

Saving More Lives

# '18

Autoliv Annual Report

# '18

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# 2018 in Summary

**10.5%**  
adjusted\* operating margin

**7%**  
sales growth

**40%**  
market share

**\$214 m**  
in direct shareholder return

**\$591 m**  
in operating cash flow\*\*

AMERICAS  
**31%**  
OF '18 SALES

EUROPE  
**32%**  
OF '18 SALES

JAPAN  
**9%**  
OF '18 SALES

CHINA  
**18%**  
OF '18 SALES

REST OF ASIA  
**10%**  
OF '18 SALES

# The World's Largest Automotive Safety Supplier

Autoliv is the worldwide leader in automotive safety, with sales to all major car manufacturers. Our close to **67,000** employees in **27** countries are passionate about our vision of Saving More Lives. We develop products that save over **30,000** lives each year and prevent ten times as many severe injuries. Autoliv's mission is to be the leading supplier of safety systems for the future car, well integrated with autonomous driving. We develop, manufacture and market protective systems,

such as airbags, seatbelts, steering wheels and pedestrian protection systems for the vehicles of today and tomorrow. We continuously challenge ourselves to bring excellence into everything we do, providing safety for road users, consistency and quality for our customers, confidence and security for our employees, and stability and growth for our shareholders as well as being sustainable and earning trust within our communities.

Employees **~67,000** worldwide

Operations in **27** countries

Tech Center Locations **14** worldwide

Crash Test Tracks **19** worldwide

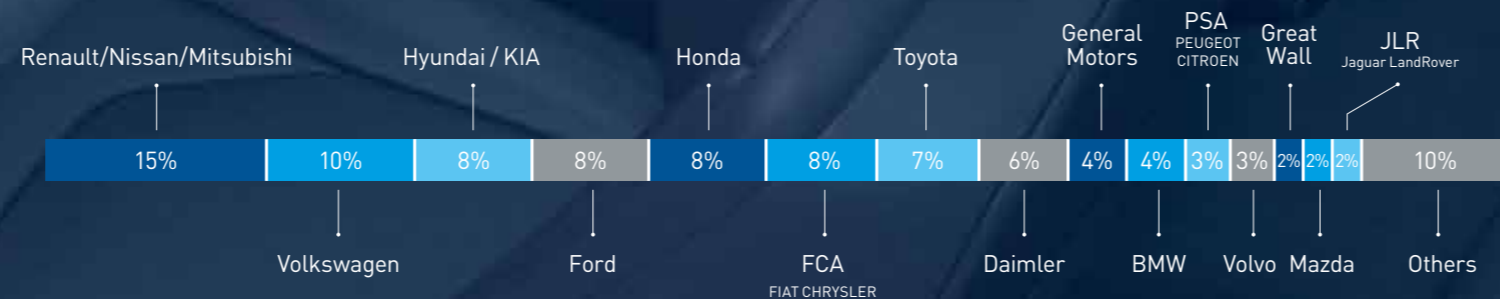
Lives Saved **>30,000** per year

Car Brands **>100** worldwide

Headquarters **Stockholm, Sweden**

Incorporated **Delaware, United States**

Sales 2018



\* Excluding costs for capacity alignments, antitrust related matters and separation of our business segments.  
\*\* Consolidated

# Dear Shareholder

**A**s we reflect on the past year, we look back at a year of change for Autoliv and the automotive industry. We spun off our Electronics business, allowing for a more focused strategy, optimized for our industry and market opportunities. We delivered on past years' strong order intake, resulting in a record-high level of launch activity in North America.

Autoliv continued to outpace the market in 2018, and our market share reached around 40%. We grew organically by close to 5% while light vehicle production declined by about 1%, according to IHS, an outperformance of close to 6 percentage points. We had a solid operating cash flow, and I am pleased that our order intake remained high, supporting our growth opportunities for the long term.

#### FOCUS ON PROFITABLE GROWTH

The spin-off of the Electronics business marked a new beginning for Autoliv. As a more focused business, we have been able to concentrate on what matters most when it comes to securing profitable growth.

Having strengthened our market position in recent years, our efforts are now focused on managing our strong order intake,

with flawless launches and smooth ramp-ups, operational excellence and executing on our innovation pipeline.

In 2018, we were successful in executing launches, delivering on schedule with good precision. However, with a sharp increase in launch activity, by 20% in total and by 50% in North America, this came at the expense of higher launch-related costs. In the second half of 2018, we also experienced significant changes in light vehicle production in Europe and China, resulting in un-even utilization of our production assets and supply chain.

#### FINANCIAL TARGETS

Our sales and earnings capacity is supported by the continued high order intake, and our target of reaching more than \$10 billion in sales and around 13% in adjusted operating margin remain. However, due to the slowdown in global light vehicle sales and production, and increased raw material pricing, we now expect to reach these targets beyond 2020. We target to reach a leverage ratio of about 1.0x over time. Our long-term ambition is to achieve growth in line with light vehicle production plus at least 1%.

#### LEVERAGING OUR TECHNOLOGICAL EXPERTISE

A key success factor for Autoliv is our strong customer focus, from innovation to manufacturing and delivery of our products. Through research conducted in cooperation with customers and leading universities, we are leveraging our combined technological expertise to improve safety for road users.

One recent example is our research collaboration with a customer to provide airbags for scooter riders. The number of two-wheelers has surged, and they are involved in a high percentage of fatal and serious accidents. Governments are increasingly becoming aware of the need to protect this vulnerable group of road users, and we foresee that demand for safety systems for these vehicles will grow. Together with our customers, we can make a positive difference.

Another research collaboration is the new research project Future Occupant Safety for Crashes in Cars (OSCCAR), in which we are partnering with car manufacturers, research organizations and other automotive suppliers to ensure a harmonized approach to designing future safety systems for cars with self-driving capabilities. In this project, we expect to better anticipate future accident scenarios in order to provide optimal safety systems for the highly automated vehicles and safety systems of the future, adapted for people of different sizes and ages.

#### SAFETY CONCEPTS FOR THE FUTURE VEHICLE

The development of vehicles with increasing levels of electrification and autonomy is placing new demands on automotive safety systems. With our strong platform of existing products as well as our technological expertise and close cooperation with customers, we are well positioned to meet these requirements. Our research in steering wheel technology has resulted in improved ease of control and additional driver monitoring systems, including solutions for autonomous driving. We are developing seatbelt systems, integrating mechatronics in order to reduce reaction time, including proactive safety features and improving comfort and customization.

As we improve the effectiveness of existing airbags, we discover advances in engineering that allow designs for the interior and seating positions of autonomous cars to be adapted in order to protect people traveling in the vehicles of today and tomorrow. We will also continue to lead the develop-

ment of safety systems for vulnerable road users, such as pedestrians, cyclists and powered two-wheelers.

#### SUSTAINABLE DEVELOPMENT

Sustainability is at the core of what we do, and we have a global strategy to align our sustainability priorities, ambitions and targets, taking into account stakeholder and business priorities. In 2018 we defined targets for our key priorities. These include a restated target for saving more lives, intended to reflect the impact of the Electronics business, revised targets for health and safety, new targets for the environment and formalized targets for supply chain sustainability. The existing business ethics targets remain unchanged.

#### QUALITY, INNOVATION AND COLLABORATION

The automotive industry is experiencing short and long-term changes that are creating challenges and opportunities for our industry. Ultimately it boils down to one question: How can we best protect road users in a sustainable way? I believe that quality, innovation and collaboration have brought Autoliv to where it is today. Due to our relentless focus on quality, only around 2% of vehicles recalled in our industry since 2010 have been related to Autoliv. And thanks to our focus on innovation and research collaborations, we have brought many industry firsts to the market for over 65 years.

At Autoliv, our motto is, "It Starts with Me" This reflects the ownership we all assume for our way of working and our awareness of the fact that we are all important when it comes to bringing safety to road users. I thank our employees for contributing to our important vision every day. Together, we share a culture that I truly believe provides a strong and robust platform to further develop our company, thereby saving more lives and creating more value for our stakeholders.

With our commitment to safe road journeys,

**Mikael Bratt,**  
President & CEO  
Stockholm February 21, 2019



AUTOLIV PEDESTRIAN  
AIRBAGS & HOOD LIFTERS

## Deploys Within **60** Milliseconds

When pedestrians are involved in traffic accidents, severe or fatal injuries are often the result. Active hood lifters and outside pedestrian protection airbags aim to reduce the severity of pedestrian head injuries.

# At the Forefront of Technology to Save More Lives

Based on our extensive research into real-life accidents, we develop and engineer automotive safety solutions to save more lives and prevent injuries on our roads. The way we innovate solutions is a key differentiator that sets us apart from our competitors.

## PEDESTRIAN AIRBAGS AND HOOD LIFTERS Protect Pedestrians

When pedestrians are involved in traffic accidents, severe or fatal injuries are often the result. Active hood lifters and outside pedestrian protection airbags aim to reduce the severity of pedestrian head injuries in case of a pedestrian-vehicle accident.

## FRONTAL AIRBAGS Save Lives and Reduce Injuries

In frontal crashes, driver airbags reduce driver fatalities by 29%. Combining driver airbag with using seatbelt reduce fatalities in frontal crashes by 61%. Driver airbags also reduce severe injuries in frontal crashes by 32%. Autoliv offers driver, passenger and knee airbags.

## STEERING WHEELS With the Lives of Others in Your Hands

Autoliv is the leading supplier of steering wheels. The steering wheel is a key element for the interaction between driver and vehicle. This is reflected in our innovative HMI- (human machine interface) steering wheel for future cars, which uses touch technology and air gesture controls to keep the driver in full control and demonstrates the seamless transition between manual and automated driving. It enables the driver to control more functions with less distraction, which makes for a safer driving experience.

## SIDE-CURTAIN AIRBAGS Reduce Head Injuries

In near-side crashes, curtain and side airbags together reduce fatalities by 31% for vehicle occupants. Autoliv offers front and rear side airbags, curtain and far side airbags.

## CHILD SEATS Protect Children

An integrated booster cushion and specially designed seatbelt offer a vehicle system solution that improves the comfort and safety of children while reducing the risk of misuse.

## SEATBELTS Top Life-Saving Device

The seatbelt is the top life-saving device. It reduces fatalities for front row occupants in passenger cars by 45% for all types of crashes. Seatbelts also reduce moderate and severe injuries by 45%. The technology content of modern seatbelts has increased to include constant load limiters, adaptive load limiters, pretensioners, pre-pretensioners with electrical motor activation, warning functions and integrated ECUs (electronic control units).

## PYRO SWITCH Stop the Fire

Autoliv has developed a device to stop potential fires caused by short-circuiting: a pyro safety switch that can disconnect or cut the power after an accident.

# Our Customers and Major Launches in 2018

Autoliv delivers to more than 100 car brands worldwide and with a market share of around 40% in 2018.

In 2018, our top five customers represented 50% of sales and the ten largest represented 79%. This reflects the concentration in the automotive industry. The five largest vehicle manufacturers (OEMs) in 2018 accounted for 49% of global light vehicle production (LVP) and the ten largest for 74%. A delivery contract typically covers the lifetime of a vehicle model, which is normally between four and six years depending on customer platform sourcing preferences and strategies.

## CUSTOMER SALES TRENDS

Asian vehicle producers have become increasingly important to Autoliv and now represent around 45% of global sales, compared to 35% five years ago. Of the Asian OEMs, the

Japanese OEMs represent 32% of our sales, compared to 24% in 2013. This reflects their increasing share of global LVP and our stronger market position based on our local presence in Japan. OEMs from China represent 4% of our sales. The organic sales increase from Autoliv's companies in China of around 5% was driven by both domestic and global OEMs. Sales growth to domestic OEMs was mainly attributable to Geely, including Lynk & Co, and Great Wall.

Sales to European OEMs remained unchanged at 33%, compared to 2013. The Detroit-3 now account for 19% of our global sales, down from 30% in 2013. This is in part due to the sale of GM's European operations, Opel, to PSA and the lingering effects of constraints on new business in 2011 and 2012.

Kia K3



RAM 1500



Mercedes Sprinter



Subaru Forester



Ford Focus



Audi Q3



VW Jetta



Nissan Altima



Honda Crider



**Nissan Altima:** Knee airbag, side airbag, inflatable curtain and seatbelt with pretensioner.

**Ford Focus:** Knee airbag, passenger airbag, side airbag and seatbelt with pretensioner.

**Honda Crider:** Driver airbag with steering wheel, passenger airbag, side airbag and seatbelt with pretensioner.

**Kia K3:** Steering wheel and seatbelt with pretensioner.

**RAM 1500:** Driver airbag with steering wheel, passenger airbag and side airbag.

**Mercedes Sprinter:** Driver airbag with steering wheel, passenger airbag, side airbag, inflatable curtain and seatbelt with pretensioner.

**Subaru Forester:** Passenger airbag, side airbag and inflatable curtain.

**Audi Q3:** Driver airbag with steering wheel, passenger airbag and active seatbelt with pretensioner.

**VW Jetta:** Driver airbag, seatbelt with pretensioner and steering wheel.



AUTOLIV AIRBAGS

## Airbag and Seatbelt Together Reduces Fatalities by

# 61%

In frontal crashes, driver airbags reduce driver fatalities by 29%. Driver airbags and seatbelts together reduce fatalities in frontal crashes by 61%. Driver airbags also reduce severe injuries in frontal crashes by 32%. Autoliv offers frontal, knee, side, curtain and front center airbags.

# Financial Targets

Our targets reflect the key performance measures through which we execute our key strategies. The financial targets cover the areas of sales growth, margin development and capital structure.

>\$10 Bn Sales

~13% Adj. Operating Margin<sup>1)</sup>

1.0x Leverage Ratio<sup>2)</sup>  
(0.5-1.5x Range)

In 2018, Autoliv's organic sales increased by 5%<sup>3)</sup>, compared with an underlying automotive safety market that grew less than 2%. Sales for airbags (including steering wheels) accounted for 66% of group sales, while seatbelts accounted for 34%. In 2018, Autoliv achieved

an adjusted operating margin of 10.5%. During 2018, Autoliv's net debt position increased by \$1,250 million to \$1,619 million, mainly due to the capitalization of Veoneer prior to the spin-off. At the end of 2018 the leverage ratio was 1.5 which is within the target range.

<sup>1)</sup> Non-US GAAP measure excludes capacity alignment and antitrust related costs.

<sup>2)</sup> Leverage Ratio = Debt per policy/LTM EBITDA; Debt per policy = Net debt + Pension liabilities.

<sup>3)</sup> Non-U. S. GAAP measure.

# Sustainability Targets

Our sustainability targets reflect our vision of saving more lives and our customer focus, innovation, operational excellence, commitment to our employees, and cost and risk management.

## Innovate Life-Saving Products

OUR TARGETS

**100,000**

Lives saved  
By 2030

## Limit Our Impact on the Environment

OUR TARGETS

**12 %**  
REDUCTION  
CO<sub>2</sub>e Emissions\*  
Scope 1 & 2  
By 2023

**12 %**  
REDUCTION  
Energy  
Consumption\*  
By 2023

**100 %**  
PERFORMED  
Water Risk  
Assessment  
By 2020

**Y-o-Y**  
REDUCTION  
Waste and  
Scrap  
Continuous

\* Efficiency target, measured per part delivered.

## Commit to Our Employees

OUR TARGETS

**0.50**  
Incident Rate  
By 2022

**5.00**  
Severity Rate  
By 2022

## Act Ethically & Commit to Society

OUR TARGETS

**100 %**  
Anti-corruption  
training completion\*  
Continuous

**100 %**  
Anti-trust  
training  
completion\*  
Continuous

**100 %**  
Code of Conduct  
Certification\*  
Continuous

\* Completion rate measured from the annual target group.

## Supply Chain Sustainability

OUR TARGETS

**100 %**  
New DM\* suppliers  
sustainability audited  
Continuous

**100 %**  
All DM\* suppliers  
sustainability audited  
By 2021

**95 %**  
DM\* suppliers respond  
to Conflict minerals  
Survey. By 2022

\* DM = Direct Material.





# Market and Operations

## Quality and Comfort from Steering Wheels to Seatbelts and Beyond

Autoliv develops, manufactures and markets protective systems, such as airbags, seatbelts and steering wheels, for the automotive industry. Autoliv spun off its Electronics segment in mid 2018, resulting in a company with a more focused strategy, increased operational flexibility and higher potential for profitable growth. Since 1997, our compound annual growth rate (CAGR) has been 5.6%, compared with a market rate of around 3%. Our ability to outperform the market is a result of a steady flow of new safety technologies, a strong focus on quality and a superior global production and engineering footprint. This has enabled Autoliv to increase its market share from 27% in 1997 to around 40% in 2018. In addition to our primary goal of saving lives, quality is key to our financial performance and future success. Due to our relentless focus on quality, only around 2% of vehicles recalled since 2010 have been related to Autoliv. This is a favorable result given our global market share of around 40%.

### MARKET AND COMPETITION

The automotive safety market is driven by two factors: light vehicle production (LVP) and content per vehicle (CPV). Over the coming three-year period, from 2018

through 2021, our market is expected to grow by approximately 4% per year, which is about 2 percentage points more than LVP, mainly due to increased safety content per vehicle in growth markets, but also thanks to higher installation rates of knee airbags and more advanced seatbelt systems.

### LIGHT VEHICLE PRODUCTION (LVP)

LVP has increased at an average annual growth rate of 2.6% over the last two decades, despite the cyclical nature of the automotive industry. LVP is expected to grow to close to 97 million units in 2021 from approximately 91 million in 2018, according to IHS. Almost all of this expansion will take place in growth markets, predominantly in China, India and South America.

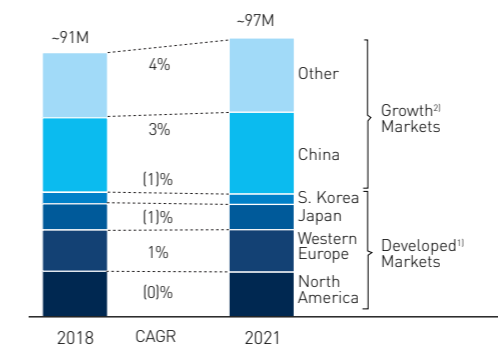
### CONTENT PER VEHICLE (CPV)

By continuously developing and introducing new technologies with higher value added features, Autoliv can influence safety content per vehicle. As a result of the increasing average CPV, the automotive safety market has outgrown LVP. Our steady flow of new technologies has also enabled us to further outpace the market and increase our market shares in all product areas and regions.

### Light vehicle production

In million units

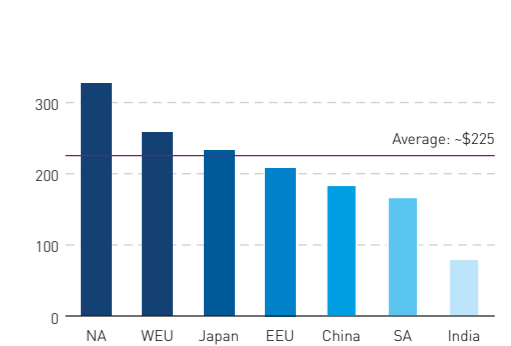
Source: IHS January 17, 2019



1) Developed Markets (Western Europe, Japan, North America, South Korea).  
 2) Growth Markets (Eastern Europe, China, Rest of Asia, South America, Middle East/Africa).

### 2018 Content per vehicle<sup>3)</sup>

US\$ per vehicle



3) Company estimates. Includes seatbelts, airbags, steering wheels and pedestrian safety.

**COMPETITORS**

Autoliv’s major competitors are Joyson Safety Systems (JSS) and ZF. JSS was formed through the merger of KSS and Takata Corporation. JSS is owned by the Chinese company Ningbo Joyson Electronic and is estimated to hold a global market share of 24%. ZF has an estimated global market share of 17%. In Japan, Brazil, South Korea and China, there are a number of local suppliers with close ties to domestic vehicle manufacturers. For example, Toyota uses Tokai Rika for seatbelts and Toyoda Gosei for airbags and steering wheels. These suppliers generally receive a significant portion of the Toyota business in Japan. Similarly, Mobis, a major supplier to Hyundai/Kia in South Korea, generally receives a significant part of their business. Other competitors include Nihon Plast and Ashimori in Japan, Jinheng in China, Samsung in South Korea and Chris Cintos in South America. Collectively, these competitors account for the majority of the remaining 19% global market share.

**GLOBAL PRODUCTION FOOTPRINT**

With manufacturing facilities in 25 countries covering all regions, Autoliv has the best global footprint in the industry. We work hard to be the supplier of choice on

global vehicle platforms and to grow with our customers as they extend their global production.

Component production is concentrated to a few locations, while final assembly plants are located close to customers.

Finished products are delivered “just in time”, sometimes several times a day, to vehicle manufacturer plants. For some customers, we have established final assembly centers inside or close to their manufacturing plants. Autoliv’s products are fed into the vehicle assembly line in the right order, in accordance with the car buyers’ selections of colors and optional equipment. Autoliv’s final assembly center receives a new order almost every minute, and within two to five hours (depending on the product) the order is executed and the product delivered. Autoliv’s production lines and equipment are often developed by Autoliv itself to ensure standardization, high quality and the integrity of proprietary production technologies. Including joint venture operations, Autoliv has approximately 64 production facilities located in 25 countries, consisting of component factories and final assembly factories. The products manufactured by Autoliv’s consolidated subsidiaries in 2018 consisted of ~ 151 million complete seatbelt systems (of

which ~79 million were fitted with pretensioners), ~ 99 million side airbags (including curtain airbags), ~ 56 million frontal airbags and ~ 20 million steering wheels.

**REDUCE DIRECT MATERIAL COSTS**

Approximately half of our revenues are spent on direct materials from external suppliers. Autoliv mainly purchases manufactured components, and approximately 50% of the company’s component costs comprise of raw materials value. We take several actions to mitigate higher commodity prices, such as re-designing products to reduce material content and weight, and component standardization to reduce complexity and gain cost advantages.

**REDUCE LABOR COSTS**

In 2018, wages, salaries and other labor costs corresponded to almost 10% of sales. To reduce labor costs while offsetting the price erosion on our products, we continuously implement productivity improvement programs, expand production in Best Cost Countries (BCCs) and institute restructuring and capacity alignment activities. Autoliv has more than 80% of its direct workers in BCC.

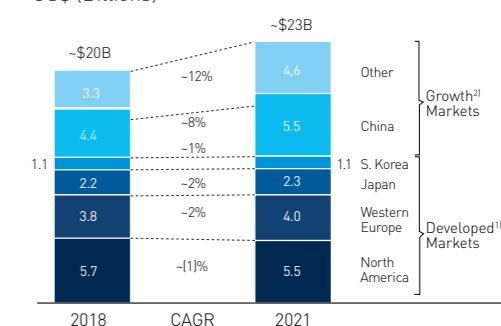
Our continuous improvement strategies have enabled productivity improvements in

production well above our productivity improvement target of at least 5% per year for the past five years, except for in 2018. In 2018 we were unable to reach our target due to the sharp increase in launch activities, especially in North America.

We foresee opportunities for further productivity on gains from increasing use of automation in our assembly for lean manufacturing processes. Additionally, automated cells typically perform the manufacturing process with reduced variability. This results in greater control and consistency of product quality.

**Market by region<sup>3)</sup>**


US\$ (Billions)



1) Developed markets (Western Europe, Japan, North America, South Korea).  
 2) Growth markets (Eastern Europe, China, Rest of Asia, South America, Middle East/Africa).  
 3) Company estimates. Includes seatbelts, airbags, steering wheels and pedestrian safety.

|                                 | BRAZIL <sup>1)</sup> | CANADA | CHINA <sup>1)</sup> | ESTONIA <sup>1)</sup> | FRANCE | GERMANY | HUNGARY <sup>1)</sup> | INDIA <sup>1)</sup> | INDONESIA <sup>1)</sup> | ITALY | JAPAN | MALAYSIA <sup>1,2)</sup> | MEXICO <sup>1)</sup> | NETHERLANDS | PHILIPPINES <sup>1)</sup> | POLAND <sup>1)</sup> | ROMANIA <sup>1)</sup> | RUSSIA <sup>1)</sup> | SOUTH AFRICA <sup>1)</sup> | SOUTH KOREA | SPAIN | SWEDEN | THAILAND <sup>1)</sup> | TUNISIA <sup>1)</sup> | TURKEY <sup>1)</sup> | UNITED KINGDOM | USA   |   |
|---------------------------------|----------------------|--------|---------------------|-----------------------|--------|---------|-----------------------|---------------------|-------------------------|-------|-------|--------------------------|----------------------|-------------|---------------------------|----------------------|-----------------------|----------------------|----------------------------|-------------|-------|--------|------------------------|-----------------------|----------------------|----------------|-------|---|
| <b>Headcount</b>                | 939                  | 418    | 8 891               | 775                   | 2 286  | 1 362   | 2 389                 | 2 220               | 169                     | 14    | 2 173 |                          | 14 156               | 7           | 1 306                     | 3 539                | 10 101                | 166                  | 157                        | 751         | 271   | 489    | 3 257                  | 2 661                 | 2 826                | 222            | 5 219 |   |
| <b>Tech center</b>              |                      |        | ■                   |                       | ■      | ■       |                       | ■                   |                         |       | ■     |                          |                      |             |                           | ■                    | ■                     |                      |                            | ■           |       | ■      |                        |                       |                      |                |       | ■ |
| <b>Production</b>               |                      |        |                     |                       |        |         |                       |                     |                         |       |       |                          |                      |             |                           |                      |                       |                      |                            |             |       |        |                        |                       |                      |                |       |   |
| <b>Airbags</b>                  | ■                    |        | ■                   |                       | ■      | ■       |                       | ■                   |                         |       | ■     | ■                        | ■                    |             |                           | ■                    | ■                     | ■                    | ■                          | ■           | ■     |        |                        | ■                     |                      | ■              |       | ■ |
| <b>Seatbelts</b>                | ■                    |        | ■                   | ■                     | ■      | ■       | ■                     | ■                   | ■                       |       | ■     | ■                        | ■                    |             |                           | ■                    | ■                     | ■                    | ■                          | ■           | ■     |        |                        | ■                     |                      | ■              |       | ■ |
| <b>Steering wheels</b>          | ■                    |        | ■                   |                       | ■      |         |                       | ■                   | ■                       |       | ■     | ■                        | ■                    |             |                           |                      | ■                     | ■                    |                            |             |       |        |                        | ■                     | ■                    |                |       | ■ |
| <b>Other<sup>3)</sup></b>       |                      | ■      | ■                   | ■                     | ■      |         |                       | ■                   |                         |       | ■     |                          | ■                    |             |                           | ■                    | ■                     |                      |                            |             |       |        | ■                      | ■                     |                      | ■              | ■     | ■ |
| <b>Sales and support office</b> | ■                    |        | ■                   |                       | ■      | ■       |                       | ■                   |                         |       | ■     |                          |                      | ■           |                           |                      |                       |                      |                            |             | ■     | ■      | ■                      | ■                     | ■                    | ■              | ■     | ■ |

1) Defined as a Best Cost Country.  
 2) Includes headcount in non-consolidated joint ventures.  
 3) Includes weaving and sewing of textile cushions, seatbelt webbing, inflators, components for airbag and seatbelt products.



AUTOLIV SEATBELTS

## Top Life-Saving Device

The seatbelt is the top life-saving device. Seatbelts reduce moderate and severe injuries by 45% and – even more importantly – reduce fatalities for front row occupants in passenger cars for all types of crashes by

# 45%

# Autoliv's strategy and targets are based on the growing demand for traffic safety

1.4 M  
Road fatalities worldwide

WHO Target 50% reduction

2030

Autoliv's strategy and targets are based on the growing demand for traffic safety. According to the World Health Organization (WHO) 1.4 million people die globally in road accidents every year. In addition, 20 to 50 million people suffer non-fatal vehicle-related injuries, causing not only human suffering but also costs corresponding to about 3% of GDP in most countries. WHO has therefore launched a target to cut fatalities in half by 2030. This underlines the importance of our commitment to save more lives and reduce the number of injuries on our roads. The need for our products continues to grow.

### OPERATIONAL EXCELLENCE

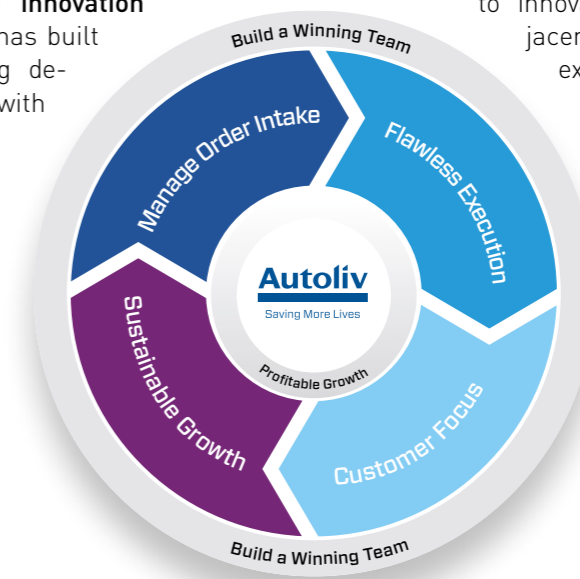
Autoliv's focus on **quality** and customer focus in **innovation** and operations has built trust and strong demand. Together with

effective standardization, **One Product One Process** (1P1P) and our manufacturing philosophy for governing processes, known as the **Autoliv Production System** (APS), they represent Autoliv's tools and methods for delivering on our strategy and for laying a strong foundation for operational excellence.

### PROFITABLE GROWTH

Operational excellence is a focus for all areas of our operations, from managing our order intake with seamless launches and smooth ramp-ups to demonstrating best-in-class quality, cost optimization and improving asset utilization.

We have a strong customer focus, from innovation to manufacturing and delivery of our products, and we continue to innovate and explore adjacent areas, leveraging expertise for profitable growth.



#### MANAGE ORDER INTAKE

- Seamless launch of identified market opportunities based on diligent preparations and application engineering
- Manage increased order pressure through smooth ramp-up of operations

#### SUSTAINABLE GROWTH

- Boost new orders by remaining at forefront of innovation
- Explore adjacent areas, leveraging expertise for profitable growth

#### FLAWLESS EXECUTION

- Execute with diligence, reliability and efficiency
- Demonstrate best-in-class quality with superior operational excellence, cost optimization and asset utilization

#### CUSTOMER FOCUS

- Build upon successful order execution to sustain customer trust
- Truly commit to customers with day-to-day attention
- Support customers locally



**AUTOLIV PRODUCTION SYSTEM**

The Autoliv Production System (APS) is our manufacturing philosophy for governing processes based on the guiding principles of continuous flow, quality right first time, visualization, and teamwork and involvement. It describes the target conditions and tools to be applied within our facilities to achieve delivery of goods and services at the right time, in the right amount, at the required quality and at the lowest cost possible to all our customers, regardless of whether they are external or internal.

APS integrates essential quality elements, such as mistake proofing, statistical process control and operator involvement, into the manufacturing processes so all Autoliv employees are aware of and understand the critical connection between themselves and our lifesaving products.



**QUALITY**

Autoliv's primary goal is to save lives. Our products never get a second chance. This is why we never compromise on quality. As people's lives depend on our safety products, we strive for zero defects in all we do.

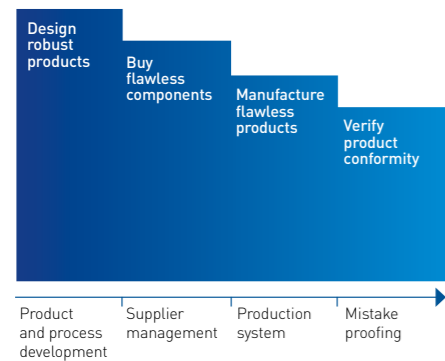
Our pursuit of excellence extends throughout the value-chain to ensure robust product designs, flawless components from suppliers and our own in-house component companies, manufacturing of flawless products with a system for verifying that our products conform with specifications, and an advanced traceability system in the event of a recall.

To continuously improve our own quality, we run a program known as "Q5" aimed at shaping a proactive quality culture of zero defects. It addresses quality in five dimensions: customers, products, suppliers, growth and behavior. A vital part of Q5 is Jidoka, the commitment that when an operator detects an abnormality he or she can directly stop the line to take appropriate actions.

Our "zero-defect" principle extends beyond Autoliv to the entire supplier base. All of our suppliers must accept the strict quality standards in the global Autoliv Supplier Manual, which defines our quality requirements. It focuses on preventing bad parts from being produced by our suppliers and helps eliminate defective intermediate products in our assembly lines as early as possible.

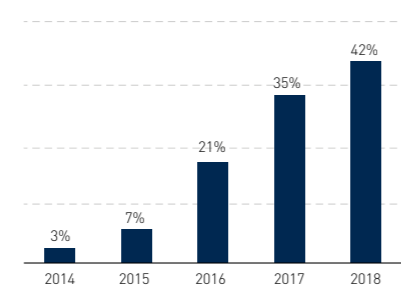


**Relentless focus on Quality through Q5**



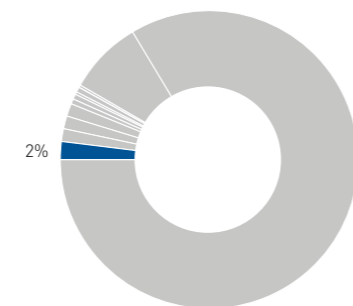
**Quality Improvement**

Reduction of non-conforming events, reference year 2013



**Minimal recalls**

Share of global recalls and ~40% market share



**ONE PRODUCT ONE PROCESS - 1P1P**

Through effective standardization, we create customer and shareholder value. One Product One Process (1P1P) promotes total cost management in engineering, manufacturing and purchasing.

Reducing complexity is key to lowering costs and increasing product robustness, resulting in higher customer satisfaction. Autoliv's 1P1P initiative achieves reduced complexity by standardizing certain parts, resulting in fewer parts needed to satisfy customer projects. Progress is driven by

cross-functional product teams with the authority and responsibility to manage one or several product families with a global mindset in terms of product design, manufacturing and supplier management. These product teams also ensure proper usage of the products in customer projects and manage the transfer of product knowledge. 1P1P promotes a culture in which lessons learned are shared globally, thereby incrementally bringing us closer to zero defects.

## Uniquely Positioned to Save More Lives



### INNOVATION

Our research focuses on improving safety to reduce road fatalities and injuries. New industry trends, such as autonomous driving, electrification and more comfortable cockpits, are generating new safety needs that call for more sophisticated safety products.

Autoliv has pioneered automotive safety for over 60 years, including the introduction of several world firsts. Our approach to real-life safety, together with our methods and processes, and our ambition and dedication to save more lives, puts Autoliv in a unique position. As a safety leader, we can identify upcoming opportunities.

### SOLUTIONS BASED ON REAL-LIFE DATA

A key differentiating factor is that we do research and find solutions based on real-life data. Our research and development are based on real traffic accidents and injuries as well as numerous crash tests, user clinics, simulations, driving data collection and the vast expertise gathered by our specialists over many years.

The way we innovate solutions is a key differentiator that sets us apart from our competitors.



## Test Services for Industry and Customer Needs

Autoliv offers state-of-the-art laboratories that replicate customer specifications as well as a variety of sophisticated and cost-efficient test services tailored to meet industry needs. Autoliv handles every aspect of testing – from test method development, pre-test preparations, post-test analysis, and computer simulations to crash testing and safety improvement recommendations.

### COMPUTER SIMULATIONS

Developed through years of research and development, computer simulations can be an economical and time-efficient alternative to physical testing. Modeling also provides the capability to expand product or system evaluations to include test conditions and scenarios for which physical testing is not possible or practical.

### COMPONENT TESTING

Autoliv's test centers offer an extensive range of test capabilities for testing specific components, such as seatbelt webbing, load brackets, airbag fabrics, and metal or plastic parts.

### PRODUCT TESTING

The performance of a complete restraint product can be tested in our seatbelt or airbag laboratories. All products are both statically and dynamically tested. Airbag systems are deployment-tested under various temperatures (with or without dynamic loading on the bag). Computer simulation models are then validated based on the product testing results.

### SUB-SYSTEM SLED TESTING

During the product development phase, system-level

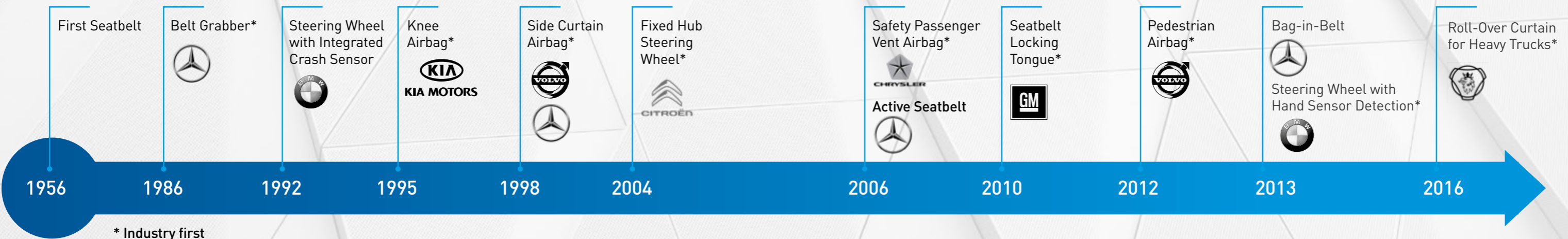
performance is evaluated using critical components of the full system tested dynamically on a sled. Instead of destroying a complete car for each test, the stripped vehicle body is reinforced, placed on a sled, fitted with the sub-system components, and accelerated in accordance with that vehicle's crash test characteristics. The recorded crash pulse for the simulated car can be accurately repeated, thus tightly controlling the test-to-test variables.

### VEHICLE CRASH TESTING

In a vehicle crash test, impacts can be performed up to a velocity of 100 km/h. Autoliv can conduct a number of different test modes depending on the specific requirements of the car manufacturer or governmental regulations. Common test modes include flat barrier impact, angled barrier impact, offset barrier impact, pole barrier front or side impact, under ride barrier impact, mobile barrier, side or rear impact, car to car, and roll-over tests. Several Autoliv sites also perform crash tests on electric vehicle and hybrid electric vehicle models. Sled and full vehicle crash tests are supervised from a control room using a fully computerized crash control system – and customers can view the crash testing from a well-equipped observation room.

## Long Track-Record of Commercializing Industry Firsts

Deeply Integrated R&D Dialog with Global Customer Base



## Research in Close Collaboration with Customers and Universities

**A**utoliv has customer technical centers in all key markets and 5,700 people in **research development** and **application engineering**. We support our customers through our technical centers and manufacturing facilities located close to their assembly plants in North America, Western Europe and Asia. Our application engineering projects are completed at our technical centers located close to our customers and in close cooperation with the manufacturing units. The majority of Autoliv's RD&E projects are focused on application engineering to support the development of new vehicle models.

Autoliv proudly participates in research collaborations that include universities and research institutes with the aim to improve traffic safety. In 2018, we joined the new Future Occupant Safety for Crashes in Cars (OSCCAR) project in which we partner with car manufacturers, research organizations and other automotive suppliers to harmonize the designs of future safety systems for self-driving cars.

### RESEARCH AREAS Traffic Safety Analysis

To constantly improve traffic safety, we need to know what is happening on the roads today, how current safety systems perform in real-life traffic, and how to design safety systems for the future. Autoliv uses various data sources and methods to prioritize research topics, develop test methods, calculate retrospective safety benefits and predict future benefits. The analysis and predictions from this research serve as

requirements for the development of future safety systems.

### Human Factors

Autoliv designs solutions based on truly cross-disciplinary research. Vehicle sensing capabilities need to be systemized so that the vehicle can take driving context and driver state into account when responding to traffic events. Our research includes everything from road-user behavior to usage of safety systems and comfort.

### Biomechanics

To limit the injuries from a car accident, we need tools that represent a diverse population, and we need to understand the implications of the change in mobility and improved sensing to develop future occupant protection. Autoliv's advanced omnidirectional human body models simulate real human bodies containing bones, muscles and organs. We can depict the characteristics of a diverse population of differing age, sex, weight and height. This allows us to study injury mechanisms on a very detailed level, which is necessary for such areas as upcoming new restraint systems for automated driving.



### SAFETY IN A CHANGING WORLD

The vehicles of the future, with increasing levels of electrification and autonomy, are placing new demands on automotive safety systems. Autoliv is well positioned to meet future automotive safety needs. Our current portfolio provides a foundation for vehicles with higher autonomy. Our solutions for autonomous driving are a natural evolution of our safety products, positioning Autoliv at the forefront of innovation.

As we strive to improve existing airbag effectiveness, we discover advances in engineering design that will protect individuals for years to come. We are continually developing new

seatbelt systems, integrating mechatronics in order to drive towards reduced reaction time, proactive safety features, and improved comfort and customization to accommodate any kind of journey. Our research in steering wheel technology has resulted in improved ease of control and additional driver monitoring systems, including solutions for autonomous driving. In the future transportation system, with a mixed fleet of vehicles, there will be a need to protect vulnerable road users. This is increasingly being recognized by governments, and Autoliv is currently developing countermeasures for pedestrians, cyclists and powered two-wheelers.

