



## **Morgan Stanley Technology Conference**

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**NXP Semiconductors**

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# Forward looking statements

This presentation includes forward-looking statements. When used in this presentation, the words “anticipate,” “believe,” “estimate,” “forecast,” “expect,” “intend,” “plan” and “project,” and similar expressions, as they relate to us, our management or third parties, identify forward-looking statements. Forward-looking statements include statements regarding our business strategy, financial condition, results of operations, and market data, as well as any other statements which are not historical facts. These statements reflect beliefs of our management as well as assumptions made by our management and information currently available to us. Although we believe that these beliefs and assumptions are reasonable, the statements are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. These factors, risks and uncertainties expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf and include the following: market demand and semiconductor industry conditions, our ability to successfully introduce new technologies and products, the demand for the goods into which our products are incorporated, our ability to generate sufficient cash or raise sufficient capital to meet both our debt service and research and development and capital investment requirements, our ability to accurately estimate demand and match our production capacity accordingly or obtain supplies from third-party producers, our access to production from third-party outsourcing partners, and any events that might affect their business or our relationship with them, our ability to secure adequate and timely supply of equipment and materials from suppliers, our ability to avoid operational problems and product defects and, if such issues were to arise, to rectify them quickly, our ability to form strategic partnerships and joint ventures and successfully cooperate with our alliance partners, our ability to win competitive bid selection processes to develop products for use in our customers’ equipment and products, our ability to successfully establish a brand identity, our ability to successfully hire and retain key management and senior product architects; and our ability to maintain good relationships with our suppliers.

We do not have any intention or obligation to update forward-looking statements after we distribute this presentation. In addition, this presentation contains information concerning the semiconductor industry, our market segments and business units generally, which is forward-looking in nature and is based on a variety of assumptions regarding the ways in which the semiconductor industry, our market segments and product areas will develop. We have based these assumptions on information currently available to us, including through the market research and industry reports referred to in this document. Although we believe that this information is reliable, we have not independently verified and cannot guarantee its accuracy or completeness. If any one or more of these assumptions turn out to be incorrect, actual market results may differ from those predicted. While we do not know what impact any such differences may have on our business, if there are such differences, our future results of operations and financial condition, and the market price of the notes, could be materially adversely affected.

# Creating the Next Experience

- ▶ Company Introduction
- ▶ A look at the Semiconductor Industry
- ▶ NXP well positioned



# NXP Semiconductors – Reborn and Renewed

- ▶ Spin-out of Royal Philips Electronics' Semiconductor Division
- ▶ #2 in Europe, Top-10 global supplier
- ▶ Sales of € 4.8 Billion in 2005
- ▶ 37,000 employees
- ▶ Investing € 1 billion in R&D annually
- ▶ 25,000 patents
- ▶ Innovation Centers in Austria, France, Germany, Netherlands, UK, India, China
- ▶ Private Equity owned



# NXP Key Financials

M.Euro	2003	2004	2005	Q3-2006 YTD
<b>Sales</b>	4,256	4,823	4,766	3,770
<b>Gross Profit</b>	1,150	1,868	1,833	1,439
<b>% Margin</b>	27.0%	38.7%	38.5%	38.2%
<b>Adjusted EBITDA</b>	838	1,172	991	679
<b>% Margin</b>	19.7%	24.3%	20.8%	18.0%
<b>Capital Expenditure</b>	(259)	(641)	(370)	(449)

Note: Capital Expenditures includes Crolles, excludes SSMC (in 2003); Includes capex on Property, Plant and Equipment ("PP&E") only

# Financial performance for Q4 2006

- ▶ Q4 2006 sales were EUR 1,190 million, a decrease of 12.4% compared to the same period in 2005 (6.9% excluding foreign currency effects)
- ▶ Total sales decreased by 7.2%, compared to the third quarter of the year 2006 (6.8% excluding foreign currency effect)
- ▶ Management currently expects a sequential sales decline in the range of 7-13 percent (on a currency comparable basis) during the first quarter of 2007 compared to fourth quarter of 2006.
- ▶ On March 26, 2007 NXP will publish:
  - Financial results for the period ending December 31, 2006
  - Audited 2006 annual report
  - Conference call and audiocast



