NXP Semiconductors N.V.
Form 6-K
April 30, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

April 30, 2019

NXP Semiconductors N.V.

(Exact name of registrant as specified in charter)

The Netherlands

(Jurisdiction of incorporation or organization)

60 High Tech Campus, 5656 AG, Eindhoven, The Netherlands

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1).

Yes ¨ No x

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7).

Yes ¨ No x

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

Name and address of person authorized to receive notices

and communications from the Securities and Exchange Commission

Dr. Jean A.W. Schreurs

60 High Tech Campus

5656 AG Eindhoven – The Netherlands

This report contains the interim report of NXP Semiconductors N.V. for the period ended March 31, 2019.

Exhibits

1. Interim report of NXP Semiconductors N.V. for the period ended March 31, 2019.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized at Eindhoven, on the 30th of April 2019.

NXP
Semiconductors
N.V.

/s/ P. Kelly
Name: P. Kelly,
CFO

NXP Semiconductors

INTERIM REPORT

NXP SEMICONDUCTORS N.V.

PERIOD ENDED

March 31, 2019

Forward-looking statements

This document includes forward-looking statements which include statements regarding NXP's business strategy, financial condition, results of operations, and market data, as well as any other statements which are not historical facts. By their nature, forward-looking 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 include the following: market demand and semiconductor industry conditions; the ability to successfully introduce new technologies and products; the end-market demand for the goods into which NXP's products are incorporated; the ability to generate sufficient cash, raise sufficient capital or refinance corporate debt at or before maturity; the ability to meet the combination of corporate debt service, research and development and capital investment requirements; the ability to accurately estimate demand and match manufacturing production capacity accordingly or obtain supplies from third-party producers; the access to production capacity from third-party outsourcing partners; any events that might affect third-party business partners or NXP's relationship with them; the ability to secure adequate and timely supply of equipment and materials from suppliers; the ability to avoid operational problems and product defects and, if such issues were to arise, to correct them quickly; the ability to form strategic partnerships and joint ventures and to successfully cooperate with alliance partners; the ability to win competitive bid selection processes to develop products for use in customers' equipment and products; the ability to achieve targeted efficiencies and cost savings; the ability to successfully hire and retain key management and senior product architects; and, the ability to maintain good relationships with our suppliers. In addition, this document contains information concerning the semiconductor industry and NXP's business generally, which is forward-looking in nature and is based on a variety of assumptions regarding the ways in which the semiconductor industry, NXP's markets and product areas may develop. NXP has based these assumptions on information currently available, if any one or more of these assumptions turn out to be incorrect, actual results may differ from those predicted. While NXP does not know what impact any such differences may have on its business, if there are such differences, its future results of operations and its financial condition could be materially adversely affected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak to results only as of the date the statements were made. Except for any ongoing obligation to disclose material information as required by the United States federal securities laws, NXP does not have any intention or obligation to publicly update or revise any forward-looking statements after we distribute this document, whether to reflect any future events or circumstances or otherwise. For a discussion of potential risks and uncertainties, please refer to the risk factors listed in our SEC filings. Copies of our SEC filings are available on our Investor Relations website, www.nxp.com/investor or from the SEC website, www.sec.gov

Use of fair value measurements

In presenting the NXP Group's financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that we consider to be reliable. Users are cautioned that these values are subject to changes over time and are only valid as of the balance sheet date. When a readily determinable market value does not exist, we estimate fair values using valuation models which we believe are appropriate for their purpose. These require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. In certain cases independent valuations are obtained to support management's determination of fair values.

Use of non-U.S. GAAP information

In presenting and discussing NXP's financial position, operating results and cash flows, management uses certain non-U.S. GAAP financial measures. These non-U.S. GAAP financial measures should not be viewed in isolation as alternatives to the equivalent U.S. GAAP measure(s) and should be used in conjunction with the most directly comparable U.S. GAAP measure(s).

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Management’s Discussion and Analysis of Financial Condition and Results of Operations

This interim Management’s Discussion and Analysis should be read in conjunction with the MD&A in our Annual Report on Form 20 F for the year ended December 31, 2018. The various sections of this MD&A contain a number of forward-looking statements that involve a number of risks and uncertainties, including any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, uncertain events or assumptions, and other characterizations of future events or circumstances. Such statements are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing and particularly in “Risk Factors” in Part I, Item 3D of our Annual Report on Form 20-F, and as may be updated in our subsequent Quarterly Reports on Form 6-K. Our actual results may differ materially, and these forward-looking statements do not reflect the potential impact of any divestitures, mergers, acquisitions, or other business combinations that had not been completed as of April 30, 2019.

Introduction

The Company

NXP Semiconductors N.V. (including our subsidiaries, referred to collectively herein as “NXP”, “NXP Semiconductors” and the “Company”) is a global semiconductor company incorporated in the Netherlands as a Dutch public company with limited liability (naamloze vennootschap). NXP provides secure connectivity solutions for embedded applications, driving innovation in the secure connected vehicle, end-to-end security, and the smart connected solutions markets. Our products leverage our deep application and technology insight, with particular expertise in embedded digital processing, precision analog-mixed signal design, radio frequency, power management, high-speed interface, and end-to-end security. Our hardware and software product solutions are adapted by market leaders in the end-markets of automotive, industrial and IoT, mobile and communications infrastructure.

Our corporate seat is in Eindhoven, the Netherlands. Our principal executive office is at High Tech Campus 60, 5656 AG Eindhoven, the Netherlands, and our telephone number is +31 40 2729999. Our registered agent in the United States is NXP USA, Inc., 6501 William Cannon Dr. West, Austin, Texas 78735, United States of America, phone number +1 512 895 2000.

Results of Operations

The following table presents the composition of operating income (loss):

($ in millions, unless otherwise stated)	Q1 2019	Q1 2018
Revenue	2,094	2,269
% nominal growth	(7.7)	2.6
Gross profit	1,072	1,172
Research and development	(415)	(426)
Selling, general and administrative	(248)	(248)
Amortization of acquisition-related intangible assets	(357)	(360)
Other income (expense)	2	-
Operating income (loss)	54	138

Q1 2019 compared to Q1 2018

In the quarter ended March 31, 2019, revenue declined by $175 million as compared to the quarter ended April 1, 2018. Included in the latter is $38 million of revenue related to divested businesses or activities. As of January 1, 2019, income and expenses derived from manufacturing service arrangements (“MSA”) and transitional service arrangements (“TSA”) that are put into place when we divest a business or activity, are included in other income (expense). Gross profit decreased in the first quarter of 2019 as compared to the first quarter of 2018 primarily as a result of the decline in sales. Operating expenses in the first quarter of 2019 decreased slightly as compared to the first quarter of 2018 as a result of decreased research and development costs. Other income (expense) in the first quarter of 2019 includes the net result of income and expenses derived from divested businesses or activities as discussed above.

