

# **Freescale Semiconductor Reports Fourth Quarter and Fiscal Year 2005 Results**

AUSTIN, Texas January 19, 2006 Freescale Semiconductor (NYSE:FSL) (NYSE:FSL.B) today reported its financial results for the fourth quarter and fiscal year ended December 31, 2005.

The results include the reclassification of certain expenses to align the company's results with the adoption of FAS 123 in the first quarter of 2006. The reclassifications have no impact on reported revenue, net earnings or earnings per share.

Fourth quarter and fiscal year highlights include:

## **Fourth Quarter 2005**

- Net sales of \$1.48 billion;
- Gross margin of 45.4% (before reclassification of certain expenses described below and 45.0% as reported after reclassification);
- Operating earnings of \$202 million or 13.7% of net sales;
- Net earnings of \$192 million;
- Diluted earnings per share of \$.45.

## **Fiscal Year 2005**

- Net sales of \$5.84 billion;
- Gross margin of 42.6% (before the reclassification of certain line items and 42.2% as reported after reclassification);
- Operating earnings of \$600 million or 10.3% of net sales;
- Net earnings of \$563 million;
- Diluted earnings per share of \$1.33;
- Repurchase of 4 million shares of the company's common stock.

"We delivered on our commitments in 2005," said Michel Mayer, chairman and CEO. "We are pleased with this performance, but clearly are not yet satisfied. We are focusing on a number of initiatives to enhance operating results and grow revenues in 2006 and beyond."

## **Fourth Quarter and Fiscal Year 2005 Overview**

Fourth quarter 2005 results include an \$8 million reversal of a write-down of receivables the company determined were impaired due to the bankruptcy of the U.S. subsidiaries of the Delphi Corporation originally recorded in the third quarter of 2005.

### **Sales**

Net sales in the fourth quarter of 2005 were \$1.48 billion, compared to \$1.45 billion in the third quarter of 2005 and \$1.43 billion in the fourth quarter of 2004. For the year, net sales were \$5.84 billion compared to \$5.72 billion in 2004.

### **Operating Earnings**

Operating earnings for the fourth quarter of 2005 were \$202 million or 13.7% of net sales compared to \$152 million for the third quarter of 2005 and operating earnings of \$15 million for the fourth quarter of 2004, inclusive of fourth quarter 2004 restructuring charges and separation expenses of \$84 million.

### **Net Earnings**

Net earnings for the fourth quarter of 2005 were \$192 million, or \$.45 per fully diluted share, compared to \$164 million or \$.38 per fully diluted share in the third quarter of 2005 and \$5 million or \$.01 per fully diluted share in the fourth quarter of 2004.

### **Operating Highlights**

Cash, cash equivalents, short-term investments and marketable securities included in investments in the fourth quarter of 2005 increased sequentially by \$143 million, inclusive of share repurchases of \$103 million, and totaled \$3.0 billion.

During the fourth quarter of 2005, the company repurchased 4 million shares of its common stock at an average price of \$25.49 per share. Capital expenditures for the fourth quarter were \$147 million and were \$491 million for 2005.

### **Line Item Reclassification**

The results include the reclassification of certain expenses to align the company's results with the adoption of FAS 123 in the first quarter of 2006. The reclassifications have no impact on reported revenue, net earnings or earnings per share.

The company has reclassified incentive compensation, technology and other related expenses from Cost of Goods Sold and Selling, General & Administrative (SG&A) to Cost of Goods Sold, Research & Development (R&D) and SG&A expense. The approximate line item impact as a percentage of sales from the reclassifications for fiscal 2005 lowers

gross margin by .4%, increases R&D expense by 2.3%, and lowers SG&A expense by 2.7%.

In addition, the company has reclassified certain consumer product-related revenues from its Transportation and Standard Products segment to the Wireless and Mobile Solutions segment to reflect organizational changes and has revised its manufacturing ownership model. The reclassifications result in a change to the revenue and operating margin of each segment.

### **Transportation and Standard Products**

The Transportation and Standard Products segment reported net sales of \$649 million in the fourth quarter of 2005, compared to \$620 million in the third quarter of 2005 and \$618 million in the fourth quarter of 2004. Excluding the impact of the reclassifications referenced above, net sales would have been \$672 million in the fourth quarter of 2005, compared to \$637 million in the third quarter of 2005 and \$631 million in the fourth quarter of 2004.