### New safety systems

A higher level of autonomy allows for more flexibility in terms of interior layout. Flexible seating with new layouts and positions requires new safety systems.



New seating concepts requiring new restraint systems.

### Life cell airbag

First developed by Autoliv Research, the life cell airbag provides protection regardless of how a driver or passenger is seated, including the seat orientation in proximity to the steering wheel and seatback orientation.





“The development of future leaders, experts and specialists is a top priority at Autoliv”

## Our Employees

Continuing as the world's leading supplier of automotive safety systems requires a drive for excellence, from the earliest phases of product development to the sales and services that we offer to our customers, and a passion for saving more lives. Every year, our products save more than 30,000 lives and prevent ten times as many severe injuries. We take great pride in our mission. Innovation, quality and customer focus are key factors for our success. We are an innovative business and a global leader in our industry. We are constantly looking for professionals, experts and leaders who share our commitment to saving lives and who can contribute to our mission.

### DEVELOPMENT OF OUR EMPLOYEES

Autoliv offers a positive working environment with challenging projects. Development is essential in a highly competitive and rapidly changing environment. An important cornerstone of each employee's growth is the ongoing personal, transparent communication between the team member and manager, which is summarized during an annual performance and development dialog (PDD). During 2018, 99% of targeted employees conducted a PDD with their managers. To further support the growth of our employees, Autoliv has a multitude of development channels, including technical and specialist career paths, international assignments and other such programs. Each year, more than 8,500 employees attend at least one training program, and we work to promote continuous development on the job, every day.

### HEALTH AND SAFETY

Autoliv is committed to providing a working environment that promotes the health, safety and welfare of our employees. Each Autoliv facility implements Autoliv's health and safety management system, which is supported by leadership teams. The implementation of the system is monitored through internal and external audits.

### DIVERSITY

Autoliv is committed to diversity and values differences among our employees as rich as the diverse characteristics of the end users of our products around the world. Our workforce reflects the diversity of the countries and cultures in which we operate. At the end of 2018, 46% (44% in 2017) of our workforce and 21% (15% in 2017) of our senior management positions were filled by women. We have operations in 27 different countries, with 28% of our workforce located in Asia, 31% in the Americas and 41% in Europe (including Africa, Russia and Turkey).

### LABOR RIGHTS

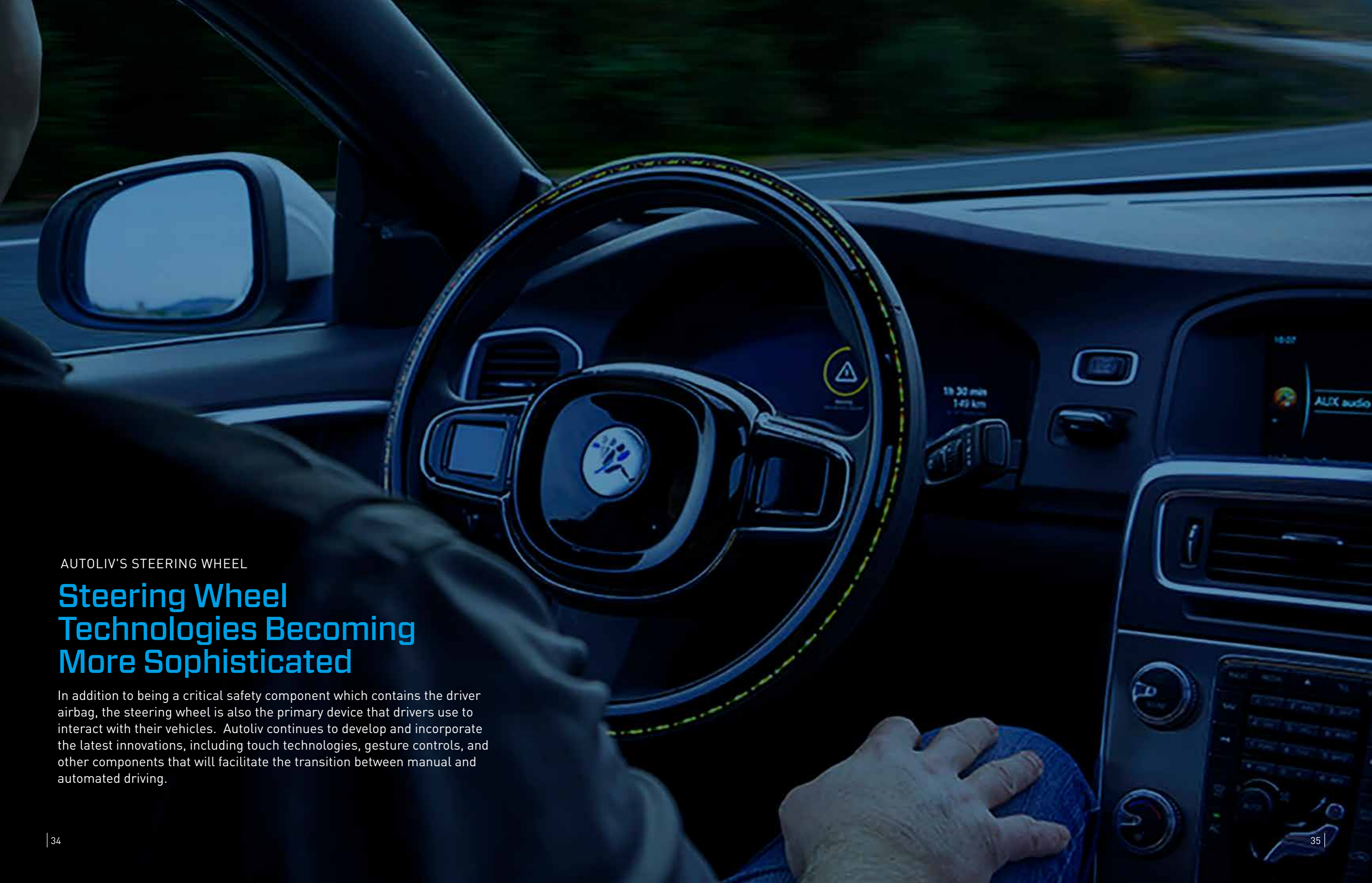
Autoliv is committed to offering fair terms and conditions of employment. Our values, code of conduct, talent development strategies and employment policies support the principles in the United Nations Universal Declaration of Human Rights, and the International Labor Organization's Fundamental Principles and Labor Standards.

### Well balanced workforce

By age, group, and gender in %







AUTOLIV'S STEERING WHEEL

## Steering Wheel Technologies Becoming More Sophisticated

In addition to being a critical safety component which contains the driver airbag, the steering wheel is also the primary device that drivers use to interact with their vehicles. Autoliv continues to develop and incorporate the latest innovations, including touch technologies, gesture controls, and other components that will facilitate the transition between manual and automated driving.

# Creating Shareholder Value

By creating customer satisfaction, maintaining tight cost control and developing new products, we generate cash for long-term growth, financial stability and competitive returns to our shareholders.

Autoliv has always had a strong cash flow and cash generation focus. Our operating cash flow has always exceeded capital expenditures. On average, operations have generated around \$792 million in cash per year over the last five years, while our capital expenditures, net, have averaged around \$505 million per year during the same period. Since 1997 the Company has converted approximately 90% of its net income to free cash flow, i.e. cash flow after capital expenditures.

## CAPITAL EFFICIENCY IMPROVEMENTS

Autoliv's strong cash flow reflects both the Company's earnings performance and its improvements in capital efficiency. During 2018, our capital turnover rate, sales in relation to average annual capital employed, was 2.5 times. This was a small improvement compared to 2.3 times in 2017. However, on a comparable basis for continuing operations, the improvement was 0.7 times.

## OUR CASH FLOW MODEL

When analyzing how best to use each year's cash flows from operations,

Autoliv's Executive Management and the Board of Directors use a model to create shareholder value that considers important variables such as the marginal cost of borrowing, the return on marginal investments and the price of Autoliv shares (see cash flow illustration). When evaluating the various uses of cash, the need for flexibility is weighed against acquisitions and other potential settlements.

## INVESTING IN OPERATIONS

To create long-term shareholder value, cash flow from operations should only be used to finance investments in operations until the point when the return on investment no longer exceeds the cost of capital. Our historical pre-tax cost of capital has been approximately 11%.

Autoliv's pre-tax return on capital employed has always exceeded this level, except during the financial crisis in 2008-2009. During the last five years, return on capital employed has varied between 13% and 21%, i.e. 1 to 2 times the pre-tax cost of capital.

In 2018, \$555 million was reinvested in the form of capital expenditures, net. This corresponds to 94% of the year's

operating cash flow of \$591 million. It was also around 40% higher than depreciation and amortization due to our strong order intake and the need for additional manufacturing capacity.

## ACQUISITIONS, DIVESTMENTS AND INVESTMENTS IN ASSETS

In order to accelerate company growth and create shareholder value over time, we use some of the cash flow generated for acquisitions and for investments in assets such as joint ventures and intellectual property. These are typically made to consolidate our position in the industry, increase our vertical integration or expand into new markets. Divestments could be made for instance with the objective to optimize business culture and enhance business focus. In 2018, we distributed our Electronics business segment to our shareholders in the form of a dividend. The new company, Veoneer, had its first day of trading on July 2, 2018.

## SHAREHOLDER RETURNS

Since Autoliv has historically used both dividend payments and share repurchases to create shareholder value, and we

do not have a set dividend policy. Instead, the Board of Directors regularly analyzes which method is most effective in each instance, in order to create shareholder value. In 2018, the quarterly dividend increased by \$0.02 or more than 3% to \$0.62. In total, \$214 million was used to pay dividends to shareholders in 2018.

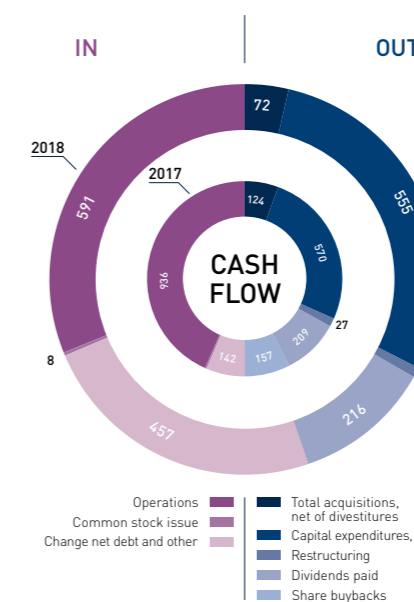
Historically, the dividend has represented a yield of approximately 2-3% in relation to Autoliv's average share price. In 2018, this yield was 2.7%.

Repurchases of shares can create more value for shareholders than dividends, if the share price appreciates long term. This has been the case for Autoliv, since the Company's existing 15.7 million treasury shares have been repurchased at an average cost of \$56.13 per share, while the closing price at the end of 2018 was \$70.23. During 2018, Autoliv did not repurchase any shares. The remaining Board authorization is approximately 3.0 million shares.

## CAPITAL STRUCTURE

Our debt limitation policy is to maintain a financial leverage commensurate with a "strong investment grade credit rating"

Autoliv's Model for Creating Shareholder Value  
US\$ (millions)



full year 2018, assuming dilution, was reduced to 87.3 from 87.7 million in 2017. Stock options (if exercised) and granted restricted Stock Units (RSUs) could increase the number of shares outstanding by 0.4 million shares in total. Combined, this would add 0.5% to the Autoliv shares outstanding. On December 31, 2018, 3.0 million shares were available for repurchase under the current Board authorization from 2014. On December 31, 2018, the Company had 15.7 million treasury shares. Autoliv estimates that there were approximately 70,000 beneficial Autoliv owners as of December 31, 2018. Close to 21% of Autoliv's securities were held by U.S.-based shareholders and around 60% by Sweden-based shareholders. Most of the remaining Autoliv securities were held in the U.K., other Nordic countries, Central Europe, Japan and Canada.

and our long-term target is to have a leverage ratio of around 1 time and to be within the range of 0.5 and 1.5 times. In addition to the above, the objective is to provide the Company sufficient flexibility to manage the inherent risks and cyclicity in Autoliv's business and allow the Company to realize strategic opportunities and fund growth initiatives while creating shareholder value. In 2018, Autoliv was within the range in until Autoliv capitalized Veoneer by about \$1.0 billion when it was spun off at the end of the second quarter. On December 31, 2018, the leverage ratio was again back inside the range, at 1.5 times. Autoliv holds an "A with negative outlook" credit rating by Standard & Poor's. We aim at maintaining a strong investment grade rating as our current capital structure should provide flexibility to generate further shareholder returns and the funding of our capital requirements.

## THE LARGEST SHAREHOLDERS

| %            | No. of shares     | Holder name <sup>1)</sup>       |
|--------------|-------------------|---------------------------------|
| 9.6          | 8,376,924         | Cevian Capital AB               |
| 9.4          | 8,206,200         | Alecta Pension Insurance Mutual |
| 4.6          | 4,030,965         | Swedbank Robur Fonder AB        |
| 3.7          | 3,250,000         | AMF Pensionsförsäkring AB       |
|              |                   | Nordea Investment Management AB |
| 3.5          | 3,068,703         |                                 |
| <b>100.0</b> | <b>87,144,520</b> | <b>Total December 31, 2018</b>  |

<sup>1)</sup> Known to the Company, of approximately 70,000 shareholders, as of December 31, 2018.

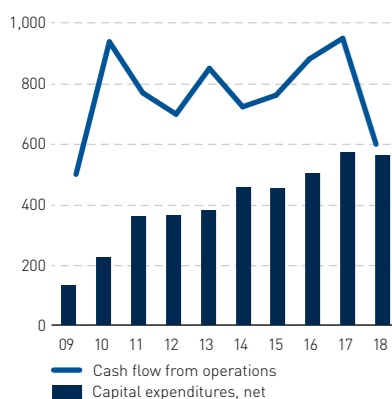
## KEY STOCK PRICE DATA 2018

| NYSE              | Price (\$)  | Date          |
|-------------------|-------------|---------------|
| First trading day | 92.11       | Jan 2, 2018   |
| Year high         | 115.08      | June 6, 2018  |
| Year low          | 69.78       | Dec 24, 2018  |
| Closing           | 70.23       | Dec 31, 2018  |
| NASDAQ            | Price (SEK) | Date          |
| First trading day | 737.00      | Jan 2, 2018   |
| Year high         | 993.91      | June 18, 2018 |
| Year low          | 622.60      | Dec 27, 2018  |
| Closing           | 629.80      | Dec 28, 2018  |

## SHAREHOLDER INFORMATION

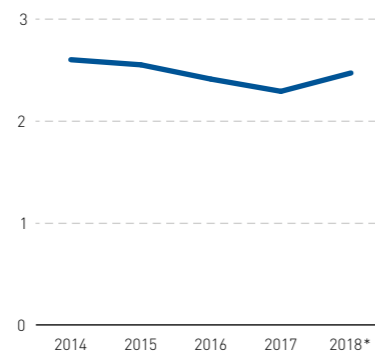
Autoliv common stock is traded on the New York Stock Exchange ("NYSE") while Autoliv Swedish Depositary Receipts (SDRs) are traded on NASDAQ Stockholm's list for large market cap companies. During 2018, the number of shares outstanding increased by 0.1 million to 87.1 million (excluding dilution and treasury shares). The weighted average number of shares outstanding for the

Cash flow vs. CapEx  
US\$ (Millions)



Capital turnover rate

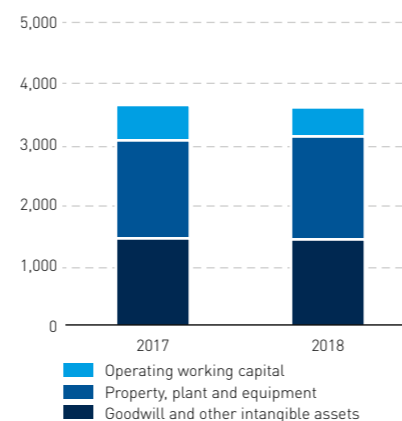
Times, sales in relation to average capital employed



\* Continuing operations

Assets by category\*

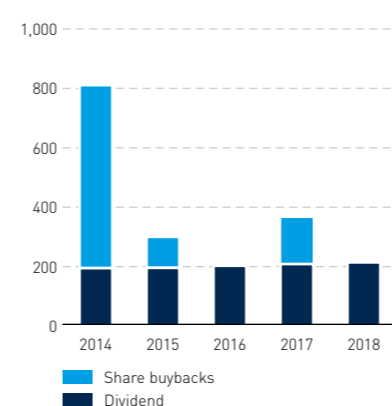
US\$ (Millions)



\* Continuing operations

Shareholder Returns

US\$ (Millions)



# Board of Directors



From left:

**Hasse Johansson**  
Director since 2018. Member of the Risk and Compliance Committee and the Audit Committee.

**James M. Ringle**  
Director since 2002. Chairman of the Leadership Development and Compensation Committee. Member of the Nominating and Corporate Governance Committee.

**Xiaozhi Liu**  
Director since 2011. Member of the Nominating and Corporate Governance Committee. Member of the Leadership Development and Compensation Committee.

**Jan Carlson**  
Chairman since May 2014 and Director since 2007.

**David E. Kepler**  
Director since February 2015. Chairman of the Risk and Compliance Committee. Member of the Audit Committee.

**Franz-Josef Kortüm**  
Director since 2014.

**Thaddeus "Ted" Senko**  
Director since 2018. Chairman of the Audit Committee. Member of the Risk and Compliance Committee.

**Leif Johansson**  
Director since February 2016. Chairman of the Nominating and Corporate Governance Committee. Member of the Leadership Development and Compensation Committee.

**Mikael Bratt** (not present in picture)  
President and CEO of Autoliv Inc. since June 2018, and Director since 2018.

For more information, visit Corporate Governance and the proxy statement on [www.autoliv.com](http://www.autoliv.com)

# Executive Management Team



From left:

**Mike Hague**  
President, Autoliv Europe (AEU)  
Employed 2006

**Mats Backman**  
Chief Financial Officer  
Employed 2016

**Mikael Bratt**  
President and CEO  
Employed 2016

**Jennifer Cheng**  
President, Autoliv China (ACH)  
Employed 2006

**Anthony Nellis**  
Executive Vice President, Legal Affairs  
General Counsel & Secretary  
Employed 2002

**Dan Garceau**  
President, Autoliv Americas (AAM)  
Employed 1993

**Jordi Lombarte**  
Chief Technology Officer  
Employed 1991

**Svante Mogefors**  
Executive Vice President, Quality and acting Executive Vice President Operations  
Employed 1996

**Sherry Vasa**  
Executive Vice President  
Human Resources & Sustainability  
Employed 1992

**Brad Murray**  
President, Autoliv Asia (AAS)  
Employed 1987

For more information, visit Corporate Governance and the proxy statement on [www.autoliv.com](http://www.autoliv.com)

# Contacts and Calendar

## **AUTOLIV, INC.**

Visiting address:  
Klarabergsviadukten 70, Section B,  
7th Floor, Stockholm, Sweden  
Mail: P.O. Box 70381, SE-107 24 Stockholm, Sweden  
Tel: +46 (0)8 587 20 600  
E-mail: [info@autoliv.com](mailto:info@autoliv.com)  
[www.autoliv.com](http://www.autoliv.com)

## **CONTACT OUR BOARD**

Autoliv, Inc., c/o Vice President Legal Affairs  
P.O. Box 70381, SE-107 24 Stockholm, Sweden  
Tel: +46 (0)8 587 20 600  
Fax: +46 (0)8 587 20 633  
E-mail: [legalaffairs@autoliv.com](mailto:legalaffairs@autoliv.com)

The Board, the independent directors, and the committees of the Board can be contacted using the address above. Contact can be made anonymously and communication with the independent directors is not screened. The relevant chairman receives all such communication after it has been determined that the content represents a message to such chairman.

## **STOCK TRANSFER AGENT AND REGISTRAR**

[www.computershare.com](http://www.computershare.com)

## **INVESTOR REQUESTS**

Autoliv, Inc., P.O. Box 70381, SE-107 24, Stockholm, Sweden  
Tel: +46 (0)8 587 20 671  
E-mail: [anders.trapp@autoliv.com](mailto:anders.trapp@autoliv.com),  
[henrik.kaar@autoliv.com](mailto:henrik.kaar@autoliv.com)

## **ACKNOWLEDGEMENTS**

Concept and Design: PCG Stockholm  
Photos: Lars Trangius, Christian Wyrwa, Dan Kullberg,  
Robert Casey and PlainPicture Ltd  
3D images: Björn Nilsson, Graphic

## **2019 PRELIMINARY FINANCIAL CALENDAR DATE EVENT**

April 26 Financial Report Q1  
May 7 Autoliv General Meeting, Chicago, IL, USA  
July 19 Financial Report Q2  
October 25 Financial Report Q3

Each year, Autoliv's  
products save over  
30,000 lives

[autoliv.com](http://autoliv.com)



**Autoliv**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2018

Commission file number: 001-12933

**AUTOLIV, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**51-0378542**  
(I.R.S. Employer  
Identification No.)

**Klarabergsviadukten 70, Section B7, SE-111 64  
Box 70381, SE-107 24  
Stockholm, Sweden**  
(Address of principal executive offices)

**+46 8 587 20 600**  
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class:

**Common Stock, par value \$1.00 per share**

Name of each exchange on which registered:

**New York Stock Exchange**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes:  No:

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes:  No:

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|                         |                                     |                           |                          |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |
| Emerging growth company | <input type="checkbox"/>            |                           |                          |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes:  No:

The aggregate market value of the voting and non-voting common equity of Autoliv, Inc. held by non-affiliates as of the last business day of the second fiscal quarter of 2018 amounted to \$8,989 million.

Number of shares of Common Stock outstanding as of February 13, 2019: 87,149,242.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for the annual stockholders' meeting to be held on May 7, 2019, to be dated on or around March 27, 2019 (the "2019 Proxy Statement"), are incorporated by reference into Part III of this Annual Report on Form 10-K. The 2019 Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after December 31, 2018.

**AUTOLIV, INC.**

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## NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements that are not historical facts but rather forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include those that address activities, events or developments that Autoliv, Inc. (“Autoliv,” the “Company” or “we”) or its management believes or anticipates may occur in the future. All forward-looking statements are based upon our current expectations, various assumptions and/or data available from third parties. Our expectations and assumptions are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that such forward-looking statements will materialize or prove to be correct as forward-looking statements are inherently subject to known and unknown risks, uncertainties and other factors which may cause actual future results, performance or achievements to differ materially from the future results, performance or achievements expressed in or implied by such forward-looking statements.

In some cases, you can identify these statements by forward-looking words such as “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes,” “may,” “likely,” “might,” “would,” “should,” “could,” or the negative of these terms and other comparable terminology, although not all forward-looking statements contain such words.

Because these forward-looking statements involve risks and uncertainties, the outcome could differ materially from those set out in the forward-looking statements for a variety of reasons, including without limitation: changes in light vehicle production; fluctuation in vehicle production schedules for which the Company is a supplier; changes in general industry and market conditions or regional growth or decline; changes in and the successful execution of our capacity alignment; restructuring and cost reduction initiatives and the market reaction thereto; loss of business from increased competition; higher raw material, fuel and energy costs; changes in consumer and customer preferences for end products; customer losses; changes in regulatory conditions; customer bankruptcies; consolidations or restructuring; or divestiture of customer brands; unfavorable fluctuations in currencies or interest rates among the various jurisdictions in which we operate; component shortages; market acceptance of our new products; costs or difficulties related to the integration of any new or acquired businesses and technologies; continued uncertainty in pricing negotiations with customers; successful integration of acquisitions and operations of joint ventures; successful implementation of strategic partnerships and collaborations; our ability to be awarded new business; product liability, warranty and recall claims and investigations and other litigation and customer reactions thereto (including the resolution of the Toyota Recall); higher expenses for our pension and other postretirement benefits, including higher funding needs for our pension plans; work stoppages or other labor issues; possible adverse results of pending or future litigation or infringement claims; our ability to protect our intellectual property rights; negative impacts of antitrust investigations or other governmental investigations and associated litigation relating to the conduct of our business; tax assessments by governmental authorities and changes in our effective tax rate; dependence on key personnel; legislative or regulatory changes impacting or limiting our business; political conditions; dependence on and relationships with customers and suppliers; and other risks and uncertainties identified in Item 1A “Risk Factors” and Item 7 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Form 10-K.

For any forward-looking statements contained in this or any other document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we assume no obligation to update publicly or revise any forward-looking statements in light of new information or future events, except as required by law.



## PART I

### Item 1. Business

#### **General**

Autoliv, Inc. (“Autoliv”, the “Company” or “we”) is a Delaware corporation with its principal executive offices in Stockholm, Sweden. Autoliv was created in 1997 from the merger of Autoliv AB and the automotive safety products business of Morton International, Inc. The Company functions as a holding corporation and owns two principal subsidiaries, Autoliv AB and Autoliv ASP, Inc. Our fiscal year ends on December 31.

On June 29, 2018, Autoliv completed the spin-off of its former Electronics segment (the “spin-off”) through the distribution of all of the issued and outstanding stock of Veoneer, Inc. The spin-off is described in more detail in Note 1 to the Consolidated Financial Statements in this Annual Report.

#### **Business**

Autoliv is a leading developer, manufacturer and supplier of automotive safety systems to the automotive industry with a broad range of product offerings, primarily passive safety systems.

Passive safety systems are primarily meant to improve vehicle safety. Passive safety systems include modules and components for frontal-impact airbag protection systems, side-impact airbag protection systems, seatbelts, steering wheels, inflator technologies, battery cable cutters, pedestrian protection systems and child seats.

Including joint venture operations, Autoliv has approximately 64 production facilities in 25 countries and its customers include the world’s largest car manufacturers. Autoliv’s sales in 2018 were 8.7 billion, approximately 66% of which consisted of airbag and steering wheel products and approximately 34% of which consisted of seatbelt products. Our business is conducted in the following geographical regions, Europe, the Americas, China, Japan and the Rest of Asia (ROA).

Autoliv’s head office is located in Stockholm, Sweden, where we currently employ approximately 70 people. At December 31, 2018, Autoliv had approximately 58,000 employees worldwide, and a total headcount, including 9,000 temporary personnel, of approximately 67,000.

Additional information required by this Item 1 regarding developments in the Company’s business during 2018 is contained under Item 7 in this Annual Report.

#### **Financial Information on Segments**

Upon completion of the spin-off, Autoliv concluded at June 30, 2018 that it has one reportable segment based on the way the Company evaluates its financial performance and manages its operations. Prior to the completion of the Spin-off, the Company had two reportable segments, Electronics and Passive Safety. The Company’s single operating segment includes the Company’s airbag (including steering wheels), seatbelt products and components. For financial reporting purposes, the single operating segment is also the Company’s single reportable segment in accordance with Accounting Standards Codification (ASC) 280 Segment Reporting. The financial data relating to Autoliv’s businesses in this segment over the last three fiscal years is contained in the Consolidated Financial Statements of this Annual Report. A statement of net sales by product group and region for the last three years is contained in Note 22 to the Consolidated Financial Statements of this Annual Report.

#### **Products, Market and Competition**

##### **Products**

Saving more lives on the road is a key health priority as our world grows and develops. However, population expansion in growth markets and the rise of megacities creates new complexities. To meet this challenge, we develop automotive safety solutions that work in real life situations.

Our safety systems such as seatbelts and airbags substantially mitigate human consequences of traffic accidents.

The airbag module is designed to inflate extremely rapidly then quickly deflate during a collision or impact. It consists of the container, airbag cushion and an inflator. The purpose of the airbag is to provide the occupants a cushioning and restraint during a crash event to prevent any impact or impact-caused injuries between the occupant and the interior of the vehicle.

Seatbelts can reduce the overall risk of serious injuries in frontal crashes by as much as 60% thanks to advanced seatbelt technologies such as pretensioners and load limiters.

Autoliv also manufactures steering wheels which are crafted to ensure they meet safety requirements and are functional as well as stylish.

## **Market and Competition**

Consumer research clearly shows that people want safe cars, and several significant trends are likely to have a positive influence on overall safety content per vehicle. These include:

- 1) Society becoming increasingly focused on Vision Zero, which includes a goal of reducing traffic fatalities and their associated costs,
- 2) Demographic trends of increased urbanization, aging driver populations and increased safety focus in the Growth Markets, and
- 3) Evolving government regulations and test rating systems to improve the safety of vehicles in various markets, such as the updated Euro NCAP, China NCAP and USNCAP.

The automotive safety market is driven by two primary factors: light vehicle production (LVP) and content per vehicle (CPV).

The first growth driver, LVP, has increased at an average annual growth rate of around 2.6% since the incorporation of Autoliv Inc. in 1997 despite the cyclical nature of the automotive industry. LVP is expected to grow to close to 97 million in 2021 from approximately 91 million in 2018, according to IHS. Almost all of this expansion will be in the Growth Markets, predominantly in China, India, Southeast Asia and South America.

Unlike LVP, where Autoliv can only aim to be on the best-selling platforms, Autoliv can influence CPV more directly by continuously developing and introducing new technologies with higher value-added features. Over the long term, this increases average safety CPV and has caused our markets to grow faster than the LVP.

Since the start of Autoliv, Inc. in 1997, the Company's sales compound annual growth rate (CAGR) for passive safety has been 5.6% compared to the market rate of around 3% which includes an LVP growth of around 2.6%. Our outperformance is a result of a steady flow of new passive safety technologies, strong focus on quality and a superior global footprint both in products and engineering. This has enabled Autoliv to increase its market share from 27% in 1997 to around 40% in 2018.

In the Developed Markets (Western Europe, North America, Japan and South Korea) the CPV is around \$280. CPV growth in these regions will mainly come from new safety systems such as active seatbelts, knee airbags, front-center airbags along with improved protection for pedestrians and rear-seat occupants like bag-in-belt.

In our Growth Markets, we see great opportunities for CPV growth from more airbags and advanced seatbelt products. Average CPV in our Growth Markets is around \$170, approximately \$110 less than in the Developed Markets.

Despite a negative LVP mix effect from higher growth in low CPV markets, the passive safety market (seatbelts and airbags, including steering wheels), is expected to grow at a CAGR of 4% until 2021 to about \$23 billion, based on the current macro-economic outlook and our internal market intelligence and estimates. The highest growth rate is expected in steering wheels, where Autoliv has a global market share of more than 30%, generated by the trend toward higher-value steering wheels with leather and additional features.

The Growth Markets are expected to outgrow the Developed Markets substantially for the period between 2018 and 2021, as the Growth Markets are supported by a higher LVP and increasing CPV resulting from higher penetration of airbags and more advanced seatbelt products.

In seatbelts, Autoliv has reached a global market share of around 40%, primarily due to being the technology leader with several important innovations such as pretensioners and active seatbelts. Our strong market position is also a reflection of our superior global footprint. Seatbelts are the primary life-saving safety product and are also an important requirement in low-end vehicles for the Growth Markets. This provides us with an excellent opportunity to benefit from the expected growth in this segment of the market.

The market for airbags, where Autoliv has a market share of around 40%, is expected to grow slightly slower than the total passive safety market. This is related to the dilutive effect from new low-end vehicles in the Growth Markets, with relatively low installation rates for airbags.

### **Our competitors**

Autoliv is the clear market leader with an estimated global market share of around 40%. Our major competitors have traditionally been Takata and ZF.

During 2017, Takata, a family-controlled Japanese company whose shares were listed on the Tokyo Stock Exchange, filed for bankruptcy protection in the U.S. and Japan. The bankruptcy came after an accumulation of recall costs and liabilities related to malfunctioning airbag inflators. U.S.-based Key Safety Systems (KSS), owned by Chinese company Joyson, subsequently acquired Takata's assets in April 2018 for approximately \$1.6 billion. The new company is named Joyson Safety Systems (JSS). JSS is estimated to hold a global market share of 24%, including Joyson's Chinese subsidiary YFK.

ZF is a global leader in driveline and chassis technology, as well as in passive safety technologies, and is one of the largest global automotive suppliers and has an estimated global market share of 17%.

In Japan, Brazil, South Korea and China there are a number of local suppliers that have close ties with the domestic vehicle manufacturers. For example, Toyota uses “keiretsu” (in-house) suppliers Tokai Rika for seatbelts and Toyoda Gosei for airbags and steering wheels. These suppliers generally receive most of the Toyota business in Japan, in the same way, Mobis, a major supplier to Hyundai/Kia in South Korea, generally receives a significant part of their business.

Other competitors include Nihon Plast and Ashimori of Japan, Jinheng of China, Samsung in South Korea and Chris in South America. Collectively, these competitors account for the majority of the remaining 19% global market share in passive safety.

Additional information concerning our products, markets and competition is included in the “Risks and Risk Management” section under Item 7 of this Annual Report.

### ***Manufacturing and Production***

Including joint venture operations, Autoliv has 64 production facilities located in 25 countries, consisting of both component factories and assembly factories. See “Item 2. Properties” for a description of Autoliv’s principal properties. The component factories manufacture inflators, propellant, initiators, textile cushions, webbing, pressed steel parts, springs and overmoulded steel parts used in seatbelt and airbag assembly and steering wheels. The assembly factories source components from a number of parties, including Autoliv’s own component factories, and assemble complete restraint systems for “just-in-time” delivery to customers. The products manufactured by Autoliv’s consolidated subsidiaries in 2018 consisted of approximately 151 million complete seatbelt systems (of which approximately 79 million were fitted with pretensioners), approximately 99 million side airbags (including curtain airbags), approximately 56 million frontal airbag and approximately 20 million steering wheels.

Autoliv’s “just-in-time” delivery systems have been designed to accommodate the specific requirements of each customer for low levels of inventory and rapid stock delivery service. “Just-in-time” deliveries require final assembly or, at least, distribution centers in geographic areas close to customers to facilitate rapid delivery. The fact that the major automobile manufacturers are continually expanding their production activities into more countries and require the same or similar safety systems as those produced in Europe, Japan or the U.S. increases the importance for suppliers to have assembly capacity in several countries. Consolidation among our customers also supports this trend.

Autoliv’s assembly operations generally are not constrained by capacity considerations unless there is a disruption in the supply of raw materials and components. When dramatic shifts in LVP occur, Autoliv can generally adjust capacity in response to any changes in demand within a few days by adding or removing work shifts and within a few months by adding or removing standardized production and assembly lines. Most of Autoliv’s assembly factories can make sufficient space available to accommodate additional production lines to satisfy foreseeable increases in capacity. As a result, Autoliv can usually adjust its manufacturing capacity faster than its customers can adjust their capacity as a result of fluctuations in the general demand for vehicles or in the demand for a specific vehicle model, provided that customers promptly notify Autoliv when they become aware of such changes in demand.

When dramatic shifts in LVP occur or when there is a shift in regional LVP, the capacity adjustments can take more time and be more costly. Additionally, when there is a significant demand for a given product due to a major recall of a competitor’s product, like certain of our customers have experienced, capacity adjustments may take time.

We could experience disruption in our supply or delivery chain, which could cause one or more of our customers to halt or delay production. For more information, see Item 1A – “Risk Factors” in this Annual Report.

### ***Quality Management***

Autoliv believes that superior quality is a prerequisite to being considered a leading global supplier of automotive safety systems and is key to our financial performance, because quality excellence is critical for winning new orders, preventing recalls and maintaining low scrap rates. Autoliv has for many years emphasized a “zero-defect” proactive quality policy and continues to strive to improve its working methods. This means both that Autoliv’s products are expected to always meet performance expectations, and that Autoliv’s products are expected to be delivered to its customers at the right times and in the right amounts. Furthermore, we believe our continued quality improvements further enhance our reputation among our customers, employees and governmental authorities.

Although quality has always been paramount in the automotive industry, especially for safety products, automobile manufacturers have become increasingly focused on quality with even less tolerance for any deviations. This intensified focus on quality is partially due to an increase in the number of vehicle recalls for a variety of reasons (not just safety), including a few high-profile vehicle recalls. This trend is likely to continue as automobile manufacturers introduce even stricter quality requirements and regulating agencies and other authorities increase the level of scrutiny given to vehicle safety issues. We have not been immune to the recalls that have been impacting the automotive industry.

We continue to drive our quality initiative called “Q5” which was initiated in the summer of 2010. It is an integral part of our strategy of shaping a proactive quality culture of zero defects. It is called “Q5” because it addresses quality in five dimensions: products, customers, growth, behavior and suppliers. The goal of Q5 is to firmly tie together quality with value within all of our processes and for all of our employees, thereby leading to the best value for our customers. Since 2010, we have continually expanded this quality initiative to provide additional skills training to more employees and suppliers. These activities have made a significant contribution to the reduction in occurrences of non-conforming events.

In our pursuit of excellence in quality, we have developed a chain of four “defense lines” against potential quality issues. These defense lines consist of: 1) robust product designs, 2) flawless components from suppliers and our own in-house component companies, 3) manufacturing flawless products with a system for verifying that our products conform with specifications and 4) an advanced traceability system in the event of a recall.

Our pursuit of excellence extends from the earliest phases of product development to the proper disposal of a product following many years of use in a vehicle. Autoliv’s comprehensive Autoliv Product Development System includes several key check points during the process of developing new products that are designed to ensure that such products are well-built and have no hidden defects. Through this process, we work closely with our suppliers and customers to set clear standards that help to ensure robust component design and lowest cost for function in order to proactively prevent problems and ensure we deliver only the best designs to the market.

The Autoliv Production System (“APS”), based on the goals of improving quality and efficiency, is at the core of Autoliv’s manufacturing philosophy. APS integrates essential quality elements, such as mistake proofing, statistical process control and operator involvement, into the manufacturing processes so all Autoliv associates are aware of and understand the critical connection between themselves and our lifesaving products. This “zero-defect” principle extends beyond Autoliv to the entire supplier base. All of our suppliers must accept the strict quality standards in the global Autoliv Supplier Manual, which defines our quality requirements and focuses on preventing bad parts from being produced by our suppliers and helps eliminate defective intermediate products in our assembly lines as early as possible. In addition, Autoliv’s One Product One Process (“1P1P”) initiative is our strategy for developing and managing standardization of both core products and customer-specific features, leading not only to improved quality, but also greater cost efficiency and more efficient supply chain management.

IATF 16949:2016 is the most rigorous global automotive quality requirements and all our facilities shipping to OEMs are regularly certified according to IAFT standards.

### ***Environmental and Safety Regulations***

For information on how environmental and safety regulations impact our business, see “Risk Factors – ‘Our business may be adversely affected by laws or regulations, including environmental, occupational health and safety or other governmental regulations’ and ‘Our business may be adversely affected by changes in automotive safety regulations or concerns that drive further regulation of the automobile safety market’” in Item 1A and “Risks and Risk Management” in Item 7 of this Annual Report.

### ***Raw Materials***

Approximately 50% of our revenues are spent on material purchased directly from external suppliers. Autoliv mainly purchases manufactured components and raw materials for the operations. We take several actions to mitigate higher raw material prices, such as competitive sourcing and looking for alternative materials.

For information on the sources and availability of raw materials, see “Risk Factors – Changes in the source., cost, availability of and regulations pertaining to raw materials and components may adversely affect our profit margins” in Item 1A of this Annual Report.

### ***Intellectual Property***

We have developed a considerable amount of proprietary technology related to automotive safety systems and rely on many patents to protect such technology. Our intellectual property plays an important role in maintaining our competitive position in a number of the markets we serve. For information on our use of intellectual property and its importance to us, see “Risk Factors – If our patents are declared invalid or our technology infringes on the proprietary rights of others, our ability to compete may be impaired” in Item 1A of this Annual Report.

### ***Seasonality and Backlog***

Autoliv’s business is not subject to significant seasonal fluctuations. Autoliv has frame contracts with automobile manufacturers and such contracts are typically entered into up to three years before the start of production of the relevant car model or platform and provide for a term covering the life of such car model or platform including service parts after a vehicle model is no longer produced. However, typically these contracts do not provide minimum quantities, firm prices or exclusivity but instead permit the automobile manufacturer to resource the relevant products at given intervals (or at any time) from other suppliers.

