



It's Freescale Year Two.

Making the world a smarter place.





Michel Mayer
*Chairman and
Chief Executive Officer*

Dear fellow shareholders,

During 2005, our first full year as an independent company, Freescale Semiconductor made important progress. We are a stronger, more competitive and more profitable enterprise than we were a year ago, and we are laying the groundwork for even greater success and growth in the years to come.

With \$5.8 billion in 2005 revenue, Freescale is one of the world's largest semiconductor design and manufacturing companies. Our more than 22,000 employees in over 30 countries around the world serve thousands of customers, ranging from the world's largest manufacturers to small distributors. With nine manufacturing facilities and more than two dozen design centers, we lead the industry in embedding intelligence and connectivity into automobiles, consumer electronics, the industrial arena, networking equipment and wireless products.

Much of our focus in 2005 was on driving improved financial performance through operational efficiency, simplification and cost containment. One result of our efforts has been dramatically improved gross margin. Between July 2004 (when Freescale went public) and the fourth quarter of 2005, we improved our gross margin from 37.6 to 45 percent.

As we continue to enhance the underlying profitability of the company, we are simultaneously increasing our focus on growth. We will work to strengthen the leadership positions we currently enjoy and take advantage of opportunities in new and emerging markets. We are focused on gaining new customers in the wireless merchant market, expanding our presence in the Asia-Pacific region, growing our share of the microcontroller market, revitalizing our distribution sales channel, leveraging our significant position in analog semiconductors and aggressively pursuing opportunities in the consumer domain.

We believe many of the trends reshaping the world of technology today play directly into the strengths of Freescale—and we are investing to ensure we have both the technology and the team necessary to seize the opportunities these trends are creating. Our intellectual property (IP) portfolio, which includes approximately 5,300 patent families, fuels our success—enabling us to create sophisticated, integrated solutions for our customers, while generating licensing revenue from other technology businesses. In 2005, we invested approximately \$1.2 billion in research and development and more than doubled our patent submissions from the previous year to ensure IP and innovation remain at the center of our business.

We are also devoting a great deal of time and energy to strengthening our human capabilities. To make the most of our opportunities, we are working to attract and retain world-class talent and develop a culture characterized by—among other things—speed, decisiveness and teamwork. While a high-performance culture is always a work in progress, I believe we made important cultural strides in 2005. We are a stronger team, from top to bottom, than we were a year ago—and I am confident we will be stronger still a year from now.

With a year-and-a-half of independence under our belts, we are now sharing the Freescale story via a global branding campaign, elements of which are incorporated in this report.

Thank you for your continued interest in Freescale. After reading this report, I hope you agree that we are poised to compete, win, create value and generate positive outcomes for all of our constituencies in 2006 and beyond.

Michel Mayer
Chairman and Chief Executive Officer

Financial Highlights

Revenue (in millions)



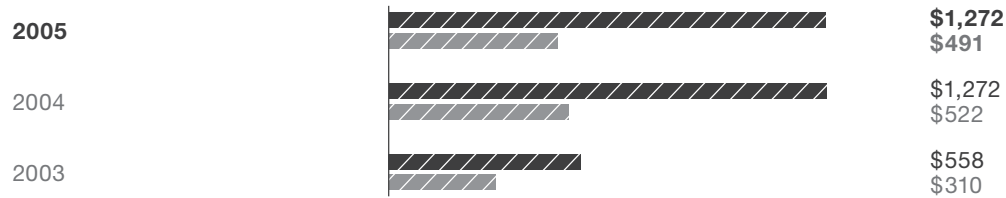
Gross Margin (percent of sales)



Net Earnings (in millions)



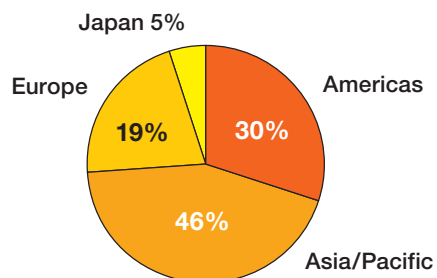
Cash Flow (in millions)