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The table below depicts the Purchase Price Accounting ("PPA") effects (reflecting the amortization related to the fair value adjustments resulting from the acquisition of Freescale in addition to the formation of NXP) for each of the three month periods ended March 31, 2019 and April 1, 2018, respectively, per line item in the statement of operations:

($ in millions, unless otherwise stated)	Q1 2019	Q1 2018
Gross profit	(17)	(19)
Selling, general and administrative	(1)	(3)
Amortization of acquisition-related intangible assets	(357)	(360)
Operating income (loss)	(375)	(382)

Prior to January 1, 2019, HPMS was our sole reportable segment. Corporate and Other represented the remaining portion to reconcile to the Consolidated Financial Statements. Effective January 1, 2019, NXP removed the reference to HPMS in its organizational structure in acknowledgement of the one reportable segment representing the entity as a whole.

Revenue

The following table presents revenue and revenue growth for each of the three month periods ended March 31, 2019 and April 1, 2018, respectively:

($ in millions, unless otherwise stated)	Q1 2019		Q1 2018
	Revenue	Growth %	Revenue
Revenue	2,094	(7.7)	2,269

Q1 2019 compared to Q1 2018

Revenue decreased $175 million to $2,094 million in the first quarter of 2019 compared to $2,269 million in the first quarter of 2018, a year-on-year decrease of 7.7%. Included in the first quarter of 2018 is the revenue related to divested businesses or activities, $38 million. The decline is mainly related to lower sales to distributors due to lower end-customer demand, in particular in the Greater China region.

Gross Profit

The following table presents gross profit for each of the three month periods ended March 31, 2019 and April 1, 2018, respectively:

($ in millions, unless otherwise stated)	Q1 2019		Q1 2018	
	Gross profit	% of revenue	Gross profit	% of revenue
Gross Profit	1,072	51.2	1,172	51.7

Q1 2019 compared to Q1 2018

Gross profit in the first quarter of 2019 was $1,072 million, or 51.2% of revenue compared to $1,172 million, or 51.7% of revenue in the first quarter of 2018, a decrease of $100 million. The decrease was primarily driven by lower revenue resulting from lower demand.

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Operating expenses

The following table presents operating expenses for each of the three month periods ended March 31, 2019 and April 1, 2018:

($ in millions, unless otherwise stated)	Q1 2019		Q1 2018	
	Operating expenses	% of revenue	Operating expenses	% of revenue
Operating expenses	1,020	48.7	1,034	45.6

The following table below presents the composition of operating expenses by line item in the statement of operations:

($ in millions, unless otherwise stated)	Q1 2019	Q1 2018
Research and development	415	426
Selling, general and administrative	248	248
Amortization of acquisition-related intangible assets	357	360
Operating expenses	1,020	1,034

Q1 2019 compared to Q1 2018

Operating expenses decreased $14 million to $1,020 million in the first quarter of 2019, compared to $1,034 million in the first quarter of 2018. The decrease in operating expenses is mainly the result of ongoing cost control, resulting in lower expenditures in materials and personnel-related cost, specifically in research and development.

Operating income (loss)

The following table presents operating income (loss) for each of the three month periods ended March 31, 2019 and April 1, 2018:

($ in millions, unless otherwise stated)	Q1 2019	Q1 2018
	Operating	Operating

	income (loss)	% of revenue	income (loss)	% of revenue
Operating income (loss)	54	2.6	138	6.1

Q1 2019 compared to Q1 2018

Operating income (loss) decreased $84 million to $54 million in the first quarter of 2019, compared to $138 million in the first quarter of 2018. The decrease is the result of the items discussed above.

Financial income (expense)

The following table presents the details of financial income and expenses:

($ in millions, unless otherwise stated)	Q1 2019	Q1 2018
Interest income	13	13
Interest expense	(87)	(75)
Total interest expense, net	(74)	(62)
Foreign exchange rate results	(6)	(5)
Miscellaneous financing costs/income and other, net	(3)	(1)
Total other financial income (expense)	(9)	(6)
Total	(83)	(68)

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Q1 2019 compared to Q1 2018

Financial income (expense) was an expense of $83 million in the first quarter of 2019, compared to an expense of $68 million in the first quarter of 2018. As a result of entering into $2,000 million of debt in the fourth quarter of 2018, interest expense increased.

Benefit (provision) for income taxes

Q1 2019 compared to Q1 2018

Our effective tax rate reflects the impact of tax incentives, non-deductible expenses, change in valuation allowance, a portion of our earnings being taxed in foreign jurisdictions at rates different than the Netherlands statutory tax rate, and the mix of income and losses in various jurisdictions. Our effective tax rate for the first quarter of 2019 was a benefit of 31.0% on a pre-tax loss compared with an expense of 2.9% on a pre-tax profit for the first quarter of 2018. The movement in our effective tax rate reflects mainly the increase in the change in valuation allowance and non-deductible expenses which is partly offset by higher tax incentive benefits in the first three months of 2019 compared to the first three months of 2018.

Net income (loss)

The following table presents the composition of net income for the periods reported:

($ in millions, unless otherwise stated)	Q1 2019	Q1 2018
Operating income (loss)	54	138
Financial income (expense)	(83)	(68)
Benefit (provision) for income taxes	9	(2)
Result equity-accounted investees	4	2
Net income (loss)	(16)	70

Non-controlling interests

Q1 2019 compared to Q1 2018

Non-controlling interests are related to the third party share in the results of consolidated companies, predominantly SSMC. Their share of non-controlling interests amounted to a profit of $5 million in the first quarter of 2019, compared to $12 million in the first quarter of 2018.

Employees

As of March 31, 2019 we had 29,200 full-time equivalent employees (as of December 31, 2018: 30,000 full-time equivalent employees). The following table indicates the percentage of full-time equivalent employees per geographic area:

% as of	March 31, 2019	December 31, 2018
Europe and Africa	20	20
Americas	19	20
Greater China	25	25
Asia Pacific	36	35
Total	100	100

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Liquidity and Capital Resources

We derive our liquidity and capital resources primarily from our cash flows from operations. We continue to generate strong positive operating cash flows. At the end of the first quarter of 2019, our cash balance was $2,192 million, a decrease of $597 million compared to December 31, 2018. Taking into account the available amount of the Secured Revolving Credit Facility of $600 million, we had access to $2,792 million of liquidity as of March 31, 2019.