## **Dependence on Customers**

In 2018 our top five customers represented around 50% of sales and the ten largest customers represented around 79%. This reflects the concentration of manufacturers in the automotive industry. The five largest OEMs in 2018 accounted for 49% of global LVP and the ten largest OEMs for 74%. A delivery contract is typically for the lifetime of a vehicle model, which is normally between 4 and 6 years depending on customer platform sourcing preferences and strategies.

| <b>Customer</b>           | <b>% of Autoliv Sales</b> | <b>% of Global LVP<sup>1)</sup></b> |
|---------------------------|---------------------------|-------------------------------------|
| Renault/Nissan/Mitsubishi | 15%                       | 11%                                 |
| VW                        | 10%                       | 12%                                 |
| Hyundai/Kia               | 8%                        | 8%                                  |
| Ford                      | 8%                        | 6%                                  |
| Honda                     | 8%                        | 6%                                  |
| FCA                       | 8%                        | 5%                                  |
| Toyota                    | 7%                        | 11%                                 |
| Daimler                   | 6%                        | 3%                                  |
| General Motors            | 4%                        | 7%                                  |
| BMW                       | 4%                        | 3%                                  |

1) Source: IHS

## **CUSTOMER SALES TRENDS**

Asian vehicle producers have steadily become increasingly more important to Autoliv, and now represent around 45% of global sales compared to 35% five years ago. Of the Asian OEMs, the Japanese OEMs represent 32% of our sales compared to 24% in 2013. This reflects their increasing share of the global LVP and our stronger market position based on our local presence in Japan. European OEMs accounted for 33% of sales in 2018, virtually unchanged since 2013. The Detroit-3 now account for 19% of our global sales, down from 30% in 2013 this is in part due to GM's divestiture of Opel and the lingering effects of new business hold back in 2011 and 2012.

For information on our dependence on customers, see "Risk Factors – Our business could be materially and adversely affected if we lost any of our largest customers or if they were unable to pay their invoices" in Item 1A of this Annual Report and Dependence on Customers under the section Risks and Risk Management in Item 7 of this Annual Report and Note 22 to the Consolidated Financial Statements.

## **Research, Development and Engineering**

No single customer project accounts for more than 2% of Autoliv's total R,D&E spending during 2018. To fuel Autoliv's product portfolio, additional expertise is brought in-house via technology partnerships and licensing agreements.

Information on research, development and engineering is included under section "Risks and Risk Management" in Item 7 of this Annual Report.

## **Regulatory Costs**

The fitting of seatbelts in most types of motor vehicles is mandatory in almost all countries and many countries have strict laws regarding the use of seatbelts while in vehicles. In addition, most developed countries require that seats in intercity buses and commercial vehicles be fitted with seatbelts. In the U.S., federal legislation requires frontal airbags on the driver-side and the passenger-side of all new passenger cars and in all new light vehicles, which are defined as vehicles with an unloaded vehicle weight of approximately 7,700 pounds or less.

For information concerning the material effects on our business relating to our compliance with government safety regulations, see "Risk Factors – 'Our business may be adversely affected by laws or regulations, including environmental, occupational health and safety or other governmental regulations' and 'Our business may be adversely affected by changes in automotive safety regulations or concerns that drive further regulation of the automobile safety market'" in Item 1A of this Annual Report and in Item 7 under the section "Risks and Risk Management" of this Annual Report.

## **Autoliv Personnel**

As of December 31, 2018, Autoliv and its subsidiaries had approximately 58,000 employees and approximately 9,000 temporary personnel. Autoliv considers its relationship with its personnel to be good. While there have been a small number of minor labor disputes during the year, such disputes have not had a significant or lasting impact on our relationship with our employees, customer perception of our employee practices or our business results.

Major unions to which some of Autoliv's employees belong in Europe include: IG Metall in Germany; Unite the union in the United Kingdom; Confédération Générale des Travailleurs (CGT), Confédération Française Démocratique du Travail (CFDT), Confédération Française de l'Encadrement Confédération Générale des cadres, Force Ouvrière (CFE-CGC) and Confédération Française des Travailleurs Chrétiens (CFTC) and Solidaires, Unitaires, Démocratiques (SUD) in France; Union General de Trabajadores (UGT), Union Sindical Obrera (USO), Comisiones Obreras (CCOO) and Confederacion General de Trabajadores (CGT) in Spain; If Metall, Unionen, Sveriges Ingenjörer and Ledarna in Sweden; Industriaal- ja Metallitöötajate Ametiühingute Liit (IMTAL) in Estonia; Vasas Szakszervezeti Szövetség (Hungarian Metallworkers' Federation) in Hungary, Samorządny Niezależny Związek Zawodowy Pracowników and Zakładowa Organizacja Związkowa NSZZ Solidarność in Poland, Union Générale des Travailleurs Tunisiens (UGTT) and Union des travailleurs Tunisiens (UTT) in Tunisia; and Türk Metal Sendikası in Turkey.

In addition, Autoliv's employees in other regions are represented by the following unions: Unifor and the International Association of Machinists and Aerospace Workers (IAM) in Canada; Sindicato de Jornaleros y Obreros Industriales y de la Industria Maquiladora; Sindicato Nacional de Trabajadores de la Industria Metalúrgica y Similares (CTM); Sindicato Industrial de Trabajadores de la Pequeña y Mediana Industria, Talleres, Maquiladoras, Negociaciones Mercantiles y Comercios, Similares, Anexos y Conexos del Estado de Querétaro (CTM); "Nueva Cultura Laboral" "de trabajadores de la fabricación, manufactura, ensamble de partes y componentes de la industria Automotriz de la Republica Mexicana" in Mexico; Sindicato dos Metalúrgicos de Taubaté e Região in Brazil; Autoliv India Employees Association, Bangalore in India; the Korean Metal Workers Union (FKTU) in Korea; Autoliv Japan Roudou Kumiai in Japan and Federasi Perjuangan Buruh Indonesia (FPBI) in Indonesia.

In many European countries, Canada, Mexico, Brazil and Korea, wages, salaries and general working conditions are negotiated with local unions and/or are subject to centrally negotiated collective bargaining agreements. The terms of our various agreements with unions typically range between 1-3 years. Some of our subsidiaries in Europe, Canada, Brazil and Korea must negotiate with the applicable local unions with respect to important changes in operations, working and employment conditions. Twice a year, members of the Company's management conduct a meeting with the European Works Council (EWC) to provide employee representatives with important information about the Company and a forum for the exchange of ideas and opinions.

In many Asia Pacific countries, the central or regional governments provide guidance each year for salary adjustments or statutory minimum wage for workers.

Autoliv's employees may join associations in accordance with local legislation and rules, although the level of unionization varies significantly throughout our operations.

For more information concerning Autoliv's personnel, see Item 7 of this Annual Report.

## **Joint Ventures**

Historically, Autoliv established joint ventures to promote its geographical expansion and technology development and to gain assistance in marketing its full product line to automobile manufacturers. While joint ventures are of less importance to our overall business today than in the past, joint ventures remain a potential business model in our strategy.

For information on how the joint ventures are accounted for, including Autoliv's percentage of ownership, see Note 9 to the Consolidated Financial Statements of this Annual Report.

## **Available information**

We file or furnish with the United States Securities and Exchange Commission (the "SEC") periodic reports and amendments thereto, which include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information. Such reports, amendments, proxy statements and other information are made available free of charge on our corporate website at [www.autoliv.com](http://www.autoliv.com) and are available as soon as reasonably practicable after they are electronically filed with the SEC. Our Corporate Governance Guidelines, committee charters, code of conduct and other documents governing the Company are also available on our corporate website at [www.autoliv.com](http://www.autoliv.com). The SEC maintains an internet site that contains reports, proxy statements and other information at [www.sec.gov](http://www.sec.gov). Hard copies of the above-mentioned documents can be obtained free of charge from the Company by contacting us at: Autoliv, Inc., P.O. Box 70381, SE-107 24, Stockholm, Sweden or Autoliv, Inc., c/o Autoliv Electronics America, 26545 American Drive, Southfield, MI 48034.

## Item 1A. Risk Factors

Our business, financial condition, operating results and cash flows may be impacted by a number of factors. A discussion of the risks associated with these factors is included below.

### RISKS RELATED TO OUR INDUSTRY

#### **The cyclical nature of automotive sales and production can adversely affect our business. Our business is directly related to light vehicle production (“LVP”) in the global market and by our customers, and automotive sales and LVP are the most important drivers for our sales**

Automotive sales and production are highly cyclical and can be affected by general or regional economic or industry conditions, the level of consumer demand, recalls and other safety issues, labor relations issues, technological changes, fuel prices and availability, vehicle safety regulations and other regulatory requirements, governmental initiatives, trade agreements, political volatility, especially in energy producing countries and growth markets, changes in interest rate levels and credit availability and other factors. Some regions around the world may at various times be more particularly impacted by these factors than other regions. Economic declines that result in a significant reduction in automotive sales and production by our customers have in the past had, and may in the future have, a material adverse effect on our business, results of operations and financial condition.

Our sales are also affected by inventory levels of our customers. We cannot predict when our customers will decide to either increase or reduce inventory levels or whether new inventory levels will approximate historical inventory levels. This may exacerbate variability in our sales and financial condition. Uncertainty regarding inventory levels may be exacerbated by consumer financing programs initiated or terminated by our customers or governments as such changes may affect the timing of their sales.

Changes in automotive sales and LVP and/or customers' inventory levels will have an impact on our earnings guidance and estimates and any significant reduction in automotive sales and/or LVP by our customers, whether due to general economic conditions or any other factors relevant to sales or LVP, could have a material adverse effect on our business, results of operations and financial condition.

#### **Growth rates in safety content per vehicle, which can be impacted by changes in consumer trends and political decisions, could affect our results in the future**

The average global content of passive safety systems per light vehicle grew slightly during the period 2016-2018 to around \$225. Vehicles produced in different markets may have various passive safety content values. For example, in developed markets such as Western Europe and North America, the premium segment have passive safety content values of more than \$300 per vehicle, whereas in growth markets such as China and India the average passive safety content per vehicle is approximately \$180 and \$80, respectively. Due to the majority of the growth in global LVP being concentrated in growth markets the operating results may be impacted if the passive safety content per vehicle remains low and if the penetration of more advanced automotive safety systems does not increase in these regions. As passive safety content per vehicle is also an indicator of our sales development, should these trends continue, the average value of passive safety systems per vehicle could decline.

#### **We operate in a highly competitive market**

The market for occupant restraint systems is highly competitive and continues to consolidate. We compete with a number of other companies that produce and sell similar products. Among other factors, our products compete on the basis of price, quality, manufacturing and distribution capability, design and performance, technological innovation, delivery and service. Some of our competitors are subsidiaries (or divisions, units or similar) of companies that are larger and have greater financial and other resources than us. Some of our competitors may also have a “preferred status” as a result of special relationships or ownership interests with certain customers. Our ability to compete successfully depends, in large part, on our success in continuing to innovate and manufacture products that have commercial success with consumers, differentiating our products from those of our competitors, continuing to deliver quality products in the time frames required by our customers, and maintaining best-cost production.

We continue to invest in technology and innovation which we believe will be critical to our long-term growth. Our ability to maintain and improve existing products, while successfully developing and introducing distinctive new and enhanced products that anticipate changing customer and consumer preferences and capitalize upon emerging technologies will be a significant factor in our ability to remain competitive. If we are unsuccessful or are less successful than our competitors in predicting the course of market development, developing innovative products, processes, and/or use of materials or adapting to new technologies or evolving regulatory, industry or customer requirements, we may be placed at a competitive disadvantage. For example, the focus of the automotive industry on the development of advanced driver assistance technologies, with the goal of developing and introducing autonomous vehicles, and increase in consumer preferences for mobility on demand services may create demand for new and innovative products in response to OEM and consumer preferences and our success in providing such products will be critical for our long-term growth. Similarly, the demand for our products historically has tracked LVP and a future evolution of the automotive industry to autonomous vehicles and mobility on demand services may lead to a future reduction in annual global LVP. Our competitive environment continues to change, including because of recent acquisitions and divestitures by our existing competitors (including Delphi and Takata) within recent years as well as increased competition from entrants outside the traditional automotive industry, creating uncertainty about the future competitive landscape. The inability to compete successfully could have a material adverse effect on our business, results of operations and financial condition.

**The discontinuation, lack of commercial success, or loss of business with respect to a particular vehicle model for which we are a significant supplier could reduce our sales and harm our business**

A number of our customer contracts generally require us to supply a customer's annual requirements for a particular vehicle model and assembly facilities, rather than for manufacturing a specific quantity of products. Such contracts range from one year to the life of the model, which is generally four to seven years. These contracts are often subject to renegotiation, sometimes as frequent as on an annual basis, which may affect product pricing, and generally may be terminated by our customers at any time. Therefore, the discontinuation of, the loss of business with respect to, or a lack of commercial success of a particular vehicle model or brand for which we are a significant supplier could reduce our sales and harm our business prospects, operating results, cash flows, or financial condition.

**RISKS RELATED TO OUR BUSINESS**

**We may incur material losses and costs as a result of product liability, warranty and recall claims that may be brought against us or our customers**

We face risks related to product liability claims, warranty claims and recalls in the event that any of our products actually or allegedly are defective, fail to perform as expected or the use of our products results, or is alleged to result, in bodily injury and/or property damage. For example, we are cooperating with Toyota Motor Corp. with respect to its voluntary safety recall of approximately 1.4 million vehicles that are equipped with a certain model of our side curtain airbags (the "Toyota Recall"). We may not be able to anticipate all of the possible performance or reliability problems that could arise with our products after they are released to the market. Additionally, increasing regulation and reporting requirements regarding potentially defective products, particularly in the U.S., may increase the possibility that we become involved in additional product liability or recall investigations or claims. See – "Our business may be adversely affected by changes in automotive safety regulations or concerns that drive further regulation of the automobile safety market". Although we currently carry product liability and product recall insurance, no assurance can be made that such insurance will provide adequate coverage against potential claims, such insurance is available or will continue to be available in the appropriate markets or that we will be able to obtain such insurance on acceptable terms in the future. Although we have invested and will continue to invest in our engineering, design, and quality infrastructure, we cannot give any assurance that our products will not suffer from defects or other deficiencies or that we will not experience material warranty claims or additional product recalls. In the future, we could experience additional material warranty or product liability losses and incur significant costs to process and defend these claims.

The Toyota Recall and any additional future recalls from this customer or other customers could result in costs not covered by insurance, further government inquiries, litigation and reputational harm and could divert management's attention away from other matters. The main variables affecting the costs of a recall are the number of vehicles ultimately determined to be affected by the issue, the cost per vehicle associated with a recall, the determination of proportionate responsibility among the customer, the Company, and any relevant sub-suppliers, and actual insurance recoveries. Every vehicle manufacturer has its own practices regarding product recalls and other product liability actions relating to its suppliers, and the performance and remedial requirements vary between jurisdictions. Due to recent recall activity in the automotive industry, some vehicle manufacturers have become even more sensitive to product recall risks. As suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, vehicle manufacturers are increasingly looking to their suppliers for contribution when faced with recalls and product liability claims. Product recalls in our industry, even when they do not involve our products, can harm the reputations of our customers, competitors, and us, particularly if those recalls cause consumers to question the safety or reliability of products similar to those we produce.

In addition, with global platforms and procedures, vehicle manufacturers are increasingly evaluating our quality performance on a global basis; any one or more quality, warranty or other recall issue(s) (including issues affecting few units and/or having a small financial impact) may cause a vehicle manufacturer to implement measures which may have a severe impact on our operations, such as a global, temporary or prolonged suspension of new orders. In addition, as our products more frequently use global designs and are based on or utilize the same or similar parts, components or solutions, there is a risk that the number of vehicles affected globally by a failure or defect will increase significantly with a corresponding increase in our costs. A warranty, recall or product liability claim brought against us in excess of our available insurance may have a material adverse effect on our business. Vehicle manufacturers are also increasingly requiring their outside suppliers to guarantee or warrant their products and bear the costs of repair and replacement of such products under new vehicle warranties. A vehicle manufacturer may attempt to hold us responsible for some or the entire repair or replacement costs of defective products under new vehicle warranties, when the product supplied did not perform as represented. Accordingly, the future costs of warranty claims by our customers may be material. However, the final amounts determined to be due related to these matters could differ materially from our recorded warranty estimates and our business prospects, operating results, cash flows or financial condition may be materially impacted as a result.

In addition, as we adopt new technology, we face an inherent risk of exposure to the claims of others that we have allegedly violated their intellectual property rights. We cannot assure that we will not experience any material warranty, product liability or intellectual property claim losses in the future or that we will not incur significant costs to defend such claims. See "If our patents are declared invalid or our technology infringes on the proprietary rights of others, our ability to compete may be impaired".

**Escalating pricing pressures from our customers may adversely affect our business**

The automotive industry continues to experience aggressive pricing pressure from customers. This trend is partly attributable to the major automobile manufacturers' strong purchasing power. As with other automotive component manufacturers, we are often expected to quote fixed prices or are forced to accept prices with annual price reduction commitments for long-term sales arrangements or discounted reimbursements for engineering work. Price reductions have impacted our sales and profit margins and are expected to continue to do so in the future. Our future profitability will depend upon, among other things, our ability to continuously reduce our cost per unit and maintain our cost structure, enabling us to remain cost-competitive.



Our profitability is also influenced by our success in designing and marketing technological improvements in automotive safety systems, which helps us offset price reductions by our customers. If we are unable to offset continued price reductions through improved operating efficiencies and reduced expenditures, these price reductions may have a material adverse effect on our business prospects, operating results, cash flows or financial condition.

**We could experience disruption in our supply or delivery chain, which could cause one or more of our customers to halt or delay production**

We, as with other component manufactures in the automotive industry, ship our products to customer vehicle assembly facilities throughout the world on a “just-in-time” basis in order for our customers to maintain low inventory levels. Our suppliers (external suppliers as well as our own production sites) use a similar method in providing raw materials to us. However, this “just-in-time” method makes the logistics supply chain in our industry very complex and vulnerable to disruption.

Disruptions in our supply chain may result for many reasons, including closures of one of our own or one of our suppliers’ facilities or critical manufacturing lines due to strikes or other labor disputes, mechanical failures, electrical outages, fires, explosions, critical pollution levels, critical health and safety and other working conditions issues, natural disasters political upheaval, as well as logistical complications due to labor disruptions, weather or natural disasters, acts of terrorism, mechanical failures and legislation or regulation regarding the transport of hazardous goods. Additionally, we may experience disruptions if there are delays in customs processing, including if we are unable to obtain government authorization to export or import certain materials, including materials that may be viewed as dangerous such as the propellant used for our inflators. As we continue to expand in growth markets, the risk of such disruptions is heightened. The unavailability of even a single small subcomponent necessary to manufacture one of our products, for whatever reason, could force us to cease production of that product, possibly for a prolonged period. Similarly, a potential quality issue could force us to halt deliveries while we validate the products. Even where products are ready to be shipped, or have been shipped, delays may arise before they reach our customer. Also, similar difficulties for other suppliers may force our customers to halt production, which may in turn impact our sales shipments to such customers.

When we fail to timely deliver, we may have to absorb our own costs for identifying and resolving the ultimate problem as well as expeditiously producing and shipping replacement components or products. Generally, we must also carry the costs associated with “catching up,” such as overtime and premium freight.

If we are the cause of a customer being forced to halt production, the customer may seek to recoup all of its losses and expenses from us. These losses and expenses could be very significant and may include consequential losses such as lost profits. Where a customer halts production because of another supplier failing to deliver on time, we may not be fully compensated, if at all.

Thus, any such supply chain disruptions could severely impact our operations and/or those of our customers and force us to halt production for prolonged periods of time which could expose us to material claims for compensation and have a material adverse effect on our business prospects, operating results, or financial condition.

**Adverse developments affecting one or more of our major suppliers could harm our profitability**

Any significant disruption in our supplier relationships, particularly relationships with single-source suppliers, could harm our profitability. Furthermore, some of our suppliers may not be able to sufficiently manage the currency commodity cost volatility and/or sharply changing volumes while still performing as we expect. For example, recalls or field actions from our customers can stress the capacity of our supply chain and may inhibit our ability to timely deliver order volumes. Over time, more of our suppliers are located in growth markets. As such, there is an increased risk for delivery delays, production delays, production issues or delivery of non-conforming products by our suppliers. Even where these risks do not materialize, we may incur costs as we try to make contingency plans for such risks.

**Changes in the source, cost, availability of and regulations pertaining to raw materials and components may adversely affect our profit margins**

Our business uses a broad range of raw materials and components in the manufacture of our products, nearly all of which are generally available from a number of qualified suppliers. Our industry may be affected from time to time by limited supplies or price fluctuations of certain key components and materials. Strong worldwide demand for certain raw materials has had a significant impact on prices and short-term availability in recent years. Such price increases could materially increase our operating costs and materially and adversely affect our profit margin, as direct material costs amounted to approximately 50% of our net sales in 2018, of which approximately half is the raw material cost portion.

Commercial negotiations with our customers and suppliers may not always offset all of the adverse impact of higher raw material, energy and commodity costs. Even where we are able to pass price increases along to our customer, there may be a lapse of time before we are able to do so such that we must absorb the cost increase. In addition, no assurances can be given that the magnitude and duration of such cost increases or any future cost increases could not have a larger adverse impact on our profitability and consolidated financial position than currently anticipated.

The SEC requires companies that manufacture products containing certain minerals and their derivatives that are known as “conflict minerals”, originating from the Democratic Republic of Congo or adjoining countries to diligence and report the source of such materials. There are significant resources associated with complying with these requirements, including diligence efforts to determine the sources of conflict minerals used in our products and potential changes to our processes or supplies as a consequence of such diligence efforts. As there may be only a limited number of suppliers able to offer certified “conflict free” conflict minerals, there can be no assurance that we will be able to obtain necessary conflict free minerals from such suppliers in sufficient quantities or at competitive prices. We may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement. Accordingly, these rules may adversely affect our business prospects, operating results, cash flows or financial condition.

### **Our business could be materially and adversely affected if we lost any of our largest customers or if they were unable to pay their invoices**

We are dependent on a few large customers with strong purchasing power. This is the result of customer consolidation during the last few decades. In 2018, our top five customers represented 50% of our consolidated sales. Our largest contract accounted for around 2% of our total fiscal 2018 sales and expires in 2025. Although business with any given customer is typically split into several contracts (either on the basis of one contract per vehicle model or on a broader platform basis), the loss of business from any of our major customers (whether by lower overall demand for vehicles, cancellation of existing contracts or the failure to award us new business) could have a material adverse effect on our business, results of operations and financial condition. Similarly, further consolidation of our customers in the future could make us more reliant upon a smaller group of customers for a significant portion of our consolidated sales and negatively impact our bargaining power when contracting with such customers.

Customers may put us on a “new business hold,” which would limit our ability to quote or be awarded all or part of their future vehicle contracts if quality or other issues arise in the vehicles for which we were a supplier. Such new business holds range in length and scope and are generally accompanied by a certain set of remedial conditions that must be met before we are eligible to bid for new business. Meeting any such conditions within the prescribed timeframe may require additional Company resources. A failure to satisfy any such conditions may have a materially adverse impact on our financial results in the long term.

There is a risk that one or more of our major customers may be unable to pay our invoices as they become due or that a customer will simply refuse to make such payments given its financial difficulties. If a major customer would enter into bankruptcy proceedings or similar proceedings whereby contractual commitments are subject to stay of execution and the possibility of legal or other modification, or if a major customer otherwise successfully procures protection against us legally enforcing its obligations, it is likely, absent special relief such as having a “preferred status”, that we will be forced to record a substantial loss.

Additional information concerning our major customers is included in Note 22 of the Consolidated Financial Statements.

### **Our inability to effectively manage the timing, quality and costs of new program launches could adversely affect our financial performance**

To compete effectively in the automotive supply industry, we must be able to launch new products to meet our customers’ timing, performance and quality standards. At times, we face an uneven number of launches, and some launches for various reasons, may have shortened launch lead times. We cannot provide assurance that we will be able to install and certify the equipment needed to produce products for new programs in time for the start of production, or that the transitioning of our manufacturing facilities and resources to full production for such new programs will not impact production rates or other operational efficiency measures at our facilities. In addition, we cannot provide assurance that our customers will execute on schedule the launch of their new product programs, for which we might supply products. Additionally, as a Tier 1 supplier, we must effectively coordinate the activities of numerous suppliers in order to launch programs successfully. Given the complexity of new program launches, especially involving new and innovative technologies, we may experience difficulties managing product quality, timeliness and associated costs. In addition, new program launches require a significant ramp up of costs; however, the sales related to these new programs generally are dependent upon the timing and success of the introduction of new vehicles by the Company’s customers. Our inability to effectively manage the timing, quality and costs of these new program launches could adversely affect our business prospects, operating results, cash flows or financial condition.

### **Changes in our product mix may impact our financial performance**

We sell products that have varying profit margins. Our financial performance can be impacted depending on the mix of products we sell during a given period. Our earnings guidance and estimates assume a certain geographic sales mix as well as a product sales mix. If actual results vary significantly from this projected geographic and product mix of sales, our operating results and financial condition could be negatively impacted.

### **We are involved from time to time in legal proceedings and our business may suffer as a result of adverse outcomes of current or future legal proceedings**

We are, from time to time, involved in litigation, regulatory proceedings and commercial or contractual disputes that may be significant. These matters may include, without limitation, disputes with our suppliers and customers, intellectual property claims, shareholder litigation, government investigations, class action lawsuits, personal injury claims, environmental issues, antitrust, customs and VAT disputes and employment and tax issues. In such matters, government agencies or private parties may seek to recover from us very large, indeterminate amounts in penalties or monetary damages (including, in some cases, treble or punitive damages) or seek to limit our operations in some

way. The possibility exists that claims may be asserted against us and their magnitude may remain unknown for long periods of time. These types of lawsuits could require significant management time and attention and a substantial legal liability or adverse regulatory outcome and the substantial expenses to defend the litigation or regulatory proceedings may have a material adverse effect on our customer relationships, business prospects, reputation, operating results, cash flows and financial condition. No assurances can be given that such proceedings and claims will not have a material adverse impact on our profitability and consolidated financial position or that our established reserves or our available insurance will mitigate such impact.

See Note 18 to the Consolidated Financial Statements in this Annual Report.

**We are currently undergoing an antitrust investigation by the European Commission and have accrued an amount regarding this investigation that may not fully reflect the ultimate cost to resolve the EC's investigation**

The European Commission ("EC") is engaged in a long-running investigation into possible anti-competitive behavior among certain suppliers to the automotive vehicle industry, including Autoliv. From June 7 to June 9, 2011, representatives of the EC visited two facilities of Autoliv BV & Co KG, a Company subsidiary in Germany, to gather information for such inquiry. Autoliv has been cooperating with the EC investigation. The EC previously concluded a discrete portion of its investigation in November 2017 and imposed a fine on the Company. In December 2018, we accrued \$210 million based on our belief that the EC will seek to impose a fine in connection with the remaining portion of the EC's investigation. The EC investigation requires significant management time and attention and could, in addition to an unfavorable outcome, result in significant expenses. Unfavorable outcomes from the EC investigation could have a material adverse impact on our customer relationships, business prospects, reputation, operating condition, cash flows or financial results, and our insurance may not mitigate such impact.

**We may be subject to civil antitrust litigation civil antitrust litigation that could negatively impact our business**

The Company may be subject to civil antitrust lawsuits in the future in countries that permit such civil claims, including lawsuits or other actions by our customers. Specifically, the outcome of the EC investigation could also result in subsequent civil disputes with non-governmental third parties and civil or stockholder litigation stemming from the same facts and circumstances underlying the EC investigation. These types of lawsuits require significant management time and attention and could result in significant expenses as well as unfavorable outcomes that could have a material adverse impact on our customer relationships, business prospects, reputation, operating results, cash flows or financial condition, and our insurance may not mitigate such impact.

**We are, and have been, subject to investigations by other competition authorities and may be subject to investigations by additional competition authorities that could negatively impact our business**

Competition authorities in Brazil, Canada, South Africa and South Korea have previously initiated investigations of certain suppliers to the automotive vehicle industry, including Autoliv. Competition authorities in additional countries may initiate similar investigations. These types of investigations require significant management time and attention. These investigations could also result in significant expenses as well as unfavorable outcomes that could have a material adverse impact on our customer relationships, business prospects, reputation, operating results, cash flows or financial condition, and our available insurance may not mitigate such impact.

**We may have exposure to greater than anticipated tax liabilities**

The determination of our worldwide provision for income taxes and other tax liabilities requires estimation and significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. Like many other multinational corporations, we are subject to tax in multiple U.S. and foreign tax jurisdictions. Our determination of our tax liability is always subject to audit and review by applicable domestic and foreign tax authorities, and we are currently undergoing a number of investigations, audits and reviews by taxing authorities throughout the world. Any adverse outcome of any such audit or review could have a negative effect on our business and the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made. While we have established reserves based on assumptions and estimates that we believe are reasonable to cover such eventualities, these reserves may prove to be insufficient. In addition, our future income taxes could be adversely affected by earnings being lower than anticipated (or by the incurrence of losses) in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items.

**Work stoppages or other labor issues at our customers' facilities or at our facilities could adversely affect our operations**

Because the automotive industry relies heavily on "just-in-time" delivery of components during the assembly and manufacture of vehicles, a work stoppage at one or more of the Company's facilities could have material adverse effects on our business. Similarly, if any of our customers were to experience a work stoppage, that customer may halt or limit the purchase of our products. Similarly, a work stoppage at another supplier could interrupt production at one of our customers' facilities which would have the same effect. While labor contract negotiations at our facilities historically have rarely resulted in work stoppages, no assurances can be given that we will be able to negotiate acceptable contracts with these unions or that our failure to do so will not result in work stoppages. A work stoppage at one or more of our facilities or our customers' facilities could cause us to shut down production facilities supplying these products, which could have a material adverse effect on our business, results of operations and financial condition.

**Our ability to operate our company effectively could be impaired if we fail to attract and retain executive officers and other key personnel**

Our ability to operate our business and implement our strategies effectively depends, in part, on the efforts of our executive officers and other key employees. In addition, our future success will depend on, among other factors, our ability to attract and retain other qualified personnel, particularly engineers and other employees with software and technical expertise. The loss of the services of any of our executive officers or other key employees or the failure to attract or retain other qualified personnel could have a material adverse effect on our business.

**Restructuring initiatives and capacity alignments are complex and difficult and at any time additional restructuring steps may be necessary, possibly on short notice and at significant cost**

Our restructuring initiatives and capacity alignments include efforts to adjust our manufacturing capacity and cost structure to meet current and projected operational and market requirements, including plant closures, transfer of sourcing to best cost countries, consolidation of our supplier base and standardization of products, to reduce our overhead costs and consolidate our operational centers. The successful implementation of our restructuring activities and capacity alignments will involve sourcing, logistics, technology and employment arrangements. Because these restructuring initiatives and capacity alignments can be complex, there may be difficulties or delays in the implementation of any such initiatives and capacity alignments or they may not be immediately effective, resulting in an adverse material impact on our performance. In addition, there is a risk that inflation, high-turnover rates and increased competition may reduce the efficiencies now available in best-cost countries to levels that no longer allow for cost-beneficial restructuring opportunities. Therefore, there can be no assurances that any future restructurings or capacity alignments will be completed as planned or achieve the desired results.

**A prolonged recession and/or a downturn in our industry could result in us having insufficient funds to continue our operations and external financing may not be available to us or available only on materially different terms than what has historically been available**

Our ability to generate cash from our operations is highly dependent on automotive sales and LVP, the global economy and the economies of our important markets. If LVP were to remain on low levels for an extended period of time, we would experience a significantly negative cash flow. Similarly, if cash losses for customer defaults rise sharply, we would experience a negative cash flow. Such negative cash flow could result in our having insufficient funds to continue our operations unless we can procure external financing, which may not be possible.

Our current credit rating could be lowered as a result of us experiencing significant negative cash flows, increasing our indebtedness and leverage, or a dire financial outlook, which may affect our ability to procure financing. We may also for the same, or other reasons, find it difficult to secure new long-term credit facilities, at reasonable terms, when our principal credit facility expires in 2022. Further, even our existing unutilized credit facilities may not be available to us as agreed, or only at additional cost, if participating banks are unable to raise the necessary funds, where, for instance, financial markets are not functioning as expected or one or more banks in our principal credit facility syndicate were to default. If external financing is unavailable to us when necessary, we may have insufficient funds to continue our operations.

Information concerning our credit facilities and other financings are included in Item 7 in this Annual Report in the section headed "Treasury Activities" and in Note 14 to the Consolidated Financial Statements in this Annual Report.

**Our indebtedness may harm our financial condition and results of operations**

As of December 31, 2018, we have outstanding debt of \$2.2 billion. We may incur additional debt for a variety of reasons. Although our significant credit facilities and debt agreements do not have any financial covenants, our level of indebtedness will have several important effects on our future operations, including, without limitation:

- a portion of our cash flows from operations will be dedicated to the payment of any interest or could be used for amortization required with respect to outstanding indebtedness;
- increases in our outstanding indebtedness and leverage will increase our vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressure;
- depending on the levels of our outstanding debt, our ability to obtain additional financing for working capital, acquisitions, capital expenditures, general corporate and other purposes may be limited; and
- potential future tightening of the availability of capital both from financial institutions and the debt markets may have an adverse effect on our ability to access additional capital.

**Governmental restrictions may impact our business adversely**

Some of our customers are (or may be) owned by a governmental entity, receive various forms of governmental aid or support or are subject to governmental influence in other forms, which may impact us as a supplier to these customers. As a result, they may be required to partner with local entities or procure components from local suppliers to achieve a specific local content or be subject to other restrictions regarding localized content or ownership. The nature and form of any such restrictions or protections, whatever their basis, is very difficult to predict as is their potential impact. However, they are likely to be based on political rather than economical or operational considerations and may materially impact our business.

**Impairment charges relating to our assets, goodwill and other intangible assets could adversely affect the Company's financial performance**

We periodically review the carrying value of our assets, goodwill and other intangible assets for impairment indicators. If one or more of our customers' facilities cease production or decrease their production volumes, the assets we carry related to our facilities serving such customers may decrease in value because we may no longer be able to utilize or realize them as intended. Where such decreases are significant, such impairments may have a materially adverse impact on our financial results. We monitor the various factors that impact the valuation of our goodwill and other intangible assets, including expected future cash flow levels, global economic conditions, market price for our stock, and trends with our customers. Impairment of goodwill and other identifiable intangible assets may result from, among other things, deterioration in our performance and especially the cash flow performance of these goodwill assets, adverse market conditions and adverse changes in applicable laws or regulations. If there are changes in these circumstances or the other variables associated with the estimates, judgments and assumptions relating to the valuation of goodwill, when assessing the valuation of our goodwill items, we may determine that it is appropriate to write down a portion of our goodwill or intangible assets and record related non-cash impairment charges. In the event that we determine that we are required to write-down a portion of our goodwill items and other intangible assets and thereby record related non-cash impairment charges, our financial condition and operating results would be adversely affected.

For additional information, see Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Significant Accounting Policies and Critical Accounting Estimates – Goodwill and Intangibles".

**We face risks related to our defined benefit pension plans and employee benefit plans, including the need for additional funding as well as higher costs and liabilities**

Our defined benefit pension plans or employee benefit plans may require additional funding or give rise to higher related costs and liabilities which, in some circumstances, could reach material amounts and negatively affect our operating results. We are required to make certain year-end assumptions regarding our pension plans. Our pension obligations are dependent on several factors, including factors outside our control such as changes in interest rates, the market performance of the diversified investments underlying the pension plans, actuarial data and adjustments and an increase in the minimum funding requirements or other regulatory changes governing the plans. Adverse equity market conditions and volatility in the credit market may have an unfavorable impact on the value of our pension assets and our future estimated pension liabilities. Internal factors such as an adjustment to the level of benefits provided under the plans may also lead to an increase in our pension liability. If these or other internal and external risks were to occur, alone or in combination, our required contributions to the plans and the costs and net liabilities associated with the plans could increase substantially and have a material effect on our business.

Information concerning our benefit plans is included in Note 20 of the Consolidated Financial Statements.

**You should not anticipate or expect the payment of cash dividends on our common stock**

Our dividend policy is subject to the discretion of our Board of Directors and depends upon a number of factors, including our earnings, financial condition, cash and capital needs, indebtedness and leverage, and general economic or business conditions. Although we currently use dividends as a way to return value to our stockholders, in the past our Board of Directors suspended our quarterly dividend after determining that a suspension was necessary in light of the decline in global LVP, the uncertainty surrounding the recession at that time and the inherent risk of customer defaults. While we have since resumed the payment of dividends on our common stock, in the future, there can be no assurance that the Board of Directors will continue to declare dividends.

**Cybersecurity incidents could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and operating results**

We rely extensively on information technology ("IT") networks and systems, our global data centers and services provided over the internet to process, transmit and store electronic information, and to manage or support a variety of business processes or activities across our facilities worldwide. The secure operation of our IT networks and systems and the proper processing and maintenance of this information are critical to our business operations. We have been, and likely will continue to be, subject to cyber-attacks. To date we have seen no material impact on our business from these attacks or events. Although we seek to deploy comprehensive security measures to prevent, detect, address and mitigate these threats, there has been an increased level of activity, and an associated level of sophistication, in cyber-attacks against large multinational companies. The ever-evolving threats mean we and our third-party service providers and vendors must continually evaluate and adapt our respective systems and processes and overall security environment, as well as those of any companies we acquire. There is no guarantee that these measures will be adequate to safeguard against all data security breaches, system compromises or misuses of data.

Our security measures may be breached due to human error, system malfunctions or attacks from uncoordinated individuals or sophisticated and targeted measures known as advanced persistent threats, directed at the Company, its products, its customers and/or its third-party service providers.

Disruptions and attacks on our IT systems or the systems of third parties storing our data could result in the misappropriation, loss, destruction or corruption of our critical data and confidential or proprietary information, personal information of our employees, the leakage of our or our customers' confidential information, improper use of our systems and networks, production downtimes and both internal and external supply shortages, which could have an adverse effect on our results of operations. The potential consequences of a material cybersecurity incident include reputational damage, litigation with third parties, diminution in the value of our investment in research, development and engineering, diversion of the attention of management away from the operation of our business and increased cybersecurity protection and remediation costs, which in turn could adversely affect our competitiveness and results of operations. To the extent that any disruption or security breach results in a misappropriation, loss, destruction or corruption of our customer's information,

it could affect our relationships with our customers, create significant expense for us to investigate and remediate damage, lead to claims against the Company and ultimately harm our business. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could result in additional costs. Any future significant compromise or breach of our data security, whether external or internal, or misuse of customer, associate, supplier or Company data, could result in significant costs, lost sales, fines, lawsuits, and damage to our reputation.

### **Third parties that maintain certain of our confidential and proprietary information could experience a cybersecurity incident**

We rely on third parties to provide or maintain some of our IT systems, data centers and related services and do not exercise direct control over these systems. Despite the implementation of security measures at third party locations, these IT systems, data centers and cloud services are also vulnerable to security breaches or other disruptions. Additionally, we and certain of our third-party vendors, collect and store personal information in connection with human resources operations and other aspects of our business. While we obtain assurances that any third parties we provide data to will protect this information and, where we believe appropriate, monitor the protections employed by these third parties, there is a risk the confidentiality of data held by us or by third parties may be compromised and expose us to liability for such breach.

### **Global climate change could negatively affect our business**

More regional and/or national requirements to reduce or mitigate the effects of greenhouse gas emissions may adversely impact our business. Today there is a lack of consistent climate legislation which results in economic and regulatory uncertainty. Any future regulations aimed at mitigating climate change may negatively impact the demand for certain of our customer's products which could in turn impact demand for our products and impact our results of operations. The manifestations of climate change, such as extreme weather conditions or more frequent extreme weather events could disrupt our operations, damage our facilities, disrupt our supply chain or make it harder or more difficult to obtain raw materials necessary for the manufacturing of our products.

## **RISKS RELATED TO INTERNATIONAL OPERATIONS**

### **Our business is exposed to risks inherent in international operations**

We currently conduct operations in various countries and jurisdictions, including locating certain of our manufacturing and distribution facilities internationally, which subjects us to the legal, political, regulatory and social requirements and economic conditions in these jurisdictions. Some of these countries are considered growth markets. International sales and operations, especially in growth markets, subject us to certain risks inherent in doing business abroad, including:

- exposure to local economic conditions;
- unexpected changes in laws, regulations, trade, or monetary or fiscal policy, including interest rates, foreign currency exchange rates, and changes in the rate of inflation in the countries in which we do business;
- foreign tax consequences;
- inability to collect, or delays in collecting, value-added taxes and/or other receivables associated with remittances and other payments by subsidiaries;
- exposure to local political turmoil and challenging labor conditions;
- expropriation and nationalization;
- enforcing legal agreements or collecting receivables through foreign legal systems;
- wage inflation in growth markets;
- currency controls, including lack of liquidity in foreign currency due to governmental restrictions, trade protection policies and currency controls, which may create difficulty in repatriating profits or making other remittances;
- compliance with the requirements of an increasing body of applicable anti-bribery laws;
- reduced intellectual property protection in various markets;
- investment restrictions or requirements; and
- the imposition of product tariffs and the burden of complying with a wide variety of international and U.S. export laws.

