



# Applying our company values, responsibly

Sustainability Report 2008





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▲ Rick Clemmer, President and Chief Executive Officer

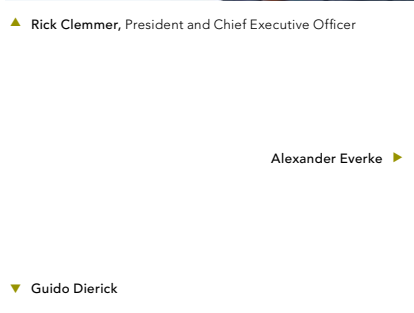
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Today, more than ever, sustainability and “green” issues go hand-in-hand with day-to-day business. Only by acting responsibly can we, as a company, find success. NXP is committed to developing ethical, sustainable, and responsible business practices in a number of key areas, including corporate governance, employee well-being, product development, manufacturing, environmental practices, and community.

Within these areas, NXP has already ensured compliance with legislation and standards and, moving forward, intends to use its status as a young, dynamic company to pursue industry standards in corporate social responsibility (CSR). In this way, we will continue to deliver value to our customers, our employees, our partners, and the world around us.

The recent economic downturn offers new opportunities, especially in areas that save energy, reduce waste, and generally lessen our impact on the environment. NXP is already a leading supplier in many of these areas, offering

As a company, we maintain our commitment to social investment, concentrating on the communities where we do business so that our employees and their families can benefit from our activities. We support educational programs that give the next generation the skills that we, as an employer, will need in the future. We seek to minimize our ecological footprint, with programs that encourage our employees to save energy, reduce water use, and increase recycling throughout our operations. We also foster a safe, healthy workplace and encourage our employees to volunteer for community-oriented activities.

# Working for a better tomorrow

## A message from the Management Team

solutions that optimize energy use in electronics, make it possible to design smaller systems that use fewer materials, lessen our impact on the environment, and make recycling easier. We intend to build on this knowledge and experience, with a focus on high-performance mixed-signal technologies that will drive long-term growth while enabling more efficient, more earth-friendly end products.

Our employees, through their hard work and creativity, continue to help our company balance its economic goals with the key focus areas of our near-term Sustainability Program. In our ongoing efforts to meet or exceed our key performance indicators (KPIs), employee collaboration and innovation have helped us move closer to achieving our goals in global warming, green products, and our Environment, Safety & Health (ESH) program.

Years from now, when we look back at the evolution of NXP as a company, these present times are likely to stand out as a particularly challenging period. In the face of a widening global economic downturn, we transitioned our wireless business into a joint venture and pursued a company-wide campaign to refocus and prepare for the future. There was nothing easy about it, but, despite these challenges, or, perhaps as a direct result of them, we succeeded in coming together as a team and continued to execute with excellence.

In many ways, these challenges have been important factors in helping us renew our commitment to sustainability and redefine our strategic direction. This Report is filled with examples that show the progress we made during that period, and is evidence that, by drawing on our strengths as a company and a corporate citizen, we have created a solid foundation for continued success.

Signed,  
The Management Team of NXP Semiconductors

# Our Sustainability Policy

## The NXP Sustainability Policy

### Commitment

At NXP Semiconductors, we recognize that sustainable development is one of the most compelling challenges of our time.

For this reason, we foster ethical principles and respect for the environment, people, and our community while we pursue economic prosperity.

Sustainability is a part of the way we conduct business, the way we manage our company, and the way we interact with society at large.

We commit ourselves to sustainability because we're more than just a company – we are a group of people working for a better tomorrow.

### Our Sustainability Policy

Culture	NXP fosters a culture of sustainable entrepreneurship, built on its company values: insightful, engaging, inventive, and delivered with excellence.
Legislation	NXP actively seeks compliance with all applicable legislation, regulations, and codes of practice, and whenever possible and practical, goes beyond specified standards.
Ethics	NXP implements business practices according to defined codes of conduct within the company, its global supply chain, and across the industry as a whole.
Products	NXP is committed to creating products and packages that are safe to use, and ensures that, with each new generation, the environmental impact of their use and disposal is further reduced.
Employees	NXP employs a diverse workforce and invests in its people, creating a workplace where employees can reach their full potential in an environment that is healthy, safe, and free of occupational injury and illness.
Environment	NXP conserves natural resources and reduces the environmental impact of its waste generation and its emissions to the air, water, and land.
Society	NXP believes education is essential to making the world a better place, and uses educational programs to improve people's lives and prepare the next generation for tomorrow's challenges.
Transparency	NXP sets targets for, measures, and verifies its sustainability performance, and publishes the results.
Dialogue	NXP engages in open, ongoing dialogues with employees, customers, investors, the public, and other key stakeholders to continuously improve its sustainability performance.

This policy and its resulting actions are regularly reviewed and updated to meet our stakeholders' needs.

**Signed,**  
**The Management Team**  
**NXP Semiconductors**

This report describes the performance of the NXP Group (NXP B.V. together with its group companies) with regard to sustainability. It reports on the sustainability aspects of our consolidated activities\* in 2008, as described in the NXP Semiconductors Annual Report 2008 ([www.nxp.com/investor](http://www.nxp.com/investor)), and highlights notable activities in the first half of 2009.

# in action

We separated from Royal Philips Electronics and became an independent company in September 2006. As a result, we use 2006 as the baseline for all our sustainability data and targets.

This report is divided into two sections. The first, called “Our Sustainability Policy in action,” is about what we do as a company and as individuals, and how those activities impact sustainability. The second section, called “How we manage sustainability,” explains how we’ve built sustainability into our business.

## Our Sustainability Policy

Our Sustainability Policy is fundamental to our operations. The current version, formulated in 2007 and set to be reviewed in 2010, is the result of detailed internal discussions and careful review of stakeholder input. It expresses what we stand for as a company, highlights those areas where we want to be active, and provides a framework for our everyday operations. It influences our decisions and guides our actions.

We have translated our Sustainability Policy into measurable actions. The nine chapters in this first section of the Report roughly correlate to the nine focus areas of our Policy:

- ▶ Designing for sustainability
- ▶ Minimizing greenhouse gases
- ▶ Reducing our energy use, water consumption, and waste production
- ▶ Managing hazardous materials
- ▶ Guiding our financial growth
- ▶ Fostering employee development
- ▶ Creating a healthy, safe work environment
- ▶ Ensuring ethical behavior
- ▶ Investing in social programs and supporting volunteerism

In defining these focus areas, we interviewed our stakeholders, researched best practices in the industry, and studied the results of our existing programs and activities, including our Employee Pulse Surveys and our participation in various industry associations.

As a result, each area, and hence each category we report on here, meets three criteria: each issue 1) is greatly significant, 2) has a current or potential impact on the company, and 3) is a matter over which we, as a company, have a reasonable degree of control.

Within each focus area, we follow a framework that helps us identify relevant issues, prioritize topics, review and report results, and take necessary actions. The framework shows our businesses and our stakeholders how issues of sustainability can be made part of our corporate strategy, and ensures that our sustainability reporting focuses on relevant issues.

We prepared this Report using the G3 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), using a self-declared GRI application level of A. An overview of the GRI codes and where in this report we have addressed them can be found at [www.nxp.com/profile/corporate](http://www.nxp.com/profile/corporate).

\* For the entities and how they’re reported, please see “Our governance structure and reporting standards” (page 62).

This is our second external sustainability report. Our report for 2006 was an internal report for employees only. For 2008, in response to feedback on previous reports, we've started evaluating the impact of business travel, in terms of CO<sub>2</sub> emissions, to get a better and more complete picture of our total carbon footprint (p. 16). We've added more details on how we interact with the financial community and the media (p. 68), and we've been clearer about

where information is based on measured, verifiable data and where it's based on estimates. We will continue to monitor feedback and consider changes for future reports.

An extended version of the current report, complete with success stories and more detailed explanations of our sustainability results, is available on our Internet site ([www.nxp.com/profile/corporate](http://www.nxp.com/profile/corporate)). Our intention is to publish a report annually.

## Key focus areas for our near-term Sustainability Program

To measure the performance of our Sustainability Program, we've set targets for many of our sustainability indicators and have identified four key areas of our Sustainability Policy – global warming, green products, social engagement, and employees – that will receive special attention over the next several years. In 2008, we reviewed our programs and made changes where necessary.

Our work in these areas promises to maximize our contribution to society while minimizing our impact on the environment. In the area of global warming, for example, more than 80% of our greenhouse-gas emissions result from the electricity we use in manufacturing and the PFC emissions we produce. Meeting targets on energy use and PFC emissions will reduce our impact on global warming. Similarly, by following our EcoDesign principles when we develop new products, we will move toward best-in-class environmental standards, and will supply products that use fewer hazardous or restricted substances and can be recycled or disposed of in an environmentally sound way. Also, by emphasizing social involvement and issues of employee health and safety, we improve life in our local communities.

We have defined Key Performance Indicators (KPIs) and have reporting systems in place to provide accurate data for global warming, products, and employees.

### Report chapter

### Policy statement

	Culture	Legislation	Ethics	Products	Employees	Environment	Society	Transparency	Dialogue
Designing for sustainability	○	○		X				○	
Minimizing greenhouse gases	○	X				○		○	
Reducing our energy use, water consumption, and waste production	○					X		○	
Managing hazardous materials	○	X		X		X		○	
Guiding our financial growth	○							○	
Fostering employee development	○				X			○	○
Creating a healthy, safe work environment	○	○			X			○	
Ensuring ethical behavior	○	X	X					○	
Investing in social programs and supporting volunteerism	○						X	○	○
Part 2 of the report	○	X	X		○	○		○	X

○ indicates relationship

X indicates stronger relationship



To make clear what our real impact is on the environment and society, we have, wherever possible, made our targets absolute and not relative. In this Report, we've included all the KPIs that already have data available.

Our work on KPIs is ongoing. In 2008, we introduced a new KPI, called the Green Design Indicator, which lets us measure how many of our new products were developed using EcoDesign principles. Introducing a new KPI with higher standards made it necessary to adjust our short-term target (explained in the Products chapter). We expect to publish the first results of this new KPI in the 2009 Report.

Recent events, including the global economic downturn, our efforts to redevelop our business, changes in management, closures, and mergers and acquisitions, have led us to re-evaluate our KPI for social-engagement activities. To ensure that the KPI continues to be a reliable and measurable indicator, we will refine it to reflect changes in our organization and strategy. We are also considering a longer-term target for this KPI, as 2010 is likely to be too soon to see any real progress. We continue to encourage our employees to participate in existing activities while we perform our evaluation, looking for those programs that will help us, as a company, make the greatest contribution.

#### Key focus areas 2007 - 2010

Key focus area	KPI	Target 2010
<b>1. Global warming</b>		
Reduce and compensate for our direct and indirect greenhouse-gas emissions	PFC emissions	10% below 1995 emission levels for Europe and the USA; total NXP below 400 tons CO <sub>2</sub> equivalent
	Energy consumption	3% below 2006 baseline
<b>2. Green products</b>		
Minimize the environmental and social impacts of all our products, including their content, manufacture, use, and disposal	Hazardous/restricted substances	Phase out all non-critical use in products and manufacturing
	Halogens (Cl <sup>-</sup> , Br <sup>-</sup> ), including halogenated flame retardants	Phase out in all products except for some special applications
	EcoDesign	>50% of new products developed following EcoDesign principles and achieving Green Design status
<b>3. Social engagement</b>		
Involve all our employees, at some point in time, in social-investment programs	Not yet defined (work is ongoing)	Not yet defined (work is ongoing)
<b>4. Employees</b>		
Create a workplace that is healthy, safe, and free of occupational injury and illness for all employees	Lost-workday injuries	Below 0.2 per 100 full-time equivalents (FTEs)*
	Lost work-time rate	Below 2%

\* We now measure lost work-day injuries per 100 FTEs (see p. 40 for details)

NXP creates semiconductors, system solutions, and software for TVs, set-top boxes, identification applications, mobile phones, cars, and a wide range of other electronic devices.

# Products

We improve the way people see, hear, and interact with information, delivering products for a broad variety of applications in automotive, industrial, computing, wireless, identification, consumer, and lighting. In cars, for example, we make driving safer and more responsive with FlexRay, a technology for in-vehicle networking. In the identification market, our MIFARE technology, which offers the world's fastest data-transfer rate, is a key element in electronic ticketing schemes, giving faster access and greater security to millions of daily commuters in metros systems from Moscow to Seoul and Los Angeles. Our wireless technologies improve performance in cellular basestations, for clearer, more reliable transmissions, and our industry-leading microcontrollers enable a new generation of portable applications in the industrial segment. In lighting, we make a meaningful contribution to a sustainable environment with drivers that increase the performance of the lamp while lowering energy consumption by 80%. In consumer entertainment, our varied and far-reaching portfolio includes lightweight, portable

speakers, developed by BL Sound Solutions, that connect to mobile phones and MP3 players. During the German Denali Expedition of 2008, mountaineers took an NXP speaker on their ascent of North America's tallest summit. Richard Forsyth, the expedition leader, said, "The NXP speaker provided a great improvement to our social life on the mountain. Instead of each climber listening to his own iPod or MP3 player in isolation, we were able to share our listening."

We also specialize in efficiency, with power-saving methods that extend battery life and let systems use less energy. Our many different GreenChip ICs, for instance, significantly reduce the amount of electricity required to power a computer, a monitor, or a flat-panel TV in either standby mode or during full operation. In the ten years since we introduced the GreenChip family, more than 400 million GreenChip ICs have shipped, making it possible for power supplies around the world to save enough energy, in total, to run 16.5 million regular 60-W bulbs.

# Designing for sustainability

## Taking technology in new directions

As we look to the future, we see a new direction for the semiconductor industry, placing less emphasis on ever more productive consumer electronics and giving greater priority to technologies and products that are smarter, greener, and that bring new benefits to people, society, and the environment.

In the past 40 years, semiconductors have had a profound impact on how we live, work, and play. We now work more efficiently than ever before, have access to more information in more places, and communicate with each other in all kinds of new ways.

Many of these innovations have been helped by a phenomenon, called Moore's Law, which states that the number of transistors that can be placed inexpensively on an integrated circuit doubles approximately every two years. Named after Gordon Moore, a co-founder of Intel, Moore's Law has enabled faster processors, larger memories, and more pixels in digital

images. Tasks that once required a room-sized supercomputer can now be done in an instant by a tiny microprocessor, and today's most advanced smartphones weigh little more than a candy bar.

Moore's Law still holds true today – semiconductors continue to offer increasing levels of integration – but the dramatic impact Moore's Law has had on development is expected to lessen. Forward-looking engineers, designers, and scientists are talking about the need for technologies and products that are "More than Moore" – that is, solutions that build on the high integration and high processing power that have resulted from Moore's Law by adding other capabilities that deliver value in new ways.

NXP is a leading proponent of this new trend, and has the multi-technology expertise required for driving its growth. Many of our latest product developments already support this "sustainability strategy," addressing vital issues, such

as energy consumption, traffic congestion, safety, and the health of an aging global population. We see a sustainable world where trusted NXP technologies make life safer, more entertaining, and more convenient.

Several articles in this report highlight the ways our products are helping people and the planet. We're pursuing new horizons in human health (p. 14), using our expertise in signal processing to enable a tissue-friendly hearing aid, and developing new kinds of medical sensors that will help people lead healthier lives. In mobility (p. 30), we're making trips faster, greener, and less stressful, with technologies for automatic fare collection, in-vehicle networking, and a new concept called road pricing. We're improving safety and comfort (p. 52) by making cars more interactive and more secure, and we're saving energy (p. 66) by finding new ways to reduce power consumption now and in the future.

## EcoDesign program

Our EcoDesign program ensures that we develop products that support this sustainability strategy, so we create solutions that give us a competitive advantage while being environmentally friendly. EcoDesign includes guidelines for using environmental roadmaps as inputs and, where possible, designing for recyclability. It guides us in making economic use of materials and energy in production, and eliminating the use of hazardous materials, even before legislation comes into effect.

EcoDesign helps us take a broader view of product development, by using a “Life-Cycle Assessment” (LCA) approach. We take into account a product’s total environmental impact, beginning with raw materials, passing through manufacturing, use of the product, and then looking at all the options for “retirement,” from environmentally sound disposal to full recycling. We call this approach “cradle-to-cradle,” since it goes beyond the typical “cradle-to-grave” approach to include effective reuse of materials.

In 2008, we introduced a new KPI for the design and development process, called the Green Design Indicator. Products that meet our EcoDesign qualifications (that is, that support our Green Focus Areas), will be marked with a Green Design Indicator. The process includes comparing the new product with its predecessor or a best-in-class product from the competition. By tracking how many of our products have conformed to our EcoDesign requirements, we will give our customers added information about the environmental friendliness of our products. Our long-

term goal is to have all our newly developed products achieve Green Design Indicator status. Introducing a new KPI with higher standards made it necessary to adjust our short-term target. Our new goal is to have more than 50% of new products developed following EcoDesign principles and achieving Green Design Indicator status.

We award the title “EcoExcellent” to products that follow EcoDesign guidelines, achieve Green Design Indicator status, and that stand out, either for their environmentally friendly design or manufacturing, or for their environmentally beneficial applications, such as saving energy.

## Research & Development

Our Research & Development (R&D) community consists of people in many different organizations around the world, all working toward a common goal – to bring innovative ideas to market the right way and at the right time.

Our engineers establish better methods for developing and delivering new product ideas, and contribute, in several ways, to our pursuit of EcoExcellent products. For example, they recommend ways to optimize our production processes, making them safer and friendlier to the environment. Their work in product development supports the EcoExcellent approach, with breakthroughs that have led to, among others, the world’s most efficient power supplies for PCs and innovative ICs that optimize motor management in cars for lower fuel consumption. In the case of LCD TVs,

they developed a technique that uses semiconductors to reduce energy consumption by up to 75% – a technique that, if implemented in only 10% of all TVs worldwide, would save 25 times the amount of energy that NXP uses in all of its IC manufacturing. In this way, by helping to develop ICs that reduce energy consumption and offset the energy required to produce our ICs, our R&D community yields a significant return on investment.