We currently use cash to fund operations, meet working capital requirements, for capital expenditures and for potential common stock repurchases, dividends and strategic investments. Based on past performance and current expectations, we believe that our current available sources of funds (including cash and cash equivalents, RCF Agreement, plus anticipated cash generated from operations) will be adequate to finance our operations, working capital requirements, capital expenditures and potential dividends for at least the next year. Our capital expenditures were $144 million in the first three months of 2019, compared to $156 million in the first three months of 2018. During the three month period ended March 31, 2019, we repurchased $715 million, or 8.5 million shares of our common stock pursuant to our share buyback program at a weighted average price of $84.31 per share.

Our total debt amounted to $7,340 million as of March 31, 2019, a decrease of $14 million compared to December 31, 2018 ($7,354 million).

At March 31, 2019 our cash balance was $2,192 million of which $136 million was held by SSMC, our consolidated joint venture company with TSMC. Under the terms of our joint venture agreement with TSMC, a portion of this cash can be distributed by way of a dividend to us, but 38.8% of the dividend will be paid to our joint venture partner.

Cash flows

Our cash and cash equivalents during the first three months of 2019 decreased by $596 million (excluding the effect of changes in exchange rates on our cash position of $1 million) as follows:

($ in millions, unless otherwise stated)	Q1 2019	Q1 2018
Net cash provided by (used for) operating activities	296	620
Net cash provided by (used for) investing activities	(136)	(174)
Net cash provided by (used for) financing activities	(756)	(10)
Net cash increase (decrease) in cash and cash equivalents	(596)	436

During the three months ended March 31, 2019, cash generated by operating activities of $296 million was primarily the result of $16 million of net loss, non-cash adjustments to net income of $535 million and a decrease in the net change in operating assets and liabilities of $234 million. Cash used in investing activities of $136 million during the three months ended March 31, 2019, consisted of cash used to acquire property, plant and equipment of $144 million, cash used to acquire intangible assets of $28 million, offset by cash provided by the sale of our remaining equity interest in WeEn, net of tax for $37 million. Cash used in financing activities of $756 million during the three months ended March 31, 2019, consisted of dividends paid to shareholders of $73 million, cash used to repurchase common stock of $715 million, offset by proceeds from the exercise of stock options of $32 million.

During the three months ended April 1, 2018, cash generated by operating activities of $620 million was primarily the result of $70 million of net income, non-cash adjustments to net income of $529 million and an increase in the net change in operating assets and liabilities of $19 million. Cash used in investing activities of $174 million during the three months ended April 1, 2018 consisted of cash used to acquire property, plant and equipment of $156 million and cash used to acquire intangible assets of $18 million. Cash used in financing activities of $10 million during the three months ended April 1, 2018 consisted of cash used to repurchase common stock of $30 million, offset by proceeds from the exercise of stock options of $20 million.

YTD 2019 Financing Activities

There were no financing activities attributable to the first quarter of 2019.

YTD 2018 Financing Activities

There were no financing activities attributable to the first quarter of 2018.

Contractual Obligations

During the first three months of 2019, our contractual obligations decreased by $1 million resulting from normal business operations.

Off-balance Sheet Arrangements

At the end of the first quarter of 2019, we had no off-balance sheet arrangements other than commitments resulting from normal business operations.

Condensed consolidated statements of operations of NXP Semiconductors N.V. (unaudited)

($ in millions, unless otherwise stated)

	For the three months ended	
	March 31, 2019	April 1, 2018
Revenue	2,094	2,269
Cost of revenue	(1,022)	(1,097)
Gross profit	1,072	1,172
Research and development	(415)	(426)
Selling, general and administrative	(248)	(248)
Amortization of acquisition-related intangible assets	(357)	(360)
Other income (expense)	2	-
Operating income (loss)	54	138
Financial income (expense):		
Other financial income (expense)	(83)	(68)
Income (loss) before income taxes	(29)	70
Benefit (provision) for income taxes	9	(2)
Results relating to equity-accounted investees	4	2
Net income (loss)	(16)	70
Less: Net income (loss) attributable to non-controlling interests	5	12
Net income (loss) attributable to stockholders	(21)	58
Earnings per share data:		
Net income (loss) per common share attributable to Stockholders in $		
- Basic	(0.07)	0.17
- Diluted	(0.07)	0.17
Weighted average number of shares of common stock outstanding during the period (in thousands):		
- Basic	287,227	343,661
- Diluted	287,227	346,899

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements

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Condensed consolidated statements of comprehensive income of NXP Semiconductors N.V. (unaudited)

($ in millions, unless otherwise stated)

	For the three months ended	
	March 31, 2019	April 1, 2018
Net income (loss)	(16)	70
Other comprehensive income (loss), net of tax:		
Change in fair value cash flow hedges	-	4
Change in foreign currency translation adjustment	(12)	30
Change in net actuarial gain (loss)	(2)	(2)
Change in unrealized gains/losses available-for-sale securities	-	3
Total other comprehensive income (loss)	(14)	35
Total comprehensive income (loss)	(30)	105
Less: Comprehensive income (loss) attributable to non-controlling interests	5	12
Total comprehensive income (loss) attributable to stockholders	(35)	93

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements

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Condensed consolidated balance sheets of NXP Semiconductors N.V. (unaudited)

($ in millions, unless otherwise stated)

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	2,192	2,789
Accounts receivable, net	800	792
Inventories, net	1,241	1,279
Other current assets	387	365
Total current assets	4,620	5,225
Non-current assets:		
Other non-current assets	699	545
Property, plant and equipment, net of accumulated depreciation of $3,407 and $3,299	2,407	2,436
Identified intangible assets, net of accumulated amortization of $5,089 and $4,716	4,094	4,467
Goodwill	8,852	8,857
Total non-current assets	16,052	16,305
Total assets	20,672	21,530
Liabilities and equity		
Current liabilities:		
Accounts payable	815	999
Restructuring liabilities-current	66	60
Other current liabilities	1,264	1,219
Short-term debt	1,117	1,107
Total current liabilities	3,262	3,385
Non-current liabilities:		
Long-term debt	6,223	6,247
Restructuring liabilities	4	5
Deferred tax liabilities	390	450
Other non-current liabilities	862	753
Total non-current liabilities	7,479	7,455
Equity:		
Non-controlling interests	190	185
Stockholders' equity:		
Preferred stock, par value €0.20 per share:		
- Authorized: 645,754,500 shares (2018: 645,754,500 shares)		
- Issued: none		
Common stock, par value €0.20 per share:		
- Authorized: 430,503,000 shares (2018: 430,503,000 shares)		
- Issued and fully paid: 328,702,719 shares (2018: 328,702,719 shares)	67	67
Capital in excess of par value	15,547	15,460