The Company is subject to taxation in the U.S. and numerous foreign jurisdictions. The 2017 United States Tax Cut and Jobs Act ("Tax Act") significantly changed the taxation of U.S. based multinational corporations. The U.S. Treasury Department, the Internal Revenue Service ("IRS"), and state tax authorities have issued or will be issuing applicable guidance on how the provisions of the Tax Act will be applied or otherwise administered, and additional accounting guidance or interpretations may be issued in the future that are different from our current interpretation. The legislation could be subject to potential amendments and technical corrections, any of which could materially lessen or increase certain adverse impacts of the legislation. As regulations and guidance evolve with respect to the Tax Act, and as we gather information and perform more analysis, our results may differ from previous estimates and may materially affect our financial position

Additionally, changes in tax laws or policies by foreign jurisdictions could result in a higher effective tax rate on our worldwide earnings and such change could have a material adverse effect on our business prospects, cash flows, operating results and financial condition.

Our international operations also depend upon favorable trade relations between the U.S. and those foreign countries in which our customers and suppliers have operations. The current U.S. presidential administration has created uncertainty about the future relationship between the U.S. and certain of its trading partners, including with respect to the trade policies and agreements, treaties, government regulations and tariffs that could apply to trade between the U.S. and other nations. These developments may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade between these nations and the U.S. It could also impact importing certain foreign produced vehicles into the U.S. Similarly, the political situations in certain countries, specifically Brazil, China, France, Russia, Turkey, and the United Kingdom, make it difficult to predict the near-term stability of trade costs with these nations. Changes in national policy or continued uncertainty could depress economic activity and restrict our access to suppliers or customers and have a material adverse effect on our cash flows, operating results and financial condition.

Increasing our manufacturing footprint in the growth markets and our business relationships with automotive manufacturers in these markets are particularly important elements of our strategy. As a result, our exposure to the risks described above may be greater in the future, and our exposure to risks associated with developing countries, such as the risk of political upheaval and reliability of local infrastructure, may increase.

#### **The exit of the United Kingdom from membership in the European Union may adversely affect our business and profitability**

The expected exit of the United Kingdom (“U.K”) from the European Union (“EU”) (“Brexit”) could adversely affect European and worldwide economic and market conditions and contribute to instability in global financial and foreign exchange markets, including increased volatility in interest rates and foreign exchange rates. Uncertainty over the terms of the United Kingdom’s departure from the European Union, which is scheduled to occur on March 29, 2019, could cause political and economic uncertainty in the United Kingdom and the rest of Europe. Until agreements related to Brexit are in place, it is difficult to predict the impact Brexit will have on international trade, and whether we need to renegotiate any of our contractual arrangements to accommodate a new trade regime. If the U.K. leaves the EU without an agreement in place, there could be an adverse impact and volatility in foreign exchange markets and labor and trade practices and policy. We conduct business in the United Kingdom and several EU nations and the taxation policies of the U.K. and the EU nations may change as a result of Brexit, which could adversely impact our tax positions. We may be required to comply with regulatory requirements in the United Kingdom that are in addition to, or inconsistent with, the regulatory requirements of the EU.

Although we are monitoring the ongoing potential impacts of Brexit and seek to minimize its impact on our business, the effects of Brexit could adversely affect our business prospects, operating results, cash flows and financial condition.

#### **Significant changes in the North American Free Trade Agreement (“NAFTA”) could adversely affect our financial performance**

In October 2018, the U.S., Mexico and Canada agreed to a trade deal that would replace NAFTA, subject to legal review and ratification by each country. The new deal, known as The United States Mexico Canada Agreement (“USMCA”), includes changes to the automotive rules of origin that dictate what percentage of an automobile must be built from parts that originated from countries in the NAFTA region. The new rules would require that at least 75% of parts be made in North America and require that 40-45% of an automobile must be made by workers earning at least \$16 an hour. Reflective of the automotive industry, our vehicle parts manufacturing facilities in the U.S., Mexico and Canada are highly dependent on duty-free trade within the NAFTA region. If the USMCA is not ratified and, as a consequence, the U.S. withdraws from NAFTA, such withdrawal could have a materially adverse impact on our financial performance. The imposition of customs duties on imports into the U.S., Mexico, or Canada could negatively impact our financial performance.

#### **Our foreign operations may subject us to risks relating to laws governing international relations**

Due to our global operations, we are subject to many laws governing international relations (including, but not limited to, the Foreign Corrupt Practices Act, and other anti-bribery regulations in foreign jurisdictions where we do business), which prohibit improper payments to government officials and restrict where and how we can do business, what information or products we can supply to certain countries and what information we can provide to authorities in governmental authorities. We also export components and products that are subject to certain trade-related U.S. laws, including the U.S. Export Administration Act and various economic sanctions programs administered by the U.S. Treasury’s Office of Foreign Assets Control.

Although we have procedures and policies in place that should mitigate the risk of violating these laws, there is no guarantee that they will be sufficiently effective. If and when we acquire new businesses, we may not be able to ensure that the pre-existing controls and procedures meant to prevent violations of these laws were effective, and violations may occur if we are unable to timely implement corrective and effective controls and procedures when integrating newly acquired businesses. Any allegations of noncompliance with these laws could harm our reputation, divert management attention and result in significant expenses, and could therefore materially harm our business prospects, operating results and financial condition.

### **Our business in China is subject to aggressive competition and is sensitive to economic and market conditions**

We operate in the highly competitive automotive supply market in China and face competition from both international and smaller domestic manufacturers. Due to the significance of our China market for our profit and growth, we are exposed to risks in China. We anticipate that additional competitors, both international and domestic, may seek to enter the Chinese market resulting in increased competition. Increased competition may result in price reductions, reduced margins and our inability to gain or hold market share. There have been periods of increased market volatility and moderation in the levels of economic growth in China, which resulted in periods of lower automotive production growth rates in China than those previously experienced. Our business in China is sensitive to economic and market conditions that drive automotive sales volumes in China and may be impacted if there are reductions in vehicle demand in China. If we are unable to maintain our position in the Chinese market, the pace of growth slows, or vehicle sales in China decrease, our business prospects, operating results and financial condition could be materially adversely affected.

### **Global integration may result in additional risks**

Because of our efforts to manage costs by integrating our operations globally, we face the additional risk that, should any of the other risks discussed herein materialize, the negative effects could be more pronounced. For example, while supply delays of a component have typically only affected a few customer vehicle models, such a delay could now affect several vehicle models of several customers in several geographic areas. Similarly, any recall or warranty issue we face due to a product defect or failure is now more likely to involve a larger number of units in several geographic areas.

### **Exchange rate risks**

As a result of our global presence, a significant portion of our revenues and expenses are denominated in currencies other than the U.S. dollar. We are therefore subject to foreign currency risks and foreign exchange exposure. Such risks and exposures include:

- transaction exposure, which arises because the cost of a product originates in one currency and the product is sold in another currency;
- revaluation effects, which arise from valuation of assets denominated in other currencies than the reporting currency of each unit;
- translation exposure in the income statement, which arises when the income statements of non-U.S. subsidiaries are translated into U.S. dollars;
- translation exposure in the balance sheet, which arises when the balance sheets of non-U.S. subsidiaries are translated into U.S. dollars; and
- changes in the reported U.S. dollar amounts of cash flows.

We cannot predict exchange rate volatility or the extent of its impact on our future financial results. We typically denominate foreign transactions in foreign currencies to achieve a natural hedge. However, a natural hedge cannot be achieved for all our currency flows; therefore, a net transaction exposure remains within the group. The net exposure can be significant and creates a transaction exposure risk for the Company. The Company does not hedge translation exposure. However, we do engage in foreign exchange rate hedging from time to time related to foreign currency transactions.

## **RISKS RELATED TO ACQUISITIONS**

### **We face risks in connection with acquisitions and joint ventures**

Our growth has been enhanced through strategic opportunities, including acquisitions of businesses, products and technologies, and joint development agreements that we believe will complement our business. We regularly evaluate acquisition opportunities, frequently engage in acquisition discussions, conduct due diligence activities in connection with possible acquisitions, and, where appropriate, engage in acquisition negotiations. We may not be able to successfully identify suitable acquisition and joint venture candidates or complete transactions on acceptable terms, integrate acquired operations into our existing operations or expand into new markets. Our failure to identify suitable strategic opportunities may restrict our ability to grow our business.

These strategic opportunities also involve numerous additional risks to us and our investors, including:

- risks related to retaining acquired management and employees;
- difficulties in integrating acquired technologies, products, operations, services and personnel with our existing businesses;
- diversion of our management's attention from other business concerns;
- assumption of contingent liabilities;
- adverse financial impacts from the amortization of expenses related to intangible assets;
- adverse financial impacts from potential impairment of goodwill;



- incurrence of indebtedness; and
- potential adverse financial impacts.

In the future, we may pursue acquisitions of businesses or products that are complementary to our business but for which we have historically had little or no direct experience. These transactions can involve significant challenges and risks as well as significant time and resources that may divert management's attention from other business activities. If we fail to adequately manage these risks, the acquisitions may not result in revenue growth, operational synergies or service or technology enhancements, which could adversely affect our financial condition.

## **RISKS RELATED TO INTELLECTUAL PROPERTY**

### **If our patents are declared invalid or our technology infringes on the proprietary rights of others, our ability to compete may be impaired**

We have developed a considerable amount of proprietary technology related to automotive safety systems and rely on a number of patents to protect such technology. Our intellectual property plays an important role in maintaining our competitive position in a number of the markets we serve. At present, we hold approximately 6,050 patents covering a large number of innovations and product ideas, mainly in the fields of seatbelt and airbag technologies. In addition to our in-house research and development efforts, we seek to acquire rights to new intellectual property through corporate acquisitions, asset acquisitions, licensing and joint venture arrangements. Our patents and licenses expire on various dates during the period from 2019 to 2038. We do not expect the expiration of any single patent or license to have a material adverse effect on our business, operating results and financial condition.

Developments or assertions by or against us relating to intellectual property rights could negatively impact our business. We primarily protect our innovations with patents and vigorously protect and defend our patents, trademarks and know-how against infringement and unauthorized use. If we are not able to protect our intellectual property and our proprietary rights and technology, we could lose those rights and incur substantial costs policing and defending those rights. We also generate license revenue from these patents, which we may lose if we do not adequately protect our intellectual property and proprietary rights. Our means of protecting our intellectual property, proprietary rights and technology may not be adequate, and our competitors may independently develop technologies that are similar or superior to our proprietary technologies, duplicate our technologies, or design around the patents we own or license. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as the laws of the U.S.

### **We may not be able to protect our proprietary technology and intellectual property rights, which could result in the loss of our rights or increased costs.**

Although we believe that our products and technology do not infringe the proprietary rights of others, third parties may assert infringement claims against us in the future. Additionally, we license from third parties proprietary technology covered by patents, and we cannot be certain that any such patents will not be challenged, invalidated or circumvented. Such licenses may also be non-exclusive, meaning our competition may also be able to access such technology. Further, we expect to continue to expand our products and services and expand into new businesses, including through acquisitions, joint ventures and joint development agreements, which could increase our exposure to patent and other intellectual property claims from competitors and other parties. If claims alleging patent, copyright or trademark infringement are brought against us and are successfully prosecuted against us, they could result in substantial costs. If a successful claim is made against us and we fail to develop non-infringing technology, our business, operating results and financial condition could be materially adversely affected. In addition, certain of our products utilize components that are developed by third parties and licensed to us. If claims alleging patent, copyright or trademark infringement are brought against such licensors and successfully prosecuted, they could result in substantial costs, and we may not be able to replace the functions provided by these licensors. Alternate sources for the technology currently licensed to us may not be available in a timely manner, may not provide the same functions as currently provided or may be more expensive than products currently used.

We may develop proprietary information through our in-house research and development efforts, consulting arrangements or research collaborations with other entities or organizations. We may seek to protect this proprietary information by entering into confidentiality agreements or consulting, services or employment agreements that contain non-disclosure and non-use provisions with our employees, consultants, scientific advisors and other third parties. However, we may fail to enter into the necessary agreements, and even if entered into, these agreements may be breached or may otherwise fail to prevent disclosure, third-party infringement or misappropriation of our proprietary information.

### **We may not be able to respond quickly enough to changes in technology and technological risks and to develop our intellectual property into commercially viable products**

Changes in legislative, regulatory or industry requirements or in competitive technologies may render certain of our products obsolete or less attractive to our customers. We currently license certain proprietary technology to third parties and, if such technology becomes obsolete or less attractive, those licensees could terminate our license agreements, which could adversely affect our results of operations. Our ability to anticipate changes in technology and regulatory standards and to successfully develop and introduce new and enhanced products on a timely basis will be a significant factor in our ability to remain competitive. We cannot provide assurance that we will be able to achieve the technological advances that may be necessary for us to remain competitive or that certain of our products will not become obsolete. We are also subject to the risks generally associated with new product introductions and applications, including lack of market acceptance, delays in product development and failure of products to operate properly. As part of our business strategy, we may from time to time seek to acquire businesses or assets that provide us with additional intellectual property. We may experience problems integrating acquired technologies into our existing technologies and products, and such acquired intellectual property may be subject to known or contingent liabilities such as infringement claims.

**Some of our products and technologies may use “open source” software, which may restrict how we use or distribute our products or require that we release the source code of certain products subject to those licenses**

Some of our products and technologies may incorporate software licensed under so-called “open source” licenses. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on origin of the software. Additionally, open source licenses typically require that source code subject to the license be made available to the public and that any modifications or derivative works to open source software continue to be licensed under open source licenses. These open source licenses typically mandate that proprietary software, when combined in specific ways with open source software, become subject to the open source license. If we combine our proprietary software in such ways with open source software, we could be required to release the source code of our proprietary software. We take steps to ensure that our proprietary software is not combined with, and does not incorporate, open source software in ways that would require our proprietary software to be subject to an open source license. However, few courts have interpreted open source licenses, and the manner in which these licenses may be interpreted and enforced is therefore subject to some uncertainty.

**RISKS RELATED TO GOVERNMENT REGULATIONS AND TAXES**

**Our business may be adversely affected by laws or regulations, including environmental, occupational health and safety or other governmental regulations**

We are subject to various federal, state, local and foreign laws and regulations, including those related to the requirements of environmental, occupational health and safety, financial and other matters. We cannot predict the substance or impact of pending or future legislation or regulations, or the application thereof. The introduction of new laws or regulations or changes in existing laws or regulations, or the interpretations thereof, could increase the costs of doing business for us or our customers or suppliers or restrict our actions and adversely affect our business prospects, operating results, cash flows or financial condition. Our operations are subject to environmental and safety laws and regulations governing, among other things, emissions to air, discharges to waters and the generation, handling, storage, transportation, treatment and disposal of waste and other materials. The operation of automotive parts manufacturing facilities entails risks in these areas, and we cannot assure that we will not incur material costs or liabilities as a result. Additionally, environmental laws, regulations, and permits and the enforcement thereof change frequently and have tended to become increasingly stringent over time, which may necessitate substantial capital expenditures or operating costs or may require changes of production processes. Although we have no known pending material environmental issues, there is no assurance that we will not be adversely impacted by any environmental costs, liabilities or claims in the future either under present laws and regulations or those that may be adopted or imposed in the future. Our costs, liabilities, and obligations relating to environmental matters may have a material adverse effect on our business, operating results, cash flows, or financial condition.

Our facilities in the U.S. are subject to regulation by the Occupational Safety and Health Administration (“OSHA”), which regulates the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that we maintain information about hazardous materials used or produced in our operations and that we provide this information to employees, state and local governmental authorities and local residents. We are also subject to occupational safety regulations in other countries. Our failure to comply with government occupational safety regulations, including OSHA requirements, or general industry standards relating to employee health and safety, keep adequate records or monitor occupational exposure to regulated substances could expose us to liability, enforcement, and fines and penalties, and could have a material adverse effect on our business, operating results, cash flows, or financial condition.

Although we employ safety procedures in the design and operation of our facilities, there is a risk that an accident or injury to one of our employees could occur in one of our facilities. Any accident or injury to our employees could result in litigation, manufacturing delays and harm to our reputation, which could negatively affect our business, operating results and financial condition.

**Our business may be adversely affected by changes in automotive safety regulations or concerns that drive further regulation of the automobile safety market**

Government vehicle safety regulations are a key driver in our business. Historically, these regulations have imposed ever more stringent safety regulations for vehicles. Safety regulations have a positive impact on driver awareness and acceptance of automotive safety products and technology. These more stringent safety regulations often require vehicles to have more safety content per vehicle and more advanced safety products, which has thus been a driver of growth in our business.

However, these regulations are subject to change based on a number of factors that are not within our control, including new scientific or medical data, adverse publicity regarding the industry recalls and safety risks of airbags or seatbelts (for instance, to children and small adults), domestic and foreign political developments or considerations, and litigation relating to our products and our competitors’ products. Changes in government regulations in response to these and other considerations could have a severe impact on our business. Although we believe that over time safety will continue to be a regulatory priority, if government priorities shift and we are unable to adapt to changing regulations, our business may suffer material adverse effects.

The regulatory obligation of complying with safety regulations could increase as federal and local regulators impose more stringent compliance and reporting requirements in response to product recalls and safety issues in our industry. We are subject to existing stringent requirements under the National Traffic and Motor Vehicle Safety Act of 1966 (the “Vehicle Safety Act”), including a duty to report, subject to strict timing requirements, safety defects with our products. The Vehicle Safety Act imposes potentially significant civil penalties for violations including the failure to comply with such reporting actions. We are also subject to the existing U.S. Transportation Recall Enhancement, Accountability and Documentation (TREAD) Act, which requires equipment manufacturers, such as Autoliv, to comply with “Early Warning” requirements by reporting certain information to the National Highway Traffic Safety Administration (“NHTSA”) such as: information related to defects or reports of injury related to our products. TREAD imposes criminal liability for violating such requirements if a defect subsequently causes death or bodily injury. In addition, the Vehicle Safety Act authorizes NHTSA to require a manufacturer to recall and repair vehicles that contain safety defects or fail to comply with U.S. federal motor vehicle safety standards. Sales into foreign countries may be subject to similar regulations.

Due to the recent recall of airbag inflators of one of our competitors, additional legislation has been proposed in the U.S. Congress regarding the reporting requirements for product recalls. NHTSA has also become more active in requesting information from suppliers and vehicle manufacturers regarding potential product defects. For example, in connection with the Toyota Recall, we, in connection with Toyota, have informed NHTSA of the reported incidents and Toyota has discussed with NHTSA what action it will take to address the issue.

#### **Negative or unexpected tax developments could adversely affect our effective tax rate, operating results and financial condition**

Our annual tax rate is based on our income and the tax laws in the jurisdictions in which we operate. Because of our global operations we face uncertainties and judgments in the application of complex tax regulations in a multitude of jurisdictions. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions. Although we believe that our tax estimates are reasonable, the final determination of our tax liability may be different from what is reflected in our historical income tax provisions and accruals.

We are regularly examined by tax authorities around the world and we are currently under examination in a number of jurisdictions, which are inherently uncertain. Although we periodically assess the likelihood of adverse outcomes, negative or unexpected results from one or more of such reviews and audits, including any related interest or penalties by governmental authorities, could increase our effective tax rate and adversely impact our operating results, cash flows, or financial condition.

The effective tax rates used for interim reporting are based on our projected full-year geographic earnings mix and consideration of our cash repatriation plans. Changes in currency exchange rates, earnings mix by taxing jurisdiction or in cash repatriation plans could impact our reported effective tax rates, or cause fluctuations in the tax rate from quarter to quarter. Any anti-trust judgments or settlements may not be tax deductible, which could have a material negative impact to our annual tax rate. A number of other factors may also increase our effective tax rate, which could have an adverse impact on our profitability and operating results. Due to our numerous foreign operations, our tax rate may be impacted by our global mix of earnings if our pre-tax income is lower than anticipated in countries with lower statutory tax rates and/or is higher than anticipated in countries with higher statutory tax rates. Based on U.S. regulatory rules, we do not record current or deferred tax liabilities on permanent investments in our foreign subsidiaries and our foreign earnings that are indefinitely reinvested. However, if our non-U.S. subsidiaries were to distribute cash to our U.S. parent or make a cash outlay, such transactions may result in an increase to our effective tax rate. However, based on the Tax Act, a substantial liability for U.S. federal income taxes with respect to our non-U.S. earnings has been recorded. See Note 6 to the Consolidated Financial Statements in this Annual Report.

Changes in, or changes in the application of, U.S. or foreign tax laws, regulations or accounting principles with respect to matters such as tax rates, transfer pricing, dividends and restrictions on certain forms of tax relief or limitations on favorable tax treatment could affect the carrying value of our deferred tax assets and/or our effective tax rate.

#### **We may not be able to fully realize our deferred tax assets**

We currently carry deferred tax assets, net of valuation allowances, resulting from deductible temporary differences and tax loss carry-forwards, both of which will reduce taxable income in the future. However, deferred tax assets may only be realized against taxable income. The amount of our deferred tax assets could be reduced, from time to time, due to adverse changes in our operations or in estimates of future taxable income from operations during the carry-forward period as a result of a deterioration in market conditions or other circumstances. Any such reduction would adversely affect our income in the period of the adjustment. Additional information on our deferred tax assets is included in Note 6 to the Consolidated Financial Statements in this Annual Report.

### **RISKS RELATED TO THE SEPARATION OF VEONEER**

#### **We may not achieve some or all of the expected benefits of the separation**

Although we believe that the separation of Veoneer has provided financial, operational, managerial and other benefits to us and our stockholders, it may not provide results on the scope or scale we anticipated, or such benefits may be delayed or not occur at all. Following the completion of the spin-off, Autoliv is a smaller, less diversified company with a narrower business focus and may be more vulnerable to changing market conditions, which could materially adversely affect our business, operating results and financial condition.

#### **We could incur significant liability if the separation is determined to be a taxable transaction**

We have received an opinion of outside counsel to the effect that, for U.S. federal income tax purposes, the separation should qualify, for both Autoliv and its stockholders, as a reorganization within the meaning of Sections 368(a)(1)(D) and 355 of the U.S. Internal Revenue Code of 1986, as amended. The opinion is based on and relies on, among other things, certain facts and assumptions, as well as certain representations, statements and undertakings of Autoliv and Veoneer, including those relating to the past and future conduct of Autoliv and Veoneer. If any of these facts, assumptions, representations, statements or undertakings is, or becomes, inaccurate or incomplete, reliance on the opinion may be affected. An opinion of outside counsel represents their legal judgment but is not binding on the IRS or any court. Accordingly, there can be no assurance that the IRS will not challenge the conclusions reflected in the opinion or that a court would not sustain such a challenge.

**Potential indemnification obligations to Veoneer or a refusal of Veoneer to indemnify us pursuant to the agreements executed in connection with the internal reorganization and spin-off could materially adversely affect us**

The transaction agreements we entered into with Veoneer in connection with the internal reorganization and the spin-off provide for cross-indemnities that require Autoliv and Veoneer to bear financial responsibility for each company's business prior to the internal reorganization or spin-off, as applicable, and to indemnify the other party in connection with a breach of such party of the transaction agreements; provided, however, certain warranty, recall and product liabilities for electronics products manufactured prior to the completion of the internal reorganization have been retained by us and we will indemnify Veoneer for any losses associated with such warranty, recall or product liabilities pursuant to the distribution agreement entered into as part of the spin-off. Any indemnities that we are required to provide to Veoneer may be significant and could negatively affect our business. In addition, there can be no assurance that the indemnities from Veoneer will be sufficient to protect us against the full amount of any potential liabilities. Even if we do succeed in recovering from Veoneer any amounts for which we are held liable, we may be temporarily required to bear these losses ourselves. In addition, each of these risks could have a material adverse effect on our business, operating results and financial condition.

**Item 1B. Unresolved Staff Comments**

Not applicable.

**Item 2. Properties**

Autoliv's principal executive offices are located at Klarabergsviadukten 70, Section B7, SE-111 64, Stockholm, Sweden. Autoliv's various businesses operate in a number of production facilities and offices. Autoliv believes that its properties are adequately maintained and suitable for their intended use and that the Company's production facilities have adequate capacity for the Company's current and foreseeable needs. All of Autoliv's production facilities and offices are owned or leased by operating (either subsidiary or joint venture) companies.

**AUTOLIV MANUFACTURING FACILITIES**

| <b><u>Country/ Company</u></b>                                    | <b><u>Location of Facility</u></b>          | <b><u>Items Produced at Facility</u></b>   | <b><u>Owned/ Leased</u></b>         |
|---|---|--|-------------------------------------|
| <b>Brazil</b><br>Autoliv do Brasil Ltda.                          | Taubaté                                     | Seatbelts, airbags, steering wheels and seatbelt webbing   | Owned                               |
| <b>Canada</b><br>Autoliv Canada, Inc.                             | Tilbury                                     | Airbag cushions  | Owned                               |
| VOA Canada, Inc.  | Collingwood                                 | Seatbelt webbing   | Owned                               |
| <b>China</b><br>Autoliv (Baoding) Vehicle Safety Systems Co., Ltd | Baoding                                     | Airbags  | Leased                              |
| Autoliv (Changchun) Vehicle Safety Systems Co., Ltd.              | Changchun                                   | Airbags and seatbelts  | Owned                               |
| Autoliv (China) Steering Wheel Co., Ltd.                          | Fengxian/Shanghai                           | Steering wheels  | Owned                               |
| Autoliv (Guangzhou) Vehicle Safety Systems Co., Ltd.              | Guangzhou                                   | Airbags and seatbelts  | Owned                               |
| Autoliv (Nanjing) Vehicle Safety Systems Co., Ltd.                | Nanjing                                     | Seatbelts  | Owned                               |
| Autoliv Shenda (Nanjing) Automotive Components Co., Ltd.          | Nanjing                                     | Seatbelt webbing   | Owned                               |
| Autoliv (Shanghai) Vehicle Safety Systems Co., Ltd.               | Shanghai                                    | Airbags  | Owned                               |
| Autoliv Shenda (Tai Cang) Automotive Safety Systems Co., Ltd.     | Shanghai                                    | Seatbelt webbing   | Owned                               |
| Autoliv (Jiangsu) Automotive Safety Components Co., Ltd.          | Jintan                                      | Propellant, Airbag initiators and Airbag inflators   | Owned                               |
| Autoliv (China) Automotive Safety Systems Co., Ltd.               | Nantong                                     | Airbag cushions  | Owned                               |
| Mei-An Autoliv Co., Ltd.  | Taipei                                      | Seatbelts and airbags  | Leased                              |
| <b>Estonia</b><br>AS Norma  | Tallinn                                     | Seatbelts and belt components  | Owned                               |
| <b>France</b><br>Autoliv France SNC                               | Gournay-en-Bray                             | Seatbelts and airbags  | Owned                               |
| Autoliv Isodelta SAS  | Chiré-en-Montreuil                          | Steering wheels and covers   | Owned                               |
| Livbag SAS  | Pont-de-Buis                                | Airbag inflators   | Owned                               |
| N.C.S. Pyrotechnie et Technologies SAS                            | Survilliers                                 | Airbag initiators and seatbelt micro gas generators  | Owned                               |
| <b>Germany</b><br>Autoliv B.V. & Co. KG                           | Dachau<br>Elmshorn                          | Airbags<br>Seatbelts   | Leased<br>Owned                     |
| <b>Hungary</b><br>Autoliv Kft.                                    | Sopronkövesd                                | Seatbelts  | Owned                               |
| <b>India</b><br>Autoliv India Private Ltd.                        | Bangalore<br>Mysore<br>Delhi<br>Chennai     | Seatbelts, airbags and steering wheels<br>Seatbelt webbing<br>Seatbelts, airbags and steering wheels<br>Airbags, Seatbelts | Leased<br>Owned<br>Leased<br>Leased |
| <b>Indonesia</b><br>P.T. Autoliv Indonesia                        | Jakarta                                     | Seatbelts and steering wheels  | Owned                               |
| <b>Japan</b><br>Autoliv Japan Ltd.                                | Atsugi<br>Hiroshima<br>Taketooyo<br>Tsukuba | Steering wheels<br>Airbags and steering wheels<br>Airbag inflators<br>Airbags and seatbelts                                | Owned<br>Owned<br>Owned<br>Owned    |
| <b>Malaysia</b><br>Autoliv-Hirota Sdn Bhd                         | Kuala Lumpur                                | Seatbelts, airbags and steering wheels   | Owned                               |
| <b>Mexico</b>   |   |  |                                     |

| <b><u>Country/ Company</u></b>   | <b><u>Location of Facility</u></b>                        | <b><u>Items Produced at Facility</u></b>  | <b><u>Owned/ Leased</u></b>                |
|--|---|---|--|
| Autoliv Mexico East S.A. de C.V.   | Matamoros   | Steering wheels   | Owned                                      |
| Autoliv Mexico S.A. de C.V.  | Lerma   | Seatbelts   | Owned                                      |
| Autoliv Safety Technology de Mexico S.A. de C.V.                                   | Tijuana   | Seatbelts   | Leased                                     |
| Autoliv Steering Wheels Mexico S. de R.L. de C.V.                                  | Querétaro<br>Querétaro                                    | Airbag cushions<br>Airbags  | Leased<br>Leased                           |
| <b>Philippines</b><br>Autoliv Cebu Safety Manufacturing, Inc.                      | Cebu  | Steering wheels   | Owned                                      |
| <b>Poland</b><br>Autoliv Poland Sp. zo.o.  | Olawa<br>Jelcz-Laskowice                                  | Airbag cushions<br>Airbags and seatbelts  | Owned<br>Owned                             |
| <b>Romania</b><br>Autoliv Romania S.R.L.   | Brasov  | Seatbelts, seatbelt webbing, airbags, airbag inflators, springs for retractors and seatbelt components                        | Owned                                      |
|  | Lugoj   | Airbag cushions   | Owned                                      |
|  | Resita  | Airbag cushions   | Leased                                     |
|  | Sfantu Georghe  | Steering wheels   | Owned                                      |
|  | Onesti  | Steering wheels   | Leased                                     |
| <b>Russia</b><br>OOO Autoliv   | Togliatti   | Airbags, seatbelts and steering wheels  | Leased                                     |
| <b>South Africa</b><br>Autoliv Southern Africa (Pty) Ltd.                          | Krüggersdorp  | Seatbelts and airbags   | Owned                                      |
| <b>South Korea</b><br>Autoliv Corporation  | Hwasung<br>Wonju  | Airbags<br>Seatbelts  | Owned<br>Owned                             |
| <b>Spain</b><br>Autoliv BKI S.A.U.   | Valencia  | Airbags   | Owned                                      |
| <b>Sweden</b><br>Autoliv Sverige AB  | Vårgårda  | Airbag inflators  | Owned                                      |
| <b>Thailand</b><br>Autoliv Thailand Ltd.   | Chonburi<br>Chonburi                                      | Seatbelts<br>Airbags, airbag cushions, steering wheels  | Owned<br>Leased                            |
| <b>Tunisia</b><br>SWT1 SARL  | El Fahs   | Leather wrapping of steering wheels   | Owned & Leased                             |
| ASW3 SARL  | Nadhour   | PU Molding and Leather wrapping of steering wheels  | Owned                                      |
| <b>Turkey</b><br>Autoliv Cankor Otomotiv Emniyet Sistemleri Sanayi Ve Ticaret A.S. | Gebze-Kocaeli   | Airbags and seatbelts   | Owned                                      |
| Autoliv Teknoloji Urunleri Sanayi ve Ticaret Ltd. Sti.                             | Gebze-Kocaeli   | Steering wheels   | Leased                                     |
| Autoliv Metal Pres Sanayi ve Ticaret A.S.  | Gebze-Kocaeli   | Seatbelt components   | Owned                                      |
| <b>United Kingdom</b><br>Airbags International Ltd                                 | Congleton   | Airbag cushions   | Owned                                      |
| <b>USA</b><br>Autoliv ASP, Inc.  | Brigham City<br>Ogden<br>Ogden<br>Promontory<br>Tremonton | Airbag inflators<br>Airbags<br>Airbags and service parts<br>Propellant<br>Airbag initiators and seatbelt micro gas generators | Owned<br>Owned<br>Leased<br>Owned<br>Owned |

## **TECHNICAL CENTERS AND CRASH TEST TRACKS**

| <b><u>Country / Company</u></b>   | <b><u>Location</u></b> | <b><u>Product(s) Supported</u></b>   |
|---|------------------------|--|
| <b>China</b><br>Autoliv (Shanghai) Vehicle Safety System Technical Center Co., Ltd. | Shanghai               | Airbags and seatbelts customer applications and platform development with full-scale test laboratory                   |
| <b>France</b><br>Autoliv France SNC   | Gournay-en-Bray        | Airbags and seatbelts customer applications and platform development with full-scale test laboratory                   |
| Livbag SAS  | Pont-de-Buis           | Inflator and pyrotechnic development   |
| <b>Germany</b><br>Autoliv B.V. & Co. KG   | Dachau                 | Customer applications and platform development, airbags with full-scale test laboratory                                |
|   | Elmshorn               | Seatbelts with full-scale test laboratory  |
| <b>India</b><br>Autoliv India Private Ltd.  | Bangalore              | Airbags and seatbelts with sled testing  |
| <b>Japan</b><br>Autoliv Japan Ltd.  | Tsukuba                | Airbags and seatbelts customer applications and platform development with sled test laboratory                         |
| <b>Poland</b><br>Autoliv Poland Sp.z.o.o.   | Olawa                  | Airbags applications and platform development  |
| <b>Romania</b><br>Autoliv Romania S.R.L.  | Brasov                 | Seatbelts with sled test laboratory  |
| <b>South Korea</b><br>Autoliv Corporation   | Seoul                  | Airbags and seatbelts customer applications and platform development with sled test laboratory                         |
| <b>Sweden</b><br>Autoliv Development AB   | Vårgårda               | Research center  |
| Autoliv Sverige AB  | Vårgårda               | Airbags customer applications and platform development with full-scale test laboratory                                 |
| <b>USA</b><br>Autoliv ASP Inc.  | Auburn Hills           | Airbags, steering wheels, and seatbelts customer applications and platform development with full-scale test laboratory |
|   | Ogden                  | Airbags, inflators and pyrotechnics customer applications and platform development                                     |

### **Item 3. Legal Proceedings**

In the ordinary course of our business, we are subject to legal proceedings brought by or against us and our subsidiaries.

See Note 18 to the Consolidated Financial Statements in this Annual Report for a summary of certain ongoing legal proceedings. Such information is incorporated into this Part I, Item 3 – “Legal Proceedings” by reference.

### **Item 4. Mine Safety Disclosures**

Not applicable.

PART II

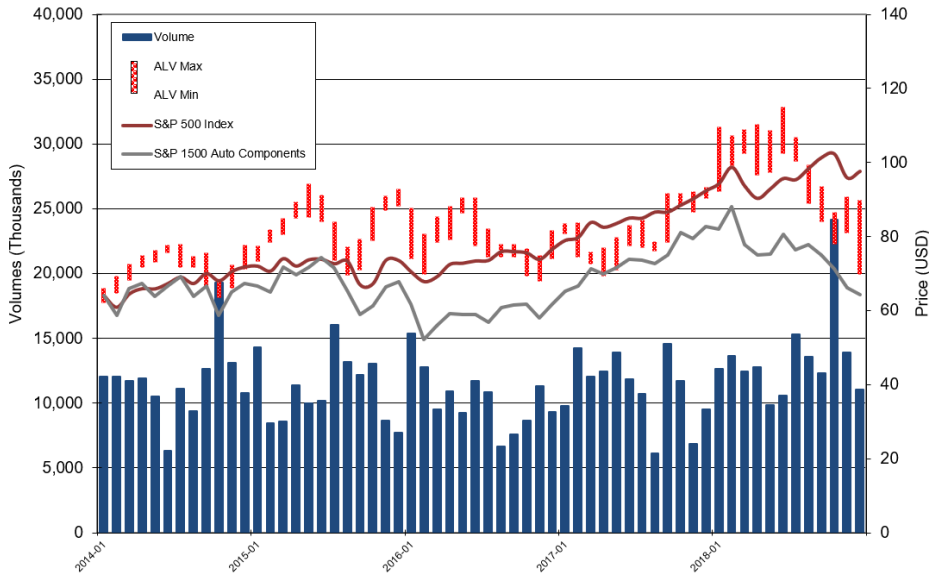
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Shareholder Information

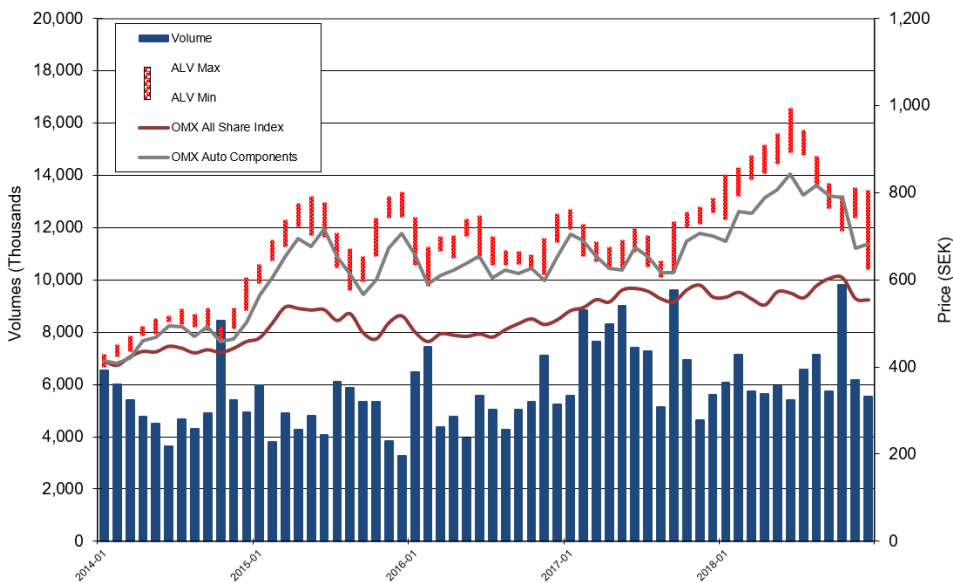
The primary exchange market for Autoliv’s securities is the New York Stock Exchange (NYSE) where Autoliv’s common stock trades under the symbol “ALV”. Autoliv’s Swedish Depository Receipts (SDRs) are traded on NASDAQ Stockholm’s list for large market cap companies under the symbol “ALIV SDB”. Options in SDRs trade on Nasdaq Stockholm under the name “Autoliv SDB”. Options in Autoliv shares are traded on NASDAQ OMX PHLX and on NYSE Amex Options under the symbol “ALV”.

Share price performance\*

Stock Price & Trading Volumes  
On the NYSE



Stock Price & Trading Volumes  
In Stockholm



\* For all periods before the distribution date of Veoneer on June 29, 2018, the Autoliv share prices are adjusted by a factor of 72.04%.



### Number of shares

During 2018, the number of shares outstanding increased by 0.1 million to 87.1 million (excluding dilution and treasury shares). The weighted average number of shares outstanding for the full year 2018, assuming dilution, was reduced to 87.3 from 87.7 million in 2017.

Stock options (if exercised) and granted Restricted Stock Units (RSUs) could increase the number of shares outstanding by 0.4 million shares in total. Combined, this would add 0.5% to the Autoliv shares outstanding. On December 31, 2018, 3.0 million shares were available for repurchase under the current Board authorization from 2014. On December 31, 2018, the Company had 15.7 million treasury shares.

### Number of shareholders

Autoliv estimates that there were approximately 70,000 beneficial Autoliv owners as of December 31, 2018. Close to 21% of Autoliv's securities were held by U.S.-based shareholders and around 60% by Sweden-based shareholders. Most of the remaining Autoliv securities were held in the U.K., other Nordic countries, Central Europe, Japan and Canada.

### **Dividends**

If declared by the Board of Directors, quarterly dividends are usually paid on the first Thursday in the last month of each quarter. Declared dividends are announced in press releases and published on Autoliv's corporate website. Autoliv has a history of paying quarterly cash dividends and intends to pay similar dividends in the future but may not because of certain factors as set forth in Risk Factors – "You should not anticipate or expect the payment of cash dividends on our common stock" in Item 1A of this Annual Report.

See Autoliv's corporate website for additional details regarding historical dividends.

### **Stock incentive plan**

Autoliv employees participate in the Autoliv, Inc. 1997 Stock Incentive Plan (the "Stock Incentive Plan") and receive Autoliv stock-based awards from time to time. In connection with the spin-off, each outstanding Autoliv stock-based award as of June 29, 2018 was converted to stock awards that have underlying shares of both Autoliv and Veoneer common shares (see Note 17 to the Consolidated Financial Statements in this Annual Report). Additional information regarding the securities authorized for issuance under the Stock Incentive Plan is included in Item 12 of this Annual Report.

Autoliv has adopted a Stock Ownership Policy for Executives requiring the Company's CEO to accumulate and hold the number of Autoliv shares having a value of twice his annual base salary. For other executives, the minimum requirement is, over time, a holding equal to each executive's annual base salary.