Our R&D community also looks at ways of using less-harmful substances in IC packaging, and has developed solutions that go far beyond what is legally required.

All these activities go hand in hand with our business objectives, with the result that we have one of the industry’s largest patent portfolios and are equipped with efficient processes that help us retain our competitive edge.

## NXP’s R&D community at a glance

- ▶ Investment of roughly USD 1.2 billion in 2008\*
- ▶ About 4,500 engineers
- ▶ 5,700+ patent families
- ▶ 20 R&D centers located in 14 countries
- ▶ 7 part-time professors
- ▶ 20 PhD programs supported annually, with 20 Master courses a year
- ▶ USD 2 million invested annually in university programs

\* Includes the Mobile & Personal business, which became part of the ST-NXP Wireless joint venture in 2008.

## NXP's energy-saving toolbox

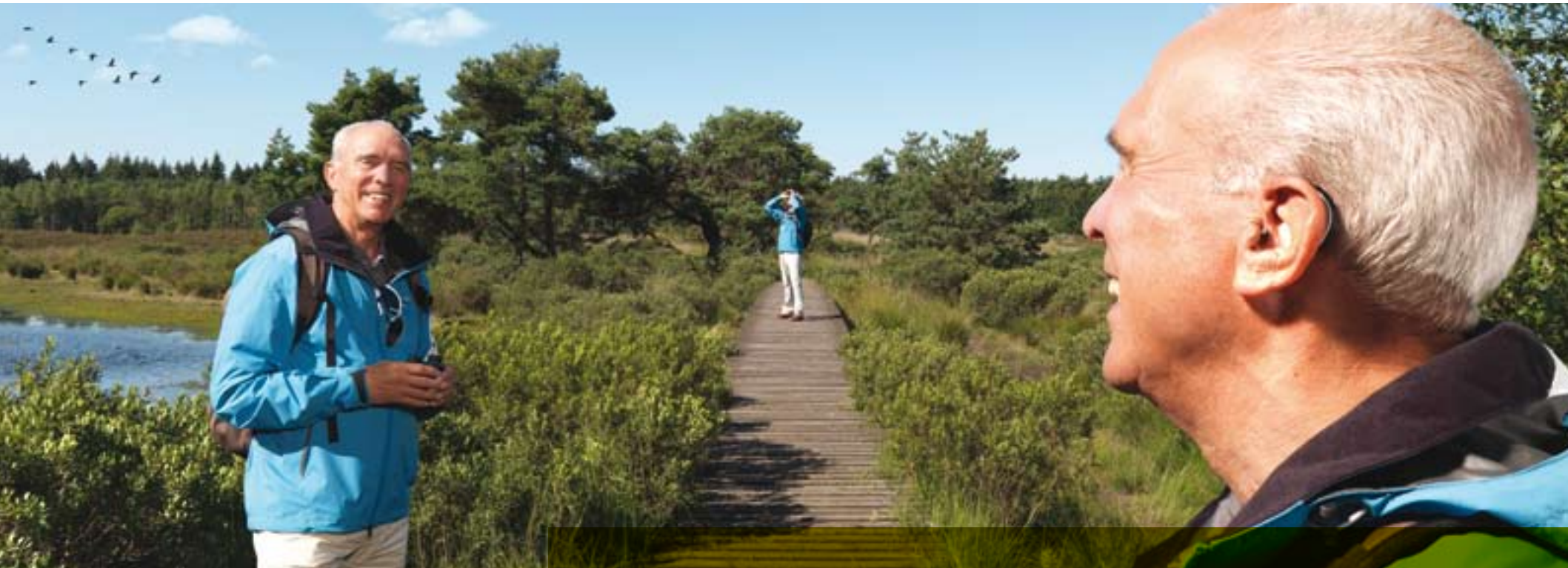
Our research shows that engineers around the world are facing similar challenges, looking for new ways to make their designs greener and more efficient.

In 2008, our marketing group ran a campaign that highlighted the many ways our MultiMarket Segment (MMS) portfolio meets these challenges. We selected from the best of our industry-leading solutions, creating what we termed our "energy-saving toolbox." Our campaign slogan – How much can you save with NXP's energy-saving toolbox? – spoke directly to engineering needs and generated significant activity on our campaign website.

Taken as a whole, the toolbox helps engineers lower switching losses, reduce power consumption at the same (or a better) performance level, make AC/DC power conversion more efficient, reduce product size and weight, and reduce the total quantity of materials, like packaging, silicon, metals, and plastics, used by their applications.

### Here are some of the products we included in the toolbox:

- ▶ GreenChip SMPS controllers, which offer industry-leading levels of efficiency and standby power consumption, along with an integrated Power Factor Correction controller and other smart green features.
- ▶ Drivers for Compact Fluorescent (CFL) lighting, which is today the most popular form of energy-saving lighting. These drivers deliver very efficient power conversion, significantly extend the life of the lamp, and enable a new dimming feature.
- ▶ Solid State Lighting (SSL) drivers, which offer very efficient power conversion and reduce external component counts for indoor and outdoor lighting applications.
- ▶ Low  $V_{CEsat}$  (BISS) transistors, which deliver five times better power efficiency and 65% more heat reduction compared to standard general-purpose transistors.
- ▶ Ultra-low-power CMOS logic (AUP family), which offers 30% lower power consumption than competing logic functions.



Making a difference  
New horizons in medical care

NXP is finding ways to combine new and existing technologies, creating solutions that help people overcome disabilities, manage chronic illness, and live longer, more independent lives.

### Hearing aids

Studies estimate that roughly 10% of the world's population suffers from hearing impairments, but less than 2% wear a hearing aid. NXP has a breakthrough technology, based on magnetic induction, that enables better communication between the hearing aid and other audio equipment. It can make hearing aids more effective and, as a result, may encourage more people to wear them. The approach is also much more energy efficient, so the battery lasts much longer, and, since the magnetic-induction radio has far less interaction with human tissue, poses less risk of tissue damage than conventional, radio-frequency technologies. NXP's solution is currently being used by the Swiss company Phonak, a leading supplier of hearing systems.

### Medical sensors

Building on expertise gained from its industry-leading work in automotive sensors, NXP's R&D group is working on new sensors for use in healthcare. Mounted on a strap or patch,

or inserted in the ear, these new sensors will be able to monitor vital signs (like heart rate, body temperature, or blood pressure), measure specific substances (such as toxins, DNA proteins, or medication levels), or monitor body positioning and motion, to detect if the person has fallen down.

Having real-time data about one's own physical condition can help healthy people stay healthy and can help chronically ill people manage their diseases. People with diabetes, for example, a condition that the World Health Organization (WHO) estimates affects more than 175 million people, could use sensors to monitor their glucose levels without having to take frequent blood samples.

When combined with electronics for communications, medical sensors show added promise, especially in the area of elder care. Say the sensor detects a fall or a rapid change in vital signs. It can initiate a link, via cell phone, to notify a doctor or initiate emergency services. Similarly, a connected sensor lets

the doctor monitor status remotely, so elderly patients visit the hospital less often and stay for shorter periods after receiving treatment. On a day-to-day basis, the doctor's office can use collected data to remind a patient to take a medication, alert a caretaker that it's time to schedule an appointment, or even recommend a course of action, all without seeing the patient in person.

Medical sensors are still in their infancy, but NXP already has working prototypes. Commercial versions could be available in as little as three to five years, once testing and trial phases are complete.



Semiconductor manufacturing is not considered a major contributor to global warming, but our operations do emit greenhouse gases.

# Global warming

## Minimizing greenhouse gases

Our direct emissions come from the use of perfluorinated compounds (PFCs) in our wafer-manufacturing process, and emissions from burning fossil fuels to, among other things, heat buildings. Also included are the fugitive emissions of hydrofluorocarbons (HFCs) from our air-conditioning systems. Indirect greenhouse gas emissions come from the use of purchased electricity, the production of which generates carbon dioxide (CO<sub>2</sub>).

Emissions are reported as global warming in terms of tons of CO<sub>2</sub> equivalents. The factors used for converting greenhouse gases to CO<sub>2</sub> equivalents are given in the Third Assessment Report of the International Panel for Climate Change. We use the IPCC's 2006 updated Global Warming Potential (GWP) factors to calculate our emissions of CO<sub>2</sub> equivalents from PFCs back through 1995.

Since 2006, our direct CO<sub>2</sub> emissions have dropped, in absolute terms, by 7%. Compared to 2007 the reduction is 17%. Our wafer output in 2008 was 9% lower than in 2006. The reduction in output led to a 7% (absolute) decrease in PFC emissions.

The emissions dropped less than output because some of our products became more complex. These more complex products require additional manufacturing steps and hence more PFCs. This led to a 2% increase in our emissions, on a normalized basis per square meter of silicon produced. This placed us at about 60% of our normalized emissions from 1995. On a "per transistor" or "per function" basis, the normalized emissions were much lower, at less than 25% of the 1995 numbers. In coming years, additional investments in abatement systems and process technology, along with manufacturing redesigns, are expected to result in further decreases in PFC emissions, in both absolute and normalized terms.

HFCs are another kind of greenhouse gas, but they're regulated by the Montreal Protocol, an initiative motivated by the contribution HFCs make to ozone depletion and not to global warming. The use of ozone-depleting (ODP) chemicals is prohibited in all our manufacturing processes, and ODP refrigerants are replaced with non-ozone-depleting alternatives wherever possible and practical. Our policy is

that, when an air-conditioning system that uses ODP HFCs is scheduled for replacement, we replace it with a new system that doesn't use them. We discontinued our use of non-ODP HFCs in our manufacturing processes in 2007. In 2008, no non-ODP HFC emissions were recorded.

Our operations emit small amounts of nitrous oxide (N<sub>2</sub>O), but the amounts are not yet significant compared to other greenhouse gas emissions. The emissions are slowly increasing, however, so we are continuing to monitor them and will start reporting if and when they become relevant.

2008 marks the first year we began measuring CO<sub>2</sub> emissions resulting from business travel. Using the methodologies, definitions, and factors developed by the World Resources Institute (WRI), DEFRA UK, and the GHG Protocol Mobile Combustion process, we calculated emissions for distances traveled using kg of CO<sub>2</sub> per passenger mile. Medium- and long-haul flights emit less CO<sub>2</sub> per passenger mile than short-haul flights, and rail travel is approximately 50% less CO<sub>2</sub>-intensive per passenger mile than air travel.



Total CO<sub>2</sub> emissions from business travel amounted to 22 kilotons, or less than 2% of our direct and indirect global-warming emissions. We are investigating the addition of more data, such as emissions from buses, cars, and hotels, and the emissions that result from transporting our products by air, either between factories and warehouses or directly to customers.

### PFC emissions

Approximately 43% of our company's direct and indirect global-warming emissions are from PFC emissions.

PFCs pose a serious dilemma for every semiconductor company. They are strong contributors to global warming, but, as of yet, there are no viable alternatives to their use in manufacturing high-quality semiconductor devices. We have essentially depleted the options of switching to alternative gases and process optimization. Abatement is, at present the most realistic option, but abatement requires significant investment and extensive changes in plant infrastructure. These steps are costly and don't directly improve economic performance. Given the recent slowdown in our industry and the global economic crisis, the cost of making these changes is, for the time being, especially high.

We do, however, recognize the undesirable impact PFCs have on the environment, and have joined with others in the semiconductor industry to seek ways to minimize their use. We have also implemented internal programs, such as EcoVision, which sets specific targets for reducing our use of PFCs.

We have signed the Memorandum of Understanding in the US and the Memorandum of Agreement in Europe to voluntarily reduce the emissions of PFCs by 10% by 2010 compared to the 1995 baseline. We have already achieved this target in the United States. The 10% goal for both regions will be sustained, despite any significant increase in wafer demand over time.

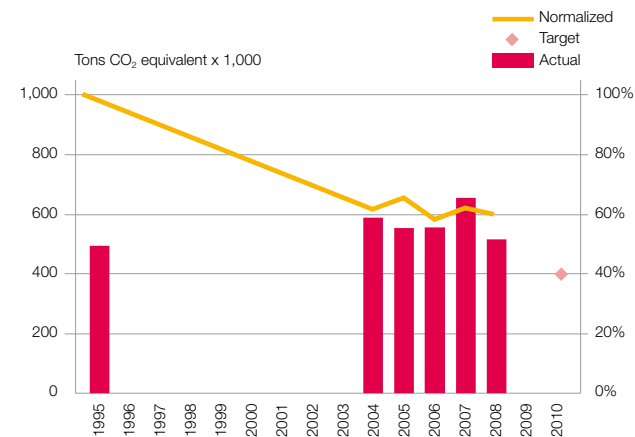
Most of our front-end operations are in regions covered by the two voluntary agreements on PFC emission reduction. Two of our activities, JNSC in China and SSMC in Singapore, are not covered by these agreements. For these two, we have voluntary targets in place that are comparable to the 10% targets in other regions.

PFC emissions in 1995 amounted to 497 kilotons of CO<sub>2</sub> equivalents. Without the implementation of the PFC-reduction program and the ongoing miniaturization of our products, our PFC emissions would have increased by between 7 and 15% annually since 1995, due to production increases and the increasing complexity of our products. Our target worldwide is to bring PFC emissions below 400 kilotons of CO<sub>2</sub> equivalents by 2010, and at the same time meet the targets of the two voluntary agreements. We are deeply committed to meeting these goals and will continue to work on reduction programs even beyond 2010.

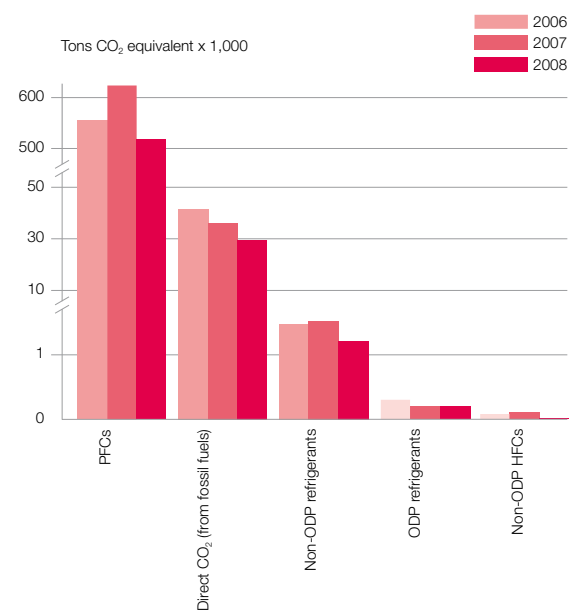
The European Memorandum of Agreement includes an obligation to report the progress of the PFC-reduction programs in an intermediate report. The members of the European Semiconductor Industry Association (ESIA) compiled the data and published an intermediate status report in 2006. The report, along with more recent emission data, can be found on the ESIA website ([www.eeca.eu](http://www.eeca.eu)).

The European Union has recognized the semiconductor industry's proactive approach by granting an exemption in the so-called F-gases regulation. It is a voluntary agreement, so no ban on the use of PFCs for critical applications has been imposed on the semiconductor industry in Europe. We are, however, committed to looking for alternatives.

### Absolute and normalized PFC emissions



### Direct greenhouse gas emissions





**Making a difference  
Creating a strong team, from the beginning**

When Michael Phang learned he would be a part of NuTune, a new joint venture between NXP and Thomson, he saw it as an opportunity to share best practices and improve operations.

## **Michael Phang** | *TQM & SQA Manager, NuTune, Singapore*

In September 2008, NXP and Thomson created NuTune, a joint venture (JV) for developing, producing, and marketing TV tuners. The new company brought together two similar divisions, each headquartered in Singapore and with manufacturing facilities in Batam, an Indonesian island about an hour away from Singapore by sea.

NXP's Batam facility had been the island's first, in 1997, to be ISO 14001 certified, and was one of only a few that had OHSAS 18001 certification. "We had a bit of a head start," says Michael, who's been in semiconductors for 25 years, "but both organizations had strong systems in place. The JV gave us the opportunity to gel the two organizations, drawing on each other's best practices."

After aligning their Environment, Health & Safety (EHS) policies, the two groups combined their knowledge and

created a unified system for business processes and EHS. The team is now moving quickly to achieve certification for the combined facilities, aiming for, among others, OHSAS 18001, ISO 9001, and ISO 14001 certification by the end of 2009. Says Michael, "these certifications are an investment for the business and tools for continual improvement."

He stresses the importance of teamwork, noting that people are a critical element for success. "Our people support the goals of our EHS system – zero downtime due to accidents, recoveries from recycling, hazard-free operations, a healthy workforce – and they know that they're making a tangible difference."

Recycling is one example of how Nutune is helping the environment while reducing operating costs. Instead of paying a fee to dispose of used solder-paste containers, which are

considered hazardous waste, the company sells them to a local recycler, who makes them reusable by rinsing them and reclaiming any residual metals.

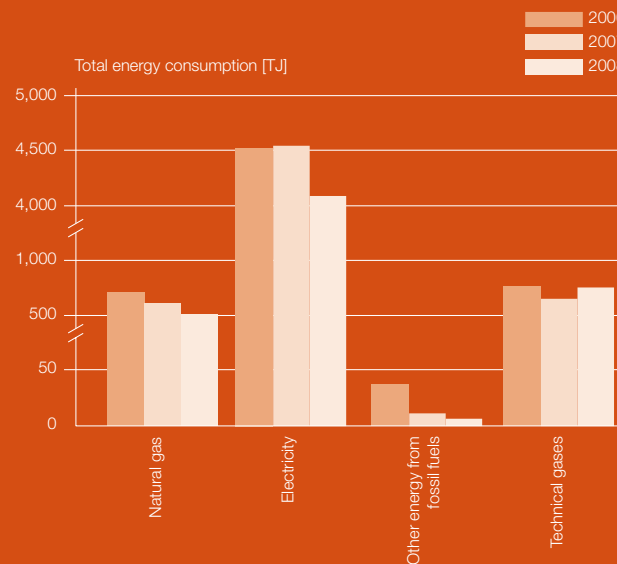
The site provides everyone with comprehensive EHS training. Michael says the training can have a broader impact, especially for employees who come from outlying areas. "When these people visit their families back home, they bring with them valuable knowledge they can share."