Treasury shares, at cost:		
- 43,527,815 shares (2018: 35,913,021 shares)	(3,870)	(3,238)
Accumulated other comprehensive income (loss)	109	123
Accumulated deficit	(2,112)	(1,907)
Total Stockholders' equity	9,741	10,505
Total equity	9,931	10,690
Total liabilities and equity	20,672	21,530

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements

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Condensed consolidated statements of cash flows of NXP Semiconductors N.V. (unaudited)

($ in millions, unless otherwise stated)

	For the three months ended	
	March 31, 2019	April 1, 2018
Cash flows from operating activities:		
Net income (loss)	(16)	70
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	502	491
Share-based compensation	86	69
Amortization of discount on debt	11	10
Amortization of debt issuance costs	3	3
Results relating to equity-accounted investees	(4)	(2)
Deferred tax expense (benefit)	(63)	(42)
Changes in operating assets and liabilities:		
(Increase) decrease in receivables and other current assets	(42)	81
(Increase) decrease in inventories	38	(36)
Increase (decrease) in accounts payable and other liabilities	(250)	(26)
Decrease (increase) in other non-current assets	20	-
Exchange differences	6	5
Other items	5	(3)
Net cash provided by (used for) operating activities	296	620
Cash flows from investing activities:		
Purchase of identified intangible assets	(28)	(18)
Capital expenditures on property, plant and equipment	(144)	(156)
Proceeds from sale of interests in businesses	37	-
Purchase of available-for-sale securities	(2)	-
Proceeds from the sale of securities	1	-
Net cash provided by (used for) investing activities	(136)	(174)
Cash flows from financing activities:		
Dividends paid to common stockholders	(73)	-
Proceeds from issuance of common stock through stock plans	32	20
Purchase of treasury shares and restricted stock unit withholdings	(715)	(30)
Net cash provided by (used for) financing activities	(756)	(10)
Effect of changes in exchange rates on cash positions	(1)	-
Increase (decrease) in cash and cash equivalents	(597)	436
Cash and cash equivalents at beginning of period	2,789	3,547
Cash and cash equivalents at end of period	2,192	3,983

	For the three months ended	
	March 31, 2019	April 1, 2018
Supplemental disclosures to the condensed consolidated cash flows		
Net cash paid during the period for:		
Interest	25	21
Income taxes	209	44
Non-cash adjustment related to the adoption of ASC 606:		
Receivables and other current assets	-	(36)
Inventories	-	22

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements

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Condensed consolidated statements of changes in equity of NXP Semiconductors N.V. (unaudited)

($ in millions, unless otherwise stated)

	Outstanding number of shares (in thousands)	Common stock	Capital in excess of par value	Treasury shares at cost	Accumulated other comprehensive income (loss)	Accumulated deficit	Total Stock-holders' equity	Non-controlling interests	Total equity
Balance as of December 31, 2018	292,790	67	15,460	(3,238)	123	(1,907)	10,505	185	10,690
Net income (loss)						(21)	(21)	5	(16)
Other comprehensive income					(14)		(14)		(14)
Share-based compensation plans			87				87		87
Shares issued pursuant to stock awards	867			83		(51)	32		32
Treasury shares and restricted stock unit withholdings	(8,482)			(715)			(715)		(715)
Shareholder tax on repurchased shares						(62)	(62)		(62)
Dividends common stock ($0.25 per share)						(71)	(71)		(71)
Balance as of March 31, 2019	285,175	67	15,547	(3,870)	109	(2,112)	9,741	190	9,931

	Outstanding number of shares (in thousands)	Common stock	Capital in excess of par value	Treasury shares at cost	Accumulated other comprehensive income (loss)	Accumulated deficit	Total Stock-holders' equity	Non-controlling interests	Total equity
Balance as of December 31, 2017	342,924	71	15,960	(342)	177	(2,339)	13,527	189	13,716

Net income (loss)						58	58	12	70
Other comprehensive income					32		32		32
Share-based compensation plans			68				68		68
Shares issued pursuant to stock awards	1,320			139		(119)	20		20
Treasury shares and restricted stock unit withholdings	(251)			(30)			(30)		(30)
Cumulative effect adjustments					3	11	14		14
Balance as of April 1, 2018	343,993	71	16,028	(233)	212	(2,389)	13,689	201	13,890

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements

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NXP SEMICONDUCTORS N.V.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

All amounts in millions of $ unless otherwise stated

1 Basis of Presentation and Overview

We prepared our interim condensed consolidated financial statements that accompany these notes in conformity with U.S. generally accepted accounting principles, consistent in all material respects with those applied in our Annual Report on Form 20 F for the year ended December 31, 2018.

We have made estimates and judgments affecting the amounts reported in our consolidated condensed financial statements and the accompanying notes. The actual results that we experience may differ materially from our estimates. The interim financial information is unaudited, but reflects all normal adjustments that are, in our opinion, necessary to provide a fair statement of results for the interim periods presented. This interim information should be read in conjunction with the consolidated financial statements in our Annual Report on Form 20-F for the year ended December 31, 2018.

Prior to January 1, 2019, HPMS was our sole reportable segment. Corporate and Other represented the remaining portion to reconcile to the Consolidated Financial Statements. Effective January 1, 2019, NXP removed the reference to HPMS in its organizational structure in acknowledgement of the one reportable segment representing the entity as a whole.

2 Significant Accounting Policies and Recent Accounting Pronouncements

Significant Accounting Policies

Except for the changes below, no material changes have been made to the Company's significant accounting policies disclosed in Note 2 Significant Accounting Policies in our Annual Report on Form 20-F for the year ended December 31, 2018. The accounting policy information below is to aid in the understanding of the financial information disclosed.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), followed in July 2018 by ASU 2018-10, Codification Improvements to Topic 842 Leases, and ASU 2018-11, Leases (Topic 842): Targeted Improvements. Under the new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. As a result of this adoption and the required disclosures, the Company revised its accounting policy for leases as stated below.

The new standard became effective for us on January 1, 2019. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. See also Note 9, Leases.