▨ Operating Cash Flow

▨ Capital Expenditures

2005 Revenue by Region



2005 Business Highlights

– 1st Quarter –

- Demonstrated world's first Ultra-Wideband-enabled cell phone at Consumer Electronics Show
- Jointly established evaluation lab for Linux® products based on the Power Architecture with China Ministry of Information Industry
- Rolled out first ultra high-speed HSDPA-ready platform demonstrating leadership in 3G
- Began successfully sampling the revolutionary Mobile eXtreme Convergence, postage-stamp size cell phone platform
- Opened automotive Quality and Test Center in Nagoya, Japan—the first foreign semiconductor manufacturer to have an automotive quality and test center in the area
- Achieved the No. 1 position globally in 16-bit microcontrollers for automotive applications
- Introduced QUICC Engine™ technology in next-generation PowerQUICC™ II Pro communications processors to deliver Internet Protocol (IP) network convergence solutions
- Acquired PrairieComm, Inc., strengthening wireless platform strategy for the merchant market

– 2nd Quarter –

- Named “Supplier of the Year” by General Motors—a first for a semiconductor supplier
- Expanded industry's largest R&D alliance at Crolles, France with Philips and STMicroelectronics
- Offered world's first ZigBee™-compliant platform
- Shipped our 10 millionth high-power, high-frequency plastic-packaged RF transistor
- Completed world's first voice call on single core modem processor
- Introduced industry's first single-chip acceleration sensor that monitors movement in three dimensions and allows designers of portable consumer electronics to select the level of motion sensitivity they need
- Announced industry's first 90 nm multicore programmable DSPs in volume production
- Unveiled world's first Ultra-Wideband-enabled television with China's leading domestic consumer electronics company
- Introduced ultra-efficient, seventh generation RF laterally diffused metal oxide semiconductor (LDMOS) for wireless infrastructure
- Launched Freescale Technology Forum, a series of in-depth developer conferences for customers and ecosystem partners around the world
- Demonstrated leadership in powertrain controls at the International Engine of the Year Awards in Stuttgart; Freescale powertrain controls were designed into eight of 12 award-winning engines

– 3rd Quarter –

- Celebrated first full year as a public company
- Won multi-year award with Motorola to bring platform solutions for third-generation (3G) UMTS communications technologies to the mass market
- Marked tenth anniversary of award-winning PowerQUICC communications processor
- Strengthened communications processing leadership by acquiring the assets of Seaway Networks, a recognized innovator in high-performance, silicon-based content processing, advanced security and traffic-management solutions for data networking applications
- Selected as the multimedia applications processor provider for the world's smallest Windows® CE.Net™ PDA phone
- Began supplying application-critical silicon for leading provider of broadband wireless access solutions for WiMAX systems

– 4th Quarter –

- Launched first worldwide brand campaign to increase awareness of Freescale among business and technology decision-makers
- Topped 200 million shipments of integrated communications processors
- Received *The Wall Street Journal* Technology Innovation Award for commercial Ultra-Wideband products
- Added ultra-low power embedded Wi-Fi® technology to connectivity offerings through acquisition of CommASIC
- Earned a spot on EDN's “Hot 100 Products of 2005” with PowerQUICC II Pro communications processor with QUICC Engine technology
- Successfully manufactured the world's first 24-Mbit silicon nanocrystal memory, a crucial step in the delivery of next-generation nonvolatile embedded memories
- Introduced the world's most highly integrated power management and user interface (PMUI) chip for mobile devices
- Earned 2005 semiconductor supplier awards from three major networking companies in Asia and Europe
- Supplied the multimedia applications processor for the first portable media player (PMP) introduced by a domestic Chinese OEM
- Invented transistor architecture that breaks through complementary metal-oxide semiconductor (CMOS) scaling barriers
- Paved the way for further development of the “autonomous car” by offering the industry's first integrated and stand-alone FlexRay™ microcontrollers