# NXP Semiconductor Solutions drive markets

- ▶ Home (TV, STB and PC)
  - One chip DTV - HD Picture quality
  - Interconnectivity, media content from all sources
  - Ease of use
- ▶ Mobile phone and media players
  - Mobile Services, vibrant multimedia applications
  - Lowest power consumption
  - Thinnest/smallest products
- ▶ Automotive
  - Comfort and safety via sensors and Flexray networks
  - Car infotainment
  - Automotive Quality
- ▶ Identification
  - Secure contactless payment, access and identification
- ▶ MultiMarket Semiconductors
  - Broad array of analogue-mixed signal and standard products












# NXP core values are our differentiator

- ▶ **Insightful**
  - Understanding Markets
  - Sharing Customer Vision
- ▶ **Inventive**
  - Smart strategies
  - Partnering in Innovation
  - Excellence in Research and Development
- ▶ **Engaging**
  - With customers on all levels
  - Unrivalled Design-in Support
  - Passionate people
- ▶ **Excellence**
  - Time-to-Market
  - Zero-Defect Quality
  - Responsive Manufacturing
  - Financial Results



# Four Business Units Focused on Different Markets and Shared IC Manufacturing

	Application Specific Systems Businesses		Multi-Market	Other	
	<p><b>Home</b></p>  <ul style="list-style-type: none"> <li>• Analog TV</li> <li>• Digital TV</li> <li>• Set-top boxes</li> <li>• PC Video</li> <li>• Tuners</li> </ul>	<p><b>Mobile &amp; Personal ("M&amp;P")</b></p>  <ul style="list-style-type: none"> <li>• Cellular pipe</li> <li>• FM/TV-on-Mobile</li> <li>• Connectivity</li> <li>• Sound Solutions</li> <li>• Cordless/VOIP</li> <li>• Portable A/V</li> <li>• Amplifiers</li> </ul>	<p><b>Automotive &amp; Identification ("A&amp;I")</b></p>  <ul style="list-style-type: none"> <li>• Car radio</li> <li>• In-vehicle networking</li> <li>• Car access &amp; Imm.</li> <li>• Tire Pressure Mon.</li> <li>• Smart cards</li> <li>• eGovernment</li> <li>• RFID, NFC</li> </ul>	<p><b>Multi-Market Semiconductors ("MMS")</b></p>  <ul style="list-style-type: none"> <li>• Transistors/diodes</li> <li>• Int. Discrettes</li> <li>• GP Logic</li> <li>• RF Products</li> <li>• Interface, MCU</li> <li>• Sensors</li> <li>• Power Discrettes</li> </ul>	<p><b>IC Manufacturing ("IMO") &amp; Other</b></p>  <p>IMO</p> <ul style="list-style-type: none"> <li>• Front-end fabs</li> <li>• Assembly &amp; Testing</li> <li>• Outsourcing</li> </ul> <p>Other:</p> <ul style="list-style-type: none"> <li>• CTO, IP, NXP Software, Emerging Semiconductor businesses</li> </ul>
<b>Key positions</b>					
<b>Customers</b>					
<b>2005 sales</b>	€1,002 MM Sales	€1,618 MM Sales	€719 MM Sales	€1,238 MM Sales	€189 MM Sales

