40)	—	(70)
Acquisitions and strategic investment activity	—	—	(1)	—	—	—
Inter-company loans and capital transactions	(102)	(106)	26	(4)	186	—
Cash flow used for investing activities	(102)	(106)	(73)	(115)	186	(210)
Cash flows from financing activities:						
Retirements of and payments for long-term debt and capital lease obligations	—	—	(5,062)	—	—	(5,062)
Debt issuance proceeds, net of debt issuance costs	—	—	4,929	—	—	4,929
Proceeds from stock option exercises and ESPP share purchases	62	—	—	—	—	62
Inter-company loans, dividends and capital transactions	—	106	102	(441)	233	—
Cash flow provided by (used for) financing activities	62	106	(31)	(441)	233	(71)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(4)	—	(4)
Net increase (decrease) in cash and cash equivalents	—	—	131	(95)	—	36
Cash and cash equivalents, beginning of period	1	—	104	606	—	711
Cash and cash equivalents, end of period	\$ 1	\$ —	\$ 235	\$ 511	\$ —	\$ 747

Supplemental Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 2012

(in millions)	Freescal Ltd.	Guarantors	Freescal Inc.	Non-Guarantors	Eliminations	Consolidated
Cash flow (used for) provided by operating activities	—	(1)	326	228	(203)	350
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	—	(58)	(65)	—	(123)
Proceeds from sale of property, plant and equipment and assets held for sale	—	—	1	18	—	19
Acquisitions and strategic investment activity	—	—	1	—	—	1
Payments for purchased licenses and other assets	—	—	(32)	(41)	—	(73)
Inter-company loan receivable and dividends	(28)	(30)	37	(9)	30	—
Cash flow used for investing activities	(28)	(30)	(51)	(97)	30	(176)
Cash flows from financing activities:						
Retirements of and payments for long-term debt and capital lease obligations	—	—	(733)	(1)	—	(734)
Debt issuance proceeds, net of deferred financing costs	—	—	481	—	—	481
Proceeds from stock option exercises and ESPP share purchases	21	—	—	—	—	21
Inter-company loan payable, dividends and capital contributions	6	31	25	(235)	173	—
Cash flow provided by (used for) financing activities	27	31	(227)	(236)	173	(232)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(3)	—	(3)
Net (decrease) increase in cash and cash equivalents	(1)	—	48	(108)	—	(61)
Cash and cash equivalents, beginning of period	2	—	56	714	—	772
Cash and cash equivalents, end of period	1	—	104	606	—	711

(15) Quarterly and Other Financial Data (unaudited)

2014 Operating Results (in millions, except per share data)					
	4th	3rd	2nd	1st	
Net sales	\$ 1,103	\$ 1,213	\$ 1,191	\$ 1,127	
Gross margin	\$ 521	\$ 562	\$ 537	\$ 505	
Operating earnings	\$ 178	\$ 215	\$ 180	\$ 155	
Net earnings (loss)	\$ 63	\$ 125	\$ 86	\$ (23)	
Net earnings (loss) per common share:					
Basic	\$ 0.21	\$ 0.41	\$ 0.28	\$ (0.08)	
Diluted	\$ 0.20	\$ 0.40	\$ 0.28	\$ (0.08)	
Weighted average common shares outstanding:					
Basic	304	304	303	280	
Diluted	310	309	308	280	
2013 Operating Results (in millions, except per share data)					
	4th	3rd	2nd	1st	
Net sales	\$ 1,082	\$ 1,085	\$ 1,038	\$ 981	
Gross margin	\$ 475	\$ 473	\$ 441	\$ 398	
Operating earnings	\$ 145	\$ 157	\$ 125	\$ 104	
Net (loss) earnings	\$ (118)	\$ 23	\$ (65)	\$ (48)	
Net (loss) earnings per common share:					
Basic	\$ (0.46)	\$ 0.09	\$ (0.25)	\$ (0.19)	
Diluted	\$ (0.46)	\$ 0.09	\$ (0.25)	\$ (0.19)	
Weighted average common shares outstanding:					
Basic	258	258	255	252	
Diluted	258	261	255	252	

Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A: Controls and Procedures

(a) Management's Evaluation of Disclosure Controls and Procedures:

The term “disclosure controls and procedures” is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC. An evaluation was performed under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures as of December 31, 2014. Based on that evaluation, the Company’s management, including the Chief Executive Officer and Chief Financial Officer (the principal executive officer and principal financial officer, respectively), concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2014. During the year ending on December 31, 2014, there was no change in the Company’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

The certifications of the Company’s Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act have been filed as Exhibits 31.1 and 31.2 to this report.

(b) Management's Annual Report on Internal Control over Financial Reporting:

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014, using the criteria set forth in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2014, the Company’s internal control over financial reporting was effective based on those criteria.

(c) Attestation Report of Independent Registered Public Accounting Firm:

Our independent registered accounting firm, KPMG LLP, independently assessed the effectiveness of the Company’s internal control over financial reporting, as stated in their attestation report, which is included at the beginning of Part II, Item 8 of this Annual Report.

(d) Change in Internal Control over Financial Reporting:

No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B: Other Information

Compliance Disclosure

Pursuant to Section 13(r) of the Securities Exchange Act of 1934, as amended, we are required to include certain disclosures in our periodic filings if we or any of our affiliates engaged in certain transactions with Iran or with persons or entities designated under certain executive orders during the period covered by the periodic filing. During the period covered by this report, the Company did not engage in any transactions with Iran or with persons or entities related to Iran.

Funds affiliated with The Blackstone Group (“Blackstone”) hold 25% of the total outstanding voting shares of Freescale Holdings GP, LTD. (“Freescale GP”), the general partner of Freescale Holdings L.P. (“Freescale LP”), our largest shareholder (which owns approximately 64% of the Company's outstanding shares). Blackstone and the Company are parties to a shareholders' agreement under which Blackstone, among other things, has the right to designate two directors to our board of directors. Accordingly, Blackstone may be deemed an “affiliate” of the Company, as that term is defined in Exchange Act Rule 12b-2.

The disclosures reproduced below were included in periodic reports filed with the Securities and Exchange Commission (the “SEC”) by Blackstone with respect to the fiscal quarters ended March 31, 2014, June 30, 2014, and September 30, 2014, regarding the activities of Travelport Limited (“Travelport”), a Blackstone portfolio company. As of the date the Company filed its Form 10-K for the fiscal year ended December 31, 2014 with the SEC, Blackstone had not yet filed its Form 10-K for such period. Therefore the disclosures reproduced below do not include information for the fiscal quarter ended December 31, 2014. Travelport is a portfolio company of Blackstone and may be deemed to be an affiliate of Blackstone. Because of the broad definition of “affiliate” in Exchange Act Rule 12b-2, Travelport, through Blackstone's ownership of Freescale GP and Freescale LP, could potentially be deemed to be an affiliate of ours. Other than as described below, we have no knowledge of the activities of Travelport with respect to the transactions with Iran, and we have not independently verified or participated in the preparation of the disclosures described below. No information was provided with respect to the gross revenues and net profits attributable to Blackstone regarding Travelport's activities described below.

Blackstone included the following disclosure in its Form 10-Q for the fiscal quarter ended March 31, 2014:

Travelport Limited, which may be considered our affiliate, provided the disclosure reproduced below in connection with activities during the quarter ended March 31, 2014. We have not independently verified or participated in the preparation of this disclosure.

“As part of our global business in the travel industry, we provide certain passenger travel-related GDS and airline IT services to Iran Air. We also provide certain airline IT services to Iran Air Tours. All of these services are either exempt from applicable sanctions prohibitions pursuant to a statutory exemption permitting transactions ordinarily incident to travel or, to the extent not otherwise exempt, specifically licensed by the U.S. Office of Foreign Assets Control. Subject to any changes in the exempt/licensed status of such activities, we intend to continue these business activities, which are directly related to and promote the arrangement of travel for individuals.”

Travelport has not provided us with gross revenues and net profits attributable to the activities described above.

Blackstone included the following disclosure in its Form 10-Q for the fiscal quarter ended June 30, 2014:

Travelport Limited, which may be considered our affiliate, included the disclosure reproduced below in its Form 10-Q for the fiscal quarter ended June 30, 2014. We have not independently verified or participated in the preparation of this disclosure.

“As part of our global business in the travel industry, we provide certain passenger travel-related GDS and Technology Services to Iran Air. We also provide certain airline Technology Services to Iran Air Tours. All of these services are either exempt from applicable sanctions prohibitions pursuant to a statutory exemption permitting transactions ordinarily incident to travel or, to the extent not otherwise exempt, specifically licensed by the U.S. Office of Foreign Assets Control. Subject to any changes in the exempt/licensed status of such activities, we intend to continue these business activities, which are directly related to and promote the arrangement of travel for individuals.

The gross revenue and net profit attributable to these activities in the quarter ended June 30, 2014 were approximately \$161,000 and \$117,000, respectively.”

Blackstone included the following disclosure in its Form 10-Q for the fiscal quarter ended September 30, 2014:

Travelport Limited, which may be considered our affiliate, provided the disclosure reproduced below in connection with activities during the quarter September 30, 2014. We have not independently verified or participated in the preparation of this disclosure.

“As part of our global business in the travel industry, we provide certain passenger travel-related GDS and Technology Services to Iran Air. We also provide certain airline Technology Services to Iran Air Tours. All of these services are either exempt from applicable sanctions prohibitions pursuant to a statutory exemption permitting transactions ordinarily incident to travel or, to the extent not otherwise exempt, specifically licensed by the U.S. Office of Foreign Assets Control. Subject to any changes in the exempt/licensed status of such activities, we intend to continue these business activities, which are directly related to and promote the arrangement of travel for individuals.”

Travelport has not provided us with gross revenues and net profits attributable to the activities described above.

PART III

Item 10: Directors, Executive Officers and Corporate Governance

The response to this Item incorporates by reference, with respect to directors and executive officers, the information under the captions “Election of Directors” and “Executive Officers” of our 2015 Proxy Statement, and, with respect to the Audit and Legal Committee, the Nominating and Corporate Governance Committee, the information under the captions “Board Structure and Compensation” and “Report of the Audit and Legal Committee” of our 2015 Proxy Statement.

The response to this Item incorporates by reference the information under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” of our 2015 Proxy Statement.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics which applies to our senior financial officers, including our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and any other person performing similar functions. The Code of Business Conduct and Ethics is available on our website (www.freescale.com). We intend to disclose on our website any amendments to or waivers of this Code of Business Conduct and Ethics.

Item 11. Executive Compensation

The response to this Item incorporates by reference the information appearing under the captions “Board Structure and Compensation,” “Executive Compensation,” “Compensation and Leadership Committee Interlocks” and “Compensation and Leadership Committee Report” of our 2015 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The response to this Item incorporates by reference the information under the captions “Equity Compensation Plan Information” and “Security Ownership of Certain Beneficial Owners and Management” of our 2015 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The response to this Item incorporates by reference the relevant information under the captions “Certain Relationships and Related Party Transactions” and “Board Structure and Compensation” of our 2015 Proxy Statement.

Item 14. Principal Accountant Fees and Services

The response to this Item incorporates by reference the information under the caption “Independent Registered Public Accounting Firm” of our 2015 Proxy Statement.

PART IV

Item 15: Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

The information required by this Item is included in Item 8 of Part II of this report.

(a)(2) Financial Statement Schedules

None.

(a)(3) Exhibits

See Item 15(b) below.

(b) Exhibits:

Exhibit No.	Exhibit Title
2.1	Agreement and Plan of Merger, dated September 15, 2006, by and among Freescale Semiconductor, Inc., Firestone Holdings LLC and Firestone Acquisition Corporation (incorporated by reference to Exhibit 2.1 to the Freescale Semiconductor, Inc. Registration Statement on Form S-4, filed with the SEC on March 8, 2007 (File No. 333-141128)).
3.1	Memorandum of Association of Freescale Semiconductor Holdings I, Ltd. (formerly Firestone Holdings (Bermuda) I, Ltd.) (incorporated by reference to Exhibit 3.1 to the Freescale Semiconductor, Ltd. Registration Statement on Form S-1/A, filed with the SEC on April 25, 2011 (File No. 333-172188)).

3.2	Certificate of Incorporation of Freescale Holdings (Bermuda) I, Ltd., as issued by the Bermuda Registrar of Companies on November 9, 2006 (incorporated by reference to Exhibit 3.1 to the Freescale Semiconductor, Inc. Registration Statement on Form S-4, filed with the SEC on March 8, 2007 (File No. 333-141128)).
3.3	Amended and Restated Bye-laws of Freescale Semiconductor Holdings I, Ltd. (incorporated by reference to Exhibit 3.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on June 3, 2011).
4.1	Senior Notes Indenture, dated as of December 1, 2006, among Freescale Acquisition Corporation, the Guarantors listed therein and The Bank Of New York as Trustee, for \$500,000,000 Senior Floating Rate Notes Due 2014, \$1,500,000,000 9.125% / 9.875% Senior PIK-Election Notes Due 2014, and \$2,350,000,000 8 7/8% Senior Fixed Rate Notes Due 2014, including the forms of notes (incorporated by reference to Exhibit 4.1 to the Freescale Semiconductor, Inc. Registration Statement on Form S-4, filed with the SEC on March 8, 2007 (File No. 333-141128)).
4.2	Senior Subordinated Notes Indenture, dated as of December 1, 2006, among Freescale Acquisition Corporation, the Guarantors listed therein and The Bank Of New York, as Trustee for \$1,600,000,000 10 1/8% Senior Subordinated Notes Due 2016, including the form of note (incorporated by reference to Exhibit 4.2 to the Freescale Semiconductor, Inc. Registration Statement on Form S-4, filed with the SEC on March 8, 2007 (File No. 333-141128)).
4.3	First Supplemental Indenture, dated as of December 1, 2006, by and among Freescale Semiconductor, Inc., the guarantors listed therein and The Bank of New York, as Trustee, to the Senior Notes Indenture (incorporated by reference to Exhibit 4.6 to the Freescale Semiconductor, Inc. Registration Statement on Form S-4, filed with the SEC on March 8, 2007 (File No. 333-141128)).
4.4	First Supplemental Indenture, dated as of December 1, 2006, by and among Freescale Semiconductor, Inc., the guarantors listed therein and The Bank of New York, as Trustee, to the Senior Subordinated Notes Indenture (incorporated by reference to Exhibit 4.5 to the Freescale Semiconductor, Inc. Registration Statement on Form S-4, filed with the SEC on March 8, 2007 (File No. 333-141128)).
4.5	Amended and Restated Registration Rights Agreement dated June 1, 2011, by and among Freescale Holdings L.P., Freescale Semiconductor Holdings I, Ltd., and certain Freescale Holdings L.P. investors (incorporated by reference to Exhibit 10.2 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on June 3, 2011).
4.6	Warrant Agreement, dated December 1, 2006, between Freescale Holdings (Bermuda) I, Ltd. and Freescale Holdings L.P. (incorporated by reference to Exhibit 4.12 to the Freescale Semiconductor, Inc. Registration Statement on Form S-4, filed with the SEC on March 8, 2007 (File No. 333-141128)).
4.7	Second Supplemental Indenture, dated as of June 20, 2008, between SigmaTel, Inc. and The Bank of New York, as trustee to the Senior Notes Indenture, as previously supplemented by a first supplemental indenture thereto, each dated as of December 1, 2006 (incorporated by reference to Exhibit 4.7 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 10, 2014).
4.8	Second Supplemental Indenture, dated as of June 20, 2008, between SigmaTel, Inc. and The Bank of New York, as trustee to the Senior Subordinated Notes Indenture, as previously supplemented by a first supplemental indenture thereto, each dated as of December 1, 2006 (incorporated by reference to Exhibit 4.8 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 10, 2014).
4.9	Indenture, dated as of September 30, 2010, by and among Freescale, the Guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as Trustee, governing the 10.75% Senior Notes, including the form of notes (incorporated by reference to Exhibit 4.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K filed with the SEC on October 5, 2010).
4.10	Indenture, dated as of June 10, 2011, among Freescale Semiconductor, Inc., the guarantors listed therein and The Bank of New York Mellon Trust Company, N.A., as Trustee, governing the 8.05% Senior Notes due 2020, including the form of notes (incorporated by reference to Exhibit 4.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K filed with the SEC on June 14, 2011).
4.11	Indenture, dated as of May 21, 2013, by and among Freescale Semiconductor, Inc., the Guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as Trustee, governing the 5.000% Senior Secured Notes, including the form of note (incorporated by reference to Exhibit 4.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K filed with the SEC on May 22, 2013).
4.12	Indenture, dated as of November 1, 2013, by and among Freescale, the Guarantors named therein and Wells Fargo Bank, National Association, as Trustee, including the form of note (incorporated by reference to Exhibit 4.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K filed with the SEC on November 4, 2013).
10.1+	Freescale Holdings 2006 Management Incentive Plan (incorporated by reference to Exhibit 10.7 to the Freescale Semiconductor, Inc. Registration Statement on Form S-4, filed with the SEC on March 8, 2007 (File No. 333-141128)).
10.2+	Form of Freescale Holdings Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.8 to the Freescale Semiconductor, Inc. Registration Statement on Form S-4, filed with the SEC on March 8, 2007 (File No. 333-141128)).

10.3+	Form of Freescale Holdings Nonqualified Stock Option Agreement (Rollover Option) (incorporated by reference to Exhibit 10.9 to the Freescale Semiconductor, Inc. Registration Statement on Form S-4, filed with the SEC on March 8, 2007 (File No. 333-141128)).
10.4+	Form of Freescale Holdings Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.10 to the Freescale Semiconductor, Inc. Registration Statement on Form S-4, filed with the SEC on March 8, 2007 (File No. 333-141128)).
10.5	Security Agreement, dated as of December 1, 2006, among Freescale Acquisition Corporation as Borrower (prior to the Merger), Freescale Semiconductor, Inc., as Borrower (after the Merger), Freescale Acquisition Holdings Corp., as Holdings, Freescale Holdings (Bermuda) IV, Ltd., as Foreign Holdings, certain subsidiaries of Parent identified therein, and Citibank, N.A., as Collateral Agent (incorporated by reference to Exhibit 10.17 to the Freescale Semiconductor, Inc. Registration Statement on Form S-4, filed with the SEC on March 8, 2007 (File No. 333-141128)).
10.6	Guaranty, dated as of December 1, 2006, among Freescale Acquisition Holdings Corp., as Holdings, Freescale Holdings (Bermuda) I, Ltd., Freescale Holdings (Bermuda) II, Ltd., Freescale Holdings (Bermuda) III, Ltd., as Parent, Freescale Holdings (Bermuda) IV, Ltd., as Foreign Holdings, certain subsidiaries of Parent identified therein, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.9 to the Freescale Semiconductor, Ltd. Registration Statement on Form S-1/A, filed with the SEC on April 8, 2011 (File No. 333-172188)).
10.7	Intellectual Property Security Agreement, dated as of December 1, 2006, among Freescale Acquisition Corporation, as Borrower (before the Merger), Freescale Semiconductor, Inc., as Borrower (after the Merger), Freescale Holdings Acquisition Corp., as Holdings, certain subsidiaries of Freescale Holdings (Bermuda) III, Ltd. identified therein, and Citibank, N.A., as Collateral Agent (incorporated by reference to Exhibit 10.10 to the Freescale Semiconductor, Ltd. Registration Statement on Form S-1/A, filed with the SEC on April 25, 2011 (File No. 333-172188)).
10.8+	Form Employment Agreement (incorporated by reference to Exhibit 10.15 to the Freescale Semiconductor, Ltd. Registration Statement on Form S-1/A, filed with the SEC on March 17, 2011 (File No. 333-172188)).
10.9	Supplement No. 1, dated as of June 5, 2008, between SigmaTel, Inc. and Citibank, N.A. as Administrative Agent under the Guaranty dated as of December 1, 2006, among Freescale Semiconductor Holdings V, Inc. (formerly known as Freescale Acquisition Holdings Corp.), Freescale Semiconductor Holdings III, Ltd. (formerly known as Freescale Holdings (Bermuda) III, Ltd.) (“Parent”), Freescale Semiconductor Holdings IV, Ltd., (formerly known as Freescale Holdings (Bermuda) IV, Ltd.), Freescale Semiconductor Holdings I, Ltd. (formerly known as Freescale Holdings (Bermuda) I, Ltd.), Freescale Semiconductor Holdings II, Ltd. (formerly known as Freescale Holdings (Bermuda) II, Ltd.), the subsidiaries of Parent from time to time party thereto, and Citibank, N.A. as Administrative Agent (incorporated by reference to Exhibit 10.10 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 10, 2014).
10.10	Supplement No. 1, dated as of June 5, 2008, between SigmaTel, Inc. and Citibank, N.A. as Collateral Agent under the Security Agreement dated as of December 1, 2006, among Freescale Semiconductor Holdings V, Inc. (formerly known as Freescale Acquisition Holdings Corp.), Freescale Semiconductor, Inc. (successor in interest to Freescale Acquisition Corporation), Freescale Semiconductor Holdings IV, Ltd. (formerly known as Freescale Holdings (Bermuda) IV, Ltd.), the Subsidiaries of Freescale Semiconductor Holdings III, Ltd. (formerly known as Freescale Holdings (Bermuda) III, Ltd.) from time to time party thereto, and Citibank, N.A., as Collateral Agent (incorporated by reference to Exhibit 10.18 to the Freescale Semiconductor, Ltd. Registration Statement on Form S-1/A, filed with the SEC on April 8, 2011 (File No. 333-172188)).
10.11+	Amended and Restated Freescale Semiconductor Holdings 2007 Employee Incentive Plan (incorporated by reference to Exhibit 10.12 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 10, 2014).
10.12+	Form of Indemnification Agreement between Freescale Semiconductor, Inc. and the Directors and certain officers (incorporated by reference to Exhibit 10.13 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 10, 2014).
10.13+	Amendment to the Freescale Holdings 2006 Management Incentive Plan dated February 4, 2009 (incorporated by reference to Exhibit 10.14 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 10, 2014).
10.14+*	Form of Freescale Holdings 2006 Management Incentive Plan Nonqualified Stock Option Agreement (in exchange for Class B Interests).
10.15+*	Form of Freescale Holdings 2006 Management Incentive Plan Nonqualified Stock Option Agreement (in exchange for existing stock options).
10.16+*	Amendment to the Freescale Holdings 2006 Management Incentive Plan dated October 28, 2009.
10.17+*	Amendment to the Amended and Restated Freescale Semiconductor Holdings 2007 Employee Incentive Plan dated October 28, 2009.
10.18+	Form of 2006 Management Incentive Plan Director Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.51 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 11, 2011).

10.19+	Form of 2006 Management Incentive Plan Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.52 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 11, 2011).
10.20	Shareholders' Agreement of Freescale Semiconductor Holdings I, Ltd. dated June 1, 2011 by and among Freescale Holdings L.P., Freescale Semiconductor Holdings I, Ltd., each of the Blackstone Investors (as defined therein), each of the Carlyle Investors (as defined therein), each of the TPG Investors (as defined therein) and each of the TPG Investors (as defined therein) (incorporated by reference to Exhibit 10.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on June 3, 2011).
10.21	Amended and Restated Investors Rights Agreement dated June 1, 2011, by and among Freescale Holdings L.P., the Company, Freescale Semiconductor Holdings II, Ltd., Freescale Semiconductor Holdings III, Ltd., Freescale Semiconductor Holdings IV, Ltd., Freescale Semiconductor Holdings V, Inc., Freescale Semiconductor, Inc., certain Freescale Holdings L.P. investors, and certain Stockholders of the Company (incorporated by reference to Exhibit 10.3 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on June 3, 2011).
10.22+	Form of officer and director indemnification agreement (incorporated by reference to Exhibit 10.59 to the Freescale Semiconductor, Ltd. Registration Statement on Form S-1/A, filed with the SEC on April 25, 2011 (File No. 333-172188)).
10.23	Employer Health Program Agreement, dated July 1, 2008, between Equity Healthcare LLC and Freescale Semiconductor, Inc (incorporated by reference to Exhibit 10.60 to the Freescale Semiconductor, Ltd. Registration Statement on Form S-1/A, filed with the SEC on April 25, 2011 (File No. 333-172188)).
10.24+	Form of Freescale Semiconductor, Inc. 2011 Incentive Plan (incorporated by reference to Exhibit 10.62 to the Freescale Semiconductor, Ltd. Registration Statement on Form S-1/A, filed with the SEC on April 25, 2011 (File No. 333-172188)).
10.25+	Freescale Semiconductor Holdings I 2011 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.10 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on June 3, 2011).
10.26+	Freescale Semiconductor Holdings I, Ltd. Employee Share Purchase Plan (incorporated by reference to Exhibit 10.17 to the Freescale Semiconductor, Ltd. Registration Statement on Form S-8, filed with the SEC on June 29, 2011 (File No. 333-175194)).
10.27+	Form Nonqualified Stock Option Award Agreement (employees) to the Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.61 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 3, 2012).
10.28+	Form Nonqualified Stock Option Award Agreement (senior management) to the Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.62 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 3, 2012).
10.29+	Form Restricted Share Unit Award Agreement (employees) to the Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.63 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 3, 2012).
10.30+	Form Restricted Share Unit Award Agreement (senior management) to the Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.64 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 3, 2012).
10.31+	Form Performance Restricted Share Unit Award Agreement to the Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.65 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 3, 2012).
10.32+	Form Restricted Share Unit Award Agreement (select) to the Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.66 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 3, 2012).
10.33+	Employment Agreement, dated as of May 31, 2012, between the Company and Gregg Lowe (incorporated by reference to Exhibit 10.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on June 6, 2012).
10.34+	Freescale Semiconductor Holdings 2011 Omnibus Plan Performance Restricted Share Unit Award Agreement, dated as of May 31, 2012, between Freescale Semiconductor, Ltd. and Gregg Lowe (incorporated by reference to Exhibit 10.3 to the Freescale Semiconductor, Ltd. Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2012, filed with the SEC on July 20, 2012).
10.35+	Freescale Semiconductor Holdings 2011 Omnibus Plan Nonqualified Stock Option Agreement, dated as of May 31, 2012, between Freescale Semiconductor, Ltd. and Gregg Lowe (incorporated by reference to Exhibit 10.4 to the Freescale Semiconductor, Ltd. Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2012, filed with the SEC on July 20, 2012).
10.36+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Make Whole Restricted Share Unit Award Agreement, dated as of May 31, 2012, between Freescale Semiconductor, Ltd. and Gregg Lowe (incorporated by reference to Exhibit 10.5 to the Freescale Semiconductor, Ltd. Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2012, filed with the SEC on July 20, 2012).

10.37+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Restricted Share Unit Award Agreement—Director (incorporated by reference to Exhibit 10.6 to the Freescale Semiconductor, Ltd. Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2012, filed with the SEC on July 20, 2012).
10.38	Amendment Agreement, dated as of March 1, 2013, to the Amended and Restated Credit Agreement dated as of December 1, 2006, as amended and restated as of February 28, 2012, among Freescale Semiconductor, Inc., Freescale Semiconductor Holdings V., Inc., Freescale Semiconductor Holdings IV, Ltd., Freescale Semiconductor Holdings III, Ltd., the lenders party thereto and Citibank, N.A., as administrative agent, collateral agent, swing line lender and L/C Issuer (incorporated by reference to Exhibit 10.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on March 4, 2013).
10.39	Third Amended and Restated Credit Agreement, dated as of March 1, 2013, among Freescale Semiconductor, Inc., Freescale Semiconductor Holdings V., Inc., Freescale Semiconductor Holdings IV, Ltd., Freescale Semiconductor Holdings III, Ltd., the lenders party thereto and Citibank, N.A., as administrative agent, collateral agent, swing line lender and L/C Issuer (incorporated by reference to Exhibit A of Exhibit 10.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on March 4, 2013).
10.40+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Performance Restricted Share Unit Award Agreement (Section 16 Officer) (incorporated by reference to Exhibit 10.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on April 8, 2013).
10.41+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Nonqualified Stock Option Agreement (Section 16 Officer) (incorporated by reference to Exhibit 10.2 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on April 8, 2013).
10.42+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Restricted Share Unit Award Agreement (Section 16 Officer) (incorporated by reference to Exhibit 10.3 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on April 8, 2013).
10.43+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Performance Restricted Share Unit Award Agreement (Participant) (incorporated by reference to Exhibit 10.5 to the Freescale Semiconductor, Ltd. Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2013, filed with the SEC on April 26, 2013).
10.44+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Nonqualified Stock Option Agreement (Participant) (incorporated by reference to Exhibit 10.6 to the Freescale Semiconductor, Ltd. Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2013, filed with the SEC on April 26, 2013).
10.45+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Restricted Share Unit Award Agreement (Participant) (incorporated by reference to Exhibit 10.7 to the Freescale Semiconductor, Ltd. Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2013, filed with the SEC on April 26, 2013).
10.46	Security Agreement, dated May 21, 2013, by and among Freescale, the Guarantors party thereto and Citibank, N.A., in its capacity as collateral agent for the holders of the 5.000% Senior Secured Notes (incorporated by reference to Exhibit 10.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K filed with the SEC on May 22, 2013).
10.47	Intellectual Property Security Agreement, dated May 21, 2013, by and among Freescale, the Guarantors party thereto and Citibank, N.A., in its capacity as collateral agent for the holders of the 5.000% Senior Secured Notes (incorporated by reference to Exhibit 10.2 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K filed with the SEC on May 22, 2013).
10.48+	Freescale Semiconductor, Inc. Executive Severance Plan for Senior Vice Presidents (incorporated by reference to Exhibit 10.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K filed with the SEC on August 5, 2013).
10.49	Amendment Agreement dated as of September 11, 2013, to the Third Amended and Restated Credit Agreement dated as of March 1, 2013, among Freescale, the guarantors party thereto, the lenders party thereto and Citibank, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K filed with the SEC on September 13, 2013).
10.50	Security Agreement, dated November 1, 2013, by and among Freescale, the Guarantors party thereto and Citibank, N.A., in its capacity as collateral agent for the holders of the 6.000% Senior Secured Notes (incorporated by reference to Exhibit 10.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K filed with the SEC on November 4, 2013).
10.51	Intellectual Property Security Agreement, dated November 1, 2013, by and among Freescale, the Guarantors party thereto and Citibank, N.A., in its capacity as collateral agent for the holders of the 6.000% Senior Secured Notes (incorporated by reference to Exhibit 10.69 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 10, 2014).
10.52+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Performance Restricted Share Unit Award Agreement (Senior Management) (incorporated by reference to Exhibit 10.3 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K filed with the SEC on November 4, 2013).

10.53+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Nonqualified Stock Option Agreement (Senior Management) (incorporated by reference to Exhibit 10.4 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K filed with the SEC on November 4, 2013).
10.54+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Restricted Share Unit Award Agreement (Senior Management) (incorporated by reference to Exhibit 10.5 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K filed with the SEC on November 4, 2013).
10.55+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Performance Restricted Share Unit Award Agreement (Vice President) (incorporated by reference to Exhibit 10.73 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 10, 2014).
10.56+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Nonqualified Stock Option Agreement (Vice President) (incorporated by reference to Exhibit 10.74 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 10, 2014).
10.57+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Restricted Share Unit Award Agreement (Vice President) (incorporated by reference to Exhibit 10.75 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 10, 2014).
10.58+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Performance Restricted Share Unit Award Agreement (Participant) (incorporated by reference to Exhibit 10.76 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 10, 2014).
10.59+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Nonqualified Stock Option Agreement (Participant) (incorporated by reference to Exhibit 10.77 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 10, 2014).
10.60+	Freescale Semiconductor Holdings 2011 Omnibus Incentive Plan Form Restricted Share Unit Award Agreement (Participant) (incorporated by reference to Exhibit 10.78 to the Freescale Semiconductor, Ltd. Annual Report on Form 10-K filed with the SEC on February 10, 2014).
10.61	Replacement Revolving Credit Facility Amendment and Incremental Amendment dated as of February 10, 2014, to the Third Amended and Restated Credit Agreement dated as of March 1, 2013, among Freescale Inc., the guarantors party thereto, the lenders party thereto and Citibank, N.A., as administrative agent for the lenders (incorporated by reference to Exhibit 10.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on February 18, 2014).
10.62	Loan Modification Agreement and Refinancing Term Loan Agreement, dated as of March 4, 2014, to the Third Amended and Restated Credit Agreement dated as of March 1, 2013 (as amended, restated, supplemented or otherwise modified from time to time), among Freescale Semiconductor, Inc., Freescale Semiconductor Holdings V, Inc., Freescale Semiconductor Holdings IV, Ltd., Freescale Semiconductor Holdings III, Ltd., the lenders from time to time party thereto and Citibank, N.A., as administrative agent, collateral agent, swing line lender and L/C Issuer (incorporated by reference to Exhibit 10.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on March 5, 2014).
10.63+	Freescale Semiconductor, Ltd. Share Ownership Guidelines (incorporated by reference to Exhibit 10.2 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on March 5, 2014).
10.64+	Freescale Semiconductor 2011 Omnibus Incentive Plan Form Make Whole Restricted Cash Award Agreement between Freescale Semiconductor and Daniel Durn (incorporated by reference to Exhibit 10.1 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on May 9, 2014).
10.65+	Freescale Semiconductor 2011 Omnibus Incentive Plan Form Make Whole Restricted Share Unit Award Agreement between Freescale Semiconductor and Daniel Durn (incorporated by reference to Exhibit 10.2 to the Freescale Semiconductor, Ltd. Current Report on Form 8-K, filed with the SEC on May 9, 2014).
10.66+	Amended and Restated Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to the Freescale Semiconductor, Ltd. Quarterly Report on Form 10-Q for the fiscal quarter ended July 4, 2014, filed with the SEC on July 25, 2014).
10.67+	Amended and Restated Freescale Semiconductor, Ltd. Employee Share Purchase Plan (incorporated by reference to Exhibit 10.4 to the Freescale Semiconductor, Ltd. Quarterly Report on Form 10-Q for the fiscal quarter ended July 4, 2014, filed with the SEC on July 25, 2014).
10.68+	Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan Form Restricted Share Unit Award Agreement—Director (incorporated by reference to Exhibit 10.1 to the Freescale Semiconductor, Ltd. Quarterly Report on Form 10-Q for the fiscal quarter ended October 3, 2014, filed with the SEC on October 24, 2014).
10.69+*	Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan Form Performance Restricted Share Unit Award Agreement (Senior Management)
10.70+*	Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan Form Performance Restricted Share Unit Award Agreement (Participant)
10.71+*	Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan Form Performance Restricted Share Unit Award Agreement (Vice President)

10.72+*	Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan Form Restricted Share Unit Award Agreement (Senior Management)
10.73+*	Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan Form Restricted Share Unit Award Agreement (Vice President)
10.74+*	Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan Form Restricted Share Unit Award (Participant)
10.75+*	Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan Form Nonqualified Stock Option Agreement (Vice President)
10.76+*	Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan Form Nonqualified Stock Option Agreement (Participant)
10.77+*	Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan Form Nonqualified Stock Option Agreement (Senior Management)
12.1*	Statement of Computation of Ratios.
21.1*	Subsidiaries of Freescale Semiconductor, Ltd.
23.1*	Consent of KPMG LLP.
31.1*	Certification of Chief Executive Officer.
31.2*	Certification of Chief Financial Officer.
32.1#	Section 1350 Certification (Chief Executive Officer).
32.2#	Section 1350 Certification (Chief Financial Officer).
101.ins*	Instance Document.
101.sch*	XBRL Taxonomy Extension Schema Document.
101.cal*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.def*	XBRL Taxonomy Extension Definition Linkbase Document.
101.lab*	XBRL Taxonomy Extension Label Linkbase Document.
101.pre*	XBRL Taxonomy Extension Presentation Linkbase Document.

