



# TCFD REPORT



# APPENDIX C – 2021 TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

If greenhouse-gas emissions continue at current rates, global warming will accelerate, and temperature gains above 2°C (relative to the pre-industrial period) would have catastrophic economic and social consequences.

The growing demand for decision-useful, climate-related information from organizations across all sectors of the economy has given rise to several disclosure standards that support greater accountability and transparency. One such standard, established in 2015, is the Task Force on Climate-Related Financial Disclosures (TCFD), which defines a set of voluntary disclosures of climate-related financial risk. Using the TCFD format, companies can inform stakeholders of any risks relating to climate change that they face.

The TCFD structures their recommendations around four themes that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets.

This is our first time including the TCFD’s recommendations in our Sustainability Report. While we discuss risks related to climate-related matters, we do not include all the risks that may ultimately affect NXP in this regard. We will conduct more in-depth scenario analysis and will include the results in future reports. Some risks that are as yet unknown, or are believed not to be material, could ultimately have a major impact on our businesses, objectives, revenues, income, assets, liquidity, and/or capital resources.

Governance	
Disclose the organization’s governance around climate-related risks and opportunities.	
a. Describe the board’s oversight of climate-related risks and opportunities.	The Nominating and Governance Committee of NXP’s Board of Directors is responsible for overseeing NXP’s policies related to Environment, Social & Governance (ESG). The Nominating and Governance Committee is updated on these efforts on a quarterly basis by representatives of the ESG Management Board, and reports on these efforts in the plenary meetings of NXP’s Board of Directors.
	The Nominating and Governance Committee reviews and approves our carbon-footprint goals, strategy, roadmap, and budget.
b. Describe management’s role in assessing and managing climate-related risks and opportunities.	A monitoring dashboard of top KPIs for our status on progress is reviewed on a quarterly basis.
	ESG is managed and implemented by the CEO and the NXP Management Team. In addition to the Environmental, Social & Governance (ESG) Management Board, NXP also has an Environment, Health & Safety (EHS) Management Board, which includes members of the Management Team and other senior leaders. The Nominating and Governance Committee is updated on these efforts on a quarterly basis by representatives of the ESG Management Board, and reports on these efforts in the plenary meetings of NXP’s Board of Directors.
	The ESG and EHS Management Boards are responsible for setting the vision and strategy and for approving goals and resourcing. The efforts of the ESG and EHS Management Boards are supported by NXP’s Chief Financial Officer, General Counsel, Chief Technology and Operations Officer, and representatives from Investor Relations, Legal, Human Resources, the Sustainability Office, Facilities and EHS councils (which include senior managers from our worldwide sites), the Business Continuity Management Office, and the Insurance and Risk Management Department.
	While the ESG and EHS Management Boards approve the strategy and targets, the Sustainability and EHS Office focuses on policies, goals, program development, and measurable improvement plans, all while monitoring and controlling operational functions.
	The Sustainability and EHS Office meets regularly with the ESG and EHS Management Boards to discuss and review NXP’s performance.
	The EHS corporate team sets targets, conducts annual self-assessments and third-party audits, ensures timely closure of corrective-action plans, monitors and controls working hours and rest days, and conducts internal capacity building.
	The Site Steering Committee teams implement, measure, and validate policies, drive continuous improvement at their respective sites, and report progress to Site Management and the EHS corporate team.

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## Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning where such information is material.

a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	<p>NXP has identified several climate-related risks and opportunities, which are generally described below. This is not a comprehensive list. NXP plans to further evaluate these risks and opportunities and the associated business impacts. As a result of our climate-related governance, risk management, and metrics and targets programs, NXP’s strategy for climate-related risks and opportunities is resilient and able to react to changing factors over time. The programs are inter-related and provide regular and ongoing feedback to one other, so NXP can continuously improve the reduction of risk and the realization of opportunity.</p> <p>Semiconductor manufacturing is heavily dependent on electricity and water. Climate-related events may compromise the availability of electricity and/or water needed for manufacturing.</p>
b. Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.	<p>Regulation: NXP business operations and supply-chain partners have a risk from increased climate-related regulations which may increase operational costs and limit the use of chemicals key to the manufacture of semiconductors.</p> <p>Reputation &amp; Market Share: NXP has both risk (through inaction) and opportunity (through action) for climate-related reputation and market-share factors. NXP is proactively identifying and acting on goals to contribute to the global effort to reduce climate-related impact. This also provides an opportunity to make more stakeholders aware of NXP’s commitments and progress in this area. As more supply-chain partners, employees, potential employees, customers, investors, and members of the public become aware of our work in this area, there is the opportunity to contribute more positives to the company’s reputation and market share.</p>
c. Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	<p>Operations &amp; Financial: NXP has both risk and opportunity for climate-related operational factors. Through our goals to reduce our carbon footprint, by reducing electricity and water usage and increasing our rate of recycling/reusing waste, NXP may realize operational cost savings and efficiencies. NXP also has risks to operations as a result of more severe weather events and/or natural disasters, which can directly impact our factory operations, physical assets, and supply chain. The resulting impacts to our capital expenditures may or may not result in the desired climate-related improvements. These climate-related factors are taken as inputs into quarterly expense and capital financial planning.</p>

## Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

a. Describe the organization’s processes for identifying and assessing climate-related risks.	<p>NXP maintains lists of identified risks to formally evaluate external and internal issues and identify how they may impact the strategic direction and business operations of the company, our customers, our suppliers, our communities, and other interested parties. We have begun to include climate-related risks within these assessments, and also within our Enterprise Risk Management program. We will expand on this during 2022. Risks are prioritized at the corporate and local levels for their scope and operational controls, and are reviewed annually. Updates are completed through risk-assessment reviews and with inputs from executive EHS board meetings, management reviews, functional staff meetings, and specialized councils. Existing and emerging regulatory requirements are taken as inputs to the risk assessments, as are benchmarks from other companies and other stakeholder input received from customers, investors, and the public.</p>
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b. Describe the organization’s processes for managing climate-related risks.	
c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.	Site and Corporate Business Continuity teams regularly review and update assessments of risks, including climate-related risks, and associated action plans. High-priority risks are documented and action plans identified to reduce the relative impact of the risks. These are used as input into formal goal planning, management review updates, and, if applicable, capital financial planning. Feedback obtained from management reviews, the Sustainability Office, ESG and EHS Management Boards, Business Continuity Teams, and other stakeholder input are also incorporated into the risk assessments and action plans.

## Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

a. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	<p>Our disclosure of climate-related metrics provides ten years of historical information for analysis of Scope 1, 2, and 3 emission. In each section, metrics include both absolute and normalized data to factor in our production index, aligning with our semiconductor peer group.</p> <p>Scope 1 emissions includes an in-depth, ten-year analysis of our PFC, HTF, fossil-fuel, and N<sub>2</sub>O emissions.</p> <p>Scope 2 emissions includes a ten-year analysis of electricity from our manufacturing and non-manufacturing facilities.</p> <p>Scope 3 emissions includes a ten-year analysis of business travel and product transportation</p> <p>Our discussion of our three biggest contributors to emissions — electricity, PFCs, and HTFs — includes a detailed description of how NXP measures and manages identified risks and opportunities.</p> <p>Emission calculations follow the methodology of the Intergovernmental Panel on Climate Change (IPCC). Scope 2 emissions are calculated using the market-based methodology.</p> <p>We discuss water, energy, and waste with equivalent levels of detail.</p> <p>We make all environmental data available in our annual Corporate Sustainability Report or on our <a href="#">website</a>.</p>
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b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 Greenhouse Gas (GHG) emissions, and related risks.	<p>Semiconductor manufacturing is not considered a major contributor to global warming, but our operations do directly and indirectly emit Greenhouse Gases (GHGs). The three main contributors to our carbon footprint are emissions from purchased electricity, the emission of PerFluoroCarbons (PFCs), and emission of Heat-Transfer Fluids (HTFs). We set reduction targets on these three contributors as they are essential for NXP operations.</p>
	<p>Scope 1 emissions includes an in-depth, ten-year analysis of our PFC, HTF, fossil-fuel, and N<sub>2</sub>O emissions.</p>
	<p>Scope 2 emissions includes a ten-year analysis for electricity from our manufacturing and non-manufacturing facilities.</p>
	<p>Scope 3 emissions includes a ten-year analysis for business travel and product transportation. We are working to enhance our collection of data related to this metric, with the goal of better understanding our suppliers’ carbon impacts, starting with our key top-tier suppliers.</p>
	<p>Our discussion of our three biggest contributors to emissions — electricity, PFCs, and HTFs — includes a detailed description of how NXP measures and manages identified risks and opportunities.</p> <p>Emission calculations follow the methodology of the Intergovernmental Panel on Climate Change (IPCC). Scope 2 emissions are calculated using the market-based methodology.</p> <p>We make all emission data available in our annual Corporate Sustainability Report or on our <a href="#">website</a>.</p>
c. Describe the targets used by the organization to manage climate-related risks and opportunities, and the organization’s performance against these targets.	<p>The discussion of our three biggest contributors to emissions — electricity, PFCs, and HTFs — includes a detailed description of how NXP measures and manages identified risks and opportunities.</p>
	<p>Key climate-related targets related to GHG emissions include the following:</p>
	<p>Targets for Scope 1 reduction address PFC and HTF emissions. At present, our constraints consist of no viable alternatives for the PFCs or HTFs used to etch integrated circuitry onto silicon wafers, clean the internal chambers of deposition equipment, and test products during the manufacturing process.</p>
	<p>Targets for Scope 2 reduction address electricity use and an increase in renewable energy. Our current constraint is that semiconductor manufacturing is an electricity-intensive process. Renewable energy is not always readily available at every site, so we use a mix of energy sources for flexibility and reliability. We are steadily increasing our use of electricity that comes from renewable sources, and we continue to look for new ways to increase our use of reliable renewable energy sources.</p> <p>We work to reduce emissions through process elimination or chemical substitution (where feasible), through process optimization, and by increasing abatement.</p> <p>We make our climate-related data available in our annual Corporate Sustainability Report or on our <a href="#">website</a>.</p>

## Looking Forward

We recognize the importance of global ambitions to reach net-zero emissions by 2050 and the increasing momentum in policy, technology, finance, and corporate commitments toward this goal. We have enhanced our transparency for the sustainability characteristics of our products and R&D investments and set carbon neutrality goals for our operations.





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