Today, not quite a year after NuTune was born, Michael is proud of the progress they've made. "Thanks to hard work and a strong commitment from our management and our EHS working teams, we're really contributing to business sustainability."

# Energy, water, waste

## Doing more with less

Our environmental action program, called EcoVision, helps us conserve vital resources and increase our efficiency. It covers a variety of topics, such as energy use, water conservation, and waste management, and includes specifics, such as how we handle substances of concern or what to do in case of a chemical spill.



Energy consumption (TJ)	2008	2007	2006
Natural gas	504	628	700
Electricity	4,184	4,551	4,534
Other energy from fossil fuels	8	15	39
Technical gases	740	719	744
<b>Total</b>	<b>5,437</b>	<b>5,913</b>	<b>6,017</b>

### Reducing energy consumption

Our near-term Sustainability Program emphasizes ways to use less energy, with the goal of reducing our energy consumption by 3% (absolute) in 2010 compared to the 2006 baseline. To track our progress, we measure how our manufacturing sites use electricity, natural gas, and other energy resources, such as technical gases and other fossil fuels. NXP has made great strides in reducing energy and water consumption. Our operations have already reached industry benchmarks for conservation, so, from this perspective, the 3% target is a realistic goal.

In 2008, our measurements show that we surpassed our 2010 target, since we achieved, on a comparable basis, a 10.6% absolute reduction in our total energy use as compared to the 2006 baseline. The savings came from several areas, including energy-savings programs and efficiency projects in our facilities, the restructuring of our manufacturing operations (especially the 2007 closure of Boeblingen, which shifted production to other NXP facilities), and a significant drop in manufacturing output, due to a drop in demand, in the second half of 2008.

We estimate that the reduction in manufacturing output accounted for 8.3% of the savings, meaning that 2.3% came from our various energy-saving programs. Taking into account the positive impact our improvement projects had in 2007 and the first half of 2008, we believe that the 3% reduction target will still be met, even as manufacturing output begins to increase again.

Looking at our use of individual resources, our consumption of electricity decreased in 2008, down by 7.7% compared to the 2006 baseline. Our records also show that, thanks to several energy-saving programs and efficiency projects in our front-end manufacturing facilities, where we produce our wafers, we're saving electricity in that area, too. We've achieved a normalized reduction, per square meter of wafer produced, in our use of electricity since 2001.

Our consumption of natural gas and other fossil fuels also decreased in 2008, down by 31% compared to 2006. The savings were due, in large part, to the company's redesign efforts, but were helped by a mild winter in the United States. To compensate for differences in conversion factors for fuel used in Singapore, we have made small corrections in the data from previous years for other energy from fossil fuels.

2008 is the first year we started measuring the renewable energy used in our manufacturing operations. Not all our facilities were ready to report reliable data (we will work on

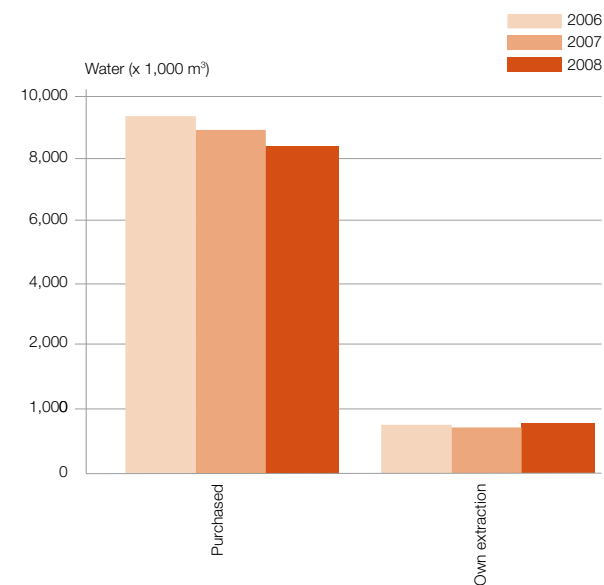
this in 2009), but, of those that could, figures varied: some use none, while others use a significant amount. The highest figure came from Sound Solutions in Vienna, reporting that 60% of their electricity came from a renewable source.

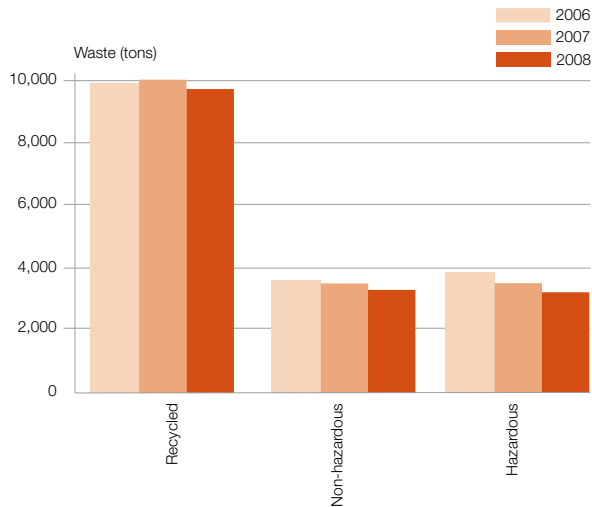
Our consumption of the technical gases needed for semiconductor manufacturing varies according to our product mix and volumes. This is reflected in the table. 2008 is the first year we are reporting the energy consumption related to our use of technical gases. Since 2006, our use of technical gases has accounted for roughly 12.5% of our overall annual energy consumption.

As in other years, most of our sites around the world contributed to reductions in energy consumption in 2008. Examples of these reductions are provided in the online version of this report ([www.nxp.com/profile/corporate](http://www.nxp.com/profile/corporate)).

### Saving water

Semiconductor manufacturing is a water-intensive process, and, as a result, our near-term Sustainability Programs places a high priority on water conservation. Our goal for saving water is the same as our goal for saving energy – that is, we aim to reduce our water consumption by 3% (absolute) compared to the 2006 baseline. As with energy consumption, this means an improvement, on a per-wafer or per-product basis, of more than 7.5%.





Waste (tons)			
	2008	2007	2006
Non-hazardous waste delivered to landfill	1,717	2,281	2,426
Non-hazardous waste delivered for incineration	994	1,183	1,206
Hazardous waste delivered to landfill	1,439	1,593	1,666
Hazardous waste delivered for incineration	1,739	1,915	2,199
Materials delivered to external contractor for recycling	9,432	10,008	9,878
Total waste	15,320	16,980	17,376
% for recycling	62	59	57

In 2008, we achieved, on a comparable basis, a 9.4% absolute reduction in our total water consumption compared to the 2006 baseline. These savings were largely the result of water-saving programs and efficiency projects in our facilities, and the restructuring of our manufacturing facilities. Reductions in manufacturing output had only a limited effect on the savings, which means that we're likely to meet our 3% reduction target even as manufacturing output begins to increase again.

As with our efforts to save energy, several water-saving programs and efficiency projects in our front-end manufacturing facilities have produced significant results, amounting to a normalized reduction of 51% in water consumption, by square meter of wafer produced, since 2001.

Reliable data on recycled water is now being provided through our EcoVision monitoring system. In 2007, a survey showed that 78% of the water used in manufacturing was being reused or recycled. For 2008, the number provided by EcoVision was 84%.

Specific examples of how our sites around the world have reduced their water consumption are provided in the online version of this report ([www.nxp.com/profile/corporate](http://www.nxp.com/profile/corporate)).

### Managing waste

Our policy is to, whenever possible, recycle or dispose of waste locally. For waste that requires specialized handling, we comply with local and national legislation and only ship it to countries equipped with the knowledge and expertise to properly reclaim, recycle, or destroy it.

In 2008, we delivered 62% of our regular waste to external contractors for recycling (an increase of 5% compared to 2006). By 2010, we aim to increase that number to 70%.

The remaining 38% of our regular, non-recyclable waste was incinerated or sent to landfill. About half was hazardous. Local legislation determines whether waste is qualified as hazardous or non-hazardous.

In absolute terms, our waste is down 12% compared to 2006; this reduction meets one of our EcoVision targets. The figure excludes one-time waste, which amounted to 0.2 kilotons in 2006, 29.6 in 2007, and 0.3 in 2008. This extra one-time waste in 2007 was caused by the reorganization and resizing of the Caen site in France, which was largely dismantled. In the last three years, 91% of all one-time waste was sent for recycling.

Throughout the company, various initiatives are underway to reduce our total waste. Examples are given in the online version of this report ([www.nxp.com/profile/corporate](http://www.nxp.com/profile/corporate)).

### Sustainable pack-and-ship methods

Semiconductors are fragile, so we use special packaging materials to protect them when we ship them to our customers. None of our packaging materials are received by consumers, since we only deliver to other businesses.

We are committed to using sustainable pack-and-ship methods, and use specially designed packaging tubes and shipping trays that are easy to recycle. We currently ensure

that 97% of the packaging materials we use can be reused or recycled, and our goal is to increase that number to 98%. We advise our customers on the possibilities for recycling, and know that most of our larger customers already have recycling programs in place, but we don't have accurate figures for how much of the packaging is actually recycled.

The gaps in our reporting of packaging materials, which we discovered in 2007, have now been corrected. The data is now reliable, with estimated figures representing an amount so small that it is insignificant to the total. Our data now includes packaging material we use for internal shipments, for shipping equipment and tools between our industrial sites, and packaging used by regional distribution centers. The numbers for 2006 and 2007 have been corrected, based on additional input from our manufacturing sites, warehouses, and distribution centers. Data for 2007, which was found to be incorrect due to a calculation error, has been adjusted in this Report.

Our product mix and production volumes influence our use of packaging materials. This is reflected in the graph.

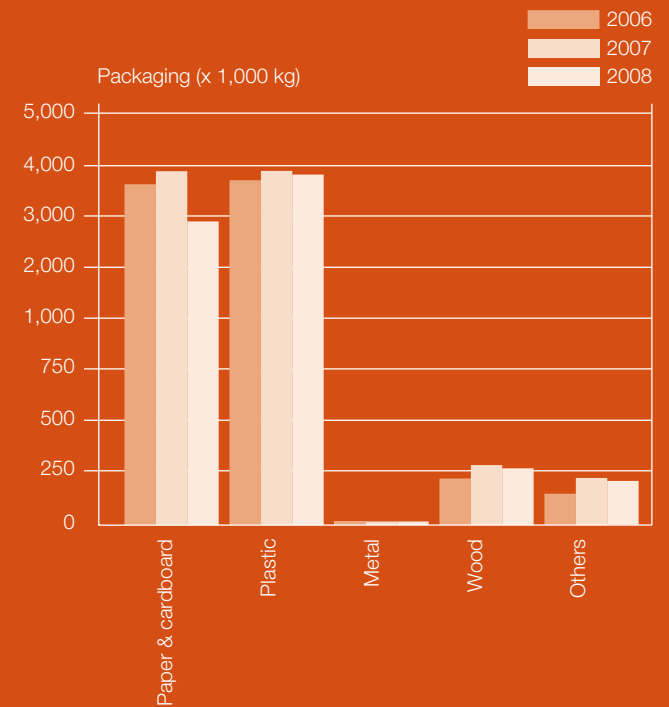
### Raw materials

NXP purchases, on an annual basis, more than USD 600 million in raw materials (excluding diffused wafers) from a pool of more than 600 suppliers worldwide. Of these, 200 are global strategic and preferred suppliers in more than 20 countries.

Unprocessed, substrate silicon wafers are the most important raw material we purchase. They need to meet

exact specifications and are only available from a limited number of industry-wide suppliers. We typically source other raw materials, such as high-purity and process chemicals, leadframes, wires, substrates, and molding compounds, from a similar but more diverse group of industry-wide suppliers.

We pursue mutually beneficial relationships with our suppliers and seek to award business to those suppliers who share our commitment to acting fairly and with integrity toward stakeholders, observing applicable rules of law, and supporting and respecting internationally proclaimed human rights. Our Supplier Sustainability Program is described in more detail in the Ethics chapter of this report.







**Making a difference  
A new kind of customer service**



Our customers are asking new kinds of questions – about chemical content, industry certifications, supply chain – and Harrold van Rooij is there to give them the answers.

He shows them just how green we really are.

## **Harrold van Rooij** | *Customer and Contract Support Office, Eindhoven, The Netherlands*

The companies that use our products and technologies have added a new dimension to their selection process. In the same way that consumers have changed their habits, demanding “greener” products, our customers have started asking about NXP’s policies concerning the environment, health and safety, and social accountability.

That’s where Harrold van Rooij, whose job it is to answer these inquiries, comes in. “The companies we deal with simply can’t afford to work with suppliers that don’t meet international standards for sustainability,” he says. “It’s a part of doing business these days.”

The change has come quickly. In 2007, Harrold received an average of 40 queries a month. In 2008, that number nearly doubled. Questions about the chemical contents of NXP’s products are the most common, but Harrold also

gets asked about environmental specifications, certificates of compliance, and third-party test results that verify our claims.

There’s a lot of information to deal with. NXP has manufacturing sites around the world, works with an extensive network of its own suppliers, is associated with several joint ventures, and offers about 18,000 product types. “We have to keep track of it all,” says Harrold, “and we have to make the information easy to access.” Not surprisingly, he and his colleagues have developed comprehensive data systems, connected to the company’s internal and external web sites. “Our next step is to be able to upload data directly to our customer’s systems.”

Harrold is a chemical engineer by training, and is intrigued by the science behind the issues he deals with. Take, for example, halogens. NXP has, for some time, been removing this group of chemicals from its products, because halogens can, when

burned, release carcinogens in the air. Salvagers, especially in third-world countries, are burning discarded electronics to recover gold and other precious metals, so it’s important that halogens aren’t present. When customers ask Harrold if we have halogen-free products, he can answer with a definitive “yes,” and point to our Dark Green portfolio as proof. Says Harrold, “I like knowing that my work has an impact on the real world.”

Semiconductor manufacturing is a complex, delicate process that requires a number of specialized chemicals and materials. We have several programs in place that regulate our use of hazardous chemicals and “substances of concern” – in fact, we follow some of the toughest practical standards in the industry for protecting our employees and the environment.

# Substances of concern

We carefully monitor our use of substances categorized as restricted, hazardous, or relevant. As part of our near-term Sustainability Program, we have committed to a 100% reduction, by 2010, in all restricted and hazardous substances that aren't categorized as “critical use.” That is, we aim to discontinue use of all restricted or hazardous substances except those that are indispensable to the manufacture of our devices and currently have no proven alternative.

We comply with the European Union's Restriction of Hazardous Substances in Electrical and Electronic Equipment (RoHS), and the so-called China RoHS (or ACPEIP: Administration on the Control of Pollution caused by Electronic Information Products), which was introduced in 2007.

Based on expected future legislation, trends in the electronics industry, and new information about the environmental, health and safety impacts of certain substances, we expanded our list of hazardous and restricted substances in 2008. As a result, we now report on more substances and, wherever possible, provide historical data for the new items.

We use our Chemical Management program to track company-wide usage of chemicals. The 400 or so process chemicals and preparations, along with the more than 2,000 product-related materials and sub-parts used by our manufacturing operations, are registered and classified in centralized databases. All our employees, worldwide, who deal with these items can access the databases to view helpful information, including material safety data sheets, workplace instructions cards, warning labels, baseline occupational health and environment information, and instructions for exporting, transporting, handling, and storing a given substance.

The NXP hazardous substance list contains hundreds of chemicals that we don't like to use because of their potentially harmful properties. Out of this long list there are about 10 that we continue to use because there are no alternatives currently available. Replacing these 10 substances, which are necessary in roughly 45 applications in our manufacturing processes, will require some kind of invention or scientific discovery.

# Managing hazardous materials

We cover these particular substances with a special system of internal dispensation. Any use or emission of these substances must be pre-authorized, so, to streamline operations, we are actively searching for alternative substances.

We were one of the first semiconductor companies to make use of lead-free packages and the very first to list all the chemical contents of its products on an easy-to-access web page that also shows compliance with legislative requirements from various regions and countries. We successfully eliminated lead (Pb) from the terminations of our product packaging well ahead of any new legislation, and thereby made it easier for our customers to follow the path to green, Pb-free soldering processes. Taking the next step, we are also removing antimony oxide and halogenated flame retardants from our packaging, offering a new series of products labeled "Dark Green." The Dark Green portfolio is expanding rapidly, having grown from less than 20% of the portfolio in early 2007 to about 40% by the end of 2008, and is expected to be 75% or so by the end of 2009. The program has a KPI of reaching

100%, with a few exceptions for specific applications, such as those requiring high resistance to flammability, by 2010. Due to lower production volumes in the second half of 2008, part of the conversion to Dark Green packaging has been delayed. We're now at 40%, but the volume of Dark Green products shipped is significantly higher than 40%.

We continue to work on the elimination of lead in so-called "exempted" applications – that is, areas still allowed under current legislation. This includes removing lead from solders with a high melting temperature, which are used, among other applications, to attach the die of a power device to its leadframe.

## Beyond baseline requirements

We have procedures in place that ensure we follow all the relevant local, regional, and global laws that govern our business, including the regulations that require producers and importers of chemicals to register their substances along with the information needed to use them safely. One example

is REACH (Registration, Evaluation, and Authorization of CHemical substances), which has become European Law with effect from June 1, 2007. In 2008, to ensure a continuous supply of chemicals governed by REACH, we audited our supply base for pre-registered chemicals.

By the end of 2009, NXP will be free of cobalt-dichloride ( $\text{CoCl}_2$ ), a chemical listed by the European Chemical Agency as potentially harmful to people and the environment. Like many other semiconductor companies, NXP has, in the past, used Humidity Indicator Cards (HICs) that contain cobalt-dichloride. HICs are placed in packaging materials to detect changes in relative humidity and indicate whether a package has remained moisture-free during transportation and storage. In 2009, NXP will begin using new, environmentally friendly HICs that don't contain cobalt-dichloride. The new cards have an added benefit of being 40% cheaper. Given that we use hundreds of thousands of HICs a year, the savings will be significant.