# Business renewal strategy



# Creating the Next Experience

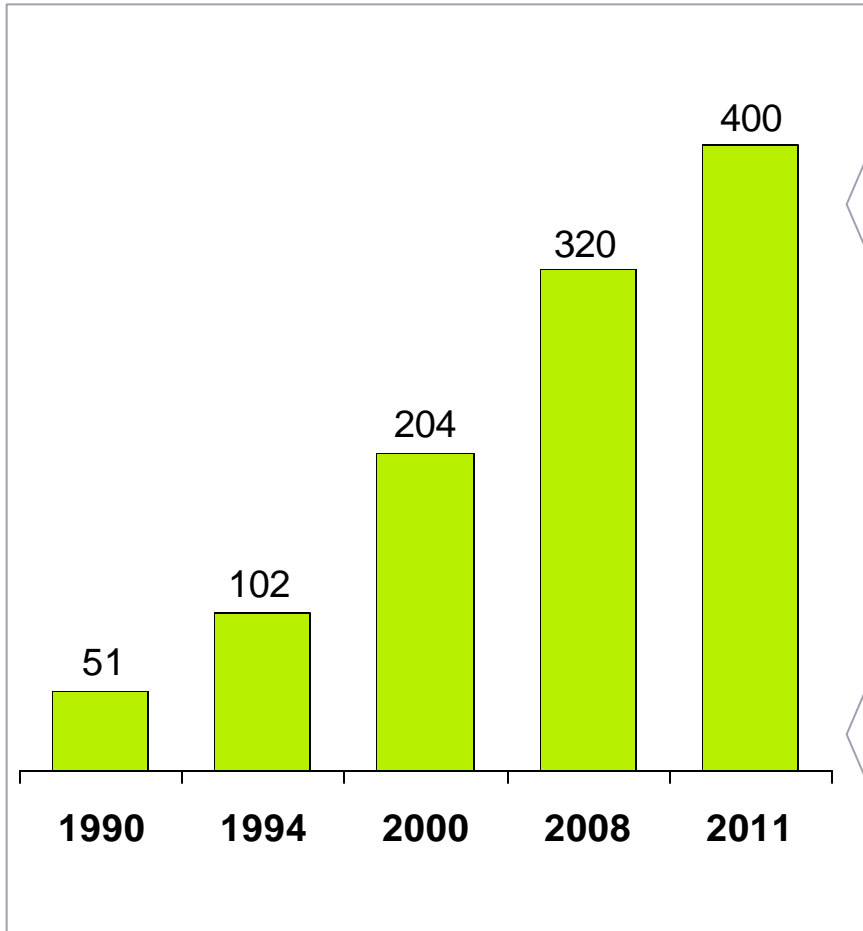
- ▶ Company Introduction
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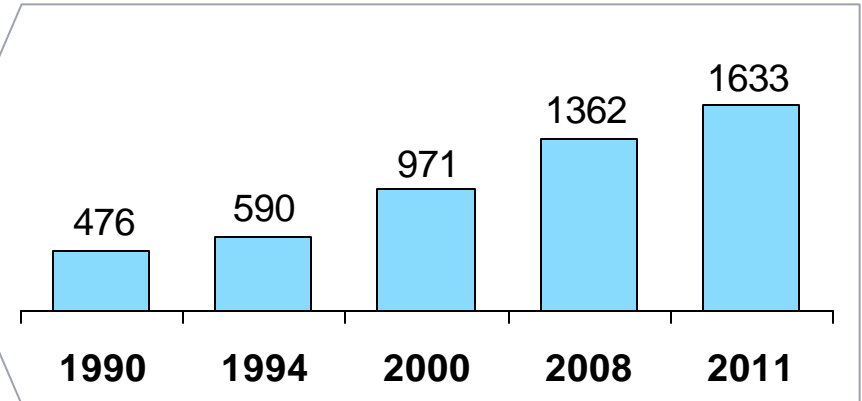
# Semiconductor market large & fast growing