Leases

As of January 1, 2019, our impact resulting from operating leases is as follows:

× We have recognized right-of-use (ROU) assets (within other non-current assets) and lease liabilities of $188 million.
× The short-term portion of the lease liabilities of $53 million is classified in the consolidated balance sheet in other current liabilities.
× The long-term portion of the lease liabilities of $135 million is classified in the consolidated balance sheet in other non-current liabilities.

We elected to adopt the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs, along with the practical expedient to use hindsight when determining the lease term.

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We determine if an arrangement is a lease at inception of the arrangement. Once it is determined that an arrangement is, or contains, a lease, that determination should only be reassessed if the legal arrangement is modified. Changes to assumptions such as market-based factors do not trigger a reassessment. Determining whether a contract contains a lease requires judgement. In general, arrangements are considered to be a lease when all of the following apply:

× It conveys the right to control the use of an identified asset for a period of time in exchange for consideration;
× We have substantially all economic benefits from the use of the asset; and
× We can direct the use of the identified asset.

The terms of a lease arrangement determine how a lease is classified and the resulting income statement recognition. When the terms of a lease effectively transfer control of the underlying asset, the lease represents an in substance financed purchase (sale) of an asset and the lease is classified as a finance lease by the lessee and a sales-type lease by the lessor. When a lease does not effectively transfer control of the underlying asset to the lessee, but the lessor obtains a guarantee for the value of the asset from a third party, the lessor would classify a lease as a direct financing lease. All other leases are classified as operating leases.

With the exception of two instances (with a combined value of approximately $30 million), the Company’s lease arrangements were all operating leases.

Lease assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at January 1, 2019 or commencement date, if later, in determining the present value of future payments. The lease ROU asset includes any lease payment made and initial direct costs incurred. Our lease terms may include options to extend or terminate the lease which are included in the measurement of the ROU assets and lease liabilities when it is reasonably certain that we will exercise that option.

For operating leases the lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. For finance leases each lease payment is allocated between the liability and finance cost. The finance cost is charged to the Consolidated statement of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The finance lease asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

We have lease agreements with lease and non-lease components. Except for gas and chemical contracts, NXP did not make the election to treat the lease and non-lease components as a single component, and considers the non-lease components as a separate unit of account.

Accounting standards adopted in 2019

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new standard requires lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Existing sale-leaseback guidance, including guidance for real estate, is replaced with a new model applicable to both lessees and lessors. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842 Leases, and ASU 2018-11, Leases (Topic 842): Targeted Improvements. ASU 2018-11 clarifies narrow aspects of Topic 842. ASU 2018-11 provides entities with an additional transition method to adopt the new leases standard. Under the new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In March 2019, the FASB issued ASU 2019-01 Leases (Topic 842): Codification Improvements, which clarified transition disclosures. The new leases standard became effective for us on January 1, 2019, and the Company applied the new transition method in ASU 2018-11. The most significant impact of adopting ASC 842 was related to recording lease asset and related liabilities on our balance sheet, which did not have a material impact on our financial position or results of operations.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvement to Accounting for Hedging Activities. ASU 2017-12 simplifies certain aspects of hedge accounting and improves disclosures of hedging arrangements through the elimination of the requirement to separately measure and report hedge ineffectiveness. The ASU generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. Entities must apply the amendments to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach. The presentation and disclosure requirements must be applied prospectively. ASU 2017-12 became effective for us on January 1, 2019. The adoption of this guidance did not have a material impact on our financial position or results of operations.

Recently issued accounting standards

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Instead, the one step quantitative impairment test calculates goodwill impairment as the excess of the carrying value of a reporting unit over its fair value, up to the carrying value of the goodwill. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. The ASU should be applied on a prospective basis. The Company does not expect the adoption of this guidance to have a material impact on our financial position or results of operations.

In August 2018, the FASB issued ASU 2018-13, Fair Value measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 removes certain disclosure requirements, including the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. ASU 2018-13 also adds disclosure requirements, including changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements, and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2019, with early adoption permitted. The amendments on changes in unrealized gains and losses, and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The Company does not expect the adoption of this guidance to have a material impact on our financial statement disclosures.

In August 2018, the FASB issued ASU 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans. ASU 2018-14 removes disclosures that no longer are considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. ASU 2018-14 should be applied on a retrospective basis to all periods presented and is effective for annual reporting periods beginning after December 15, 2020, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on our financial statement disclosures.

In August 2018, the FASB issued ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. ASU 2018-15 requires a customer in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. Therefore, a customer in a hosting arrangement that is a service contract determines which project stage an implementation activity relates to. Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and post-implementation stages are expensed as the activities are performed. ASU 2018-15 also requires the customer to expense the capitalized implementation costs over the term of the hosting arrangement, and to apply the existing impairment guidance in Subtopic 350-40 to the capitalized implementation costs as if the costs were long-lived assets. ASU 2018-15 can be applied either retrospectively or prospectively and is effective for annual reporting periods beginning after December 15, 2019, and interim periods therein, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on our financial position or results of operations.

3 Acquisitions and Divestments

There were no material acquisitions during the first three months of 2019. On March 27, 2019, we sold our remaining equity interest in WeEn, receiving net cash proceeds of $37 million.

There were no material acquisitions during the first three months of 2018.

In June 2018, NXP completed the sale of 24% of its equity interest in WeEn to Tianjin Ruixin Semiconductor Industry Investment Centre LLP, receiving $32 million in cash proceeds. At December 31, 2018, due to the intended sale of the remaining interest in WeEn, NXP transferred the remaining holding to other current assets.

4 Supplemental Financial Information

Statement of Operations Information:

Disaggregation of revenue

The following table presents revenue disaggregated by sales channel:

	For the three months ended March 31, 2019	April 1, 2018
Distributors	962	1,135
Original Equipment Manufacturers and Electronic Manufacturing Services	1,114	1,031
Other [1)]	18	103
Total	2,094	2,269

1) Represents revenue for other services as of January 1, 2019 and represents revenue classified in Corporate and Other for prior periods.

Depreciation, amortization and impairment

	For the three months ended March 31, 2019	April 1, 2018
Depreciation of property, plant and equipment	124	116
Amortization of internal use software	2	2
Amortization of other identified intangible assets	376	373
Total	502	491

Other income (expense)

As of January 1, 2019, income derived from manufacturing service arrangements (“MSA”) and transitional service arrangements (“TSA”) that are put in place when we divest a business or activity, is included in other income (expense). These arrangements are short-term in nature and are expected to decrease as the divested business or activity becomes more established.