The segment's operating earnings were \$117 million in the fourth quarter of 2005 (18.0% of net sales), including the \$8 million impact from the reversal of the Delphi receivable referenced earlier, compared to \$73 million in third quarter of 2005 and \$54 million in the fourth quarter of 2004. Excluding the impact of the reclassifications, the segment's operating earnings would have been \$108 million (16.1% of net sales) in the fourth quarter of 2005, compared to \$70 million in third quarter of 2005 and \$56 million in the fourth quarter of 2004.

### **Networking and Computing Systems**

The Networking and Computing Systems segment reported net sales of \$338 million, compared to \$360 million in the third quarter of 2005 and \$314 million in the fourth quarter of 2004.

Operating income in the fourth quarter was \$73 million (21.6% of net sales) compared to \$69 million in the third quarter of 2005 and \$34 million in the fourth quarter of 2004. Excluding the impact of the reclassifications, the segment's operating earnings were \$65 million (19.2% of net sales) in the fourth quarter of 2005, compared to \$76 million in the third quarter of 2005 and \$28 million in the fourth quarter of 2004.

### **Wireless and Mobile Solutions**

The Wireless and Mobile Solutions segment reported net sales of \$476 million in the fourth quarter of 2005, compared to \$455 million in the third quarter of 2005 and \$478 million in the fourth quarter of 2004. Excluding the impact of the reclassifications, net sales would have been \$453 million in the fourth quarter of 2005, compared to \$438 million in the third quarter of 2005 and \$465 million in the fourth quarter of 2004.

The segment generated operating income of \$38 million (8.0% of net sales) in the fourth quarter of 2005, compared to operating income of \$35 million in the third quarter of 2005 and \$36 million in the fourth quarter of 2004. Excluding the impact of the reclassifications the segment generated operating income of \$38 million (8.4% of net sales) in the fourth quarter of 2005, compared to operating income of \$30 million in the third quarter of 2005 and \$37 million in the fourth quarter of 2004.

### **Other Operations**

Other operations reported an operating loss of (\$26) million in the fourth quarter of 2005 compared to operating losses of (\$25) million in the third quarter of 2005 and (\$109) million in the fourth quarter of 2004, which included \$84 million of separation and restructuring charges.

### **First Quarter 2006 Outlook**

For the first quarter of 2006, the company expects to report revenues of \$1.435 to \$1.535 billion. Gross margins for the first quarter of 2006 are expected to be slightly up from the operational level reported in the fourth quarter of 2005, excluding the benefit of the Delphi reversal and the impact of stock option expense related to FAS 123.

During the first quarter of 2006, the company will begin expensing stock options in accordance with FAS 123. The company expects the expense associated with stock options to be approximately \$.04 per share in the first quarter.

### **Conference Call and Webcast**

Freescale's quarterly earnings call is scheduled to begin at 4:00 p.m. Central time (USA) on Thursday, January 19, 2006. The company will offer a live webcast of the conference call over the Internet at [www.freescale.com/investor](http://www.freescale.com/investor).

The company uses certain non-GAAP financial measures in analyzing financial results because they are useful to investors and management in evaluating the company's ongoing operational performance. These financial measures facilitate making period-to-period comparisons exclusive of the impact of certain events, such as the separation from Motorola Inc., recent accounting pronouncements and restructuring charges. In addition, presentation of these non-GAAP financial measures enables investors to evaluate the company's performance under both the GAAP and pro forma measures that management uses to evaluate the company's performance. Where non-GAAP financial measures have been included in this press release, the company has reconciled the GAAP to the non-GAAP measures in the table below.

### **Caution Regarding Forward-Looking Statements**

This press release contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements may be identified by words such as expects, anticipates, plans, believes, estimates, will or words of similar meaning and include statements regarding the plans and expectations for the upcoming quarter, the year and the future. Forward-looking statements are based on management's current expectations and assumptions, including but not limited to the following general underlying assumptions: the market for semiconductor products will grow over the long term; new technologies and applications will continue to be developed; and manufacturers of automotive, networking and wireless products will increasingly look to semiconductor providers for platform-level products and systems-on-a-chip. These assumptions are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and could cause actual outcomes to differ materially from the expectations of the company and its management. These uncertainties, risks and changes include, but are not limited to: a decline in market demand for our products; the loss of a major customer, or a substantial reduction in sales to any of our major customers; our ability to compete in products and prices in the intensely competitive and cyclical semiconductor industry; our reliance on, and the anticipated benefits of, third-party design and/or manufacturing relationships; our ability to license intellectual property from third parties and to protect the intellectual property we own; economic, social and political conditions in the countries in which we operate, or our customers or suppliers operate, including security risks, health conditions, possible disruption in transportation networks and fluctuations in foreign currency exchange rates; and the other risk factors discussed from time to time by the company in reports filed with the Securities and Exchange Commission. We urge you to carefully consider these and other risks which are described in the company's Form 10-K for the year ended December 31, 2004 and in the company's other SEC filings. The company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