+	Indicates a management contract or compensatory plan arrangement.
*	Filed herewith.
#	Furnished, not filed, herewith.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Freescale Semiconductor, Ltd. and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ GREGG A. LOWE</u> Gregg A. Lowe	Director, President and Chief Executive Officer (Principal Executive Officer)	February 6, 2015
<u>/s/ DANIEL J. DURN</u> Daniel J. Durn	Chief Financial Officer (Principal Financial Officer)	February 6, 2015
<u>/s/ RANDY A. HYZAK</u> Randy A. Hyzak	Chief Accounting Officer (Principal Accounting Officer)	February 6, 2015
<u>/s/ KRISHNAN BALASUBRAMANIAN</u> Krishnan Balasubramanian	Director	February 6, 2015
<u>/s/ CHINH E. CHU</u> Chinh E. Chu	Director	February 6, 2015
<u>/s/ D. MARK DURCAN</u> D. Mark Durcan	Director	February 6, 2015
<u>/s/ DANIEL J. HENEGHAN</u> Daniel J. Heneghan	Director	February 6, 2015
<u>/s/ THOMAS H. LISTER</u> Thomas H. Lister	Director	February 6, 2015
<u>/s/ JOANNE M. MAGUIRE</u> Joanne M. Maguire	Director	February 6, 2015
<u>/s/ JOHN W. MARREN</u> John W. Marren	Director	February 6, 2015
<u>/s/ JAMES A. QUELLA</u> James A. Quella	Director	February 6, 2015
<u>/s/ PETER SMITHAM</u> Peter Smitham	Director	February 6, 2015
<u>/s/ GREGORY L. SUMME</u> Gregory L. Summe	Chairman of the Board	February 6, 2015
<u>/s/ CLAUDIUS E. WATTS IV</u> Claudius E. Watts IV	Director	February 6, 2015

FREESCALE SEMICONDUCTOR HOLDINGS
NONQUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT (the "Agreement"), is made effective as of the date indicated in the grant summary in the Freescale equity recordkeeping system (the "Date of Grant"), between Freescale Semiconductor Holdings I, Ltd., a Bermuda limited company (the "Company"), and the recipient of the grant (the "Participant"):

R E C I T A L S:

WHEREAS, the Company has adopted the Freescale Holdings 2006 Management Incentive Plan (the "Plan"), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan; and

WHEREAS, the Committee has determined that it would be in the best interests of the Company and its shareholders to grant the Stock Option provided for herein to the Participant pursuant to the Plan and the terms set forth herein in exchange for the Class B Interests in Freescale Holdings L.P. held by the Participant pursuant to a previous award (the "Prior Award").

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. Grant of the Option. The Company hereby grants (subject to the Participant's execution of the Investors Agreement) to the Participant the right and option (the "Option") to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate number of shares of Common Stock (each a "Share" and collectively, the "Shares") as indicated in the grant summary in the Freescale equity recordkeeping system. The purchase price of the Shares subject to the Option shall be \$1.24 per Share (the "Option Price"). The Option is intended to be a non-qualified stock option, and is not intended to be treated as an option that complies with Section 422 of the Code. The Option is granted to the Participant in substitution for the Prior Award (which Prior Award is hereby cancelled).

2. Vesting.

(a) Subject to the Participant's continued Employment with the Company, or except as otherwise provided below, the Option shall vest and become exercisable with respect to twenty-five percent (25%) of the Shares initially covered by the Option on each of the first, second, third and fourth anniversaries of the Date of Grant. At any time, the portion of the Option which has become vested and exercisable as described above (or pursuant to Sections 2(b) or 4 below) is hereinafter referred to as the "Vested Portion".

(b) Notwithstanding any other provisions of this Agreement to the contrary, in the event of a Change of Control, the unvested portion of the Option shall become vested and exercisable for an additional number of Shares where that additional number of Shares equals the remaining unvested Shares multiplied by the Change of Control Cash Consideration Fraction. For purposes of this Agreement, "Change of Control Cash Consideration Fraction" shall mean, with respect to a Change of Control, the portion of the per Share consideration which is paid in the form of cash, provided that if the Change of Control Cash Consideration Fraction is .75 or higher, it shall be deemed to be 1. Notwithstanding the above, in the event the Participant's Employment is terminated by the Company or any successor thereto without Cause or by the Participant for Good Reason, in each case following a Change of Control, the Option shall immediately become fully vested and exercisable.

3. Exercise of Option.

(a) Period of Exercise. Subject to the provisions of the Plan and this Agreement, the Participant may exercise all or any part of the Vested Portion of the Option at any time prior to the earliest to occur of:

(i) the tenth anniversary of the Date of Grant;

(ii) one (1) year following the date of the Participant's termination of Employment due to death or Disability;

(iii) ninety (90) days following the date of the Participant's termination of Employment for any reason other than due to the Participant's death or Disability; and

(iv) the date of the Participant's termination of Employment for Cause.

(b) Method of Exercise.

(i) Each election to exercise the Vested Portion shall be subject to the terms and conditions of the Plan and shall be in writing, signed by the Participant or by his or her executor, administrator, or permitted transferee (subject to any restrictions

provided under the Plan and the Investors Agreement), made pursuant to and in accordance with the terms and conditions set forth in the Plan and received by the Company at its principal offices, accompanied by payment in full as provided in the Plan.

(ii) The Option Price may be paid by delivery of cash or check acceptable to the Committee, or by means of withholding of Shares subject to the Vested Portion with an aggregate Fair Market Value equal to (A) the aggregate exercise price and (B) unless the Committee determines otherwise under Section 11 of this Agreement or the Company is precluded or restricted from doing so under debt covenants, minimum statutory withholding taxes with respect to such exercise, or by such other method provided under the Plan and explicitly approved by the Committee. In the event that the Vested Portion is exercised by a person other than the Participant, the Company shall ascertain the authority of the Option holder to exercise the Vested Portion and shall deliver the Shares hereunder to the Option holder after it is satisfied as to such authority.

(iii) Notwithstanding any other provision of the Plan or this Agreement to the contrary, the Vested Portion may not be exercised prior to the completion of any registration or qualification of the Option or the Shares under applicable state and federal securities or other laws, or under any ruling or regulation of any governmental body or national securities exchange that the Committee shall in its sole discretion determine to be necessary or advisable. The Committee shall use its best efforts to cause any registration or qualification of the Option or the Shares to be completed.

(iv) Upon the Company's determination that the Vested Portion of the Option has been validly exercised as to any of the Shares, the Company shall issue certificates in the Participant's name for such Shares. However, the Company shall not be liable to the Participant for damages relating to any reasonable delays in issuing the certificates to such Participant, any loss of the certificates, or any mistakes or errors in the issuance of the certificates or in the certificates themselves which it promptly undertakes to correct.

(v) In the event of the Participant's death, the Option shall remain exercisable by the Participant's executor or administrator, or the person or persons to whom the Participant's rights under this Agreement shall pass by will or by the laws of descent and distribution as the case may be, to the extent set forth in Section 3(a). Any heir or legatee of the Participant shall take rights herein granted subject to the terms and conditions hereof.

(vi) In no event may a Participant or any other holder of an Option who has not executed the Investors Agreement exercise any part of the Vested Portion.

4. Termination of Employment.

(a) General. If the Participant's Employment is terminated for any reason, the Option shall, to the extent not then vested (after giving effect to the provisions of Section 2(b) and this Section 4), terminate upon such termination of Employment and the Vested Portion of the Option shall remain exercisable for the period set forth in Section 3(a) and shall thereafter terminate.

(b) For Cause. The Option (including any Vested Portion thereof) shall terminate upon the Participant's termination of Employment for Cause.

(c) Without Cause or for Good Reason. Upon the Participant's termination of Employment without Cause or by the Participant for Good Reason, the Option shall become vested and exercisable for an additional number of Shares equal to the number of Shares subject to the Option (if any) that would have vested on the next anniversary of the Date of Grant if the Participant had remained employed until such date (the "Subsequent Tranche"), multiplied by a fraction, the numerator of which equals the number of days elapsed from the vesting date immediately preceding termination of the Participant's Employment through the Participant's termination of Employment and the denominator of which equals 365 plus, if so determined in the sole discretion of the Chief Executive Officer of the Company, the Subsequent Tranche; subject in all circumstances to the maximum of the total number of Shares subject to the Option as of the date of such termination of Employment. Any portion of the Option that is not exercisable after giving effect to the above provisions of this Section 4(c) shall terminate immediately effective as of the termination of the Participant's Employment.

(d) Death. Upon the Participant's termination of Employment due to death, the Option shall become fully vested and exercisable.

(e) Disability. Upon the Participant's termination of Employment due to Disability, the Option shall become fully vested and exercisable.

(f) Retirement. Upon the Participant's termination of Employment due to Retirement and solely to the extent so determined by the Company's Chief Executive Officer, the Option shall become vested and exercisable for an additional number of Shares equal to the Subsequent Tranche multiplied by a fraction, the numerator of which equals the number of days elapsed from the vesting date immediately preceding termination of Participant's Employment through the Participant's termination of Employment and the denominator of which equals 365; subject in all circumstances to the maximum of the total number of Shares subject to the Option as of the date of such termination of Employment. Any portion of the Option that is not

exercisable after giving effect to the above provisions of this Section 4(f) shall terminate immediately effective as of the termination of the Participant's Employment.

(g) By the Participant other than due to Disability or Good Reason. If the Participant's Employment is terminated on account of a termination of the Participant's Employment initiated by the Participant other than due to Disability or Good Reason, then the unvested portion of the Option then held by the Participant shall be automatically forfeited.

(h) Forfeiture. Notwithstanding anything herein to the contrary, if the Participant breaches any Restrictive Covenants applicable to the Participant (including, without limitation, the Restrictive Covenants set forth in Exhibit A hereto) following termination of the Participant's Employment by the Participant other than due to Disability or Good Reason, then (x) any portion of the Option that vested during the twelve-month period immediately preceding the date of termination (the "Preceding Tranche") shall be automatically forfeited, (y) any Shares acquired pursuant to the exercise of an Option in the Preceding Tranche shall be subject to the call option set forth in Section 6 of the Investors Agreement and (z) any proceeds from the sale of Shares described in preceding clause (y), shall be immediately repaid to the Company.

5. Certain Covenants. The Participant hereby agrees and covenants to perform all of his obligations set forth in Exhibit A hereto (which is incorporated by reference hereby) and acknowledges that the Participant's obligations set forth in Exhibit A constitute a material inducement for the Company's grant of Options to the Participant.

6. Share Restrictions, etc. Except as expressly provided herein, the Participant's rights hereunder and with respect to Shares received upon exercise of the Vested Portion are subject to the restrictions and other provisions contained in the Investors Agreement.

7. Distributions, Redemptions, etc. Upon the occurrence of an Adjustment Event, the Option Price shall be reduced by an amount equal to the per-Share amount paid in connection with the Adjustment Event; provided, however, that any such reduction shall be limited to that portion of such amount which would not cause the Option Price to be reduced below 25% of the per-Share Fair Market Value, as of the date of such reduction. In the case of a redemption or repurchase, the number of Shares of the class of stock redeemed or repurchased that are subject to the Option will be automatically reduced by an amount proportionate to the percentage reduction in outstanding shares of the affected class resulting from the redemption or repurchase.

8. No Right to Continued Employment. The granting of the Option evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the Employment of the Participant and shall not lessen or affect the Company's or its Affiliate's right to terminate the Employment of such Participant.

9. Legend on Certificates. The certificates representing the Shares purchased by exercise of the Vested Portion shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

10. Transferability. Except as provided in the Investors Agreement, the Option may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Option to heirs or legatees of the Participant shall be effective to bind the Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof. During the Participant's lifetime, the Vested Portion is exercisable only by the Participant or a permitted transferee (pursuant to the Investors Agreement).

11. Withholding. Notwithstanding any other provision in this Agreement to the contrary, the Participant may be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold from any payment due or transfer made under the Option or under the Plan or from any compensation or other amount owing to a Participant the amount (in cash, Shares, other securities or other property) of any applicable withholding taxes in respect of the Option, its exercise or any payment or transfer under or with respect to the Option or the Plan and to take such other action as may be necessary in the opinion of the Committee to satisfy all obligations for the payment of such withholding taxes.

12. Securities Laws. The issuance of any Shares hereunder shall be subject to the Participant making or entering into such written representations, warranties and agreements as the Committee may reasonably request in order to comply with applicable securities laws.

13. Notices. Any notice necessary under this Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the Participant at the address appearing in the personnel records of the

Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

14. Governing Law. This Agreement and all claims arising out of or based upon this Agreement or relating to the subject matter hereof shall be governed by and construed in accordance with the domestic substantive laws of the State of Delaware without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

15. Consent to Jurisdiction. All actions arising out of or relating to this Agreement shall be heard and determined exclusively in any New York state or federal court sitting in the Borough of Manhattan in The City of New York. The parties hereto hereby (a) submit to the exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan of The City of New York for the purpose of any action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune of from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or that this Agreement or the transactions contemplated hereby may not be enforced in or by any of the above-named courts.

16. WAIVER OF JURY TRIAL. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW WHICH CANNOT BE WAIVED, EACH PARTY HERETO HEREBY WAIVES AND COVENANTS THAT IT WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ISSUE OR ACTION, CLAIM, CAUSE OF ACTION OR SUIT (IN CONTRACT, TORT OR OTHERWISE), INQUIRY, PROCEEDING OR INVESTIGATION ARISING OUT OF OR BASED UPON THIS AGREEMENT OR THE SUBJECT MATTER HEREOF OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE TRANSACTIONS CONTEMPLATED HEREBY, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING. EACH PARTY HERETO ACKNOWLEDGES THAT IT HAS BEEN INFORMED BY THE OTHER PARTIES HERETO THAT THIS SECTION 16 CONSTITUTES A MATERIAL INDUCEMENT UPON WHICH THEY ARE RELYING AND WILL RELY IN ENTERING INTO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY. ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 16 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH SUCH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

17. Option Subject to Plan and Investors Agreement. By entering into this Agreement the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan, the Investors Agreement and the Offering Memorandum for the Plan. The Option is subject to the Plan and the Investors Agreement, each as may be amended from time to time, and the terms and provisions of the Plan and the Investors Agreement are hereby incorporated herein by reference. By entering into this Agreement, the Participant hereby authorizes the General Counsel of Freescale Semiconductor, Inc. (the "General Counsel") as the Participant's attorney-in-fact and delegates full power and authority to the General Counsel to enter into the Investors Agreement on the Participant's behalf.

18. Section 409A. It is intended that the terms of this Agreement comply with section 409A of the Code. If it is determined that the terms of this Agreement have been structured in a manner that would result in adverse tax treatment under Section 409A of the Code, the parties agree to cooperate in taking all reasonable measures to restructure the arrangement to minimize or avoid such adverse tax treatment without materially impairing Participant's economic rights.

19. Acceptance. This Agreement must be accepted by electronic signature of the Participant in the Freescale equity recordkeeping system.

EXHIBIT A

Restrictive Covenants.

- (a) Confidential Information. The Participant shall hold in a fiduciary capacity for the benefit of the Company and its Affiliates (collectively, the "**Affiliated Group**"), all secret or confidential information, knowledge or data relating to the Affiliated Group and its businesses (including, without limitation, any proprietary and not publicly available information concerning any processes, methods, trade secrets, research or secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Participant obtains during the Participant's Employment that is not public knowledge (other than as a result of the Participant's violation of this Section (a)) ("**Confidential Information**"). The Participant shall not communicate, divulge or disseminate Confidential Information at any time during or after the Participant's Employment, except with the prior written consent of the Company, or as otherwise required by law or legal process or as such disclosure or use may be required in the course of the Participant performing his duties and responsibilities with the Affiliated Group. Notwithstanding the foregoing provisions, if the Participant is required to disclose any such confidential or proprietary information pursuant to applicable law or a subpoena or court order, the Participant shall promptly notify the Company in writing of any such requirement so that the Company or the appropriate member of the Affiliated Group may seek an appropriate protective order or other appropriate remedy or waive compliance with the provisions hereof. The Participant shall reasonably cooperate with the Company or the appropriate member of the Affiliated Group to obtain such a protective order or other remedy. If such order or other remedy is not obtained prior to the time the Participant is required to make the disclosure, or the Company waives compliance with the provisions hereof, the Participant shall disclose only that portion of the confidential or proprietary information which he is advised by counsel in writing (either his or the Company's) that he is legally required to so disclose. Upon his termination of Employment for any reason, the Participant shall promptly return to the Company all records, files, memoranda, correspondence, notebooks, notes, reports, customer lists, drawings, plans, documents, and other documents and the like relating to the business of the Affiliated Group or containing any trade secrets relating to the Affiliated Group or that the Participant uses, prepares or comes into contact with during the course of the Participant's employment with the Affiliated Group, and all keys, credit cards and passes, and such materials shall remain the sole property of the Affiliated Group. The Participant agrees to execute any standard-form confidentiality agreements with the Company that the Company in the future generally enters into with its senior executives.
- (b) Work Product and Inventions. The Affiliated Group and/or its nominees or assigns shall own all right, title and interest in and to any and all inventions, ideas, trade secrets, technology, devices, discoveries, improvements, processes, developments, designs, know how, show-how, data, computer programs, algorithms, formulae, works of authorship, works modifications, trademarks, trade names, documentation, techniques, designs, methods, trade secrets, technical specifications, technical data, concepts, expressions, patents, patent rights, copyrights, moral rights, and all other intellectual property rights or other developments whatsoever (collectively, "**Developments**"), whether or not patentable, reduced to practice or registrable under patent, copyright, trademark or other intellectual property law anywhere in the world, made, authored, discovered, reduced to practice, conceived, created, developed or otherwise obtained by the Participant (alone or jointly with others) during the Participant's Employment with the Affiliated Group, and arising from or relating to such employment or the business of the Affiliated Group (whether during business hours or otherwise, and whether on the premises of using the facilities or materials of the Affiliated Group or otherwise). The Participant shall promptly and fully disclose to the Affiliated Group and to no one else all Developments, and hereby assigns to the Affiliated Group without further compensation all right, title and interest the Participant has or may have in any Developments, and all patents, copyrights, or other intellectual property rights relating thereto, and agrees that the Participant has not acquired and shall not acquire any rights during the course of his employment with the Affiliated Group or thereafter with respect to any Developments.
- (c) Non-Recruitment of Affiliated Group Employees. The Participant shall not, at any time during the Nonsolicitation Restricted Period (as defined below), other than in the ordinary exercise of his duties, without the prior written consent of the Affiliated Group, directly or indirectly, solicit, recruit, or employ (whether as an employee, officer, agent, consultant or independent contractor) any person who is or was at any time during the previous 12 months, an employee, representative, officer or director of any member of the Affiliated Group. Further, during the Nonsolicitation Restricted Period, the Participant shall not take any action that could reasonably be expected to have the effect of directly encouraging or inducing any person to cease their relationship with any member of the Affiliated Group for any reason. A general employment advertisement by an entity of which the Participant is a part will not constitute solicitation or recruitment. The "**Nonsolicitation Restricted Period**" shall mean the period from the Date of Grant through the second anniversary of the Participant's termination of Employment.
- (d) Non-Competition - Solicitation of Business. During the Noncompetition Restricted Period (as defined below), the Participant shall not, either directly or indirectly, compete with the business of the Affiliated Group by (i) becoming an officer, agent, employee, partner or director of any other corporation, partnership or other entity, or otherwise render

services to or assist or hold an interest (except as a less than 3-percent shareholder of a publicly traded corporation or as a less than 5-percent shareholder of a corporation that is not publicly traded) in any Competitive Business (as defined below), or (ii) soliciting, servicing, or accepting the business of (A) any active customer of any member of the Affiliated Group, or (B) any person or entity who is or was at any time during the previous twelve months a customer of any member of the Affiliated Group, provided that such business is competitive with any significant business of any member of the Affiliated Group. "**Competitive Business**" shall mean any person or entity (including any joint venture, partnership, firm, corporation, or limited liability company) that conducts a business that is competitive with any significant business of the Affiliated Group as of the date of termination (or any significant business that is being actively pursued as of the date of termination by the Affiliated Group). The "**Noncompetition Restricted Period**" shall mean the period from the Date of Grant through the second anniversary of the date of termination of the Participant's Employment.

- (e) Assistance. The Participant agrees that during and after his employment by the Affiliated Group, upon request by the Company, the Participant will assist the Affiliated Group in the defense of any claims, or potential claims that may be made or threatened to be made against any member of the Affiliated Group in any action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise (a "**Proceeding**"), and will assist the Affiliated Group in the prosecution of any claims that may be made by any member of the Affiliated Group in any Proceeding, to the extent that such claims may relate to the Participant's Employment or the period of the Participant's Employment by the Affiliated Group. The Participant agrees, unless precluded by law, to promptly inform the Company if the Participant is asked to participate (or otherwise become involved) in any Proceeding involving such claims or potential claims. The Participant also agrees, unless precluded by law, to promptly inform the Company if the Participant is asked to assist in any investigation (whether governmental or otherwise) of any member of the Affiliated Group (or their actions), regardless of whether a lawsuit has then been filed against any member of the Affiliated Group with respect to such investigation. The Company agrees to reimburse the Participant for all of the Participant's reasonable out-of-pocket expenses associated with such assistance, including travel expenses and any attorneys' fees and shall pay a reasonable per diem fee for the Participant's service. In addition, the Participant agrees to provide such services as are reasonably requested by the Company to assist any successor to the Participant in the transition of duties and responsibilities to such successor. Any services or assistance contemplated in this Section (e) shall be at mutually agreed to and convenient times.
- (f) Remedies. The Participant acknowledges and agrees that the terms of this Exhibit A: (i) are reasonable in geographic and temporal scope, (ii) are necessary to protect legitimate proprietary and business interests of the Affiliated Group in, inter alia, near permanent customer relationships and confidential information. The Participant further acknowledges and agrees that the Participant's breach of the provisions of this Exhibit A will cause the Affiliated Group irreparable harm, which cannot be adequately compensated by money damages. The Participant consents and agrees that the forfeiture provisions contained in the Plan, the Agreement and the Investors Agreement, are reasonable remedies in the event the Participant commits any such breach. If any of the provisions of this Exhibit A are determined to be wholly or partially unenforceable, the Participant hereby agrees that Exhibit A or any provision hereof may be reformed so that it is enforceable to the maximum extent permitted by law. If any of the provisions of this Exhibit A are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Affiliated Group's right to enforce any such covenant in any other jurisdiction.

FREESCALE SEMICONDUCTOR HOLDINGS
NONQUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT (the "Agreement"), is made effective as of the date indicated in the grant summary in the Freescale equity recordkeeping system (the "Date of Grant"), between Freescale Semiconductor Holdings I, Ltd., a Bermuda limited company (the "Company"), and the recipient of the grant (the "Participant"):

R E C I T A L S:

WHEREAS, the Company has adopted the Freescale Holdings 2006 Management Incentive Plan (the "Plan"), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan; and

WHEREAS, the Committee has determined that it would be in the best interests of the Company and its shareholders to grant the Stock Option provided for herein to the Participant pursuant to the Plan and the terms set forth herein in exchange for the option held by the Participant to acquire shares of the Company pursuant to a previous award under the Plan (the "Prior Option").

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. Grant of the Option. The Company hereby grants (subject to the Participant's execution of the Investors Agreement) to the Participant the right and option (the "Option") to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate number of shares of Common Stock (each a "Share" and collectively, the "Shares") as indicated in the grant summary in the Freescale equity recordkeeping system. The purchase price of the Shares subject to the Option shall be \$1.24 per Share (the "Option Price"). The Option is intended to be a non-qualified stock option, and is not intended to be treated as an option that complies with Section 422 of the Code. The Option is granted to the Participant in substitution for the Prior Option (which Prior Option is hereby cancelled).

2. Vesting.

(a) Subject to the Participant's continued Employment with the Company, or except as otherwise provided below, the Option shall vest and become exercisable with respect to twenty-five percent (25%) of the Shares initially covered by the Option on each of the first, second, third and fourth anniversaries of the Date of Grant. At any time, the portion of the Option which has become vested and exercisable as described above (or pursuant to Sections 2(b) or 4 below) is hereinafter referred to as the "Vested Portion".

(b) Notwithstanding any other provisions of this Agreement to the contrary, in the event of a Change of Control, the unvested portion of the Option shall become vested and exercisable for an additional number of Shares where that additional number of Shares equals the remaining unvested Shares multiplied by the Change of Control Cash Consideration Fraction. For purposes of this Agreement, "Change of Control Cash Consideration Fraction" shall mean, with respect to a Change of Control, the portion of the per Share consideration which is paid in the form of cash, provided that if the Change of Control Cash Consideration Fraction is .75 or higher, it shall be deemed to be 1. Notwithstanding the above, in the event the Participant's Employment is terminated by the Company or any successor thereto without Cause or by the Participant for Good Reason, in each case following a Change of Control, the Option shall immediately become fully vested and exercisable.

3. Exercise of Option.

(a) Period of Exercise. Subject to the provisions of the Plan and this Agreement, the Participant may exercise all or any part of the Vested Portion of the Option at any time prior to the earliest to occur of:

(i) the tenth anniversary of the Date of Grant;

(ii) one (1) year following the date of the Participant's termination of Employment due to death or Disability;

(iii) ninety (90) days following the date of the Participant's termination of Employment for any reason other than due to the Participant's death or Disability; and

(iv) the date of the Participant's termination of Employment for Cause.

(b) Method of Exercise.

(i) Each election to exercise the Vested Portion shall be subject to the terms and conditions of the Plan and shall be in writing, signed by the Participant or by his or her executor, administrator, or permitted transferee (subject to any restrictions

provided under the Plan and the Investors Agreement), made pursuant to and in accordance with the terms and conditions set forth in the Plan and received by the Company at its principal offices, accompanied by payment in full as provided in the Plan.

(ii) The Option Price may be paid by delivery of cash or check acceptable to the Committee, or by means of withholding of Shares subject to the Vested Portion with an aggregate Fair Market Value equal to (A) the aggregate exercise price and (B) unless the Committee determines otherwise under Section 11 of this Agreement or the Company is precluded or restricted from doing so under debt covenants, minimum statutory withholding taxes with respect to such exercise, or by such other method provided under the Plan and explicitly approved by the Committee. In the event that the Vested Portion is exercised by a person other than the Participant, the Company shall ascertain the authority of the Option holder to exercise the Vested Portion and shall deliver the Shares hereunder to the Option holder after it is satisfied as to such authority.

(iii) Notwithstanding any other provision of the Plan or this Agreement to the contrary, the Vested Portion may not be exercised prior to the completion of any registration or qualification of the Option or the Shares under applicable state and federal securities or other laws, or under any ruling or regulation of any governmental body or national securities exchange that the Committee shall in its sole discretion determine to be necessary or advisable. The Committee shall use its best efforts to cause any registration or qualification of the Option or the Shares to be completed.

(iv) Upon the Company's determination that the Vested Portion of the Option has been validly exercised as to any of the Shares, the Company shall issue certificates in the Participant's name for such Shares. However, the Company shall not be liable to the Participant for damages relating to any reasonable delays in issuing the certificates to such Participant, any loss of the certificates, or any mistakes or errors in the issuance of the certificates or in the certificates themselves which it promptly undertakes to correct.

(v) In the event of the Participant's death, the Option shall remain exercisable by the Participant's executor or administrator, or the person or persons to whom the Participant's rights under this Agreement shall pass by will or by the laws of descent and distribution as the case may be, to the extent set forth in Section 3(a). Any heir or legatee of the Participant shall take rights herein granted subject to the terms and conditions hereof.

(vi) In no event may a Participant or any other holder of an Option who has not executed the Investors Agreement exercise any part of the Vested Portion.

4. Termination of Employment.

(a) General. If the Participant's Employment is terminated for any reason, the Option shall, to the extent not then vested (after giving effect to the provisions of Section 2(b) and this Section 4), terminate upon such termination of Employment and the Vested Portion of the Option shall remain exercisable for the period set forth in Section 3(a) and shall thereafter terminate.

(b) For Cause. The Option (including any Vested Portion thereof) shall terminate upon the Participant's termination of Employment for Cause.

(c) Without Cause or for Good Reason. Upon the Participant's termination of Employment without Cause or by the Participant for Good Reason, the Option shall become vested and exercisable for an additional number of Shares equal to the number of Shares subject to the Option (if any) that would have vested on the next anniversary of the Date of Grant if the Participant had remained employed until such date (the "Subsequent Tranche"), multiplied by a fraction, the numerator of which equals the number of days elapsed from the vesting date immediately preceding termination of the Participant's Employment through the Participant's termination of Employment and the denominator of which equals 365 plus, if so determined in the sole discretion of the Chief Executive Officer of the Company, the Subsequent Tranche; subject in all circumstances to the maximum of the total number of Shares subject to the Option as of the date of such termination of Employment. Any portion of the Option that is not exercisable after giving effect to the above provisions of this Section 4(c) shall terminate immediately effective as of the termination of the Participant's Employment.

(d) Death. Upon the Participant's termination of Employment due to death, the Option shall become fully vested and exercisable.

(e) Disability. Upon the Participant's termination of Employment due to Disability, the Option shall become fully vested and exercisable.

(f) Retirement. Upon the Participant's termination of Employment due to Retirement and solely to the extent so determined by the Company's Chief Executive Officer, the Option shall become vested and exercisable for an additional number of Shares equal to the Subsequent Tranche multiplied by a fraction, the numerator of which equals the number of days elapsed from the vesting date immediately preceding termination of Participant's Employment through the Participant's termination of Employment and the denominator of which equals 365; subject in all circumstances to the maximum of the total number of Shares subject to the Option as of the date of such termination of Employment. Any portion of the Option that is not exercisable after giving effect to the above provisions of this Section 4(f) shall terminate immediately effective as of the termination of the Participant's Employment.

(g) By the Participant other than due to Disability or Good Reason. If the Participant's Employment is terminated on account of a termination of the Participant's Employment initiated by the Participant other than due to Disability or Good Reason, then the unvested portion of the Option then held by the Participant shall be automatically forfeited.

(h) Forfeiture. Notwithstanding anything herein to the contrary, if the Participant breaches any Restrictive Covenants applicable to the Participant (including, without limitation, the Restrictive Covenants set forth in Exhibit A hereto) following termination of the Participant's Employment by the Participant other than due to Disability or Good Reason, then (x) any portion of the Option that vested during the twelve-month period immediately preceding the date of termination (the "Preceding Tranche") shall be automatically forfeited, (y) any Shares acquired pursuant to the exercise of an Option in the Preceding Tranche shall be subject to the call option set forth in Section 6 of the Investors Agreement and (z) any proceeds from the sale of Shares described in preceding clause (y), shall be immediately repaid to the Company.