### **Stock repurchase program**

Autoliv initiated its repurchase program in 2000 with 10 million shares and has subsequently increased the total authorization four times between 2000 and 2014 to 47.5 million shares.

Such purchases may be made from time to time on the open market or otherwise at the discretion of management. There is no expiration date for the share repurchase authorization to provide management flexibility in the Company's repurchases.

In total, Autoliv repurchased 44.5 million shares between May 2000 and December 31, 2017 for cash of \$2,498 million, including commissions. No repurchases were made during 2018. Autoliv has made no share repurchases since June 30, 2017. The maximum number of shares that may yet be purchased under the stock repurchase program amounted to 2,986,288 shares at December 31, 2018.

Of the total number of repurchased shares, 23.6 million shares were utilized for the equity units offering during 2009-2012. In addition, approximately 5.3 million shares have been utilized by the Stock Incentive Plan. At December 31, 2018, 15.7 million of the repurchased shares remain in treasury stock.

## Item 6. Selected Financial Data

Selected financial data for the last five fiscal years ended December 31 for the Continuing Operations, unless noted, is summarized in the table below.

| <b>(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)</b>               | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> | <b>2014<sup>1)</sup></b> |
|---|-------------|-------------|-------------|-------------|--------------------------|
| <b>Sales and Income</b>   |             |             |             |             |                          |
| Net sales   | \$ 8,678    | \$ 8,137    | \$ 7,922    | \$ 7,636    | \$ 9,240                 |
| Operating income <sup>4)</sup>                                    | 686         | 860         | 831         | 708         | 723                      |
| Income before income taxes <sup>4)</sup>                          | 612         | 792         | 784         | 655         | 667                      |
| Net income attributable to controlling interest <sup>4)</sup>     | 376         | 586         | 558         | 443         | 468                      |
| <b>Financial Position</b>   |             |             |             |             |                          |
| Current assets excluding cash                                     | 2,670       | 2,598       | 2,269       | 2,259       | 2,607                    |
| Property, plant and equipment, net                                | 1,690       | 1,609       | 1,329       | 1,265       | 1,390                    |
| Intangible assets (primarily goodwill)                            | 1,423       | 1,440       | 1,430       | 1,445       | 1,661                    |
| Non-interest bearing liabilities                                  | 2,595       | 2,418       | 2,154       | 2,049       | 2,400                    |
| Capital employed <sup>5)</sup>                                    | 3,516       | 4,538       | 4,225       | 3,670       | 3,504                    |
| Net debt <sup>6, 8)</sup>   | 1,619       | 368         | 299         | 202         | 62                       |
| Total equity <sup>5)</sup>  | 1,897       | 4,169       | 3,926       | 3,468       | 3,442                    |
| Total assets  | 6,722       | 6,947       | 6,565       | 6,518       | 7,443                    |
| Long-term debt <sup>6)</sup>                                      | 1,609       | 1,311       | 1,313       | 1,499       | 1,521                    |
| <b>Share data</b>   |             |             |             |             |                          |
| Earnings per share (US\$) – basic <sup>4)</sup>                   | 4.32        | 6.70        | 6.33        | 5.03        | 5.08                     |
| Earnings per share (US\$) – assuming dilution <sup>4)</sup>       | 4.31        | 6.68        | 6.32        | 5.02        | 5.06                     |
| Total parent shareholders' equity per share (US\$) <sup>5)</sup>  | 21.63       | 46.38       | 41.69       | 39.22       | 38.64                    |
| Cash dividends paid per share (US\$)                              | 2.46        | 2.38        | 2.30        | 2.22        | 2.12                     |
| Cash dividends declared per share (US\$)                          | 2.48        | 2.40        | 2.32        | 2.24        | 2.14                     |
| Share repurchases   | —           | 157         | —           | 104         | 616                      |
| Number of shares outstanding (million) <sup>2)</sup>              | 87.1        | 87.0        | 88.2        | 88.1        | 88.7                     |
| <b>Ratios</b>   |             |             |             |             |                          |
| Gross margin (%)  | 19.7        | 20.6        | 20.6        | 20.5        | 19.5                     |
| Operating margin (%) <sup>4)</sup>                                | 7.9         | 10.6        | 10.5        | 9.3         | 7.8                      |
| Pretax margin (%) <sup>4)</sup>                                   | 7.1         | 9.7         | 9.9         | 8.6         | 7.2                      |
| Return on capital employed (%) <sup>7)</sup>                      | 17          | n/a         | n/a         | n/a         | 21                       |
| Return on total equity (%) <sup>4, 7)</sup>                       | 13          | n/a         | n/a         | n/a         | 12                       |
| Total equity ratio (%) <sup>5)</sup>                              | 28          | 49          | 48          | 46          | 46                       |
| Net debt to capitalization (%) <sup>5, 6)</sup>                   | 46          | 8           | 7           | 6           | 2                        |
| Days receivables outstanding                                      | 71          | 76          | 70          | 71          | 71                       |
| Days inventory outstanding  | 35          | 35          | 32          | 31          | 32                       |
| <b>Other data</b>   |             |             |             |             |                          |
| Airbag sales <sup>3)</sup>  | 5,699       | 5,342       | 5,256       | 5,036       | 5,019                    |
| Seatbelt sales  | 2,980       | 2,794       | 2,665       | 2,599       | 2,800                    |
| Capital expenditures, net   | 486         | 464         | 398         | 397         | 453                      |
| Net cash provided by operating activities <sup>1)</sup>           | 591         | 936         | 868         | 751         | 713                      |
| Net cash used in investing activities <sup>1)</sup>               | (628)       | (697)       | (726)       | (591)       | (453)                    |
| Net cash (used in) provided by financing activities <sup>1)</sup> | (245)       | (566)       | (200)       | (319)       | 226                      |
| Number of employees, December 31                                  | 57,700      | 56,700      | 55,800      | 51,300      | 50,800                   |

<sup>1)</sup> Including Discontinued Operations. This period has not been restated to reflect just continuing operations because it was not practicable to do so.

<sup>2)</sup> At year end, excluding dilution and net of treasury shares.

<sup>3)</sup> Including steering wheels, inflators and initiators.

<sup>4)</sup> Including antitrust provision expense of \$210 million.

<sup>5)</sup> Impacted by the distribution of Veoneer on June 29, 2018 of approximately \$2 billion recorded as a reduction of equity.

<sup>6)</sup> The increase in debt is primarily driven by our capitalization of Veoneer of approximately \$1 billion prior to the distribution to the shareholders.

<sup>7)</sup> The Company has decided not to recalculate prior periods since the distribution of Veoneer had a significant impact on total equity and capital employed making the comparison less meaningful.

<sup>8)</sup> See section Non-U.S. GAAP Performance Measures in item 7.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Important Trends

The discussions and analysis in this section is focused on our continuing operations. For more information on our discontinued operations, see Note 3 to the Consolidated Financial Statements in this Annual Report.

Autoliv, Inc. (the "Company") provides automotive safety systems to the automotive industry with a broad range of product offerings, primarily passive safety systems. In the three-year period ended December 31, 2018, a number of factors have influenced the Company's results of operations. The most notable factors have been:

- Growth in light vehicle production and safety content per vehicle
- Continued strong order intake
- Operational initiatives
- Continued focus on operational excellence and quality
- Changes in competitive environment

| YEARS ENDED DEC. 31 (DOLLARS IN MILLIONS, EXCEPT EPS)                                    | 2018 <sup>1)</sup> |         | 2017 <sup>1)</sup> |        | 2016 <sup>1)</sup> |        |
|--|--------------------|---------|--------------------|--------|--------------------|--------|
|  | Reported           | change  | Reported           | change | Reported           | change |
| Global light vehicle production (in thousands)   | 91,344             | (1)%    | 92,128             | 2 %    | 90,056             | 5 %    |
| Consolidated net sales   | \$ 8,678           | 7 %     | \$ 8,137           | 3 %    | \$ 7,922           | 4 %    |
| Operating income <sup>3)</sup>   | 686                | (20)%   | 860                | 3 %    | 831                | 17 %   |
| Operating margin, % <sup>3)</sup>  | 7.9                | (2.7)pp | 10.6               | 0.1 pp | 10.5               | 1.2pp  |
| Net income attributable to controlling interest from Continuing Operations <sup>3)</sup> | 376                | (36)%   | 586                | 5 %    | 558                | 26 %   |
| Earnings per share Continuing Operations <sup>2, 3)</sup>                                | 4.31               | (35)%   | 6.68               | 6 %    | 6.32               | 26 %   |
| Net cash provided by operating activities <sup>4)</sup>                                  | 591                | (37)%   | 936                | 8 %    | 868                | 16 %   |
| Return on capital employed, % <sup>5)</sup>  | 16.8               | n/a pp  | n/a                | n/a pp | n/a                | n/app  |

1) Reported figures impacted by costs for capacity alignments and antitrust related matters in 2016-2018, and by separation costs in 2018. See section Items affecting comparability and Notes 12 and 18 to the Consolidated Financial Statements included herein.

2) Assuming dilution and net of treasury shares.

3) Including antitrust provision expense of \$210 million.

4) Including Discontinued Operations

5) The Company has decided not to recalculate prior periods since the distribution of Veoneer had a significant impact on capital employed making the comparison less meaningful.

### GROWTH IN LIGHT VEHICLE PRODUCTION AND SAFETY CONTENT PER VEHICLE

The most important driver for Autoliv's sales is the light vehicle production (LVP). During 2018 we experienced significant changes in LVP, especially in Europe impacted by the new emission testing WLTP and in China due to lower consumer demand for vehicles. As a result, full-year 2018 global LVP declined by 1%. This came after eight straight years of LVP growth. In 2017, the LVP grew by 2% and in 2016, the year-over-year growth in LVP was 5%.

### Light Vehicle Production

|                     | 2018          |             | 2017          |             | 2016          |             | Change '18 vs '16 |           |
|---------------------|---------------|-------------|---------------|-------------|---------------|-------------|-------------------|-----------|
|                     | (000') units  | % global    | (000') units  | % global    | (000') units  | % global    | (000') units      | %         |
| Americas            | 19,124        | 21%         | 19,185        | 21%         | 19,421        | 22%         | (296)             | (2)%      |
| North America       | 15,751        | 17%         | 15,920        | 17%         | 16,678        | 19%         | (927)             | (6)%      |
| South America       | 3,373         | 4%          | 3,265         | 4%          | 2,743         | 3%          | 630               | 23%       |
| Europe              | 21,887        | 24%         | 22,180        | 24%         | 21,458        | 24%         | 429               | 2%        |
| Asia                | 47,811        | 52%         | 48,233        | 52%         | 46,890        | 52%         | 921               | 2%        |
| China               | 25,696        | 28%         | 26,575        | 29%         | 25,952        | 29%         | (256)             | (1)%      |
| Japan               | 9,052         | 10%         | 9,021         | 10%         | 8,517         | 9%          | 535               | 6%        |
| South Korea         | 3,951         | 4%          | 4,023         | 4%          | 4,143         | 5%          | (192)             | (5)%      |
| India               | 4,712         | 5%          | 4,420         | 5%          | 4,136         | 5%          | 577               | 14%       |
| Other Asia          | 4,400         | 5%          | 4,194         | 5%          | 4,142         | 5%          | 258               | 6%        |
| Other               | 2,522         | 3%          | 2,530         | 3%          | 2,287         | 3%          | 235               | 10%       |
| <b>Global Total</b> | <b>91,344</b> | <b>100%</b> | <b>92,128</b> | <b>100%</b> | <b>90,056</b> | <b>100%</b> | <b>1,288</b>      | <b>1%</b> |

The main markets contributing to the global LVP growth during 2016 to 2018 were South America and India. Affected by political factors and microeconomics in the second half of 2018, Chinese LVP declined by 1% from 2016 to 2018. In Europe, which is an important market for automotive safety systems, LVP increased by 2% or by approximately 0.4 million light vehicles during the same three-year period. In North America, LVP declined by 6% or 0.9 million light vehicles. Thanks to strong domestic demand and growing export to other countries, LVP in India increased by 14% during the three-year period to 4.7 million light vehicles in 2018.

Europe's share of global LVP has remained unchanged at 24%, while North America has declined from 19% to 17% and China from 29% to 28% during the same three-year period.

Thanks to more stringent crash ratings, by institutes such as EuroNCAP; and increasing consumer demand for more safety in emerging markets, we see vehicle manufacturers installing more airbags and more advanced seatbelt systems in their vehicles. This generally happens when new models are introduced. The safety standards of vehicles are increasing in China, India and other growth markets such as Brazil, partially due to new regulations and crash test rating programs. For example, the Indian government has decided on a new traffic regulation that mandates more rigid crash test standards of light vehicles. This should eventually lead to a higher installation rate of airbags and more advanced seatbelts. Thanks to these positive worldwide trends, as well as currency translation effects, the average global safety content (airbags, seatbelts and steering wheels) per light vehicle (CPV) has increased from around \$220 to around \$225 during the period 2017-2018. This increase comes despite the fact that growth in global LVP is mostly in markets with lower average safety CPV such as South America and India, where the CPV is only approximately \$170 and \$80, respectively. In addition, there is a negative effect from continued pricing pressure from vehicle manufacturers.

These trends should enable the global automotive safety market to grow faster than the global LVP during the next three years.

### **WELL BALANCED GLOBAL FOOTPRINT**

Autoliv's regional sales mix continues to be balanced with 32% of sales in Europe, 31% in the Americas and 37% in Asia in 2018, compared to 32%, 32% and 36%, respectively, in 2017. In Asia, our sales in the important Chinese market represents 18% of total sales in 2018, despite of the first drop in LVP in the country in decades. Regardless of the short-term weakness in the Chinese market, we remain well positioned in this market, which is the world's largest automotive producing market.

The balanced regional sales mix has been achieved through timely investments and strengthening of technical and support capabilities in growth markets and early introduction and execution of our restructuring and capacity alignment activities. To further improve our competitiveness, we have also made substantial investments to increase manufacturing capacity for vertical integration in China and Thailand.

For Asia as a whole, the effect of the higher sales in China, Japan and India was partly offset by declining sales in South Korea.

A fast-growing customer from 2016 to 2018 has been Honda. Their share of our sales has increased from close to 7% to 8% during the three-year period. The largest customer based in Asia is Hyundai/Kia, accounting for 8% of Autoliv sales. The local Chinese OEMs as a group accounted for around 4% of our sales in 2018, with Great Wall representing 2%.

Our sales to premium brand OEMs accounted for around 18% of total sales, while their share of global LVP is approximately 11%. Our strong position with premium OEMs reflects the higher safety content in their vehicles along with our position as a technology leader in the automotive safety market. Of the European OEMs, Daimler stands out, accounting for 6% of Autoliv's total sales, representing more than two times their global LVP market share. This is a result of our strong position within advanced safety solutions in their vehicles.

The Detroit Three automobile manufacturers, Ford, Fiat Chrysler and GM, account for 8%, 8% and 4% of our total sales, respectively. Because Autoliv was on a new business hold with GM during 2011-2012 and PSA's acquisition of GM's European brand Opel, GM's share of Autoliv total sales declined from 8% in 2016 to 4% in 2018. This has affected most regions not only Europe and North America.

### **CONTINUED STRONG ORDER INTAKE**

Building on a strong base, including supplying our delivering products to approximately 1,300 vehicle models and 100 car brands, Autoliv recorded its highest order intake ever during the period 2016-2018, winning around 50% of available orders. Our share of order intake in the past three years is significantly above our sales market share of around 40% in 2018. Part of the high order intake is the consequence of major recalls by another airbag manufacturer. The most substantial increase in order intake was in 2015, where it increased by 80% compared to 2014, to \$11.9 billion. Since 2016, order intake has continued to increase and reached in 2018 \$15.5 billion in estimated life-time sales, an increase of 26% compared to 2016.

Due to the lead time from order to start of production, 2017 was the first year the increased level of order intake began to impact our sales. The sales growth has substantially accelerated during 2018, outgrowing LVP with close to 10% in the fourth quarter. During 2018, growth was positively affected through recent launches of several new models, including e.g. Dodge Ram 1500, Tesla Model 3 and Honda Accord. The lead time from order intake to start of production is typically 18-36 months. During this period the products are engineered into the vehicle to provide the expected protection for occupants in case of a crash and to meet legal and regulatory requirements, as well as other requirements from the vehicle manufacturer. This investment in new products is the main reason for the increase in RD&E expenses, net, between 2016 and 2018. Additionally, we have to build up production capacity, in the form of new lines and buildings, to meet future product launches.

## **OPERATIONAL INITIATIVES**

Over the years we have seen an uneven capacity utilization in several of our plants, mainly in Europe. The costs for restructuring activities in 2018 amounted to \$9 million compared to \$23 million in 2017 and to \$21 million in 2016

The current restructuring activities are expected to have a payback period of around 3 years, or more, after cash-out. The cash payments in 2018 were \$14 million compared to \$23 million in 2017 and \$71 million in 2016. As of December 31, 2018, we have \$33 million reserved in our balance sheet related to restructuring (see Note 12 to the Consolidated Financial Statements included herein).

Capital expenditures, net of \$486 million in 2018, was \$22 million and \$88 million higher than in 2017 and 2016, respectively. In relation to sales Capital expenditures, net was 5.6% in 2018 and 5.7% in 2017 and 5.0% in 2016. The level of Capital expenditures, net, supports our growth strategy and reflects the high order intake for the period 2016 to 2018.

## **IMPROVED EFFICIENCIES THROUGH OPERATIONAL EXCELLENCE**

Pricing pressure is an inherent part of the automotive supplier business. Price reductions are generally higher on newer products with strong volume growth compared to older products, where both the possibilities to re-design the product to reduce costs and market growth are less. Price reductions also depend on the business cycle. For the period 2016-2018, we estimate the average reduction of our market prices to have been in the range of 2-4% annually. As described below, to meet these price reductions, we have implemented several programs and taken actions to address every item in our cost structure. Additionally, during the period 2016-2018, we have experienced raw material commodity costs increase of around \$30 million.

Our productivity improvement target is to achieve at least 5% savings per year. To meet this target, Autoliv has developed a set of strategies to reduce costs in manufacturing:

- Autoliv production system (APS) is based on lean manufacturing methodology which aims to continuously increase output with less resources. APS provides the target conditions and tools to achieve the delivery of goods and services at the right time, in the right amount, at the required quality and at the lowest cost possible to all our customers.
- Our One Product One Process (1P1P) strategy focuses on product and process standardization and reducing cost and complexity. The 1P1P strategy, combined with initiatives to reduce costs for components from external suppliers, ensures that we continuously optimize our supply base footprint, consolidate purchase volumes to fewer suppliers, improve productivity in our supply chain, standardize components and redesign our products.

These strategies have enabled productivity improvements in Autoliv's manufacturing of over 5% for four out of the five past years. It was only in 2018 that the target was not achieved because of elevated launch related costs.

To reduce labor costs while offsetting the price erosion on our products, we continuously implement productivity improvement programs, expand production in Best Cost Countries (BCCs) and institute restructuring and capacity alignment activities. The number of employees in the BCCs in relation to total headcount has increased slightly from 78% in 2016 to over 80% in 2018.

These initiatives, in combination with our restructuring activities, investment in vertical integration and several other actions, are in place to offset the market price erosion.

We foresee opportunities for further productivity on gains from increasing use of automation in our assembly for lean manufacturing processes. Additionally, automated cells typically perform the manufacturing process with reduced variability. This results in greater control and consistency of product quality.

## **FOCUS ON QUALITY INCREASING**

The number of vehicle recalls in the automotive industry has risen sharply over the last few years. In 2015 and 2016, Takata's airbag inflators recall generated a record number of recalls in the automotive industry. We expect overall recall numbers to remain high for years to come and, although we strive for the highest quality in our processes, it cannot be ruled out that we may also be adversely impacted by a future recall.

Quality has been and always will be our number one priority, and we continue to sharpen our focus in this area. We now command a market share of 40% in passive safety. At the same time, we have been involved in less than 2% of passive safety recalls in the industry in the past ten years; an important indicator that we are delivering on our quality strategy. For more information see product warranty and recalls in Note 13 to the Consolidated Financial Statements in this Annual Report.

## **CHANGES IN COMPETITIVE LANDSCAPE**

During the period 2016 to 2018, we experienced significant changes in our competitive landscape. In 2015, TRW, a key competitor in passive safety, was acquired by German group ZF Friedrichshafen. Combined, the new company is the third-largest passive safety supplier globally. In 2016, Key Safety Systems ("KSS") was acquired by Ningbo Joyson Electronic Corp. Beginning in 2014, Takata, our largest competitor, experienced severe issues and recalls related to malfunctioning airbag inflators, leading the company to file for bankruptcy protection in the U.S. and Japan. In 2018, Joyson substantially acquired all of Takata's global assets and operations and combined it with KSS, forming the new company JSS.

## EUROPEAN COMMISSION ANTITRUST INVESTIGATION

Since 2011, Autoliv has been subject to an investigation of anti-competitive behavior among suppliers of occupant safety systems by the European Commission (EC). We now have reason to believe that the EC will seek to impose a fine of approximately 185 million Euros in connection with the remaining portion of the EC investigation. Therefore, the Company accrued \$210 million in the fourth quarter of 2018. The Company believes that a fine could be issued during the first half of 2019, although this may be delayed.

## CAPITAL STRUCTURE

The Company's net debt was at \$1,619 million on December 31, 2018. This was an increase by \$1,250 million compared to December 31, 2017. The increase was mainly driven by the \$972 million capitalization of Veoneer prior to the spin-off. Total interest bearing debt at December 31, 2018 amounted to \$2,230 million, an increase by \$899 million compared to December 31, 2017.

Cash flow from operations, including discontinued operations, was \$591 million in 2018 and \$936 million in 2017. Capital expenditures, net amounted to \$555 million in 2018 and \$570 million in 2017. During the two-year period 2017-2018 the Company paid dividends of \$423 million and repurchased shares for \$157 million. After the latest declared dividend of 62 cents per share, the annualized run rate is \$216 million, based on number of shares outstanding at December 31, 2018.

It is the Company's policy to maintain a financial leverage commensurate with a "strong investment grade credit rating" and our long-term target is to have a leverage ratio (see section Non-U.S. GAAP Performance Measures) of around 1.0 times and to be within the range of 0.5 times to 1.5 times. We monitor our capital structure and the financial markets closely and intend to maintain a high level of financial flexibility while being shareholder friendly.

As part of the adjustment of the capital structure the Company historically has repurchased shares of its common stock. During 2018, the Company did not repurchase any shares, during 2017, the Company repurchased 1.4 million shares for approximately \$157 million, including commissions. At December 31, 2018, the remaining number of shares authorized by the board of directors for repurchase is approximately 3.0 million shares.

## CURRENCY IMPACTS

The Company is exposed to around 50 currency pairs, with exposures in excess of \$1 million each. We are monitoring our currency exposure but do not hedge currency flows. Rather we strive to have sales and costs in the same currency to reduce the transaction exposure risk. The total net transaction exposure in 2018 was approximately \$2.4 billion or 28% of sales. Approximately three quarters of our sales are denominated in other currencies than U.S. dollars, which is leading to currency translation effects.

## Outlook for 2019

Mainly based on our customer call-offs and a light vehicle production outlook that is slightly below the IHS estimate, the indication for organic sales growth for the full year 2019 is around 5%. Currency translations are expected to have a combined negative effect of around 1%, resulting in a consolidated sales increase of around 4%. The indication for adjusted operating margin for the full year 2019 is around 10.5%.

The projected tax rate, excluding unusual items, for the full year 2019, is expected to be around 28%, and is subject to change due to nonrecurring events that may occur.

The projected operating cash flow for the full year 2019, excluding any unusual items, is expected to be higher than for Continuing Operations full year 2018 of around \$810 million. The projected capital expenditures as percent of sales, net, for the full year 2019 is expected to be lower than for Continuing Operations full year 2018 of around 5.6%.

The projected R,D&E, net, as percent of sales, for the full year 2019 is expected to be lower than for Continuing Operations full year 2018 of around 4.8%. The projected leverage ratio is expected to be well within our target range of 0.5x to 1.5x at the end of 2019.

The forward-looking non-U.S. GAAP financial measures above are provided on a non-U.S. GAAP basis. Autoliv has not provided a U.S. GAAP reconciliation of these measures because items that impact these measures, such as costs related to capacity alignments and antitrust matters cannot be reasonably predicted or determined. As a result, such reconciliation is not available without unreasonable efforts and Autoliv is unable to determine the probable significance of the unavailable information.

## Significant Legal Matters

The Company is subject to ongoing antitrust investigations by governmental authorities in several jurisdictions as well as related civil litigation. For further discussion of these antitrust matters and other legal proceedings see Item 3. Legal Proceedings and Note 18 Contingent Liabilities to the Consolidated Financial Statements in this Annual Report.

## Year Ended December 31, 2018 Versus 2017

### Sales by Product

|  | 2018         |              | 2017         |              | Reported change | Components Of Change In Net Sales |             |
|--|--------------|--------------|--------------|--------------|-----------------|-----------------------------------|-------------|
|  | Sales (MUSD) |              | Sales (MUSD) |              |                 | Currency effects <sup>1)</sup>    | Organic     |
| Airbags products and Other <sup>2)</sup> | \$           | 5,698        | \$           | 5,343        | 6.7%            | 1.8%                              | 4.9%        |
| Seatbelt products <sup>2)</sup>          |              | 2,980        |              | 2,794        | 6.7%            | 2.2%                              | 4.5%        |
| <b>Total</b>                             | <b>\$</b>    | <b>8,678</b> | <b>\$</b>    | <b>8,137</b> | <b>6.7%</b>     | <b>1.9%</b>                       | <b>4.8%</b> |

1) Effects from currency translations.

2) Including Corporate and Other sales.

Consolidated net sales increased by 6.7% compared to full year 2017 with an organic growth (see section Non-U.S. GAAP Performance Measures) of 4.8% and positive currency translation effects of 1.9%.

Airbag sales grew organically (see section Non-U.S. GAAP Performance Measures) by 4.9%, mainly driven by steering wheels in North America, Europe and China and from inflatable curtains in North America, partly offset by organic sales decline of inflatable curtains in Europe.

Seatbelt sales grew organically (see section Non-U.S. GAAP Performance Measures) by 4.5%, mainly driven by growth in North America, India and China, partly offset by declines in Europe.

### Sales by Region

|                | 2018         |              | 2017         |              | Reported change | Components Of Change In Net Sales |             |
|----------------|--------------|--------------|--------------|--------------|-----------------|-----------------------------------|-------------|
|                | Sales (MUSD) |              | Sales (MUSD) |              |                 | Currency effects <sup>1)</sup>    | Organic     |
| Asia           | \$           | 3,195        | \$           | 2,998        | 6.6%            | 1.9%                              | 4.7%        |
| Whereof: China |              | 1,522        |              | 1,421        | 7.1%            | 2.2%                              | 4.9%        |
| Japan          |              | 828          |              | 787          | 5.2%            | 1.6%                              | 3.6%        |
| Rest of Asia   |              | 845          |              | 790          | 6.9%            | 1.3%                              | 5.6%        |
| Americas       |              | 2,735        |              | 2,435        | 12.3%           | (1.0)%                            | 13.3%       |
| Europe         |              | 2,748        |              | 2,704        | 1.7%            | 4.5%                              | (2.8)%      |
| <b>Global</b>  | <b>\$</b>    | <b>8,678</b> | <b>\$</b>    | <b>8,137</b> | <b>6.7%</b>     | <b>1.9%</b>                       | <b>4.8%</b> |

1) Effects from currency translations.

For the full year 2018, Autoliv's sales grew organically (see section Non-U.S. GAAP Performance Measures) by 4.8% compared to full year 2017, almost 6pp more than LVP growth according to IHS. The largest contributors to the organic growth were North America, China and India, partly offset by Europe and South Korea.

The organic sales increase (see section Non-U.S. GAAP Performance Measures) from Autoliv's companies in **China** of 4.9% was driven by both domestic and global OEMs. Sales growth to domestic OEMs was mainly with Geely, including Lynk & Co, and Great Wall while growth with the global OEMs was mainly with VW, Honda and Nissan.

Organic sales growth (see section Non-U.S. GAAP Performance Measures) of 3.6% from Autoliv's companies in **Japan** was mainly derived from sales to Subaru and Mitsubishi as well as inflator replacement sales.

Organic sales growth (see section Non-U.S. GAAP Performance Measures) from Autoliv's companies in the **Rest of Asia** of 5.6% was driven by strong sales development in India, which grew organically by 26%, mainly from sales to Suzuki, Honda, Tata and Hyundai/Kia. Sales in South Korea decreased, driven mainly by lower sales to Hyundai/Kia.

The organic growth (see section Non-U.S. GAAP Performance Measures) from Autoliv's companies in **Americas** was 13.3%. North America grew organically by 13.1% mainly due to new model launches with FCA, Honda, Nissan, Tesla and VW, partly offset by lower sales to Daimler, GM and Ford. Overall growth was driven by all main product groups. Sales in South America grew organically by 18.2%, mainly due to increased sales to FCA and VW.

The 2.8% organic sales decline (see section Non-U.S. GAAP Performance Measures) from Autoliv's companies in **Europe** was mainly driven by Renault, FCA, BMW, JLR, PSA and Ford, partly offset by strong performance with premium brands such as Daimler and Volvo.

| (Dollars in millions, except per share data)                           | Years ended December 31 |          | Change  |
|--|-------------------------|----------|---------|
|  | 2018                    | 2017     |         |
| Net Sales  | \$ 8,678                | \$ 8,137 | 6.7%    |
| Gross profit   | 1,711                   | 1,680    | 1.9%    |
| % of sales   | 19.7%                   | 20.6%    | (0.9)pp |
| S,G&A  | (390)                   | (407)    | (4.0)%  |
| % of sales   | (4.5)%                  | (5.0)%   | (0.5)pp |
| R,D&E net  | (413)                   | (371)    | 11.3%   |
| % of sales   | (4.8)%                  | (4.6)%   | 0.2pp   |
| Other income (expense), net  | (211)                   | (32)     | 565.9%  |
| % of sales   | (2.4)%                  | (0.4)%   | 2.0pp   |
| Operating income   | 686                     | 860      | (20.2)% |
| % of sales   | 7.9%                    | 10.6%    | (2.7)pp |
| Interest expense, net  | (59)                    | (54)     | 9.3%    |
| Income before taxes  | 612                     | 792      | (22.7)% |
| Tax rate   | 38.4%                   | 25.8%    | 12.6pp  |
| Income attributable to controlling interest from Continuing Operations |                         |          |         |
| Operations   | 376                     | 586      | (35.9)% |
| Earnings per share Continuing Operations, diluted <sup>1,2)</sup>      | 4.31                    | 6.68     | (35.5)% |

1) Assuming dilution and net of treasury shares.

2) Participating share awards with right to receive dividend equivalents are (under the two class method) excluded from the EPS calculation.

## GROSS PROFIT

The gross profit for the full year 2018 increased by \$32 million, compared to the prior year, as a result of higher sales partly offset by a lower gross margin. The gross margin decreased by 0.9pp compared to full year 2017, mainly due to adverse impact from launch related costs, raw material costs and currency changes which more than offset the operating leverage on the increased sales.

## OPERATING INCOME

Operating income decreased by \$174 million to \$686 million. The reported operating margin was 7.9% of sales, compared to 10.6% of sales in the prior year. The decrease of 2.7pp of sales was mainly due to higher costs for antitrust related matters, compared to, reported as Other income (expense), net, lower gross margin and higher R,D&E, net costs.

Selling, General and Administrative (S,G&A) expenses decreased by \$16 million or 0.5pp of sales driven by transition service agreement income, lower bonus accruals and lower legal costs. Research, Development & Engineering (R,D&E) expenses, net as percent of sales was 4.8% compared to 4.6% in the same period the prior year mainly as a result of the significant increase in product launches during the first half of 2018 and continued strong order intake.

## INTEREST EXPENSE, NET

Interest expense, net in full year 2018 was \$59 million. The increase of \$5 million compared to \$54 million in full year 2017 is related to interest expenses after issuing the 500 million Eurobond in June 2018 partly offset by less USPP debt. Interest income was close to \$7 million in full year 2018, \$0.5 million lower compared to full year 2017 due to lower cash balances.

## INCOME TAXES

The effective tax rate in 2018 was 38.4% compared to 25.8% in 2017. The tax rate for 2018 excluding discrete tax items was 29.1% compared to 24.8% in 2017. The tax rate for 2018 was impacted by several items, including additional tax cost recorded related to the U.S. transition tax and the impact of the antitrust accrual, which is not deductible for tax purposes. The tax rate for 2017 was impacted by the reversal of the valuation allowance for certain deferred tax assets and the estimate of the negative impact of the U.S. tax reform (specifically the deemed repatriation of non-U.S. earnings and the revaluation of U.S. deferred tax assets to the new lower U.S. tax rate). See Note 6 to the Consolidated Financial Statements included herein.

## NET INCOME AND EARNINGS PER SHARE

Net income attributable to controlling interest from Continuing Operations decreased year on year primarily driven by the antitrust accrual as noted above. Earnings per share (EPS) from Continuing Operations assuming dilution decreased by 35.5% to \$4.31 compared to \$6.68 for the same period one year ago. The main items affecting EPS negatively were 208 cents from higher costs primarily relating to antitrust related matters and 42 cents from higher underlying tax rate. The main offsetting effects were 15 cents from discrete tax items.

The weighted average number of shares outstanding assuming dilution was 87.3 million compared to 87.7 million for full year of 2017.



## Year Ended December 31, 2017 Versus 2016

### Sales by Product

|  | 2017<br>(Sales MUSD) | 2016<br>(Sales MUSD) | Reported<br>change | Components Of Change In<br>Net Sales |             |
|--|----------------------|----------------------|--------------------|--------------------------------------|-------------|
|  |                      |                      |                    | Currency<br>effects <sup>1)</sup>    | Organic     |
| Airbags products and Other <sup>2)</sup> | \$ 5,343             | \$ 5,257             | 1.6%               | 0.3%                                 | 1.3%        |
| Seatbelt products <sup>2)</sup>          | 2,794                | 2,665                | 4.8%               | 0.8%                                 | 4.0%        |
| <b>Total</b>                             | <b>\$ 8,137</b>      | <b>\$ 7,922</b>      | <b>2.7%</b>        | <b>0.5%</b>                          | <b>2.2%</b> |

1) Effects from currency translations.

2) Including Corporate and Other sales.

Consolidated sales increased by 2.7% to \$8,137 million. Excluding positive currency translation effects, the organic sales growth (see section Non-U.S. GAAP Performance Measures) was 2.2%, in line with global light vehicle production despite negative impact from lower inflator sales.

**Airbag sales** had solid organic growth (see section Non-U.S. GAAP Performance Measures) for the full year in Asia, especially in India, Japan and China. South America grew strongly while Europe and South Korea showed more modest organic growth. North American sales declined organically.

**Seatbelt sales** grew organically (see section Non-U.S. GAAP Performance Measures) for the full year in all regions except in North America and South Korea, with Europe and Japan as the largest growth drivers.

Inflator replacement sales affected the segment's organic sales growth (see section Non-U.S. GAAP Performance Measures) for the full year negatively by around 0.4pp.

### Sales by Region

|                | 2017<br>Sales (MUSD) | 2016<br>Sales (MUSD) | Reported<br>change | Components Of Change In<br>Net Sales |             |
|----------------|----------------------|----------------------|--------------------|--------------------------------------|-------------|
|                |                      |                      |                    | Currency<br>effects <sup>1)</sup>    | Organic     |
| Asia           | \$ 2,998             | \$ 2,831             | 5.9%               | (0.9)%                               | 6.8%        |
| Whereof: China | 1,421                | 1,385                | 2.6%               | (1.6)%                               | 4.2%        |
| Japan          | 787                  | 719                  | 9.5%               | (3.3)%                               | 12.8%       |
| Rest of Asia   | 790                  | 727                  | 8.8%               | 3.0%                                 | 5.8%        |
| Americas       | 2,435                | 2,547                | (4.4)%             | 0.1%                                 | (4.5)%      |
| Europe         | 2,704                | 2,544                | 6.3%               | 2.5%                                 | 3.8%        |
| <b>Global</b>  | <b>\$ 8,137</b>      | <b>\$ 7,922</b>      | <b>2.7%</b>        | <b>0.5%</b>                          | <b>2.2%</b> |

1) Effects from currency translations.

For the full year 2017, Autoliv' sales grew organically (see section Non-U.S. GAAP Performance Measures) by 2.2% compared to full year 2016, in line with global LVP growth according to IHS. The largest contributors to the organic growth were Europe, Japan, and China, partly offset by North America and South Korea.

The organic sales increase (see section Non-U.S. GAAP Performance Measures) from Autoliv's companies in **China** was mainly driven by the global OEMs, primarily Renault/Nissan and Daimler, partly offset by Hyundai/Kia. Organic sales to the domestic OEMs also increased, with increases to models from Geely and Great Wall, partly offset by decreases to models from Haima. Inflator replacement sales contributed positively to organic sales growth.

Organic sales growth (see section Non-U.S. GAAP Performance Measures) from Autoliv's companies in **Japan** was driven by Toyota, Renault/Nissan and Mitsubishi. Offsetting effects are mainly from decreasing inflator replacement sales.

Organic sales growth (see section Non-U.S. GAAP Performance Measures) from Autoliv's companies in the **Rest of Asia** was driven by strong sales development in India, mainly to Suzuki and Hyundai/Kia. Sales in South Korea decreased, driven by Ssangyong and GM.

Sales from Autoliv's companies in **Americas** declined organically (see section Non-U.S. GAAP Performance Measures) by 4.5%. North America declined by 6.0% organically, driven primarily by GM due to unfavorable platform shifts and declining LVP. Inflator replacement sales had a 0.7pp negative impact on organic growth in North America. South America grew organically by about 45%.

The 3.8% organic sales growth (see section Non-U.S. GAAP Performance Measures) from Autoliv's companies in **Europe** was mainly driven by Volvo, Toyota and VW. Offsetting effects were mainly from Opel.

| (Dollars in millions, except per share data)                               | Years ended December 31 |          | Change  |
|--|-------------------------|----------|---------|
|  | 2017                    | 2016     |         |
| Net Sales  | \$ 8,137                | \$ 7,922 | 2.7%    |
| Gross profit   | 1,680                   | 1,628    | 3.2%    |
| % of sales   | 20.6%                   | 20.6%    | 0.0pp   |
| S,G&A  | (407)                   | (394)    | 3.3%    |
| % of sales   | (5.0)%                  | (5.0)%   | 0.0pp   |
| R,D&E net  | (371)                   | (357)    | 3.9%    |
| % of sales   | (4.6)%                  | (4.5)%   | 0.1pp   |
| Other income (expense), net  | (32)                    | (35)     | (8.6)%  |
| % of sales   | (0.4)%                  | (0.4)%   | (0.0)pp |
| Operating income   | 860                     | 831      | 3.5%    |
| % of sales   | 10.6%                   | 10.5%    | 0.1%    |
| Interest expense, net  | (54)                    | (58)     | (6.9)%  |
| Income before taxes  | 792                     | 784      | 1.0%    |
| Tax rate   | 25.8%                   | 28.6%    | (2.8)pp |
| Net income attributable to controlling interest from Continuing Operations | 586                     | 558      | 5.0%    |
| Earnings per share Continuing Operations, diluted <sup>1, 2)</sup>         | 6.68                    | 6.32     | 5.7%    |

1) Assuming dilution and net of treasury shares.

2) Participating share awards with right to receive dividend equivalents are (under the two class method) excluded from the EPS calculation.

## GROSS PROFIT

The gross profit for the full year 2017 increased by \$52 million, compared to the prior year, as a result of higher sales. The gross margin was basically unchanged compared to 2016, as improved operational performance and higher organic sales (see section Non-U.S. GAAP Performance Measures), were offset by costs related to investments for capacity and growth, as well as negative impact from raw material prices.

## OPERATING INCOME

Operating income increased by around \$29 million to \$860 million and the operating margin increased slightly by 0.1pp to 10.6% compared to prior year. In 2017, the operating margin was negatively affected by the ongoing capacity alignments (\$22 million), settlements of antitrust related matters (\$18 million), higher RD&E, net, (\$14 million) to support growth.

Selling, General and Administrative (S,G&A) expenses increased by \$13 million compared to the prior year, but remained flat as a percentage of net sales. Research, Development & Engineering (R,D&E) expenses, net increased by \$14 million compared to the prior year to support growth from prior year's order intake.

## INTEREST EXPENSE, NET

Interest expense, net decreased by \$4 million to \$54 million compared to 2016. The decrease relates to maturity of \$105 million USPP in November 2017, and higher interest income on centrally held USD cash in 2017 compared to 2016.