## **About Freescale**

Freescale Semiconductor Inc. (NYSE:FSL) (NYSE:FSL.B) is a global leader in the design and manufacture of embedded semiconductors for the automotive, consumer, industrial, networking and wireless markets. Freescale became a publicly traded company in July 2004. The company is based in Austin, Texas, and has design, research and development, manufacturing or sales operations in more than 30 countries. Freescale, a member of the S&P 500(R), is one of the world's largest semiconductor companies with 2005 sales of \$5.8 billion (US). [www.freescale.com](http://www.freescale.com).

Freescale Semiconductor Inc. and Subsidiaries  
Condensed Consolidated and Combined Statements of Operations  
(Unaudited)

(In millions, except per share amounts)

	Three Months Ended	
	December 31, 2005	December 31, 2004
Net sales	\$ 1,479	\$ 1,428
Cost of sales	814	922
Gross margin	665	506
Selling, general and administrative	171	166
Research and development	294	274
Reorganization of businesses and other	(2)	46
Separation expenses	--	5
Operating earnings	202	15
Other		
Interest income/(expense), net	9	(5)
Gains on sales of investments and businesses, net	--	--
Other, net	(6)	(4)
Total other	3	(9)
Earnings before income taxes	205	6
Income tax expense	13	1
Net earnings	\$ 192	\$ 5
Earnings per common share:		
Basic	\$ 0.47	\$ 0.01
Diluted	\$ 0.45	\$ 0.01
Weighted average common shares outstanding:		
Basic	409	400
Diluted	429	412

Freescale Semiconductor Inc. and Subsidiaries  
Condensed Consolidated and Combined Statements of Operations  
(In millions, except per share amounts)

	Twelve Months Ended	
	December 31, 2005	December 31, 2004
	(unaudited)	
Net sales	\$ 5,843	\$ 5,715
Cost of sales	3,377	3,617
Gross margin	2,466	2,098
Selling, general and administrative	652	637
Research and development	1,195	1,099
Reorganization of businesses and other	9	22
Separation expenses	10	74
Operating earnings	600	266
Other		
Interest income/(expense), net	6	(31)
Gains on sales of investments and businesses, net	26	41
Other, net	(19)	(13)
Total other	13	(3)
Earnings before income taxes	613	263
Income tax expense	50	52
Net earnings	\$ 563	\$ 211
Earnings per common share:		
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Basic	\$ 1.39	\$ 1.08
Diluted	\$ 1.33	\$ 1.06
Weighted average common shares outstanding:		
-----		
Basic	405	195
Diluted	423	200
Pro forma earnings per common share:		
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Basic		\$ 0.63
Diluted		\$ 0.62
Weighted average common shares outstanding:		
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Basic		334
Diluted		339

Freescale Semiconductor Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets  
(In millions)

	December 31, 2005	December 31, 2004
	-----	
	(unaudited)	
<b>ASSETS</b>		
Cash, cash equivalents and short-term investments	\$ 1,421	\$ 2,374
Accounts receivable, net	531	448
Inventories	647	742
Other current assets	352	403
Assets held-for-sale	15	45
	-----	
Total current assets	2,966	4,012
	-----	
Property, plant and equipment, net	2,035	2,207
Investments	1,616	31
Other assets	553	469
	-----	
Total assets	\$ 7,170	\$ 6,719
	-----	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Notes payable & current portion of capital leases	\$ 7	\$ 2
Accounts payable	469	474
Accrued liabilities and other	663	693
	-----	
Total current liabilities	1,139	1,169
	-----	
Long-term debt	1,230	1,269
Other liabilities	354	345
	-----	
Total stockholders' equity	4,447	3,936
	-----	
Total liabilities and stockholders' equity	\$ 7,170	\$ 6,719
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Freescale Semiconductor Inc. and Subsidiaries  
Condensed Consolidated and Combined Statements of Operations  
(Unaudited)

(In millions, except per share amounts)