5. Certain Covenants. The Participant hereby agrees and covenants to perform all of his obligations set forth in Exhibit A hereto (which is incorporated by reference hereby) and acknowledges that the Participant's obligations set forth in Exhibit A constitute a material inducement for the Company's grant of Options to the Participant.

6. Share Restrictions, etc. Except as expressly provided herein, the Participant's rights hereunder and with respect to Shares received upon exercise of the Vested Portion are subject to the restrictions and other provisions contained in the Investors Agreement.

7. Distributions, Redemptions, etc. Upon the occurrence of an Adjustment Event, the Option Price shall be reduced by an amount equal to the per-Share amount paid in connection with the Adjustment Event; provided, however, that any such reduction shall be limited to that portion of such amount which would not cause the Option Price to be reduced below 25% of the per-Share Fair Market Value, as of the date of such reduction. In the case of a redemption or repurchase, the number of Shares of the class of stock redeemed or repurchased that are subject to the Option will be automatically reduced by an amount proportionate to the percentage reduction in outstanding shares of the affected class resulting from the redemption or repurchase.

8. No Right to Continued Employment. The granting of the Option evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the Employment of the Participant and shall not lessen or affect the Company's or its Affiliate's right to terminate the Employment of such Participant.

9. Legend on Certificates. The certificates representing the Shares purchased by exercise of the Vested Portion shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable Federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

10. Transferability. Except as provided in the Investors Agreement, the Option may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Option to heirs or legatees of the Participant shall be effective to bind the Company unless the Committee shall have been furnished with written notice thereof and a copy of such evidence as the Committee may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof. During the Participant's lifetime, the Vested Portion is exercisable only by the Participant or a permitted transferee (pursuant to the Investors Agreement).

11. Withholding. Notwithstanding any other provisions of this Agreement to the contrary, the Participant may be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold from any payment due or transfer made under the Option or under the Plan or from any compensation or other amount owing to a Participant the amount (in cash, Shares, other securities or other property) of any applicable withholding taxes in respect of the Option, its exercise or any payment or transfer under or with respect to the Option or the Plan and to take such other action as may be necessary in the opinion of the Committee to satisfy all obligations for the payment of such withholding taxes.

12. Securities Laws. The issuance of any Shares hereunder shall be subject to the Participant making or entering into such written representations, warranties and agreements as the Committee may reasonably request in order to comply with applicable securities laws.

13. Notices. Any notice necessary under this Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the Participant at the address appearing in the personnel records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

14. Governing Law. This Agreement and all claims arising out of or based upon this Agreement or relating to the subject matter hereof shall be governed by and construed in accordance with the domestic substantive laws of the State of Delaware without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

15. Consent to Jurisdiction. All actions arising out of or relating to this Agreement shall be heard and determined exclusively in any New York state or federal court sitting in the Borough of Manhattan in The City of New York. The parties hereto hereby (a) submit to the exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan of The City of New York for the purpose of any action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune of from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or that this Agreement or the transactions contemplated hereby may not be enforced in or by any of the above-named courts.

16. WAIVER OF JURY TRIAL. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW WHICH CANNOT BE WAIVED, EACH PARTY HERETO HEREBY WAIVES AND COVENANTS THAT IT WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ISSUE OR ACTION, CLAIM, CAUSE OF ACTION OR SUIT (IN CONTRACT, TORT OR OTHERWISE), INQUIRY, PROCEEDING OR INVESTIGATION ARISING OUT OF OR BASED UPON THIS AGREEMENT OR THE SUBJECT MATTER HEREOF OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE TRANSACTIONS CONTEMPLATED HEREBY, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING. EACH PARTY HERETO ACKNOWLEDGES THAT IT HAS BEEN INFORMED BY THE OTHER PARTIES HERETO THAT THIS SECTION 16 CONSTITUTES A MATERIAL INDUCEMENT UPON WHICH THEY ARE RELYING AND WILL RELY IN ENTERING INTO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY. ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 16 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH SUCH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

17. Option Subject to Plan and Investors Agreement. By entering into this Agreement the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan, the Investors Agreement and the Offering Memorandum for the Plan. The Option is subject to the Plan and the Investors Agreement, each as may be amended from time to time, and the terms and provisions of the Plan and the Investors Agreement are hereby incorporated herein by reference. By entering into this Agreement, the Participant hereby authorizes the General Counsel of Freescale Semiconductor, Inc. (the "General Counsel") as the Participant's attorney-in-fact and delegates full power and authority to the General Counsel to enter into the Investors Agreement on the Participant's behalf.

18. Section 409A. It is intended that the terms of this Agreement comply with section 409A of the Code. If it is determined that the terms of this Agreement have been structured in a manner that would result in adverse tax treatment under Section 409A of the Code, the parties agree to cooperate in taking all reasonable measures to restructure the arrangement to minimize or avoid such adverse tax treatment without materially impairing Participant's economic rights.

19. Acceptance. This Agreement must be accepted by electronic signature of the Participant in the Freescale equity recordkeeping system.

EXHIBIT A

Restrictive Covenants.

- (a) Confidential Information. The Participant shall hold in a fiduciary capacity for the benefit of the Company and its Affiliates (collectively, the "**Affiliated Group**"), all secret or confidential information, knowledge or data relating to the Affiliated Group and its businesses (including, without limitation, any proprietary and not publicly available information concerning any processes, methods, trade secrets, research or secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Participant obtains during the Participant's Employment that is not public knowledge (other than as a result of the Participant's violation of this Section (a)) ("**Confidential Information**"). The Participant shall not communicate, divulge or disseminate Confidential Information at any time during or after the Participant's Employment, except with the prior written consent of the Company, or as otherwise required by law or legal process or as such disclosure or use may be required in the course of the Participant performing his duties and responsibilities with the Affiliated Group. Notwithstanding the foregoing provisions, if the Participant is required to disclose any such confidential or proprietary information pursuant to applicable law or a subpoena or court order, the Participant shall promptly notify the Company in writing of any such requirement so that the Company or the appropriate member of the Affiliated Group may seek an appropriate protective order or other appropriate remedy or waive compliance with the provisions hereof. The Participant shall reasonably cooperate with the Company or the appropriate member of the Affiliated Group to obtain such a protective order or other remedy. If such order or other remedy is not obtained prior to the time the Participant is required to make the disclosure, or the Company waives compliance with the provisions hereof, the Participant shall disclose only that portion of the confidential or proprietary information which he is advised by counsel in writing (either his or the Company's) that he is legally required to so disclose. Upon his termination of Employment for any reason, the Participant shall promptly return to the Company all records, files, memoranda, correspondence, notebooks, notes, reports, customer lists, drawings, plans, documents, and other documents and the like relating to the business of the Affiliated Group or containing any trade secrets relating to the Affiliated Group or that the Participant uses, prepares or comes into contact with during the course of the Participant's employment with the Affiliated Group, and all keys, credit cards and passes, and such materials shall remain the sole property of the Affiliated Group. The Participant agrees to execute any standard-form confidentiality agreements with the Company that the Company in the future generally enters into with its senior executives.
- (b) Work Product and Inventions. The Affiliated Group and/or its nominees or assigns shall own all right, title and interest in and to any and all inventions, ideas, trade secrets, technology, devices, discoveries, improvements, processes, developments, designs, know how, show-how, data, computer programs, algorithms, formulae, works of authorship, works modifications, trademarks, trade names, documentation, techniques, designs, methods, trade secrets, technical specifications, technical data, concepts, expressions, patents, patent rights, copyrights, moral rights, and all other intellectual property rights or other developments whatsoever (collectively, "**Developments**"), whether or not patentable, reduced to practice or registrable under patent, copyright, trademark or other intellectual property law anywhere in the world, made, authored, discovered, reduced to practice, conceived, created, developed or otherwise obtained by the Participant (alone or jointly with others) during the Participant's Employment with the Affiliated Group, and arising from or relating to such employment or the business of the Affiliated Group (whether during business hours or otherwise, and whether on the premises of using the facilities or materials of the Affiliated Group or otherwise). The Participant shall promptly and fully disclose to the Affiliated Group and to no one else all Developments, and hereby assigns to the Affiliated Group without further compensation all right, title and interest the Participant has or may have in any Developments, and all patents, copyrights, or other intellectual property rights relating thereto, and agrees that the Participant has not acquired and shall not acquire any rights during the course of his employment with the Affiliated Group or thereafter with respect to any Developments.
- (c) Non-Recruitment of Affiliated Group Employees. The Participant shall not, at any time during the Nonsolicitation Restricted Period (as defined below), other than in the ordinary exercise of his duties, without the prior written consent of the Affiliated Group, directly or indirectly, solicit, recruit, or employ (whether as an employee, officer, agent, consultant or independent contractor) any person who is or was at any time during the previous 12 months, an employee, representative, officer or director of any member of the Affiliated Group. Further, during the Nonsolicitation Restricted Period, the Participant shall not take any action that could reasonably be expected to have the effect of directly encouraging or inducing any person to cease their relationship with any member of the Affiliated Group for any reason. A general employment advertisement by an entity of which the Participant is a part will not constitute solicitation or recruitment. The "**Nonsolicitation Restricted Period**" shall mean the period from the Date of Grant through the second anniversary of the Participant's termination of Employment.
- (d) Non-Competition - Solicitation of Business. During the Noncompetition Restricted Period (as defined below), the Participant shall not, either directly or indirectly, compete with the business of the Affiliated Group by (i) becoming an officer, agent, employee, partner or director of any other corporation, partnership or other entity, or otherwise render

services to or assist or hold an interest (except as a less than 3-percent shareholder of a publicly traded corporation or as a less than 5-percent shareholder of a corporation that is not publicly traded) in any Competitive Business (as defined below), or (ii) soliciting, servicing, or accepting the business of (A) any active customer of any member of the Affiliated Group, or (B) any person or entity who is or was at any time during the previous twelve months a customer of any member of the Affiliated Group, provided that such business is competitive with any significant business of any member of the Affiliated Group. "**Competitive Business**" shall mean any person or entity (including any joint venture, partnership, firm, corporation, or limited liability company) that conducts a business that is competitive with any significant business of the Affiliated Group as of the date of termination (or any significant business that is being actively pursued as of the date of termination by the Affiliated Group). The "**Noncompetition Restricted Period**" shall mean the period from the Date of Grant through the second anniversary of the date of termination of the Participant's Employment.

- (e) Assistance. The Participant agrees that during and after his employment by the Affiliated Group, upon request by the Company, the Participant will assist the Affiliated Group in the defense of any claims, or potential claims that may be made or threatened to be made against any member of the Affiliated Group in any action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise (a "**Proceeding**"), and will assist the Affiliated Group in the prosecution of any claims that may be made by any member of the Affiliated Group in any Proceeding, to the extent that such claims may relate to the Participant's Employment or the period of the Participant's Employment by the Affiliated Group. The Participant agrees, unless precluded by law, to promptly inform the Company if the Participant is asked to participate (or otherwise become involved) in any Proceeding involving such claims or potential claims. The Participant also agrees, unless precluded by law, to promptly inform the Company if the Participant is asked to assist in any investigation (whether governmental or otherwise) of any member of the Affiliated Group (or their actions), regardless of whether a lawsuit has then been filed against any member of the Affiliated Group with respect to such investigation. The Company agrees to reimburse the Participant for all of the Participant's reasonable out-of-pocket expenses associated with such assistance, including travel expenses and any attorneys' fees and shall pay a reasonable per diem fee for the Participant's service. In addition, the Participant agrees to provide such services as are reasonably requested by the Company to assist any successor to the Participant in the transition of duties and responsibilities to such successor. Any services or assistance contemplated in this Section (e) shall be at mutually agreed to and convenient times.
- (f) Remedies. The Participant acknowledges and agrees that the terms of this Exhibit A: (i) are reasonable in geographic and temporal scope, (ii) are necessary to protect legitimate proprietary and business interests of the Affiliated Group in, inter alia, near permanent customer relationships and confidential information. The Participant further acknowledges and agrees that the Participant's breach of the provisions of this Exhibit A will cause the Affiliated Group irreparable harm, which cannot be adequately compensated by money damages. The Participant consents and agrees that the forfeiture provisions contained in the Plan, the Agreement and the Investors Agreement, are reasonable remedies in the event the Participant commits any such breach. If any of the provisions of this Exhibit A are determined to be wholly or partially unenforceable, the Participant hereby agrees that Exhibit A or any provision hereof may be reformed so that it is enforceable to the maximum extent permitted by law. If any of the provisions of this Exhibit A are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Affiliated Group's right to enforce any such covenant in any other jurisdiction.

**AMENDMENT TO THE FREESCALE HOLDINGS
2006 MANAGEMENT INCENTIVE PLAN**

This Amendment to the Freescale Holdings 2006 Management Incentive Plan (the “**Incentive Plan**”) is made as of October 28, 2009 (the “**Effective Date**”). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Incentive Plan.

WHEREAS, Section 10 of the Incentive Plan provides in relevant part that the Board of Directors of Freescale Semiconductor Holdings I, Ltd. (the “**Company**”) may amend the Incentive Plan at any time;

WHEREAS, the Incentive Plan currently provides that a maximum of 60,478,971 shares of Common Stock may be delivered in satisfaction of Awards granted under the Incentive Plan shall be; and

WHEREAS, the Company wishes to amend the Incentive Plan to provide that up to 69,478,971 shares of Common Stock may be delivered in satisfaction of Awards granted under the Incentive Plan.

NOW THEREFORE, the Incentive Plan is hereby amended as follows:

1. The first sentence of Section 4(a) of the Incentive Plan is hereby amended in its entirety to read as follows:
A maximum of 69,478,971 shares of Common Stock of the Company may be delivered in satisfaction of Awards under the Plan.
2. Except as provided herein, the Incentive Plan shall remain in full force and effect.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, an authorized signatory of the Company has executed this Amendment, to be effective as of the Effective Date.

FREESCALE SEMICONDUCTOR
HOLDINGS I, LTD.

/s/ Michel Cadieux

By: Michel Cadieux

Title: Senior Vice President, Human Resources

**AMENDMENT TO THE AMENDED AND RESTATED FREESCALE SEMICONDUCTOR HOLDINGS
2007 EMPLOYEE INCENTIVE PLAN**

This Amendment to the Amended and Restated Freescale Semiconductor Holdings 2007 Employee Incentive Plan (the “**Incentive Plan**”) is made as of October 28, 2009 (the “**Effective Date**”). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Incentive Plan.

WHEREAS, Section 10 of the Incentive Plan provides in relevant part that the Board of Directors of Freescale Semiconductor Holdings I, Ltd. (the “**Company**”) may amend the Incentive Plan at any time;

WHEREAS, the Incentive Plan currently provides that a maximum of 4,949,711 shares of Common Stock may be delivered in satisfaction of Awards granted under the Incentive Plan shall be; and

WHEREAS, the Company wishes to amend the Incentive Plan to provide that up to 10,949,711 shares of Common Stock may be delivered in satisfaction of Awards granted under the Incentive Plan.

NOW THEREFORE, the Incentive Plan is hereby amended as follows:

1. The first sentence of Section 4(a) of the Incentive Plan is hereby amended in its entirety to read as follows:
A maximum of 10,949,711 shares of Common Stock of the Company may be delivered in satisfaction of Awards under the Plan.
2. Except as provided herein, the Incentive Plan shall remain in full force and effect.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, an authorized signatory of the Company has executed this Amendment, to be effective as of the Effective Date.

FREESCALE SEMICONDUCTOR
HOLDINGS I, LTD.

/s/ Michel Cadieux

By: Michel Cadieux

Title: Senior Vice President, Human Resources

FREESCALE SEMICONDUCTOR, LTD
2011 OMNIBUS INCENTIVE PLAN
FORM PERFORMANCE RESTRICTED SHARE UNIT AWARD AGREEMENT
(Senior Management)

THIS AGREEMENT (the “**Agreement**”), is made effective as of the date indicated in the grant summary in the Freescale equity recordkeeping system (the “**Date of Grant**”), by and among Freescale Semiconductor, Ltd., a Bermuda exempted limited liability company (the “**Company**”), the recipient’s employing subsidiary and the recipient of the grant (the “**Executive**”):

RECITALS:

WHEREAS, the Company has adopted the Amended and Restated Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan (the “**Plan**”), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms used but not otherwise defined herein shall have meanings ascribed to such terms in the Plan; and

WHEREAS, the Administrator has determined that it would be in the best interests of the Company and its shareholders to grant the Restricted Share Units provided for herein to the Executive pursuant to the Plan and the terms set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. Grant of Restricted Share Units. The Company hereby grants to the Executive, on the terms and conditions hereinafter set forth, units evidencing a right to receive a target number of Common Shares (or a lesser or greater number of Common Shares, or no Common Shares whatsoever) as indicated in the grant summary in the Freescale equity recordkeeping system, based on the Company’s achievement of the performance goals set forth on Appendix A hereto (the “**Performance Goals**”), which Appendix A is incorporated herein by reference and made a part hereof, all in accordance with the terms and conditions of this Agreement (the “**Restricted Share Units**” or “**Restricted Share Unit Award**”). Shares corresponding to the Restricted Share Units, if any, are to be delivered to the Executive only after the Performance Goals have been achieved and certified as described in Section 3 and the Executive has become vested in the Restricted Share Units pursuant to Section 4 or Section 5 below.
2. Performance Period. For purposes of this Agreement, the term “**Performance Period**” shall refer to January 1, 201_ through December 31, 201_, subject to Section 4(c) below.
3. Performance Goals.

(a) To the extent, if any, the applicable Performance Goals have been achieved for the Performance Period, and subject to compliance with the requirements of Section 4, the Executive will be entitled to receive from 0 to 1.5 (such number, the “**Share Delivery Factor**”) Common Shares for each of the Restricted Share Units under this Agreement.

(b) The Compensation and Leadership Committee of the Company’s Board (the “**Committee**”) shall, as soon as practicable following the last day of the Performance Period, and in any event prior to January 31, 201_, certify (i) the extent to which the Performance Goals have been achieved, if at all, and (ii) the number of whole Common Shares, if any, which the Executive shall be entitled to receive with respect to each Restricted Share Unit granted under this Agreement. In the event the Share Delivery Factor equals zero, the Restricted Share Units granted under this Agreement shall be cancelled. Such certification shall be final, conclusive and binding on the Executive, and on all other persons, to the maximum extent permitted by law.

4. Restrictions and Vesting.

(a) Restrictions and Transferability. The Restricted Share Unit Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Executive otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Restricted Share Unit Award to heirs or legatees of the Executive shall be effective to bind the Company unless the Administrator shall have been furnished with written notice thereof and a copy of such evidence as the Administrator may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof.

(b) Vesting. Subject to the Executive’s continued employment with the Company, and except as otherwise provided in Sections 4(c) and 5 herein, to the extent that the Performance Goals for the Performance Period have been achieved and certified, the Restricted Share Units delivered under this Agreement, if any, shall vest on the 30th day after the third anniversary of the Date of Grant.

(c) Change in Control.

(i) Notwithstanding anything to the contrary contained in the Plan or in this Agreement, in the event of a Change in Control that occurs before December 31, 201_, the Performance Period shall end on the date of the Change in Control, or another date established at the discretion of the Committee, and the Share Delivery Factor shall be calculated based on the Performance Period as adjusted by this Section 4(c).

(i) Notwithstanding any other provisions of the Plan or this Agreement to the contrary, in the event that the Executive’s employment with the Company is terminated by the Company without Cause or by the Executive for Good Reason, in either case within

twelve months following a Change in Control, after the application of Section 4(c)(i) above, all unvested Restricted Share Units shall become immediately vested. For purposes of this Agreement, “Cause” and “Good Reason” shall have the meanings set forth in the Executive’s employment agreement, or if the Executive does not have an employment agreement in which these terms are defined, then Cause shall have the meaning set forth in the Plan and Good Reason shall have the meaning set forth below.

(ii) If the Restricted Share Unit Award is not assumed or substituted in connection with a Change in Control, immediately upon the occurrence of the Change in Control, all unvested Restricted Share Units shall become immediately vested. For purposes of this Section 4(c)(iii), the Restricted Share Unit Award shall be considered assumed or substituted if, following the Change in Control, the Restricted Share Unit Award is of comparable value and remains subject to the same terms and conditions that were applicable to the Restricted Share Unit Award immediately prior to the Change in Control except that the Restricted Share Unit Award instead confers the right to receive common stock of the acquiring entity or in the case of an amalgamation, the amalgamated company or its parent. If the Executive does not have an employment agreement in which Good Reason is defined, “Good Reason” means, in the absence of the Executive’s written consent, any of the following: (i) a material reduction by the Company in the Executive’s base salary or target bonus unless the base salary or target bonus of all senior executives is reduced by a similar percentage or amount as part of company-wide cost reductions; (ii) a material reduction in the aggregate level of employee benefits made available to the Executive when compared to the benefits made available to the Executive at any time during the Executive’s employment with the Company, unless the reduction is applicable to senior executives of the Company generally; (iii) a material diminution in the Executive’s duties or responsibilities (other than as a result of the Executive’s physical or mental incapacity which impairs his ability to materially perform his duties or responsibilities as confirmed by a doctor reasonably acceptable to the Executive or his representative and such diminution lasts only for so long as such doctor determines such incapacity impairs the Executive’s ability to materially perform his duties or responsibilities). A lateral job change that does not materially diminish the Executive’s duties or responsibilities and does not affect the Executive’s reporting relationship will not constitute Good Reason; or (iv) the Company requiring the Executive’s principal location of employment to be at any office or location more than 75 miles from the principal headquarters of the Company (other than any such change in location which is not materially adverse to the Executive, and other than to the extent agreed to or requested by the Executive) on the Date of Grant.

(d) Settlement of Restricted Share Units. Shares shall be delivered (provided, that such delivery is otherwise in accordance with federal and state securities laws) with respect to the Restricted Share Units, to the extent then vested, as soon as practicable following the vesting date, but in no event later than the 60th day following the vesting date.

(e) No Shareholder Rights. The Executive shall have no rights of a shareholder of the Company with respect to the Restricted Share Units, including, but not limited to, the rights to vote and receive ordinary dividends, until the settlement date of the Restricted

Share Units. In the event that the Administrator approves an adjustment to the Restricted Share Unit Award pursuant to Section 5 of the Plan, then in such event, any and all new, substituted or additional securities to which Executive is entitled by reason of the Restricted Share Unit Award shall be immediately subject to the restrictions and the Vesting Period set forth in Sections 4(a) and (b) above with the same force and effect as the Restricted Share Unit Award subject to such restrictions immediately before such event.

5. Termination of Employment.

(a) General. If the Executive's employment is terminated for any reason, other than death, Disability or after a Change in Control, the Restricted Share Unit Award shall, to the extent not then vested (after giving effect to the provisions of this Section 5), terminate upon such termination of employment.

(b) Death or Disability. Upon the Executive's termination of employment due to the Executive's death or Disability, (i) prior to the first anniversary of the Date of Grant, the entire Restricted Share Unit Award shall be forfeited; and (ii) after the first anniversary of the Date of Grant, the Restricted Share Unit Award shall become vested for a number of Shares equal to the number of Shares subject to the Restricted Share Unit Award multiplied by a fraction, the numerator of which equals the number of days elapsed from the grant date and the denominator of which equals 1,096, with a deemed Share Delivery Factor of 1.0 for the Performance Period, subject to the maximum of the total number of Shares subject to the Restricted Share Unit Award.

(c) Forfeiture. Notwithstanding anything herein to the contrary, if the Executive breaches any Restrictive Covenants applicable to the Executive (including, without limitation, the Restrictive Covenants set forth in Exhibit A hereto) at any time during the two year period following the Executive's termination of employment for any reason then the Executive shall immediately repay to the Company the Fair Market Value of Shares acquired pursuant to the Restricted Share Unit Award on any vesting date within the three year period prior to termination. The Company reserves the right to reduce or waive any amounts payable to the Company pursuant to this provision, in its sole discretion.

6. Certain Covenants. The Executive hereby agrees and covenants to perform all of the obligations set forth in Exhibit A hereto (which is incorporated by reference hereby) and acknowledges that the Executive's obligations set forth in Exhibit A constitute a material inducement for the Company's grant of the Restricted Share Unit Award to the Executive.

7. No Right to Continued Employment. The granting of the Restricted Share Unit Award evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the employment of the Executive and shall not lessen or affect the Company's or any Affiliate's right to terminate the employment of such Executive. The granting of the Restricted Share Unit Award does not form part of and should in no way be construed as a term or condition of employment. At all times, the Restricted Share Unit Award granted hereunder is discretionary and does not imply that additional Restricted Share Unit Awards will be awarded in the future.

8. Restricted Share Unit Award Not Wages. The value of any Restricted Share Unit Award granted to Executive does not constitute and will not be included as wages for the purposes of calculating any benefit or bonus provided by the Company or the Executive's employing subsidiary.

9. Withholding. The Executive will be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold from any payment due or transfer made under the Restricted Share Unit Award or under the Plan or from any compensation or other amount owing to the Executive the amount (in cash, Shares, other securities or other property) of any applicable withholding taxes in respect of the Restricted Share Unit Award or any payment or transfer under or with respect to the Restricted Share Unit Award or the Plan and to take such other action as may be necessary in the opinion of the Administrator to satisfy all obligations for the payment of such withholding taxes.

10. Securities Laws. The issuance of any Shares hereunder shall be subject to the Executive making or entering into such written representations, warranties and agreements as the Administrator may reasonably request in order to comply with applicable securities laws and government regulations.

11. No Public Offering. The Restricted Share Units awarded under the Plan and this Agreement will not be publicly issued, placed, distributed or offered. The issuance of any Restricted Share Units hereunder does not constitute a public offering of securities.

12. Consent to Transfer of Data. By accepting the Restricted Share Unit Award, Executive consents to the transfer of personal data (including but not limited to the employee's name, address, birth date and hire date) and to the processing of this personal data by the Company and the provider of the Freescale equity recordkeeping system.

13. Notices. Any notice necessary under this Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the Executive at the address appearing in the personnel records of the Company for the Executive or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

14. Governing Law. This Agreement and all claims arising out of or based upon this Agreement or relating to the subject matter hereof shall be governed by and construed in accordance with the domestic substantive laws of the State of Delaware without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

15. Consent to Jurisdiction. All actions arising out of or relating to this Agreement shall be heard and determined exclusively in any New York state or federal court sitting in the Borough of Manhattan in The City of New York. The parties hereto hereby (a) submit to the exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan of The City of New York for the purpose of any action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by

way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune of from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or that this Agreement or the transactions contemplated hereby may not be enforced in or by any of the above-named courts.

16. The Restricted Share Unit Award Subject to Plan. By entering into this Agreement, the Executive agrees and acknowledges that the Executive has received and read a copy of the Plan. The Restricted Share Unit Award is subject to the Plan, as may be amended from time to time, and the terms and provisions of the Plan are hereby incorporated herein by reference.

17. Acceptance. This Agreement must be accepted by electronic signature of the Executive in the Freescale equity recordkeeping system or the Executive will have no right to the Restricted Share Unit Award provided for in this Agreement. By accepting this Agreement the Executive consents to the electronic delivery through the Freescale equity recordkeeping system of all documents related to this Restricted Share Unit Award.

2. Clawback. The Restricted Share Unit Award shall be subject to the Company's clawback policy, as it may be amended from time to time. The Company will amend its clawback policy, as needed, to the extent that the Securities and Exchange Commission adopts the final implementing rules regarding compensation clawbacks mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Appendix A

Performance Goals

Relative TSR Percentile Rank	Share Delivery Factor
< 25%	0%
25%	0.25
50%	1.00
75%	1.50
> 75%	1.50

1) Definitions.

The following definitions shall be applicable to the Performance Goals and Agreement. Capitalized terms used but not otherwise defined herein shall have meanings ascribed to such terms in the Plan.

(a) “Relative Total Shareholder Return” or “Relative TSR” means the Company’s TSR compared to the Peer Companies TSR on a relative basis. The Company and the Peer Companies from highest to lowest according to their respective TSRs will determine Relative TSR. After this ranking, the percentile performance of the Company relative to the Peer Companies will be determined using the *Percentrank* formula in Microsoft Excel.

(b) “Total Shareholder Return” or “TSR” means for the Company and each of the Peer Companies, the company’s Total Shareholder Return, which will be calculated by dividing (i) the Closing Average Share Value by (ii) the Opening Average Share Value, and then subtracting one (1).

(c) “Closing Average Share Value” means for the Company and each of the Peer Companies, the average, over the days in the Closing Average Period, of the closing price of its common stock or common shares, multiplied by the Accumulated Shares for each day during the Closing Average Period.

(d) “Closing Average Period” means (i) in the absence of a Change in Control, the one month period ending on the last day of the Performance Period, or (ii) in the case of a Change in Control, the one month period ending five (5) days prior to Change in Control, or another date established at the discretion of the Committee.

(e) “Opening Average Share Value” means for each of the Peer Companies and the Company, the average, over the days in the Opening Average Period, of the closing price of its common stock or common shares, multiplied by the Accumulated Shares for each day during the Opening Average Period.

(f) “Opening Average Period” means the one month period ending prior to the first day of the Performance Period.

(g) “Accumulated Shares” means, for a given day, and for the Company or a given Peer Company, the sum of (i) one share of common stock of the applicable Company, plus (ii) a cumulative number of shares of common stock purchased with dividends declared on the common stock, assuming same day reinvestment of the dividends into shares of common stock at the closing price on the ex-dividend date, for ex-dividend dates during the Opening Average Period or for the period between December 31, 201_ and the last day of the Closing Averaging Period, as the case may be.

(h) “Peer Companies” means the companies established by the Committee for purposes of calculating TSR, to include Advanced Micro Devices, Inc., Altera Corporation, Analog Devices, Inc., Applied Materials, Inc., Atmel Corporation, Avago Technologies, Broadcom Corporation, Infineon Technologies, Linear Technology Corporation, Marvel Technology Group, Maxim Integrated Products, Inc., Microchip Technology, Inc., Micron Technology, Inc., NXP Semiconductors, NVIDIA Corporation, On Semiconductor, Sandisk Corporation, ST Microelectronics, Texas Instruments and Xilinx, Inc. Any peer company shares traded on a foreign exchange will be converted to US dollars. In the event of a merger, acquisition or business combination transaction of a Peer Company with or by another Peer Company, the surviving entity shall remain a Peer Company. In the event of a merger of a Peer Company with an entity that is not a Peer Company, or the acquisition or business combination transaction by or with a Peer Company, or with an entity that is not a Peer Company, in each case where the Peer Company is the surviving entity and remains publicly traded, the surviving entity shall remain a Peer Company. In the event of a merger or acquisition or business combination transaction of a Peer Company by or with an entity that is not a Peer Company, a “going private” transaction involving a Peer Company or the liquidation of a Peer Company, where the Peer Company is not the surviving entity or is otherwise no longer publicly traded, the company shall no longer be a Peer Company.

Exhibit A – Restrictive Covenants

(a) Confidential Information. The Executive recognizes and agrees that the Affiliated Group (defined below) has provided Confidential Information to the Executive and has an interest in protecting this information from disclosure. The Executive shall hold in a fiduciary capacity for the benefit of the Company and its Affiliates (collectively, the “**Affiliated Group**”), all secret or confidential information, knowledge or data relating to the Affiliated Group and its businesses (including, without limitation, any proprietary and not publicly available information concerning any processes, methods, trade secrets, research or secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Executive obtains during the Executive’s employment that is not public knowledge (other than as a result of the Executive’s violation of this Section (a)) (“**Confidential Information**”). The Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after the Executive’s employment, except with the prior written consent of the Company, or as otherwise required by law or legal process or as such disclosure or use may be required in the course of the Executive performing his duties and responsibilities with the Affiliated Group. Notwithstanding the foregoing provisions, if the Executive is required to disclose any such confidential or proprietary information pursuant to applicable law or a subpoena or court order, the Executive shall promptly notify the Company in writing of any such requirement prior to disclosure so that the Company or the appropriate member of the Affiliated Group may seek an appropriate protective order or other appropriate remedy or waive compliance with the provisions hereof. The Executive shall reasonably cooperate with the Company or the appropriate member of the Affiliated Group to obtain such a protective order or other remedy. If such order or other remedy is not obtained prior to the time the Executive is required to make the disclosure, or the Company waives compliance with the provisions hereof, the Executive shall disclose only that portion of the confidential or proprietary information which he is advised by counsel in writing (either his or the Company’s) that he is legally required to so disclose. Upon his termination of employment for any reason, the Executive shall promptly return to the Company all records, files, memoranda, correspondence, notebooks, notes, reports, customer lists, drawings, plans, documents, and other documents and the like relating to the business of the Affiliated Group or containing any trade secrets relating to the Affiliated Group or that the Executive uses, prepares or comes into contact with during the course of the Executive’s employment with the Affiliated Group, and all keys, credit cards and passes, and such materials shall remain the sole property of the Affiliated Group. The Executive agrees to execute any standard-form confidentiality agreements with the Company that the Company in the future generally enters into with similarly situated employees.