## INCOME TAXES

The effective tax rate in 2017 was 25.8% compared to 28.6% in 2016. The tax rate for 2017 excluding discrete tax items was 24.8% compared to 28.0% in 2016. The tax rate for 2017 was impacted by several items including, reversal of the valuation allowance for certain deferred tax assets, reasonable estimate of the negative impact of U.S. tax reform (specifically the deemed repatriation of non-US earnings and the revaluation of U.S. deferred tax assets to the new lower U.S. tax rate) compared to the 2016 tax rate.

## NET INCOME AND EARNINGS PER SHARE

Net income from continuing operations attributable to controlling interest was \$586 million, an increase of \$28 million from 2016. Earnings per share (EPS) assuming dilution increased by 36 cents, or by 6%, to \$6.68 compared to prior year. The main positive items affecting EPS were lower number of shares, lower tax and higher operating income.

The weighted average number of shares outstanding assuming dilution declined to 87.7 million compared to 88.4 million in the full year 2016, mainly due to share repurchases.

## Non-U.S. GAAP Performance Measures

In this annual report we sometimes refer to non-U.S. GAAP measures that we and securities analysts use in measuring Autoliv's performance.

We believe that these measures assist investors and management in analyzing trends in the Company's business for the reasons given below. Investors should not consider these non-U.S. GAAP measures as substitutes for, but rather as additions, to financial reporting measures prepared in accordance with U.S. GAAP.

These non-U.S. GAAP measures have been identified, as applicable, in each section of this annual report with tabular presentations below, reconciling them to U.S. GAAP.

It should be noted that these measures, as defined, may not be comparable to similarly titled measures used by other companies.

## ORGANIC SALES

We analyze the Company's sales trends and performance as changes in "organic sales growth", because the Company currently generates approximately three quarters of net sales in currencies other than the reporting currency (i.e. U.S. dollars) and currency rates have proven to be rather volatile. We also use organic sales to reflect the fact that the Company has made several acquisitions and divestitures.

Organic sales present the increase or decrease in the overall U.S. dollar net sales on a comparable basis, allowing separate discussions of the impact of acquisitions/divestitures and exchange rates.

The following tabular reconciliation presents changes in "organic sales growth" as reconciled to the change in total U.S. GAAP net sales.

## COMPONENTS IN SALES INCREASE/DECREASE (DOLLARS IN MILLIONS)

| 2018 VS. 2017                  | China |         | Japan |        | RoA <sup>1)</sup> |        | Americas |         | Europe |        | Total |         |
|--------------------------------|-------|---------|-------|--------|-------------------|--------|----------|---------|--------|--------|-------|---------|
|                                | %     | \$      | %     | \$     | %                 | \$     | %        | \$      | %      | \$     | %     | \$      |
| Reported change                | 7.1   | \$101.0 | 5.2   | \$40.9 | 6.9               | \$54.9 | 12.3     | \$299.9 | 1.7    | \$44.7 | 6.7   | \$541.4 |
| Currency effects <sup>2)</sup> | 2.2   | 30.9    | 1.6   | 12.8   | 1.3               | 10.9   | (1.0)    | (24.2)  | 4.5    | 119.9  | 1.9   | 150.3   |
| Organic change                 | 4.9   | 70.1    | 3.6   | 28.1   | 5.6               | 44.0   | 13.3     | 324.1   | (2.8)  | (75.2) | 4.8   | 391.1   |

| 2017 VS. 2016                  | China |        | Japan |        | RoA <sup>1)</sup> |        | Americas |           | Europe |         | Total |         |
|--------------------------------|-------|--------|-------|--------|-------------------|--------|----------|-----------|--------|---------|-------|---------|
|                                | %     | \$     | %     | \$     | %                 | \$     | %        | \$        | %      | \$      | %     | \$      |
| Reported change                | 2.6   | \$35.8 | 9.5   | \$68.4 | 8.8               | \$63.7 | (4.4)    | \$(112.8) | 6.3    | \$160.1 | 2.7   | \$215.2 |
| Currency effects <sup>2)</sup> | (1.6) | (22.1) | (3.3) | (23.9) | 3.0               | 21.6   | 0.1      | 1.3       | 2.5    | 63.4    | 0.5   | 40.3    |
| Organic change                 | 4.2   | 57.9   | 12.8  | 92.3   | 5.8               | 42.1   | (4.5)    | (114.1)   | 3.8    | 96.7    | 2.2   | 174.9   |

1) Rest of Asia.

2) Effects from currency translations.

## RECONCILIATION OF U.S. GAAP MEASURE TO "OPERATING WORKING CAPITAL" (DOLLARS IN MILLIONS)

| DECEMBER 31                                     | 2018            | 2017            |
|---|-----------------|-----------------|
| Total current assets Continuing Operations      | \$ 3,285.4      | \$ 3,557.5      |
| Total current liabilities Continuing Operations | (2,865.5)       | (2,086.4)       |
| <b>Working capital</b>                          | <b>419.9</b>    | <b>1,471.1</b>  |
| Cash and cash equivalents                       | (615.8)         | (959.5)         |
| Short-term debt                                 | 620.7           | 19.7            |
| Derivative (asset) and liability, current       | (0.8)           | (2.1)           |
| Dividends payable                               | 54.0            | 52.2            |
| <b>Operating working capital</b>                | <b>\$ 478.0</b> | <b>\$ 581.4</b> |

## RECONCILIATION OF U.S. GAAP MEASURE TO "NET DEBT" (DOLLARS IN MILLIONS)

| DECEMBER 31                                      | 2018              | 2017            |
|--|-------------------|-----------------|
| Short-term debt                                  | \$ 620.7          | \$ 19.7         |
| Long-term debt                                   | 1,609.0           | 1,310.7         |
| <b>Total debt</b>                                | <b>2,229.7</b>    | <b>1,330.4</b>  |
| Cash and cash equivalents                        | (615.8)           | (959.5)         |
| Debt issuance cost/Debt-related derivatives, net | 4.9               | (2.5)           |
| <b>Net debt</b>                                  | <b>\$ 1,618.8</b> | <b>\$ 368.4</b> |

## OPERATING WORKING CAPITAL

Due to the need to optimize cash generation to create value for our shareholders, management focuses on operationally derived working capital as defined in the table above.

The reconciling items used to derive this measure are, by contrast, managed as part of our overall management of cash and debt, but they are not part of the responsibilities of day-to-day operations' management.

## NET DEBT

As part of efficiently managing the Company's overall cost of funds, we routinely enter into "debt-related derivatives" (DRD) as part of our debt management.

Creditors and credit rating agencies use net debt adjusted for DRD in their analyses of the Company's debt and therefore we provide this non-U.S. GAAP measure. DRD are fair value adjustments to the carrying value of the underlying debt. Also included in the DRD is the unamortized fair value adjustment related to discontinued fair value hedges, which will be amortized over the remaining life of the debt. By adjusting for DRD, the total financial liability of net debt is disclosed without grossing debt up with currency or interest fair values.

## ADJUSTED OPERATING MARGIN AND ADJUSTED EPS

Adjusted operating margin and adjusted EPS are non-GAAP measures our management uses to evaluate our business, because we believe they assist investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that are non-operational or non-recurring in nature (such as costs related to capacity alignments, costs related to antitrust matters, separation costs, impairment charges and for EPS unusual tax items) and that we do not believe are indicative of our core operating performance and underlying business trends. Adjusted operating margin and adjusted EPS should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with GAAP, including operating margin and EPS.

## ITEMS AFFECTING COMPARABILITY

| (DOLLARS IN MILLIONS, EXCEPT EPS)  | 2018                       |                                |                      | 2017                       |                                |                      | 2016                       |                                |                      |
|--|----------------------------|--------------------------------|----------------------|----------------------------|--------------------------------|----------------------|----------------------------|--------------------------------|----------------------|
|  | Reported<br>(U.S.<br>GAAP) | Adjust-<br>ments <sup>1)</sup> | Non-<br>U.S.<br>GAAP | Reported<br>(U.S.<br>GAAP) | Adjust-<br>ments <sup>1)</sup> | Non-<br>U.S.<br>GAAP | Reported<br>(U.S.<br>GAAP) | Adjust-<br>ments <sup>1)</sup> | Non-<br>U.S.<br>GAAP |
| Operating income   | \$ 686                     | \$ 222                         | \$ 908               | \$ 860                     | \$ 40                          | \$ 900               | \$ 831                     | \$ 35                          | \$ 866               |
| Operating margin, %  | 7.9                        | 2.6                            | 10.5                 | 10.6                       | 0.5                            | 11.1                 | 10.5                       | 0.4                            | 10.9                 |
| Income before taxes from Continuing Operations                             | \$ 612                     | \$ 222                         | \$ 834               | \$ 792                     | \$ 40                          | \$ 832               | \$ 784                     | \$ 35                          | \$ 819               |
| Net income attributable to controlling interest from Continuing Operations | \$ 376                     | \$ 220                         | \$ 596               | \$ 586                     | \$ 39                          | \$ 625               | \$ 558                     | \$ 27                          | \$ 585               |
| Capital employed   | \$ 3,516                   | \$ 220                         | \$ 3,736             | \$ 4,538                   | \$ 39                          | \$ 4,577             | \$ 4,225                   | \$ 27                          | \$ 4,252             |
| Return on capital employed, % <sup>2, 6)</sup>                             | 16.8                       | 5.2                            | 22.0                 | n/a                        | n/a                            | n/a                  | n/a                        | n/a                            | n/a                  |
| Return on total equity, % <sup>3, 6)</sup>                                 | 13.0                       | 7.3                            | 20.3                 | n/a                        | n/a                            | n/a                  | n/a                        | n/a                            | n/a                  |
| Earnings per share Continuing Operations, diluted <sup>4, 5)</sup>         | \$ 4.31                    | \$ 2.52                        | \$ 6.83              | \$ 6.68                    | \$ 0.44                        | \$ 7.12              | \$ 6.32                    | \$ 0.31                        | \$ 6.63              |
| Total parent shareholders' equity per share                                | \$ 21.63                   | \$ 2.52                        | \$ 24.15             | \$ 46.38                   | \$ 0.44                        | \$ 46.82             | \$ 41.69                   | \$ 0.31                        | \$ 42.00             |

- 1) Adjustments for capacity alignments and antitrust matters during 2016-2018 and separation of our business segments during 2018. See table below for a disaggregation of these costs.
- 2) Operating income and income from equity method investments Continuing Operations, relative to average capital employed.
- 3) Income from Continuing Operations relative to average total equity.
- 4) Assuming dilution and net of treasury shares.
- 5) Participating share awards with right to receive dividend equivalents are (under the two-class method) excluded from the EPS calculation.
- 6) The Company has decided not to recalculate prior periods since the distribution of Veoneer had a significant impact on capital employed making the comparison less meaningful.

## Items included in Non-GAAP adjustments

|   | Full Year 2018      |                      | Full Year 2017      |                      | Full Year 2016      |                      |
|---|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
|   | Adjustment Millions | Adjustment Per share | Adjustment Millions | Adjustment Per share | Adjustment Millions | Adjustment Per share |
| Capacity alignment  | \$ 5                | \$ 0.05              | \$ 22               | \$ 0.24              | \$ 21               | \$ 0.24              |
| Antitrust related matters                                     | 212                 | 2.43                 | 18                  | 0.21                 | 14                  | 0.16                 |
| Separation costs  | 5                   | 0.06                 | -                   | -                    | -                   | -                    |
| <b>Total adjustments to operating income</b>                  | <b>\$ 222</b>       | <b>\$ 2.54</b>       | <b>\$ 40</b>        | <b>\$ 0.45</b>       | <b>\$ 35</b>        | <b>\$ 0.40</b>       |
| Tax on non-U.S. GAAP adjustments <sup>1)</sup>                | (2)                 | (0.02)               | (1)                 | (0.01)               | (8)                 | (0.09)               |
| <b>Total adjustments to Income from Continuing operations</b> | <b>\$ 220</b>       | <b>\$ 2.52</b>       | <b>\$ 39</b>        | <b>\$ 0.44</b>       | <b>\$ 27</b>        | <b>\$ 0.31</b>       |
| Weighted average number of shares outstanding - diluted       |                     | 87.3                 |                     | 87.7                 |                     | 88.4                 |
| Return on capital employed <sup>2, 3, 6)</sup>                | \$ 222              |                      | n/a                 |                      | n/a                 |                      |
| Adjustment Return on Capital employed, %                      | 5.2%                |                      | n/a                 |                      | n/a                 |                      |
| Return on total equity <sup>4, 5, 6)</sup>                    | \$ 220              |                      | n/a                 |                      | n/a                 |                      |
| Adjustment Return on Total equity, %                          | 7.3%                |                      | n/a                 |                      | n/a                 |                      |

- 1) The tax is calculated based on the tax laws in the respective jurisdiction(s) of the adjustment(s).
- 2) After adjustment for annualized non-U.S. GAAP EBIT adjustment.
- 3) Operating income and income from equity method investments Continuing Operations, relative to average capital employed.
- 4) Income from Continuing Operations relative to average total equity.
- 5) After adjustment for annualized non-U.S. GAAP Net income adjustment.
- 6) The Company has decided not to recalculate prior periods since the distribution of Veoneer had significant impact on capital employed making the comparison less meaningful.

## QUARTERLY 2018 RECONCILIATION OF ADJUSTED "OPERATING MARGIN" AND ADJUSTED "EPS"

|  | First quarter 2018 |                           |               | Second quarter 2018 |                           |               | Third quarter 2018 |                           |               | Fourth quarter 2018 |                           |               |
|--|--------------------|---------------------------|---------------|---------------------|---------------------------|---------------|--------------------|---------------------------|---------------|---------------------|---------------------------|---------------|
|  | Reported U.S. GAAP | Adjustments <sup>1)</sup> | Non-U.S. GAAP | Reported U.S. GAAP  | Adjustments <sup>1)</sup> | Non-U.S. GAAP | Reported U.S. GAAP | Adjustments <sup>1)</sup> | Non-U.S. GAAP | Reported U.S. GAAP  | Adjustments <sup>1)</sup> | Non-U.S. GAAP |
| Operating margin, %                                | 10.9               | 0.0                       | 10.9          | 10.4                | 0.0                       | 10.4          | 9.5                | 0.0                       | 9.5           | 1.0                 | 9.9                       | 10.9          |
| EPS Continuing operations, diluted <sup>2,3)</sup> | \$ 1.82            | \$ 0.01                   | \$ 1.83       | \$ 2.20             | \$ 0.02                   | \$ 2.22       | \$ 1.34            | \$ 0.01                   | \$ 1.35       | \$(1.06)            | \$ 2.48                   | \$ 1.42       |

- 1) Adjustments for capacity alignments and antitrust matters and separation of our business segments.
- 2) Assuming dilution and net of treasury shares.
- 3) Participating share awards with right to receive dividend equivalents are (under the two class method) excluded from the EPS calculation.

## Liquidity, Capital Resources and Financial Position

| (DOLLARS IN MILLIONS)  | Years ended December 31 |               |                 |
|--|-------------------------|---------------|-----------------|
|  | 2018                    | 2017          | 2016            |
| Net cash provided by operating activities                    | \$ 591                  | \$ 936        | \$ 868          |
| Net cash used in investing activities                        | (628)                   | (697)         | (726)           |
| Net cash used in financing activities                        | (245)                   | (566)         | (200)           |
| Effect of exchange rate changes on cash and cash equivalents | (62)                    | 60            | (49)            |
| <b>Decrease in cash and cash equivalents</b>                 | <b>(344)</b>            | <b>(267)</b>  | <b>(107)</b>    |
| Cash and cash equivalents at beginning of year               | 960                     | 1,227         | 1,334           |
| <b>Cash and cash equivalents at end of year</b>              | <b>\$ 616</b>           | <b>\$ 960</b> | <b>\$ 1,227</b> |

## NET CASH PROVIDED BY OPERATING ACTIVITIES

Cash flow from operations, together with available financial resources and credit facilities, are expected to be sufficient to fund Autoliv's anticipated working capital requirements, capital expenditures and future dividend payments. Cash flow items are presented on a consolidated basis including both Continuing and Discontinued Operations.

Cash provided by operating activities was \$591 million in 2018 compared to \$936 million in 2017 and \$868 million in 2016. The decrease compared to previous year was primarily related to costs related to the separation of our business segments and changes in operating assets and liabilities due to increased sales. We estimate that for 2018 \$806 millions of the \$591 million was attributable to Continuing Operations compared to \$870 million of the \$936 million for 2017 and \$822 million of the \$868 million in 2016.

While management of cash and debt is important to the overall business, it is not part of the operational management's day-to-day responsibilities. We therefore focus on operationally derived working capital (see section Non-U.S. GAAP Performance Measures) and have set a policy that the operating working capital should not exceed 10% of the last 12-month net sales.

At December 31, 2018, operating working capital for Continuing Operations (see section Non-U.S. GAAP Performance Measures) amounted to \$478 million corresponding to 5.5% of net sales compared to \$581 million and 7.1%, respectively, at December 31, 2017, and compared to \$488 million and 6.2%, respectively, at December 31, 2016.

Days receivables outstanding (see Glossary and Definitions for definition) were 71 at December 31, 2018, compared to 76 in 2017 and 70 in 2016. Factoring agreements did not have any material effect on days receivables outstanding for 2018, 2017 or 2016.

Days inventory outstanding (see Glossary and Definitions for definition) were 35 at December 31, 2018, compared to 35 in 2017 and 32 in 2016.

### **NET CASH USED IN INVESTING ACTIVITIES**

In 2018, 2017 and 2016 cash used in investing activities in both Continuing and Discontinued operations amounted to \$628 million, \$697 million and \$726 million, respectively.

For 2018 \$486 million of the \$628 million was attributable to Continuing Operations compared to \$465 million of the \$697 million in 2017 and \$399 million of the \$726 million in 2016. Our investing activities primarily consists of investments in property, plant and equipment and acquisition of businesses, net of cash. For further information, see Note 3 to the Consolidated Financial Statements included herein.

### **CAPITAL EXPENDITURES**

Cash generated by operating activities continued to sufficiently cover capital expenditures for property, plant and equipment.

Capital expenditures, gross from in Continuing Operations was \$488 million in 2018, \$470 million in 2017 and \$404 million in 2016, corresponding to 5.6%, 5.8%, and 5.1% of net sales, respectively.

Depreciation and amortization in Continuing Operations totaled \$342 million in 2018 compared to \$307 million in 2017 and \$280 million in 2016.

The projected capital expenditures as percent of sales, net, for the full year 2019 is expected to be lower than for full year 2018 of 5.6%.

During the years 2016 through 2018, investments in production capacity to support further growth and vertical integration continued. Major investments were mainly made in Europe, North America and China.

In 2018, expansion of facilities in Europe was commenced for manufacturing of seatbelts and airbags to meet increased demand. In North America the higher investments were mainly related to production equipment and buildings to increase capacity for new program launches. In addition, in China, large investments were made to increase manufacturing capacity for airbag and seatbelt products.

### **NET CASH USED IN FINANCING ACTIVITIES**

Cash used in financing activities amounted to \$245 million, \$566 million and \$200 million for the years 2018, 2017 and 2016, respectively. In 2018 the net issuance of debt amounted to \$938 million, in 2017 net repayment of debt amounted to \$209 million, and in 2016 net repayment of debt amounted to \$3 million. In 2018, the Company paid dividends of \$214 million, compared with dividends paid of \$209 million in 2017 and \$203 million in 2016. In 2017 the Company repurchased common shares amounting to \$157 million. In 2018, the Company capitalized Veoneer with \$972 million prior to spin-off.

### **INCOME TAXES**

The Company has reserves for taxes that may become payable in future periods as a result of tax audits. At any given time, the Company is undergoing tax audits covering multiple years in several tax jurisdictions. Ultimate outcomes are uncertain but could, in future periods, have a significant impact on the Company's cash flows. See discussions of income taxes under Significant Accounting Policies in this section, Note 2 and Note 6 to the Consolidated Financial Statements included herein.

## PENSION ARRANGEMENTS

The Company has defined benefit pension plans covering nearly half of the U.S. employees. In a prior year, the Company froze participation in the U.S. plans to exclude employees hired after December 31, 2003. Many of the Company's non-U.S. employees are also covered by pension arrangements.

At December 31, 2018, the Company's pension liability (i.e. the actual funded status) for its U.S. and non-U.S. plans was \$198 million compared to \$207 million one year earlier. The plans had a net unamortized actuarial loss of \$82 million recorded in Accumulated Other Comprehensive (Loss) Income in the Consolidated Statement of Equity at December 31, 2018, compared to \$92 million at December 31, 2017. The decrease in the actuarial loss was mainly due to increase in the discount rate for the U.S. plans. The amortization of this loss is expected to be \$2 million in 2019.

The liability decrease in 2018 of \$9 million was mainly due to the increase in discount rates, partly offset by lower than expected plan assets return. The liability decrease in 2017 of \$12 million was mainly due to the curtailment impact of the plan freeze in the U.S., partly offset by a decrease in the discount rate for many of the plans and foreign currency translation effects of the non-U.S. plans.

Pension expense associated with the defined benefit plans was \$20 million in 2018, \$29 million in 2017 and \$24 million in 2016 and is expected to be \$26 million in 2019. The decrease in pension expense in 2018 of \$9 million was mainly due to lower amortization of the unrecognized losses resulting from the amendment of the U.S. defined benefit plan. The increase in pension expense in 2017 of \$5 million was mainly due to a prior year decrease in discount rates.

The Company contributed \$16 million to its defined benefit plans in 2018, \$13 million in 2017 and \$13 million in 2016. The Company expects to contribute \$14 million to these plans in 2019 and is currently projecting a yearly funding at approximately the same level in the subsequent years.

For further information about retirement plans see Note 20 to the Consolidated Financial Statements included herein.

## SHAREHOLDER RETURNS

Total cash dividends paid were \$214 million in 2018, \$209 million in 2017 and \$203 million in 2016. The Company has raised the dividend from 54 cents per share in 2015 to 62 cents per share in 2018 (see following table). The Board of Directors has declared a dividend of 62 cents per share for the first quarter and 62 cents per share for the second quarter of 2019. The annualized dividend amount of \$216 million, is based on 62 cents per share and the number of shares outstanding at December 31, 2018.

The Company did not repurchase any shares during 2018. During the second quarter of 2017, the Company repurchased 1.4 million shares for cash of \$157 million, including commissions. There were no share repurchases in 2016. In total, Autoliv has repurchased 44.5 million shares between May 2000 and December 2018 for cash of \$2,498 million, including commissions. The maximum number of shares that are available to be purchased under the stock repurchase program at December 31, 2018 is 3.0 million. There is no expiration date for the share repurchase authorization in order to provide management flexibility in the Company's share repurchases. For further information see Note 15 to the Consolidated Financial Statements included herein.

| <b>DIVIDENDS PAID</b>   | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b>           |
|-------------------------|-------------|-------------|-------------|-------------|-----------------------|
| 1 <sup>st</sup> Quarter | \$ 0.54     | \$ 0.56     | \$ 0.58     | \$ 0.60     | \$ 0.62 <sup>1)</sup> |
| 2 <sup>nd</sup> Quarter | 0.56        | 0.58        | 0.60        | 0.62        | 0.62 <sup>1)</sup>    |
| 3 <sup>rd</sup> Quarter | 0.56        | 0.58        | 0.60        | 0.62        |                       |
| 4 <sup>th</sup> Quarter | 0.56        | 0.58        | 0.60        | 0.62        |                       |

1) Declared.

## EQUITY

During 2018, total equity decreased by 54.5% or \$2,273 million to \$1,897 million. This was mainly due to \$2,123 million related to the spin-off of Venoeer, \$217 million in dividends and \$150 million currency translation effects. The decrease was partly offset by \$184 million from net income.

During 2017, total equity increased by 6.2% or \$243 million to \$4,169 million. This was mainly due to a net income of \$303 million, positive foreign currency translation adjustments of \$272 million, \$24 million due to changes in pension liabilities and a \$19 million increase from stock based compensation. These effects were partly offset by \$210 million for dividends and share repurchases of \$157 million.

## IMPACT OF INFLATION AND RAW MATERIAL PRICES

Inflation has generally not had a significant impact on the Company's financial position or results of operations. In many growth markets, inflation is relatively high, especially labor inflation. We have managed to offset this negative effect mainly by labor productivity improvements. However, no assurance can be given that this will continue to be possible going forward.

The Company has experienced headwind in raw material prices since 2017.

## PERSONNEL

During the past three years, total headcount (permanent employees and temporary personnel) has risen by 11% from the beginning of 2016 to 66,764 at the end of 2018. This reflects the rebound in the cyclical automotive business as well as the combined effect of long-term growth of global LVP, strong demand for safer vehicles, technology development and Autoliv's market share gains, which all drive the need for additional manufacturing and R,D&E personnel.

During 2018, headcount increased by 2,214 people, compared to 1,035 people during 2017. During 2016, headcount increased by 3,507 people. No acquisitions during the periods have affected the number of employees.

At the end of 2018, 80% of total headcount was in BCC compared to 78% at the beginning of 2017. Furthermore, 71% of total headcount at December 31, 2018 was direct workers in manufacturing compared to 75% at the beginning of 2016, while 14% of total headcount at December 31, 2018 were temporary employees, compared to 15% at the beginning of 2016.

Compensation to directors and executive officers is reported, as is customary for U.S. public companies, in Autoliv's proxy statement, which will be available to shareholders in March 2019.

## Treasury Activities

### CREDIT ARRANGEMENTS

In June 2018, the Company priced and issued 5-year notes for a total of €500 million in the Eurobond market. The notes carry a coupon of 0.75%

In July 2016, the Company refinanced its existing revolving credit facility (RCF) of \$1,100 million. The facility, syndicated among 14 banks, originally maturing in July 2021 with two extension options, each for an additional year. The extension options have been used by the Company and the maturity date for the facility has been extended to July 2023. The Company pays a commitment fee on the undrawn amount of 0.08%, representing 35% of the applicable margin, which is 0.225% (given the Company's rating of "A-" from S&P Global Ratings at December 31, 2018)). Borrowings under the facility are unsecured and bear interest based on the relevant LIBOR or IBOR rate.

At December 31, 2018, the Company's unutilized long-term credit facilities were \$1.1 billion, represented by the RCF. This facility is not subject to any financial covenants nor is any other substantial financing of Autoliv. The Company had a net debt position (see section Non-U.S. GAAP Performance Measures) at year end 2018 and 2017 of \$1,619 million and \$368 million, respectively.

In 2014, the Company issued and sold \$1.25 billion of long-term debt securities in a U.S. Private Placement pursuant to a Note Purchase and Guaranty Agreement dated April 23, 2014, by and among Autoliv ASP Inc., the Company and the purchasers listed therein. See Note 12 to the Consolidated Financial Statements included herein for additional information.

During 2018 and 2017, the Company sold receivables and discounted notes related to selected customers. These factoring arrangements increase cash while reducing accounts receivable and customer risks. At December 31, 2018, the Company had received \$193 million for sold receivables without recourse and discounted notes with a discount of \$6 million during the year, compared to \$134 million at year end 2017 with a discount of \$3 million recorded in Other non-operating items, net.

Autoliv has a long-term credit rating from Standard and Poor's of A- which is in line with the Company's objective of maintaining a strong investment grade rating.

### NUMBER OF SHARES

At December 31, 2018, 87.1 million shares were outstanding (net of 15.7 million treasury shares), a 0.2% increase from 87.0 million one year earlier.

The number of shares outstanding is expected to increase by 0.4 million when all Restricted Stock Units (RSU) and Performance Shares (PSs) vest and if all stock options (SOs) to key employees are exercised, see Note 17 to the Consolidated Financial Statements included herein.

In total, Autoliv has repurchased 44.5 million shares under its stock repurchase program between May 2000 and December 2017 for cash of \$2,498 million, including commissions. The average cost per share for all repurchased shares to date is \$56.13. Purchases can be made from time to time as market and business conditions warrant in open market, negotiated or block transactions. There is no expiration date for the repurchase program in order to provide management flexibility in the Company's share repurchases. No stock repurchases were made in 2018.



## Contractual Obligations and Commitments

### AGGREGATE CONTRACTUAL OBLIGATIONS<sup>1)</sup>

(DOLLARS IN MILLIONS)

|  | Payments due by Period |                  |               |               |                   |
|--|------------------------|------------------|---------------|---------------|-------------------|
|  | Total                  | Less than 1 year | 1-3 years     | 3-5 years     | More than 5 years |
| Debt obligations   | \$ 2,235               | \$ 621           | \$ 275        | \$ 573        | \$ 767            |
| Fixed-interest obligations                                   | 285                    | 50               | 87            | 72            | 75                |
| Operating lease obligations                                  | 186                    | 42               | 65            | 46            | 33                |
| Pension contribution requirements <sup>2)</sup>              | 14                     | 14               | -             | -             | -                 |
| Other non-current liabilities reflected on the balance sheet | 8                      | -                | -             | -             | 8                 |
| <b>Total</b>   | <b>\$ 2,728</b>        | <b>\$ 727</b>    | <b>\$ 427</b> | <b>\$ 691</b> | <b>\$ 883</b>     |

1) Excludes contingent liabilities arising from litigation, arbitration, regulatory actions or income taxes.

2) Expected contributions for funded and unfunded defined benefit plans exclude payments beyond 2019.

Contractual obligations include debt, lease and purchase obligations that are enforceable and legally binding on the Company. Non-controlling interest and restructuring obligations are not included in this table. The major employee obligations as a result of restructuring are disclosed in Note 12 to Consolidated Financial Statements included herein.

**Debt obligations:** For material contractual provisions, see Note 14 to the Consolidated Financial Statements included herein.

**Fixed-interest obligations:** These obligations include interest on debt and credit agreements relating to periods after December 31, 2018, excluding fees on the revolving credit facility and interest on debts with no defined amortization plan.

**Operating lease obligations:** The Company leases certain offices, manufacturing and research buildings, machinery, automobiles and data processing and other equipment. Such operating leases, some of which are non-cancelable and include renewals, expire on various dates. See Note 19 to the Consolidated Financial Statements included herein.

**Unconditional purchase obligations:** There are no unconditional purchase obligations other than short-term obligations related to inventory, services, tooling, and property, plant and equipment purchased in the ordinary course of business.

Purchase agreements with suppliers entered into in the ordinary course of business do not generally include fixed quantities. Quantities and delivery dates are established in "call off plans" accessible electronically for all customers and suppliers involved. Communicated "call off plans" for production material from suppliers are normally reflected in equivalent commitments from Autoliv customers.

**Pension contribution requirements:** The Company sponsors defined benefit plans that cover a significant portion of our U.S. employees and certain non-U.S. employees. The pension plans in the U.S. are funded in conformity with the minimum funding requirements of the Pension Protection Act of 2006. Funding for our pension plans in other countries is based upon plan provisions, actuarial recommendations and/or statutory requirements.

In 2019, the expected contribution to all plans, including direct payments to retirees, is \$14 million, of which the major contribution is \$7 million for our U.S. pension plans. Due to volatility associated with future changes in interest rates and plan asset returns, the Company cannot predict with reasonable reliability the timing and amounts of future funding requirements, and therefore the above excludes payments beyond 2019. We may elect to make contributions in excess of the minimum funding requirements for the U.S. plans in response to investment performance and changes in interest rates, or when we believe that it is financially advantageous to do so and based on other capital requirements.

Excluded from the above are expected contributions of \$0.4 million due in 2019 with respect to our other post-employment benefit (OPEB) plans, which represent the expected benefit payments to participants as costs are incurred. See Note 20 to the Consolidated Financial Statements included herein.

**Other non-current liabilities reflected on the balance sheet:** These consist mainly of local governmental liabilities.

### OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on its financial position, results of operations or cash flows.

### Risks and Risk Management

The Company is exposed to several categories of risks. They can broadly be categorized as operational risks, strategic risks and financial risks. Some of the major risks in each category are described below. There are also other risks that could have a material effect on the Company's results and financial position and the description below is not complete but should be read in conjunction with the discussion of risks described in Item 1A above, which contains a description of our material risks.

As described below, the Company has taken several mitigating actions, applied numerous strategies, adopted policies, and introduced control and reporting systems to reduce and mitigate these risks. In addition, the Company from time to time identifies and evaluates emerging or changing risks to the Company in order to ensure that identified risks and related risk management are updated in this fast moving environment.

## **Operational Risks**

### **LIGHT VEHICLE PRODUCTION**

Around 30% of Autoliv's costs are fixed; therefore, short-term earnings are dependent on sales volumes and highly dependent on capacity utilization in the Company's plants.

Global LVP is an indicator of the Company's sales development. Ultimately, however, sales are determined by the production levels for the individual vehicle models for which Autoliv is a supplier (see Dependence on Customers). The Company's sales are split over several hundred contracts covering approximately 1,300 vehicle models, this moderates the effect of changes in vehicle demand of individual countries and regions as well as production issues. The risk of fluctuating sales has also been mitigated by Autoliv's rapid expansion in Asia and other growth markets, which has reduced the Company's former high dependence on sales in Europe to a diversified mix with Europe, the Americas and Asia each accounting for roughly 30% to 40% of our 2018 total sales.

It is the Company's strategy to reduce the risk of fluctuating LVP by using a high number of temporary employees instead of permanent employees in direct production. During 2018, 2017 and 2016, the level of temporary employees in relation to total headcount in direct production was 17%, 15% and 15% respectively. To reduce the potential impact of unusual fluctuations in the production of vehicle models supplied by the Company, such as during the financial crisis of 2008 and 2009, it is also necessary for the Company to be prepared to quickly adapt the level of permanent employees as well as fixed cost production capacity.

### **PRICING PRESSURE**

Pricing pressure from customers is an inherent part of the automotive components business. The extent of price reductions varies from year to year and takes the form of one time give backs, reductions in direct sales prices or discounted reimbursements for engineering work.

In response, Autoliv is continuously engaged in efforts to reduce costs and to provide customers added value by developing new products. Generally, the speed by which these cost-reduction programs generate results will, to a large extent, determine the future profitability of the Company. The various cost-reduction programs are, to a considerable extent, interrelated. This interrelationship makes it difficult to isolate the impact of costs on any single program, therefore, we monitor key measures such as costs in relation to sales and productivity.

### **COMPONENT COSTS**

Changes in component costs and raw material prices could have a major impact on our margins, since the cost of direct materials was approximately 50% of sales in 2018.

The main raw materials the Company requires for its operations are textiles, plastic, steel and non-ferrous metals. Worsening headwinds on raw materials in 2018 were primarily caused by additional import tariffs imposed by the United States on steel and aluminum products, other tariffs and escalating trade conflicts impacting raw material markets and creating uncertainty.

We take several actions to mitigate higher raw material prices, such as competitive sourcing and looking for alternative materials. However, should these actions not be sufficient to offset component price increases, our earnings could be materially impacted.

## **LEGAL**

The Company is involved from time to time in regulatory, commercial and contractual legal proceedings that may be significant, and the Company's business may suffer as a result of adverse outcomes of current or future legal proceedings. These claims may include, without limitation, commercial or contractual disputes, including disputes with the Company's suppliers and customers, intellectual property matters, alleged violations of laws, rules or regulations, governmental investigations, personal injury claims, product liability claims, environmental issues, tax and customs matters, and employment matters.

The Company is currently subject to an ongoing antitrust investigation by the European Commission, as well as civil litigation alleging anti-competitive conduct related to antitrust investigations concluded in various other jurisdictions. Regulatory actions and government investigations, such as these antitrust matters, may seek to impose significant fines and or limit the Company's operations. It is difficult for the Company to predict the possibility that such proceedings are initiated, and their ultimate outcome and duration. The EC previously concluded a discrete portion of its investigation in November 2017 and imposed a fine on the Company. In December 2018, we accrued \$210 million based on our belief that the EC will seek to impose a fine in connection with the remaining portion of the EC's investigation.

A substantial legal liability or adverse regulatory outcome and the substantial cost to defend the litigation or regulatory proceedings may have an adverse effect on the Company's business, operating results, financial condition, cash flows and reputation.

No assurances can be given that such proceedings and claims will not have a material adverse impact on the Company's profitability and consolidated financial position or that reserves or insurance will mitigate such impact. See Note 18 to the Consolidated Financial Statements included herein and Item 3 – Legal Proceedings.

## **PRODUCT WARRANTY AND RECALLS**

If our products are alleged to fail to perform as expected or are defective, the Company may be exposed to various claims for damages and compensation. Such claims may result in costs and other losses to the Company even where the relevant product is eventually found to have functioned properly. If a product (actually or allegedly) fails to perform as expected or is defective, we may face warranty and recall claims. If such actual or alleged failure or defect results, or is alleged to result, in bodily injury and/or property damage, we may also face product liability and other claims. The Company may experience material warranty, recall, product or other liability claims or losses in the future, and the Company may incur significant cost to defend against such claims. The Company may be required to participate in a recall involving its products. Each vehicle manufacturer has its own practices regarding product recalls and other product liability actions relating to its suppliers. Government safety regulators also have policies and practices with respect to recalls. As suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, vehicle manufacturers are increasingly looking to their suppliers for contribution when faced with recalls and product liability claims. In addition, with global platforms and procedures, vehicle manufacturers are increasingly evaluating our quality performance on a global basis. Any one or more quality, warranty or other recall issue(s), including the ones affecting few units and/or having a small financial impact, may cause a vehicle manufacturer to implement measures which may have a severe impact on the Company's operations, such as a temporary or prolonged suspension of new orders or the Company's ability to bid for new business.

In addition, over time, there is a risk that the number of vehicles affected by a failure or defect will increase significantly (as would the Company's costs), since our products often use global designs and are increasingly based on or utilize the same or similar parts, components or solutions.

Although quality has always been a central focus in the automotive industry, especially for safety products, our customers and regulators have become increasingly attentive to quality with even less tolerance for any deviations, which has resulted in an increase in the number of automotive recalls. This trend is likely to continue as automobile manufacturers introduce even stricter quality requirements and regulating agencies and other authorities increase the level of scrutiny given to vehicle safety issues. A warranty recall or a product liability claim brought against the Company in excess of the Company's insurance may have a material adverse effect on its business and/or financial results. Vehicle manufacturers are also increasingly requiring their external suppliers to guarantee or warrant their products and bear the costs of repair and replacement of such products under new vehicle warranties. A vehicle manufacturer may attempt to hold the Company responsible for some or all of the repair or replacement costs of defective products under new vehicle warranties when the product supplied did not perform as represented. Additionally, a customer may not allow us to bid for expiring or new business until certain remedial steps have been taken. Accordingly, the future costs of warranty claims by the Company's customers may be material.

The Company's warranty reserves are based upon management's best estimates of amounts necessary to settle future and existing claims. Management regularly evaluates the appropriateness of these reserves and adjusts them when we believe it is appropriate to do so. However, the final amounts determined to be due could differ materially from the Company's recorded estimates. We believe our established reserves are adequate to cover potential warranty settlements typically seen in our business.

The Company's strategy is to follow a stringent procedure when developing new products and technologies and to apply a proactive "zero-defect" quality policy (see section Quality Management). In addition, the Company carries insurance for potential recall and product liability claims at coverage levels that management believes are generally sufficient to cover the risks based on the Company's prior claims experience. However, such insurance may not be sufficient to cover every possible claim that can arise in the Company's businesses, now or in the future, or may not always be available should the Company, now or in the future, wish to extend, renew, increase or otherwise adjust such insurance. Management's decision regarding what insurance to procure is also impacted by the cost for such insurance. As a result, the Company may face material losses in excess of the insurance coverage procured. A substantial recall or liability in excess of coverage levels could therefore have a material adverse effect on the Company.

## **ENVIRONMENTAL**

Most of the Company's manufacturing processes consist of the assembly of components. As a result, the environmental impact from the Company's plants is generally modest. While the Company's businesses from time to time are subject to environmental investigations, there are no material environmental-related cases pending against the Company. Therefore, Autoliv does not incur (or expect to incur) any material costs or capital expenditures associated with maintaining facilities compliant with U.S. or non-U.S. environmental requirements. To reduce environmental risk, the Company has implemented an environmental management system in all plants globally and has adopted an environmental policy (see corporate website [www.autoliv.com](http://www.autoliv.com)).

Autoliv is subject to a number of environmental and occupational health and safety laws and regulations. Such requirements are complex and are generally becoming more stringent over time. There can be no assurance that these requirements will not change in the future, or that we will at all times be in compliance with all such requirements and regulations, despite our intention to be. The Company may also find itself subject, possibly due to changes in legislation or other regulation, to environmental liabilities based on the activities of its predecessor entities or of businesses acquired. Such liability could be based on activities which are not related to the Company's current activities.

## **TRADE**

Autoliv is subject to various international trade regulations and regimes and changes in these regimes could lead to increased compliance costs and costs of raw materials and other components. In addition, political conditions leading to trade conflicts and the imposition of tariffs or other trade barriers between countries in which we do business could increase our costs of doing business.

### **Strategic Risks**

## **REGULATIONS**

In addition to vehicle production, the Company's market is driven by the safety content per vehicle, which is affected by new regulations and new vehicle rating programs, in addition to consumer demand for new safety technologies.