In a number of areas, we go beyond baseline laws and regulations to support voluntary agreements that promote industry-wide sustainability. For example, we comply with the World Semiconductor Council's (WSC) Voluntary Agreement for PFOS (perfluorooctyl sulfonates). We are using only small amounts of PFOS, having reduced our emissions in Europe from 24 kg in 2006 to only 0.15 kg in 2007 and 0.14 kg in 2008. Worldwide, our PFOS emissions in 2008 were 0.15 kg. By the end of 2006, all non-critical PFOS use, and by consequence, the emissions from this non-critical use, were discontinued as specified in the Voluntary Agreement.

New technology is needed to replace the remaining, very limited use of PFOS in critical applications. In early 2009, after three years of deliberation, the Stockholm Convention COP4 discussions on PFOS finished by listing PFOS in Annex B, which means their use can be continued for a few critical applications, including semiconductor manufacturing. As a member of the European Semiconductor Industry Association's Steering Committee, we prepared input for these discussions and lobbied on behalf of the European and US semiconductor industries. Our success in limiting the semiconductor industry's use of PFOS, along with our lobby work, which included outreach to several EU and other governments, certainly contributed to the exemption.

#### **Restricted and hazardous substances**

In addition to PFOS, our semiconductor processes involve 1, 2-dimethoxyethane, lead, arsenic, xylene, toluene, and hydrofluorocarbons (HFCs). Lead is still used for some

exempted applications under the European Union's RoHS initiative. The use of 1, 2-dimethoxyethane, currently employed as a solvent for spin-on-glass applications at two of our sites, is under investigation for possible replacement, as is the use of xylene and toluene.

In 2008, the following substances, used by NXP, were added to the restricted substances list: carbon monoxide, formaldehyde, concentrated (>5%) tetramethylammonium hydroxide (TMAH), and an industrial biocide water treatment formulation containing Kathon 886. Reporting protocols have been established for all these new substances except carbon monoxide, which will become part of our EcoVision monitoring system in 2009. TMAH has been added to the list of restricted substances because it is toxic when concentrated above 5%. Special measures have been taken to protect employees while handling concentrated TMAH. Emissions of TMAH are not relevant, and have therefore not been included in the emissions table. Even with the addition of these new substances, we are on track to achieving our goal of phasing out the use of all non-critical use of restricted and hazardous substances.

We stopped using hexavalent chromium in 2008. NMP (n-methyl-2-pyrrolidone) is currently being investigated for phase-out and will be placed on the restricted list in 2009.

We use arsenic, an essential dopant in semiconductor manufacturing, in tiny (atomic) amounts. There are, at present no alternatives to its use. We use it only in closed systems and within stringent manufacturing guidelines. We report arsenic

emission data based on a worst-case scenario; expected emission levels are much lower.

The fugitive emissions of coolants (HFCs) from air-conditioning systems into the air are reported as a global warming item in terms of tons of CO<sub>2</sub> equivalents, so they're not included in the table.

### Relevant Substances

Emission of relevant substances occurs under controlled circumstances and in compliance with local legislation.

Emissions of ammonia, hydrofluoric acid, nitric acid, nitrogen oxides, and volatile organic compounds pass through air-cleaning systems before being released to the air.

Emissions of ammonia, bromide, fluoride, nitrates, volatile organic compounds, and phosphates undergo either wastewater purification processing prior to discharge in sewers or are being collected and treated as waste.

Roughly 22% of our nitrogen oxide (NO<sub>x</sub>) emissions is generated from heating buildings. The remaining 78% comes from our manufacturing processes.

More examples of ways we're reducing our use of substances of concern are included in the online version of this report ([www.nxp.com/profile/corporate](http://www.nxp.com/profile/corporate)).

Emission (in kg)	2008		2007		2006	
	To water	To air	To water	To air	To water	To air
<b>Restricted substances (kg)</b>						
1,2-dimethoxyethane	-	3	-	9	-	50
PFOS*	0.15	-	0.25	-	24	-
Lead (exempted applications)	9	4	12	4	21	8
Arsenic**	-	<0.6	-	< 0.7	-	-
Formaldehyde	-	2	-	2	-	NA
Kathon 886	338	-	NA	-	NA	-
Nickel compounds	5	-	NA	-	NA	-
Hexavalent chromium	0	-	0	-	2	-
<b>Hazardous substances (kg)</b>						
Xylene	-	858	-	835	-	916
HFCs in processes	-	0	-	49	-	35
Toluene	-	11	-	9	-	7
<b>Relevant substances (kg)</b>						
Nitrate	185,529	-	204,306	-	176,193	-
Phosphate	189,664	-	203,902	-	202,473	-
Volatile organic compounds	-	104,729	-	144,705	-	197,749
Ammonia	97,156	5,863	98,543	10,616	93,000	9,831
Nitrogen oxides (processes)	-	80,257	-	76,932	-	67,322
Fluoride (F <sup>-</sup> )	46,234	-	49,062	-	39,904	-
Nitrogen oxides (heating)	-	18,336	-	22,976	-	23,806
Nitric acid	-	3,751	-	3,653	-	2,769
Hydrofluoric acid	-	3,045	-	3,279	-	3,193
Bromide (Br <sup>-</sup> )	3,166	-	2,876	-	2,805	-

\* PFOS emissions are calculated based on consumption data and using the calculation protocol agreed on by the World Semiconductor Council. 2006 PFOS data is for Europe only

\*\* No 2006 data for arsenic is available. 2007 and 2008 data is calculated using purchased amounts and is based on a worst-case scenario; all emissions are far below legal limits

NA = no (reliable) data available because item is not yet part of EcoVision reporting system



Making a difference  
Faster, greener ways to move

Pollution, traffic congestion, stress – they’re the not-so-nice side effects of modern-day road transportation. NXP is a leader in technologies that help, making the trip safer, more enjoyable, and best of all, better for the environment.

#### Automatic fare collection

In public transportation, NXP’s family of contactless technologies, called MIFARE, is the number-one solution for automatic fare collection. Cities around the world – accounting for more than 70% of the transportation infrastructure – have implemented MIFARE systems to streamline ticketing, reduce waiting lines, and improve security. The Los Angeles County Metropolitan Transit Authority (LA Metro), which supports about 480 million boardings a year, is the world’s first transit company to upgrade from NXP MIFARE Classic to the new MIFARE Plus format. Full privacy protection was an important requirement in the development of MIFARE Plus, with the result that it gives passengers the touch-and-go convenience they’ve come to expect as well as best-in-class security features for tracking payments and protecting against identity theft.

#### In-vehicle networking

In the automotive sector, NXP supplies technologies that make cars lighter, more fuel-efficient, and smarter. We’ve led the way with CAN, LIN, and FlexRay transceivers for in-vehicle networking, making it possible to replace a car’s thick wiring

harness with just a few, lightweight copper wires. The wires connect together the car’s numerous electronic devices, including controllers, electro motors, sensors, and regulators. In a high-end car, the savings in weight can amount to as much as 50 kg (110 pounds), which translates into savings on fuel consumption, too. In-vehicle networking also enables Drive-by-Wire, a method that uses electronics, instead of heavy metal parts, to relay signals from the steering wheel to the wheels for greater precision with less weight.

#### Road pricing

To manage congestion and improve urban environments, several city and national governments are investing in a new, smarter system, called road pricing, that will tax drivers based on usage. The concept involves using electronics to track a vehicle’s movements, logging when the trip takes place, the distance traveled, and the type of road used. Drivers are then charged based on information gathered from the car itself. Trips made during heavy commute hours will cost more, but trips made during off-peak hours and on alternative routes will cost less. Similarly, cars that create more pollution will be more expensive

to drive than clean cars. Road pricing will encourage drivers to change their habits, giving them a new reason to drive a more efficient car, choose a different time for their trip, use a different route, or simply leave the car at home more often.

NXP is already in test trials with a road pricing system, demonstrating its automatic telematics on-board platform (ATOP) solution. The ATOP unit, secured to the car’s windshield, uses GPS to track movement and GSM to transmit data to a remote location for back-end processing. In the prototype system, drivers can log onto a secure website to view their data and evaluate trip costs.

Creating the infrastructure to support road pricing is a sizable task, involving extensive cooperation between public and private enterprises. In Europe, a complete pricing system for commercial trucking is expected by 2011, with a system for private cars following thereafter.

As of January 1, 2008, to be better aligned with the semiconductor market, we changed our reporting currency from Euros (EUR) to US dollars (USD). Prior periods of our financial statements have been revised to reflect this change.

# Financials

## Achieving success, investing in the future

Sales were USD 5,443 million in 2008. Changes in sales, compared to 2007, were primarily due to the deconsolidation of our wireless activities and the weakening economic environment in the second half of the year, which impacted all of our segments in that period. The cash position was USD 1,796 million at the end of Q4 2008 compared to USD 1,041 million at the end of the Q4 2007.

To make the best use of our R&D investments, we focus on areas of product innovation that will directly support our businesses. That includes looking for new ways to save on the cost of development, such as reducing the number of redesigns and shortening time-to-market.

### Other results for 2008

We recorded no significant spills in 2008, nor did we receive any significant fines or sanctions in connection

with non-compliance of environmental or Health & Safety laws and regulations.

We strive, as a company, to comply with the highest levels of transparency and accountability. We include a Financial Code of Ethics in our Business Code of Conduct (BCC), and apply it to certain senior offices, including the CEO and CFO, and to all employees performing accounting or financial functions. (The Financial Code of Ethics can be found at [www.nxp.com](http://www.nxp.com)).

Through the Audit Committee of NXP's Supervisory Board, there are appropriate procedures in place for the receipt, retention, and treatment of complaints received by NXP regarding accounting, internal accounting controls, or auditing matters, and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Internal 'whistleblowers' have

the opportunity, without jeopardizing their position, to report on irregularities of a general, operational, or financial nature, and to report complaints about members of the Management Team to the Supervisory Board's Audit Committee.

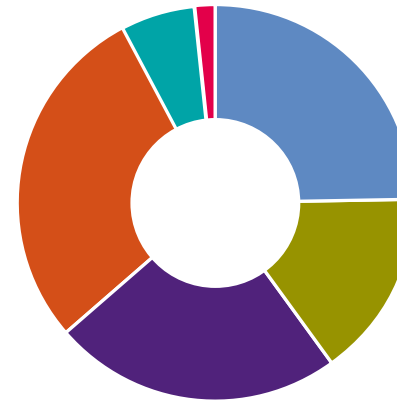
The BCC specifies that records of transactions should be maintained in an accurate, complete, and timely manner in accordance with NXP accounting principles, and no unrecorded funds or assets should be established or maintained. The BCC also specifies that all commission payments and personal gifts or favors may only be made or accepted in strict accordance with BCC Directives. In 2008, as guided by the BCC, which states that bribes in any form are unacceptable, we conducted several investigations and found no evidence of possible corruption or bribery.



### US Sarbanes-Oxley Act

In connection with the registration of our exchange notes, we became a registrant of the US Security and Exchange Commission (SEC) in 2007. As a result, we are subject to certain provisions of the US Sarbanes-Oxley Act, which requires companies registered with the SEC to disclose whether or not they have in place standards or a code of ethics to promote honest and ethical conduct as well as proper public disclosures and compliance with applicable laws and regulations. Our CEO and CFO have assessed the design and operating effectiveness of our controls as they relate to section 404 of the Sarbanes-Oxley Act and concluded that, as of December 31, 2008, our internal control over US Generally Accepted Accounting Practices (GAAP) financial reporting is considered effective.

2008 sales by market segment  
(2007 sales)



Total USD 5,443 million\*  
(USD 6,321 million)

\* Includes the Mobile & Personal business, which was largely part of the ST-NXP Wireless joint venture in 2008

<b>Mobile &amp; Personal</b>	1,356 (2,135)
<b>Home</b>	836 (927)
<b>Automotive &amp; Identification</b>	1,285 (1,332)
<b>MultiMarket Semiconductors</b>	1,554 (1,619)
<b>Manufacturing Operations</b>	324 (214)
<b>Corporate &amp; Other</b>	88 (94)

## Financial highlights of 2008

- ▶ Total sales of USD 5,443 million\*
- ▶ Adjusted EBITDA of USD 485 million and adjusted EBITA of a loss of USD 57 million
- ▶ Year-end cash position of USD 1,796 million\*\*
- ▶ USD 1,225 million invested in R&D in 2008

\* Includes the Mobile & Personal business, which was largely part of the ST-NXP Wireless joint venture in 2008

\*\* Includes USD 400 million drawn from NXP's revolving credit facility

Our employees are the ones who, on a daily basis, put our corporate values into practice. The dedication, ingenuity, and creativity they bring to their work enable us, as a global organization, to be insightful, engaging, inventive, and committed to excellence. To ensure that all our employees are treated fairly and with respect, we include specific commitments to our employees in the Business Code of Conduct (BCC).

# Employees

## Fostering individual growth

Our reporting includes employees in joint ventures where we have a majority share. In 2008, the number of employees decreased by over 7,000 in full-time equivalents (FTEs) compared to 2007. Changes were mainly the result of the deconsolidation of our wireless activities, the establishment of the joint venture NuTune (resulting in an increase), and a large number of temporary employees who left the Company. We employ an additional 4,000 people through third-party subcontractors that provide onsite manufacturing labor at our own facilities.

Our employees cover a broad range of ages, with around 66% of the staff being between 20 and 40 years old and about 11% above the age of 50. From a regional perspective, more

than half our employees are now located in Asia, including China. Almost 10% of all NXP employees are non-local, meaning that they have nationality in a different country than where they work. About half of these employees are located in Europe, the other half in Asia Pacific and Greater China.

In 2008, 42% of our employees were women (as compared to 41% in 2007 and 44% in 2006), and women held 5.6% of the senior management functions (as compared to 4.7% in 2007 and 4.9% in 2006).

Employees (FTEs) by geographical area as of Dec 31, 2008



<b>Europe and Africa</b>	10,310 (85% male / 15% female)
<b>Americas</b>	1,530 (75% male / 25% female)
<b>Greater China</b>	6,832 (44% male / 56% female)
<b>Asia Pacific</b>	11,502 (40% male / 60% female)

Total 30,174 (58% male / 42% female)  
Male/female distribution is based on 95% of NXP employees

Employees (FTEs) per sector as of Dec 31, 2008 (Dec 31, 2007)



<b>Mobile &amp; Personal</b>	1,416 (4,100)
<b>Home</b>	4,878 (3,096)
<b>Automotive &amp; Identification</b>	1,728 (1,385)
<b>MultiMarket Semiconductors</b>	8,163 (7,350)
<b>Manufacturing Operations</b>	9,819 (16,728)
<b>Corporate &amp; Other</b>	4,170 (4,968)

Total 30,174  
(Total 37,627)

### **Opportunities to learn**

Our learning programs target every level of the organization and are an important part of our employment proposition. They are aligned with our business requirements and thus provide a way to embed our values in the organization and help drive change.

The global economic downturn has forced us to make some difficult choices regarding our Learning & Development (L&D) programs. As part of our worldwide program, called NXP Redesign, which is aimed at lowering our cost base, we cut our L&D budget by 20%. All corporate leadership and talent programs, along with the NXP Academy, a global core curriculum for employees worldwide, were temporarily put on hold. The remaining L&D investments were focused on supporting change programs for individuals who have lost their job or have needed to be retained to perform another job within NXP.

Despite the cutbacks, we continue to use informal methods, including development discussions and coaching, to ensure that employees at all levels are engaged in and support the development of their personal talents and those of their teams. Also, as the global economy begins to recover and we return to a better situation, we plan to restart our L&D programs.

### **Technical careers**

Technical competence is a critical factor in our ability to stay competitive and helps us embed societal trends into our technology roadmaps. The NXP Technical Career "Dual Ladder" Program recognizes engineers for their technical

competence and, since 2000, has allowed talented technical people at NXP to enjoy career opportunities that rival those in the business and commercial sectors. The program now includes some 200 role-model engineers in the highest ranks of our organization.

### **Careers in project management**

Since 2006, we have encouraged our project managers to seek external certification, via a 10-module curriculum, from the Project Management Institute. We now have roughly 75 certified Project Managers and 18 candidates in training. To support these managers further, and to embody the learning organization, we also have local networks in place that help managers coach each other and share best practices.

### **Career development**

We use our global People Performance Management (PPM) process to assess employee performance and to help employees develop their careers. PPM helps align our business objectives with the personal objectives of individual employees. The result is continuous improvement, on both a personal and a corporate level, and better business performance.

One section of the PPM deals with our company's values and encourages better behavior and leadership. It raises each employee's level of engagement and lets us become more of a learning organization. The user-friendly, online PPM tool is currently available to almost 5,200 employees, including all senior managers. The number of employees participating in the PPM process is somewhat lower than in previous years

due to organizational changes and employees leaving the company. We plan to increase this number in coming years.

In 2008, 99% of the employees with online access to the tool interacted with it. A concise, paper-based version of the tool is available to all remaining employees; the results of the paper version are kept at local sites and not collated centrally.

### Employee Engagement Survey

In 2007, as part of our Employee Management Process, we conducted our first company-wide survey to gauge employee attitudes and compared our results to similar surveys conducted in 2004 and 2005, while we were still Philips Semiconductors.

Using our Employee Engagement Index, we looked at a combination of attitudes, including satisfaction, pride, loyalty, sense of personal responsibility, and a willingness to be an advocate for NXP. To evaluate the effectiveness of our managers as perceived by their direct employees, we worked with our outsourced partner, Kenexa, to develop the People Management Index.

The 2007 survey showed that, overall, the mood was generally positive. The response rate was nearly 87% (a good sign, in itself, of employee engagement). The Employee Engagement Index was 3.55 (out of 5), a slight drop from the 2005 rating of 3.64, and the People Management Index was 3.70 (out of 5), up from 3.56 in 2005. When benchmarked against scores from comparable companies in the high-tech industry, our score was somewhat above average. It is interesting to note that, when asked about

the environmental record of the company, 74% of survey respondents agreed or strongly agreed with the statement that "NXP is an environmentally responsible company."

For 2008, we took a different approach. Each quarter, we emailed a survey to a representative group of 10,000 employees chosen at random. To maintain links with previous results, the survey included many of the same questions as the original Employee Engagement Survey while adding some new questions about specific initiatives and our strategic direction. We published the results in our employee newsletter, *Let's Go!*, so everyone could learn what the response had been, and we discussed the findings in our quarterly Business Review Meetings with our Management Team. This way, Management was able to pinpoint those areas that needed improvement, define their focus for the coming period, and deploy actions that would further strengthen our performance-driven culture.