(b) Work Product and Inventions. The Affiliated Group and/or its nominees or assigns shall own all right, title and interest in and to any and all inventions, ideas, trade secrets, technology, devices, discoveries, improvements, processes, developments, designs, know how,

show-how, data, computer programs, algorithms, formulae, works of authorship, works modifications, trademarks, trade names, documentation, techniques, designs, methods, trade secrets, technical specifications, technical data, concepts, expressions, patents, patent rights, copyrights, moral rights, and all other intellectual property rights or other developments whatsoever (collectively, “**Developments**”), whether or not patentable, reduced to practice or registerable under patent, copyright, trademark or other intellectual property law anywhere in the world, made, authored, discovered, reduced to practice, conceived, created, developed or otherwise obtained by the Executive (alone or jointly with others) during the Executive’s employment with the Affiliated Group, and arising from or relating to such employment or the business of the Affiliated Group (whether during business hours or otherwise, and whether on the premises of using the facilities or materials of the Affiliated Group or otherwise). The Executive shall promptly and fully disclose to the Affiliated Group and to no one else all Developments, and hereby assigns to the Affiliated Group without further compensation all right, title and interest the Executive has or may have in any Developments, and all patents, copyrights, or other intellectual property rights relating thereto, and agrees that the Executive has not acquired and shall not acquire any rights during the course of his employment with the Affiliated Group or thereafter with respect to any Developments.

(c) Company Goodwill. The Executive recognizes and acknowledges that the Affiliated Group has and continues to develop goodwill of substantial value through efforts of employees, including the Executive. This goodwill includes, but is not limited to, the identity and skill sets of its employees, its relationships with employees and customers, intangible value attributable to its products created by Executive and others, and the Affiliated Group’s brand and reputation within the industry. Executive shall take no action to damage the goodwill of the Affiliated Group (including disparaging the Affiliated Group or any of their respective directors, officers, executives, employees, agents or other representatives) or use it for personal benefit or the benefit of competitors of the Affiliated Group.

(d) Non-Recruitment of Affiliated Group Employees. The Executive acknowledges that employees are a significant part of the goodwill of the Affiliated Group, such as, without limitation, their relationships and contacts with customers and suppliers as well as the training and knowledge they receive from the Affiliated Group in the course of their employment. The Executive shall not, at any time during the Non-solicitation Restricted Period (as defined below), other than in the ordinary exercise of his duties while employed by the Affiliate Group, without the prior written consent of the Affiliated Group, directly or indirectly, solicit, recruit, or employ (whether as an employee, officer, agent, consultant or independent contractor) any person who is or was at any time during the previous 12 months, an employee, representative, officer or director of any member of the Affiliated Group. Further, during the Non-solicitation Restricted Period, the Executive shall not take any action that could reasonably be expected to have the effect of directly encouraging or inducing any person to cease their relationship with any member of the Affiliated Group for any reason. A general employment advertisement by an entity of which the Executive is a part will not constitute solicitation or recruitment. The “**Non-solicitation Restricted Period**” shall mean the period from the Date of Grant through the second anniversary of the Executive’s termination of employment.

(e) Non-Competition – Solicitation of Business. The Executive recognizes and agrees that the Affiliated Group has provided Confidential Information to Executive and has an interest in protecting this information from disclosure. Executive further understands that the goodwill of the Affiliated Group is an interest worthy of protection. For the protection of these and other interests, during the Non-competition Restricted Period (as defined below), the Executive shall not, either directly or indirectly, compete with the business of the Affiliated Group by (i) becoming an officer, agent, employee, partner or director of any other corporation, partnership or other entity, or otherwise render services to or assist or hold an interest (except as a less than 3-percent shareholder of a publicly traded corporation or as a less than 5-percent shareholder of a corporation that is not publicly traded) in any Competitive Business (as defined below), or (ii) soliciting, servicing, or accepting the business of (A) any active customer of any member of the Affiliated Group, or (B) any person or entity who is or was at any time during the previous twelve months a customer of any member of the Affiliated Group, provided that such business is competitive with any significant business of any member of the Affiliated Group. “**Competitive Business**” shall mean any person or entity (including any joint venture, partnership, firm, corporation, or limited liability company) that conducts a business that is competitive with any significant business of the Affiliated Group as of the date of termination (or any significant business that is being actively pursued as of the date of termination by the Affiliated Group). The Affiliated Group designs, manufactures, sells and licenses its products and technology worldwide. In addition, Competitive Businesses, as defined above, are not tied or limited to any specific geographic location. Accordingly, the scope of this Non-Competition provision is worldwide. The “**Noncompetition Restricted Period**” shall mean the period from the Date of Grant through the second anniversary of the date of termination of the Executive’s employment.

(f) Assistance. The Executive agrees that during and after his employment by the Affiliated Group, upon request by the Company, the Executive will assist the Affiliated Group in the defense of any claims, or potential claims that may be made or threatened to be made against any member of the Affiliated Group in any action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise (a “**Proceeding**”), and will assist the Affiliated Group in the prosecution of any claims that may be made by any member of the Affiliated Group in any Proceeding, to the extent that such claims may relate to the Executive’s employment or the period of the Executive’s employment by the Affiliated Group. The Executive agrees, unless precluded by law, to promptly inform the Company if the Executive is asked to participate (or otherwise become involved) in any Proceeding involving such claims or potential claims. The Executive also agrees, unless precluded by law, to promptly inform the Company if the Executive is asked to assist in any investigation (whether governmental or otherwise) of any member of the Affiliated Group (or their actions), regardless of whether a lawsuit has then been filed against any member of the Affiliated Group with respect to such investigation. The Company agrees to reimburse the Executive for all of the Executive’s reasonable out-of-pocket expenses associated with such assistance, including travel expenses and any attorneys’ fees and shall pay a reasonable per diem fee for the Executive’s service. In addition, the Executive agrees to provide such services as are reasonably requested by the Company to assist any successor to the Executive in the transition of duties and responsibilities to such successor. Any services or assistance contemplated in this Section (f) shall be at mutually agreed to and convenient times.

(g) Remedies. The Executive acknowledges and agrees that the terms of this Exhibit A: (i) are reasonable in geographic and temporal scope, (ii) are necessary to protect legitimate proprietary and business interests of the Affiliated Group in, inter alia, near permanent customer relationships and confidential information. The Executive further acknowledges and agrees that the Executive's breach of the provisions of this Exhibit A will cause the Affiliated Group irreparable harm, which cannot be adequately compensated by money damages. The Executive consents and agrees that the forfeiture provisions contained in the Agreement are reasonable remedies in the event the Executive commits any such breach. If any of the provisions of this Exhibit A are determined to be wholly or partially unenforceable, the Executive hereby agrees that Exhibit A or any provision hereof may be reformed so that it is enforceable to the maximum extent permitted by law. If any of the provisions of this Exhibit A are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Affiliated Group's right to enforce any such covenant in any other jurisdiction.

**FREESCALE SEMICONDUCTOR, LTD.
2011 OMNIBUS INCENTIVE PLAN
FORM PERFORMANCE RESTRICTED SHARE UNIT AWARD AGREEMENT
(Participant)**

THIS AGREEMENT (the “**Agreement**”), is made effective as of the date indicated in the grant summary in the Freescale equity recordkeeping system (the “**Date of Grant**”), by and among Freescale Semiconductor, Ltd., a Bermuda exempted limited liability company (the “**Company**”), the recipient’s employing subsidiary and the recipient of the grant (the “**Participant**”):

RECITALS:

WHEREAS, the Company has adopted the Amended and Restated Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan (the “**Plan**”), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms used but not otherwise defined herein shall have meanings ascribed to such terms in the Plan; and

WHEREAS, the Administrator has determined that it would be in the best interests of the Company and its shareholders to grant the Restricted Share Units provided for herein to the Participant pursuant to the Plan and the terms set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. Grant of Restricted Share Units. The Company hereby grants to the Participant, on the terms and conditions hereinafter set forth, units evidencing a right to receive a target number of Common Shares (or a lesser or greater number of Common Shares, or no Common Shares whatsoever) as indicated in the grant summary in the Freescale equity recordkeeping system, based on the Company’s achievement of the performance goals set forth on Appendix A hereto (the “**Performance Goals**”), which Appendix A is incorporated herein by reference and made a part hereof, all in accordance with the terms and conditions of this Agreement (the “**Restricted Share Units**” or “**Restricted Share Unit Award**”). Shares corresponding to the Restricted Share Units, if any, are to be delivered to the Participant only after the Performance Goals have been achieved and certified as described in Section 3 and the Participant has become vested in the Restricted Share Units pursuant to Section 4 or Section 5 below.
2. Performance Period. For purposes of this Agreement, the term “**Performance Period**” shall refer to January 1, 201_ through December 31, 201_, subject to Section 4(c) below.
3. Performance Goals.

(a) To the extent, if any, the applicable Performance Goals have been achieved for the Performance Period, and subject to compliance with the requirements of Section 4, the Participant will be entitled to receive from 0 to 1.5 (such number, the “**Share Delivery Factor**”) Common Shares for each of the Restricted Share Units under this Agreement.

(b) The Compensation and Leadership Committee of the Company’s Board (the “**Committee**”) shall, as soon as practicable following the last day of the Performance Period, and in any event prior to January 31, 201_, certify (i) the extent to which the Performance Goals have been achieved, if at all, and (ii) the number of whole Common Shares, if any, which the Participant shall be entitled to receive with respect to each Restricted Share Unit granted under this Agreement. In the event the Share Delivery Factor equals zero, the Restricted Share Units granted under this Agreement shall be cancelled. Such certification shall be final, conclusive and binding on the Participant, and on all other persons, to the maximum extent permitted by law.

4. Restrictions and Vesting.

(a) Restrictions and Transferability. The Restricted Share Unit Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Restricted Share Unit Award to heirs or legatees of the Participant shall be effective to bind the Company unless the Administrator shall have been furnished with written notice thereof and a copy of such evidence as the Administrator may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof.

(b) Vesting. Subject to the Participant’s continued employment with the Company, and except as otherwise provided in Sections 4(c) and 5 herein, to the extent that the Performance Goals for the Performance Period have been achieved and certified, the Restricted Share Units delivered under this Agreement, if any, shall vest on the 30th day after the third anniversary of the Date of Grant.

(c) Change in Control.

(i) Notwithstanding anything to the contrary contained in the Plan or in this Agreement, in the event of a Change in Control that occurs before December 31, 201_, the Performance Period shall end on the date of the Change in Control, or another date established at the discretion of the Committee, and the Share Delivery Factor shall be calculated based on the Performance Period as adjusted by this Section 4(c).

(i) Notwithstanding any other provisions of the Plan or this Agreement to the contrary, in the event that the Participant’s employment with the Company is terminated by the Company without Cause within twelve months following a Change in Control, after the

application of Section 4(c)(i) above, all unvested Restricted Share Units shall become immediately vested.

(ii) If the Restricted Share Unit Award is not assumed or substituted in connection with a Change in Control, immediately upon the occurrence of the Change in Control, all unvested Restricted Share Units shall become immediately vested. For purposes of this Section 4(c)(iii), the Restricted Share Unit Award shall be considered assumed or substituted if, following the Change in Control, the Restricted Share Unit Award is of comparable value and remains subject to the same terms and conditions that were applicable to the Restricted Share Unit Award immediately prior to the Change in Control except that the Restricted Share Unit Award instead confers the right to receive common stock of the acquiring entity or in the case of an amalgamation, the amalgamated company or its parent.

(d) Settlement of Restricted Share Units. Shares shall be delivered (provided, that such delivery is otherwise in accordance with federal and state securities laws) with respect to the Restricted Share Units, to the extent then vested, as soon as practicable following the vesting date, but in no event later than the 60th day following the vesting date.

(e) No Shareholder Rights. The Participant shall have no rights of a shareholder of the Company with respect to the Restricted Share Units, including, but not limited to, the rights to vote and receive ordinary dividends, until the settlement date of the Restricted Share Units. In the event that the Administrator approves an adjustment to the Restricted Share Unit Award pursuant to Section 5 of the Plan, then in such event, any and all new, substituted or additional securities to which Participant is entitled by reason of the Restricted Share Unit Award shall be immediately subject to the restrictions and the Vesting Period set forth in Sections 4(a) and (b) above with the same force and effect as the Restricted Share Unit Award subject to such restrictions immediately before such event.

5. Termination of Employment.

(a) General. If the Participant's employment is terminated for any reason, other than death, Disability or after a Change in Control, the Restricted Share Unit Award shall, to the extent not then vested (after giving effect to the provisions of this Section 5), terminate upon such termination of employment.

(b) Death or Disability. Upon the Participant's termination of employment due to the Participant's death or Disability, (i) prior to the first anniversary of the Date of Grant, the entire Restricted Share Unit Award shall be forfeited; and (ii) after the first anniversary of the Date of Grant, the Restricted Share Unit Award shall become vested for a number of Shares equal to the number of Shares subject to the Restricted Share Unit Award multiplied by a fraction, the numerator of which equals the number of days elapsed from the grant date and the denominator of which equals 1,096, with a deemed Share Delivery Factor of 1.0 for the Performance Period, subject to the maximum of the total number of Shares subject to the Restricted Share Unit Award.

6. No Right to Continued Employment. The granting of the Restricted Share Unit Award evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the employment of the Participant and shall not lessen or affect the Company's or its Affiliate's right to terminate the employment of such Participant. The granting of the Restricted Share Unit Award does not form part of and should in no way be construed as a term or condition of employment. At all times, the Restricted Share Unit Award granted hereunder is discretionary and does not imply that additional Restricted Share Unit Awards will be awarded in the future.

7. Restricted Share Unit Award Not Wages. The value of any Restricted Share Unit Award granted to Participant does not constitute and will not be included as wages for the purposes of calculating any benefit or bonus provided by the Company or the Participant's employing subsidiary.

8. Withholding. The Participant will be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold from any payment due or transfer made under the Restricted Share Unit Award or under the Plan or from any compensation or other amount owing to the Participant the amount (in cash, Shares, other securities or other property) of any applicable withholding taxes in respect of the Restricted Share Unit Award or any payment or transfer under or with respect to the Restricted Share Unit Award or the Plan and to take such other action as may be necessary in the opinion of the Administrator to satisfy all obligations for the payment of such withholding taxes.

9. Certain Covenants. The Participant hereby agrees and covenants to perform all of the obligations set forth below (the "Covenants") and acknowledges that the Participant's obligations set forth below constitute a material inducement for the Company's grant of the Restricted Share Unit to the Participant.

(a) Confidential Information. The Participant recognizes and agrees that the Affiliated Group (defined below) has provided Confidential Information to the Participant and has an interest in protecting this information from disclosure. The Participant shall hold in a fiduciary capacity for the benefit of the Company and its Affiliates (collectively, the "**Affiliated Group**"), all secret or confidential information, knowledge or data relating to the Affiliated Group and its businesses (including, without limitation, any proprietary and not publicly available information concerning any processes, methods, trade secrets, research or secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Participant obtains during the Participant's employment that is not public knowledge (other than as a result of the Participant's violation of this Section (a)) ("**Confidential Information**"). The Participant shall not communicate, divulge or disseminate Confidential Information at any time during or after the Participant's employment, except with the prior written consent of the Company, or as otherwise required by law or legal process or as such disclosure or use may be required in the course of the Participant performing his duties and responsibilities with the Affiliated Group. Notwithstanding the foregoing provisions, if the Participant is required to disclose any such confidential or proprietary information pursuant to applicable law or a subpoena or court order, the Participant

shall promptly notify the Company in writing of any such requirement prior to disclosure so that the Company or the appropriate member of the Affiliated Group may seek an appropriate protective order or other appropriate remedy or waive compliance with the provisions hereof. The Participant shall reasonably cooperate with the Company or the appropriate member of the Affiliated Group to obtain such a protective order or other remedy. If such order or other remedy is not obtained prior to the time the Participant is required to make the disclosure, or the Company waives compliance with the provisions hereof, the Participant shall disclose only that portion of the confidential or proprietary information which he is advised by counsel in writing (either his or the Company's) that he is legally required to so disclose. Upon his termination of employment for any reason, the Participant shall promptly return to the Company all records, files, memoranda, correspondence, notebooks, notes, reports, customer lists, drawings, plans, documents, and other documents and the like relating to the business of the Affiliated Group or containing any trade secrets relating to the Affiliated Group or that the Participant uses, prepares or comes into contact with during the course of the Participant's employment with the Affiliated Group, and all keys, credit cards and passes, and such materials shall remain the sole property of the Affiliated Group. The Participant agrees to execute any standard-form confidentiality agreements with the Company that the Company in the future generally enters into with similarly situated employees.

(b) Work Product and Inventions. The Affiliated Group and/or its nominees or assigns shall own all right, title and interest in and to any and all inventions, ideas, trade secrets, technology, devices, discoveries, improvements, processes, developments, designs, know how, show-how, data, computer programs, algorithms, formulae, works of authorship, works modifications, trademarks, trade names, documentation, techniques, designs, methods, trade secrets, technical specifications, technical data, concepts, expressions, patents, patent rights, copyrights, moral rights, and all other intellectual property rights or other developments whatsoever (collectively, "**Developments**"), whether or not patentable, reduced to practice or registerable under patent, copyright, trademark or other intellectual property law anywhere in the world, made, authored, discovered, reduced to practice, conceived, created, developed or otherwise obtained by the Participant (alone or jointly with others) during the Participant's employment with the Affiliated Group, and arising from or relating to such employment or the business of the Affiliated Group (whether during business hours or otherwise, and whether on the premises of using the facilities or materials of the Affiliated Group or otherwise). The Participant shall promptly and fully disclose to the Affiliated Group and to no one else all Developments, and hereby assigns to the Affiliated Group without further compensation all right, title and interest the Participant has or may have in any Developments, and all patents, copyrights, or other intellectual property rights relating thereto, and agrees that the Participant has not acquired and shall not acquire any rights during the course of his employment with the Affiliated Group or thereafter with respect to any Developments.

(c) Company Goodwill. The Participant recognizes and acknowledges that the Affiliated Group has and continues to develop goodwill of substantial value through efforts of employees, including the Participant. This goodwill includes, but is not limited to, the identity and skill sets of its employees, its relationships with employees and customers, intangible value attributable to its products created by Participant and others, and the Affiliated Group's brand and

reputation within the industry. Participant shall take no action to damage the goodwill of the Affiliated Group (including disparaging the Affiliated Group or any of their respective directors, officers, executives, employees, agents or other representatives) or use it for personal benefit or the benefit of competitors of the Affiliated Group.

(d) Remedies. The Participant acknowledges and agrees that the terms of these Covenants which are necessary to protect legitimate proprietary and business interests of the Affiliated Group in, inter alia, near permanent customer relationships and confidential information. The Participant further acknowledges and agrees that the Participant's breach of these Covenants will cause the Affiliated Group irreparable harm, which cannot be adequately compensated by money damages. If any of the Covenants are determined to be wholly or partially unenforceable, the Participant hereby agrees that these Covenants or any provision hereof may be reformed so that it is enforceable to the maximum extent permitted by law. If any of the provisions of these Covenants are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Affiliated Group's right to enforce any such covenant in any other jurisdiction.

10. Securities Laws. The issuance of any Shares hereunder shall be subject to the Participant making or entering into such written representations, warranties and agreements as the Administrator may reasonably request in order to comply with applicable securities laws and government regulations. Further, residents of Brazil, the European Economic Area, Hong Kong, Romania and the United Kingdom are directed to review the legends included on Exhibit A to this Agreement.

11. No Public Offering. The Restricted Share Units awarded under the Plan and this Agreement will not be publicly issued, placed, distributed or offered. The issuance of any Restricted Share Units hereunder does not constitute a public offering of securities.

12. Consent to Transfer of Data. By accepting the Restricted Share Unit Award, Participant consents to the transfer of personal data (including but not limited to the employee's name, address, birth date and hire date) and to the processing of this personal data by the Company and the provider of the Freescale equity recordkeeping system.

13. Notices. Any notice necessary under this Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the Participant at the address appearing in the personnel records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

14. Governing Law. This Agreement and all claims arising out of or based upon this Agreement or relating to the subject matter hereof shall be governed by and construed in accordance with the domestic substantive laws of the State of Delaware without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

15. Consent to Jurisdiction. All actions arising out of or relating to this Agreement shall be heard and determined exclusively in any New York state or federal court sitting in the Borough of Manhattan in The City of New York. The parties hereto hereby (a) submit to the exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan of The City of New York for the purpose of any action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune of from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or that this Agreement or the transactions contemplated hereby may not be enforced in or by any of the above-named courts.

16. Restricted Share Unit Award Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Restricted Share Unit Award is subject to the Plan, as may be amended from time to time, and the terms and provisions of the Plan are hereby incorporated herein by reference.

17. Acceptance. This Agreement must be accepted by electronic signature of the Participant in the Freescale equity recordkeeping system or the Participant will have no right to the Restricted Share Unit Award provided for in this Agreement. By accepting this Agreement the Participant consents to the electronic delivery through the Freescale equity recordkeeping system of all documents related to this Restricted Share Unit Award.

Appendix A

Performance Goals

Relative TSR Percentile Rank	Share Delivery Factor
< 25%	0%
25%	0.25
50%	1.00
75%	1.50
> 75%	1.50

1) Definitions.

The following definitions shall be applicable to the Performance Goals and Agreement. Capitalized terms used but not otherwise defined herein shall have meanings ascribed to such terms in the Plan.

(a) “Relative Total Shareholder Return” or “Relative TSR” means the Company’s TSR compared to the Peer Companies TSR on a relative basis. The Company and the Peer Companies from highest to lowest according to their respective TSRs will determine Relative TSR. After this ranking, the percentile performance of the Company relative to the Peer Companies will be determined using the *Percentrank* formula in Microsoft Excel.

(b) “Total Shareholder Return” or “TSR” means for the Company and each of the Peer Companies, the company’s Total Shareholder Return, which will be calculated by dividing (i) the Closing Average Share Value by (ii) the Opening Average Share Value, and then subtracting one (1).

(c) “Closing Average Share Value” means for the Company and each of the Peer Companies, the average, over the days in the Closing Average Period, of the closing price of its common stock or common shares, multiplied by the Accumulated Shares for each day during the Closing Average Period.

(d) “Closing Average Period” means (i) in the absence of a Change in Control, the one month period ending on the last day of the Performance Period, or (ii) in the case of a

Change in Control, the one month period ending five (5) days prior to Change in Control, or another date established at the discretion of the Committee.

(e) “Opening Average Share Value” means for each of the Peer Companies and the Company, the average, over the days in the Opening Average Period, of the closing price of its common stock or common shares, multiplied by the Accumulated Shares for each day during the Opening Average Period.

(f) “Opening Average Period” means the one month period ending prior to the first day of the Performance Period.

(g) “Accumulated Shares” means, for a given day, and for the Company or a given Peer Company, the sum of (i) one share of common stock of the applicable Company, plus (ii) a cumulative number of shares of common stock purchased with dividends declared on the common stock, assuming same day reinvestment of the dividends into shares of common stock at the closing price on the ex-dividend date, for ex-dividend dates during the Opening Average Period or for the period between December 31, 201_ and the last day of the Closing Averaging Period, as the case may be.

(h) “Peer Companies” means the companies established by the Committee for purposes of calculating TSR, to include Advanced Micro Devices, Inc., Altera Corporation, Analog Devices, Inc., Applied Materials, Inc., Atmel Corporation, Avago Technologies, Broadcom Corporation, Infineon Technologies, Linear Technology Corporation, Marvel Technology Group, Maxim Integrated Products, Inc., Microchip Technology, Inc., Micron Technology, Inc., NXP Semiconductors, NVIDIA Corporation, On Semiconductor, Sandisk Corporation, ST Microelectronics, Texas Instruments and Xilinx, Inc. Any peer company shares traded on a foreign exchange will be converted to US dollars. In the event of a merger, acquisition or business combination transaction of a Peer Company with or by another Peer Company, the surviving entity shall remain a Peer Company. In the event of a merger of a Peer Company with an entity that is not a Peer Company, or the acquisition or business combination transaction by or with a Peer Company, or with an entity that is not a Peer Company, in each case where the Peer Company is the surviving entity and remains publicly traded, the surviving entity shall remain a Peer Company. In the event of a merger or acquisition or business combination transaction of a Peer Company by or with an entity that is not a Peer Company, a “going private” transaction involving a Peer Company or the liquidation of a Peer Company, where the Peer Company is not the surviving entity or is otherwise no longer publicly traded, the company shall no longer be a Peer Company.

EXHIBIT A

Country Specific Securities Law and Other Legends

Residents of Brazil, please see the following legend:

The securities granted under the Plan and this Agreement have not been and will not be publicly issued, placed, distributed, offered or negotiated in the Brazilian capital markets and, as a result, will not be registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários, the CVM). Therefore, the securities granted under the Plan and Agreement will not be offered or sold in Brazil, except in circumstances which do not constitute a public offering, placement, distribution or negotiation under the Brazilian capital markets regulation.

Residents of European Economic Area, please see the following legend:

Nothing in this Agreement constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so. The Shares which are the subject of this Agreement are offered to the Participant only. They may not be offered or sold within a member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") except pursuant to an exemption from, or in a transaction not subject to the prospectus requirements of the Prospectus Directive and the securities laws applicable in the Relevant Member State.

In relation to each Relevant Member State, neither the Company nor the Participant's employing subsidiary has made, intends or will make an offer of the Shares which are the subject of this Agreement to the public in that Relevant Member State other than a potential offer contemplated in a prospectus that has been approved by the competent authority of the Relevant Member State, published and/or notified to the relevant competent authorities in accordance with the Prospectus Directive, except that the Company may make an offer of such Shares to the public in that Relevant Member State:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to

obtaining the prior consent of the relevant recipient or recipients nominated by the Company for any such offer; or

- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Shares shall require the Company or any Participant to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression of an offer of Shares to the public in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase or subscribe the Shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

Residents of Hong Kong, please see the following legend:

WARNING: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Residents of Romania, please see the following legend:

For the purpose of implementing the Plan, the personal data collected from you may be subject to processing by Freescale Semiconductor Romania SRL, such entity standing as data controller. In the context of Plan implementation, your personal data may be transferred to Freescale Semiconductor, Ltd., in Bermuda and Freescale Semiconductor, Inc., in the United States. Providing the personal data required for the implementation of the Plan is mandatory, the refusal to do so impeding you to participate in the benefits thereof.

In connection with your personal data which is subject to processing, you have the right to access and to intervene upon such data, as well as to object to any further processing, in the conditions prescribed by law. You also have the right not to be subjected to automated individual decisions, as well as to access the courts of law. You may contact your Human Resources representative for more information on the processing of your personal data

in the context of the Plan implementation (including information on exercising your rights related to data processing).

Residents of the United Kingdom, please see the following legend:

This Award Agreement is being issued in the United Kingdom pursuant to regulation 60 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is being issued solely to employees of Freescale Semiconductor, Ltd., and companies within its group (as defined by the Financial Services and Markets Act 2000) and may not be issued to or relied upon by any other person (other than personal representatives of such employees on death).

FREESCALE SEMICONDUCTOR, LTD.
2011 OMNIBUS INCENTIVE PLAN
FORM PERFORMANCE RESTRICTED SHARE UNIT AWARD AGREEMENT
(Vice President)

THIS AGREEMENT (the “**Agreement**”), is made effective as of the date indicated in the grant summary in the Freescale equity recordkeeping system (the “**Date of Grant**”), by and among Freescale Semiconductor, Ltd., a Bermuda exempted limited liability company (the “**Company**”), the recipient’s employing subsidiary and the recipient of the grant (the “**Participant**”):

RECITALS:

WHEREAS, the Company has adopted the Amended and Restated Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan (the “**Plan**”), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms used but not otherwise defined herein shall have meanings ascribed to such terms in the Plan; and

WHEREAS, the Administrator has determined that it would be in the best interests of the Company and its shareholders to grant the Restricted Share Units provided for herein to the Participant pursuant to the Plan and the terms set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. Grant of Restricted Share Units. The Company hereby grants to the Participant, on the terms and conditions hereinafter set forth, units evidencing a right to receive a target number of Common Shares (or a lesser or greater number of Common Shares, or no Common Shares whatsoever) as indicated in the grant summary in the Freescale equity recordkeeping system, based on the Company’s achievement of the performance goals set forth on Appendix A hereto (the “**Performance Goals**”), which Appendix A is incorporated herein by reference and made a part hereof, all in accordance with the terms and conditions of this Agreement (the “**Restricted Share Units**” or “**Restricted Share Unit Award**”). Shares corresponding to the Restricted Share Units, if any, are to be delivered to the Participant only after the Performance Goals have been achieved and certified as described in Section 3 and the Participant has become vested in the Restricted Share Units pursuant to Section 4 or Section 5 below.
2. Performance Period. For purposes of this Agreement, the term “**Performance Period**” shall refer to January 1, 201_ through December 31, 201_, subject to Section 4(c) below.
3. Performance Goals.

(a) To the extent, if any, the applicable Performance Goals have been achieved for the Performance Period, and subject to compliance with the requirements of Section 4, the Participant will be entitled to receive from 0 to 1.5 (such number, the “**Share Delivery Factor**”) Common Shares for each of the Restricted Share Units under this Agreement.

(b) The Compensation and Leadership Committee of the Company’s Board (the “**Committee**”) shall, as soon as practicable following the last day of the Performance Period, and in any event prior to January 31, 201_, certify (i) the extent to which the Performance Goals have been achieved, if at all, and (ii) the number of whole Common Shares, if any, which the Participant shall be entitled to receive with respect to each Restricted Share Unit granted under this Agreement. In the event the Share Delivery Factor equals zero, the Restricted Share Units granted under this Agreement shall be cancelled. Such certification shall be final, conclusive and binding on the Participant, and on all other persons, to the maximum extent permitted by law.

4. Restrictions and Vesting.

(a) Restrictions and Transferability. The Restricted Share Unit Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Restricted Share Unit Award to heirs or legatees of the Participant shall be effective to bind the Company unless the Administrator shall have been furnished with written notice thereof and a copy of such evidence as the Administrator may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof.

(b) Vesting. Subject to the Participant’s continued employment with the Company, and except as otherwise provided in Sections 4(c) and 5 herein, to the extent that the Performance Goals for the Performance Period have been achieved and certified, the Restricted Share Units delivered under this Agreement, if any, shall vest on the 30th day after the third anniversary of the Date of Grant.

(c) Change in Control.

(i) Notwithstanding anything to the contrary contained in the Plan or in this Agreement, in the event of a Change in Control that occurs before December 31, 201_, the Performance Period shall end on the date of the Change in Control, or another date established at the discretion of the Committee, and the Share Delivery Factor shall be calculated based on the Performance Period as adjusted by this Section 4(c).

(i) Notwithstanding any other provisions of the Plan or this Agreement to the contrary, in the event that the Participant’s employment with the Company is terminated by the Company without Cause within twelve months following a Change in Control, after the

application of Section 4(c)(i) above, all unvested Restricted Share Units shall become immediately vested.

(ii) If the Restricted Share Unit Award is not assumed or substituted in connection with a Change in Control, immediately upon the occurrence of the Change in Control, all unvested Restricted Share Units shall become immediately vested. For purposes of this Section 4(c)(iii), the Restricted Share Unit Award shall be considered assumed or substituted if, following the Change in Control, the Restricted Share Unit Award is of comparable value and remains subject to the same terms and conditions that were applicable to the Restricted Share Unit Award immediately prior to the Change in Control except that the Restricted Share Unit Award instead confers the right to receive common stock of the acquiring entity or in the case of an amalgamation, the amalgamated company or its parent.

(d) Settlement of Restricted Share Units. Shares shall be delivered (provided, that such delivery is otherwise in accordance with federal and state securities laws) with respect to the Restricted Share Units, to the extent then vested, as soon as practicable following the vesting date, but in no event later than the 60th day following the vesting date.

(e) No Shareholder Rights. The Participant shall have no rights of a shareholder of the Company with respect to the Restricted Share Units, including, but not limited to, the rights to vote and receive ordinary dividends, until the settlement date of the Restricted Share Units. In the event that the Administrator approves an adjustment to the Restricted Share Unit Award pursuant to Section 5 of the Plan, then in such event, any and all new, substituted or additional securities to which Participant is entitled by reason of the Restricted Share Unit Award shall be immediately subject to the restrictions and the Vesting Period set forth in Sections 4(a) and (b) above with the same force and effect as the Restricted Share Unit Award subject to such restrictions immediately before such event.

5. Termination of Employment.

(a) General. If the Participant's employment is terminated for any reason, other than death, Disability or after a Change in Control, the Restricted Share Unit Award shall, to the extent not then vested (after giving effect to the provisions of this Section 5), terminate upon such termination of employment.

(b) Death or Disability. Upon the Participant's termination of employment due to the Participant's death or Disability, (i) prior to the first anniversary of the Date of Grant, the entire Restricted Share Unit Award shall be forfeited; and (ii) after the first anniversary of the Date of Grant, the Restricted Share Unit Award shall become vested for a number of Shares equal to the number of Shares subject to the Restricted Share Unit Award multiplied by a fraction, the numerator of which equals the number of days elapsed from the grant date and the denominator of which equals 1,096, with a deemed Share Delivery Factor of 1.0 for the Performance Period, subject to the maximum of the total number of Shares subject to the Restricted Share Unit Award.

6. No Right to Continued Employment. The granting of the Restricted Share Unit Award evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the employment of the Participant and shall not lessen or affect the Company's or any Affiliate's right to terminate the employment of such Participant. The granting of the Restricted Share Unit Award does not form part of and should in no way be construed as a term or condition of employment. At all times, the Restricted Share Unit Award granted hereunder is discretionary and does not imply that additional Restricted Share Unit Awards will be awarded in the future.