## Semiconductor market “milestone” years

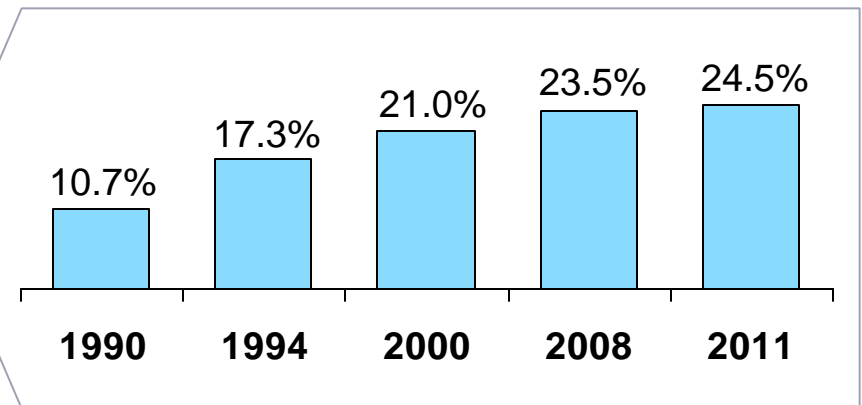
Market size, \$B



## Electronic equipment market (\$B)



## Semiconductor content (%)



Source: WSTS, IC Insights

# Semiconductor market segmentation 2006

General purpose (174)		Application specific (86)
<b>Memory (60.4)</b> DRAM, SRAM, NAND Flash, NOR Flash, EEPROM, EPROM, ...		<b>Wireless Communications (24.9)</b> Mobile handset modems, application processors, connectivity & broadcast, mobile infrastructure
<b>MPU (34.3)</b> Computer, Embedded		<b>Comm. (9.9)</b>
<b>MCU (10.9)</b>		<b>Storage (21.6)</b> Disk storage, pc servers, monitors, cards
<b>Analog (15.2)</b>		<b>Consumer (18.7)</b> TV, Set-top boxes, DVD, VCR, Audio, Video Games, Portable Media Players, Appliances, ...
<b>Discretes (16.2)</b> Transistors, Thyristors, RF		<b>Automotive &amp; ID (7.6)</b>
<b>GP Logic (13.2)</b> FPGA/PLD, Display Drivers, Standard Logic, ...		<b>Industrial &amp; military (2.8)</b>
<b>Opto-electronics (20.6)</b> CMOS sensors, CCD sensors, LEDs, IR, ...		
<b>Sensors (1.9)</b> Pressure, Accelerometer, Gyro, Magnetic, Temperature, ...		
<b>GP DSP (1.1)</b>		

