



NXP Semiconductors

Annual Report 2006



Forward-looking statements

This document includes forward-looking statements. When used in this document, the words “anticipate,” “believe,” “estimate,” “forecast,” “expect,” “intend,” “plan” and “project,” and similar expressions, as they relate to us, our management or third parties, identify forward-looking statements. Forward-looking statements include statements regarding our business strategy, financial condition, results of operations, and market data, as well as any other statements which are not historical facts. These statements reflect beliefs of our management as well as assumptions made by our management and information currently available to us. Although we believe that these beliefs and assumptions are reasonable, the statements are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. These factors, risks and uncertainties expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf and include the following:

market demand and semiconductor industry conditions, our ability to successfully introduce new technologies and products, the demand for the goods into which our products are incorporated, our ability to generate sufficient cash or raise sufficient capital to meet both our debt service and research and development and capital investment requirements, our ability to accurately estimate demand and match our production capacity accordingly or obtain supplies from third-party producers, our access to production from third-party outsourcing partners, and any events that might affect their business or our relationship with them, our ability to secure adequate and timely supply of equipment and materials from suppliers, our ability to avoid operational problems and product defects and, if such issues were to arise, to rectify them quickly, our ability to form strategic partnerships and joint ventures and successfully cooperate with our alliance partners, our ability to win competitive bid selection processes to develop products for use in our customers’ equipment and products, our ability to successfully establish a brand identity, our ability to successfully hire and retain key management and senior product architects; and, our ability to maintain good relationships with our suppliers.

Except for any ongoing obligation to disclosure material information as required by the United States federal securities laws, we do not have any intention or obligation to update forward-looking statements after we distribute this document. In addition, this document contains information concerning the semiconductor industry, our market segments and business units generally, which is

forward-looking in nature and is based on a variety of assumptions regarding the ways in which the semiconductor industry, our market segments and product areas will develop. We have based these assumptions on information currently available to us. If any one or more of these assumptions turn out to be incorrect, actual market results may differ from those predicted. While we do not know what impact any such differences may have on our business, if there are such differences, our future results of operations and financial condition, and the market price of the notes, could be materially adversely affected.

Use of non-US GAAP information

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

Use of fair value measurements

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

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all amounts in millions of euros unless otherwise stated

	PREDECESSOR		SUCCESSOR	COMBINED	
	For the years ended December 31,	For the years ended December 31,	For the period January 1, 2006 - September 28, 2006	For the year ended December 31, 2006	
	2004	2005	2006	2006	
Sales	4,823	4,766	3,770	1,190	4,960
Income (loss) from operations (Earnings Before Interest and Tax - EBIT)	234	102	139	(779)	(640)
as a % of sales	4.9	2.1	3.7	(65.5)	(12.9)
Earnings before interest, tax and amortization (EBITA) ¹⁾	305	132	111	(145)	(34)
as a % of sales	6.3	2.8	2.9	(12.2)	(0.7)
Earnings before interest, tax, depreciation and amortization (EBITDA) ¹⁾	1,069	881	563	26	589
as a % of sales	22.2	18.5	14.9	2.2	11.9
Adjusted EBITDA ¹⁾	1,202	1,030	707	214	921
as a % of sales	24.9	21.6	18.8	18.0	18.6
Net income (loss)	14	(101)	5	(616)	(611)
Cash flows before financing activities ¹⁾	388	434	11	108	119
Business' and Shareholder's equity	1,458	1,126	1,977	3,685	3,685
Net debt: group equity ratio ¹⁾	- ²⁾	- ²⁾	- ²⁾	48:52	48:52
Employees at end of period	32,580	35,637	38,144	37,468	37,468

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

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

NXP Semiconductors, First Annual Report, 2006

Dear Stakeholder,

I am happy to present the first Annual Report of our company at the beginning of its new life as NXP Semiconductors. I like to say that NXP combines the vigor of a start-up enterprise with the heritage of over 50 years of experience as a strong semiconductor company within the Philips Group.

It has been a momentous year for us.

In December 2005, Royal Philips announced it had decided to separate its Semiconductors division from the rest of its business and consider all options for its future. In August 2006, a consortium of private equity investors comprised of Kohlberg Kravis Roberts & Co, Bain Capital, Silver Lake Partners, Apax Partners and Alpinvest agreed to acquire a controlling interest in Philips Semiconductors. As management, we are delighted with this move. Subsequently, on September 1, 2006 we officially launched our new company under the name NXP Semiconductors and completed our separation from Philips later that month. The launch and the new company name and identity generated a lot of excitement with our employees, customers, analysts and the media.

The spin-out of NXP, which is effected as per September 29, 2006 is supported by our confidence in our innovative capabilities, our people and customers, as well as by the NXP core values. These four values – Insightful, Inventive, Engaging, Excellence – are more than just a set of business principles; they reflect a culture shift in our company. They are also the foundation for developing a talented, motivated and committed workforce.

As a stand-alone company, NXP has every opportunity to realize its full potential. With the support of our investors, we will continue to innovate, providing our customers with leading-edge solutions and products that drive profitable growth.

We are proud of our achievements as a dynamic and global team that has already made great strides forward through hard work, consistently clear focus, and an increasingly manifest mindset of excellence. All in all, we made significant progress towards achieving our ambitions to be a leading semiconductor company in our focus markets: Mobile & Personal, Home, Automotive, Identification and MultiMarket Semiconductors.

Our vision and strategy

Our vision is of a world where everyone can always connect to information, entertainment and services: the world of the 'connected consumer'. Our mission is to become the leader in vibrant media technologies that help engineers and designers develop products that deliver better sensory experiences for these consumers. In short, we like to think of NXP as 'Creating the Next Experience'. Our businesses target applications in the home electronics, mobile communications, personal entertainment, automotive and identification markets.

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