The quarterly Employee Engagement Index declined over the course of 2008, from 3.4 in the first to 2.8 in the fourth. The lower scores mainly came from employees in groups and departments that were impacted by redesign activities and organizational restructuring. Employees also indicated that, given the volatility of our business, they would not readily refer a friend or family member to work for NXP. At the same time, however, we continued to receive high scores on employee eagerness to contribute to the success of the company, and we saw positive results that showed our employees truly understand that our future as a company depends on saving costs while pursuing our long-term strategy.



Making a difference  
Putting people first

The remarkable community spirit of our sales office in Sao Paulo, Brazil, is proof that even the smallest of sites – there are only about 20 people on staff – can make a big difference in people’s lives.

## **Rosana Arcos Galvão** | *Secretary, Sao Paulo, Brazil*

It started in 2006, when the site established a program, called NXPeople, dedicated to improving the quality of life for employees, their families, and for some of the neediest members of the community.

“I’ve always wanted to help people,” says Rosana, who is one of the driving forces behind the NXPeople program. “I’ve worked in small offices before, but it wasn’t until I joined NXP that I found a company that had social responsibility built into its culture.”

The site has made donations to a number of charities. They’ve given used office paper to an organization that uses it to make handicrafts, and have donated supplies to a nearby school. When they had old office furniture to dispose of, they gave employees the option of purchasing the items, and then used

the proceeds to buy new winter clothes for the kids at a local children’s home.

In general, most of their charitable activities focus on helping children in need. “Brazil is still a developing country,” explains Rosana. “We have lots of children that need help. They’re homeless, orphaned, or abused, and it’s very hard for them. If we don’t help them now, while they’re young, they may not have a future.”

The site has donated computer equipment to a local daycare for use in computer classes, and, over the 2008 Christmas holidays, sponsored more than 25 children to receive “survival kits” that included toys and candy along with various essentials, such as clothing and toiletries. Says Rosana, “The 2008 campaign was a big success. Everyone got involved, even family members at home.”

Thus far, Rosana estimates that they’ve had a direct impact on the lives of more than 200 children. “We all enjoy it,” she says, “but it’s challenging, because there are so many needs. Each time we make a donation, we see that there is more we can do.”

To maintain their own enthusiasm, the team plans a variety of fun monthly events, based on employee suggestions and a group vote. They’ve had special holiday luncheons, marked International Women’s Day with small gifts for every female employee, and have brought their children to the office for a dedicated Kids Day. They celebrate birthdays, have movie sessions, and even plan to publish a cookbook of employee recipes. “We know that happy people are more productive,” Rosana says, “so we work to have a little fun, too.”



Our goal is to create a workplace that is healthy, safe, and free of occupational injury and illness for all employees.

Our Health & Safety Database, a web-based tool, connects all our industrial and non-industrial sites worldwide, providing consistent, reliable Health & Safety performance data for the company as a whole.

# Health & Safety

## Creating the right work environment

In 2006, we expanded our Health & Safety Registration System to cover 95% of our employees. We've kept that number stable in 2007 and 2008. To bring our reporting methods in line with OSHA standards, we have changed the way we track lost-workday injuries. As of 2008, we now report per 100 full-time equivalents (FTEs) instead of per 1,000 FTEs. The figures for previous years have been converted to the new format.

The hours of sick leave for the reporting year 2007 differ slightly from the data given in the 2007 Sustainability Report. In the course of 2008, we noted that some of the hours of sick leave, which were the result of injuries, were incorrectly recorded as occupational illnesses. The impact on the total hours of sick leave, however, was less than 0.1%.

For 2010, we have established a clear target of reducing lost-workday injury cases to fewer than 0.20 per 100 FTEs. In 2008, the number of recorded injuries rose from 170 in 2007 to 196, bringing the case rate to 0.34. This is a significant increase compared to the case rate of 0.25 in 2007 and 0.23 in 2006.

We are currently looking at additional action programs that will lower the number of cases to our target level.

In 2008, the total for hours of sick leave reported decreased, going from 1.4 million in 2007 to 1.2 million in 2008. The number of occupational illnesses, however, went up, from fifteen thousand in 2007 to twenty-nine thousand in 2008. This is mostly due to the increase in occupational illnesses, especially absences due to work-related stress.

Lost work-time rate decreased and is now at a level of 1.77%, close to the 2010 target of 1.75%.

We are implementing Occupational Health and Safety Assessment Series (OHSAS) 18001 certification at all our industrial sites. Of the 18 industrial sites, only one remains to be certified and is well on its way to achieve certification in 2009. OHSAS specifies the requirements for an occupational health and safety management system, enabling an organization to control its risks and improve its performance.

Examples of our Health & Safety initiatives can be found online, in the full text of this report ([www.nxp.com/profile/corporate](http://www.nxp.com/profile/corporate)).

To ensure that everyone at our sites has the right skills and disciplines to minimize the risks of illness and injury, we provide roughly one million hours of employee training worldwide each year. A range of educational schemes covers on-the-job training and there is specialized training in environmental matters, quality controls, and chemical health and safety. We even have training courses that help our employees conserve water and energy when they're away from work.

Chemicals are essential to our manufacturing processes, so we give special attention to emergency-response skills related to chemical spills. We conduct regular evacuation exercises and routinely practice for emergency situations. Many of our employees are volunteer members of Emergency Response Teams and receive dedicated training. We also have, at some locations, employees with professional-level emergency skills, especially in firefighting.

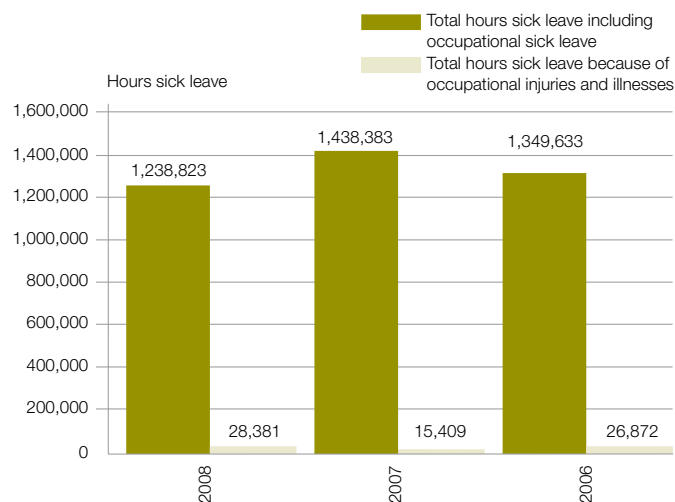


### Making H&S a top priority

Our assembly plant in Kaohsiung, Taiwan, is an example of a site that makes worker health and safety a top priority. The site is OHSAS 18001 certified and emphasizes conformance with internal audits. Employees have access to a range of on-the-job training courses, covering such topics as quality controls, chemical handling, and environmental matters, and the site sets a high standard for health and fitness, going beyond legal requirements for how often employees are required to get periodic and specific health exams. The site has recorded no major injuries or occupational illnesses in three consecutive years, and, in July 2008, was chosen from a select group to receive Taiwan's prestigious Environment and Safety Award.

### Healthy balance

Our facility in Nijmegen, The Netherlands, encourages employees to find balance in life, combining healthy work habits with good health. The site offers recommendations for setting up ergonomic workspaces and has launched a campaign to help employees stop smoking. There is a company doctor available for preventive medical checks, and there is a newly outfitted, ultra-modern fitness room with a physical therapist on staff. The company doctor can refer employees to the therapist, so they have easy access to advice, treatment, and tips on physical training.



### Key Health & Safety figures

	2008	2007	2006
Lost work-time rate	1.77%	1.95%	1.85%
Lost-workday injuries per 100 FTEs	0.34	0.25	0.23
Total number of recorded injuries	196	170	145
Total number of occupational illnesses	53	43	71

The fundamentals of our environmental, social, and ethical standards are laid down in our Business Code of Conduct (BCC) and its directives, our Financial Code of Conduct, and our Purchasing and Supply Management Code.

# Ethics

## Implementing our code of conduct

The BCC governs all our business decisions, including finance, purchasing, and supply management, and specifies policies for a wide array of subjects, such as corporate gifts, child labor, International Labour Organization (ILO) conventions, working hours, sexual harassment, free-market competition, bribery, and the integrity of our financial reporting. A worldwide network of regional compliance officers monitors our implementation of the BCC, and we are introducing a BCC training program. We also have a clear set of BCC directives to guide our business engagements with third parties outside NXP. In 2008, we made no changes to the BCC or its directives.

We regularly inform our employees about the BCC and its contents. For example, we have run articles in our internal newsletter, *Let's Go!*, and use a self-guiding presentation about the BCC in various training programs.

We have held special sessions that communicate the BCC to our legal, financial, and purchasing communities, as well as certain

country managers. These sessions summarize the BCC as a whole and, depending on the audience, put special emphasis on certain directives, such as the Financial Code of Ethics and the Purchasing & Supply Management Code. We have also made the BCC a regular part of our annual Compliance Statement on Business Controls, a yearly commitment that the management of each location has to sign.

We recognize and respect the freedom of our employees to establish or associate with organizations, including labor unions. In 2008, more than 40% of our employees were covered by collective bargaining agreements. In all NXP locations, there is regular contact between management and employees on labor-related issues, and there are systems in place that let employees deal with issues and grievances without fear of reprisal, intimidation, or harassment.

Our Whistleblower Policy lets employees submit complaints, either anonymously or not, regarding violations of the BCC. In 2008, roughly 25 complaints were raised. All of these complaints

led to investigations and have been settled. The BCC Review Committee monitors these complaints, gives updates to the NXP Board of Management and, when necessary, implements corrective actions to prevent the reoccurrence of similar complaints. At present, it is unclear whether all BCC violations have been reported properly. Some cases may have been settled locally, without the case being properly registered or reported to a compliance officer. Work on a more reliable registration system is ongoing. NXP has not found any cases within its operations involving a breach of human rights or the use of forced or child labor.

NXP expects its employees to be fully dedicated to the proper fulfillment of their jobs, and expects them to avoid any conflict between their personal or business activities and the financial interests of their job commitment. Any activity that could give rise to such a conflict, including engagement outside NXP or a financial interest (direct or indirect, such as via a family member or acquaintance), should always be promptly disclosed to the next level of management.

## Overtime

To meet delivery schedules, balance production capacity, or respond to unforeseen challenges, such as power outages, NXP's factory workers are often asked to work overtime.

We seek to balance several things in our approach to overtime, including our operational needs, the strong desire of some of our employees for overtime, current practices, and international labor laws. In most of the countries where we operate, there are legal limits for overtime. Also, the Organization for Economic Cooperation and Development (OECD)-ILO provides for a limit of 60 hours worked in a single week.

In principle, we limit factory overtime to the local legal maximum. If the ILO limit is higher than the local maximum, we allow overtime up to the ILO limit if the situation meets three criteria. There has to be a legally acceptable business or economic reason for the overtime, management has to request the additional time, and the workers have to put in the extra hours voluntarily (as confirmed in writing by the workers themselves). Overtime hours are always compensated, in accordance with local law, with the required pay premiums or with days off.

## Key suppliers and other third parties

Since 2006, we have used the NXP Sustainability Code for Suppliers ("The Code") to ensure that our suppliers join us in our commitment to sustainability. The Code is laid down in two documents, the NXP Supplier Declaration on Sustainability and the NXP List of Hazardous Substances in Products and Packaging.

Since 2008, the Declaration follows the exact text of the Electronic Industry Citizenship Coalition (EICC) Code of Conduct, which includes statements on the supplier's environmental record, health and safety (such as the provision of safe working conditions), and human rights. It also includes

additional, NXP-specific requirements on the right to organize, collective bargaining, and environmental-management systems.

The List of Substances specifies substances that are not permitted in materials, parts, semi-finished goods, or products at levels above our established threshold. This ensures that the products we deliver to market are free of substances that are restricted by law or other regulations, including the European Union's Restriction of Hazardous Substances (RoHS) Directive. While most substances on the List are not permitted by law, a number of them are not permitted by NXP in view of upcoming legislation or their impact on the environment or on health and safety.

The List also contains a number of restricted substances. Use of these substances is allowed but not encouraged and must be reported above a specified threshold. Most substances are placed on this list because of health risks in their use and/or processing. Others are listed because they limit recycling, because they are scarce, or because they have, for instance, a high environmental impact in mining. NXP encourages suppliers to look for and start using alternatives.

As part of our efforts to address issues in the mining of metals, we support the List of Principles on the Extractive Phase of the Electronics Supply Chain published by MakeITFair. We have asked our suppliers to disclose the sources of any metals or metal parts they supply, and aim to increase the traceability of these metals down to the extractive phase. In particular, we require that any tantalum purchases do not include coltan from the Democratic Republic of Congo (DRC). We ask that our suppliers certify the information they provide us about substances in their raw materials, parts, or products. To ensure the accuracy and completeness of this information, data must be gathered using appropriate methods, such as internal design controls, declarations, or analytical testing.

We encourage our suppliers to use a self-assessment that examines their organization's implementation and deployment of the Declaration. The self-assessment is required for all key suppliers in countries where legislation is out of line with key conventions of the ILO. Due to reorganizations in the supply chain and, in some cases, discontinued business, the number of these suppliers changed from 27 in 2007 to 22 in 2008. These suppliers are spread across three countries and, of the 22 currently listed, a remaining three are expected to complete the assessment in 2009.

We perform our own audits to verify that the Declaration is indeed deployed in our suppliers' organizations. Subcontractors and material suppliers follow, as a minimum, a three-year cycle. In 2008, due to changes in the supply base, we performed one audit in a risk country. The audit revealed no non-conformities and brought the total number of current audited suppliers in risk countries to 19, or 86% of our total (compared to 80% in 2007). We aim to achieve 100% in coming years, but how quickly we reach that goal will depend on future changes in the supply chain. To improve our audit process, we have renewed the sustainability training for auditors. We have also standardized the scoring and registration of findings, and have developed follow-up rules. More information on how NXP works with suppliers can be found at [www.nxp.com/profile](http://www.nxp.com/profile).

Our commitment to ethical conduct extends to the people who design with and use our products. We've signed a number of agreements with several of our customers to address ethical and environment, safety, and health (ESH) issues, and regularly seek opportunities to join global or industry initiatives for sustainability among our peers and suppliers.

As a global organization, we strive to improve people's lives, particularly in the communities where our company operates. We emphasize education and have established programs for social investment.

# Society

We provide international sponsorships for students who want to explore the scientific world outside their home country, and offer college scholarships for students looking to specialize in particular technologies, like nanoelectronics. For higher-level pursuits, our well-established and highly respected University Relations program provides a range of opportunities, including dedicated funding for research projects. For example, we offer technology scholarships at the Technical University of Hamburg-Harburg, in Germany, and sponsor students at the Technical University Delft and Eindhoven, in The Netherlands. We also provide infrastructure support and professor sponsorships at several universities in Russia.

Within our company, we encourage volunteerism and support our employees who participate in outreach programs during working hours. We have dedicated programs in place, such as our Community Action Teams (CATs) in the US, that connect our employees with volunteer opportunities, and we continue to explore options for future initiatives.

Our volunteers are involved in a wide variety of community-based efforts, and our sites give to a wide range of charitable organizations. The Christmas holidays are an especially popular time for giving, and many of our sites, including those in France, Germany, and Brazil, collect gifts for children's organizations.

For our China and Greater China sites, the central focus on giving in 2008 was disaster relief for victims of the terrible Sichuan earthquake. The combined total for all donations, including those made by employees and the company itself, amounted to close to RMB 2 million (USD 200 thousand).

The NXP Nijmegen site celebrated Tree Planting Day in March by inviting a youth organization to plant 100 oak trees on NXP property. The trees, which are hardy and long-lived, are expected to remove roughly twelve thousand tons of CO<sub>2</sub> from the air over the next century.

# Improving people's lives

The Nijmegen site also donated all 13,000 books in its multimedia library (which has been replaced by access to the Internet), to two higher-education facilities in Bangladesh.

We have several sites that have donated used computer equipment to local schools and charities. In the Philippines, for instance, the NXP Cabuyao site recently equipped a school, in a remote village hard hit by floods during a recent typhoon, with a series of computers and a printer. We support Close the Gap, an organization that helps bridge the digital gap between the West and developing countries by offering communities access to much-needed information and communications equipment. Our sites in The Netherlands have committed to donate two-thirds of their superfluous PCs to Close the Gap (we gave them 300 PCs in 2008), and the rest to institutes in Nijmegen, Eindhoven, and surrounding areas.

Many of our sites raise funds for charity through athletic events. In Hamburg, Germany, for example, NXP assembled

a team of nearly 180 people to run a charity race in support of a children's organization. Similarly, our site in Singapore raised funds by sponsoring, for the ninth year straight, a charity golf tournament called HeartWare.

To promote innovative "green" solutions and support development of alternative energies, NXP is donating microcontrollers and engineering expertise to the 2009 World Solar Challenge. The Challenge, which involves engineering students from various universities, has teams build a solar-powered car and race it across Australia. NXP is supplying a group from the Delft University of Technology, called the Nuon Solar Team, which has already won the race four consecutive times.

Details on these and other social initiatives are provided in the online version of this report ([www.nxp.com/profile/corporate](http://www.nxp.com/profile/corporate)).



Making a difference  
Cycling for a future without cancer

Chris Cullen, a cycling enthusiast at the Hazel Grove site, was hoping to convince one or two colleagues to join him in a long-distance ride for charity. By the day of the ride, his team was 84 people strong and had £17,000 (USD 28,000) in sponsorships.

## **Chris Cullen** | *Principal Equipment Engineer, NXP Hazel Grove, United Kingdom*

The 60-mile (96.5-km) Manchester-to-Blackpool charity ride is the biggest cycling event in the northwest of England. Chris had done the ride once before and, this year, was planning to ride for The Christie Hospital Manchester, one of Europe's largest cancer centers and an international leader in cancer research.