	Before Reclassifications		After Reclassifications	
	Three Months Ended		Three Months Ended	
	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
Net sales	\$ 1,479	\$ 1,428	\$ 1,479	\$ 1,428
Cost of sales	807	914	814	922
Gross margin	672	514	665	506
Selling, general and administrative	215	204	171	166
Research and development	255	244	294	274
Reorganization of businesses and other	--	46	(2)	46
Separation expenses	--	5	--	5
Operating earnings	202	15	202	15
Other				
Interest income/ (expense), net	9	(5)	9	(5)
Gains on sales of investments and businesses, net	--	--	--	--
Other, net	(6)	(4)	(6)	(4)
Total other	3	(9)	3	(9)
Earnings before income taxes	205	6	205	6
Income tax expense	13	1	13	1
Net earnings	\$ 192	\$ 5	\$ 192	\$ 5

Earnings per  
common share:

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Basic	\$	0.47	\$	0.01	\$	0.47	\$	0.01
Diluted	\$	0.45	\$	0.01	\$	0.45	\$	0.01

Weighted average  
common shares  
outstanding:

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Basic	409	400	409	400
Diluted	429	412	429	412

Freescale Semiconductor Inc. and Subsidiaries  
Condensed Consolidated and Combined Statements of Operations  
(In millions, except per share amounts)

	Before Reclassifications		After Reclassifications	
	Twelve Months Ended		Twelve Months Ended	
	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
	(unaudited)		(unaudited)	
Net sales	\$ 5,843	\$ 5,715	\$ 5,843	\$ 5,715
Cost of sales	3,354	3,575	3,377	3,617
Gross margin	2,489	2,140	2,466	2,098
Selling, general and administrative	809	799	652	637
Research and development	1,060	965	1,195	1,099
Reorganization of businesses and other	10	36	9	22
Separation expenses	10	74	10	74
Operating earnings	600	266	600	266
Other				
Interest income/ (expense), net	6	(31)	6	(31)
Gains on sales of investments and businesses, net	26	41	26	41
Other, net	(19)	(13)	(19)	(13)
Total other	13	(3)	13	(3)
Earnings before income taxes	613	263	613	263
Income tax expense	50	52	50	52
Net earnings	\$ 563	\$ 211	\$ 563	\$ 211

Earnings per  
common share:

Basic	\$	1.39	\$	1.08	\$	1.39	\$	1.08
Diluted	\$	1.33	\$	1.06	\$	1.33	\$	1.06

Weighted average  
common shares  
outstanding:

Basic	405	195	405	195
Diluted	423	200	423	200

Pro forma earnings  
per common share:

Basic	\$	0.63	\$	0.63
Diluted	\$	0.62	\$	0.62

Weighted average  
common shares  
outstanding:

Basic	334	334
Diluted	339	339

Freescale Semiconductor Inc. and Subsidiaries  
Condensed Consolidated Segment Information  
(Unaudited)  
(In millions)

	Before Reclassifications		After Reclassifications	
	Three Months Ended		Three Months Ended	
	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
Net sales:				
Transportation and Standard Products	\$ 672	\$ 631	\$ 649	\$ 618
Networking and Computing Systems	338	314	338	314
Wireless and Mobile Solutions	453	465	476	478
Other	16	18	16	18
Segment totals	\$ 1,479	\$ 1,428	\$ 1,479	\$ 1,428
Operating earnings:				
Transportation and Standard Products	\$ 108	\$ 56	\$ 117	\$ 54
Networking and Computing Systems	65	28	73	34
Wireless and Mobile Solutions	38	37	38	36
Other	(9)	(106)	(26)	(109)
Segment totals	\$ 202	\$ 15	\$ 202	\$ 15

Freescale Semiconductor Inc. and Subsidiaries  
Condensed Consolidated and Combined Segment Information  
(In millions)

	Before Reclassifications		After Reclassifications	
	Twelve Months Ended		Twelve Months Ended	
	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
	(unaudited)		(unaudited)	
Net sales:				
Transportation and Standard Products	\$ 2,637	\$ 2,565	\$ 2,566	\$ 2,508
Networking and Computing Systems	1,434	1,462	1,434	1,462
Wireless and Mobile Solutions	1,704	1,623	1,775	1,680
Other	68	65	68	65
Segment totals	\$ 5,843	\$ 5,715	\$ 5,843	\$ 5,715
Operating earnings:				
Transportation and Standard Products	\$ 343	\$ 231	\$ 361	\$ 262
Networking and Computing Systems	305	243	285	273
Wireless and Mobile Solutions	88	(87)	78	(96)
Other	(136)	(121)	(124)	(173)
Segment totals	\$ 600	\$ 266	\$ 600	\$ 266

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