The most important regulations are the seatbelt installation laws that exist in all vehicle-producing countries. Many countries also have strict enforcement laws on the wearing of seatbelts. Another significant vehicle safety regulation is the U.S. federal law that, since 1997, requires frontal airbags for both the driver and the front-seat passenger in all new vehicles sold in the U.S. In 2007, the U.S. adopted new regulations for side-impact protection which now have been fully phased-in. China introduced a vehicle rating program in 2006, and Latin America introduced a similar program in 2010 followed by ASEAN NCAP in Southeast Asia in 2011. The United States upgraded its vehicle rating program in 2010 and Europe upgraded the Euro NCAP rating system during 2018. Euro NCAP has already initiated the next upgrade, which will be fully implemented by 2025. Japan and South Korea are continuously upgrading their respective vehicle rating programs, JCAP and KNCAP respectively. There are also other plans for improved automotive safety, both in these countries and many other countries that could affect the Company's market.

However, there can be no assurance that changes in regulations will not adversely affect the demand for the Company's products or, at least, result in a slower increase in the demand for them.

## **DEPENDENCE ON CUSTOMERS**

In 2018, the five largest vehicle manufacturers accounted for 49% of global LVP and the ten largest manufacturers for 74%.

As a result of this highly consolidated market, the Company is dependent on a relatively small number of customers with strong purchasing power.

In 2018, the Company's five largest customers accounted for 50% of revenues and the ten largest customers for 79% of revenues. For a list of the largest customers, see Note 22 to the Consolidated Financial Statements included herein.

Our largest customer contract accounted for around 2% of sales in 2018. Although business with every major customer is split into at least several contracts (usually one contract per vehicle platform) and although the customer base has become more balanced and diversified as a result of Autoliv's significant expansion in China and other rapidly-growing markets, the loss of all business from a major customer (whether by a cancellation of existing contracts or not awarding Autoliv new business), the consolidation of one or more major customers or a bankruptcy of a major customer could have a material adverse effect on the Company. In addition, a quality issue, shortcomings in our service to a customer or uncompetitive prices or products could result in the customer not awarding us new business, which will gradually have a negative impact on our sales when current contracts start to expire.

## **CUSTOMER PAYMENT RISK**

Another risk related to our customers is the risk that one or more of our customers will be unable to pay their invoices that become due. We seek to limit this customer payment risk by invoicing our major customers through their local subsidiaries in each country, even for global contracts. By invoicing this way, we attempt to avoid having the receivables with a multinational customer group exposed to the risk that a bankruptcy or similar event in one country would put all receivables with such customer group at risk. In each country, we also monitor invoices becoming overdue.

Even so, if a major customer is unable to fulfill its payment obligations, it is likely that we would be forced to record a substantial loss on such receivables.

## **DEPENDENCE ON SUPPLIERS**

Autoliv, at each stage of production, relies on internal or external suppliers in order to meet its delivery commitments. In some cases, suppliers are dictated by the customers based on very specific qualification requirements. In other situations, the Company is dependent on a single supplier for a specific component. Supply chain management works to review and mitigate these risks in the supply base.

There is a natural risk that disruptions in the supply chain could lead to the Company not being able to meet its delivery commitments and, as a consequence, could lead to additional costs. The Company's strategy is to reduce these supplier risks by seeking to maintain an optimal number of suppliers in all significant component technologies, by standardization and by developing alternative suppliers around the world. However, for various reasons including costs involved in maintaining alternative suppliers, this is not always possible.

## **NEW COMPETITION**

Increased competition may result in price reductions, reduced margins and our inability to gain or hold market share. OEMs rigorously evaluate suppliers on the basis of product quality, price, reliability and delivery as well as engineering capabilities, technical expertise, product innovation, financial viability, application of lean principles, operational flexibility, customer service and overall management. To maintain our competitiveness and position as a market leader, it is important to focus on all of these aspects of supplier evaluation and selection.

Although the market for occupant restraint systems has undergone a significant consolidation during the past ten years, the passive safety market remains very competitive. It cannot be excluded that additional competitors, both global and local, will seek to enter the market or grow beyond their current Keiretsu group or traditional customer base. Particularly in China, South Korea and Japan there are numerous small domestic competitors often supplying just one OEM group.

## **PATENTS AND PROPRIETARY TECHNOLOGY**

The Company's strategy is to protect its innovations with patents, and to vigorously protect and defend its patents, trademarks and know-how against infringement and unauthorized use. At the end of 2018, the Company held close to 6,050 patents. These patents expire on various dates during the period from 2019 to 2038. The expiration of any single patent is not expected to have a material adverse effect on the Company's financial results.

Although the Company believes that its products and technology do not infringe upon the proprietary rights of others, there can be no assurance that third parties will not assert infringement claims against the Company in the future. Also, there can be no assurance that any patent now owned by the Company will afford protection against competitors that develop similar technology. As the Company continues to expand its products and expand into new businesses, it will increase its exposure to intellectual property claims.

## **Financial Risks**

The Company is exposed to financial risks through its operations. To reduce the financial risks and to take advantage of economies of scale, the Company has a central treasury department supporting operations and management. The treasury department handles external financial transactions and functions as the Company's in-house bank for its subsidiaries.

The Board of Directors monitors compliance with the financial risk policy on an on-going basis. For information about specific financial risks, see Item 7A – Quantitative and Qualitative Disclosures about Market Risk.

## **Significant Accounting Policies and Critical Accounting Estimates**

### **NEW ACCOUNTING STANDARDS**

The Company has considered all applicable recently issued accounting standards. The Company has summarized in Note 2 to the Consolidated Financial Statements each of the recently issued accounting standards and stated the impact or whether management is continuing to assess the impact. See Note 2 to the Consolidated Financial Statements included herein for additional information.

### **APPLICATION OF CRITICAL ACCOUNTING POLICIES**

The Company's significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements included herein. Senior management has discussed the development and selection of critical accounting estimates and disclosures with the Audit Committee of the Board of Directors. The application of accounting policies necessarily requires judgments and the use of estimates by a Company's management. Actual results could differ from these estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, and management's evaluation of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. The Company considers an accounting estimate to be critical if:

- It requires management to make assumptions about matters that were uncertain at the time of the estimate, and
- Changes in the estimate or different estimates that could have been selected would have had a material impact on our financial condition or results of operations. The accounting estimates that require management's most significant judgments include the estimation of retroactive price adjustments, estimations associated with purchase price allocations regarding business combinations, assessment of recoverability of goodwill and intangible assets, estimation of pension benefit obligations based on actuarial assumptions, estimation of accruals for warranty and product liabilities, restructuring charges, uncertain tax positions, valuation allowances and legal proceedings.

The Company has summarized its critical accounting policies requiring judgment below. These might change over time based on the current facts and circumstances.

## REVENUE RECOGNITION

In accordance with ASC 606, *Revenue from Contracts with Customers*, revenue is measured based on consideration specified in a contract with a customer, adjusted for any variable consideration (i.e. price concessions or annual price adjustments) and estimated at contract inception. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product to a customer.

In addition, from time to time, Autoliv may make payments to customers in connection with ongoing and future business. These payments to customers are generally recognized as a reduction to revenue at the time of the commitment to make these payments unless the payment concession can be clearly linked to the future business award. If the payments are capitalized, the amounts are amortized to revenue as the related goods are transferred.

## INVENTORY RESERVES

Inventories are evaluated based on individual or, in some cases, groups of inventory items. Reserves are established to reduce the value of inventories to the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Excess inventories are quantities of items that exceed anticipated sales or usage for a reasonable period. The Company has guidelines for calculating provisions for excess inventories based on the number of months of inventories on hand compared to anticipated sales or usage. Management uses its judgment to forecast sales or usage and to determine what constitutes a reasonable period.

There can be no assurance that the amount ultimately realized for inventories will not be materially different than that assumed in the calculation of the reserves.

## GOODWILL

The Company performs an annual impairment review of goodwill in the fourth quarter of each year following the Company's annual forecasting process. Management used a qualitative assessment approach for 2018 goodwill impairment testing purposes. When evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity shall assess relevant events and circumstances. Examples of such events and circumstances include macroeconomic conditions, industry and market considerations, cost factors, overall financial performance etc. Management has used the following approach:

1. Determine the starting point
2. Identify the most relevant drivers of fair value
3. Identify events and circumstances
4. Weight the identified factors

The Company had significant head room from its latest fair value assessment performed in 2017, which determined the starting point. The most relevant drivers of fair value for the Company is the expected future cash flows and the discount rate used. Considering the nature of the Company's business with long production cycles and our strong credit rating as well as industry factors, management concluded that goodwill was not impaired.

## RECALL PROVISIONS AND WARRANTY OBLIGATIONS

The Company records liabilities for product recalls when probable claims are identified and when it is possible to reasonably estimate costs. Recall costs are costs incurred when the customer decides to formally recall a product due to a known or suspected safety concern. Product recall costs typically include the cost of the product being replaced as well as the customer's cost of the recall, including labor to remove and replace the defective part. In some cases portions of the product recall costs are reimbursed by an insurance company. Actual costs incurred could differ from the amounts estimated, requiring adjustments to these reserves in future periods. It is possible that changes in our assumptions or future product recall issues could materially affect our financial position, results of operations or cash flows.

Estimating warranty obligations requires the Company to forecast the resolution of existing claims and expected future claims on products sold. The Company bases the estimate on historical trends of units sold and payment amounts, combined with our current understanding of the status of existing claims and discussions with our customers. These estimates are re-evaluated on an ongoing basis. Actual warranty obligations could differ from the amounts estimated requiring adjustments to existing reserves in future periods. Due to the uncertainty and potential volatility of the factors contributing to developing these estimates, changes in our assumptions could materially affect our results of operations.

## RESTRUCTURING PROVISIONS

The Company defines restructuring expense to include costs directly associated with capacity alignment programs, plus exit or disposal activities. Estimates of restructuring charges are based on information available at the time such charges are recorded. In general, management anticipates that restructuring activities will be completed within a time frame such that significant changes to the exit plan are not likely.

Due to inherent uncertainty involved in estimating restructuring expenses, actual amounts paid for such activities may differ from amounts initially estimated.

## DEFINED BENEFIT PENSION PLANS

The Company has defined benefit pension plans in eleven countries. The most significant plans exist in the U.S. These plans represent approximately 60% of the Company's total pension benefit obligation. See Note 20 to the Consolidated Financial Statements included herein.

The Company, in consultation with its actuarial advisors, determines certain key assumptions to be used in calculating the projected benefit obligation and annual pension expense. For the U.S. plans, the assumptions used for calculating the 2018 pension expense were a discount rate of 3.55%, expected rate of increase in compensation levels of 2.65%, and an expected long-term rate of return on plan assets of 7.08%.

The assumptions used in calculating the U.S. benefit obligations disclosed as of December 31, 2018 were a discount rate of 4.35% and an expected age-based rate of increase in compensation levels of 2.65%. The discount rate for the U.S. plans has been set based on the rates of return of high-quality fixed-income investments currently available at the measurement date and are expected to be available during the period the benefits will be paid. The expected rate of increase in compensation levels and long-term return on plan assets are determined based on a number of factors and must take into account long-term expectations and reflect the financial environment in the respective local markets. At December 31, 2018, 38% of the U.S. plan assets were invested in equities, which is in line with the target of 40%.

The table below illustrates the sensitivity of the U.S. net periodic benefit cost and projected U.S. benefit obligation to a 1pp change in the discount rate, decrease in return on plan assets and increase in compensation levels for the U.S. plans (in millions). The use of actuarial assumptions is an area of management's estimate.

| Assumption<br>(in millions) | Change       | 2018 net  |     | 2018 projected                               |      |
|-----------------------------|--------------|---|-----|--|------|
|                             |              | periodic benefit<br>cost increase<br>(decrease) |     | benefit obligation<br>increase<br>(decrease) |      |
| Discount rate               | 1pp increase | \$  | (3) | \$   | (51) |
| Discount rate               | 1pp decrease | \$  | 7   | \$   | 65   |
| Compensation levels         | 1pp increase | \$  | 0   | \$   | 3    |
| Return on plan assets       | 1pp decrease | \$  | 3   |  | n/a  |

## INCOME TAXES

Significant judgment is required in determining the worldwide provision for income taxes. In the ordinary course of a global business, there are many transactions for which the ultimate tax outcome is uncertain. Many of these uncertainties arise as a consequence of intercompany transactions.

Although the Company believes that its tax return positions are supportable, no assurance can be given that the final outcome of these matters will not be materially different than that which is reflected in the historical income tax provisions and accruals. Such differences could have a material effect on the income tax provisions or benefits in the periods in which such determinations are made. The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017. The Tax Act makes broad and complex changes to the U.S. tax code, including reducing the U.S. federal corporate income tax rate from 35% to 21% for years beginning after December 31, 2017, requiring

companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously deferred and created new taxes on certain foreign sourced earnings. See also the discussion of the Tax Act and the determinations of valuation allowances on our deferred tax assets in Note 6 Income Taxes.

## CONTINGENT LIABILITIES

Various claims, lawsuits and proceedings are pending or threatened against the Company or its subsidiaries, covering a range of matters that arise in the ordinary course of its business activities with respect to commercial, product liability or other matters.

The Company diligently defends itself in such matters and, in addition, carries insurance coverage to the extent reasonably available against insurable risks.

The Company records liabilities for claims, lawsuits and proceedings when they are probable and it is possible to reasonably estimate the cost of such liabilities. Legal costs expected to be incurred in connection with a loss contingency are expensed as such costs are incurred.

A loss contingency is accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. In determining whether a loss should be accrued management evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our consolidated financial statements.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

See also Note 2 to the Consolidated Financial Statements of this Annual Report included with this Form 10-K for information about how these risks are quantified.

### CURRENCY RISKS

#### 1. Transaction Exposure and Revaluation effects

Transaction exposure arises because the cost of a product originates in one currency and the product is sold in another currency. Revaluation effects come from valuation of assets denominated in other currencies than the reporting currency of each unit.

The Company's gross transaction exposure for 2018 was approximately \$2.9 billion. A part of the currency flows had counter-flows in the same currency pair, which reduced the net exposure to approximately \$2.4 billion. The four largest net exposures are U.S. dollars (sell) against the Mexican Peso, Romanian Lei (buy) against the Euro, U.S. dollars (buy) against Korean Won, Turkish Lira (buy) against the Euro. Together these currencies accounted for approximately 39% of the Company's net currency transaction exposure.

Since the Company can only effectively hedge these currency flows in the short term, periodic hedging would only reduce the impact of fluctuations temporarily. Over time, periodic hedging would postpone but not reduce the impact of fluctuations. In addition, the net exposure is limited to only around one quarter of net sales and is made up of around 50 different currency pairs with exposures more than of \$1 million each. Autoliv generally does not hedge these flows.

#### 2. Translation Exposure in the Income Statement and Balance Sheet

Another effect of exchange rate fluctuations arises when the income statements of non-U.S. subsidiaries are translated into U.S. dollars. Outside the U.S., the Company's most significant currency is the Euro. We estimate that 29% of the Company's net sales will be denominated in Euro or other European currencies during 2018, while approximately a quarter of net sales is estimated to be denominated in U.S. dollars.

The Company estimates that a 1% increase in the value of the U.S. dollar versus European currencies will decrease reported U.S. dollar annual net sales in 2019 by \$27 million or by 0.3% while operating income for 2019 will decline by approximately 0.3% or by about \$3 million, assuming reported corporate average margin.

The Company's policy is not to hedge this type of translation exposure since there is no cash flow effect to hedge.

A translation exposure also arises when the balance sheets of non-U.S. subsidiaries are translated into U.S. dollars. The policy of the Company is to finance major subsidiaries in the country's local currency and to minimize the amounts held by subsidiaries in foreign currency accounts.

Consequently, changes in currency rates relating to funding and foreign currency accounts normally have a small impact on the Company's income.

### INTEREST RATE RISK

Interest rate risk refers to the risk that interest rate changes will affect the Company's borrowing costs. Autoliv's interest rate risk policy states that the average interest rate fixing period should be minimum 1 year and maximum 5 years.

At December 31, 2018, the average interest rate fixing period for the Company's outstanding debt was 4.0 years.

Given the Company's current capital structure, we estimate that a one-percentage point interest rate increase would reduce net interest expense by approximately \$3 million, both in 2019 and 2020. This is based on the capital structure at the end of 2018 when the gross fixed-rate debt was \$1,883 million while the Company had a net debt position of \$1,619 million (see section Non-U.S. GAAP Performance Measures). Thus, a change in the interest rate environment would not have a notable impact on the Company's interest expense. As of December 31, 2018, the Company had \$616 million in cash and cash equivalents of which the majority were subject to a floating interest rate. Taking the cash and cash equivalents of \$616 million (which is primarily subject to floating interest rates) minus the portion of debt carrying floating interest rates, we estimated that a one-percentage point interest rate increase would increase interest income and thereby reduce net interest expense by approximately \$3 million, both in 2019 and 2020.

Fixed interest rate debt is achieved both by issuing fixed rate notes and through interest rate swaps. The most notable debt carrying fixed interest rates is the \$1.3 billion U.S. private placement notes issued in 2014 and in June 2018, the Company issued EUR 500 million of 5-year notes in the Eurobond market, see Note 14 to the Consolidated Financial Statements included herein.



## FINANCING RISK

Financing risk refers to the risk that it will be difficult and/or expensive to finance new or existing debt to meet the financing needs of the Autoliv Group.

The management of the financing risk ensures access to funding in a cost-efficient way by diversification of funding sources and debt maturities.

Autoliv has diversified its long-term funding sources by issuing notes in the USPP and Eurobond markets, and by signing a long-term credit agreement with 14 banks. The Company also has established programs for short-term issuance of commercial papers in the Swedish and US markets and short-term credit agreements, e.g. bank overdrafts and money market loans.

To ensure diversification of debt maturities no more than 20% of the Autoliv Group's total debt may mature the next 12 months, unless such maturities (in excess of 20%) are covered by unutilized committed credit facilities with maturity in excess of 12 months. Per December 31, 2018, 28% corresponding to \$621 million of the Autoliv Group's total debt had maturity less than 12 months. This amount was fully covered by unutilized committed credit facilities with maturity in excess of 12 months.

## CAPITAL STRUCTURE AND CREDIT RATING

The overall objective relating to Autoliv's target capital structure and credit rating is to provide the Company with sufficient flexibility to manage the inherent risks and cyclicity in Autoliv's business and allow the Company to realize strategic opportunities and fund growth initiatives while creating shareholder value.

Autoliv is committed to maintain a "strong investment grade credit rating". As of December 31, 2018 the Company had a long-term credit rating from S&P Global Ratings ("S&P") of A-.

The amount of interest-bearing debt held impacts the future financial flexibility as well as the credit rating. Management uses the non-U.S. GAAP measure "Leverage Ratio" to analyze the amount of debt the Company can incur under its debt policy. Management believes that this policy also provides guidance to credit and equity investors regarding the extent to which the Company would be prepared to leverage its operations. Autoliv's long-term target for the leverage ratio (sum of net debt plus pension liabilities divided by EBITDA) is 1.0x with the aim to operate within the range of 0.5x to 1.5x. At December 31, 2018, the leverage ratio (non-U.S. GAAP measure, see calculation table below) was 1.5x. For details and calculation of leverage ratio, refer to the table below.

## CALCULATION OF LEVERAGE RATIO (DOLLARS IN MILLIONS)

|  | December 31 2018  | December 31 2017  |
|--|-------------------|-------------------|
| Net debt <sup>1)</sup>                                     | \$ 1,618.8        | \$ 368.4          |
| Pension liabilities  | 198.2             | 206.8             |
| <b>Debt per the Policy</b>                                 | <b>1,817.0</b>    | <b>575.2</b>      |
| Net income <sup>2)</sup>                                   | 183.7             | 303.0             |
| Less; Net Loss, Discontinued Operations <sup>2)</sup>      | 193.8             | 285.0             |
| <b>Net income, Continuing Operations<sup>2)</sup></b>      | <b>377.5</b>      | <b>588.0</b>      |
| Income taxes <sup>2)</sup>                                 | 234.9             | 204.4             |
| Interest expense, net <sup>2, 3)</sup>                     | 59.2              | 53.7              |
| Depreciation and amortization of intangibles <sup>2)</sup> | 342.0             | 307.0             |
| Antitrust related matters <sup>2)</sup>                    | 212.0             | 18.0              |
| <b>EBITDA per the Policy</b>                               | <b>\$ 1,225.6</b> | <b>\$ 1,171.1</b> |
| <b>Leverage ratio</b>                                      | <b>1.5</b>        | <b>0.5</b>        |

1) Net debt is short- and long-term debt and debt-related derivatives less cash and cash equivalents (non-U.S. GAAP measure).

2) Latest 12 months.

3) Interest expense, net is interest expense including cost for extinguishment of debt, if any, less interest income.

## CREDIT RISK IN FINANCIAL MARKETS

Credit risk refers to the risk of a financial counterparty being unable to fulfill an agreed-upon obligation.

In the Company's financial operations, this risk arises when cash is deposited with banks and when entering into forward exchange agreements, swap contracts or other financial instruments.

The policy of the Company is to work with banks that have a high credit rating and that participate in Autoliv's financing.

To further reduce credit risk, deposits and financial instruments can only be entered into with core banks up to a calculated risk amount of \$150 million per bank for banks rated A- or above and up to \$50 million for banks rated BBB+. In addition, deposits can be made in U.S. and Swedish government short-term notes and certain AAA rated money market funds as approved by the Company's Board of Directors. At year-end 2018, the Company held \$1 million in AAA rated money market funds.

#### **IMPAIRMENT RISK**

Impairment risk refers to the risk that the Company will write down a material amount of its goodwill of close to \$1.4 billion as of December 31, 2018. This risk is assessed, at least, annually in the fourth quarter each year when the Company performs its impairment testing.

In 2018, a qualitative method has been used for determining whether there is any impairment risk. Both historical data and forecasts have been used to assess the impairment risk.

It has been concluded that presently the Company is not "at risk" of failing the goodwill impairment test. However, there can be no assurance that goodwill will not be impaired due to future significant declines in LVP, due to our technologies or products becoming obsolete or for any other reason. We could also acquire companies where goodwill could turn out to be less resilient to deteriorations in external conditions. See also discussion under Goodwill and Intangible Assets in Note 2 and Note 11 to the Consolidated Financial Statements included herein.

#### **Item 8. Financial Statements and Supplementary Data**

The Consolidated Balance Sheets of Autoliv as of December 31, 2018 and 2017 and the Consolidated Statements of Net Income, Comprehensive Income, Cash Flows and Total Equity for each of the three years in the period ended December 31, 2018, the Notes to the Consolidated Financial Statements, and the Reports of the Independent Registered Public Accounting Firm are included below.

All of the schedules specified under Regulation S-X to be provided by Autoliv have been omitted either because they are not applicable, are not required or the information required is included in the financial statements or notes thereto.

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Autoliv, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Autoliv, Inc. (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of net income, comprehensive income, total equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 21, 2019 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/ s / Ernst & Young AB

We have served as the Company's auditor since 1984.

Stockholm, Sweden  
February 21, 2019

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Autoliv, Inc.

### Opinion on Internal Control over Financial Reporting

We have audited Autoliv, Inc.'s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Autoliv, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Autoliv, Inc. as of December 31, 2018 and 2017, the related consolidated statements of net income, comprehensive income, total equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated February 21, 2019 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/ s / Ernst & Young AB

Stockholm, Sweden  
February 21, 2019

## Consolidated Statements of Net Income

|  |                | Years ended December 31 |                   |                   |
|--|----------------|-------------------------|-------------------|-------------------|
|  |                | 2018                    | 2017              | 2016              |
| <b>(DOLLARS AND SHARES IN MILLIONS, EXCEPT PER SHARE DATA)</b>   |                |                         |                   |                   |
| <b>Net sales</b>   | <b>Note 22</b> | <b>\$ 8,678.2</b>       | <b>\$ 8,136.8</b> | <b>\$ 7,921.6</b> |
| Cost of sales  |                | (6,966.9)               | (6,457.1)         | (6,293.6)         |
| <b>Gross profit</b>  |                | <b>1,711.3</b>          | <b>1,679.7</b>    | <b>1,628.0</b>    |
| Selling, general and administrative expenses   |                | (390.3)                 | (406.6)           | (394.4)           |
| Research, development and engineering expenses, net  |                | (412.6)                 | (370.6)           | (357.3)           |
| Amortization of intangibles  | Note 11        | (11.3)                  | (11.2)            | (10.5)            |
| Other income (expense), net  | Notes 12, 18   | (211.1)                 | (31.7)            | (34.8)            |
| <b>Operating income</b>  |                | <b>686.0</b>            | <b>859.6</b>      | <b>831.0</b>      |
| Income from equity method investments  | Note 9         | 3.6                     | 1.7               | 2.6               |
| Interest income  |                | 6.9                     | 7.4               | 4.5               |
| Interest expense   | Note 14        | (66.1)                  | (61.1)            | (62.2)            |
| Other non-operating items, net   |                | (18.0)                  | (15.2)            | 8.3               |
| <b>Income from continuing operations before income taxes</b>   |                | <b>612.4</b>            | <b>792.4</b>      | <b>784.2</b>      |
| Income tax expense   | Note 6         | (234.9)                 | (204.4)           | (224.3)           |
| <b>Income from continuing operations</b>   |                | <b>377.5</b>            | <b>588.0</b>      | <b>559.9</b>      |
| (Loss) income from discontinued operations, net of income taxes  | Note 3         | (193.8)                 | (285.0)           | 1.7               |
| <b>Net income</b>  |                | <b>183.7</b>            | <b>303.0</b>      | <b>561.6</b>      |
| Less: Net income from continuing operations attributable to non-controlling interest                             |                | 1.6                     | 2.0               | 1.5               |
| Less: Net loss from discontinued operations attributable to non-controlling interest                             |                | (8.3)                   | (126.1)           | (7.0)             |
| <b>Net income attributable to controlling interest</b>   |                | <b>\$ 190.4</b>         | <b>\$ 427.1</b>   | <b>\$ 567.1</b>   |
| <b>Amounts attributable to controlling interest:</b>   |                |                         |                   |                   |
| Net income from continuing operations  |                | \$ 375.9                | \$ 586.0          | \$ 558.4          |
| Net (Loss) income from discontinued operations   |                | (185.5)                 | (158.9)           | 8.7               |
| <b>Net income attributable to controlling interest</b>   |                | <b>\$ 190.4</b>         | <b>\$ 427.1</b>   | <b>\$ 567.1</b>   |
| Earnings per share continuing operations - basic <sup>1)</sup>   |                | \$ 4.32                 | \$ 6.70           | \$ 6.33           |
| (Loss) earnings per share discontinuing operations - basic <sup>1)</sup>   |                | (2.13)                  | (1.82)            | 0.10              |
| <b>Basic earnings per share</b>  |                | <b>\$ 2.19</b>          | <b>\$ 4.88</b>    | <b>\$ 6.43</b>    |
| Earnings per share continuing operations - diluted <sup>1)</sup>   |                | \$ 4.31                 | \$ 6.68           | \$ 6.32           |
| (Loss) earnings per share discontinuing operations - diluted <sup>1)</sup>                                       |                | (2.13)                  | (1.81)            | 0.10              |
| <b>Diluted earnings per share</b>  |                | <b>\$ 2.18</b>          | <b>\$ 4.87</b>    | <b>\$ 6.42</b>    |
| <b>Weighted average number of shares outstanding, net of treasury shares (in millions)</b>                       |                | <b>87.1</b>             | <b>87.5</b>       | <b>88.2</b>       |
| <b>Weighted average number of shares outstanding, assuming dilution and net of treasury shares (in millions)</b> |                | <b>87.3</b>             | <b>87.7</b>       | <b>88.4</b>       |
| <b>Cash dividend per share - declared</b>  |                | <b>\$ 2.48</b>          | <b>\$ 2.40</b>    | <b>\$ 2.32</b>    |
| <b>Cash dividend per share - paid</b>  |                | <b>\$ 2.46</b>          | <b>\$ 2.38</b>    | <b>\$ 2.30</b>    |

See Notes to Consolidated Financial Statements.

- 1) Participating share awards with the right to receive dividend equivalents are (under the two class method) excluded from the earnings per share calculation (see Note 23 in this Annual Report).

## Consolidated Statements of Comprehensive Income

| <b>(DOLLARS IN MILLIONS)</b>                                      | <b>Years ended December 31</b> |                 |                 |
|---|--------------------------------|-----------------|-----------------|
|   | <b>2018</b>                    | <b>2017</b>     | <b>2016</b>     |
| <b>Net income</b>   | <b>\$ 183.7</b>                | <b>\$ 303.0</b> | <b>\$ 561.6</b> |
| <i>Other comprehensive (loss) income before tax:</i>              |                                |                 |                 |
| Change in cumulative translation adjustments                      | (150.2)                        | 272.1           | (156.3)         |
| Net change in cash flow hedges                                    | 0.9                            | (8.9)           | 7.9             |
| Net change in unrealized components of defined benefit plans      | 14.2                           | 31.9            | (24.6)          |
| <b>Other comprehensive (loss) income, before tax</b>              | <b>(135.1)</b>                 | <b>295.1</b>    | <b>(173.0)</b>  |
| Tax effect allocated to other comprehensive (loss) income         | (4.1)                          | (7.8)           | 7.6             |
| <b>Other comprehensive (loss) income, net of tax</b>              | <b>(139.2)</b>                 | <b>287.3</b>    | <b>(165.4)</b>  |
| <b>Comprehensive income</b>                                       | <b>44.5</b>                    | <b>590.3</b>    | <b>396.2</b>    |
| Less: Comprehensive loss attributable to non-controlling interest | (7.4)                          | (114.8)         | (13.9)          |
| <b>Comprehensive income attributable to controlling interest</b>  | <b>\$ 51.9</b>                 | <b>\$ 705.1</b> | <b>\$ 410.1</b> |

See Notes to Consolidated Financial Statements.

## Consolidated Balance Sheets

| <u>(DOLLARS AND SHARES IN MILLIONS)</u>             | <u>At December 31</u> |                   |
|---|-----------------------|-------------------|
|   | <u>2018</u>           | <u>2017</u>       |
| <b>Assets</b>                                       |                       |                   |
| Cash and cash equivalents                           | \$ 615.8              | \$ 959.5          |
| Receivables, net                                    | Note 7 1,652.1        | 1,696.7           |
| Inventories, net                                    | Note 8 757.9          | 704.3             |
| Income tax receivables                              | 34.1                  | 41.2              |
| Prepaid expenses                                    | 208.6                 | 153.0             |
| Other current assets                                | 1.9                   | 2.8               |
| Related party receivables                           | Note 21 15.0          | —                 |
| Current assets, discontinued operations             | Note 3 —              | 647.2             |
| <b>Total current assets</b>                         | <b>3,285.4</b>        | <b>4,204.7</b>    |
| Property, plant and equipment, net                  | Note 10 1,690.1       | 1,608.9           |
| Investments and other non-current assets            | Note 9 323.5          | 341.0             |
| Goodwill  | Note 11 1,389.9       | 1,397.0           |
| Intangible assets, net                              | Note 11 32.7          | 42.6              |
| Non-current assets, discontinued operations         | Note 3 —              | 955.7             |
| <b>Total assets</b>                                 | <b>\$ 6,721.6</b>     | <b>\$ 8,549.9</b> |
| <b>Liabilities and equity</b>                       |                       |                   |
| Short-term debt                                     | Note 14 \$ 620.7      | \$ 19.7           |
| Accounts payable                                    | 978.3                 | 957.3             |
| Accrued expenses                                    | Notes 12, 13 935.4    | 829.5             |
| Income tax payable                                  | 64.9                  | 81.9              |
| Other current liabilities                           | 202.5                 | 198.0             |
| Related party liabilities                           | Note 21 63.7          | —                 |
| Current liabilities, discontinued operations        | Note 3 —              | 568.2             |
| <b>Total current liabilities</b>                    | <b>2,865.5</b>        | <b>2,654.6</b>    |
| Long-term debt                                      | Note 14 1,609.0       | 1,310.7           |
| Pension liability                                   | Note 20 198.2         | 206.8             |
| Other non-current liabilities                       | 152.1                 | 144.3             |
| Non-current liabilities, discontinued operations    | Note 3 —              | 64.1              |
| <b>Total non-current liabilities</b>                | <b>1,959.3</b>        | <b>1,725.9</b>    |
| Commitments and contingencies                       | Notes 18, 19          |                   |
| Common stock <sup>1)</sup>                          | 102.8                 | 102.8             |
| Additional paid-in capital                          | 1,329.3               | 1,329.3           |
| Retained earnings                                   | 2,041.8               | 4,079.2           |
| Accumulated other comprehensive loss                | Note 15 (423.2)       | (287.5)           |
| Treasury stock (15.7 and 15.8 shares, respectively) | (1,167.0)             | (1,188.7)         |
| <b>Total controlling interest's equity</b>          | <b>1,883.7</b>        | <b>4,035.1</b>    |
| Non-controlling interest                            | 13.1                  | 134.3             |
| <b>Total equity</b>                                 | <b>1,896.8</b>        | <b>4,169.4</b>    |
| <b>Total liabilities and equity</b>                 | <b>\$ 6,721.6</b>     | <b>\$ 8,549.9</b> |

1) Number of shares: 350 million authorized, 102.8 million issued for both years, and 87.1 and 87.0 million outstanding, net of treasury shares, for 2018 and 2017, respectively.

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

| (DOLLARS IN MILLIONS)   | Years ended December 31 |                 |                   |
|---|-------------------------|-----------------|-------------------|
|   | 2018                    | 2017            | 2016              |
| <b>Operating activities</b>   |                         |                 |                   |
| Net income continuing operations  | \$ 377.5                | \$ 588.0        | \$ 559.9          |
| Net income discontinued operations  | (193.8)                 | (285.0)         | 1.7               |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |                 |                   |
| Depreciation and amortization   | 397.1                   | 425.8           | 383.0             |
| Legal provision   | 210.0                   | —               | —                 |
| Goodwill, impairment charge   | —                       | 234.2           | —                 |
| Deferred income taxes   | 3.0                     | (47.2)          | (24.8)            |
| Loss from equity method investments, net of dividends                             | 31.9                    | 38.1            | 1.0               |
| Net change in:  |                         |                 |                   |
| Receivables and other assets, gross   | (48.4)                  | (102.2)         | (292.3)           |
| Inventories, gross  | (123.9)                 | (21.0)          | (72.6)            |
| Accounts payable and accrued expenses   | (37.8)                  | 112.3           | 271.2             |
| Income taxes  | (19.2)                  | 10.6            | 15.9              |
| Other, net  | (5.8)                   | (17.7)          | 25.4              |
| <b>Net cash provided by operating activities</b>                                  | <b>590.6</b>            | <b>935.9</b>    | <b>868.4</b>      |
| <b>Investing activities</b>   |                         |                 |                   |
| Expenditures for property, plant and equipment                                    | (560.0)                 | (580.1)         | (506.8)           |
| Proceeds from sale of property, plant and equipment                               | 5.2                     | 10.5            | 8.2               |
| Acquisition of intangible assets  | —                       | —               | (1.1)             |
| Acquisition of businesses and interest in affiliates, net of cash acquired        | (72.0)                  | (125.3)         | (226.3)           |
| Net proceeds from divestitures  | —                       | 1.4             | —                 |
| Other   | (0.9)                   | (3.8)           | —                 |
| <b>Net cash used in investing activities</b>                                      | <b>(627.7)</b>          | <b>(697.3)</b>  | <b>(726.0)</b>    |
| <b>Financing activities</b>   |                         |                 |                   |
| Net decrease in short-term debt   | 355.4                   | (208.6)         | (2.7)             |
| Issuance of long-term debt, net of discount                                       | 582.2                   | —               | —                 |
| Debt issuance costs   | (2.6)                   | —               | —                 |
| Dividends paid to non-controlling interest  | (2.1)                   | (0.1)           | (1.7)             |
| Dividends paid  | (214.3)                 | (208.7)         | (202.8)           |
| Shares repurchased  | —                       | (157.0)         | —                 |
| Common stock options exercised  | Note 17 8.2             | 7.9             | 5.9               |
| Capital contribution to Veoneer   | (971.8)                 | —               | —                 |
| Other, net  | —                       | 0.3             | 1.1               |
| <b>Net cash used in financing activities</b>                                      | <b>(245.0)</b>          | <b>(566.2)</b>  | <b>(200.2)</b>    |
| Effect of exchange rate changes on cash and cash equivalents                      | (61.6)                  | 60.4            | (49.0)            |
| <b>Decrease in cash and cash equivalents</b>                                      | <b>(343.7)</b>          | <b>(267.2)</b>  | <b>(106.8)</b>    |
| Cash and cash equivalents at beginning of year                                    | 959.5                   | 1,226.7         | 1,333.5           |
| <b>Cash and cash equivalents at end of year</b>                                   | <b>\$ 615.8</b>         | <b>\$ 959.5</b> | <b>\$ 1,226.7</b> |

See Notes to Consolidated Financial Statements.



## Consolidated Statements of Total Equity

| (DOLLARS AND SHARES<br>IN MILLIONS)                                | Number of Common<br>shares | Additional<br>stock | paid in<br>capital | Retained<br>earnings | Accumulated<br>other com-<br>prehensive<br>(loss) income | Treasury<br>stock  | Total parent<br>shareholders'<br>equity | Non-<br>controlling<br>interest | Total<br>equity <sup>1)</sup> |
|--|----------------------------|---------------------|--------------------|----------------------|--|--------------------|---|---------------------------------|-------------------------------|
| <b>Balance at December 31, 2015</b>                                | <b>102.8</b>               | <b>\$ 102.8</b>     | <b>\$ 1,329.3</b>  | <b>\$ 3,499.4</b>    | <b>\$ (408.5)</b>  | <b>\$(1,067.4)</b> | <b>\$ 3,455.6</b>                       | <b>\$ 12.5</b>                  | <b>\$ 3,468.1</b>             |
| Comprehensive Income:  |                            |                     |                    |                      |  |                    |   |                                 |                               |
| Comprehensive Income   |                            |                     |                    |                      |  |                    |   |                                 |                               |
| Net income   |                            |                     |                    | 567.1                |  |                    | 567.1                                   | (5.5)                           | 561.6                         |
| Net change in cash flow hedges                                     |                            |                     |                    |                      | 7.9  |                    | 7.9                                     |                                 | 7.9                           |
| Foreign currency translation                                       |                            |                     |                    |                      | (147.7)  |                    | (147.7)                                 | (8.6)                           | (156.3)                       |
| Pension liability  |                            |                     |                    |                      | (17.2)   |                    | (17.2)                                  | 0.2                             | (17.0)                        |
| <i>Total Comprehensive Income</i>                                  |                            |                     |                    |                      |  |                    | 410.1                                   | (13.9)                          | 396.2                         |
| Stock-based compensation   |                            |                     |                    |                      |  | 16.2               | 16.2                                    |                                 | 16.2                          |
| Cash dividends declared  |                            |                     |                    | (204.7)              |  |                    | (204.7)                                 |                                 | (204.7)                       |
| Dividends paid to non-controlling<br>interest on subsidiary shares |                            |                     |                    |                      |  |                    |   | (1.7)                           | (1.7)                         |
| Investment in subsidiary by<br>non-controlling interest            |                            |                     |                    |                      |  |                    |   | 252.3                           | 252.3                         |
| <b>Balance at December 31, 2016</b>                                | <b>102.8</b>               | <b>\$ 102.8</b>     | <b>\$ 1,329.3</b>  | <b>\$ 3,861.8</b>    | <b>\$ (565.5)</b>  | <b>\$(1,051.2)</b> | <b>\$ 3,677.2</b>                       | <b>\$ 249.2</b>                 | <b>\$ 3,926.4</b>             |
| Comprehensive Income:  |                            |                     |                    |                      |  |                    |   |                                 |                               |
| Net income   |                            |                     |                    | 427.1                |  |                    | 427.1                                   | (124.1)                         | 303.0                         |
| Net change in cash flow hedges                                     |                            |                     |                    |                      | (8.9)  |                    | (8.9)                                   |                                 | (8.9)                         |
| Foreign currency translation                                       |                            |                     |                    |                      | 263.0  |                    | 263.0                                   | 9.1                             | 272.1                         |
| Pension liability  |                            |                     |                    |                      | 23.9   |                    | 23.9                                    | 0.2                             | 24.1                          |
| <i>Total Comprehensive Income</i>                                  |                            |                     |                    |                      |  |                    | 705.1                                   | (114.8)                         | 590.3                         |
| Stock-based compensation   |                            |                     |                    |                      |  | 19.5               | 19.5                                    |                                 | 19.5                          |
| Cash dividends declared  |                            |                     |                    | (209.7)              |  |                    | (209.7)                                 |                                 | (209.7)                       |
| Dividends paid to non-controlling<br>interest on subsidiary shares |                            |                     |                    |                      |  |                    |   | (0.1)                           | (0.1)                         |
| Repurchased shares   |                            |                     |                    |                      |  | (157.0)            | (157.0)                                 |                                 | (157.0)                       |
| <b>Balance at December 31, 2017</b>                                | <b>102.8</b>               | <b>\$ 102.8</b>     | <b>\$ 1,329.3</b>  | <b>\$ 4,079.2</b>    | <b>\$ (287.5)</b>  | <b>\$(1,188.7)</b> | <b>\$ 4,035.1</b>                       | <b>\$ 134.3</b>                 | <b>\$ 4,169.4</b>             |
| Comprehensive Income:  |                            |                     |                    |                      |  |                    |   |                                 |                               |
| Net income   |                            |                     |                    | 190.4                |  |                    | 190.4                                   | (6.7)                           | 183.7                         |
| Net change in cash flow hedges                                     |                            |                     |                    |                      | 0.9  |                    | 0.9                                     |                                 | 0.9                           |
| Foreign currency translation                                       |                            |                     |                    |                      | (149.5)  |                    | (149.5)                                 | (0.7)                           | (150.2)                       |
| Pension liability  |                            |                     |                    |                      | 10.1   |                    | 10.1                                    |                                 | 10.1                          |
| Adjustment due to adoption of<br>ASU 2018-02                       |                            |                     |                    | 10.2                 | (10.2)   |                    | 0.0                                     |                                 | 0.0                           |
| <i>Total Comprehensive Income</i>                                  |                            |                     |                    |                      |  |                    | 51.9                                    | (7.4)                           | 44.5                          |
| Stock-based compensation   |                            |                     |                    |                      |  | 21.7               | 21.7                                    |                                 | 21.7                          |
| Cash dividends declared  |                            |                     |                    | (216.7)              |  |                    | (216.7)                                 |                                 | (216.7)                       |
| Dividends paid to non-controlling<br>interest on subsidiary shares |                            |                     |                    |                      |  |                    |   | (2.2)                           | (2.2)                         |
| Adjustment due to adoption of<br>ASU 2014-09                       |                            |                     |                    | 3.3                  |  |                    | 3.3                                     |                                 | 3.3                           |
| Distribution of Veoneer  |                            |                     |                    | (2,024.3)            | 13.0   |                    | (2,011.3)                               | (111.6)                         | (2,122.9)                     |
| Other  |                            |                     |                    | (0.3)                |  |                    | (0.3)                                   |                                 | (0.3)                         |
| <b>Balance at December 31, 2018</b>                                | <b>102.8</b>               | <b>\$ 102.8</b>     | <b>\$ 1,329.3</b>  | <b>\$ 2,041.8</b>    | <b>\$ (423.2)</b>  | <b>\$(1,167.0)</b> | <b>\$ 1,883.7</b>                       | <b>\$ 13.1</b>                  | <b>\$ 1,896.8</b>             |

1) See Note 15 for further details – includes tax effects where applicable.