He started talking to a few colleagues about the idea, and, by the end of the first day, 14 people were on board. One thing led to another, and pretty soon it was a formal campaign, complete with a team name – NXP for Christies or NXP4C – and a planning committee.

Hoping to enlist 40 people and raise £5,000 (USD 8,000), the NXP4C committee found a web site designed for fundraising (JustGiving.com) and created a page to receive donations. They developed a colorful team logo and, working with

funds donated by NXP, put up posters, sent out emails, and published an article in *Let's Go!* magazine. They printed t-shirts, coordinated support crews, got a photographer to donate time on race day, and even scheduled an appearance from the Christie's mascot.

In the end, NXP4C, with its 84 riders and sponsorships totaling £17,000 (USD 28,000), accounted for 9% of all the funds raised for Christie's that day.

"It was something I'll never forget," says Chris. "Spectators cheered everyone on for the full 60 miles. It didn't matter if you'd finished in three hours or eight – you'd become part of something special."

The next day, back at work, NXP4C was still riding high, even if there were a few complaints about sore backsides.

But, as Chris puts it, "If we're talking about a future without cancer, then a sore behind seems a small price to pay."

NXP4C rode again in the 2009 event. They recruited roughly 25% of the Hazel Grove workforce, for a team of 126 people, and have commitments to meet their fundraising target of £10,000 (USD 16,000).

# How we manage sustainability

In this section, we give our basic approach to sustainability as a concept and describe how we make sustainability a fundamental part of our operations. When we established ourselves as an independent company, we embedded sustainability into all our processes and the overall structure of our organization. Moving forward, we have retained our deep commitment to sustainability and have continued to refine our approach. At the management level, our Sustainability Board and its operational arm, the Sustainability Office, guide our sustainability activities. Our Sustainability Policy is fully endorsed by our Management Team, as is our near-term Sustainability Plan. The near-term plan identifies four focus areas – global warming, green products, social engagement,

and employees – and sets specific targets to be reached by 2010. It also includes detailed targets for our EcoVision and Health & Safety programs.

This section also provides a broader view of who we are as a company. We discuss our approach to risk management, and highlight our primary areas of business. We outline our governance structure, define our reporting standards, and summarize the many ways we address the stakeholder community.



## NXP's worldwide leadership positions include:

### Home

- ▶ #1 in silicon tuners: over 210 million shipped
- ▶ Top 3 player in digital video systems (including digital TV and set-top box)
- ▶ Introduced the industry's first digital TV processor manufactured in 45-nm technology
- ▶ 1 out of 2 TVs worldwide contains an NXP chip
- ▶ Created Nexperia PNX5100, the world's first video postprocessor with Motion Accurate Picture Processing technology

### Identification

- ▶ #1 in ePassports, with 80% of the world's ePassports using NXP ICs
- ▶ #1 in contactless EMV banking solutions, with more than 500 million banking card ICs supplied in 35 countries
- ▶ #1 in RFID (Radio Frequency Identification) tagging solutions
- ▶ #1 in NFC (Near Field Communication)
- ▶ #1 in contactless chip solutions: over 3 billion ICs shipped
- ▶ Over 70% of all electronic tickets in public transport use NXP ICs

### Automotive

- ▶ #1 in car radio tuners
- ▶ #1 in Digital Signal Processors (DSPs) for car radios
- ▶ #1 in automotive networking
- ▶ #1 in system solutions for automotive immobilizers and keyless entry/go
- ▶ First to launch a One-Chip-Key with integrated immobilization, microcontroller, and radio transmitter

### MultiMarket Semiconductors (MMS)

- ▶ #1 in 32-bit ARM-based microcontrollers
- ▶ #1 in I<sup>2</sup>C-logic and industrial UARTs
- ▶ #1 in dynamic speakers and receivers for mobile phones for more than a decade
- ▶ #1 in RF power amplifiers for broadcast transmitters
- ▶ #2 in small-signal discretes
- ▶ 1 out of 2 laptops uses NXP's GreenChip power-supply controller

### NXP Software

- ▶ Independent Software Vendor for mobile multimedia software solutions
- ▶ More than 550 million devices use LifeVibes software

Taking risks is an important part of remaining entrepreneurial and succeeding in business, but, at the same time, it's crucial that we manage our exposure to risks to ensure sustainable growth.

# Our business risks and opportunities

NXP believes that adequate corporate governance, based on solid internal controls and high ethical standards, is a critical factor in achieving business success. Risk management is deeply embedded in our corporate governance model. An overview of our approach to risk management, with a detailed description of the nature and extent of our exposure to risks, is given in the NXP Semiconductors Annual Report 2008 ([www.nxp.com/investor](http://www.nxp.com/investor)).

As a company, we recognize different categories of risk and have policies and procedures in place to address issues within each category. For example, we acknowledge that the success of our long-term partnerships and our ability to protect our intellectual property can affect our strategic direction. We also realize that unexpected developments resulting from internal processes, people, or systems can impact the actual running of our business. Similarly, we understand that failures to enact appropriate policies and procedures could, among other things, negatively impact the reliability of our financial reporting, and failure to comply with relevant laws could seriously hamper our operations.

To address potential risks with our suppliers, our Sustainability Office and our Supply Chain Management Team have established a Supplier Declaration of Sustainability. Based on the Electronic Industry Citizenship Coalition's (EICC) Code of Conduct, it includes statements about environmental practices and their record on labor safety. We verify conformance by using audit methods based on international standards, the procedures developed by the EICC, and the supplier's national regulations.

In general, we have found that our suppliers have clear rules and procedures that meet our sustainability standards, yet we have encountered workers who, due to language barriers, are not sufficiently aware of those rules and procedures. This is becoming more of a challenge as suppliers move into low-cost production countries where language and employee turnover are both issues.

More on how we work with our suppliers and subcontractors can be found at [www.nxp.com/profile/corporate/sustainability/suppliers/sustainability](http://www.nxp.com/profile/corporate/sustainability/suppliers/sustainability).

Normal fluctuations in the semiconductor industry can make it difficult for the company to meet short-term goals. To compensate for these fluctuations and identify trends, we establish four-year sustainability plans that include longer-term targets for Environment and Health & Safety.

As the semiconductor industry matures, consolidation has become a regular part of business. To remain competitive, we must add activities that strengthen our position and need to exit those areas where we don't play a leading role. This ongoing process of transformation can present challenges as we continue to align with and meet our overall sustainability targets.

For some time, the semiconductor industry has recognized the importance of being proactive in protecting the environment, and NXP supports these efforts. Our opportunities lie in making products with the lowest environmental impact, so we can remain competitive while meeting national and regional environmental requirements. We believe that when environmental, safety, and health (ESH) laws and regulations are necessary, they should be technologically feasible, coordinated, and effective in achieving environmental protection. For example, we participate, either directly or through industry associations, in the Long-Range Transboundary Air Pollution (LRTAP) and Stockholm Convention PFOS discussions, the EU's REACH program concerning chemical usage, the EU End of Vehicle Life (ELV) directive and, in several regions, RoHS (Restriction of Hazardous Substances) regulations.

As a company that operates globally, we are subject to regional laws and regulations covering environmental, health,

and safety issues. These issues include emissions of pollutants to the air, wastewater discharges, the use and handling of hazardous substances, waste disposal, the investigation and remediation of soil and groundwater contamination, and employee health and safety. For some of our operations, we are also required to obtain environmental permits and other authorizations or licenses from governmental authorities. If we violate or fail to comply with any of these laws or regulations, we run the risk of being fined or otherwise sanctioned by regulators. We track these requirements and were neither fined nor sanctioned in 2008.

### Trade compliance

Our Corporate Trade Compliance (CTC) group is responsible for complying with the NXP System on Export Controls, the NXP Security Standards, and customs regulations. The CTC ensures that a clear set of policies and directives is in place, along with an organizational structure that clearly defines lines of responsibility and delegation of authority. They also ensure that adequate supervision is carried out and, when necessary, that corrective actions are taken.

The current political and economic climate has sharpened the focus on export controls, supply-chain security, and customs. To support national-security policies and to prevent terrorist activities, including the illegitimate development of weapons of mass destruction, countries the world over are enforcing stricter regulations. We believe that the continued threat of global terrorism requires companies to secure assets as they move through the supply chain. We also believe that the right way to strengthen overall supply-chain security involves a cooperative

approach as outlined by the Authorized Economic Operator (AEO) and the Customs-Trade Partnership Against Terrorism (C-TPAT) programs. NXP is certified for both programs. To deal with the variety and complexity of export-control regulations in a consistent, efficient way, NXP operates a company-wide System on Export Controls, which incorporates all applicable national and international laws and embargoes. Following this framework is mandatory for everyone in the company.

The actions we have taken to secure our supply chain and the certifications we have received qualify NXP as a trusted, low-risk company in the eyes of governmental authorities worldwide. Every NXP location housing NXP employees, resources, assets, goods, or materials is physically secure to limit access to authorized personnel only. The NXP Security Standards document provides the security and process requirements and guidelines necessary for successful implementation of NXP's Supply Chain Security (SCS) policy.

Import/export regulations have a significant impact on international and cross-border trade. The variety, complexity, and volatility of these regulations pose a major challenge for our company. The CTC group offers clear guidance and ensures that all NXP businesses can understand the customs environment in which they operate, comprehend all the applicable customs requirements, and implement them.



Making a difference  
Creating smarter cars

A government-sponsored project in Europe will enable faster, more effective responses to road accidents. NXP is part of the picture, and is developing extra innovations that will make cars more interactive and more secure.

### eCall

The European Union (EU) estimates that there are 1.4 million traffic accidents on EU roadways each year, resulting in 1.7 million injuries and 40,000 fatalities. eCall, a new project sponsored by the European Commission and scheduled for implementation by the end of 2009, will enable faster assistance to motorists involved in a collision anywhere in the EU.

If the vehicle's airbag is deployed, or sensors detect an impact, the car automatically connects to a cellular network and relays the information, along with GPS coordinates of the car's exact location, to local emergency agencies. Calls can also be made manually, by pushing a button. Whether the call is made manually or automatically, there is always a voice connection between the vehicle and the rescue center, so a dispatcher can speak to anyone still conscious in the car, confirming details and giving reassurance.

Knowing the exact location of the crash site is expected to cut response times by as much as 50% in rural and 40% in urban areas. Having emergency services arrive earlier is expected to save 2,500 lives annually, and will lessen the severity of thousands of injuries. Faster response times will also mean faster clearance of crash sites, which will save fuel, reduce CO<sub>2</sub> exhaust, and ease congestion. NXP has pledged its full support for eCall, and makes many of the technologies, including sensors, GPS, and cellular, that the system requires.

### SmartKey

NXP, as part of its own plans to improve motor vehicles, is developing a new concept, called the SmartKey. Most drivers are already familiar with keyless entry – just aim the car's "keychain" at the car and lock it, turn on the alarm, or unlock it. Some keys even set driver preferences, like seat position, mirror settings, and so on. But, aside from a beep or a flashing

light, the car doesn't provide much in the way of confirmation. The SmartKey changes that, offering two-way communication between the car and the key. Using radio frequency (RF) technology and a series of LEDs or a display, the SmartKey can confirm that the car is, indeed, locked, and can communicate with the car in other ways, too. If, for instance, the theft alarm is triggered, the car can send an alert, or, using data from various sensors, can remind the driver when it's time to fill the tank, change the oil, or check the tires. For added convenience, the technology can be integrated into a mobile phone, so there's only one device to carry.

Over time, other features will make the SmartKey even more useful. With GPS, the key can become an ID device, locating the car when it's parked in a crowded lot or down a side street. Similarly, adding NFC can enable secure payments, for use at toll booths or gas stations.

With net sales of USD 5,443 million in 2008, and more than a dozen worldwide leadership positions for our product technologies, we are one of the world's foremost semiconductor suppliers.

# Our organization

Our company was created on September 29, 2006, when the Royal Philips Group sold the Product Division Philips Semiconductors and its related software-development activities. The company is now a separate legal entity, owned by a consortium of private investment companies (Kohlberg, Kravis Roberts and Co., Bain Capital, Silver Lake Management Company, Apax Partners Europe Managers, AlpInvest Partners, and others), and Royal Philips Electronics.

In the short time that we have been operating independently, we have gained strong brand recognition worldwide. We support our success with several important alliances and partnerships that help us pursue our business goals.

Early in the third quarter of 2008, to help strengthen our competitive position following the disposition of our wireless business, we announced our long-term Redesign Program, a plan to right-size our cost base to match our revenue profile. At the time of its announcement, the Program aimed to reduce our annual operating costs by USD 550 million

(as benchmarked against our 2008 forecast cost base and adjusted for the disposition of our wireless business), by the end of 2010. We expected to produce savings via significant restructuring of our manufacturing base, refocusing and resizing central R&D, and reducing support functions. Roughly 4,500 employees were expected to be impacted globally.

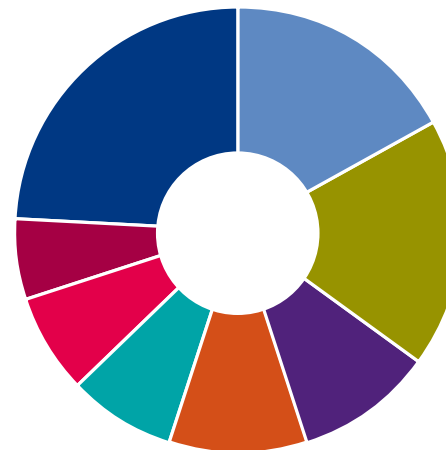
Not long after the announcement, financial and market conditions began to deteriorate and then, in the fourth quarter, the downturn began to accelerate. In response, we took steps to quicken and expand the Redesign Program. We now expect that we will meet our goal earlier, and that the savings will be higher than originally estimated. Further details on the Redesign Program and its restructuring can be found in the NXP Annual Report 2008 ([www.nxp.com/investor](http://www.nxp.com/investor)).

We ceased our Fishkill, New York operations in July 2009, after an unsuccessful search for a suitable buyer. As part of the launch of a new company that is backed by NXP and the French government, NXP sold part of its Caen operations in

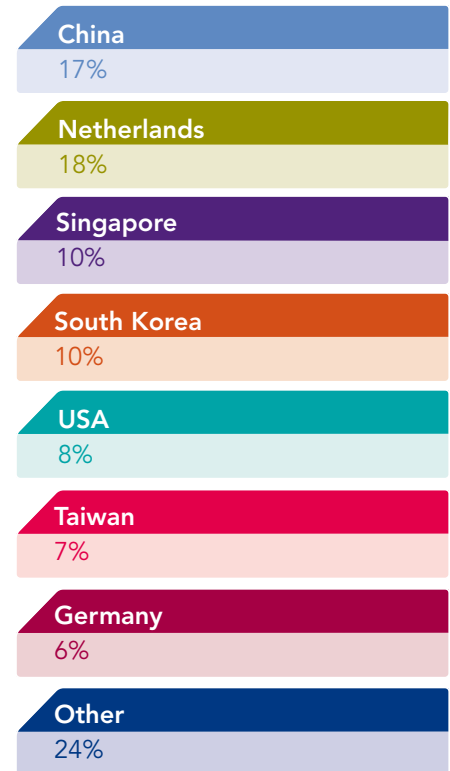
May 2009. The new company, called IPDIA and established in June 2009, will mainly produce LED bases and integrated passive devices. IPDIA is purchasing some of the assets of the Caen plant, including intellectual property (IP), patents, and equipment. The initial staff will consist of about 90 people, the majority of which will be recruited from former NXP employees.

<b>Established</b>	2006 (formerly a division of Philips) 50+ years of experience in semiconductors
<b>Headquarters</b>	Eindhoven, The Netherlands
<b>President and CEO</b>	Rick Clemmer
<b>Businesses and activities</b>	Automotive Home Identification MultiMarket Semiconductors NXP Software
<b>Net sales</b>	USD 5.4 billion in 2008*
<b>Research &amp; Development</b>	Investment of about USD 1.2 billion in 2008* About 4,500 engineers 5,700+ patents 20 R&D centers located in 14 countries 7 part-time professors 20 PhD programs supported annually, with 20 Master courses a year USD 2 million invested annually in university programs
<b>Employees</b>	Approximately 30,000 people at the end of 2008 in more than 30 countries
<b>Manufacturing facilities</b>	18 in 2008
<b>Manufacturing joint ventures</b>	40% share in Suzhou ASEN Semiconductors Co. Ltd. 60% share in Jilin NXP Semiconductors Ltd. 26.6% share in Advanced Semiconductor Manufacturing Corporation Limited 61.2% share in Systems on Silicon Manufacturing Company Pte. Ltd.
<b>Customers</b>	35+ direct customers accounting for approximately 50% of sales. Customers include Apple, Bosch, Cisco, Continental, Flextronics, Nokia, Philips, Samsung, Siemens, and Sony.  25,000+ customers reached via our semiconductor distributor partners, including both global and other major distributors such as Arrow, Avnet, Future, SAC, and WPI.

Sales by country  
(as of Dec 31, 2008\*)



\* These figures include the Mobile & Personal business, which was largely part of the ST-NXP Wireless joint venture in 2008



\* These figures include the Mobile & Personal business, which was largely part of the ST-NXP Wireless joint venture in 2008.