7. Restricted Share Unit Award Not Wages. The value of any Restricted Share Unit Award granted to Participant does not constitute and will not be included as wages for the purposes of calculating any benefit or bonus provided by the Company or the Participant's employing subsidiary.

8. Withholding. The Participant will be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold from any payment due or transfer made under the Restricted Share Unit Award or under the Plan or from any compensation or other amount owing to the Participant the amount (in cash, Shares, other securities or other property) of any applicable withholding taxes in respect of the Restricted Share Unit Award or any payment or transfer under or with respect to the Restricted Share Unit Award or the Plan and to take such other action as may be necessary in the opinion of the Administrator to satisfy all obligations for the payment of such withholding taxes.

9. Certain Covenants. The Participant hereby agrees and covenants to perform all of the obligations set forth below (the "Covenants") and acknowledges that the Participant's obligations set forth below constitute a material inducement for the Company's grant of the Restricted Share Unit to the Participant.

(a) Confidential Information. The Participant recognizes and agrees that the Affiliated Group (defined below) has provided Confidential Information to the Executive and has an interest in protecting this information from disclosure. The Participant shall hold in a fiduciary capacity for the benefit of the Company and its Affiliates (collectively, the "**Affiliated Group**"), all secret or confidential information, knowledge or data relating to the Affiliated Group and its businesses (including, without limitation, any proprietary and not publicly available information concerning any processes, methods, trade secrets, research or secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Participant obtains during the Participant's employment that is not public knowledge (other than as a result of the Participant's violation of this Section (a)) ("**Confidential Information**"). The Participant shall not communicate, divulge or disseminate Confidential Information at any time during or after the Participant's employment, except with the prior written consent of the Company, or as otherwise required by law or legal process or as such disclosure or use may be required in the course of the Participant performing his duties and responsibilities with the Affiliated Group. Notwithstanding the foregoing provisions, if the Participant is required to disclose any such confidential or proprietary information pursuant to applicable law or a subpoena or court order, the Participant

shall promptly notify the Company in writing of any such requirement prior to disclosure so that the Company or the appropriate member of the Affiliated Group may seek an appropriate protective order or other appropriate remedy or waive compliance with the provisions hereof. The Participant shall reasonably cooperate with the Company or the appropriate member of the Affiliated Group to obtain such a protective order or other remedy. If such order or other remedy is not obtained prior to the time the Participant is required to make the disclosure, or the Company waives compliance with the provisions hereof, the Participant shall disclose only that portion of the confidential or proprietary information which he is advised by counsel in writing (either his or the Company's) that he is legally required to so disclose. Upon his termination of employment for any reason, the Participant shall promptly return to the Company all records, files, memoranda, correspondence, notebooks, notes, reports, customer lists, drawings, plans, documents, and other documents and the like relating to the business of the Affiliated Group or containing any trade secrets relating to the Affiliated Group or that the Participant uses, prepares or comes into contact with during the course of the Participant's employment with the Affiliated Group, and all keys, credit cards and passes, and such materials shall remain the sole property of the Affiliated Group. The Participant agrees to execute any standard-form confidentiality agreements with the Company that the Company in the future generally enters into with similarly situated Participants.

(b) Work Product and Inventions. The Affiliated Group and/or its nominees or assigns shall own all right, title and interest in and to any and all inventions, ideas, trade secrets, technology, devices, discoveries, improvements, processes, developments, designs, know how, show-how, data, computer programs, algorithms, formulae, works of authorship, works modifications, trademarks, trade names, documentation, techniques, designs, methods, trade secrets, technical specifications, technical data, concepts, expressions, patents, patent rights, copyrights, moral rights, and all other intellectual property rights or other developments whatsoever (collectively, "**Developments**"), whether or not patentable, reduced to practice or registerable under patent, copyright, trademark or other intellectual property law anywhere in the world, made, authored, discovered, reduced to practice, conceived, created, developed or otherwise obtained by the Participant (alone or jointly with others) during the Participant's employment with the Affiliated Group, and arising from or relating to such employment or the business of the Affiliated Group (whether during business hours or otherwise, and whether on the premises of using the facilities or materials of the Affiliated Group or otherwise). The Participant shall promptly and fully disclose to the Affiliated Group and to no one else all Developments, and hereby assigns to the Affiliated Group without further compensation all right, title and interest the Participant has or may have in any Developments, and all patents, copyrights, or other intellectual property rights relating thereto, and agrees that the Participant has not acquired and shall not acquire any rights during the course of his employment with the Affiliated Group or thereafter with respect to any Developments.

(c) Company Goodwill. The Participant recognizes and acknowledges that the Affiliated Group has and continues to develop goodwill of substantial value through efforts of employees, including the Participant. This goodwill includes, but is not limited to, the identity and skill sets of its employees, its relationships with employees and customers, intangible value attributable to its products created by Participant and others, and the Affiliated Group's brand and

reputation within the industry. Participant shall take no action to damage the goodwill of the Affiliated Group (including disparaging the Affiliated Group or any of their respective directors, officers, executives, employees, agents or other representatives) or use it for personal benefit or the benefit of competitors of the Affiliated Group.

(d) Non-Recruitment of Affiliated Group Employees. The Participant acknowledges that employees are a significant part of the goodwill of the Affiliated Group, such as, without limitation, their relationships and contacts with customers and suppliers as well as the training and knowledge they receive from the Affiliated Group in the course of their employment. The Participant shall not, at any time during the Non-solicitation Restricted Period (as defined below), other than in the ordinary exercise of his duties while employed by the Affiliate Group, without the prior written consent of the Affiliated Group, directly or indirectly, solicit, recruit, or employ (whether as an employee, officer, agent, consultant or independent contractor) any person who is or was at any time during the previous 12 months, an employee, representative, officer or director of any member of the Affiliated Group. Further, during the Non-solicitation Restricted Period, the Participant shall not take any action that could reasonably be expected to have the effect of directly encouraging or inducing any person to cease their relationship with any member of the Affiliated Group for any reason. A general employment advertisement by an entity of which the Participant is a part will not constitute solicitation or recruitment. The “**Non-solicitation Restricted Period**” shall mean the period from the Date of Grant through the first anniversary of the Participant’s termination of employment.

(e) Non-Competition – Solicitation of Business. Participant recognizes and agrees that the Affiliated Group has provided Confidential Information to Participant and has an interest in protecting this information from disclosure. Participant further understands that the goodwill of the Affiliated Group is an interest worthy of protection. For the protection of these and other interests, during the Non-competition Restricted Period (as defined below), the Participant shall not, either directly or indirectly, compete with the business of the Affiliated Group by (i) becoming an officer, agent, employee, partner or director of any other corporation, partnership or other entity, or otherwise render services to or assist or hold an interest (except as a less than 3-percent shareholder of a publicly traded corporation or as a less than 5-percent shareholder of a corporation that is not publicly traded) in any Competitive Business (as defined below), or (ii) soliciting, servicing, or accepting the business of (A) any active customer of any member of the Affiliated Group, or (B) any person or entity who is or was at any time during the previous twelve months a customer of any member of the Affiliated Group, provided that such business is competitive with any significant business of any member of the Affiliated Group. “**Competitive Business**” shall mean any person or entity (including any joint venture, partnership, firm, corporation, or limited liability company) that conducts a business that is competitive with any significant business of the Affiliated Group as of the date of termination (or any significant business that is being actively pursued as of the date of termination by the Affiliated Group). The Affiliated Group designs, manufactures, sells and licenses its products and technology worldwide. In addition, Competitive Businesses, as defined above, are not tied or limited to any specific geographic location. Accordingly, the scope of this Non-Competition provision is worldwide. The “**Noncompetition Restricted Period**” shall mean the period from

the Date of Grant through the first anniversary of the date of termination of the Participant's employment.

(f) Assistance. The Participant agrees that during and after his employment by the Affiliated Group, upon request by the Company, the Participant will assist the Affiliated Group in the defense of any claims, or potential claims that may be made or threatened to be made against any member of the Affiliated Group in any action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise (a "**Proceeding**"), and will assist the Affiliated Group in the prosecution of any claims that may be made by any member of the Affiliated Group in any Proceeding, to the extent that such claims may relate to the Participant's employment or the period of the Participant's employment by the Affiliated Group. The Participant agrees, unless precluded by law, to promptly inform the Company if the Participant is asked to participate (or otherwise become involved) in any Proceeding involving such claims or potential claims. The Participant also agrees, unless precluded by law, to promptly inform the Company if the Participant is asked to assist in any investigation (whether governmental or otherwise) of any member of the Affiliated Group (or their actions), regardless of whether a lawsuit has then been filed against any member of the Affiliated Group with respect to such investigation. The Company agrees to reimburse the Participant for all of the Participant's reasonable out-of-pocket expenses associated with such assistance, including travel expenses and any attorneys' fees and shall pay a reasonable per diem fee for the Participant's service. In addition, the Participant agrees to provide such services as are reasonably requested by the Company to assist any successor to the Participant in the transition of duties and responsibilities to such successor. Any services or assistance contemplated in this Section (f) shall be at mutually agreed to and convenient times.

(g) Remedies. The Participant acknowledges and agrees that the terms of these Covenants which are necessary to protect legitimate proprietary and business interests of the Affiliated Group in, inter alia, near permanent customer relationships and confidential information. The Participant further acknowledges and agrees that the Participant's breach of these Covenants will cause the Affiliated Group irreparable harm, which cannot be adequately compensated by money damages. If any of the Covenants are determined to be wholly or partially unenforceable, the Participant hereby agrees that these Covenants or any provision hereof may be reformed so that it is enforceable to the maximum extent permitted by law. If any of the provisions of these Covenants are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Affiliated Group's right to enforce any such covenant in any other jurisdiction.

10. Securities Laws. The issuance of any Shares hereunder shall be subject to the Participant making or entering into such written representations, warranties and agreements as the Administrator may reasonably request in order to comply with applicable securities laws and government regulations. Further, residents of Brazil, the European Economic Area, Hong Kong, Romania and the United Kingdom are directed to review the legends included on Exhibit A to this Agreement.

11. No Public Offering. The Restricted Share Units awarded under the Plan and this Agreement will not be publicly issued, placed, distributed or offered. The issuance of any Restricted Share Units hereunder does not constitute a public offering of securities.

12. Consent to Transfer of Data. By accepting the Restricted Share Unit Award, Participant consents to the transfer of personal data (including but not limited to the employee's name, address, birth date and hire date) and to the processing of this personal data by the Company and the provider of the Freescale equity recordkeeping system.

13. Notices. Any notice necessary under this Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the Participant at the address appearing in the personnel records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

14. Governing Law. This Agreement and all claims arising out of or based upon this Agreement or relating to the subject matter hereof shall be governed by and construed in accordance with the domestic substantive laws of the State of Delaware without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

15. Consent to Jurisdiction. All actions arising out of or relating to this Agreement shall be heard and determined exclusively in any New York state or federal court sitting in the Borough of Manhattan in The City of New York. The parties hereto hereby (a) submit to the exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan of The City of New York for the purpose of any action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune of from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or that this Agreement or the transactions contemplated hereby may not be enforced in or by any of the above-named courts.

16. Restricted Share Unit Award Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Restricted Share Unit Award is subject to the Plan, as may be amended from time to time, and the terms and provisions of the Plan are hereby incorporated herein by reference.

17. Acceptance. This Agreement must be accepted by electronic signature of the Participant in the Freescale equity recordkeeping system or the Participant will have no right to the Restricted Share Unit Award provided for in this Agreement. By accepting this Agreement the Participant consents to the electronic delivery through the Freescale equity recordkeeping system of all documents related to this Restricted Share Unit Award.

Clawback. The Restricted Share Unit Award shall be subject to the Company’s clawback policy, as it may be amended from time to time. The Company will amend its clawback policy, as needed, to the extent that the Securities and Exchange Commission adopts the final implementing rules regarding compensation clawbacks mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Appendix A

Performance Goals

Relative TSR Percentile Rank	Share Delivery Factor
< 25%	0%
25%	0.25
50%	1.00
75%	1.50
> 75%	1.50

1) Definitions.

The following definitions shall be applicable to the Performance Goals and Agreement. Capitalized terms used but not otherwise defined herein shall have meanings ascribed to such terms in the Plan.

(a) “Relative Total Shareholder Return” or “Relative TSR” means the Company’s TSR compared to the Peer Companies TSR on a relative basis. The Company and the Peer Companies from highest to lowest according to their respective TSRs will determine Relative TSR. After this ranking, the percentile performance of the Company relative to the Peer Companies will be determined using the *Percentrank* formula in Microsoft Excel.

(b) “Total Shareholder Return” or “TSR” means for the Company and each of the Peer Companies, the company’s Total Shareholder Return, which will be calculated by dividing (i) the Closing Average Share Value by (ii) the Opening Average Share Value, and then subtracting one (1).

(c) “Closing Average Share Value” means for the Company and each of the Peer Companies, the average, over the days in the Closing Average Period, of the closing price of its common stock or common shares, multiplied by the Accumulated Shares for each day during the Closing Average Period.

(d) “Closing Average Period” means (i) in the absence of a Change in Control, the one month period ending on the last day of the Performance Period, or (ii) in the case of a

Change in Control, the one month period ending five (5) days prior to Change in Control, or another date established at the discretion of the Committee.

(e) “Opening Average Share Value” means for each of the Peer Companies and the Company, the average, over the days in the Opening Average Period, of the closing price of its common stock or common shares, multiplied by the Accumulated Shares for each day during the Opening Average Period.

(f) “Opening Average Period” means the one month period ending prior to the first day of the Performance Period.

(g) “Accumulated Shares” means, for a given day, and for the Company or a given Peer Company, the sum of (i) one share of common stock of the applicable Company, plus (ii) a cumulative number of shares of common stock purchased with dividends declared on the common stock, assuming same day reinvestment of the dividends into shares of common stock at the closing price on the ex-dividend date, for ex-dividend dates during the Opening Average Period or for the period between December 31, 201_ and the last day of the Closing Averaging Period, as the case may be.

(h) “Peer Companies” means the companies established by the Committee for purposes of calculating TSR, to include Advanced Micro Devices, Inc., Altera Corporation, Analog Devices, Inc., Applied Materials, Inc., Atmel Corporation, Avago Technologies, Broadcom Corporation, Infineon Technologies, Linear Technology Corporation, Marvel Technology Group, Maxim Integrated Products, Inc., Microchip Technology, Inc., Micron Technology, Inc., NXP Semiconductors, NVIDIA Corporation, On Semiconductor, Sandisk Corporation, ST Microelectronics, Texas Instruments and Xilinx, Inc. Any peer company shares traded on a foreign exchange will be converted to US dollars. In the event of a merger, acquisition or business combination transaction of a Peer Company with or by another Peer Company, the surviving entity shall remain a Peer Company. In the event of a merger of a Peer Company with an entity that is not a Peer Company, or the acquisition or business combination transaction by or with a Peer Company, or with an entity that is not a Peer Company, in each case where the Peer Company is the surviving entity and remains publicly traded, the surviving entity shall remain a Peer Company. In the event of a merger or acquisition or business combination transaction of a Peer Company by or with an entity that is not a Peer Company, a “going private” transaction involving a Peer Company or the liquidation of a Peer Company, where the Peer Company is not the surviving entity or is otherwise no longer publicly traded, the company shall no longer be a Peer Company.

EXHIBIT A

Country Specific Securities Law and Other Legends

Residents of Brazil, please see the following legend:

The securities granted under the Plan and this Agreement have not been and will not be publicly issued, placed, distributed, offered or negotiated in the Brazilian capital markets and, as a result, will not be registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários, the CVM). Therefore, the securities granted under the Plan and Agreement will not be offered or sold in Brazil, except in circumstances which do not constitute a public offering, placement, distribution or negotiation under the Brazilian capital markets regulation.

Residents of European Economic Area, please see the following legend:

Nothing in this Agreement constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so. The Shares which are the subject of this Agreement are offered to the Participant only. They may not be offered or sold within a member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") except pursuant to an exemption from, or in a transaction not subject to the prospectus requirements of the Prospectus Directive and the securities laws applicable in the Relevant Member State.

In relation to each Relevant Member State, neither the Company nor the Participant's employing subsidiary has made, intends or will make an offer of the Shares which are the subject of this Agreement to the public in that Relevant Member State other than a potential offer contemplated in a prospectus that has been approved by the competent authority of the Relevant Member State, published and/or notified to the relevant competent authorities in accordance with the Prospectus Directive, except that the Company may make an offer of such Shares to the public in that Relevant Member State:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to

obtaining the prior consent of the relevant recipient or recipients nominated by the Company for any such offer; or

- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Shares shall require the Company or any Participant to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression of an offer of Shares to the public in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase or subscribe the Shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

Residents of Hong Kong, please see the following legend:

WARNING: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Residents of Romania, please see the following legend:

For the purpose of implementing the Plan, the personal data collected from you may be subject to processing by Freescale Semiconductor Romania SRL, such entity standing as data controller. In the context of Plan implementation, your personal data may be transferred to Freescale Semiconductor, Ltd., in Bermuda and Freescale Semiconductor, Inc., in the United States. Providing the personal data required for the implementation of the Plan is mandatory, the refusal to do so impeding you to participate in the benefits thereof.

In connection with your personal data which is subject to processing, you have the right to access and to intervene upon such data, as well as to object to any further processing, in the conditions prescribed by law. You also have the right not to be subjected to automated individual decisions, as well as to access the courts of law. You may contact your Human Resources representative for more information on the processing of your personal data

in the context of the Plan implementation (including information on exercising your rights related to data processing).

Residents of the United Kingdom, please see the following legend:

This Award Agreement is being issued in the United Kingdom pursuant to regulation 60 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is being issued solely to employees of Freescale Semiconductor, Ltd., and companies within its group (as defined by the Financial Services and Markets Act 2000) and may not be issued to or relied upon by any other person (other than personal representatives of such employees on death).

FREESCALE SEMICONDUCTOR, LTD.
2011 OMNIBUS INCENTIVE PLAN
FORM RESTRICTED SHARE UNIT AWARD AGREEMENT
(Senior Management)

THIS AGREEMENT (the “**Agreement**”), is made effective as of the date indicated in the grant summary in the Freescale equity recordkeeping system (the “**Date of Grant**”), by and among Freescale Semiconductor, Ltd., a Bermuda exempted limited liability company (the “**Company**”), the recipient’s employing subsidiary and the recipient of the grant (the “**Executive**”):

RECITALS:

WHEREAS, the Company has adopted the Amended and Restated Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan (the “**Plan**”), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms used but not otherwise defined herein shall have meanings ascribed to such terms in the Plan; and

WHEREAS, the Administrator has determined that it would be in the best interests of the Company and its shareholders to grant the Restricted Share Units provided for herein to the Executive pursuant to the Plan and the terms set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. Grant of Restricted Share Units. The Company hereby grants to the Executive, on the terms and conditions hereinafter set forth, units evidencing a right to receive Common Shares as indicated in the grant summary in the Freescale equity recordkeeping system (each a “**Share**” and collectively, the “**Shares**”) pursuant to the terms and conditions of this Agreement (the “**Restricted Share Units**” or “**Restricted Share Unit Award**”).

2. Restrictions and Vesting Period.

(a) Restrictions and Transferability. The Restricted Share Unit Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Executive otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Restricted Share Unit Award to heirs or legatees of the Executive shall be effective to bind the Company unless the Administrator shall have been furnished with written notice thereof and a copy of such evidence as the Administrator may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof.

(b) Vesting Period. Subject to the Executive's continued employment with the Company, or except as otherwise provided below, the Restricted Share Unit Award shall vest with respect to twenty-five percent (25%) of the Shares initially covered by the Restricted Share Unit Award on each of the first, second, third and fourth anniversaries of the Date of Grant. At any time, the portion of the Restricted Share Unit Award which has become vested as described above (or pursuant to Section 3 below) is hereinafter referred to as the "**Vested Portion**."

(c) Change in Control.

(i) Notwithstanding any other provisions of the Plan or this Agreement to the contrary, in the event that the Executive's employment with the Company is terminated by the Company without Cause or by the Executive for Good Reason, in either case within twelve months following a Change in Control, all unvested Restricted Share Units shall become immediately vested. For purposes of this Agreement, "**Cause**" and "**Good Reason**" shall have the meanings set forth in the Executive's employment agreement, or if the Executive does not have an employment agreement in which these terms are defined, then Cause shall have the meaning set forth in the Plan and Good Reason shall have the meaning set forth below.

(ii) If the Restricted Share Unit Award is not assumed or substituted in connection with a Change in Control, immediately upon the occurrence of the Change in Control, all unvested Restricted Share Units shall become immediately vested. For purposes of this Section 2(c)(ii), the Restricted Share Unit Award shall be considered assumed or substituted if, following the Change in Control, the Restricted Share Unit Award is of comparable value and remains subject to the same terms and conditions that were applicable to the Restricted Share Unit Award immediately prior to the Change in Control except that the Restricted Share Unit Award instead confers the right to receive common stock of the acquiring entity or in the case of an amalgamation, the amalgamated company or its parent.

(iii) If the Executive does not have an employment agreement with the Company in which Good Reason is defined, "**Good Reason**" means, in the absence of the Executive's written consent, any of the following: (i) a material reduction by the Company in the Executive's base salary or target bonus unless the base salary or target bonus of all senior executives is reduced by a similar percentage or amount as part of company-wide cost reductions; (ii) a material reduction in the aggregate level of employee benefits made available to the Executive when compared to the benefits made available to the Executive at any time during the Executive's employment with the Company, unless the reduction is applicable to senior executives of the Company generally; (iii) a material diminution in the Executive's duties or responsibilities (other than as a result of the Executive's physical or mental incapacity which impairs his ability to materially perform his duties or responsibilities as confirmed by a doctor reasonably acceptable to the Executive or his representative and such diminution lasts only for so long as such doctor determines such incapacity impairs the Executive's ability to materially perform his duties or responsibilities). A lateral job change that does not materially diminish the Executive's duties or responsibilities and does not affect the Executive's reporting relationship will not constitute Good Reason; or (iv) the Company requiring the Executive's principal location of employment to be at any office or location more than 75 miles from the principal headquarters of the Company (other than any such change in location which is

not materially adverse to the Executive, and other than to the extent agreed to or requested by the Executive) on the Date of Grant.

(d) Settlement of Restricted Share Units. Shares shall be delivered (provided, that such delivery is otherwise in accordance with federal and state securities laws) with respect to the Vested Portion of the Restricted Share Unit Award as soon as practicable following the applicable vesting date, but in no event later than March 15 of the calendar year following the year of vesting.

(e) No Shareholder Rights. The Executive shall have no rights of a shareholder of the Company with respect to the Restricted Share Units, including, but not limited to, the rights to vote and receive ordinary dividends, until the settlement date of the Restricted Share Units. In the event that the Administrator approves an adjustment to the Restricted Share Unit Award pursuant to Section 5 of the Plan, then in such event, any and all new, substituted or additional securities to which Executive is entitled by reason of the Restricted Share Unit Award shall be immediately subject to the restrictions and the Vesting Period set forth in Sections 2(a) and (b) above with the same force and effect as the Restricted Share Unit Award subject to such restrictions immediately before such event.

3. Termination of Employment.

(a) General. If the Executive's employment is terminated for any reason, the Restricted Share Unit Award shall, to the extent not then vested (after giving effect to the provisions of Sections 2 and 3), terminate and be forfeited upon such termination of employment.

(b) For Cause. The Restricted Share Unit Award (including any Vested Portion thereof) shall terminate and be forfeited upon the Company's notification to the Executive of the Executive's termination of employment by the Company for Cause.

(c) Death or Disability. Upon the Executive's termination of employment due to death or due to Disability, the Restricted Share Unit Award shall become vested for an additional number of Shares equal to the number of Shares subject to the Restricted Share Unit Award (if any) that would have vested on the next anniversary of the Date of Grant if the Executive had remained employed until such date. Any portion of the Restricted Share Unit Award that is not vested after giving effect to the above provisions of this Section 3(c) shall terminate immediately and be forfeited effective as of the termination of the Executive's employment.

(d) Forfeiture. Notwithstanding anything herein to the contrary, if the Executive breaches any Restrictive Covenants applicable to the Executive (including, without limitation, the Restrictive Covenants set forth in Exhibit A hereto) at any time during the two year period following the Executive's termination of employment for any reason then the Executive shall immediately repay to the Company the Fair Market Value of Shares acquired pursuant to the Restricted Share Unit Award on any vesting date within the three year period prior to termination. The Company reserves the right to reduce or waive any amounts payable to the Company pursuant to this provision, in its sole discretion.

4. Certain Covenants. The Executive hereby agrees and covenants to perform all of the obligations set forth in Exhibit A hereto (which is incorporated by reference hereby) and acknowledges that the Executive's obligations set forth in Exhibit A constitute a material inducement for the Company's grant of the Restricted Share Unit Award to the Executive.

5. No Right to Continued Employment. The granting of the Restricted Share Unit Award evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the employment of the Executive and shall not lessen or affect the Company's or any Affiliate's right to terminate the employment of such Executive. The granting of the Restricted Share Unit Award does not form part of and should in no way be construed as a term or condition of employment. At all times, the Restricted Share Unit Award granted hereunder is discretionary and does not imply that additional Restricted Share Unit Awards will be awarded in the future.

6. Restricted Share Unit Award Not Wages. The value of any Restricted Share Unit Award granted to Executive does not constitute and will not be included as wages for the purposes of calculating any benefit or bonus provided by the Company or the Executive's employing subsidiary.

7. Withholding. The Executive will be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold from any payment due or transfer made under the Restricted Share Unit Award or under the Plan or from any compensation or other amount owing to the Executive the amount (in cash, Shares, other securities or other property) of any applicable withholding taxes in respect of the Restricted Share Unit Award or any payment or transfer under or with respect to the Restricted Share Unit Award or the Plan and to take such other action as may be necessary in the opinion of the Administrator to satisfy all obligations for the payment of such withholding taxes.

8. Securities Laws. The issuance of any Shares hereunder shall be subject to the Executive making or entering into such written representations, warranties and agreements as the Administrator may reasonably request in order to comply with applicable securities laws and government regulations.

9. No Public Offering. The Restricted Share Units awarded under the Plan and this Agreement will not be publicly issued, placed, distributed or offered. The issuance of any Restricted Share Units hereunder does not constitute a public offering of securities.

10. Consent to Transfer of Data. By accepting the Restricted Share Unit Award, Executive consents to the transfer of personal data (including but not limited to the employee's name, address, birth date and hire date) and to the processing of this personal data by the Company and the provider of the Freescale equity recordkeeping system.

11. Notices. Any notice necessary under this Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the Executive at the address appearing in the personnel records of the Company for the Executive or

to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

12. Governing Law. This Agreement and all claims arising out of or based upon this Agreement or relating to the subject matter hereof shall be governed by and construed in accordance with the domestic substantive laws of the State of Delaware without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

13. Consent to Jurisdiction. All actions arising out of or relating to this Agreement shall be heard and determined exclusively in any New York state or federal court sitting in the Borough of Manhattan in The City of New York. The parties hereto hereby (a) submit to the exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan of The City of New York for the purpose of any action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune of from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or that this Agreement or the transactions contemplated hereby may not be enforced in or by any of the above-named courts.

14. Restricted Share Unit Award Subject to Plan. By entering into this Agreement, the Executive agrees and acknowledges that the Executive has received and read a copy of the Plan. The Restricted Share Unit Award is subject to the Plan, as may be amended from time to time, and the terms and provisions of the Plan are hereby incorporated herein by reference.

15. Acceptance. This Agreement must be accepted by electronic signature of the Executive in the Freescale equity recordkeeping system or the Executive will have no right to the Restricted Share Unit Award provided for in this Agreement. By accepting this Agreement the Executive consents to the electronic delivery through the Freescale equity recordkeeping system of all documents related to this Restricted Share Unit Award.

16. Clawback. The Restricted Share Unit Award shall be subject to the Company's clawback policy, as it may be amended from time to time. The Company will amend its clawback policy, as needed, to the extent that the Securities and Exchange Commission adopts the final implementing rules regarding compensation clawbacks mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Exhibit A – Restrictive Covenants

(a) **Confidential Information.** The Executive recognizes and agrees that the Affiliated Group (defined below) has provided Confidential Information to the Executive and has an interest in protecting this information from disclosure. The Executive shall hold in a fiduciary capacity for the benefit of the Company and its Affiliates (collectively, the “**Affiliated Group**”), all secret or confidential information, knowledge or data relating to the Affiliated Group and its businesses (including, without limitation, any proprietary and not publicly available information concerning any processes, methods, trade secrets, research or secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Executive obtains during the Executive’s employment that is not public knowledge (other than as a result of the Executive’s violation of this Section (a)) (“**Confidential Information**”). The Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after the Executive’s employment, except with the prior written consent of the Company, or as otherwise required by law or legal process or as such disclosure or use may be required in the course of the Executive performing his duties and responsibilities with the Affiliated Group. Notwithstanding the foregoing provisions, if the Executive is required to disclose any such confidential or proprietary information pursuant to applicable law or a subpoena or court order, the Executive shall promptly notify the Company in writing of any such requirement prior to disclosure so that the Company or the appropriate member of the Affiliated Group may seek an appropriate protective order or other appropriate remedy or waive compliance with the provisions hereof. The Executive shall reasonably cooperate with the Company or the appropriate member of the Affiliated Group to obtain such a protective order or other remedy. If such order or other remedy is not obtained prior to the time the Executive is required to make the disclosure, or the Company waives compliance with the provisions hereof, the Executive shall disclose only that portion of the confidential or proprietary information which he is advised by counsel in writing (either his or the Company’s) that he is legally required to so disclose. Upon his termination of employment for any reason, the Executive shall promptly return to the Company all records, files, memoranda, correspondence, notebooks, notes, reports, customer lists, drawings, plans, documents, and other documents and the like relating to the business of the Affiliated Group or containing any trade secrets relating to the Affiliated Group or that the Executive uses, prepares or comes into contact with during the course of the Executive’s employment with the Affiliated Group, and all keys, credit cards and passes, and such materials shall remain the sole property of the Affiliated Group. The Executive agrees to execute any standard-form confidentiality agreements with the Company that the Company in the future generally enters into with similarly situated employees.

(b) **Work Product and Inventions.** The Affiliated Group and/or its nominees or assigns shall own all right, title and interest in and to any and all inventions, ideas, trade secrets, technology, devices, discoveries, improvements, processes, developments, designs, know how, show-how, data, computer programs, algorithms, formulae, works of authorship, works modifications, trademarks, trade names, documentation, techniques, designs, methods, trade secrets, technical specifications, technical data, concepts, expressions, patents, patent rights, copyrights, moral rights, and all other intellectual property rights or other developments whatsoever (collectively, “**Developments**”), whether or not patentable, reduced to practice or registerable under patent, copyright, trademark or other intellectual property

law anywhere in the world, made, authored, discovered, reduced to practice, conceived, created, developed or otherwise obtained by the Executive (alone or jointly with others) during the Executive's employment with the Affiliated Group, and arising from or relating to such employment or the business of the Affiliated Group (whether during business hours or otherwise, and whether on the premises of using the facilities or materials of the Affiliated Group or otherwise). The Executive shall promptly and fully disclose to the Affiliated Group and to no one else all Developments, and hereby assigns to the Affiliated Group without further compensation all right, title and interest the Executive has or may have in any Developments, and all patents, copyrights, or other intellectual property rights relating thereto, and agrees that the Executive has not acquired and shall not acquire any rights during the course of his employment with the Affiliated Group or thereafter with respect to any Developments.

(c) Company Goodwill. The Executive recognizes and acknowledges that the Affiliated Group has and continues to develop goodwill of substantial value through efforts of employees, including the Executive. This goodwill includes, but is not limited to, the identity and skill sets of its employees, its relationships with employees and customers, intangible value attributable to its products created by Executive and others, and the Affiliated Group's brand and reputation within the industry. Executive shall take no action to damage the goodwill of the Affiliated Group (including disparaging the Affiliated Group or any of their respective directors, officers, executives, employees, agents or other representatives) or use it for personal benefit or the benefit of competitors of the Affiliated Group.

(d) Non-Recruitment of Affiliated Group Employees. The Executive acknowledges that employees are a significant part of the goodwill of the Affiliated Group, such as, without limitation, their relationships and contacts with customers and suppliers as well as the training and knowledge they receive from the Affiliated Group in the course of their employment. The Executive shall not, at any time during the Non-solicitation Restricted Period (as defined below), other than in the ordinary exercise of his duties while employed by the Affiliated Group, without the prior written consent of the Affiliated Group, directly or indirectly, solicit, recruit, or employ (whether as an employee, officer, agent, consultant or independent contractor) any person who is or was at any time during the previous 12 months, an employee, representative, officer or director of any member of the Affiliated Group. Further, during the Non-solicitation Restricted Period, the Executive shall not take any action that could reasonably be expected to have the effect of directly encouraging or inducing any person to cease their relationship with any member of the Affiliated Group for any reason. A general employment advertisement by an entity of which the Executive is a part will not constitute solicitation or recruitment. The "**Non-solicitation Restricted Period**" shall mean the period from the Date of Grant through the second anniversary of the Executive's termination of employment.