The following table presents the split of other income (expense):

	For the three months ended March 31, 2019
Income from MSA and TSA arrangements	26
Expenses from MSA and TSA arrangements	(24)
Result from MSA and TSA arrangements	2
Other, net	-
Total	2

Financial income and expense

	For the three months ended March 31, 2019	April 1, 2018
Interest income	13	13
Interest expense	(87)	(75)
Total interest expense, net	(74)	(62)
Foreign exchange rate results	(6)	(5)
Miscellaneous financing costs/income and other, net	(3)	(1)
Total other financial income (expense)	(9)	(6)
Total	(83)	(68)

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Earnings per share

The computation of earnings per share (EPS) is presented in the following table:

	For the three months ended March 31, 2019	April 1, 2018
Net income (loss)	(16)	70
Less: net income (loss) attributable to non-controlling interests	5	12
Net income (loss) attributable to stockholders	(21)	58
Weighted average number of shares outstanding (after deduction of treasury shares) during the year (in thousands)	287,227	343,661
Plus incremental shares from assumed conversion of:		
Options [1)]	-	1,586
Restricted Share Units, Performance Share Units and Equity Rights [2)]	-	1,652
Warrants [3)]	-	-
Dilutive potential common share	-	3,238
Adjusted weighted average number of share outstanding (after deduction of treasury shares) during the year (in thousands)	287,227	346,899
EPS attributable to stockholders in $:		
Basic net income (loss)	(0.07)	0.17
Diluted net income (loss)	(0.07)	0.17

1) Stock options to purchase up to 1.8 million shares of NXP's common stock that were outstanding in Q1 2019 (Q1 2018: immaterial) were anti-dilutive and were not included in the computation of diluted EPS because the exercise price was greater than the average fair market value of the common stock or the number of shares assumed to be repurchased using the proceeds of unrecognized compensation expense and exercise prices was greater than the weighted average number of shares underlying outstanding stock options.

2) Unvested RSU's, PSU's and equity rights of 7.8 million shares that were outstanding in Q1 2019 (Q1 2018: 0.3 million shares) were anti-dilutive and were not included in the computation of diluted EPS because the number of shares assumed to be repurchased using the proceeds of unrecognized compensation expense was greater than the weighted average number of outstanding unvested RSU's, PSU's and equity rights or the performance goal has not been met yet.

3) Warrants to purchase up to 11.3 million shares of NXP's common stock at a price of $132.19 per share were outstanding in Q1 2019 (Q1 2018: 11.2 million shares at a price of $133.32). Upon exercise, the warrants will be net share settled. At the end of both Q1 2019 and Q1 2018, the warrants were not included in the computation of diluted EPS because the warrants exercise price was greater than the average fair market value of the common shares.

Balance Sheet Information

Cash and cash equivalents

At March 31, 2019 and December 31, 2018, our cash balance was $2,192 million and $2,789 million, respectively, of which $136 million and $140 million was held by SSMC, our consolidated joint venture company with TSMC. Under the terms of our joint venture agreement with TSMC, a portion of this cash can be distributed by way of a dividend to us, but 38.8% of the dividend will be paid to our joint venture partner.

Inventories

Inventories are summarized as follows:

The portion of finished goods stored at customer locations under consignment amounted to $51 million as of March 31, 2019 (December 31, 2018: $52 million).

	March 31, 2019	December 31, 2018
Raw materials	62	74
Work in process	958	949
Finished goods	221	256
	1,241	1,279

The amounts recorded above are net of allowance for obsolescence of $119 million as of March 31, 2019 (December 31, 2018: $111 million).

Accumulated other comprehensive income (loss)

Total comprehensive income (loss) represents net income (loss) plus the results of certain equity changes not reflected in the Consolidated Statements of Operations. The after-tax components of accumulated other comprehensive income (loss) and their corresponding changes are shown below:

	Currency translation differences	Change in fair value cash flow hedges	Net actuarial gain/(losses)	Accumulated Other Comprehensive Income (loss)
As of December 31, 2018	218	(3)	(92)	123
Other comprehensive income (loss) before reclassifications	(12)	(3)	(2)	(17)
Amounts reclassified out of accumulated other comprehensive income (loss)	-	3	-	3
Tax effects	-	-	-	-
Other comprehensive income (loss)	(12)	-	(2)	(14)
As of March 31, 2019	206	(3)	(94)	109

Cash dividends

The following dividend was declared in 2019 under NXP's quarterly dividend program which was introduced as of the third quarter of 2018:

	Fiscal year 2019	
	Dividend per share	Amount
First quarter	0.25	71

The dividend declared is classified in the consolidated balance sheet in other current liabilities as of March 31, 2019 and subsequently paid on April 5, 2019.

Shareholder tax on repurchased shares

Under Dutch tax law, the repurchase of a company's shares by an entity domiciled in the Netherlands results is a taxable event. The tax on the repurchased shares is attributed to the shareholders, with NXP making the payment on the shareholders' behalf. As such, the tax on the repurchased shares is accounted for within stockholders' equity. At March 31, 2019, within other current liabilities in our consolidated balance sheet, an accrual of $285 million remained for this tax.

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5 Restructuring

At each reporting date, we evaluate our restructuring liabilities, which consist primarily of termination benefits, to ensure that our accruals are still appropriate.

The following table presents the changes in restructuring liabilities in 2019:

	Balance January 1, 2019	Additions	Utilized	Released	Other changes	Balance March 31, 2019
Restructuring liabilities	65	20	(15)	-	-	70

The total restructuring liability as of March 31, 2019 of $70 million is classified in the consolidated balance sheet in other current liabilities ($66 million) and other non-current liabilities ($4 million).

The components of restructuring charges recorded in the liabilities for each of the three month periods ended March 31, 2019 and April 1, 2018 are as follows:

	For the three months ended March 31, 2019	April 1, 2018
Personnel lay-off costs	25	-
Other exit costs	-	1
Net restructuring charges	25	1

These restructuring charges recorded in operating income, for the periods indicated, are included in the following line items in the statement of operations:

	For the three months ended March 31, 2019	April 1, 2018
Cost of revenue	4	-
Selling, general and administrative	10	1
Research and development	11	-
Net restructuring charges	25	1

6 Income Taxes

Benefit/provision for income taxes:

	For the three months ended March 31, 2019	April 1, 2018
Tax expense (benefit)	(9)	2
Effective tax rate	31.0%	2.9 %

Our effective tax rate reflects the impact of tax incentives, non-deductible expenses, change in valuation allowance, a portion of our earnings being taxed in foreign jurisdictions at rates different than the Netherlands statutory tax rate, and the mix of income and losses in various jurisdictions. Our effective tax rate for the first quarter of 2019 was a benefit of 31.0% on a pre-tax loss compared with an expense of 2.9% on a pre-tax profit for the first quarter of 2018. The movement in our effective tax rate reflects mainly the increase in the change in valuation allowance and non-deductible expenses which is partly offset by higher tax incentive benefits in the first three months of 2019 compared to the first three months of 2018.