## Businesses and activities

	Highlights
Automotive	In Automotive, NXP focuses on innovations that make cars cleaner, safer, and more comfortable, and that make driving more fun. NXP is the industry leader for in-vehicle networking, magnetic sensors, and car-radio products, and our keyless entry/go and connected key solutions add convenience and security to today's cars. We deliver audio, connectivity, and multimedia solutions that rival the best in home entertainment. We're also pioneering low-cost telematics, with the first dedicated solution for road pricing, eCall, and stolen-vehicle tracking.
Home	NXP's TV, set-top box system solutions, and audio/video components enable manufacturers to offer consumers more digital content via a better viewing and listening experience. We innovate embedded multimedia features and next-generation, connected multimedia appliances for a connected living experience – making it easier than ever to enjoy and share multimedia content, anytime and in every room.
Identification	In Identification, NXP's contactless technologies are designed to track inventory, improve logistics, and protect people's information-driven lives. NXP technologies can be found in everything from Radio Frequency Identification (RFID) tags that authenticate medicines to eTicketing systems that cut commute times and ePassports that fight identity theft and increase border security. Near Field Communication (NFC), a technology NXP invented, gives instant yet completely secure access to entertainment, information, and services, so a consumer's NFC-enabled mobile phone can act as their wallet, entertainment center, travel guide, and house keys.
MultiMarket Semiconductors	NXP has one of the largest portfolios of multimarket semiconductors in the industry, from basic building blocks like timers, amplifiers, and small-signal and integrated discretes to sophisticated ICs that improve media processing, wireless connectivity, and broadband communications. These products are designed to save space, extend battery life, enable solutions tailored to consumer needs, and make it easy to implement last-minute changes. The portfolio also includes high-quality acoustic components, such as dynamic speakers and receivers for the mobile phone market, headsets, and other sound accessories.
NXP Software	NXP Software ( <a href="http://www.nxp.software.com">www.nxp.software.com</a> ) is a fully independent and leading provider of innovative multimedia software solutions that help mobile device manufacturers deliver vibrant, easy-to-enjoy multimedia experiences with outstanding performance that's based on industry standards. NXP Software is a member of the NXP Partner Program for software, systems, and design, so customers get direct access to their industry-leading LifeVibes™ applications and products.

### Primary areas of business

We divide our activities into primary areas of business, called business units (BUs). Over the course of 2008 and 2009, as the result of various transactions and restructurings, the number of BUs and their areas of focus have varied. For the purposes of this Report, since restructuring is ongoing, we prefer to discuss businesses and activities. In general, we continue to deliver products for a range of markets and applications (including automotive, computer, consumer, and others), across these businesses and activities.

Our Home, Automotive, and Identification businesses offer highly differentiated, application-specific semiconductors and system solutions. Our MultiMarket Semiconductors business offers standard products that can be used in many types of electronic equipment, and NXP Software provides multimedia software for mobile devices.

Until July 2008, BU Mobile & Personal provided application-specific semiconductors, selected components, and complete system solutions for mobile and portable devices.

In our remaining businesses and activities, we leverage our knowledge of the consumer and our particular technical expertise in the areas of audio, video, radio-frequency communications, power management, and security technologies to create and deliver semiconductors solutions for the connected consumer.

NXP is a leader in sound solutions for mobile phones such as speakers, receivers, and headsets, and is now also entering the MEMS microphone field. With the trend toward

notebooks and netbooks in the computing segment, our very compact solutions, which also provide excellent sound quality, are attracting more and more interest. NXP's RF power technology provides leading products for mobile base stations, microwave, and broadcasting, and the extensive portfolio of audio amplifiers addresses mobile and consumer applications.

Our activities in NXP Software and Intellectual Property (IP) Licensing are reported separately from our other businesses. NXP Software is a fully independent and leading provider of innovative multimedia software solutions that help manufacturers of mobile devices deliver vibrant, easy-to-enjoy multimedia experiences with outstanding performance based on industry standards. NXP Software is a member of the NXP Partner Program for software, systems, and design, so customers get direct access to their industry-leading LifeVibes applications and products.

### Acquisitions and divestments

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

In August 2008, NXP and STMicroelectronics established a joint venture in order to combine their key wireless operations. The majority of the activities of our BU Mobile & Personal were transferred to this joint venture. STMicroelectronics exercised its option to buy our remaining stake.

## How our manufacturing facilities worldwide comply with environmental (ISO 14001) and health and safety (OHSAS 18001) standards



Wafer fabs	ISO 14001	OHSAS 18001
Caen, France	Yes	Yes
Boeblingen, Germany*	Yes	Yes
Fishkill, USA	Yes	Yes
Hamburg, Germany	Yes	Yes
Nijmegen, The Netherlands	Yes	2009
SSMC, Singapore	Yes	Yes
Jilin JNSC, China	Yes	Yes
Hazel Grove, UK	Yes	Yes

\* The Boeblingen site was closed early 2008

Test and Assembly	ISO 14001	OHSAS 18001
Bangkok, Thailand	Yes	Yes
Cabuyao, Philippines	Yes	Yes
Calamba, Philippines*	Yes	Yes
Kaohsiung, Taiwan	Yes	Yes
Beijing, China	Yes	Yes
NuTune, Indonesia	Yes	Yes
Vienna, Austria	Yes	Yes
Guangdong, China	Yes	Yes
Hong Kong, China	Yes	Yes
Seremban, Malaysia	Yes	Yes

\* The Calamba site was transferred to the ST-NXP Wireless joint venture in August 2008

In early 2009, the DSP Group (DSPG) repurchased the 16% outstanding common stock of DSPG, at the time held by NXP, which were obtained in 2007 following the divestment of our Cordless & VoIP Terminal operations. The remaining activities have been regrouped, as of January 1, 2009, into our remaining businesses and activities.

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

### **Alliances, joint ventures, and partnerships**

To support our development and manufacturing activities, we participate in a number of alliances, joint ventures, and partnerships that bring us a variety of benefits. They help speed development, reduce time-to-market, and give us access to a greater variety of technologies. They also support our asset-light strategy, since they let us reduce fixed costs and let us share R&D expenses with third parties.

NXP has a roughly 60% interest in two front-end facilities, Jilin NXP Semiconductors Ltd. (JNS), and Systems on Silicon Manufacturing Co. Pte. Ltd. (SSMC). Our 42.7% share in T3G, a joint venture with Datang Mobile, Motorola, and Samsung Electronics, that is developing next-generation mobile

technology in China, became part of the wireless joint venture with STMicroelectronics in August 2008. We also have a 27.5% share in Advanced Semiconductor Manufacturing Ltd. (ASMC), a joint venture with several Chinese partners that operates three wafer fabs.

On September 1, 2008, we combined the operations for our can tuner modules with those of Thomson. The resulting joint venture, named NuTune, is included in Home businesses and activities. NXP owns 55%; Thomson the remaining 45%. NuTune will support expansion of broadcast and broadband distribution infrastructures for digital terrestrial TV (such as Digital Video Broadcast or DVB), which rely on advanced delivery technologies.

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

### **Software partnerships**

Software plays a critical role in determining our competitiveness in system solutions, which are an increasingly important part of our business. To develop software for our products, we complement our own software activities at NXP Software

by leveraging mutually beneficial partnerships with roughly 100 software companies. As a result, we're able to offer our customers software that reflects industry-leading expertise and quality levels, and, in return, our partners gain a platform with which to align their software.

### Certifications

Our current EcoVision target for ISO 14001 certification is to have 100% of all industrial activities certified by 2010. We met this target in 2007. Similarly, for Health & Safety, our current target for OHSAS 18001 certification is to have 100% of all industrial activities certified by 2010. We are one certification away from meeting this target and expect the remaining site to receive certification in 2009.

In 2007, we introduced a company-wide ISO 9001 quality management system named the One Management System. It provides an integrated approach to our work and puts into practice the so-called Highway to the Customer. It is a top-down system, covered by a single certificate issued by Kema in December 2007, and includes a company-wide business manual and one process implementation. As a result, all our procedures are connected and our entire organization is covered by one audit plan. In 2008, we emphasized process management and converted from site-based ISO/TS16949 certification to an integrated corporate scheme. The first certificate was issued to Hamburg in February 2009. We are continuing the program in 2009, introducing a sustaining organization that will make the One Management System even stronger.

## Awards received

In 2008, various NXP sites and NXP people were recognized for their achievements. The following is a partial list; details are given in the online version of this report ([www.nxp.com/profile/corporate](http://www.nxp.com/profile/corporate)).

- ▶ Bangkok site, Thailand: Superior Partner Award from Samsung
- ▶ Kaohsiung site, Taiwan: Enterprise Innovation Award 2008
- ▶ Kaohsiung site, Taiwan: Environment & Safety Award for export processing zone
- ▶ NXP in Asia: Best Supplier Award for General Applications (GA) Discretes from distributor WPI
- ▶ NXP in China: 2008 Innovation Award from EDN China
- ▶ NXP in China: China Influenced Embedded System New Technology Award from Electronic Engineering & Product World (EEPW)
- ▶ NXP in China: named one of the Top Ten Fast Reaction Companies of 2008 by Business Watch
- ▶ NXP in China: Voted Most Influential Automotive Semiconductor Supplier by China Center for Information Industry Development (CCID)
- ▶ NXP in France: Academic Palms award to (former) technology director Frank Murray from Ministry of Higher Education and Research
- ▶ NXP in India: Electronics For You award in Smart Card Chips category from India Marketing Research Bureau
- ▶ NXP in Singapore: Silver Award for activities promoting health
- ▶ NXP in Taiwan: Best Partner Award
- ▶ NXP in the US: Honorable Mention from US PR Week Awards
- ▶ Product award: EDN's Innovative Product of the Year for MCUs and Cores for LPC2478
- ▶ Product award: Elektronik Award for GreenChip III
- ▶ Sound Solutions, Beijing, China: Honorary Professor award to Franz Obenaus
- ▶ Sound Solutions, Vienna, Austria: National Award for Business Excellence 2008
- ▶ Southampton Site, United Kingdom: Finalist in Sustainable Business Awards for Hampshire and Isle of Wight
- ▶ SSMC site, Singapore: Third consecutive award for workplace safety and health innovation



Making a difference  
An award-winning switch to UV-LED lamps

By making a relatively small change – replacing conventional ultraviolet (UV) lights with new UV-LED lamps – BL Sound Solutions in Vienna produced some very big results. So much so, that they've been recognized for their achievement by the city itself.

### **Walter Schmidtkunz** | *Production Manager, BL Sound Solutions, Vienna, Austria*

Like many companies that assemble small electronic components, BL Sound Solutions uses UV light to cure and harden bonding material during their production process. UV light makes a quick, durable bond, but conventional UV lamps generate a lot of heat. Temperatures can reach as high as 80 °C (176 °F), so, to prevent damage to the components, the area around the lamp needs to be cooled and the hot air needs to be removed by blowers. That takes a lot of energy. Upkeep can be expensive, too, since the lamps have a relatively short lifespan. A ready supply of new bulbs needs to be kept in stock, and machinery has to be taken offline every time a bulb is replaced. On average, the facility went through 270 UV lamps a year.

"As part of our Continuous Improvement Program," says Walter Schmidtkunz, who oversees the production activities in Vienna, "our manufacturing teams started looking at

alternatives." They found that, by replacing the existing lamps with new ones based on LED technology, they could save energy, save downtime, and save money.

"The results were really impressive," says Walter. The new lamps alone reduced power consumption by 93%. Eliminating the need to cool the area and extract hot air saved approximately 2,750,000 kWh per year – at a cost savings of about EUR 330 thousand (USD 450 thousand). The new lamps also last a lot longer, so they don't need to be replaced anywhere near as often. There's less waste and the production line runs more efficiently. The savings in repair and downtime costs amount to roughly EUR 530 thousand (USD 750 thousand) annually.

As a way to share their story with others, the group entered the Vienna "EcoBusiness" competition, which recognizes

companies that have made significant gains in reducing their impact on the environment. The judges were so impressed that they awarded BL Sound Solutions the 2009 Environmental Prize of the City of Vienna.

Says Walter, "We're really proud to see our employees recognized for their performance and their know-how. They took a new look to an old problem, and that's the essence of continuous improvement."

The group's other production lines are being converted to LED technology, and any new lines will, by default, be equipped with UV-LED lamps.



We use certified management systems to ensure that our sustainability reporting activities are conducted regularly and in line with industry norms.

# Our governance structure

We issue our Sustainability Report once a year and use the Global Reporting Initiative (GRI) guidelines as the main reference for content. Our Sustainability Reports include the total of consolidated activities described in our Annual Report 2008 ([www.nxp.com/investor](http://www.nxp.com/investor)), and omit entities in which we have a minority stake (less than 50%).

## **Governance structure**

As of January 1, 2008, we simplified our organization and increased efficiency by embedding the Board of Management into the Management Team. The Management Team now functions as our organization's primary executive-management layer and is where leaders of our businesses and activities, core processes, and support functions come together to lead the Company. Under this structure, members of our Board of Management continue to hold, in addition to their Management Team duties, responsibility as Board members with fiduciary duties under Dutch company law.

Under the chairmanship of the CEO, the Board of Management is entrusted with the general management of the Company, including setting its strategy and policies. The Board of Management is accountable to our Supervisory Board and our General Meeting of Shareholders. Members of the Board of Management are appointed and dismissed by the General Meeting of Shareholders upon proposal by the Supervisory Board. The Management Team deploys the Company's strategy and policies, is responsible for meeting its objectives and results, and ensures that business issues and practices are shared across our business. The Supervisory Board is required to approve all major decisions made by the Board of Management, including those relating to the Company's operational and financial objectives or the strategies it uses to achieve those objectives. The Supervisory Board also determines the remuneration of individual members of the Board of Management, following the established remuneration policy.



# and reporting standards

The Supervisory Board retains overall responsibility while assigning certain of its tasks to three permanent committees: the Operating Committee, the Nominating and Compensation Committee, and the Audit Committee.

The Supervisory Board consists of Sir Peter Bonfield (Chairman), Johannes P. Huth, Adam H. Clammer (who replaced Richard L. Clemmer when he resigned effective December 31, 2008 to become President and CEO of the Company), Michel Plantevin, Ian Loring, Egon Durban, Richard Wilson (who replaced Christian Reitberger when he resigned as of October 22, 2008), and Eric Coutinho. The Supervisory Board met ten times in 2008, compared to five times in 2007. Present at the meetings were members of the Board of Management and, if requested, members of the Management Team. The Supervisory Board passed several resolutions, taking into account advice it received from the Board of Management on the direction of the company. In addition to the regularly scheduled meetings,

members of the Supervisory Board had regular contact with the CEO and other members of the Board of Management.

Sustainability has been assigned as one of the responsibilities of the Executive Vice President Operations.

The Sustainability Board establishes strategy and sets targets for sustainability, while the Sustainability Office performs operational functions. These include managing environmental, health and safety conditions, overseeing the management of chemicals, monitoring and controlling data, supporting customers and contracts, coordinating social investment, liaising with industry associations, and delivering internal communications on sustainability.

Our Business Code of Conduct (BCC) specifies the rules of behavior that we, as individuals and as an organization, commit to. The BCC states that we are dedicated to being a responsible social partner and to working in a way that is economically, socially, and ethically sustainable. The BCC Review Board maintains the BCC, proposing revisions and managing the processes related to its implementation.

Our Risk and Safety Board is, among other things, responsible for standards, policies, and improvement plans that relate to risk and health and safety. It is supported by our Insurance and Risk Management Department, our Business Continuity Manager, and our Environment, Safety & Health (ESH) Council, which consists of senior ESH managers from our worldwide sites and the Sustainability Office.

### **Management changes**

Richard Clemmer succeeded Frans van Houten as President & CEO in January 2009. Mike Noonan joined NXP in November 2008, succeeding Pascal Langlois as head of Global Sales. Rudy Stroh joined NXP as General Manager of the Identification Business in May 2009. Marc de Jong, General Manager of the Automotive & Identification Business left NXP in March 2009. Richard Clemmer (CEO) and Karl-Henrik Sundström (CFO) form the "Raad van Bestuur" (Board

of Management) of NXP BV, according to Dutch law. For more information on the NXP Management Team and to view their profiles, go to [www.nxp.com/profile](http://www.nxp.com/profile).

### **Reporting standards**

We use our EcoVision monitoring systems to gauge our performance in ESH categories. Our Reporting Manuals contain reporting instructions for these systems, including definitions, procedures, and calculation methods. Our reference year is 2006, when we separated from Philips.

In 2006, environmental data was reported and validated by the Sustainability Office half yearly. From 2007 on, it has been reported quarterly and validated every six months. Data is reported on every manufacturing facility that a) we own, rent, or leases and manage, b) has 50 or more people working in production, and c) is consolidated for our financial reporting.

To make the structure of reporting organizations in the previous year comparable with that of the current year, we include the previous year's data for new reporting organizations but don't include data for reporting organizations that were divested in the current year unless, as in some cases, the data from the divested organization is too deeply embedded with other data to be subtracted. We note these special

cases and will extract the extra data when it can be reliably removed from the current and previous years. For reporting organizations that were closed as part of an efficiency operation in which production was transferred to another NXP reporting organization, we include the previous year's data so the data for overall NXP activities remains comparable. Due to reporting obligations we have as part of voluntary agreements, PFC data always includes all current and previous reporting organizations. In 2008, 18 sites met the above criteria and collected environmental data that was validated by the Sustainability Office.

Health & Safety data is reported monthly and validated by the Sustainability Office biannually. Within a current reporting year, data for new reporting organizations is added to the totals in the first quarter the information is consolidated, and data for divested reporting organizations is subtracted from the totals in the first quarter the information is deconsolidated.

As in 2006 and 2007, data reported for 2008 covers 95% of our full-time equivalents (FTEs), including employees in sites where we have a minority share. We aim for 100% coverage. To help achieve this, we are upgrading existing registration systems and evaluating ways to address the non-registration of temporary FTEs (less than 1%).

When a relevant indicator is not covered by an existing system, we've used local systems and questionnaires to gather data. While we're confident that the resulting data is reliable overall, we recognize that there is some degree of uncertainty due to the limitations of our methods. Where these uncertainties are significant, we have noted them. We conducted several internal data audits and validation checks for EcoVision and Health & Safety in 2008. In a few cases, these audits have led to small (less than 1.5%) changes in the reported 2006 and 2007 figures.

The demographics data for 2007 and 2008 was collected through a new module in the Health & Safety reporting database and includes 95% of our employees. Although the data did not differ significantly from the data gathered by earlier collection methods, we now have a means for validating the reported figures.

In 2008, NXP closed the Boeblingen site in Germany. Since production from the site was transferred to other NXP sites or discontinued, the site's historical environmental data is included in this report. Health & Safety data include the Boeblingen figures up to the actual closure.