**300+ distinct markets**

Source: GDQ



# Fragmented industry

2005

1 Intel	34590	51 Robert Bosch	865	101 Creative Labs	247	151 Trident Microsystems	111	201 TranSwitch	33
2 Samsung Electronics	18347	52 Cypress Semiconductor	822	102 NewuRC	243	152 ANADIGICS	108	202 GSI Technology	32
3	1119	53 Conexant Systems	813	103 Lite-On Technology Corp	239	153 Zetex	107	203 Wu Xi China Resources Semico	31
4	984	54 Novatek	809	104 Kyocera	236	154 O2Micro	105	204 Shanghai Huahong	31
5	821	55 Skyworks Solutions	742	105 Integrated Silicon Solution	233	155 M/A-COM	105	205 Peregrine Semiconductor	30
6	291	56 Micronas	713	106 Denso	230	156 Matrox	102	206 Supertex	30
7	205	57 Seiko Epson	694	107 BP Solar	230	157 Legerity	101	207 California Micro Devices	27
8	723	58 RF Micro Devices	691	108 PortalPlayer	225	158 VTI Technologies	93	208 SpreadTrum Communications Inc.	27
9 NEC Electronics	5657	59 OSRAM	666	109 Applied Micro Circuits Corp.	221	159 Pixart	89	209 Semikron International	25
10 NXP	5646	60 Winbond Electronics	655	110 Melexis	213	160 Deutsche Cell	87	210 Transmeta	25
11 Freescale Semiconductor	5599	61 Sunplus	633	111 Lattice Semiconductor	211	161 Princeton Technology Corporation	86	211 Beijing Sigma Jinhua Microelectronics Co.	25
12 Micron Technology	4620	62 Integrated Device Technology	619	112 Everlight Electronics	208	162 Ikanos Communications	85	212 Aimtron Technology Inc.	24
13 Sony	4304	63 Intersil	598	113 Schott	208	163 Richtek Technology Corp.	84	213 Alliance Semiconductor	24
14 Advanced Micro Devices	3936	64 VIA Technologies	590	114 Diodes Inc.	206	164 Cheertek	83	214 Chengdu Sino Microelectronics System Co	23
15	1779	65 Macronix International	566	115 Silicon Image	205	165 Vimicro	82	215 Huada Electronic Design	20
16	569	66 Magnachip Semiconductor	559	116 SunTech Power	202	166 Aeroflex UTMIC	81	216 IC Plus	20
17	457	67 Himax Technology Inc.	540	117 Vitesse Semiconductor	199	167 Zilog	79	217 CREE Inc	18
18	919	68 Stanley Electric	497	118 Zarlink	192	168 Pericom Semiconductor	79	218 Micro Linear	18
19	855	69 Cambridge Silicon Radio	486	119 Cirrus Logic	192	169 DenMOS Technology Inc.	78	219 Powerex	18
20	671	70 Sanken	482	120 EM Microelectronic	191	170 ATS Automation Tooling Systems	78	220 Shanghai Belling	17
21 Fujitsu	2587	71	469	121 DSP Group	187	171	77	221	17
22 Analog Devices	2434	72	456	122 Atheros Communications	187	172	77	222	17
23 NVIDIA	2203	73	450	123 austriamicrosystems	187	173	77	223	17
24 Sanyo Electric	2052	74	437	124 M-Systems	187	174	77	224	17
25 Spansion	2003	75	426	125 Actel	187	175	77	225	17
26 National Semiconductor	1961	76	419	126 Mtekvision	187	176	77	226	17
27 Elpida Memory	1784	77	413	127 Elite Semiconductor Mem	187	177	77	227	17
28 Marvell Technology Group	1741	78 Zoran	396	128 Semtech	187	178 Datang Microelectronics Technology	65	228	17
29 ATI Technologies	1736	79 Kawasaki Microelectronics (K-Micro)	394	129 Elmos Semiconductor	173	179 Catalyst Semiconductor	64	229	17
30 Avago Technologies	1693	80 Solomon Systech	394	130 Pixelworks	172	180 Teridian Semiconductor	64	230	17
31 Atmel	1676	81 Toyota Gosei	381	131 Etron Technology	168	181 Exar	63	231	17
32 Maxim Integrated Products	1670	82 Q-Cells	372	132 Wolfson Microelectronics	166	182 Tundra Semiconductor	60	232	17
33 Xilinx	1645	83 Silicon Storage Technology	371	133 ESS Technology	162	183 Amic Technology Corp.	58	233	17
34 Agere Systems	1543	84 KEC	365	134 Dialog Semiconductor	162	184 Jiilin Sino-Microelectronics Co Ltd	58	234	17
35	440	85 Silicon Integrated Systems	360	135 Opto Tech	161	185 General Electric	57	235	17
36	438	86 Shindengen Electric	356	136 Faraday Technology Corp.	159	186 Microtune	57	236	17
37	428	87 Realtek Semiconductor	329	137 Zhuhai Action Semiconductor	152	187 PLX Technology	54	237	17
38	288	88 Sigmatel	325	138 Motech	151	188 Volterra	54	238	17
39	284	89 Citizen	322	139 SiRF	148	189 Fujikura Ltd	53	239	17
40	247	90 RICOH	316	140 Thine Electronics	148	190 Sirenza Microdevices	53	240	17
41	244	91 Other Japanese	315	141 Elan	145	191 Honeywell	50	241	17
42 Vishay	1184	92 Microsemi	309	142 Power Integrations	144	192 QuickLogic	48	242	17
43 Oki Electric	1131	93 PMC-Sierra	291	143 Shell Solar	142	193 Evergreen Solar	44	243	17
44 Altera	1124	94 SMSC	289	144 TriQuint Semiconductor	139	194 Uli Electronic Inc.	42	244	17
45 SanDisk Corporation	1103	95 Eudyna Devices	287	145 Isofoton	138	195 Hi/fn Inc.	41	245	17
46 International Rectifier	1078	96 Lite-On Semiconductor Corp	285	146 ALI Corporation	128	196 G-LINK Technology	40	246	17
47 Linear Technology	1064	97 Micrel Semiconductor	262	147 Mindspeed	119	197 Kaneka	39	247	17
48 Powerchip Semiconductor	1027	98 Genesis Microchip Inc.	262	148 Pan Jit	116	198 ChipX	39	248	17
49 Microchip Technology	899	99 IXYS	256	149 Holtek Semiconductor	114	199 Avid Electronic Corp.	37	249	17
50 ProMOS Technologies	871	100 Allegro MicroSystems	252	150 Sitronix	113	200 Alchip Technologies	35	250	17