(e) Non-Competition – Solicitation of Business. The Executive recognizes and agrees that the Affiliated Group has provided Confidential Information to Executive and has an interest in protecting this information from disclosure. Executive further understands that the goodwill of the Affiliated Group is an interest worthy of protection. For the protection of these and other interests, during the Non-competition Restricted Period (as defined below), the Executive shall not, either directly or indirectly, compete with the business of the Affiliated Group by (i) becoming an officer, agent, employee, partner or director of any other corporation, partnership or other entity, or otherwise render services to or assist or hold an interest (except as a less than 3-percent shareholder of a publicly traded corporation or as a less than 5-percent shareholder of a corporation that is not publicly traded) in any Competitive Business (as defined below), or (ii) soliciting, servicing, or accepting the business

of (A) any active customer of any member of the Affiliated Group, or (B) any person or entity who is or was at any time during the previous twelve months a customer of any member of the Affiliated Group, provided that such business is competitive with any significant business of any member of the Affiliated Group. “**Competitive Business**” shall mean any person or entity (including any joint venture, partnership, firm, corporation, or limited liability company) that conducts a business that is competitive with any significant business of the Affiliated Group as of the date of termination (or any significant business that is being actively pursued as of the date of termination by the Affiliated Group). The Affiliated Group designs, manufactures, sells and licenses its products and technology worldwide. In addition, Competitive Businesses, as defined above, are not tied or limited to any specific geographic location. Accordingly, the scope of this Non-Competition provision is worldwide. The “**Non-competition Restricted Period**” shall mean the period from the Date of Grant through the second anniversary of the date of termination of the Executive’s employment.

(f) Assistance. The Executive agrees that during and after his employment by the Affiliated Group, upon request by the Company, the Executive will assist the Affiliated Group in the defense of any claims, or potential claims that may be made or threatened to be made against any member of the Affiliated Group in any action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise (a “**Proceeding**”), and will assist the Affiliated Group in the prosecution of any claims that may be made by any member of the Affiliated Group in any Proceeding, to the extent that such claims may relate to the Executive’s employment or the period of the Executive’s employment by the Affiliated Group. The Executive agrees, unless precluded by law, to promptly inform the Company if the Executive is asked to participate (or otherwise become involved) in any Proceeding involving such claims or potential claims. The Executive also agrees, unless precluded by law, to promptly inform the Company if the Executive is asked to assist in any investigation (whether governmental or otherwise) of any member of the Affiliated Group (or their actions), regardless of whether a lawsuit has then been filed against any member of the Affiliated Group with respect to such investigation. The Company agrees to reimburse the Executive for all of the Executive’s reasonable out-of-pocket expenses associated with such assistance, including travel expenses and any attorneys’ fees and shall pay a reasonable per diem fee for the Executive’s service. In addition, the Executive agrees to provide such services as are reasonably requested by the Company to assist any successor to the Executive in the transition of duties and responsibilities to such successor. Any services or assistance contemplated in this Section (f) shall be at mutually agreed to and convenient times.

(g) Remedies. The Executive acknowledges and agrees that the terms of this Exhibit A: (i) are reasonable in geographic and temporal scope, (ii) are necessary to protect legitimate proprietary and business interests of the Affiliated Group in, inter alia, near permanent customer relationships and confidential information. The Executive further acknowledges and agrees that the Executive’s breach of the provisions of this Exhibit A will cause the Affiliated Group irreparable harm, which cannot be adequately compensated by money damages. The Executive consents and agrees that the forfeiture provisions contained in the Agreement are reasonable remedies in the event the Executive commits any such breach. If any of the provisions of this Exhibit A are determined to be wholly or partially unenforceable, the Executive hereby agrees that Exhibit A or any provision hereof may be reformed so that it is enforceable to the maximum extent permitted by law. If any of the provisions of this Exhibit A are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Affiliated Group’s right to enforce any such covenant in any other jurisdiction.

FREESCALE SEMICONDUCTOR, LTD.
2011 OMNIBUS INCENTIVE PLAN
FORM RESTRICTED SHARE UNIT AWARD AGREEMENT
(Vice President)

THIS AGREEMENT (the “**Agreement**”), is made effective as of the date indicated in the grant summary in the Freescale equity recordkeeping system (the “**Date of Grant**”), by and among Freescale Semiconductor, Ltd., a Bermuda exempted limited liability company (the “**Company**”), the recipient’s employing subsidiary and the recipient of the grant (the “**Participant**”):

RECITALS:

WHEREAS, the Company has adopted the Amended and Restated Semiconductor, Ltd. 2011 Omnibus Incentive Plan (the “**Plan**”), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms used but not otherwise defined herein shall have meanings ascribed to such terms in the Plan; and

WHEREAS, the Administrator has determined that it would be in the best interests of the Company and its shareholders to grant the Restricted Share Units provided for herein to the Participant pursuant to the Plan and the terms set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. Grant of Restricted Share Units. The Company hereby grants to the Participant, on the terms and conditions hereinafter set forth, units evidencing a right to receive Common Shares as indicated in the grant summary in the Freescale equity recordkeeping system (each a “**Share**” and collectively, the “**Shares**”) pursuant to the terms and conditions of this Agreement (the “**Restricted Share Units**” or “**Restricted Share Unit Award**”).

2. Restrictions and Vesting Period.

(a) Restrictions and Transferability. The Restricted Share Unit Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Restricted Share Unit Award to heirs or legatees of the Participant shall be effective to bind the Company unless the Administrator shall have been furnished with written notice thereof and a copy of such evidence as the Administrator may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof.

(b) Vesting Period. Subject to the Participant's continued employment with the Company, or except as otherwise provided below, the Restricted Share Unit Award shall vest with respect to twenty-five percent (25%) of the Shares initially covered by the Restricted Share Unit Award on each of the first, second, third and fourth anniversaries of the Date of Grant. At any time, the portion of the Restricted Share Unit Award which has become vested as described above (or pursuant to Section 3 below) is hereinafter referred to as the "**Vested Portion**."

(c) Change in Control.

(i) Notwithstanding any other provisions of the Plan or this Agreement to the contrary, in the event that the Participant's employment with the Company is terminated by the Company without Cause within twelve months following a Change in Control, all unvested Restricted Share Units shall become immediately vested.

(ii) If the Restricted Share Unit Award is not assumed or substituted in connection with a Change in Control, immediately upon the occurrence of the Change in Control, all unvested Restricted Share Units shall become immediately vested. For purposes of this Section 2(c)(ii), the Restricted Share Unit Award shall be considered assumed or substituted if, following the Change in Control, the Restricted Share Unit Award is of comparable value and remains subject to the same terms and conditions that were applicable to the Restricted Share Unit Award immediately prior to the Change in Control except that the Restricted Share Unit Award instead confers the right to receive common stock of the acquiring entity or in the case of an amalgamation, the amalgamated company or its parent.

(d) Settlement of Restricted Share Units. Shares shall be delivered (provided, that such delivery is otherwise in accordance with federal and state securities laws) with respect to the Vested Portion of the Restricted Share Unit Award as soon as practicable following the applicable vesting date, but in no event later than March 15 of the calendar year following the year of vesting.

(e) No Shareholder Rights. The Participant shall have no rights of a shareholder of the Company with respect to the Restricted Share Units, including, but not limited to, the rights to vote and receive ordinary dividends, until the settlement date of the Restricted Share Units. In the event that the Administrator approves an adjustment to the Restricted Share Unit Award pursuant to Section 5 of the Plan, then in such event, any and all new, substituted or additional securities to which Participant is entitled by reason of the Restricted Share Unit Award shall be immediately subject to the restrictions and the Vesting Period set forth in Sections 2(a) and (b) above with the same force and effect as the Restricted Share Unit Award subject to such restrictions immediately before such event.

3. Termination of Employment.

(a) General. If the Participant's employment is terminated for any reason, the Restricted Share Unit Award shall, to the extent not then vested (after giving effect to the provisions of Sections 2 and 3), terminate and be forfeited upon such termination of employment.

(b) For Cause. The Restricted Share Unit Award (including any Vested Portion thereof) shall terminate and be forfeited upon the Company's notification to the Participant of the Participant's termination of employment by the Company for Cause.

(c) Death or Disability. Upon the Participant's termination of employment due to death or due to Disability, the Restricted Share Unit Award shall become vested for an additional number of Shares equal to the number of Shares subject to the Restricted Share Unit Award (if any) that would have vested on the next anniversary of the Date of Grant if the Participant had remained employed until such date. Any portion of the Restricted Share Unit Award that is not vested after giving effect to the above provisions of this Section 3(c) shall terminate immediately and be forfeited effective as of the termination of the Participant's employment.

4. No Right to Continued Employment. The granting of the Restricted Share Unit Award evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the employment of the Participant and shall not lessen or affect the Company's or any Affiliate's right to terminate the employment of such Participant. The granting of the Restricted Share Unit Award does not form part of and should in no way be construed as a term or condition of employment. At all times, the Restricted Share Unit Award granted hereunder is discretionary and does not imply that additional Restricted Share Unit Awards will be awarded in the future.

5. Restricted Share Unit Award Not Wages. The value of any Restricted Share Unit Award granted to Participant does not constitute and will not be included as wages for the purposes of calculating any benefit or bonus provided by the Company or the Participant's employing subsidiary.

6. Withholding. The Participant will be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold from any payment due or transfer made under the Restricted Share Unit Award or under the Plan or from any compensation or other amount owing to the Participant the amount (in cash, Shares, other securities or other property) of any applicable withholding taxes in respect of the Restricted Share Unit Award or any payment or transfer under or with respect to the Restricted Share Unit Award or the Plan and to take such other action as may be necessary in the opinion of the Administrator to satisfy all obligations for the payment of such withholding taxes.

7. Certain Covenants. The Participant hereby agrees and covenants to perform all of the obligations set forth below (the "Covenants") and acknowledges that the Participant's obligations set forth below constitute a material inducement for the Company's grant of the Restricted Share Unit to the Participant.

(a) Confidential Information. The Participant recognizes and agrees that the Affiliated Group (defined below) has provided Confidential Information to the Executive and has an interest in protecting this information from disclosure. The Participant shall hold in a fiduciary capacity for the benefit of the Company and its Affiliates (collectively, the "**Affiliated Group**"), all secret or confidential information, knowledge or data relating to the Affiliated Group and its businesses (including, without limitation, any proprietary and not publicly

available information concerning any processes, methods, trade secrets, research or secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Participant obtains during the Participant's employment that is not public knowledge (other than as a result of the Participant's violation of this Section (a)) ("**Confidential Information**"). The Participant shall not communicate, divulge or disseminate Confidential Information at any time during or after the Participant's employment, except with the prior written consent of the Company, or as otherwise required by law or legal process or as such disclosure or use may be required in the course of the Participant performing his duties and responsibilities with the Affiliated Group. Notwithstanding the foregoing provisions, if the Participant is required to disclose any such confidential or proprietary information pursuant to applicable law or a subpoena or court order, the Participant shall promptly notify the Company in writing of any such requirement prior to disclosure so that the Company or the appropriate member of the Affiliated Group may seek an appropriate protective order or other appropriate remedy or waive compliance with the provisions hereof. The Participant shall reasonably cooperate with the Company or the appropriate member of the Affiliated Group to obtain such a protective order or other remedy. If such order or other remedy is not obtained prior to the time the Participant is required to make the disclosure, or the Company waives compliance with the provisions hereof, the Participant shall disclose only that portion of the confidential or proprietary information which he is advised by counsel in writing (either his or the Company's) that he is legally required to so disclose. Upon his termination of employment for any reason, the Participant shall promptly return to the Company all records, files, memoranda, correspondence, notebooks, notes, reports, customer lists, drawings, plans, documents, and other documents and the like relating to the business of the Affiliated Group or containing any trade secrets relating to the Affiliated Group or that the Participant uses, prepares or comes into contact with during the course of the Participant's employment with the Affiliated Group, and all keys, credit cards and passes, and such materials shall remain the sole property of the Affiliated Group. The Participant agrees to execute any standard-form confidentiality agreements with the Company that the Company in the future generally enters into with similarly situated Participants.

(b) Work Product and Inventions. The Affiliated Group and/or its nominees or assigns shall own all right, title and interest in and to any and all inventions, ideas, trade secrets, technology, devices, discoveries, improvements, processes, developments, designs, know how, show-how, data, computer programs, algorithms, formulae, works of authorship, works modifications, trademarks, trade names, documentation, techniques, designs, methods, trade secrets, technical specifications, technical data, concepts, expressions, patents, patent rights, copyrights, moral rights, and all other intellectual property rights or other developments whatsoever (collectively, "**Developments**"), whether or not patentable, reduced to practice or registerable under patent, copyright, trademark or other intellectual property law anywhere in the world, made, authored, discovered, reduced to practice, conceived, created, developed or otherwise obtained by the Participant (alone or jointly with others) during the Participant's employment with the Affiliated Group, and arising from or relating to such employment or the business of the Affiliated Group (whether during business hours or otherwise, and whether on the premises of using the facilities or materials of the Affiliated Group or otherwise). The Participant shall promptly and fully disclose to the Affiliated Group and to no one else all Developments,

and hereby assigns to the Affiliated Group without further compensation all right, title and interest the Participant has or may have in any Developments, and all patents, copyrights, or other intellectual property rights relating thereto, and agrees that the Participant has not acquired and shall not acquire any rights during the course of his employment with the Affiliated Group or thereafter with respect to any Developments.

(c) Company Goodwill. The Participant recognizes and acknowledges that the Affiliated Group has and continues to develop goodwill of substantial value through efforts of employees, including the Participant. This goodwill includes, but is not limited to, the identity and skill sets of its employees, its relationships with employees and customers, intangible value attributable to its products created by Participant and others, and the Affiliated Group's brand and reputation within the industry. Participant shall take no action to damage the goodwill of the Affiliated Group (including disparaging the Affiliated Group or any of their respective directors, officers, executives, employees, agents or other representatives) or use it for personal benefit or the benefit of competitors of the Affiliated Group.

(d) Non-Recruitment of Affiliated Group Employees. The Participant acknowledges that employees are a significant part of the goodwill of the Affiliated Group, such as, without limitation, their relationships and contacts with customers and suppliers as well as the training and knowledge they receive from the Affiliated Group in the course of their employment. The Participant shall not, at any time during the Non-solicitation Restricted Period (as defined below), other than in the ordinary exercise of his duties while employed by the Affiliate Group, without the prior written consent of the Affiliated Group, directly or indirectly, solicit, recruit, or employ (whether as an employee, officer, agent, consultant or independent contractor) any person who is or was at any time during the previous 12 months, an employee, representative, officer or director of any member of the Affiliated Group. Further, during the Non-solicitation Restricted Period, the Participant shall not take any action that could reasonably be expected to have the effect of directly encouraging or inducing any person to cease their relationship with any member of the Affiliated Group for any reason. A general employment advertisement by an entity of which the Participant is a part will not constitute solicitation or recruitment. The "**Non-solicitation Restricted Period**" shall mean the period from the Date of Grant through the first anniversary of the Participant's termination of employment.

(e) Non-Competition – Solicitation of Business. Participant recognizes and agrees that the Affiliated Group has provided Confidential Information to Participant and has an interest in protecting this information from disclosure. Participant further understands that the goodwill of the Affiliated Group is an interest worthy of protection. For the protection of these and other interests, during the Non-competition Restricted Period (as defined below), the Participant shall not, either directly or indirectly, compete with the business of the Affiliated Group by (i) becoming an officer, agent, employee, partner or director of any other corporation, partnership or other entity, or otherwise render services to or assist or hold an interest (except as a less than 3-percent shareholder of a publicly traded corporation or as a less than 5-percent shareholder of a corporation that is not publicly traded) in any Competitive Business (as defined below), or (ii) soliciting, servicing, or accepting the business of (A) any active customer of any member of the Affiliated Group, or (B) any person or entity who is or was at any time during the

previous twelve months a customer of any member of the Affiliated Group, provided that such business is competitive with any significant business of any member of the Affiliated Group. “**Competitive Business**” shall mean any person or entity (including any joint venture, partnership, firm, corporation, or limited liability company) that conducts a business that is competitive with any significant business of the Affiliated Group as of the date of termination (or any significant business that is being actively pursued as of the date of termination by the Affiliated Group). The Affiliated Group designs, manufactures, sells and licenses its products and technology worldwide. In addition, Competitive Businesses, as defined above, are not tied or limited to any specific geographic location. Accordingly, the scope of this Non-Competition provision is worldwide. The “**Noncompetition Restricted Period**” shall mean the period from the Date of Grant through the first anniversary of the date of termination of the Participant’s employment.

(f) Assistance. The Participant agrees that during and after his employment by the Affiliated Group, upon request by the Company, the Participant will assist the Affiliated Group in the defense of any claims, or potential claims that may be made or threatened to be made against any member of the Affiliated Group in any action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise (a “**Proceeding**”), and will assist the Affiliated Group in the prosecution of any claims that may be made by any member of the Affiliated Group in any Proceeding, to the extent that such claims may relate to the Participant’s employment or the period of the Participant’s employment by the Affiliated Group. The Participant agrees, unless precluded by law, to promptly inform the Company if the Participant is asked to participate (or otherwise become involved) in any Proceeding involving such claims or potential claims. The Participant also agrees, unless precluded by law, to promptly inform the Company if the Participant is asked to assist in any investigation (whether governmental or otherwise) of any member of the Affiliated Group (or their actions), regardless of whether a lawsuit has then been filed against any member of the Affiliated Group with respect to such investigation. The Company agrees to reimburse the Participant for all of the Participant’s reasonable out-of-pocket expenses associated with such assistance, including travel expenses and any attorneys’ fees and shall pay a reasonable per diem fee for the Participant’s service. In addition, the Participant agrees to provide such services as are reasonably requested by the Company to assist any successor to the Participant in the transition of duties and responsibilities to such successor. Any services or assistance contemplated in this Section (f) shall be at mutually agreed to and convenient times.

(g) Remedies. The Participant acknowledges and agrees that the terms of these Covenants which are necessary to protect legitimate proprietary and business interests of the Affiliated Group in, inter alia, near permanent customer relationships and confidential information. The Participant further acknowledges and agrees that the Participant’s breach of these Covenants will cause the Affiliated Group irreparable harm, which cannot be adequately compensated by money damages. If any of the Covenants are determined to be wholly or partially unenforceable, the Participant hereby agrees that these Covenants or any provision hereof may be reformed so that it is enforceable to the maximum extent permitted by law. If any of the provisions of these Covenants are determined to be wholly or partially unenforceable in

any jurisdiction, such determination shall not be a bar to or in any way diminish the Affiliated Group's right to enforce any such covenant in any other jurisdiction.

8. Securities Laws. The issuance of any Shares hereunder shall be subject to the Participant making or entering into such written representations, warranties and agreements as the Administrator may reasonably request in order to comply with applicable securities laws and government regulations. Further, residents of Brazil, the European Economic Area, Hong Kong, Romania and the United Kingdom are directed to review the legends included on Exhibit A to this Agreement.

9. No Public Offering. The Restricted Share Units awarded under the Plan and this Agreement will not be publicly issued, placed, distributed or offered. The issuance of any Restricted Share Units hereunder does not constitute a public offering of securities.

10. Consent to Transfer of Data. By accepting the Restricted Share Unit Award, Participant consents to the transfer of personal data (including but not limited to the employee's name, address, birth date and hire date) and to the processing of this personal data by the Company and the provider of the Freescale equity recordkeeping system.

11. Notices. Any notice necessary under this Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the Participant at the address appearing in the personnel records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

12. Governing Law. This Agreement and all claims arising out of or based upon this Agreement or relating to the subject matter hereof shall be governed by and construed in accordance with the domestic substantive laws of the State of Delaware without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

13. Consent to Jurisdiction. All actions arising out of or relating to this Agreement shall be heard and determined exclusively in any New York state or federal court sitting in the Borough of Manhattan in The City of New York. The parties hereto hereby (a) submit to the exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan of The City of New York for the purpose of any action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune of from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or that this Agreement or the transactions contemplated hereby may not be enforced in or by any of the above-named courts.

14. Restricted Share Unit Award Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a

copy of the Plan. The Restricted Share Unit Award is subject to the Plan, as may be amended from time to time, and the terms and provisions of the Plan are hereby incorporated herein by reference.

15. Acceptance. This Agreement must be accepted by electronic signature of the Participant in the Freescale equity recordkeeping system or the Participant will have no right to the Restricted Share Unit Award provided for in this Agreement. By accepting this Agreement the Participant consents to the electronic delivery through the Freescale equity recordkeeping system of all documents related to this Restricted Share Unit Award.

16. Clawback. The Restricted Share Unit Award shall be subject to the Company's clawback policy, as it may be amended from time to time. The Company will amend its clawback policy, as needed, to the extent that the Securities and Exchange Commission adopts the final implementing rules regarding compensation clawbacks mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

EXHIBIT A

Country Specific Securities Law and Other Legends

Residents of Brazil, please see the following legend:

The securities granted under the Plan and this Agreement have not been and will not be publicly issued, placed, distributed, offered or negotiated in the Brazilian capital markets and, as a result, will not be registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários, the CVM). Therefore, the securities granted under the Plan and Agreement will not be offered or sold in Brazil, except in circumstances which do not constitute a public offering, placement, distribution or negotiation under the Brazilian capital markets regulation.

Residents of European Economic Area, please see the following legend:

Nothing in this Agreement constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so. The Shares which are the subject of this Agreement are offered to the Participant only. They may not be offered or sold within a member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") except pursuant to an exemption from, or in a transaction not subject to the prospectus requirements of the Prospectus Directive and the securities laws applicable in the Relevant Member State.

In relation to each Relevant Member State, neither the Company nor the Participant's employing subsidiary has made, intends or will make an offer of the Shares which are the subject of this Agreement to the public in that Relevant Member State other than a potential offer contemplated in a prospectus that has been approved by the competent authority of the Relevant Member State, published and/or notified to the relevant competent authorities in accordance with the Prospectus Directive, except that the Company may make an offer of such Shares to the public in that Relevant Member State:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to

obtaining the prior consent of the relevant recipient or recipients nominated by the Company for any such offer; or

- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Shares shall require the Company or any Participant to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression of an offer of Shares to the public in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase or subscribe the Shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

Residents of Hong Kong, please see the following legend:

WARNING: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Residents of Romania, please see the following legend:

For the purpose of implementing the Plan, the personal data collected from you may be subject to processing by Freescale Semiconductor Romania SRL, such entity standing as data controller. In the context of Plan implementation, your personal data may be transferred to Freescale Semiconductor, Ltd., in Bermuda and Freescale Semiconductor, Inc., in the United States. Providing the personal data required for the implementation of the Plan is mandatory, the refusal to do so impeding you to participate in the benefits thereof.

In connection with your personal data which is subject to processing, you have the right to access and to intervene upon such data, as well as to object to any further processing, in the conditions prescribed by law. You also have the right not to be subjected to automated individual decisions, as well as to access the courts of law. You may contact your Human Resources representative for more information on the processing of your personal data

in the context of the Plan implementation (including information on exercising your rights related to data processing).

Residents of the United Kingdom, please see the following legend:

This Award Agreement is being issued in the United Kingdom pursuant to regulation 60 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is being issued solely to employees of Freescale Semiconductor, Ltd., and companies within its group (as defined by the Financial Services and Markets Act 2000) and may not be issued to or relied upon by any other person (other than personal representatives of such employees on death).

FREESCALE SEMICONDUCTOR, LTD.
2011 OMNIBUS INCENTIVE PLAN
FORM RESTRICTED SHARE UNIT AWARD AGREEMENT
(Participant)

THIS AGREEMENT (the “**Agreement**”), is made effective as of the date indicated in the grant summary in the Freescale equity recordkeeping system (the “**Date of Grant**”), by and among Freescale Semiconductor, Ltd., a Bermuda exempted limited liability company (the “**Company**”), the recipient’s employing subsidiary and the recipient of the grant (the “**Participant**”):

RECITALS:

WHEREAS, the Company has adopted the Amended and Restated Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan (the “**Plan**”), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms used but not otherwise defined herein shall have meanings ascribed to such terms in the Plan; and

WHEREAS, the Administrator has determined that it would be in the best interests of the Company and its shareholders to grant the Restricted Share Units provided for herein to the Participant pursuant to the Plan and the terms set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. Grant of Restricted Share Units. The Company hereby grants to the Participant, on the terms and conditions hereinafter set forth, units evidencing a right to receive Common Shares as indicated in the grant summary in the Freescale equity recordkeeping system (each a “**Share**” and collectively, the “**Shares**”) pursuant to the terms and conditions of this Agreement (the “**Restricted Share Units**” or “**Restricted Share Unit Award**”).

2. Restrictions and Vesting Period.

(a) Restrictions and Transferability. The Restricted Share Unit Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. No such permitted transfer of the Restricted Share Unit Award to heirs or legatees of the Participant shall be effective to bind the Company unless the Administrator shall have been furnished with written notice thereof and a copy of such evidence as the Administrator may deem necessary to establish the validity of the transfer and the acceptance by the transferee or transferees of the terms and conditions hereof.

(b) Vesting Period. Subject to the Participant's continued employment with the Company, or except as otherwise provided below, the Restricted Share Unit Award shall vest with respect to twenty-five percent (25%) of the Shares initially covered by the Restricted Share Unit Award on each of the first, second, third and fourth anniversaries of the Date of Grant. At any time, the portion of the Restricted Share Unit Award which has become vested as described above (or pursuant to Section 3 below) is hereinafter referred to as the "**Vested Portion**."

(c) Change in Control.

(i) Notwithstanding any other provisions of the Plan or this Agreement to the contrary, in the event that the Participant's employment with the Company is terminated by the Company without Cause within twelve months following a Change in Control, all unvested Restricted Share Units shall become immediately vested.

(ii) If the Restricted Share Unit Award is not assumed or substituted in connection with a Change in Control, immediately upon the occurrence of the Change in Control, all unvested Restricted Share Units shall become immediately vested. For purposes of this Section 2(c)(ii), the Restricted Share Unit Award shall be considered assumed or substituted if, following the Change in Control, the Restricted Share Unit Award is of comparable value and remains subject to the same terms and conditions that were applicable to the Restricted Share Unit Award immediately prior to the Change in Control except that the Restricted Share Unit Award instead confers the right to receive common stock of the acquiring entity or in the case of an amalgamation, the amalgamated company or its parent.

(d) Settlement of Restricted Share Units. Shares shall be delivered (provided, that such delivery is otherwise in accordance with federal and state securities laws) with respect to the Vested Portion of the Restricted Share Unit Award as soon as practicable following the applicable vesting date, but in no event later than March 15 of the calendar year following the year of vesting.

(e) No Shareholder Rights. The Participant shall have no rights of a shareholder of the Company with respect to the Restricted Share Units, including, but not limited to, the rights to vote and receive ordinary dividends, until the settlement date of the Restricted Share Units. In the event that the Administrator approves an adjustment to the Restricted Share Unit Award pursuant to Section 5 of the Plan, then in such event, any and all new, substituted or additional securities to which Participant is entitled by reason of the Restricted Share Unit Award shall be immediately subject to the restrictions and the Vesting Period set forth in Sections 2(a) and (b) above with the same force and effect as the Restricted Share Unit Award subject to such restrictions immediately before such event.

3. Termination of Employment.

(a) General. If the Participant's employment is terminated for any reason, the Restricted Share Unit Award shall, to the extent not then vested (after giving effect to the provisions of Sections 2 and 3), terminate and be forfeited upon such termination of employment.

(b) For Cause. The Restricted Share Unit Award (including any Vested Portion thereof) shall terminate and be forfeited upon the Company's notification to the Participant of the Participant's termination of employment by the Company for Cause.

(c) Death or Disability. Upon the Participant's termination of employment due to death or due to Disability, the Restricted Share Unit Award shall become vested for an additional number of Shares equal to the number of Shares subject to the Restricted Share Unit Award (if any) that would have vested on the next anniversary of the Date of Grant if the Participant had remained employed until such date. Any portion of the Restricted Share Unit Award that is not vested after giving effect to the above provisions of this Section 3(c) shall terminate immediately and be forfeited effective as of the termination of the Participant's employment.

4. No Right to Continued Employment. The granting of the Restricted Share Unit Award evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the employment of the Participant and shall not lessen or affect the Company's or any Affiliate's right to terminate the employment of such Participant. The granting of the Restricted Share Unit Award does not form part of and should in no way be construed as a term or condition of employment. At all times, the Restricted Share Unit Award granted hereunder is discretionary and does not imply that additional Restricted Share Unit Awards will be awarded in the future.

5. Restricted Share Unit Award Not Wages. The value of any Restricted Share Unit Award granted to Participant does not constitute and will not be included as wages for the purposes of calculating any benefit or bonus provided by the Company or the Participant's employing subsidiary.

6. Withholding. The Participant will be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold from any payment due or transfer made under the Restricted Share Unit Award or under the Plan or from any compensation or other amount owing to the Participant the amount (in cash, Shares, other securities or other property) of any applicable withholding taxes in respect of the Restricted Share Unit Award or any payment or transfer under or with respect to the Restricted Share Unit Award or the Plan and to take such other action as may be necessary in the opinion of the Administrator to satisfy all obligations for the payment of such withholding taxes.

7. Certain Covenants. The Participant hereby agrees and covenants to perform all of the obligations set forth below (the "Covenants") and acknowledges that the Participant's obligations set forth below constitute a material inducement for the Company's grant of the Restricted Share Unit to the Participant.

(a) Confidential Information. The Participant recognizes and agrees that the Affiliated Group (defined below) has provided Confidential Information to the Participant and has an interest in protecting this information from disclosure. The Participant shall hold in a fiduciary capacity for the benefit of the Company and its Affiliates (collectively, the "**Affiliated Group**"), all secret or confidential information, knowledge or data relating to the Affiliated Group and its businesses (including, without limitation, any proprietary and not publicly

available information concerning any processes, methods, trade secrets, research or secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Participant obtains during the Participant's employment that is not public knowledge (other than as a result of the Participant's violation of this Section (a)) ("**Confidential Information**"). The Participant shall not communicate, divulge or disseminate Confidential Information at any time during or after the Participant's employment, except with the prior written consent of the Company, or as otherwise required by law or legal process or as such disclosure or use may be required in the course of the Participant performing his duties and responsibilities with the Affiliated Group. Notwithstanding the foregoing provisions, if the Participant is required to disclose any such confidential or proprietary information pursuant to applicable law or a subpoena or court order, the Participant shall promptly notify the Company in writing of any such requirement prior to disclosure so that the Company or the appropriate member of the Affiliated Group may seek an appropriate protective order or other appropriate remedy or waive compliance with the provisions hereof. The Participant shall reasonably cooperate with the Company or the appropriate member of the Affiliated Group to obtain such a protective order or other remedy. If such order or other remedy is not obtained prior to the time the Participant is required to make the disclosure, or the Company waives compliance with the provisions hereof, the Participant shall disclose only that portion of the confidential or proprietary information which he is advised by counsel in writing (either his or the Company's) that he is legally required to so disclose. Upon his termination of employment for any reason, the Participant shall promptly return to the Company all records, files, memoranda, correspondence, notebooks, notes, reports, customer lists, drawings, plans, documents, and other documents and the like relating to the business of the Affiliated Group or containing any trade secrets relating to the Affiliated Group or that the Participant uses, prepares or comes into contact with during the course of the Participant's employment with the Affiliated Group, and all keys, credit cards and passes, and such materials shall remain the sole property of the Affiliated Group. The Participant agrees to execute any standard-form confidentiality agreements with the Company that the Company in the future generally enters into with similarly situated employees.

(b) Work Product and Inventions. The Affiliated Group and/or its nominees or assigns shall own all right, title and interest in and to any and all inventions, ideas, trade secrets, technology, devices, discoveries, improvements, processes, developments, designs, know how, show-how, data, computer programs, algorithms, formulae, works of authorship, works modifications, trademarks, trade names, documentation, techniques, designs, methods, trade secrets, technical specifications, technical data, concepts, expressions, patents, patent rights, copyrights, moral rights, and all other intellectual property rights or other developments whatsoever (collectively, "**Developments**"), whether or not patentable, reduced to practice or registerable under patent, copyright, trademark or other intellectual property law anywhere in the world, made, authored, discovered, reduced to practice, conceived, created, developed or otherwise obtained by the Participant (alone or jointly with others) during the Participant's employment with the Affiliated Group, and arising from or relating to such employment or the business of the Affiliated Group (whether during business hours or otherwise, and whether on the premises of using the facilities or materials of the Affiliated Group or otherwise). The Participant shall promptly and fully disclose to the Affiliated Group and to no one else all Developments,

and hereby assigns to the Affiliated Group without further compensation all right, title and interest the Participant has or may have in any Developments, and all patents, copyrights, or other intellectual property rights relating thereto, and agrees that the Participant has not acquired and shall not acquire any rights during the course of his employment with the Affiliated Group or thereafter with respect to any Developments.