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The Company benefits from income tax incentives in certain jurisdictions which provide that we pay reduced income taxes in those jurisdictions for a fixed period of time that varies depending on the jurisdiction. The predominant income tax holiday is expected to expire at the end of 2026. The impact of this tax holiday decreased foreign taxes by $2 million and $5 million for the first quarters of 2019 and 2018, respectively. The benefit of this tax holiday on net income per share (diluted) was $0.01 for the first quarter of 2019 and $0.01 for the first quarter of 2018.

7 Identified Intangible Assets

Identified intangible assets as of March 31, 2019 and December 31, 2018 respectively were composed of the following:

	March 31, 2019		December 31, 2018	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
IPR&D [1)]	276	-	276	-
Marketing-related	81	(54)	81	(50)
Customer-related	964	(314)	964	(301)
Technology-based	7,862	(4,721)	7,862	(4,365)
Identified intangible assets	9,183	(5,089)	9,183	(4,716)

1) IPR&D is not subject to amortization until completion or abandonment of the associated research and development effort.

The estimated amortization expense for these identified intangible assets, excluding software, for each of the five succeeding years is:

2019 (remaining)	1,145
2020	1,302
2021	507
2022	417
2023	221

All intangible assets, excluding IPR&D and goodwill, are subject to amortization and have no assumed residual value.

The expected weighted average remaining life of identified intangibles is 4 years as of March 31, 2019 (December 31, 2018: 4 years).

8 Debt

The following table summarizes the outstanding debt as of March 31, 2019 and December 31, 2018:

		March 31, 2019		December 31, 2018	
	Maturities	Amount	Effective rate	Amount	Effective rate
Fixed-rate 4.125% senior unsecured notes	Jun, 2020	600	4.125	600	4.125
Fixed-rate 4.125% senior unsecured notes	Jun, 2021	1,350	4.125	1,350	4.125
Fixed-rate 4.625% senior unsecured notes	Jun, 2022	400	4.625	400	4.625
Fixed-rate 3.875% senior unsecured notes	Sep, 2022	1,000	3.875	1,000	3.875
Fixed-rate 4.625% senior unsecured notes	Jun, 2023	900	4.625	900	4.625
Fixed-rate 4.875% senior unsecured notes	Mar, 2024	1,000	4.875	1,000	4.875
Fixed-rate 5.35% senior unsecured notes	Mar, 2026	500	5.350	500	5.350
Fixed-rate 5.55% senior unsecured notes	Dec. 2028	500	5.550	500	5.550
Fixed-rate 1% cash convertible notes	Dec, 2019	1,150	1.000	1,150	1.000
Floating-rate revolving credit facility	Dec, 2020	-	-	-	-
Total principal		7,400		7,400	
Liabilities arising from capital lease transactions		-		27	
Unamortized discounts, premiums and debt issuance costs		(29)		(31)	
Fair value of embedded cash conversion option		(31)		(42)	
Total debt, including unamortized discounts, premiums, debt issuance costs and fair value adjustments		7,340		7,354	
Current portion of long-term debt		(1,117)		(1,107)	
Long-term debt		6,223		6,247	

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YTD 2019 Financing Activities

There were no financing activities attributable to the first quarter of 2019.

Certain terms and Covenants of the notes

The Company is not required to make mandatory redemption payments or sinking fund payments with respect to the notes.

The indentures governing the notes contain covenants that, among other things, limit the Company's ability and that of restricted subsidiaries to incur additional indebtedness, create liens, pay dividends, redeem capital stock or make certain other restricted payments or investments; enter into agreements that restrict dividends from restricted subsidiaries; sell assets, including capital stock of restricted subsidiaries; engage in transactions with affiliates; and effect a consolidation or merger. The Company has been in compliance with any such indentures and financing covenants as of March 31, 2019.

No portion of long-term and short-term debt as of March 31, 2019 and December 31, 2018 has been secured by collateral.

9 Leases

Operating and finance lease assets relate to buildings (corporate offices, research and development and manufacturing facilities and datacenters), land, machinery and installations and other equipment (vehicles and certain office equipment). These leases have remaining lease terms of 1 to 30 years, some of which may include options to extend the leases for up to 5 years, and some of which may include options to terminate the leases within 1 year. As of March 31, 2019, assets recorded under finance leases were $29 million and accumulated depreciation associated with finance leases was $3 million.

The components of lease expense were as follows:

	For the three months ended

	March 31, 2019
Operating lease cost	13
Finance lease cost:	
Amortization of right-of-use assets	1
Interest on lease liabilities	-
Total finance lease cost	1

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Other information related to leases was as follows:

($ In millions, unless otherwise stated)	For the three months ended March 31, 2019	
Supplemental cash flows information:		
Operating cash flows from operating leases	13	
Operating cash flows from finance leases	1	
Financing cash flows from finance leases	-	
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases [1)]	188	
Finance leases	-	

1) $188 million recorded on January 1, 2019 in accordance with the adoption of ASC 842.

Weighted average remaining lease term:		
Operating leases	5.8 years	
Finance leases	13.2 years	
Weighted average discount rate:		
Operating leases	3.4	%
Finance leases	4.5	%

Future minimum lease payments as of March 31, 2019 were as follows:

	As of March 31, 2019	
	Operating leases	Finance leases
2019 (remaining)	41	2
2020	49	3
2021	35	3
2022	19	3
2023	16	3

Thereafter	36	22
Total future minimum lease payments	196	36
Less: imputed interest	(20)	(10)
Total	176	26

Lease liabilities related to leases are split between current and non-current:

	As of March 31, 2019	
	Operating leases	Finance leases
Other current liabilities	51	1
Other non-current liabilities	125	25
Total	176	26

Operating lease right-of-use assets are $176 million as of March 31, 2019 and are included in other non-current assets in the consolidated balance sheet.

10 Related-Party Transactions

The Company's related parties are the members of the board of directors of NXP Semiconductors N.V., the members of the management team of NXP Semiconductors N.V. and equity-accounted investees and, up to July 26, 2018, Qualcomm Incorporated. As of the divestment of the SP business on February 7, 2017, the newly formed Nexperia has become a related party.