Top 10 = 39%

Next 15 = 21%

Next 50 = 10%

Next 100 = 5%

Last 150+ = 0.4%

Next 25 = 15%



# Consolidation starting to happen

## Consolidation drivers

- ▶ R&D cost rising fast in ASSP/systems businesses
  - Very large and increasing systems investments
  - Design/mask cost per chip in advanced CMOS rising fast
- ▶ Trend towards Systems-on-Chip and combo products eliminates (sustainable) standalone component plays
  - RF-integration possible with RFCMOS
  - Taiwan competition driving aggressive cost-down
- ▶ “Winner takes all” nature of application-specific businesses driving active portfolio management
  - Large players acquire/sell to achieve portfolio of leadership positions
  - Single application players expanding scope to reduce business risk

## Recent evidence

- ▶ LSI / Agere
- ▶ Small players in cellular components exiting/selling, e.g., Skyworks BB exit
- ▶ CSR, Atheros, QCOM expanding connectivity & broadcast portfolio
- ▶ Various DTV scaler companies for sale
- ▶ Marvell (various deals)
- ▶ AMD / ATI merger
- ▶ Intel, Avago (sellers)

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# NXP #10 in 2005, #3 in application-specific

2003-2005, 2006 preliminary total market data

## Total semiconductor market

Rank				Company	Sales (\$M)				Market share			
'03	'04	'05	'06		'03	'04	'05	'06	'03	'04	'05	'06
1	1	1	1	Intel	26.9	30.7	34.6	31.3	15%	14%	15%	12%
2	2	2	2	Samsung	10.5	16.3	18.3	20.6	5.9%	7.4%	7.8%	7.9%
4	3	3	3	TI	7.4	9.7	10.1	11.9	4.2%	4.4%	4.3%	4.5%
7	5	7	4	Infineon <sup>1)</sup>	6.9	8.9	8.2	10.6	3.9%	4.1%	3.5%	4.0%
6	6	5	5	STM	7.2	8.8	8.8	9.9	4.0%	4.0%	3.8%	3.8%
5	7	4	5	Toshiba	7.4	8.5	9.0	9.9	4.1%	3.9%	3.8%	3.8%
3	4	6	7	Renesas	7.9	9.0	8.3	7.9	4.5%	4.1%	3.5%	3.0%
16	12	8	8	Hynix	3.1	4.6	5.7	7.7	1.7%	2.1%	2.4%	2.9%
11	11	14	9	AMD/ATI <sup>2)</sup>	4.0	5.0	3.9	7.5	2.2%	2.3%	2.3%	2.9%
9	10	11	10	Freescale	4.6	5.5	5.6	6.1	2.6%	2.5%	2.4%	2.3%
<b>10</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>NXP<sup>3)</sup></b>	<b>4.5</b>	<b>5.6</b>	<b>5.6</b>	<b>6.0</b>	<b>2.5%</b>	<b>2.6%</b>	<b>2.4%</b>	<b>2.3%</b>
8	8	9	9	NEC	5.6	6.4	5.7	5.7	3.2%	2.9%	2.4%	2.2%