(c) Company Goodwill. The Participant recognizes and acknowledges that the Affiliated Group has and continues to develop goodwill of substantial value through efforts of employees, including the Participant. This goodwill includes, but is not limited to, the identity and skill sets of its employees, its relationships with employees and customers, intangible value attributable to its products created by Participant and others, and the Affiliated Group's brand and reputation within the industry. Participant shall take no action to damage the goodwill of the Affiliated Group (including disparaging the Affiliated Group or any of their respective directors, officers, executives, employees, agents or other representatives) or use it for personal benefit or the benefit of competitors of the Affiliated Group.

(d) Remedies. The Participant acknowledges and agrees that the terms of these Covenants which are necessary to protect legitimate proprietary and business interests of the Affiliated Group in, inter alia, near permanent customer relationships and confidential information. The Participant further acknowledges and agrees that the Participant's breach of these Covenants will cause the Affiliated Group irreparable harm, which cannot be adequately compensated by money damages. If any of the Covenants are determined to be wholly or partially unenforceable, the Participant hereby agrees that these Covenants or any provision hereof may be reformed so that it is enforceable to the maximum extent permitted by law. If any of the provisions of these Covenants are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Affiliated Group's right to enforce any such covenant in any other jurisdiction.

8. Securities Laws. The issuance of any Shares hereunder shall be subject to the Participant making or entering into such written representations, warranties and agreements as the Administrator may reasonably request in order to comply with applicable securities laws and government regulations. Further, residents of Brazil, the European Economic Area, Hong Kong, Romania and the United Kingdom are directed to review the legends included on Exhibit A to this Agreement.

9. No Public Offering. The Restricted Share Units awarded under the Plan and this Agreement will not be publicly issued, placed, distributed or offered. The issuance of any Restricted Share Units hereunder does not constitute a public offering of securities.

10. Consent to Transfer of Data. By accepting the Restricted Share Unit Award, Participant consents to the transfer of personal data (including but not limited to the employee's name, address, birth date and hire date) and to the processing of this personal data by the Company and the provider of the Freescale equity recordkeeping system.

11. Notices. Any notice necessary under this Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the

Participant at the address appearing in the personnel records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

12. Governing Law. This Agreement and all claims arising out of or based upon this Agreement or relating to the subject matter hereof shall be governed by and construed in accordance with the domestic substantive laws of the State of Delaware without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

13. Consent to Jurisdiction. All actions arising out of or relating to this Agreement shall be heard and determined exclusively in any New York state or federal court sitting in the Borough of Manhattan in The City of New York. The parties hereto hereby (a) submit to the exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan of The City of New York for the purpose of any action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune of from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or that this Agreement or the transactions contemplated hereby may not be enforced in or by any of the above-named courts.

14. Restricted Share Unit Award Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Restricted Share Unit Award is subject to the Plan, as may be amended from time to time, and the terms and provisions of the Plan are hereby incorporated herein by reference.

15. Acceptance. This Agreement must be accepted by electronic signature of the Participant in the Freescale equity recordkeeping system or the Participant will have no right to the Restricted Share Unit Award provided for in this Agreement. By accepting this Agreement the Participant consents to the electronic delivery through the Freescale equity recordkeeping system of all documents related to this Restricted Share Unit Award.

EXHIBIT A

Country Specific Securities Law and Other Legends

Residents of Brazil, please see the following legend:

The securities granted under the Plan and this Agreement have not been and will not be publicly issued, placed, distributed, offered or negotiated in the Brazilian capital markets and, as a result, will not be registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários, the CVM). Therefore, the securities granted under the Plan and Agreement will not be offered or sold in Brazil, except in circumstances which do not constitute a public offering, placement, distribution or negotiation under the Brazilian capital markets regulation.

Residents of European Economic Area, please see the following legend:

Nothing in this Agreement constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so. The Shares which are the subject of this Agreement are offered to the Participant only. They may not be offered or sold within a member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") except pursuant to an exemption from, or in a transaction not subject to the prospectus requirements of the Prospectus Directive and the securities laws applicable in the Relevant Member State.

In relation to each Relevant Member State, neither the Company nor the Participant's employing subsidiary has made, intends or will make an offer of the Shares which are the subject of this Agreement to the public in that Relevant Member State other than a potential offer contemplated in a prospectus that has been approved by the competent authority of the Relevant Member State, published and/or notified to the relevant competent authorities in accordance with the Prospectus Directive, except that the Company may make an offer of such Shares to the public in that Relevant Member State:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to

obtaining the prior consent of the relevant recipient or recipients nominated by the Company for any such offer; or

- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Shares shall require the Company or any Participant to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression of an offer of Shares to the public in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase or subscribe the Shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

Residents of Hong Kong, please see the following legend:

WARNING: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Residents of Romania, please see the following legend:

For the purpose of implementing the Plan, the personal data collected from you may be subject to processing by Freescale Semiconductor Romania SRL, such entity standing as data controller. In the context of Plan implementation, your personal data may be transferred to Freescale Semiconductor, Ltd., in Bermuda and Freescale Semiconductor, Inc., in the United States. Providing the personal data required for the implementation of the Plan is mandatory, the refusal to do so impeding you to participate in the benefits thereof.

In connection with your personal data which is subject to processing, you have the right to access and to intervene upon such data, as well as to object to any further processing, in the conditions prescribed by law. You also have the right not to be subjected to automated individual decisions, as well as to access the courts of law. You may contact your Human Resources representative for more information on the processing of your personal data

in the context of the Plan implementation (including information on exercising your rights related to data processing).

Residents of the United Kingdom, please see the following legend:

This Award Agreement is being issued in the United Kingdom pursuant to regulation 60 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is being issued solely to employees of Freescale Semiconductor, Ltd., and companies within its group (as defined by the Financial Services and Markets Act 2000) and may not be issued to or relied upon by any other person (other than personal representatives of such employees on death).

FREESCALE SEMICONDUCTOR, LTD.
2011 OMNIBUS INCENTIVE PLAN
FORM NONQUALIFIED STOCK OPTION AGREEMENT
(Vice President)

THIS AGREEMENT (the “**Agreement**”), is made effective as of the date indicated in the grant summary in the Freescale equity recordkeeping system (the “**Date of Grant**”), by and among Freescale Semiconductor, Ltd., a Bermuda exempted limited liability company (the “**Company**”), the recipient’s employing subsidiary and the recipient of the grant (the “**Participant**”):

RECITALS:

WHEREAS, the Company has adopted the Amended and Restated Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan (the “**Plan**”), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms used but not otherwise defined herein shall have meanings ascribed to such terms in the Plan; and

WHEREAS, the Administrator has determined that it would be in the best interests of the Company and its shareholders to grant the Option provided for herein to the Participant pursuant to the Plan and the terms set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. Grant of the Option. The Company hereby grants to the Participant the right and option (the “**Option**”) to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate of Common Shares as indicated in the grant summary in the Freescale equity recordkeeping system (each a “**Share**” and collectively, the “**Shares**”). The purchase price of the Shares subject to the Option shall be at the price indicated in the grant summary in the Freescale equity recordkeeping system (the “**Exercise Price**”). The Option is intended to be a non-qualified stock option, and is not intended to be treated as an option that complies with Section 422 of the Code.

2. Vesting.

a) General. Except as otherwise provided in Section 2(b) hereof, the Option shall vest and become exercisable with respect to twenty-five percent (25%) of the Shares initially covered by the Option on each of the first, second, third and fourth anniversaries of the Date of Grant, subject to the Participant’s continued employment with the Company or an Affiliate on each such vesting date. At any time, the portion of the Option which has become vested as described above (or pursuant to Section 2(b) or 2(d)) is hereinafter referred to as the “**Vested Portion**.”

b) Accelerated Vesting. Notwithstanding any other provisions of the Plan or this Agreement to the contrary, in the event that the Participant’s employment with the Company is terminated due to the Participant’s death or Disability, the portion of the Option that would have become vested and exercisable on the next scheduled vesting date shall become vested and exercisable as of immediately prior to such termination.

c) Termination for Cause. Notwithstanding any other provisions of the Plan or this Agreement to the contrary, the Option (including any Vested Portion thereof) shall terminate and be forfeited immediately upon the Company's notification to the Participant of the Participant's termination of employment by the Company for Cause.

d) Change in Control.

(i) Notwithstanding any other provisions of the Plan or this Agreement to the contrary, in the event that the Participant's employment with the Company is terminated by the Company without Cause within twelve months following a Change in Control, all unvested Options shall become immediately vested and exercisable.

(ii) If the Option Award is not assumed or substituted in connection with a Change in Control, immediately upon the occurrence of the Change in Control, all unvested Options shall become immediately vested and exercisable. For purposes of this Section 2(d)(ii), the Option Award shall be considered assumed or substituted for if, following the Change in Control, the Option Award is of comparable value and remains subject to the same terms and conditions that were applicable to the Option Award immediately prior to the Change in Control except that the Option Award instead confers the right to purchase common stock of the acquiring entity or in the case of an amalgamation, the amalgamated company or its parent.

3. Exercise of Option.

a) Period of Exercise. Subject to the provisions of the Plan and this Agreement, the Participant may exercise all or any part of the Vested Portion of the Option at any time prior to the earliest to occur of:

(i) the seventh (7th) anniversary of the Date of Grant;

(ii) twelve (12) months following the date of the Participant's termination of employment due to the Participant's Retirement, death, or Disability;

(iii) ninety (90) days following the date of the Participant's termination of employment for any reason other than for Cause or due to the Participant's Retirement, death or Disability; and

(iv) the date that the Company notifies the Participant of the Participant's termination of employment for Cause.

b) Method of Exercise.

(i) Each election to exercise the Vested Portion shall be subject to the terms and conditions of the Plan and shall be made using the Freescale equity recordkeeping system or in writing, signed by the Participant or by his or her executor, administrator, or permitted transferee (subject to any restrictions provided under the Plan), made pursuant to and in accordance with the terms and conditions set forth in the Plan and received by the Company at its principal offices, accompanied by payment in full as provided in the Plan or in this Agreement.

(ii) The Exercise Price may be paid (A) by the delivery of cash or check acceptable to the Administrator, (B) by any cashless exercise procedure approved by the Administrator (including the withholding of Shares otherwise issuable upon exercise), (C) in the form of unrestricted Shares already owned by the Participant which, (x) in the case of unrestricted Shares acquired upon exercise of an Option, have been owned by the Participant for more than six

(6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (D) any other method approved by the Administrator and permitted by applicable law or (E) any combination of the foregoing.

(iii) In the event of the Participant's death, the Option shall remain exercisable by the Participant's executor or administrator, or the person or persons to whom the Participant's rights under this Agreement shall pass by will or by the laws of descent and distribution as the case may be, to the extent set forth in Section 4(a). Any heir or legatee of the Participant shall take rights herein granted subject to the terms and conditions hereof.

4. No Right to Continued Employment. The granting of the Option evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the employment of the Participant and shall not lessen or affect the Company's or any Affiliate's right to terminate the employment of such Participant. The granting of the Option does not form part of and should in no way be construed as a term or condition of employment. At all times, the Option granted hereunder is discretionary and does not imply that additional Options will be awarded in the future.

5. Options Not Wages. The value of any Options granted to Participant does not constitute and will not be included as wages for the purposes of calculating any benefit or bonus provided by the Company or the Participant's employing subsidiary.

6. Transferability. Unless otherwise permitted in writing by the Administrator in its sole discretion, the Option granted hereunder may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant other than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided, that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. During the Participant's lifetime, the Vested Portion is exercisable only by the Participant.

7. Withholding. The Participant will be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold from any payment due or transfer made under the Option or under the Plan or from any compensation or other amount owing to the Participant the amount (in cash, Shares, other securities or other property) of any applicable withholding taxes in respect of the Option, its exercise or any payment or transfer under or with respect to the Option or the Plan and to take such other action as may be necessary in the opinion of the Administrator to satisfy all obligations for the payment of such withholding taxes.

8. Certain Covenants. The Participant hereby agrees and covenants to perform all of the obligations set forth below (the "Covenants") and acknowledges that the Participant's obligations set forth below constitute a material inducement for the Company's grant of the Option to the Participant.

a) Confidential Information. The Participant recognizes and agrees that the Affiliated Group (defined below) has provided Confidential Information to the Executive and has an interest in protecting this information from disclosure. The Participant shall hold in a

fiduciary capacity for the benefit of the Company and its Affiliates (collectively, the “**Affiliated Group**”), all secret or confidential information, knowledge or data relating to the Affiliated Group and its businesses (including, without limitation, any proprietary and not publicly available information concerning any processes, methods, trade secrets, research or secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Participant obtains during the Participant’s employment that is not public knowledge (other than as a result of the Participant’s violation of this Section (a)) (“**Confidential Information**”). The Participant shall not communicate, divulge or disseminate Confidential Information at any time during or after the Participant’s employment, except with the prior written consent of the Company, or as otherwise required by law or legal process or as such disclosure or use may be required in the course of the Participant performing his duties and responsibilities with the Affiliated Group. Notwithstanding the foregoing provisions, if the Participant is required to disclose any such confidential or proprietary information pursuant to applicable law or a subpoena or court order, the Participant shall promptly notify the Company in writing of any such requirement prior to disclosure so that the Company or the appropriate member of the Affiliated Group may seek an appropriate protective order or other appropriate remedy or waive compliance with the provisions hereof. The Participant shall reasonably cooperate with the Company or the appropriate member of the Affiliated Group to obtain such a protective order or other remedy. If such order or other remedy is not obtained prior to the time the Participant is required to make the disclosure, or the Company waives compliance with the provisions hereof, the Participant shall disclose only that portion of the confidential or proprietary information which he is advised by counsel in writing (either his or the Company’s) that he is legally required to so disclose. Upon his termination of employment for any reason, the Participant shall promptly return to the Company all records, files, memoranda, correspondence, notebooks, notes, reports, customer lists, drawings, plans, documents, and other documents and the like relating to the business of the Affiliated Group or containing any trade secrets relating to the Affiliated Group or that the Participant uses, prepares or comes into contact with during the course of the Participant’s employment with the Affiliated Group, and all keys, credit cards and passes, and such materials shall remain the sole property of the Affiliated Group. The Participant agrees to execute any standard-form confidentiality agreements with the Company that the Company in the future generally enters into with similarly situated Participants.

b) Work Product and Inventions. The Affiliated Group and/or its nominees or assigns shall own all right, title and interest in and to any and all inventions, ideas, trade secrets, technology, devices, discoveries, improvements, processes, developments, designs, know how, show-how, data, computer programs, algorithms, formulae, works of authorship, works modifications, trademarks, trade names, documentation, techniques, designs, methods, trade secrets, technical specifications, technical data, concepts, expressions, patents, patent rights, copyrights, moral rights, and all other intellectual property rights or other developments whatsoever (collectively, “**Developments**”), whether or not patentable, reduced to practice or registerable under patent, copyright, trademark or other intellectual property law anywhere in the world, made, authored, discovered, reduced to practice, conceived, created, developed or otherwise obtained by the Participant (alone or jointly with others) during the Participant’s employment with the Affiliated Group, and arising from or relating to such employment or the

business of the Affiliated Group (whether during business hours or otherwise, and whether on the premises of using the facilities or materials of the Affiliated Group or otherwise). The Participant shall promptly and fully disclose to the Affiliated Group and to no one else all Developments, and hereby assigns to the Affiliated Group without further compensation all right, title and interest the Participant has or may have in any Developments, and all patents, copyrights, or other intellectual property rights relating thereto, and agrees that the Participant has not acquired and shall not acquire any rights during the course of his employment with the Affiliated Group or thereafter with respect to any Developments.

c) Company Goodwill. The Participant recognizes and acknowledges that the Affiliated Group has and continues to develop goodwill of substantial value through efforts of employees, including the Participant. This goodwill includes, but is not limited to, the identity and skill sets of its employees, its relationships with employees and customers, intangible value attributable to its products created by Participant and others, and the Affiliated Group's brand and reputation within the industry. Participant shall take no action to damage the goodwill of the Affiliated Group (including disparaging the Affiliated Group or any of their respective directors, officers, executives, employees, agents or other representatives) or use it for personal benefit or the benefit of competitors of the Affiliated Group.

d) Non-Recruitment of Affiliated Group Employees. The Participant acknowledges that employees are a significant part of the goodwill of the Affiliated Group, such as, without limitation, their relationships and contacts with customers and suppliers as well as the training and knowledge they receive from the Affiliated Group in the course of their employment. The Participant shall not, at any time during the Non-solicitation Restricted Period (as defined below), other than in the ordinary exercise of his duties while employed by the Affiliate Group, without the prior written consent of the Affiliated Group, directly or indirectly, solicit, recruit, or employ (whether as an employee, officer, agent, consultant or independent contractor) any person who is or was at any time during the previous 12 months, an employee, representative, officer or director of any member of the Affiliated Group. Further, during the Non-solicitation Restricted Period, the Participant shall not take any action that could reasonably be expected to have the effect of directly encouraging or inducing any person to cease their relationship with any member of the Affiliated Group for any reason. A general employment advertisement by an entity of which the Participant is a part will not constitute solicitation or recruitment. The "**Non-solicitation Restricted Period**" shall mean the period from the Date of Grant through the first anniversary of the Participant's termination of employment.

e) Non-Competition – Solicitation of Business. Participant recognizes and agrees that the Affiliated Group has provided Confidential Information to Participant and has an interest in protecting this information from disclosure. Participant further understands that the goodwill of the Affiliated Group is an interest worthy of protection. For the protection of these and other interests, during the Non-competition Restricted Period (as defined below), the Participant shall not, either directly or indirectly, compete with the business of the Affiliated Group by (i) becoming an officer, agent, employee, partner or director of any other corporation, partnership or other entity, or otherwise render services to or assist or hold an interest (except as a less than 3-percent shareholder of a publicly traded corporation or as a less than 5-percent shareholder of a corporation that is not publicly traded) in any Competitive Business (as defined below), or (ii) soliciting, servicing, or accepting the business of (A) any active customer of any

member of the Affiliated Group, or (B) any person or entity who is or was at any time during the previous twelve months a customer of any member of the Affiliated Group, provided that such business is competitive with any significant business of any member of the Affiliated Group. “**Competitive Business**” shall mean any person or entity (including any joint venture, partnership, firm, corporation, or limited liability company) that conducts a business that is competitive with any significant business of the Affiliated Group as of the date of termination (or any significant business that is being actively pursued as of the date of termination by the Affiliated Group). The Affiliated Group designs, manufactures, sells and licenses its products and technology worldwide. In addition, Competitive Businesses, as defined above, are not tied or limited to any specific geographic location. Accordingly, the scope of this Non-Competition provision is worldwide. The “**Noncompetition Restricted Period**” shall mean the period from the Date of Grant through the first anniversary of the date of termination of the Participant’s employment.

f) Assistance. The Participant agrees that during and after his employment by the Affiliated Group, upon request by the Company, the Participant will assist the Affiliated Group in the defense of any claims, or potential claims that may be made or threatened to be made against any member of the Affiliated Group in any action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise (a “**Proceeding**”), and will assist the Affiliated Group in the prosecution of any claims that may be made by any member of the Affiliated Group in any Proceeding, to the extent that such claims may relate to the Participant’s employment or the period of the Participant’s employment by the Affiliated Group. The Participant agrees, unless precluded by law, to promptly inform the Company if the Participant is asked to participate (or otherwise become involved) in any Proceeding involving such claims or potential claims. The Participant also agrees, unless precluded by law, to promptly inform the Company if the Participant is asked to assist in any investigation (whether governmental or otherwise) of any member of the Affiliated Group (or their actions), regardless of whether a lawsuit has then been filed against any member of the Affiliated Group with respect to such investigation. The Company agrees to reimburse the Participant for all of the Participant’s reasonable out-of-pocket expenses associated with such assistance, including travel expenses and any attorneys’ fees and shall pay a reasonable per diem fee for the Participant’s service. In addition, the Participant agrees to provide such services as are reasonably requested by the Company to assist any successor to the Participant in the transition of duties and responsibilities to such successor. Any services or assistance contemplated in this Section (f) shall be at mutually agreed to and convenient times.

1. Remedies. The Participant acknowledges and agrees that the terms of these Covenants which are necessary to protect legitimate proprietary and business interests of the Affiliated Group in, inter alia, near permanent customer relationships and confidential information. The Participant further acknowledges and agrees that the Participant’s breach of these Covenants will cause the Affiliated Group irreparable harm, which cannot be adequately compensated by money damages. If any of the Covenants are determined to be wholly or partially unenforceable, the Participant hereby agrees that these Covenants or any provision hereof may be reformed so that it is enforceable to the maximum extent permitted by law. If any of the provisions of these Covenants are determined to be wholly or partially unenforceable in

any jurisdiction, such determination shall not be a bar to or in any way diminish the Affiliated Group's right to enforce any such covenant in any other jurisdiction.

9. Securities Laws. The issuance of any Options hereunder shall be subject to the Participant making or entering into such written representations, warranties and agreements as the Administrator may reasonably request in order to comply with applicable securities laws and government regulations. Further, residents of Brazil, Canada, the European Economic Area, Hong Kong, Romania and the United Kingdom are directed to review the legends included on Exhibit A to this Agreement.

10. No Public Offering. The Options awarded under the Plan and this Agreement will not be publicly issued, placed, distributed or offered. The issuance of any Option hereunder does not constitute a public offering of securities.

11. Consent to Transfer of Data. By accepting the Option, Participant consents to the transfer of personal data (including but not limited to the employee's name, address, birth date and hire date) and to the processing of this personal data by the Company and the provider of the Freescale equity recordkeeping system.

12. Notices. Any notice necessary under this Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the Participant at the address appearing in the personnel records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

13. Governing Law. This Agreement and all claims arising out of or based upon this Agreement or relating to the subject matter hereof shall be governed by and construed in accordance with the domestic substantive laws of the State of Delaware without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

14. Consent to Jurisdiction. All actions arising out of or relating to this Agreement shall be heard and determined exclusively in any New York state or federal court sitting in the Borough of Manhattan in The City of New York. The parties hereto hereby (a) submit to the exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan of The City of New York for the purpose of any action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune of from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or that this Agreement or the transactions contemplated hereby may not be enforced in or by any of the above-named courts.

15. Option Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Option is subject to the Plan, as may be amended from time to time, and the terms and provisions of the Plan are hereby incorporated herein by reference.

16. Acceptance. This Agreement must be accepted by electronic signature of the Participant in the Freescale equity recordkeeping system or the Participant will have no right

to the Option provided for in this Agreement. By accepting this Agreement the Participant consents to the electronic delivery through the Freescale equity recordkeeping system of all documents related to this Option.

17. Clawback. The Option Award shall be subject to the Company's clawback policy, as it may be amended from time to time. The Company will amend its clawback policy, as needed, to the extent that the Securities and Exchange Commission adopts the final implementing rules regarding compensation clawbacks mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

EXHIBIT A

Country Specific Securities Law and Other Legends

Residents of Brazil, please see the following legend:

The securities granted under the Plan and this Agreement have not been and will not be publicly issued, placed, distributed, offered or negotiated in the Brazilian capital markets and, as a result, will not be registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários, the CVM). Therefore, the securities granted under the Plan and Agreement will not be offered or sold in Brazil, except in circumstances which do not constitute a public offering, placement, distribution or negotiation under the Brazilian capital markets regulation.

Residents of Canada, please see the following legend:

The exercise alternative provided in Section 4(b)(ii)(C) of the Agreement is not available to residents of Canada.

Residents of European Economic Area, please see the following legend:

Nothing in this Agreement constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so. The Shares which are the subject of this Agreement are offered to the Participant only. They may not be offered or sold within a member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") except pursuant to an exemption from, or in a transaction not subject to the prospectus requirements of the Prospectus Directive and the securities laws applicable in the Relevant Member State.

In relation to each Relevant Member State, neither the Company nor the Participant's employing subsidiary has made, intends or will make an offer of the Shares which are the subject of this Agreement to the public in that Relevant Member State other than a potential offer contemplated in a prospectus that has been approved by the competent authority of the Relevant Member State, published and/or notified to the relevant competent authorities in accordance with the Prospectus Directive, except that the Company may make an offer of such Shares to the public in that Relevant Member State:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant recipient or recipients nominated by the Company for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Shares shall require the Company or any Participant to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression of an offer of Shares to the public in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase or subscribe the Shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

Residents of Hong Kong, please see the following legend:

WARNING: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Residents of Romania, please see the following legend:

For the purpose of implementing the Plan, the personal data collected from you may be subject to processing by Freescale Semiconductor Romania SRL, such entity standing as data controller. In the context of Plan implementation, your personal data may be transferred to Freescale Semiconductor, Ltd., in Bermuda and Freescale Semiconductor, Inc., in the United States. Providing the personal data required for the implementation of the Plan is mandatory, the refusal to do so impeding you to participate in the benefits thereof.

In connection with your personal data which is subject to processing, you have the right to access and to intervene upon such data, as well as to object to any further processing, in the conditions prescribed by law. You also have the right not to be subjected to automated individual decisions, as well as to access the courts of law. You may contact your Human Resources representative for more information on the processing of your personal data in the context of the Plan implementation (including information on exercising your rights related to data processing).

Residents of the United Kingdom, please see the following legend:

This Award Agreement is being issued in the United Kingdom pursuant to regulation 60 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is being issued solely to employees of Freescale Semiconductor, Ltd., and companies within its group (as defined by the Financial Services and Markets Act 2000) and may not be issued to or relied upon by any other person (other than personal representatives of such employees on death).

FREESCALE SEMICONDUCTOR, LTD.
2011 OMNIBUS INCENTIVE PLAN
FORM NONQUALIFIED STOCK OPTION AGREEMENT
(Participant)

THIS AGREEMENT (the “**Agreement**”), is made effective as of the date indicated in the grant summary in the Freescale equity recordkeeping system (the “**Date of Grant**”), by and among Freescale Semiconductor, Ltd., a Bermuda exempted limited liability company (the “**Company**”), the recipient’s employing subsidiary and the recipient of the grant (the “**Participant**”):

RECITALS:

WHEREAS, the Company has adopted the Amended and Restated Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan (the “**Plan**”), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms used but not otherwise defined herein shall have meanings ascribed to such terms in the Plan; and

WHEREAS, the Administrator has determined that it would be in the best interests of the Company and its shareholders to grant the Option provided for herein to the Participant pursuant to the Plan and the terms set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. **Grant of the Option.** The Company hereby grants to the Participant the right and option (the “**Option**”) to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate of Common Shares as indicated in the grant summary in the Freescale equity recordkeeping system (each a “**Share**” and collectively, the “**Shares**”). The purchase price of the Shares subject to the Option shall be at the price indicated in the grant summary in the Freescale equity recordkeeping system (the “**Exercise Price**”). The Option is intended to be a non-qualified stock option, and is not intended to be treated as an option that complies with Section 422 of the Code.

2. **Vesting.**

a) **General.** Except as otherwise provided in Section 2(b) hereof, the Option shall vest and become exercisable with respect to twenty-five percent (25%) of the Shares initially covered by the Option on each of the first, second, third and fourth anniversaries of the Date of Grant, subject to the Participant’s continued employment with the Company or an Affiliate on each such vesting date. At any time, the portion of the Option which has become vested as described above (or pursuant to Section 2(b) or 2(d)) is hereinafter referred to as the “**Vested Portion.**”

b) **Accelerated Vesting.** Notwithstanding any other provisions of the Plan or this Agreement to the contrary, in the event that the Participant’s employment with the Company is

terminated due to the Participant's death or Disability, the portion of the Option that would have become vested and exercisable on the next scheduled vesting date shall become vested and exercisable as of immediately prior to such termination.

c) Termination for Cause. Notwithstanding any other provisions of the Plan or this Agreement to the contrary, the Option (including any Vested Portion thereof) shall terminate and be forfeited immediately upon the Company's notification to the Participant of the Participant's termination of employment by the Company for Cause.

d) Change in Control.

(i) Notwithstanding any other provisions of the Plan or this Agreement to the contrary, in the event that the Participant's employment with the Company is terminated by the Company without Cause within twelve months following a Change in Control, all unvested Options shall become immediately vested and exercisable.

(ii) If the Option Award is not assumed or substituted in connection with a Change in Control, immediately upon the occurrence of the Change in Control, all unvested Options shall become immediately vested and exercisable. For purposes of this Section 2(d)(ii), the Option Award shall be considered assumed or substituted for if, following the Change in Control, the Option Award is of comparable value and remains subject to the same terms and conditions that were applicable to the Option Award immediately prior to the Change in Control except that the Option Award instead confers the right to purchase common stock of the acquiring entity or in the case of an amalgamation, the amalgamated company or its parent.

3. Exercise of Option.

a) Period of Exercise. Subject to the provisions of the Plan and this Agreement, the Participant may exercise all or any part of the Vested Portion of the Option at any time prior to the earliest to occur of:

(i) the seventh (7th) anniversary of the Date of Grant;

(ii) twelve (12) months following the date of the Participant's termination of employment due to the Participant's Retirement, death, or Disability;

(iii) ninety (90) days following the date of the Participant's termination of employment for any reason other than for Cause or due to the Participant's Retirement, death or Disability; and

(iv) the date that the Company notifies the Participant of the Participant's termination of employment for Cause.

b) Method of Exercise.

(i) Each election to exercise the Vested Portion shall be subject to the terms and conditions of the Plan and shall be made using the Freescale equity recordkeeping system or in

writing, signed by the Participant or by his or her executor, administrator, or permitted transferee (subject to any restrictions provided under the Plan), made pursuant to and in accordance with the terms and conditions set forth in the Plan and received by the Company at its principal offices, accompanied by payment in full as provided in the Plan or in this Agreement.

(ii) The Exercise Price may be paid (A) by the delivery of cash or check acceptable to the Administrator, (B) by any cashless exercise procedure approved by the Administrator (including the withholding of Shares otherwise issuable upon exercise), (C) in the form of unrestricted Shares already owned by the Participant which, (x) in the case of unrestricted Shares acquired upon exercise of an Option, have been owned by the Participant for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (D) any other method approved by the Administrator and permitted by applicable law or (E) any combination of the foregoing.

(iii) In the event of the Participant's death, the Option shall remain exercisable by the Participant's executor or administrator, or the person or persons to whom the Participant's rights under this Agreement shall pass by will or by the laws of descent and distribution as the case may be, to the extent set forth in Section 4(a). Any heir or legatee of the Participant shall take rights herein granted subject to the terms and conditions hereof.

4. No Right to Continued Employment. The granting of the Option evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the employment of the Participant and shall not lessen or affect the Company's or any Affiliate's right to terminate the employment of such Participant. The granting of the Option does not form part of and should in no way be construed as a term or condition of employment. At all times, the Option granted hereunder is discretionary and does not imply that additional Options will be awarded in the future.

5. Options Not Wages. The value of any Options granted to Participant does not constitute and will not be included as wages for the purposes of calculating any benefit or bonus provided by the Company or the Participant's employing subsidiary.

6. Transferability. Unless otherwise permitted in writing by the Administrator in its sole discretion, the Option granted hereunder may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant other than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided, that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. During the Participant's lifetime, the Vested Portion is exercisable only by the Participant.

7. Withholding. The Participant will be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold from any payment due or transfer made under the Option or under the Plan or from any compensation or other amount owing to the Participant the amount (in cash, Shares, other securities or other property)

of any applicable withholding taxes in respect of the Option, its exercise or any payment or transfer under or with respect to the Option or the Plan and to take such other action as may be necessary in the opinion of the Administrator to satisfy all obligations for the payment of such withholding taxes.