In August 2008, we began transferring the majority of our Mobile & Personal business to the ST-NXP Wireless joint venture. The process took several months. We divested the Calamba site in the Philippines before the end of the year, but, due to limitations in reporting, we include the site's environmental data for all of 2008. No data will be reported in 2009 and, for purposes of comparison, data for earlier years will be excluded in future reports. The 2008 Health & Safety numbers reflect the step-by-step creation of the joint venture, tracking employees as they moved to the new organization in stages.

GloNav and the Broadband Media Processing (BMP) business of Conexant Systems, Inc. were acquired in 2008. The Health & Safety data for both acquisitions has been included in the full-year figures for 2008. Manufacturing operations weren't associated with either of these transactions, so they had no impact on our environmental data. NuTune, the NXP/Thompson joint venture for car tuners, was established in September 2008. From that date onwards, the Health & Safety numbers include data from the combined operations. Environmental data for 2008 includes only the NXP part of NuTune. Beginning in 2009, the environmental data for the complete joint venture, along with historical data, will be adjusted for the purposes of comparison.



**Making a difference**  
**Efficiency upgrades**

By taking a fresh look at some familiar items, like PCs, lightbulbs, TVs, and utility meters, NXP has developed new ways to improve efficiency and, as a result, save a remarkable amount of energy.

### **Power supplies**

When the power supply of a computer, monitor, or TV converts the voltage from a wall socket to the voltages the computer requires, as much as 40% of the applied energy can be lost in the process. NXP's power-supply chipset, called GreenChip, uses advanced IC technologies to cut power losses by as much as 50% and enable the world's most efficient power supply, with savings from standby to full power.

### **Lighting**

Research shows that the electricity used to light homes, shops, offices, signs, public spaces, and streetlights accounts for roughly 20% of all electricity consumption worldwide. Switching from traditional incandescent bulbs to new technologies could save as much as 40% in electricity costs. NXP is a major supplier of components for Compact Fluorescent Lamp (CFL) lighting and is driving the transition to an even more promising technology, called Solid State Lighting (SSL). Based on high-brightness LEDs, SSL delivers bright colors at a high intensity, while consuming less overall power and offering very long lamp life.

### **LCD TVs**

The backlighting unit in a conventional LCD TV consumes a great deal of energy. Using new LED backlighting hardware, combined with complex optimization algorithms, NXP enables color dimming, a technique that results in the same brightness with a power savings of up to 70%. Since TV sets are the number-one consumers of electricity in most homes, transitioning to LCD TVs with LED backlight dimming could save a lot of energy, and, in turn, lower CO<sub>2</sub> emissions. In fact, the technique is so energy efficient that, if it were deployed in only 10% of the world's TVs, would save 25 times the amount of energy that NXP uses in all of its IC manufacturing.

### **Utility meters**

New, all-digital utility meters, called smart meters, represent the first step in creating a comprehensive network that will help reduce energy consumption. Equipped with programmable microcontrollers, smart meters track gas, electricity, and water consumption more precisely and, when outfitted with components for connectivity, can transmit usage data directly to the utility company. That eliminates the need

for roving meter readers, which in turn saves on overhead and reduces the emission of greenhouse gases. It also makes it easier to identify and respond to outages.

As part of a next-generation network that includes home appliances, wireless communications, and the Internet, smart meters will make it easier for everyone to manage their consumption. Consumers will know exactly how much they're using when, and that can lead to better decision making, such as delaying a load of laundry to take advantage of lower late-night rates. More efficient consumption will, in turn, reduce the load on the power grid, leading to fewer outages and, ultimately, fewer power plants.

NXP is a leading supplier of microcontrollers and other components for smart meters, and is committed to expanding the market.

# Continuous dialog with

Our technologies mostly work behind the scenes to improve people's lives and help save energy, but our company, as a global organization, is very much in the forefront. In many of the places where we operate, we have a major presence as an employer and make a significant contribution to the local economy.

Stakeholder	Interaction
Customers	Customer Loyalty Program Customer meetings Customer support Joint R&D Joint strategy development Exhibitions and tradeshows
Employees	Town meetings Print and web-based media Employee Pulse surveys People Performance Management (PPM) Employee councils, union meetings
Suppliers, subcontractors	Supplier Declaration on Sustainability Supplier meetings Supplier audits
Communities	Information meetings Newsletters Community projects Local networking
Local, national, and international regulatory bodies	Industry associations Advisory bodies (Local) networking / lobby activities
Investors	Supervisory Board meetings Ad hoc involvement
Bondholders	Quarterly results call Financial presentations, meetings
Media	Interviews Product and competence presentations Financial presentations, conference calls
Electronics / semiconductor industry	Industry associations Standards committees
Non-governmental Organizations (NGOs)	Ad hoc involvement
Academia	Joint R&D Local networking

We operate in and ship products to almost every country in the world, and have close customer relationships with other multinational electronics companies, national governments, and industry associations.

Our business brings us into contact with a very wide range of stakeholders and requires that we be sensitive to those interactions. We believe that dialogue leads to mutual understanding, and with it the mutual commitment to sustainable development. When we began as an independent company, we conducted workshops to analyze our contact patterns and identified our stakeholder groups. We made stakeholder dialogue a part of our management processes and use these dialogues to help guide our business strategy. We even made stakeholder communication a part of our Sustainability Policy, to underscore the importance of these dialogues.

We address the interests of each group through various methods and make regular assessments of our effectiveness. We continue to strengthen our approach, creating additional structure where needed and improving the overall quality of each interaction. Some examples of our stakeholder interactions are given here.

# our stakeholders

## Our employees

We communicate and have ongoing dialog with our employees in several ways, using print and web-based media along with face-to-face events. For instance, we have company-wide circulation of a weekly email news bulletin (*Let's Go!*), and we share recent external and internal news items on NXP's intranet home page. Many of our operations have their own news bulletins and intranet sites, populated with local and global NXP news. We deliver regular communiqués from our Management Team under the banner of MT Update. Employees are invited to send comments or questions to the Team. The Team's feedback and answers are then posted online where they can be read by all employees.

Our Quarterly Town Meetings are a particularly effective way for us to deliver information to everyone in the company. Feedback shows that employees appreciate these meetings, which give them the opportunity to interact with colleagues, hear about the company's plans, and pose questions or express concerns directly to senior management. Alongside this form of open discussion, we conduct regular Pulse surveys that measure the clarity and effectiveness of our communication and capture feedback for direct application within the

organization. In 2008, we conducted three such surveys. The results are reported in the chapter titled Employees.

## Our customers

To ensure that we develop products that meet and exceed customer expectations, our Marketing and Sales teams work closely with our key accounts to align our development roadmaps. They evaluate customer satisfaction on behalf of the total organization and define a follow-up process involving the appropriate Business Lines and support organizations.

Our Customer Loyalty program uses vendor-rating surveys and dedicated customer meetings to verify that we are delivering with excellence and satisfying our customers. The vendor-rating surveys include questions on environmental and social responsibility, so we can identify areas of concern and implement corrective actions. Customers rank us on various aspects of our operations, including product quality, business fulfillment, and business creation. In 2008, our overall vendor rating with our top fifty accounts increased from 81 to 83 out of 100; the gap with best-in-class also improved and is now only one point. On questions about the environment and social responsibility, we scored 88 out of 100, up from

85 in 2006 and 87 in 2007. The rating for best-in-class in our industry for this category remained 91 out of 100.

We use face-to-face meetings to create close relationships with our customers, and extend those and extend those relationships through our website and with appearances at industry tradeshows and other events. These events are an effective way to show our latest product developments to existing and potential customers, and give us the opportunity to exchange ideas with our colleagues, track industry trends, and discover new ideas. Members of our Management Team often deliver keynotes and presentations at these events, highlighting our emphasis on green products and energy savings. Copies of these presentations are available at [www.nxp.com](http://www.nxp.com).

In the case of one customer, Sony, we have achieved Green Partnership status. Sony designates suppliers that cooperate in the production of environmentally sensitive products as Green Partners. This designation is required for all suppliers looking to do business with Sony, and Green Partners are expected to maintain and upgrade their environmental management systems. Sony places an extra emphasis on reducing and eliminating substances that can harm the environment.



## Industry organizations

We are members of a large number of industry organizations, participate in more than 100 standardization bodies and consortia, and are active in several other initiatives around the world. Where possible, we help define specifications, establish new markets, promote fair trade, protect the environment, and ensure health and safety in the workplace. In 2008, we made a thorough review of these activities and, as a result, made a few changes, joining some new groups and discontinuing our participation in others.

Our participation in industry organizations lets us interact with government and regulatory bodies on a number of key issues, including environmental subjects such as greenhouse-gas emissions and the use of perfluorinated compounds (PFCs), as well as the use of hazardous substances and perfluorooctyl sulfonates (PFOS). We often advocate stringent regulations but occasionally lobby to prevent bans on substances that currently have no alternatives. Instead, we recommend seeking commitments to strictly minimize use and emission until viable alternatives are found.

We chair the European Semiconductor Industry Association (ESIA) committee for Environment, Safety & Health (ESH). The committee is involved in several cooperative technical projects and addresses such issues as chemical management and preparation for the EU's REACH program, energy savings, use of PFCs, health and safety, quantitative targets, and EU legislation.

Through the ESH committee, we helped publish the ESIA's 2009 Sustainability Brochure, a document that summarizes the ways that semiconductor products facilitate a more sustainable approach to life. The Brochure also profiles

how the European and global semiconductor industry cooperates to agree on common goals for promoting resource conservation and reducing the environmental footprint of semiconductor production processes.

In the first half of 2009, as part of the EU's "Green Week" event in Brussels, we participated in ESIA's booth, demonstrating how our Solid State Lighting (SSL) solutions save energy by enabling dimmable LED luminaries and more efficient streetlights. The annual event attracts VIPs from throughout Europe, and gave us the opportunity to show two very high-level officials – the EU Commissioner for the Environment and the EU Council President – that technology plays a crucial role in preserving the environment.

Through our membership in ESIA, we are also a member of the World Semiconductor Council (WSC), an organization that participates in several kinds of outreach activities. As part of the 2008 Green IT Symposium in Tokyo, for example, the WSC called on policy makers to note studies which say that increased energy consumed by information and computer technologies (ICT) can enable lower consumption in the rest of the economy, with potential savings that are five times total ICT consumption.

## Other groups

To address other stakeholder groups, such as public authorities, industry analysts, bondholders, and the media, we use a global in-house team that cooperates closely with a few strategic partners, such as a PR agency. In media relations, we use a worldwide "hub-and-spoke" network of people, including experienced specialists in government and industry relations, who actively approach selected

representatives of our stakeholder groups. In this way we can, for example, influence the definition and authorization of relevant regulations and optimize the execution of their resulting programs and legislation. We also influence the way industry analysts report on our activities by having open discussions with them about the Company. Through our spokespeople, we aim to ease public concern resulting from internal and external risk factors, particularly in countries and regions where we have significant interests in R&D, sales, or manufacturing. Finally, we have ongoing dialog with our bondholders. Our media and investor relations departments are in regular contact with this group, and we invite them to the announcements of our quarterly results. At these events, NXP's CEO and CFO discuss our most recent financial performance and discuss expectations for the next quarter.



## Our key memberships worldwide

- ▶ World Semiconductor Council (WSC), participating through the European Semiconductor Industry Association (ESIA)
- ▶ European Electronic Component Manufacturing Association - European Semiconductor Industry Association (EECA-ESIA)
- ▶ DIGITALEUROPE
- ▶ Cluster for Application and Technology Research in Europe on Nanoelectronics (CATRENE)
- ▶ Germany: Zentralverband Elektrotechnik-und Elektronikindustrie e.V. (ZVEI)
- ▶ USA: American Electronics Association (AeA)
- ▶ Microelectronics Development for European Applications (MEDEA+)
- ▶ Association for European Nanoelectronics Activities (AENEAS)
- ▶ Advanced Research & Technology for EMbedded Intelligence Systems Industrial Association (ARTEMISIA)

### Setting standards

In the world of technology, R&D groups often work closely with standardization bodies to ensure that innovative ideas have the market acceptance they need to succeed. This is because industry agreed-upon standards can help facilitate interoperability, reliability, and predictable performance. NXP is active in more than 70 standards bodies and we have a steering role in those areas where we are a market leader. FlexRay and Near Field Communication are two examples.

### FlexRay

FlexRay is a protocol for in-vehicle networking that makes cars lighter (and hence more fuel-efficient), and safer to drive. It enables Drive-by-Wire, which replaces the traditional mechanical and hydraulic control systems with electronic ones, and Brake-by-Wire, which makes it possible to replace the pumps, hoses, fluids, belts, brake boosters, and master cylinders typically used for braking with electronic sensors and actuators. NXP is one of the seven founding members of the FlexRay Consortium, and, as a result of its membership, has influenced the direction of the technology and developed deep, cooperative relationships with leading car manufacturers.

### Near Field Communication (NFC)

NFC is an emerging short-range wireless technology, co-developed by NXP, that lets devices exchange data when they are close together. Mobile phones equipped with NFC can be used to, for example, buy tickets for public transport, act as a debit/credit payment card, interact with a smart poster, or gain access to a building. Globally accepted standards are essential for the success of NFC, since applications like eTicketing, ePayment, and electronic keys rely on technology that is secure, reliable, and interoperable. NXP is a founding member of the NFC Forum (which, as of the end of 2008 had more than 150 members), and drives the development of NFC interoperability standards via the European Computer Manufacturers Association (ECMA) and the ISO/IEC JTC1 standards body.



**Making a difference  
Lobbying for a brighter future**

Through his work with international lobby groups, Merten Koolen seeks a win-win between our business interests and our role as a member of society. He's seen, first hand, how legislation and industrial policy can influence our future.

## **Merten Koolen** | *Industry Relations and Trade Programs, Eindhoven, The Netherlands*

Merten has been involved with industry associations and trade groups for more than ten years, helping to increase cooperation within the industry, remove barriers to free trade, and support growth.

"Working with these groups can take stamina," he says. Proposals can take years to develop, since the processes for government regulation and decision-making – especially in an international context – are so complex. "But when changes do come, they can immediately have a big impact."

He's been involved with a wide range of subjects, from trade-related issues to studies that analyze trends and anticipate growth of the industry overall. As NXP's representative to the European Semiconductor Industry Association (ESIA), for instance, he's supported initiatives for keeping international

trade and customs regulations in line with developments in semiconductor technology, and reducing import tariffs on new types of semiconductor products. He's also participated in ESIA's lobbying efforts, addressing such key issues as Europe's competitiveness and retaining Europe's attractiveness as a business region, in order to further European employment as well as the semiconductor industry itself.

He finds that, if one looks beyond the surface, much of what he does can, in one way or another, have an impact on society or the environment. Consider, for example, the issue of counterfeit ICs. What might appear to be a strictly legal issue, involving corporate brands and intellectual property (IP) rights, can, in fact, have a direct effect on everyday people. "If counterfeit ICs don't meet functional or quality requirements," he explains, "they can do more than cause confusion in the

market. If they're used in cars, or airplanes, or healthcare equipment, for example, they could raise concerns about safety, as well."

When asked what the future holds, Merten observes that "increasingly, societal and regulatory challenges need to be addressed internationally." He points to NXP's involvement with the World Semiconductor Council (WSC), an industry organization that brings together industry representatives from China, Chinese Taipei (Taiwan), Europe, Japan, Korea, and the US. "When the WSC meets with governments, our industry is addressing representatives from six geographical areas at once. It's dialog at the highest levels, and that can have a real impact."

# Our targets for EcoVision and Health & Safety

## NXP Environmental Action Program (2007 - 2010) EcoVision targets Reference year 2006

**Global Warming**  
3% reduction of energy by 2010  
10% reduction of PFC use by 2010 with 1995 baseline

**Water**  
3% reduction by 2010

**Waste**  
Maintain performance of 2006  
70% recycled fraction by 2010

**Restricted substances (Category I)**  
100% reduction of all non-critical uses by 2010

**Hazardous substances (Category II)**  
100% reduction of all non-critical uses by 2010

## Relevant substances (Category III) Maintain performance of 2006

**Packaging**  
98% recyclable materials by 2010

**ISO 14001 certification**  
100% for all industrial activities by 2010

**Remarks:**  
1) All targets are to be achieved by 2010 compared to base year 2006.  
2) Targets are absolute and results are not corrected based on production fluctuations.  
3) The structure of the reporting organizations in previous years will be made comparable with that of the reporting year. Data for new reporting organizations for the current year are added to the company totals of the previous years, with the same absolute data per parameter as reported in the current reporting year. Absolute data for reporting organizations divested in the current reporting year are removed from the company in all reported years.  
4) The emission of Restricted and Hazardous substances is only permitted when a waiver has been granted by the NXP Sustainability Officer.

## NXP Health & Safety Action Program (2007 - 2010) Health & Safety targets Reference year 2006


**Coverage Health & Safety Database**  
99% by 2010

**Lost-workday injury cases**  
Below 0.2 per 100 FTEs by 2010

**Lost work-time rate**  
Below 1.75% by 2010

**OHSAS 18001 certification**  
100% for all industrial activities by 2010

## Report application levels

		2002 In accordance	C	C+	B	B+	A	A+
Mandatory	Self-declared			Report externally assured		Report externally assured		Report externally assured
Optional	Checked by third party			Report externally assured		Report externally assured		Report externally assured
	Checked by GRI			Report externally assured		Report externally assured		Report externally assured

## Excellence in reporting

In selecting and developing content for this Report, we have used the Global Reporting Initiative (GRI) Reporting Principles of materiality, sustainability context, stakeholder inclusiveness, and completeness.

A comprehensive GRI index, utilizing the GRI G3 Sustainability Guidelines, is provided as a cross-reference to the Report's content on the NXP Corporate Social Responsibility website ([www.nxp.com/profile/corporate](http://www.nxp.com/profile/corporate)). The self-declared GRI Application Level is A.

***"The biggest impact our industry can make is the application of electronics to address the grand societal needs."***

René Penning de Vries, Senior Vice President and Chief Technology Officer NXP Semiconductors

**Your comments are welcome**

Feedback is a valuable way of helping to improve our reporting process. We invite you to email your comments to the NXP Sustainability Office via [nxp.sustainability@nxp.com](mailto:nxp.sustainability@nxp.com).

[www.nxp.com](http://www.nxp.com)

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