## Application specific semiconductors

Rank			Company	Sales (\$M)			Market share		
'03	'04	'05		'03	'04	'05	'03	'04	'05
1	1	1	TI	4.3	6.0	6.9	7.1%	8.4%	9.0%
2	2	2	STM	4.2	4.6	4.6	7.1%	6.5%	6.0%
<b>3</b>	<b>3</b>	<b>3</b>	<b>NXP</b>	<b>2.9</b>	<b>3.7</b>	<b>3.8</b>	<b>4.8%</b>	<b>5.1%</b>	<b>5.0%</b>
4	4	4	Intel	2.7	3.2	3.6	4.4%	4.5%	4.6%
5	5	5	Qualcomm	2.5	3.2	3.5	4.1%	4.5%	4.5%
6	6	6	Infineon	2.3	3.0	2.7	3.8%	4.3%	3.5%
14	7	7	Broadcom	1.6	2.4	2.6	2.6%	3.3%	3.4%
9	10	8	IBM	2.0	2.1	2.4	3.4%	3.0%	3.1%
7	11	9	Toshiba	2.2	2.1	2.2	3.7%	3.0%	2.9%
12	9	10	Freescale	1.6	2.1	2.2	2.7%	3.0%	2.9%
11	13	11	NVidia	1.7	1.8	2.2	2.7%	2.5%	2.9%
13	16	12	Sony	1.6	1.6	2.0	3.4%	2.2%	2.6%

1) Including Qimonda

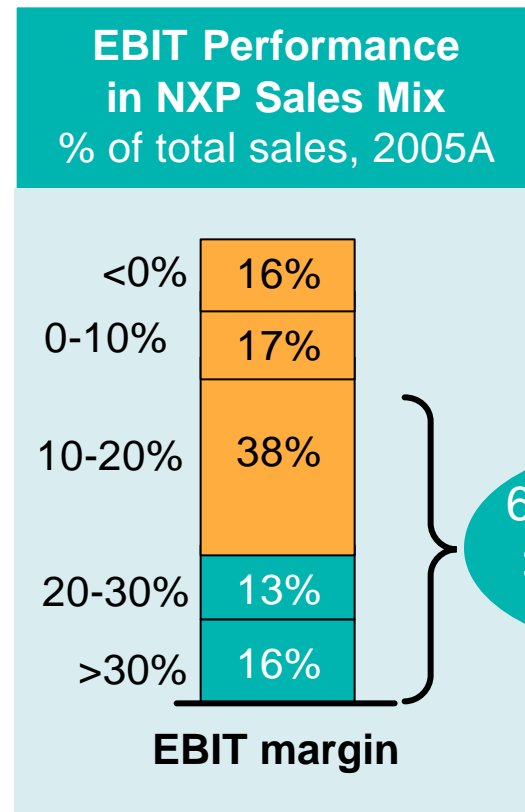
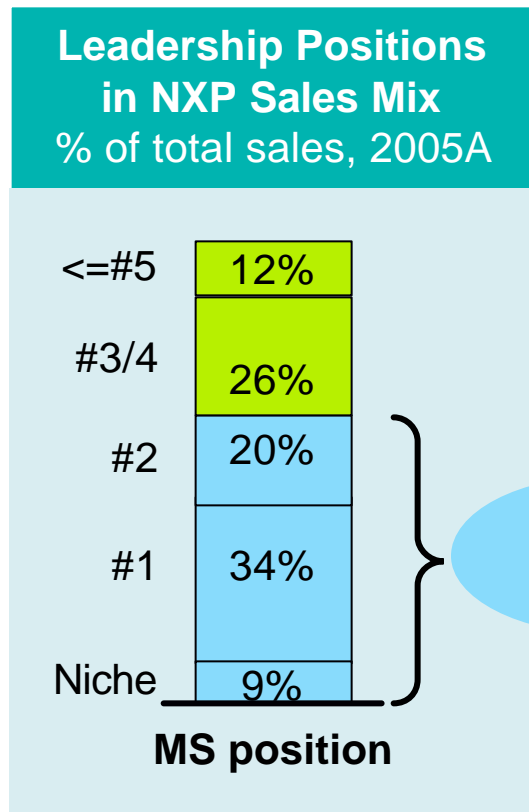
2) Including Spansion 2003-2004, excluding Spansion 2005, including ATI 2006