8. Certain Covenants. The Participant hereby agrees and covenants to perform all of the obligations set forth below (the "Covenants") and acknowledges that the Participant's obligations set forth below constitute a material inducement for the Company's grant of the Option to the Participant.

a) Confidential Information. The Participant recognizes and agrees that the Affiliated Group (defined below) has provided Confidential Information to the Participant and has an interest in protecting this information from disclosure. The Participant shall hold in a fiduciary capacity for the benefit of the Company and its Affiliates (collectively, the "**Affiliated Group**"), all secret or confidential information, knowledge or data relating to the Affiliated Group and its businesses (including, without limitation, any proprietary and not publicly available information concerning any processes, methods, trade secrets, research or secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Participant obtains during the Participant's employment that is not public knowledge (other than as a result of the Participant's violation of this Section (a)) ("**Confidential Information**"). The Participant shall not communicate, divulge or disseminate Confidential Information at any time during or after the Participant's employment, except with the prior written consent of the Company, or as otherwise required by law or legal process or as such disclosure or use may be required in the course of the Participant performing his duties and responsibilities with the Affiliated Group. Notwithstanding the foregoing provisions, if the Participant is required to disclose any such confidential or proprietary information pursuant to applicable law or a subpoena or court order, the Participant shall promptly notify the Company in writing of any such requirement prior to disclosure so that the Company or the appropriate member of the Affiliated Group may seek an appropriate protective order or other appropriate remedy or waive compliance with the provisions hereof. The Participant shall reasonably cooperate with the Company or the appropriate member of the Affiliated Group to obtain such a protective order or other remedy. If such order or other remedy is not obtained prior to the time the Participant is required to make the disclosure, or the Company waives compliance with the provisions hereof, the Participant shall disclose only that portion of the confidential or proprietary information which he is advised by counsel in writing (either his or the Company's) that he is legally required to so disclose. Upon his termination of employment for any reason, the Participant shall promptly return to the Company all records, files, memoranda, correspondence, notebooks, notes, reports, customer lists, drawings, plans, documents, and other documents and the like relating to the business of the Affiliated Group or containing any trade secrets relating to the Affiliated Group or that the Participant uses, prepares or comes into contact with during the course of the Participant's employment with the Affiliated Group, and all keys, credit cards and passes, and such materials shall remain the sole property of the Affiliated Group. The Participant agrees to execute any standard-form confidentiality agreements with the Company that the Company in the future generally enters into with similarly situated employees.

b) Work Product and Inventions. The Affiliated Group and/or its nominees or assigns shall own all right, title and interest in and to any and all inventions, ideas, trade secrets, technology, devices, discoveries, improvements, processes, developments, designs, know how, show-how, data, computer programs, algorithms, formulae, works of authorship, works

modifications, trademarks, trade names, documentation, techniques, designs, methods, trade secrets, technical specifications, technical data, concepts, expressions, patents, patent rights, copyrights, moral rights, and all other intellectual property rights or other developments whatsoever (collectively, “**Developments**”), whether or not patentable, reduced to practice or registerable under patent, copyright, trademark or other intellectual property law anywhere in the world, made, authored, discovered, reduced to practice, conceived, created, developed or otherwise obtained by the Participant (alone or jointly with others) during the Participant’s employment with the Affiliated Group, and arising from or relating to such employment or the business of the Affiliated Group (whether during business hours or otherwise, and whether on the premises of using the facilities or materials of the Affiliated Group or otherwise). The Participant shall promptly and fully disclose to the Affiliated Group and to no one else all Developments, and hereby assigns to the Affiliated Group without further compensation all right, title and interest the Participant has or may have in any Developments, and all patents, copyrights, or other intellectual property rights relating thereto, and agrees that the Participant has not acquired and shall not acquire any rights during the course of his employment with the Affiliated Group or thereafter with respect to any Developments.

c) Company Goodwill. The Participant recognizes and acknowledges that the Affiliated Group has and continues to develop goodwill of substantial value through efforts of employees, including the Participant. This goodwill includes, but is not limited to, the identity and skill sets of its employees, its relationships with employees and customers, intangible value attributable to its products created by Participant and others, and the Affiliated Group’s brand and reputation within the industry. Participant shall take no action to damage the goodwill of the Affiliated Group (including disparaging the Affiliated Group or any of their respective directors, officers, executives, employees, agents or other representatives) or use it for personal benefit or the benefit of competitors of the Affiliated Group.

d) Remedies. The Participant acknowledges and agrees that the terms of these Covenants which are necessary to protect legitimate proprietary and business interests of the Affiliated Group in, inter alia, near permanent customer relationships and confidential information. The Participant further acknowledges and agrees that the Participant’s breach of these Covenants will cause the Affiliated Group irreparable harm, which cannot be adequately compensated by money damages. If any of the Covenants are determined to be wholly or partially unenforceable, the Participant hereby agrees that these Covenants or any provision hereof may be reformed so that it is enforceable to the maximum extent permitted by law. If any of the provisions of these Covenants are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Affiliated Group’s right to enforce any such covenant in any other jurisdiction.

9. Securities Laws. The issuance of any Options hereunder shall be subject to the Participant making or entering into such written representations, warranties and agreements as the Administrator may reasonably request in order to comply with applicable securities laws and government regulations. Further, residents of Brazil, Canada, the European Economic Area, Hong Kong, Romania and the United Kingdom are directed to review the legends included on Exhibit A to this Agreement.

10. No Public Offering. The Options awarded under the Plan and this Agreement will not be publicly issued, placed, distributed or offered. The issuance of any Option hereunder does not constitute a public offering of securities.

11. Consent to Transfer of Data. By accepting the Option, Participant consents to the transfer of personal data (including but not limited to the employee's name, address, birth date and hire date) and to the processing of this personal data by the Company and the provider of the Freescale equity recordkeeping system.

12. Notices. Any notice necessary under this Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the Participant at the address appearing in the personnel records of the Company for the Participant or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

13. Governing Law. This Agreement and all claims arising out of or based upon this Agreement or relating to the subject matter hereof shall be governed by and construed in accordance with the domestic substantive laws of the State of Delaware without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

14. Consent to Jurisdiction. All actions arising out of or relating to this Agreement shall be heard and determined exclusively in any New York state or federal court sitting in the Borough of Manhattan in The City of New York. The parties hereto hereby (a) submit to the exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan of The City of New York for the purpose of any action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune of from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or that this Agreement or the transactions contemplated hereby may not be enforced in or by any of the above-named courts.

15. Option Subject to Plan. By entering into this Agreement, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan. The Option is subject to the Plan, as may be amended from time to time, and the terms and provisions of the Plan are hereby incorporated herein by reference.

16. Acceptance. This Agreement must be accepted by electronic signature of the Participant in the Freescale equity recordkeeping system or the Participant will have no right to the Option provided for in this Agreement. By accepting this Agreement the Participant consents to the electronic delivery through the Freescale equity recordkeeping system of all documents related to this Option.

EXHIBIT A

Country Specific Securities Law and Other Legends

Residents of Brazil, please see the following legend:

The securities granted under the Plan and this Agreement have not been and will not be publicly issued, placed, distributed, offered or negotiated in the Brazilian capital markets and, as a result, will not be registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários, the CVM). Therefore, the securities granted under the Plan and Agreement will not be offered or sold in Brazil, except in circumstances which do not constitute a public offering, placement, distribution or negotiation under the Brazilian capital markets regulation.

Residents of Canada, please see the following legend:

The exercise alternative provided in Section 4(b)(ii)(C) of the Agreement is not available to residents of Canada.

Residents of European Economic Area, please see the following legend:

Nothing in this Agreement constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so. The Shares which are the subject of this Agreement are offered to the Participant only. They may not be offered or sold within a member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") except pursuant to an exemption from, or in a transaction not subject to the prospectus requirements of the Prospectus Directive and the securities laws applicable in the Relevant Member State.

In relation to each Relevant Member State, neither the Company nor the Participant's employing subsidiary has made, intends or will make an offer of the Shares which are the subject of this Agreement to the public in that Relevant Member State other than a potential offer contemplated in a prospectus that has been approved by the competent authority of the Relevant Member State, published and/or notified to the relevant competent authorities in accordance with the Prospectus Directive, except that the Company may make an offer of such Shares to the public in that Relevant Member State:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant recipient or recipients nominated by the Company for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Shares shall require the Company or any Participant to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression of an offer of Shares to the public in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase or subscribe the Shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

Residents of Hong Kong, please see the following legend:

WARNING: The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Residents of Romania, please see the following legend:

For the purpose of implementing the Plan, the personal data collected from you may be subject to processing by Freescale Semiconductor Romania SRL, such entity standing as data controller. In the context of Plan implementation, your personal data may be transferred to Freescale Semiconductor, Ltd., in Bermuda and Freescale Semiconductor, Inc., in the United States. Providing the personal data required for the implementation of the Plan is mandatory, the refusal to do so impeding you to participate in the benefits thereof.

In connection with your personal data which is subject to processing, you have the right to access and to intervene upon such data, as well as to object to any further processing, in the conditions prescribed by law. You also have the right not to be subjected to automated individual decisions, as well as to access the courts of law. You may contact your Human Resources representative for more information on the processing of your personal data in the context of the Plan implementation (including information on exercising your rights related to data processing).

Residents of the United Kingdom, please see the following legend:

This Award Agreement is being issued in the United Kingdom pursuant to regulation 60 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is being issued solely to employees of Freescale Semiconductor, Ltd., and companies within its group (as defined by the Financial Services and Markets Act 2000) and may not be issued to or relied upon by any other person (other than personal representatives of such employees on death).

FREESCALE SEMICONDUCTOR, LTD.
2011 OMNIBUS INCENTIVE PLAN
FORM NONQUALIFIED STOCK OPTION AGREEMENT
(Senior Management)

THIS AGREEMENT (the “**Agreement**”), is made effective as of the date indicated in the grant summary in the Freescale equity recordkeeping system (the “**Date of Grant**”), by and among Freescale Semiconductor, Ltd., a Bermuda exempted limited liability company (the “**Company**”), the recipient’s employing subsidiary and the recipient of the grant (the “**Executive**”):

RECITALS:

WHEREAS, the Company has adopted the Amended and Restated Freescale Semiconductor, Ltd. 2011 Omnibus Incentive Plan (the “**Plan**”), which Plan is incorporated herein by reference and made a part of this Agreement. Capitalized terms used but not otherwise defined herein shall have meanings ascribed to such terms in the Plan; and

WHEREAS, the Administrator has determined that it would be in the best interests of the Company and its shareholders to grant the Option provided for herein to the Executive pursuant to the Plan and the terms set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. **Grant of the Option.** The Company hereby grants to the Executive the right and option (the “**Option**”) to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate of Common Shares as indicated in the grant summary in the Freescale equity recordkeeping system (each a “**Share**” and collectively, the “**Shares**”). The purchase price of the Shares subject to the Option shall be at the price indicated in the grant summary in the Freescale equity recordkeeping system (the “**Exercise Price**”). The Option is intended to be a non-qualified stock option, and is not intended to be treated as an option that complies with Section 422 of the Code.

2. **Vesting.**

(a) **General.** Except as otherwise provided in this Section 2, the Option shall vest and become exercisable with respect to twenty-five percent (25%) of the Shares initially covered by the Option on each of the first, second, third and fourth anniversaries of the Date of Grant, subject to the Executive’s continued employment with the Company or an Affiliate on each such vesting date. At any time, the portion of the Option which has become vested as described above (or pursuant to Section 2(b) or 2(d)) is hereinafter referred to as the “**Vested Portion.**”

(b) **Death or Disability.** Notwithstanding any other provisions of the Plan or this Agreement to the contrary, in the event that the Executive’s employment with the Company is terminated due to the Executive’s death or Disability, the portion of the Option that would have

become vested and exercisable on the next scheduled vesting date shall become vested and exercisable as of immediately prior to such termination.

(c) Termination for Cause. Notwithstanding any other provisions of the Plan or this Agreement to the contrary, the Option (including any Vested Portion thereof) shall terminate and be forfeited immediately upon the Company's notification to the Executive of the Executive's termination of employment by the Company for Cause.

(d) Change in Control.

(i) Notwithstanding any other provisions of the Plan or this Agreement to the contrary, in the event that the Executive's employment with the Company is terminated by the Company without Cause or by the Executive for Good Reason, in either case within twelve months following a Change in Control, all unvested Options shall become immediately vested and exercisable. For purposes of this Agreement, "**Cause**" and "**Good Reason**" shall have the meanings set forth in the Executive's employment agreement, or if the Executive does not have an employment agreement in which these terms are defined, then Cause shall have the meaning set forth in the Plan and Good Reason shall have the meaning set forth below.

(ii) If the Option Award is not assumed or substituted in connection with a Change in Control, immediately upon the occurrence of the Change in Control, all unvested Options shall become immediately vested and exercisable. For purposes of this Section 2(d)(ii), the Option Award shall be considered assumed or substituted if, following the Change in Control, the Option Award is of comparable value and remains subject to the same terms and conditions that were applicable to the Option Award immediately prior to the Change in Control except that the Option Award instead confers the right to purchase common stock of the acquiring entity or in the case of an amalgamation, the amalgamated company or its parent.

(iii) If the Executive does not have an employment agreement with the Company in which Good Reason is defined, "**Good Reason**" means, in the absence of the Executive's written consent, any of the following: (i) a material reduction by the Company in the Executive's base salary or target bonus unless the base salary or target bonus of all senior executives is reduced by a similar percentage or amount as part of company-wide cost reductions; (ii) a material reduction in the aggregate level of employee benefits made available to the Executive when compared to the benefits made available to the Executive at any time during the Executive's employment with the Company, unless the reduction is applicable to senior executives of the Company generally; (iii) a material diminution in the Executive's duties or responsibilities (other than as a result of the Executive's physical or mental incapacity which impairs his ability to materially perform his duties or responsibilities as confirmed by a doctor reasonably acceptable to the Executive or his representative and such diminution lasts only for so long as such doctor determines such incapacity impairs the Executive's ability to materially perform his duties or responsibilities). A lateral job change that does not materially diminish the Executive's duties or responsibilities and does not affect the Executive's reporting relationship will not constitute Good Reason; or (iv) the Company requiring the Executive's principal location of employment to be at any office or location more than 75 miles from the principal headquarters of the Company (other than any such change in location which is

not materially adverse to the Executive, and other than to the extent agreed to or requested by the Executive) on the Date of Grant.

(e) Forfeiture. Notwithstanding anything herein to the contrary, if the Executive breaches any Restrictive Covenants applicable to the Executive (including, without limitation, the Restrictive Covenants set forth in Exhibit A hereto) at any time during the two year period following the Executive's termination of employment for any reason then (y) any Vested Portion then held by the Executive shall be automatically forfeited and (z) Executive shall immediately repay the Company any gain (defined as the difference between the Exercise Price and the Fair Market Value on the date of exercise) resulting from the exercise of an Option within the three year period prior to termination or after termination. The Company reserves the right to reduce or waive any amounts payable to the Company pursuant to this provision, in its sole discretion.

3. Certain Covenants. The Executive hereby agrees and covenants to perform all of the obligations set forth in Exhibit A hereto (which is incorporated by reference hereby) and acknowledges that the Executive's obligations set forth in Exhibit A constitute a material inducement for the Company's grant of the Option to the Executive.

4. Exercise of Option.

(a) Period of Exercise. Subject to the provisions of the Plan and this Agreement, the Executive may exercise all or any part of the Vested Portion of the Option at any time prior to the earliest to occur of:

(i) the seventh (7th) anniversary of the Date of Grant;

(ii) twelve (12) months following the date of the Executive's termination of employment due to the Executive's Retirement, death, or Disability;

(iii) ninety (90) days following the date of the Executive's termination of employment for any reason other than for Cause or due to the Executive's Retirement, death or Disability; and

(iv) the date that the Company notifies the Executive of the Executive's termination of employment for Cause.

(b) Method of Exercise.

(i) Each election to exercise the Vested Portion shall be subject to the terms and conditions of the Plan and shall be made using the Freescale equity recordkeeping system or in writing, signed by the Executive or by his or her executor, administrator, or permitted transferee (subject to any restrictions provided under the Plan), made pursuant to and in accordance with the terms and conditions set forth in the Plan and received by the Company at its principal offices, accompanied by payment in full as provided in the Plan or in this Agreement.

(ii) The Exercise Price may be paid (A) by the delivery of cash or check acceptable to the Administrator, (B) by any cashless exercise procedure approved by the

Administrator (including the withholding of Shares otherwise issuable upon exercise), (C) in the form of unrestricted Shares already owned by the Executive which, (x) in the case of unrestricted Shares acquired upon exercise of an Option, have been owned by the Executive for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (D) any other method approved by the Administrator and permitted by applicable law or (E) any combination of the foregoing.

(iii) In the event of the Executive's death, the Option shall remain exercisable by the Executive's executor or administrator, or the person or persons to whom the Executive's rights under this Agreement shall pass by will or by the laws of descent and distribution as the case may be, to the extent set forth in Section 4(a). Any heir or legatee of the Executive shall take rights herein granted subject to the terms and conditions hereof.

5. No Right to Continued Employment. The granting of the Option evidenced hereby and this Agreement shall impose no obligation on the Company or any Affiliate to continue the employment of the Executive and shall not lessen or affect the Company's or any Affiliate's right to terminate the employment of such Executive. The granting of the Option does not form part of and should in no way be construed as a term or condition of employment. At all times, the Option granted hereunder is discretionary and does not imply that additional Options will be awarded in the future.

6. Options Not Wages. The value of any Options granted to Executive does not constitute and will not be included as wages for the purposes of calculating any benefit or bonus provided by the Company or the Executive's employing subsidiary.

7. Transferability. Unless otherwise permitted in writing by the Administrator in its sole discretion, the Option granted hereunder may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Executive other than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided, that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. During the Executive's lifetime, the Vested Portion is exercisable only by the Executive.

8. Withholding. The Executive will be required to pay to the Company or any Affiliate and the Company shall have the right and is hereby authorized to withhold from any payment due or transfer made under the Option or under the Plan or from any compensation or other amount owing to the Executive the amount (in cash, Shares, other securities or other property) of any applicable withholding taxes in respect of the Option, its exercise or any payment or transfer under or with respect to the Option or the Plan and to take such other action as may be necessary in the opinion of the Administrator to satisfy all obligations for the payment of such withholding taxes.

9. Securities Laws. The issuance of any Options hereunder shall be subject to the Executive making or entering into such written representations, warranties and agreements as

the Administrator may reasonably request in order to comply with applicable securities laws and government regulations.

10. No Public Offering. The Options awarded under the Plan and this Agreement will not be publicly issued, placed, distributed or offered. The issuance of any Option hereunder does not constitute a public offering of securities.

11. Consent to Transfer of Data. By accepting the Option, Executive consents to the transfer of personal data (including but not limited to the employee's name, address, birth date and hire date) and to the processing of this personal data by the Company and the provider of the Freescale equity recordkeeping system.

12. Notices. Any notice necessary under this Agreement shall be addressed to the Company in care of its Secretary at the principal executive office of the Company and to the Executive at the address appearing in the personnel records of the Company for the Executive or to either party at such other address as either party hereto may hereafter designate in writing to the other. Any such notice shall be deemed effective upon receipt thereof by the addressee.

13. Governing Law. This Agreement and all claims arising out of or based upon this Agreement or relating to the subject matter hereof shall be governed by and construed in accordance with the domestic substantive laws of the State of Delaware without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

14. Consent to Jurisdiction. All actions arising out of or relating to this Agreement shall be heard and determined exclusively in any New York state or federal court sitting in the Borough of Manhattan in The City of New York. The parties hereto hereby (a) submit to the exclusive jurisdiction of any state or federal court sitting in the Borough of Manhattan of The City of New York for the purpose of any action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune of from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or that this Agreement or the transactions contemplated hereby may not be enforced in or by any of the above-named courts.

15. Option Subject to Plan. By entering into this Agreement, the Executive agrees and acknowledges that the Executive has received and read a copy of the Plan. The Option is subject to the Plan, as may be amended from time to time, and the terms and provisions of the Plan are hereby incorporated herein by reference.

16. Acceptance. This Agreement must be accepted by electronic signature of the Executive in the Freescale equity recordkeeping system or the Executive will have no right to the Option provided for in this Agreement. By accepting this Agreement the Executive consents to the electronic delivery through the Freescale equity recordkeeping system of all documents related to this Option.

17. Clawback. The Option Award shall be subject to the Company's clawback policy, as it may be amended from time to time. The Company will amend its clawback policy, as needed, to the extent that the Securities and Exchange Commission adopts the final implementing rules regarding compensation clawbacks mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Exhibit A – Restrictive Covenants

(a) **Confidential Information.** The Executive recognizes and agrees that the Affiliated Group (defined below) has provided Confidential Information to the Executive and has an interest in protecting this information from disclosure. The Executive shall hold in a fiduciary capacity for the benefit of the Company and its Affiliates (collectively, the “**Affiliated Group**”), all secret or confidential information, knowledge or data relating to the Affiliated Group and its businesses (including, without limitation, any proprietary and not publicly available information concerning any processes, methods, trade secrets, research or secret data, costs, names of users or purchasers of their respective products or services, business methods, operating procedures or programs or methods of promotion and sale) that the Executive obtains during the Executive’s employment that is not public knowledge (other than as a result of the Executive’s violation of this Section (a)) (“**Confidential Information**”). The Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after the Executive’s employment, except with the prior written consent of the Company, or as otherwise required by law or legal process or as such disclosure or use may be required in the course of the Executive performing his duties and responsibilities with the Affiliated Group. Notwithstanding the foregoing provisions, if the Executive is required to disclose any such confidential or proprietary information pursuant to applicable law or a subpoena or court order, the Executive shall promptly notify the Company in writing of any such requirement prior to disclosure so that the Company or the appropriate member of the Affiliated Group may seek an appropriate protective order or other appropriate remedy or waive compliance with the provisions hereof. The Executive shall reasonably cooperate with the Company or the appropriate member of the Affiliated Group to obtain such a protective order or other remedy. If such order or other remedy is not obtained prior to the time the Executive is required to make the disclosure, or the Company waives compliance with the provisions hereof, the Executive shall disclose only that portion of the confidential or proprietary information which he is advised by counsel in writing (either his or the Company’s) that he is legally required to so disclose. Upon his termination of employment for any reason, the Executive shall promptly return to the Company all records, files, memoranda, correspondence, notebooks, notes, reports, customer lists, drawings, plans, documents, and other documents and the like relating to the business of the Affiliated Group or containing any trade secrets relating to the Affiliated Group or that the Executive uses, prepares or comes into contact with during the course of the Executive’s employment with the Affiliated Group, and all keys, credit cards and passes, and such materials shall remain the sole property of the Affiliated Group. The Executive agrees to execute any standard-form confidentiality agreements with the Company that the Company in the future generally enters into with similarly situated employees.

(b) **Work Product and Inventions.** The Affiliated Group and/or its nominees or assigns shall own all right, title and interest in and to any and all inventions, ideas, trade secrets, technology, devices, discoveries, improvements, processes, developments, designs, know how, show-how, data, computer programs, algorithms, formulae, works of authorship, works modifications, trademarks, trade names, documentation, techniques, designs, methods, trade secrets, technical specifications, technical data, concepts, expressions, patents, patent rights, copyrights, moral rights, and all other intellectual property rights or other developments whatsoever (collectively, “**Developments**”), whether or not patentable, reduced to practice or registerable under patent, copyright, trademark or other intellectual property law anywhere in the world, made, authored, discovered, reduced to practice, conceived, created, developed or otherwise obtained by the Executive (alone or jointly with others) during the Executive’s employment with the Affiliated Group, and arising from or relating to such

employment or the business of the Affiliated Group (whether during business hours or otherwise, and whether on the premises of using the facilities or materials of the Affiliated Group or otherwise). The Executive shall promptly and fully disclose to the Affiliated Group and to no one else all Developments, and hereby assigns to the Affiliated Group without further compensation all right, title and interest the Executive has or may have in any Developments, and all patents, copyrights, or other intellectual property rights relating thereto, and agrees that the Executive has not acquired and shall not acquire any rights during the course of his employment with the Affiliated Group or thereafter with respect to any Developments.

(c) Company Goodwill. The Executive recognizes and acknowledges that the Affiliated Group has and continues to develop goodwill of substantial value through efforts of employees, including the Executive. This goodwill includes, but is not limited to, the identity and skill sets of its employees, its relationships with employees and customers, intangible value attributable to its products created by Executive and others, and the Affiliated Group's brand and reputation within the industry. Executive shall take no action to damage the goodwill of the Affiliated Group (including disparaging the Affiliated Group or any of their respective directors officers, executives, employees, agents or other representatives) or use it for personal benefit or the benefit of competitors of the Affiliated Group.

(d) Non-Recruitment of Affiliated Group Employees. The Executive acknowledges that employees are a significant part of the goodwill of the Affiliated Group, such as, without limitation, their relationships and contacts with customers and suppliers as well as the training and knowledge they receive from the Affiliated Group in the course of their employment. The Executive shall not, at any time during the Non-solicitation Restricted Period (as defined below), other than in the ordinary exercise of his duties while employed by the Affiliated Group, without the prior written consent of the Affiliated Group, directly or indirectly, solicit, recruit, or employ (whether as an employee, officer, agent, consultant or independent contractor) any person who is or was at any time during the previous 12 months, an employee, representative, officer or director of any member of the Affiliated Group. Further, during the Non-solicitation Restricted Period, the Executive shall not take any action that could reasonably be expected to have the effect of directly encouraging or inducing any person to cease their relationship with any member of the Affiliated Group for any reason. A general employment advertisement by an entity of which the Executive is a part will not constitute solicitation or recruitment. The **"Non-solicitation Restricted Period"** shall mean the period from the Date of Grant through the second anniversary of the Executive's termination of employment.

(e) Non-Competition – Solicitation of Business. The Executive recognizes and agrees that the Affiliated Group has provided Confidential Information to Executive and has an interest in protecting this information from disclosure. Executive further understands that the goodwill of the Affiliated Group is an interest worthy of protection. For the protection of these and other interests, during the Non-competition Restricted Period (as defined below), the Executive shall not, either directly or indirectly, compete with the business of the Affiliated Group by (i) becoming an officer, agent, employee, partner or director of any other corporation, partnership or other entity, or otherwise render services to or assist or hold an interest (except as a less than 3-percent shareholder of a publicly traded corporation or as a less than 5-percent shareholder of a corporation that is not publicly traded) in any Competitive Business (as defined below), or (ii) soliciting, servicing, or accepting the business of (A) any active customer of any member of the Affiliated Group, or (B) any person or entity who is or was at any time during the previous twelve months a customer of any member of the Affiliated Group, provided that such business is competitive with any significant business of any member of the Affiliated

Group. “**Competitive Business**” shall mean any person or entity (including any joint venture, partnership, firm, corporation, or limited liability company) that conducts a business that is competitive with any significant business of the Affiliated Group as of the date of termination (or any significant business that is being actively pursued as of the date of termination by the Affiliated Group). The Affiliated Group designs, manufactures, sells and licenses its products and technology worldwide. In addition, Competitive Businesses, as defined above, are not tied or limited to any specific geographic location. Accordingly, the scope of this Non-Competition provision is worldwide. The “**Non-competition Restricted Period**” shall mean the period from the Date of Grant through the second anniversary of the date of termination of the Executive’s employment.

(f) Assistance. The Executive agrees that during and after his employment by the Affiliated Group, upon request by the Company, the Executive will assist the Affiliated Group in the defense of any claims, or potential claims that may be made or threatened to be made against any member of the Affiliated Group in any action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise (a “**Proceeding**”), and will assist the Affiliated Group in the prosecution of any claims that may be made by any member of the Affiliated Group in any Proceeding, to the extent that such claims may relate to the Executive’s employment or the period of the Executive’s employment by the Affiliated Group. The Executive agrees, unless precluded by law, to promptly inform the Company if the Executive is asked to participate (or otherwise become involved) in any Proceeding involving such claims or potential claims. The Executive also agrees, unless precluded by law, to promptly inform the Company if the Executive is asked to assist in any investigation (whether governmental or otherwise) of any member of the Affiliated Group (or their actions), regardless of whether a lawsuit has then been filed against any member of the Affiliated Group with respect to such investigation. The Company agrees to reimburse the Executive for all of the Executive’s reasonable out-of-pocket expenses associated with such assistance, including travel expenses and any attorneys’ fees and shall pay a reasonable per diem fee for the Executive’s service. In addition, the Executive agrees to provide such services as are reasonably requested by the Company to assist any successor to the Executive in the transition of duties and responsibilities to such successor. Any services or assistance contemplated in this Section (f) shall be at mutually agreed to and convenient times.

(g) Remedies. The Executive acknowledges and agrees that the terms of this Exhibit A: (i) are reasonable in geographic and temporal scope, (ii) are necessary to protect legitimate proprietary and business interests of the Affiliated Group in, inter alia, near permanent customer relationships and confidential information. The Executive further acknowledges and agrees that the Executive’s breach of the provisions of this Exhibit A will cause the Affiliated Group irreparable harm, which cannot be adequately compensated by money damages. The Executive consents and agrees that the forfeiture provisions contained in the Agreement are reasonable remedies in the event the Executive commits any such breach. If any of the provisions of this Exhibit A are determined to be wholly or partially unenforceable, the Executive hereby agrees that Exhibit A or any provision hereof may be reformed so that it is enforceable to the maximum extent permitted by law. If any of the provisions of this Exhibit A are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Affiliated Group’s right to enforce any such covenant in any other jurisdiction.

Freescale Semiconductor, Ltd. and Subsidiaries
Computation of Ratio of Earnings to Fixed Charges

(in millions)	Year Ended December 31, 2014	Year Ended December 31, 2013 ⁽³⁾	Year Ended December 31, 2012 ⁽³⁾	Year Ended December 31, 2011 ⁽³⁾	Year Ended December 31, 2010 ⁽³⁾
Earnings:					
Earnings (loss) before income taxes ⁽¹⁾	\$ 304	\$ (168)	\$ (100)	\$ (381)	\$ (1,075)
Less: Capitalized interest	—	—	—	—	—
Add: Fixed charges (per below)	362	501	531	583	601
Total earnings (loss) ⁽²⁾	<u>\$ 666</u>	<u>\$ 333</u>	<u>\$ 431</u>	<u>\$ 202</u>	<u>\$ (474)</u>
Fixed charges:					
Interest expense	\$ 353	\$ 490	\$ 519	\$ 572	\$ 591
Rent expense interest factor	9	11	12	11	10
Total fixed charges	<u>\$ 362</u>	<u>\$ 501</u>	<u>\$ 531</u>	<u>\$ 583</u>	<u>\$ 601</u>
Ratio of earnings to fixed charges	<u>1.8</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(1) After adjustments required by Item 503(d) of SEC Regulation S-K, earnings or loss of equity investees.

(2) As defined in Item 503(d) of SEC Regulation S-K.

(3) Earnings were inadequate to cover fixed charges for the years ended December 31, 2013, 2012, 2011 and 2010 by \$0.2 billion, \$0.1 billion, \$0.4 billion and \$1.1 billion, respectively.

**Subsidiaries
of
Freescale Semiconductor, Ltd.**

Name	State / Country of Incorporation
Freescale Semiconductor Holdings II, Ltd.	Bermuda
Freescale Semiconductor Holdings III, Ltd.	Bermuda
Freescale Semiconductor Holdings IV, Ltd.	Bermuda
Freescale Semiconductor Holdings V, Inc.	Delaware / USA
Freescale Semiconductor, Inc.	Delaware / USA
Freescale Semiconductor Holding Limited	British Virgin Islands
Freescale Semiconductor (China) Limited	China
Freescale Semiconductor Danmark A/S	Denmark
Freescale Semiconducteurs France SAS	France
Freescale Halbleiter Deutschland GmbH	Germany
Providence China Holdings Limited	Hong Kong
Freescale Semiconductor Hong Kong Limited	Hong Kong
Freescale Semiconductor India Pvt. Ltd.	India
Freescale Semiconductor Japan Limited	Japan
Tohoku Semiconductor Corporation	Japan
Freescale Semiconductor Luxembourg Investing Services S.à.r.l.	Luxembourg
Freescale Semiconductor Luxembourg Treasury Services S.à.r.l.	Luxembourg
Freescale Asia Fulfillment Centre Sdn Bhd.	Malaysia
Freescale Semiconductor Malaysia Sdn. Bhd.	Malaysia
Freescale Semiconductor EME&A SA	Switzerland
Freescale Semiconductor Holding UK Limited	United Kingdom
Freescale Semiconductor UK Limited	United Kingdom

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Freescale Semiconductor, Ltd.:

We consent to the incorporation by reference in the registration statements, (No. 333-197649) and (No. 333-175194) on Form S-8 and (No 333-193841) on Form S-3, of Freescale Semiconductor, Ltd. of our reports dated February 6, 2015, with respect to the consolidated balance sheets of Freescale Semiconductor, Ltd. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive earnings/(loss), shareholders' deficit, and cash flows for each of the years in the three-year period ended December 31, 2014, and the effectiveness of internal control over financial reporting as of December 31, 2014, which reports appear in the December 31, 2014 annual report on Form 10-K of Freescale Semiconductor, Ltd.

/s/ KPMG LLP
Austin, Texas
February 6, 2015

CERTIFICATION

I, Gregg A. Lowe, certify that:

1. I have reviewed this Annual Report on Form 10-K of Freescale Semiconductor, Ltd.;
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(s) 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(s) 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.

Dated: February 6, 2015

/s/ GREGG A. LOWE

Gregg A. Lowe
President and Chief Executive Officer,
Freescale Semiconductor, Ltd.

CERTIFICATION

I, Daniel J. Durn, certify that:

1. I have reviewed this Annual Report on Form 10-K of Freescale Semiconductor, Ltd.;
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(s) 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(s) 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.

Dated: February 6, 2015

/s/ DANIEL J. DURN

Daniel J. Durn
Chief Financial Officer,
Freescale Semiconductor, Ltd.

CERTIFICATION

I, Gregg A. Lowe, President and Chief Executive Officer of Freescale Semiconductor, Ltd., certify, for purposes of Section 1350 of Chapter 63 of Title 18 of the United States Code, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) the Annual Report on Form 10-K for the period ended December 31, 2014 (the "Annual Report"), which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and
- (2) information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of Freescale Semiconductor, Ltd.

This certificate is being furnished solely for purposes of Section 1350.

Dated: February 6, 2015

/s/ GREGG A. LOWE

Gregg A. Lowe
President and Chief Executive Officer,
Freescale Semiconductor, Ltd.

CERTIFICATION

I, Daniel J. Durn, Chief Financial Officer of Freescale Semiconductor, Ltd., certify, for purposes of Section 1350 of Chapter 63 of Title 18 of the United States Code, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) the Annual Report on Form 10-K for the period ended December 31, 2014 (the “Annual Report”), which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and
- (2) information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of Freescale Semiconductor, Ltd.

This certificate is being furnished solely for purposes of Section 1350.

Dated: February 6, 2015

/s/ DANIEL J. DURN

Daniel J. Durn
Chief Financial Officer,
Freescale Semiconductor, Ltd.