We have a number of strategic alliances and joint ventures. We have relationships with certain of our alliance partners in the ordinary course of business whereby we enter into various sale and purchase transactions, generally on terms comparable to transactions with third parties. However, in certain instances upon divestment of former businesses where we enter into supply arrangements with the former owned business, sales are conducted at cost.

The following table presents the amounts related to revenue and other income and purchase of goods and services incurred in transactions with these related parties:

	For the three months ended	
	March 31, 2019	April 1, 2018
Revenue and other income	23	34
Purchase of goods and services	19	27

The following table presents the amounts related to receivable and payable balances with these related parties:

	March 31, 2019	December 31, 2018
Receivables	27	25
Payables	34	49

As part of the divestment of the SP business, we entered into a lease commitment and related services to Nexperia, that is $26 million as of March 31, 2019, and committed $50 million to an investment fund affiliated with Nexperia's owners.

11 Fair Value of Financial Assets and Liabilities

The following table summarizes the estimated fair value and carrying amount of our financial instruments measured on a recurring basis:

	Fair value hierarchy	March 31, 2019 Carrying amount	March 31, 2019 Estimated fair value	December 31, 2018 Carrying amount	December 31, 2018 Estimated fair value
Assets:					
Notes hedge	3	45	45	24	24
Other financial assets	2	32	32	32	32
Derivative instruments – assets	2	1	1	6	6
Liabilities:					
Short-term debt	2	-	-	(2)	(2)
Short-term debt (2019 Cash Convertible Senior Notes)	2	(1,117)	(1,173)	(1,105)	(1,327)
Long-term debt (bonds)	2	(6,223)	(6,484)	(6,222)	(6,191)
Other long-term debt	2	-	-	(25)	(25)
Notes Embedded Conversion Derivative	3	(45)	(45)	(24)	(24)
Derivative instruments – liabilities	2	(10)	(10)	(2)	(2)

The following methods and assumptions were used to estimate the fair value of financial instruments:

Other financial assets and derivatives

For other financial assets and derivatives the fair value is based upon significant other observable inputs depending on the nature of the other financial asset and derivative.

Notes hedges and Notes Embedded Conversion Derivative

At March 31, 2019, the Notes hedges and the Notes Embedded Conversion Derivative are measured at fair value using level 3 inputs. The instruments are not actively traded and are valued at the measurement date using an option pricing model that uses observable inputs for the share price of NXP's common stock, risk-free interest rate, dividend yield and the term, in combination with a significant unobservable input for volatility. The volatility factor utilized at March 31, 2019 was 31.8% and at December 31, 2018 the volatility factor utilized was 34.8%. The change in the fair value of the Notes hedges and Notes Embedded Conversion Derivative was solely the gain and loss, respectively for each instrument that was recognized.

Debt

The fair value is estimated on the basis of observable inputs other than quoted market prices in active markets for identical liabilities for certain issues, or on the basis of discounted cash flow analyses. Accrued interest is included under accrued liabilities and not within the carrying amount or estimated fair value of debt.

Assets and liabilities recorded at fair value on a non-recurring basis

We measure and record our non-marketable equity investments (non-marketable securities and cost method investments) and non-financial assets, such as intangible assets and property, plant and equipment, at fair value when an impairment charge is required.

12 Litigation

We are regularly involved as plaintiffs or defendants in claims and litigation relating to a variety of matters such as contractual disputes, personal injury claims, employee grievances and intellectual property litigation. In addition, our acquisitions, divestments and financial transactions sometimes result in, or are followed by, claims or litigation. Some of these claims may possibly be recovered from insurance reimbursements. Although the ultimate disposition of asserted claims cannot be predicted with certainty, it is our belief that the outcome of any such claims, either individually or on a combined basis, will not have a material adverse effect on our consolidated financial position. However, such outcomes may be material to our Consolidated Statement of Operations for a particular period. The Company records an accrual for any claim that arises whenever it considers that it is probable that it is exposed to a loss contingency and the amount of the loss contingency can be reasonably estimated. Legal fees are expensed when incurred.

Based on the most current information available to it and based on its best estimate, the Company also reevaluates at least on a quarterly basis the claims that have arisen to determine whether any new accruals need to be made or whether any accruals made need to be adjusted. Based on the procedures described above, the Company has an aggregate amount of $139 million accrued for potential and current legal proceedings pending as of March 31, 2019, compared to $123 million accrued (without reduction for any related insurance reimbursements) at December 31, 2018. The accruals are included in “Accrued liabilities” and “Other non-current liabilities”. As of March 31, 2019, the Company’s balance related to insurance reimbursements was $78 million (December 31, 2018: $65 million) and is included in “Other current assets” and “Other non-current assets”.

The Company also estimates the aggregate range of reasonably possible losses in excess of the amount accrued based on currently available information for those cases for which such estimate can be made. The estimated aggregate range requires significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants (including the Company) in such claims whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the claims, and the attendant uncertainty of the various potential outcomes of such claims. Accordingly, the Company's estimate will change from time to time, and actual losses may be more than the current estimate. As at March 31, 2019, the Company believes that for all litigation pending its potential aggregate exposure to loss in excess of the amount accrued (without reduction for any amounts that may possibly be recovered under insurance programs) could range between $0 and $243 million. Based upon our past experience with these matters, the Company would expect to receive insurance reimbursement on certain of these claims that would offset the potential maximum exposure of up to $200 million.

In addition, the Company is currently assisting Motorola in the defense of personal injury lawsuits due to indemnity obligations included in the agreement that separated Freescale from Motorola in 2004. The Company is also defending a suit related to semiconductor operations that occurred prior to NXP's separation from Philips. The multi-plaintiff Motorola lawsuits are pending in Cook County, Illinois, and the legacy NXP suit is pending in Santa Fe, New Mexico. These claims allege a link between working in semiconductor manufacturing clean room facilities and birth defects in 45 individuals. The Motorola suits allege exposures between 1965 and 2006. Each claim seeks an unspecified amount of damages for the alleged injuries; however, legal counsel representing the plaintiffs has indicated they will seek substantial compensatory and punitive damages from Motorola for the entire inventory of claims which, if proven and recovered, the Company considers to be material. In the Motorola suits, a portion of any indemnity due to Motorola will be reimbursed to NXP if Motorola receives an indemnification payment from its insurance coverage. Motorola has potential insurance coverage for many of the years indicated above, but with differing types and levels of coverage, self-insurance retention amounts and deductibles. We are in discussions with Motorola and their insurers regarding the availability of applicable insurance coverage for each of the individual cases. Motorola and NXP have denied liability for these alleged injuries based on numerous defenses.