3) Excluding Lumileds

Source: GDQ Q1 2006, GDQ Dec. '06, Intel '05 corrected for app. processor divestiture to Marvell

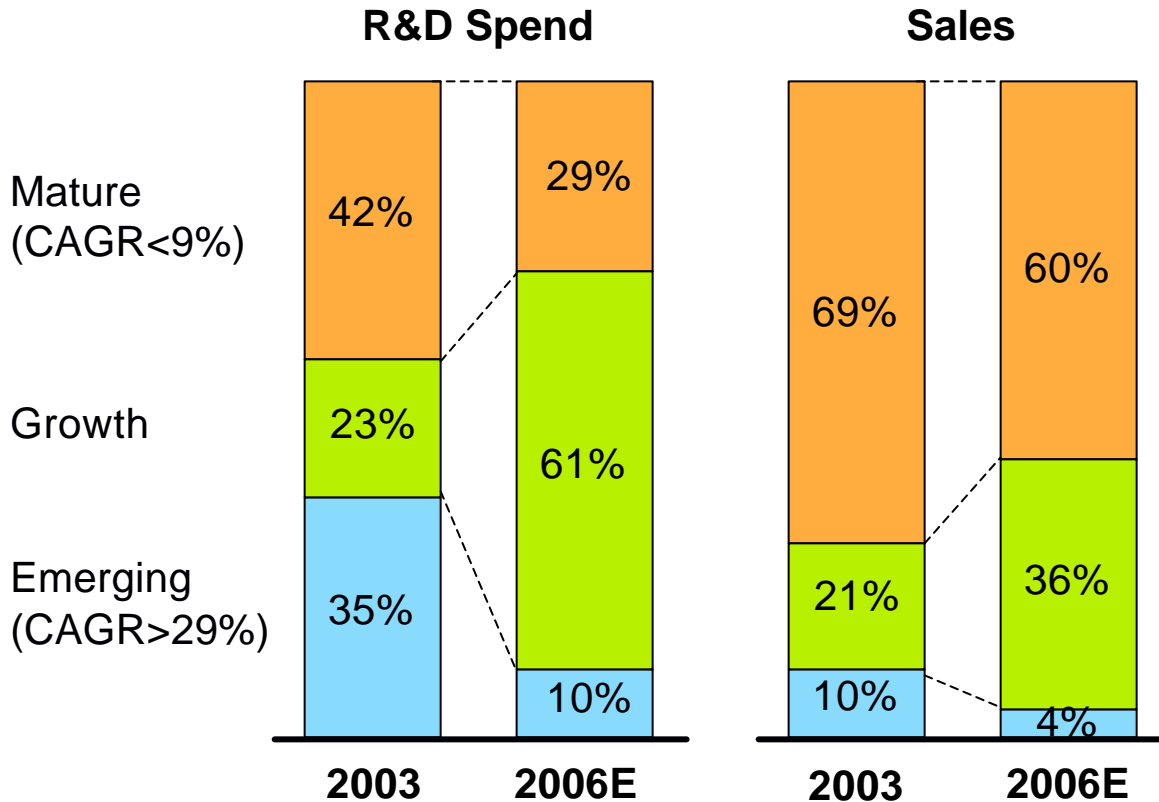


# Strong, Profitable Leadership Positions



To achieve this healthy business mix, we exited 9 weak and/or less strategic businesses in the past two years

# Portfolio Optimization to Increase Share of Growth Businesses



## Key Actions

- ▶ Shifted €175 MM of R&D from exited businesses and €50 MM from mature businesses to growth opportunities
- ▶ Fewer “Big Bet” projects in emerging business like NXP had in 2003 (i.e., more evolutionary innovation)

# Conclusion

- ▶ Three value creation drivers
  - Operational excellence – striving for best-in-class
  - Above GDP market growth and market share growth
  - Active portfolio management - creating #1 & #2 positions in areas of focus
- ▶ Unique value creation recipe – Business Renewal
- ▶ Mitigating risks with asset light strategy