See Notes to Consolidated Financial Statements.

## Notes to Consolidated Financial Statements

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

### 1. Basis of Presentation

#### NATURE OF OPERATIONS

Through its operating subsidiaries, Autoliv is a supplier of automotive safety systems with a broad range of product offerings, including modules and components for passenger and driver airbags, side airbags, curtain airbags, seatbelts and steering wheels. Autoliv is also a supplier of anti-whiplash systems, pedestrian protection systems and child seats.

#### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements have been prepared in accordance with United States (U.S.) Generally Accepted Accounting Principles (GAAP) and include Autoliv, Inc. and all companies over which Autoliv, Inc. directly or indirectly exercises control, which as a general rule means that the Company owns more than 50% of the voting rights.

Consolidation is also required when the Company has both the power to direct the activities of a variable interest entity (VIE) and the obligation to absorb losses or the right to receive benefits from the VIE that could be significant to the VIE.

All intercompany accounts and transactions within the Company have been eliminated from the consolidated financial statements.

Investments in affiliated companies in which the Company exercises significant influence over the operations and financial policies, but does not control, are reported using the equity method of accounting. Generally, the Company owns between 20 and 50 percent of such investments.

#### DISCONTINUED OPERATIONS

On June 29, 2018 (the "Distribution Date"), Autoliv completed the spin-off of its former Electronics segment (the "spin-off") through the distribution of all of the issued and outstanding stock of Veoneer, Inc. ("Veoneer"). To effect the spin-off, Autoliv distributed to each Autoliv stockholder one share of Veoneer common stock, par value \$1.00 per share, for every one share of Autoliv common stock, par value \$1.00 per share, held by such person on the common stock record date, and each Autoliv Swedish Depository Receipt (SDR) holder received one Veoneer SDR for each Autoliv SDR held by such person on the applicable SDR record date. On July 2, 2018, Veoneer's common stock began regular-way trading on the New York Stock Exchange under the symbol "VNE" and its SDRs began trading on Nasdaq Stockholm under the symbol "VNE SDB." The Company did not retain any equity interest in Veoneer.

In accordance with U.S. GAAP, the financial position and results of operations of the Electronics business are presented as discontinued operations and, as such, have been excluded from continuing operations for all periods presented. The sum of the individual earnings per share amounts from continuing operations and discontinued operations may not equal the total company earnings per share amounts due to rounding. The cash flows and comprehensive income related to the Electronics business have not been segregated and are included in the Condensed Consolidated Statements of Cash Flows and Comprehensive Income, respectively, for all periods presented. With the exception of Note 3, the Notes to the Consolidated Financial Statements reflect the continuing operations of Autoliv. See Note 3 - Discontinued Operations below for additional information regarding discontinued operations.

On April 1, 2018, in preparation for the spin-off, pursuant to the terms of a master transfer agreement entered into between Autoliv and Veoneer, assets related to the Electronics business were transferred to, and liabilities related to the Electronics business were retained or assumed by Veoneer, however, responsibility for certain product, warranty and recall liabilities for Electronics products manufactured prior to April 1, 2018 was retained by Autoliv as provided in the Distribution Agreement between Autoliv and Veoneer.

Certain amounts in prior year's consolidated financial statements and related footnotes thereto have been reclassified, unless otherwise noted, to conform with the current year presentation as a result of the spin-off of Veoneer.

#### SEGMENT REPORTING

Upon completion of the spin-off at June 30, 2018, Autoliv concluded that it has one reportable segment, based on the way the Company currently evaluates its financial performance and manages its operations. The Company will re-evaluate the one reportable segment as the operating model evolves, including the management structure. Prior to the completion of the spin-off, the Company had two reportable segments, Electronics and Passive Safety. The Company's Passive Safety reportable segment includes the Company's airbag and seatbelt products and components. For more information on our segment, see Note 22.

## 2. Summary of Significant Accounting Policies

### BUSINESS COMBINATIONS

Transactions in which the Company obtains control of a business are accounted for according to the acquisition method as described in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, Business Combinations. The assets acquired and liabilities assumed are recognized and measured at their fair values as of the date control is obtained. Acquisition related costs in connection with a business combination are expensed as incurred. Contingent consideration is recognized and measured at fair value at the acquisition date and until paid is re-measured on a recurring basis. It is classified as a liability based on appropriate GAAP.

### EQUITY METHOD INVESTMENTS

Investments accounted for under the equity method, means that a proportional share of the equity method investment's net income increases the investment, and a proportional share of losses and payment of dividends decreases it. In the Consolidated Statements of Net Income, the proportional share of the net income (loss) is reported as Income from equity method investments.

### USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of net sales and expenses during the reporting period. The accounting estimates that require management's most significant judgments include the estimation of variable consideration for our contracts with customers, valuation of stock based payments, assessment of recoverability of goodwill and intangible assets, estimation of pension benefit obligations based on actuarial assumptions, estimation of accruals for warranty and product liabilities, restructuring charges, uncertain tax positions, valuation allowances and legal proceedings. Actual results could differ from those estimates.

### REVENUE RECOGNITION

In accordance with ASC 606, *Revenue from Contracts with Customers*, revenue is measured based on consideration specified in a contract with a customer, adjusted for any variable consideration (i.e. price concessions or annual price adjustments) and estimated at contract inception. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product to a customer.

In addition, from time to time, Autoliv may make payments to customers in connection with ongoing and future business. These payments to customers are generally recognized as a reduction to revenue at the time of the commitment to make these payments unless the payment concession can be clearly linked to the future business. If the payments are capitalized, the amounts are amortized to revenue as the related goods are transferred.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

Shipping and handling costs associated with outbound freight after control of a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of sales.

#### Nature of goods and services

The following is a description of principal activities from which the Company generates its revenue. The Company has after the spin-off of its Electronics business currently one operating segment, Passive safety systems, which includes airbag and seatbelt products and components. The Company generates revenue from the sale of production parts to original equipment manufacturers ("OEMs").

The Company accounts for individual products separately if they are distinct (i.e., if a product is separately identifiable from other items and if a customer can benefit from it on its own or with other resources that are readily available to the customer). The consideration, including any price concessions or annual price adjustments, is based on their stand-alone selling prices for each of the products. The stand-alone selling prices are determined based on the cost-plus margin approach.

The Company recognizes revenue for production parts primarily at a point in time.

For production parts with revenue recognized at a point in time, the Company recognizes revenue upon shipment to the customers and transfer of title and risk of loss under standard commercial terms (typically FOB shipping point). There are certain contracts where the criteria to recognize revenue over time have been met (e.g., there is no alternative use to the Company and the Company has an enforceable right to payment). In such cases, at period end, the Company recognizes revenue and a related asset and associated cost of goods sold and inventory. However, the financial impact of these contracts is immaterial considering the very short production cycles and limited inventory days on hand, which is typical for the automotive industry.

The amount of revenue recognized is based on the purchase order price and adjusted for variable consideration (i.e. price concessions or annual price adjustments). Customers typically pay for the production parts based on customary business practices.

## **RESEARCH, DEVELOPMENT AND ENGINEERING (R,D&E)**

Research and development and most engineering expenses are expensed as incurred. These expenses are reported net of expense reimbursements from contracts to perform engineering design and product development fulfillment activities related to the production of parts.

Certain engineering expenses related to long-term supply arrangements are capitalized when defined criteria, such as the existence of a contractual guarantee for reimbursement, are met. The aggregate amount of such assets is not significant in any period presented.

Tooling is generally agreed upon as a separate contract or a separate component of an engineering contract, as a pre-production project. Capitalization of tooling costs is made only when the specific criteria for capitalization of customer funded tooling is met or the criteria for capitalization as Property, Plant & Equipment (P,P&E) for tools owned by the Company are fulfilled. Depreciation on the Company's own tooling is recognized in the Consolidated Statements of Net Income as Cost of sales.

## **STOCK BASED COMPENSATION**

The compensation costs for all of the Company's stock-based compensation awards are determined based on the fair value method as defined in ASC 718, Compensation - Stock Compensation. The Company records the compensation expense for awards under the Stock Incentive Plan, including Restricted Stock Units (RSUs), Performance Shares (PSs) and stock options (SOs), over the respective vesting period. For further details, see Note 17.

## **INCOME TAXES**

Current tax liabilities and assets are recognized for the estimated taxes payable or refundable on the tax returns for the current year. In certain circumstances, payments or refunds may extend beyond twelve months, in such cases amounts would be classified as non-current taxes payable or refundable. Deferred tax liabilities or assets are recognized for the estimated future tax effects attributable to temporary differences and carryforwards that result from events that have been recognized in either the financial statements or the tax returns, but not both. The measurement of current and deferred tax liabilities and assets is based on provisions of enacted tax laws. Deferred tax assets are reduced by the amount of any tax benefits that are not expected to be realized. A valuation allowance is recognized if, based on the weight of all available evidence, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. Evaluation of the realizability of deferred tax assets is subject to significant judgment requiring careful consideration of all facts and circumstances. The Company classifies deferred tax assets and liabilities as non-current in the Consolidated Balance Sheet. Tax assets and liabilities are not offset unless attributable to the same tax jurisdiction and netting is possible according to law and, as it relates to payables and receivables, expected to take place in the same period.

Tax benefits associated with tax positions taken in the Company's income tax returns are initially recognized and measured in the financial statements when it is more likely than not that those tax positions will be sustained upon examination by the relevant taxing authorities. The Company's evaluation of its tax benefits is based on the probability of the tax position being upheld if challenged by the taxing authorities (including through negotiation, appeals, settlement and litigation). Whenever a tax position does not meet the initial recognition criteria, the tax benefit is subsequently recognized and measured if there is a substantive change in the facts and circumstances that cause a change in judgment concerning the sustainability of the tax position upon examination by the relevant taxing authorities. In cases where tax benefits meet the initial recognition criterion, the Company continues, in subsequent periods, to assess its ability to sustain those positions. A previously recognized tax benefit is derecognized when it is no longer more likely than not that the tax position would be sustained upon examination. Liabilities for unrecognized tax benefits are classified as non-current unless the payment of the liability is expected to be made within the next 12 months.

## **EARNINGS PER SHARE**

The Company calculates basic earnings per share (EPS) by dividing net income attributable to controlling interest by the weighted-average number of shares of common stock outstanding for the period (net of treasury shares). The Company's unvested RSUs, of which some include the right to receive non-forfeitable dividend equivalents, are considered participating securities. The diluted EPS reflects the potential dilution that could occur if common stock were issued for awards under the Company's Stock Incentive Plan and is calculated using the more dilutive method of either the two-class method or the treasury stock method. The treasury stock method assumes that the Company uses the proceeds from the exercise of stock option awards to repurchase ordinary shares at the average market price during the period. For unvested restricted stock, assumed proceeds under the treasury stock method will include unamortized compensation cost and windfall tax benefits or shortfalls. Post spin-off assumed proceeds under the treasury stock method related to RSUs will only include unamortized compensation cost related to Autoliv employees holding Autoliv RSUs. Calculations of EPS under the two-class method exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities. The related participating securities are similarly excluded from the denominator. For further details, see Notes 17 and 23.

## **CASH EQUIVALENTS**

The Company considers all highly liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents.

## **RECEIVABLES**

The Company has guidelines for calculating the allowance for bad debts. In determining the amount of a bad debt allowance, management uses its judgment to consider factors such as the age of the receivables, the Company's prior experience with the customer, the experience of other enterprises in the same industry, the customer's ability to pay, and/or an appraisal of current economic conditions. Collateral is typically not required. There can be no assurance that the amount ultimately realized for receivables will not be materially different than that assumed in the calculation of the allowance.

## **DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Company uses derivative financial instruments, primarily forwards, options and swaps to reduce the effects of fluctuations in foreign exchange rates, interest rates and the resulting variability of the Company's operating results. On the date that a derivative contract is entered into, the Company designates the derivative as either (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment (a fair value hedge), (2) a hedge of the exposure of a forecasted transaction or of the variability in the cash flows of a recognized asset or liability (a cash flow hedge) or (3) an economic hedge not applying special hedge accounting pursuant to ASC 815.

When a hedge is classified as a fair value hedge, the change in the fair value of the hedge is recognized in the Consolidated Statements of Net Income along with the offsetting change in the fair value of the hedged item. When a hedge is classified as a cash flow hedge, any change in the fair value of the hedge is initially recorded in equity as a component of Other Comprehensive Income (OCI) and reclassified into the Consolidated Statements of Net Income when the hedge transaction affects net earnings. The Company uses the forward rate with respect to the measurement of changes in fair value of cash flow hedges when revaluing foreign exchange forward contracts. All derivatives are recognized in the consolidated financial statements at fair value.

For certain other derivatives, hedge accounting is not applied either because non-hedge accounting treatment creates the same accounting result or the hedge does not meet the hedge accounting requirements, although entered into applying the same rationale concerning mitigating market risk that occurs from changes in interest and foreign exchange rates.

For further details on the Company's financial instruments, see Notes 5 and 14.

## **INVENTORIES**

The cost of inventories is computed according to the first-in first-out method (FIFO). Cost includes the cost of materials, direct labor and the applicable share of manufacturing overhead. Inventories are evaluated based on individual or, in some cases, groups of inventory items. Reserves are established to reduce the value of inventories to the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Excess inventories are quantities of items that exceed anticipated sales or usage for a reasonable period. The Company has guidelines for calculating provisions for excess inventories based on the number of months of inventories on hand compared to anticipated sales or usage. Management uses its judgment to forecast sales or usage and to determine what constitutes a reasonable period. There can be no assurance that the amount ultimately realized for inventories will not be materially different than that assumed in the calculation of the reserves.

## **PROPERTY, PLANT AND EQUIPMENT**

Property, Plant and Equipment are recorded at historical cost. Construction in progress generally involves short-term projects for which capitalized interest is not significant. The Company provides for depreciation of property, plant and equipment computed under the straight-line method over the assets' estimated useful lives, or in the case of leasehold improvements over the shorter of the useful life or the lease term. Amortization on capital leases is recognized with depreciation expense in the Consolidated Statements of Net Income over the shorter of the assets' expected life or the lease contract term. Repairs and maintenance are expensed as incurred.

## **LONG-LIVED ASSET IMPAIRMENT**

The Company evaluates the carrying value and useful lives of long-lived assets other than goodwill when indications of impairment are evident or it is likely that the useful lives have decreased, in which case the Company depreciates the assets over the remaining useful lives. Impairment testing is primarily done by using the cash flow method based on undiscounted future cash flows. Estimated undiscounted cash flows for a long-lived asset being evaluated for recoverability are compared with the respective carrying amount of that asset. If the estimated undiscounted cash flows exceed the carrying amount of the assets, the carrying amounts of the long-lived asset are considered recoverable and an impairment cannot be recorded. However, if the carrying amount of a group of assets exceeds the undiscounted cash flows, an entity must then measure the long-lived assets' fair value to determine whether an impairment loss should be recognized, generally using a discounted cash flow model. Generally, the lowest level of cash flows for impairment assessment is customer platform level.

## **GOODWILL AND INTANGIBLE ASSETS**

Goodwill represents the excess of the fair value of consideration transferred over the fair value of net assets of businesses acquired. Goodwill is not amortized, but is subject to at least an annual review for impairment. Other intangible assets, principally related to acquired technology, are amortized over their useful lives which range from 3 to 25 years.

The Company performs its annual impairment testing in the fourth quarter of each year. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment, or decline in value, may have occurred. For 2018 the Company has opted to use a qualitative assessment for impairment testing. The qualitative assessment permits the Company to assess whether it is more than likely than not (i.e. a likelihood of greater than 50%) that an indefinite-lived intangible asset is impaired. If the Company concludes based on the qualitative assessment that it is not more likely than not that the fair value of an indefinite-lived intangible assets is less than its carrying amount, it would not have to quantitatively determine the asset's fair value.

In conducting its qualitative impairment testing, the Company has used the most recent fair value calculation for its indefinite-lived intangible assets as the starting point for the qualitative assessment. The Company has also considered external factors that could affect the significant inputs used to determine fair value.

There were no impairments of goodwill related to the Company's continuing operations from 2016 through 2018.

## **WARRANTIES AND RECALLS**

The Company records liabilities for product recalls when probable claims are identified and when it is possible to reasonably estimate costs. Recall costs are costs incurred when the customer decides to formally recall a product due to a known or suspected safety concern. Product recall costs typically include the cost of the product being replaced as well as the customer's cost of the recall, including labor to remove and replace the defective part. Insurance receivables, related to recall issues covered by the insurance, are included within other current assets in the Consolidated Balance Sheets.

Provisions for warranty claims are estimated based on prior experience, likely changes in performance of newer products and the mix and volume of products sold. The provisions are recorded on an accrual basis.

## **RESTRUCTURING PROVISIONS**

The Company defines restructuring expense to include costs directly associated with rightsizing, exit or disposal activities.

Estimates of restructuring charges are based on information available at the time such charges are recorded. In general, management anticipates that restructuring activities will be completed within a timeframe such that significant changes to the exit plan are not likely. Due to inherent uncertainty involved in estimating restructuring expenses, actual amounts paid for such activities may differ from amounts initially estimated.

## **PENSION OBLIGATIONS**

The Company provides for both defined contribution plans and defined benefit plans. A defined contribution plan generally specifies the periodic amount that the employer must contribute to the plan and how that amount will be allocated to the eligible employees who perform services during the same period. A defined benefit pension plan is one that contains pension benefit formulas, which generally determine the amount of pension benefits that each employee will receive for services performed during a specified period of employment.

The amount recognized as a defined benefit liability is the net total of projected benefit obligation (PBO) minus the fair value of plan assets (if any) (see Note 20). The plan assets are measured at fair value. The inputs to the fair value measurement of the plan assets are mainly level 2 inputs (see Note 5).

## **CONTINGENT LIABILITIES**

Various claims, lawsuits and proceedings are pending or threatened against the Company or its subsidiaries, covering a range of matters that arise in the ordinary course of its business activities with respect to commercial, product liability or other matters (see Note 18).

The Company diligently defends itself in such matters and, in addition, carries insurance coverage to the extent reasonably available against insurable risks.

The Company records liabilities for claims, lawsuits and proceedings when they are probable and it is possible to reasonably estimate the cost of such liabilities. Legal costs expected to be incurred in connection with a loss contingency are expensed as such costs are incurred.

The Company believes, based on currently available information, that the resolution of outstanding matters, other than the antitrust matters described in Note 18, after taking into account recorded liabilities and available insurance coverage, should not have a material effect on the Company's financial position or results of operations.

However, due to the inherent uncertainty associated with such matters, there can be no assurance that the final outcomes of these matters will not be materially different than currently estimated.

## **TRANSLATION OF NON-U.S. SUBSIDIARIES**

The balance sheets of subsidiaries with functional currency other than U.S. dollars are translated into U.S. dollars using year-end exchange rates.

The statements of operations of these subsidiaries is translated into U.S. dollars using the average exchange rates for the year. Translation differences are reflected in equity as a component of OCI.

## **RECEIVABLES AND LIABILITIES IN NON-FUNCTIONAL CURRENCIES**

Receivables and liabilities not denominated in functional currencies are converted at year-end exchange rates. Net transaction gains/(losses), reflected in the Consolidated Statements of Net Income amounted to \$(22.1) million in 2018, \$(27.0) million in 2017 and \$(4.3) million in 2016, and are recorded in operating income if they relate to operational receivables and liabilities or are recorded in other non-operating items, net if they relate to financial receivables and liabilities.

## **NEW ACCOUNTING STANDARDS**

### **Adoption of New Accounting Standards**

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220) – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (AOCI)*, which allows a reclassification from AOCI to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the “Tax Act”). Consequently, the amendments in ASU 2018-02 eliminate the stranded tax effects resulting from the Tax Act. The amendments in ASU 2018-02 are effective for all entities for annual periods beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The amendments in ASU 2018-02 should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company early adopted ASU 2018-02 as of January 1, 2018 and made a reclassification from AOCI to Retained earnings of approximately \$10 million.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income (“GILTI”) provisions of the Tax Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. In the first quarter of 2018, the Company elected to treat any potential GILTI inclusions as a period cost.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires the service cost component to be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the consolidated statements of income separately from the service cost component and outside operating income. The amendments in ASU 2017-07 are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The amendments in ASU 2017-07 should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the consolidated statements of income. The Company adopted ASU 2017-07 in the first quarter of 2018. Prior comparative periods have not been adjusted since the impact of ASU 2017-07 is not material for any consolidated financial statements periods presented.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740) – Intra-Entity Transfers of Assets Other Than Inventory*, which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. Consequently, the amendments in this ASU 2016-16 eliminate the exception for an intra-entity transfer of an asset other than inventory. Two common examples of assets included in the scope of ASU 2016-16 are intellectual property and property, plant, and equipment. The amendments in ASU 2016-16 are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. The amendments in ASU 2016-16 should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The adoption of ASU 2016-16 effective January 1, 2018 did not have a material impact on the consolidated financial statements for any periods presented.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance issued by the FASB, including industry specific guidance. In 2016, the FASB issued accounting standard updates to address implementation issues and to clarify guidance in certain areas. The core principle of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to receive in exchange for those goods or services. In addition, ASU 2014-09 requires certain additional disclosure around the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted ASU 2014-09 effective January 1, 2018 and utilized the modified retrospective (cumulative effect) transition method to all contracts not completed at the date of initial application. The Company applied the modified retrospective transition method through a cumulative adjustment to retained earnings. The adoption of the new revenue standard did not have a material impact on net sales, net income, or balance sheet.

| <b>Balance Sheet</b><br>(Dollars in millions) | <b>Balance at<br/>December 31, 2017</b> | <b>Adjustments due<br/>to ASU 2014-09</b> | <b>Balance at<br/>January 1, 2018</b> |
|---|---|---|---------------------------------------|
| <b>Assets</b>                                 |   |   |                                       |
| Inventories, net <sup>1)</sup>                | \$ 859.1                                | \$ (17.3)                                 | \$ 841.8                              |
| Other current assets <sup>1)</sup>            | 228.9                                   | 22.0                                      | 250.9                                 |
| <b>Equity</b>                                 |   |   |                                       |
| Retained Earnings <sup>1)</sup>               | 4,079.2                                 | 3.3                                       | 4,082.5                               |

1) Impact at adoption which included both continuing and discontinued operations.

| <b>Income Statement</b><br>(Dollars in millions) | <b>Year ended December 31, 2018</b> |   |                          |
|--|-------------------------------------|---|--------------------------|
|  | <b>As Reported</b>                  | <b>Balances without<br/>adoption of<br/>ASU 2014-09</b> | <b>Effect of Changes</b> |
| Net sales  | \$ 8,678.2                          | \$ 8,673.7  | \$ 4.5                   |
| Cost of sales                                    | (6,966.9)                           | (6,963.1)   | (3.8)                    |
| Operating income                                 | 686.0                               | 685.3   | 0.7                      |

| <b>Balance Sheet</b><br>(Dollars in millions) | <b>As of December 31, 2018</b> |   |                          |
|---|--------------------------------|---|--------------------------|
|   | <b>As Reported</b>             | <b>Balances without<br/>adoption of<br/>ASU 2014-09</b> | <b>Effect of Changes</b> |
| <b>Assets</b>                                 |                                |   |                          |
| Inventories, net                              | \$ 757.9                       | \$ 773.6  | \$ (15.7)                |
| Other current assets                          | 244.6                          | 225.1   | 19.5                     |
| <b>Equity</b>                                 |                                |   |                          |
| Retained Earnings                             | 2,041.8                        | 2,039.1   | 2.7                      |

#### Accounting Standards Issued But Not Yet Adopted

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20), Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments in ASU 2018-14 remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The amendments in ASU 2018-14 are effective for public business entities for annual periods ending after December 15, 2020. Early adoption is permitted. An entity should apply the amendments in ASU 2018-14 on a retrospective basis to all periods presented. The Company is currently evaluating the impact of its pending adoption of ASU 2018-14 on the consolidated financial statements.



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*, which modifies the disclosure requirements on fair value measurements in Topic 820. The amendments in ASU 2018-13 are effective for all entities for annual periods beginning after December 15, 2019, including interim periods within these annual periods. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial annual year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. An entity is permitted to early adopt either the entire standard or only the provisions that eliminate or modify disclosures upon issuance of ASU 2018-13. The Company believes that the pending adoption of ASU 2018-13 will not have a material impact on the consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivative and Hedging (Topic 815), Targeted improvements to accounting for hedging activities*. The amendments in ASU 2017-12 better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in ASU 2017-12 also include certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The amendments in ASU 2017-12 modify disclosures required in current GAAP. Those modifications include a tabular disclosure related to the effect on the income statement of fair value and cash flow hedges and eliminate the requirement to disclose the ineffective portion of the change in fair value of hedging instruments. The amendments also require new tabular disclosures related to cumulative basis adjustments for fair value hedges. The amendments in ASU 2017-12 are effective for public business entities for annual period beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. For cash flow and net investment hedges existing at the date of adoption, an entity should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the annual period that an entity adopts the amendments in ASU 2017-12. The Company believes that the pending adoption of ASU 2017-12 will not have a material impact on the consolidated financial statements since the Company terminated its existing cash flow hedges in the first quarter of 2018.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, which requires measurement and recognition of expected credit losses for financial assets held and requires enhanced disclosures regarding significant estimates and judgments used in estimating credit losses. ASU 2016-13 is effective for public business entities for annual periods beginning after December 15, 2019, and early adoption is permitted for annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of its pending adoption of ASU 2016-13 on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 affects any entity that enters into a lease, with some specified scope exceptions. For public business entities, the amendments in ASU 2016-02 are effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted. The Company intends to adopt ASU 2016-02 in the annual period beginning January 1, 2019. The Company intends to apply the modified retrospective transition method and elect the transition option to use the effective date January 1, 2019, as the date of initial application. The Company will not adjust its comparative period financial statements for effects of the ASU 2016-02, or make the new required lease disclosures for periods before the effective date. The Company will recognize its cumulative effect transition adjustment as of the effective date. In addition, the Company intends to elect the package of practical expedients permitted under the transition guidance within the new standard, which among other things, will allow the Company to carry forward the historical lease classification.

During the fourth quarter, the Company continued its process to identify leasing arrangements and to compare its accounting policies and practices to the requirements of the new standard. Specifically, the Company is continuing to assess whether there are any "embedded leases" in arrangements with its suppliers and customers that may result in right to use assets or in the Company being a lessor for tools they own that are dedicated to a specific customer. In addition, the Company has implemented a new system to assist with lease accounting. The Company regularly enters into operating leases, for which current GAAP does not require recognition on the balance sheet. The Company anticipates that the adoption of ASU 2016-02 will primarily result in the recognition of most operating leases on its balance sheet resulting in an increase in reported right-of-use assets and leasing liabilities. The Company will continue to assess the impact from the new standard, including consideration of control and process changes to capture lease data necessary to apply ASU 2016-02. The Company anticipates that the adoption of the new standard will result in recording lease assets and lease liabilities in the range of \$165 million and \$180 million as of January 1, 2019. In addition, the Company does not anticipate a material impact to the financial statements where they are deemed to be the lessor in an "embedded lease" arrangement.

## **RECLASSIFICATIONS**

Certain prior-year amounts have been reclassified to conform to current year presentation (see Note 1 regarding discontinued operations).

### 3. Discontinued Operations

As discussed in Note 1. Basis of Presentation above, on June 29, 2018, the Company completed the spin-off of Veoneer and the requirements for the presentation of Veoneer as a discontinued operation were met on that date. Accordingly, Veoneer's historical financial results are reflected in the Company's Consolidated Financial Statements as discontinued operations. The Company did not allocate any general corporate overhead or interest expense to discontinued operations.

The financial results of Veoneer are presented as loss from discontinued operations, net of income taxes in the Consolidated Statements of Income. The following table presents the financial results of Veoneer (dollars in millions). 2018 includes six months of discontinued operations.

|   | Years ended December 31 |                   |                   |
|---|-------------------------|-------------------|-------------------|
|   | 2018                    | 2017              | 2016              |
| <b>Net sales</b>  | <b>\$ 1,122.9</b>       | <b>\$ 2,245.8</b> | <b>\$ 2,152.0</b> |
| Cost of sales   | (896.4)                 | (1,776.5)         | (1,723.0)         |
| <b>Gross profit</b>   | <b>226.5</b>            | <b>469.3</b>      | <b>429.0</b>      |
| Selling, general and administrative expenses                  | (59.7)                  | (83.1)            | (81.7)            |
| Research, development and engineering expenses, net           | (224.0)                 | (370.3)           | (293.7)           |
| Goodwill, Impairment charge                                   | —                       | (234.2)           | —                 |
| Amortization of intangibles                                   | (10.5)                  | (35.8)            | (33.2)            |
| Other income (expense), net                                   | (53.4)                  | (0.2)             | (3.7)             |
| <b>Operating loss</b>   | <b>(121.1)</b>          | <b>(254.3)</b>    | <b>16.7</b>       |
| Loss from equity method investments                           | (29.9)                  | (30.7)            | —                 |
| Interest income   | 0.7                     | —                 | —                 |
| Interest expense  | (0.4)                   | (0.1)             | (0.2)             |
| Other non-operating items, net                                | 0.5                     | (0.8)             | 3.1               |
| <b>Loss before income taxes</b>                               | <b>(150.2)</b>          | <b>(285.9)</b>    | <b>19.6</b>       |
| Income tax (expense) benefit                                  | (43.6)                  | 0.9               | (17.9)            |
| <b>Loss from discontinued operations, net of income taxes</b> | <b>(193.8)</b>          | <b>(285.0)</b>    | <b>1.7</b>        |
| Less: Net loss attributable to non-controlling interest       | (8.3)                   | (126.1)           | (7.0)             |
| <b>Net loss from discontinued operations</b>                  | <b>\$ (185.5)</b>       | <b>\$ (158.9)</b> | <b>\$ 8.7</b>     |

The Company has incurred \$84.8 million in separation costs related to the spin-off of Veoneer, of which \$76.3 million has been incurred 2018 year to date and is reported in Other income (expense), net. These costs are primarily related to professional fees associated with planning the spin-off, as well as spin-off activities within finance, tax, legal and information system functions and certain investment banking fees incurred upon the completion of the spin-off.

The following table summarizes the carrying value of major classes of assets and liabilities of Veoneer, reclassified as assets and liabilities of discontinued operations at December 31, 2017 (dollars in millions).

|   | At December<br>31, 2017 |
|---|-------------------------|
| <b>ASSETS</b>   |                         |
| Receivables, net  | \$ 460.5                |
| Inventories, net  | 154.8                   |
| Other current assets  | 31.9                    |
| <b>Total current assets, discontinued operations</b>          | <b>647.2</b>            |
| Property, plant and equipment, net                            | 364.2                   |
| Investments and other non-current assets                      | 177.5                   |
| Goodwill  | 291.8                   |
| Intangible assets, net  | 122.2                   |
| <b>Total non-current assets, discontinued operations</b>      | <b>\$ 955.7</b>         |
| <b>LIABILITIES</b>  |                         |
| Accounts payable  | \$ 323.5                |
| Accrued expenses  | 199.1                   |
| Other current liabilities                                     | 45.6                    |
| <b>Total current liabilities, discontinued operations</b>     | <b>568.2</b>            |
| Long-term debt  | 11.0                    |
| Pension liability   | 19.1                    |
| Other non-current liabilities                                 | 34.0                    |
| <b>Total non-current liabilities, discontinued operations</b> | <b>\$ 64.1</b>          |

In connection with the spin-off, Autoliv entered into definitive agreements with Veoneer that, among other matters, set forth the terms and conditions of the spin-off and provide a framework for Autoliv's relationship with Veoneer after the spin-off, including the following (collectively, the "Spin-off Agreements"):

#### Distribution Agreement

The Distribution Agreement sets forth the principal transactions taken by Veoneer and by Autoliv in connection with the spin-off and the terms to govern certain aspects of the parties' relationship following the spin-off. The Distribution Agreement also provides for cross-indemnities that, except as otherwise provided in the Distribution Agreement, are principally designed to place financial responsibility for the obligations and liabilities of Veoneer's business with Veoneer and financial responsibility for the obligations and liabilities of Autoliv's business with Autoliv. However, Autoliv has agreed to indemnify Veoneer for certain warranty, recall and product liabilities for Electronics products manufactured prior to April 1, 2018, and has retained an indemnification liability.

#### Amended and Restated Transition Services Agreement

Pursuant to the Amended and Restated Transition Services Agreement, Autoliv or one of its subsidiaries will provide various services to Veoneer and its subsidiaries and Veoneer or one of its subsidiaries agreed to provide various services to Autoliv and subsidiaries of Autoliv for a limited time to help ensure an orderly transition following the spin-off. The services will terminate no later than March 31, 2020.

#### Employee Matters Agreement

The Employee Matters Agreement governs Autoliv's and Veoneer's compensation and employee benefit obligations with respect to the employees and non-employee directors of each company.

Pursuant to the Agreement, the Company transferred to Veoneer pension benefits and postretirement benefits other than pension related to Veoneer employees. The transfer of assets and obligations to Veoneer resulted in a net decrease in the underfunded status of the sponsored pension and postretirement benefits other than pension of \$22.8 million and the transfer of unrecognized losses in accumulated other comprehensive income of \$6.3 million on the Distribution Date.

#### Tax Matters Agreement

Pursuant to the Tax Matters Agreement, Autoliv and Veoneer allocated the liability for taxes and certain tax assets between the two companies. The Tax Matters Agreement also governs the parties' respective rights, responsibilities, and obligations with respect to U.S. federal, state, local and foreign taxes (including taxes arising in the ordinary course of business and taxes, if any, incurred as a result of any failure of the spin-off and certain related transactions to qualify as tax-free for U.S. federal income tax purposes), tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings, and assistance and cooperation in respect of tax matters.

Pursuant to the Tax Matters Agreement, Autoliv is the primary obligor on all taxes which relate to any period prior to April 1, 2018. Consequently, the Company is liable for any transition taxes under the Tax Cuts and Jobs Act of 2017.

#### Reseller Agreements

Reseller agreements are primarily comprised of arrangements between Veoneer and Autoliv business units in Japan, the U. S., India and Sweden to address situations in which customers have not yet been able to update their systems to reflect Veoneer as the supplier. Under the terms of these agreements and based on the substance of the relationships with the customers, Veoneer has the responsibility to provide the products to the customers although orders may be placed with Autoliv and Autoliv may collect the cash for the associated invoices which is then remitted to Veoneer.

#### Veoneer Capital Contribution

In connection with the spin-off, Autoliv capitalized Veoneer with approximately \$1 billion of cash. Net assets of \$2,129 million, including approximately \$1 billion of cash, were transferred to Veoneer on or prior to the Distribution Date, including \$13 million of accumulated other comprehensive loss (primarily related to pension and cumulative translation adjustment) and the non-controlling interest of \$112 million. This resulted in a \$2,030 million reduction to retained earnings. In the second half of 2018 an adjustment to the cash contribution amount of \$5 million was made reducing the net assets contributed to Veoneer to \$2,123 million.

The following table presents depreciation, amortization, capital expenditures, acquisition of businesses and significant non-cash items of the discontinued operations related to Veoneer (dollars in millions). 2018 includes six months of discontinued operations.

|  | Years ended December 31 |         |         |
|--|-------------------------|---------|---------|
|  | 2018                    | 2017    | 2016    |
| Depreciation                                     | \$ 44.8                 | \$ 82.9 | \$ 69.7 |
| Amortization of intangible assets                | 10.5                    | 35.8    | 33.2    |
| Capital expenditures                             | 71.1                    | 109.6   | 100.9   |
| Acquisition in affiliate, net                    | 71.0                    | 123.9   | 227.4   |
| M/A-COM earn-out adjustment                      | (14.0)                  | (12.7)  | —       |
| Undistributed loss from equity method investment | 29.9                    | 30.7    | —       |

## 4. Revenue

#### Disaggregation of revenue

In the following tables, revenue from the Company's continuing operations is disaggregated by primary regions and products.

#### **Net Sales by Region**

(Dollars in millions)

|                        | Years ended December 31 |                   |                   |
|------------------------|-------------------------|-------------------|-------------------|
|                        | 2018                    | 2017              | 2016              |
| China                  | \$ 1,522.2              | \$ 1,421.2        | \$ 1,385.4        |
| Japan                  | 827.9                   | 787.0             | 718.6             |
| Rest of Asia           | 844.8                   | 789.9             | 726.2             |
| Americas               | 2,735.1                 | 2,435.2           | 2,548.0           |
| Europe                 | 2,748.2                 | 2,703.5           | 2,543.4           |
| <b>Total net sales</b> | <b>\$ 8,678.2</b>       | <b>\$ 8,136.8</b> | <b>\$ 7,921.6</b> |

#### **Net Sales by Products**

(Dollars in millions)

|   | Years ended December 31 |                   |                   |
|---|-------------------------|-------------------|-------------------|
|   | 2018                    | 2017              | 2016              |
| Airbag Products and Other <sup>1)</sup> | \$ 5,698.6              | \$ 5,343.2        | \$ 5,256.4        |
| Seatbelt Products <sup>1)</sup>         | 2,979.6                 | 2,793.6           | 2,665.2           |
| <b>Total net sales</b>                  | <b>\$ 8,678.2</b>       | <b>\$ 8,136.8</b> | <b>\$ 7,921.6</b> |

<sup>1)</sup> Including Corporate and other sales.

#### Contract balances

The contract assets relate to the Company's rights to consideration for work completed but not billed (generally in conjunction with contracts for which revenue is recognized over time) at the reporting date on production parts. The contract assets are reclassified into the receivables balance when the rights to receive payments become unconditional. There have been no impairment losses recognized related to contract assets arising from the Company's contracts with customers. Certain contracts have resulted in consideration in advance of fulfilling the performance obligations and the amounts received have been classified as contract liabilities.

The following tables provides information about receivables, contract assets, and contract liabilities from contracts with customers.

### Contract Balances with Customers

(Dollars in millions)

|                                    | At December 31 |            |
|------------------------------------|----------------|------------|
|                                    | 2018           | 2017       |
| Receivables, net                   | \$ 1,652.1     | \$ 1,696.7 |
| Contract assets <sup>1)</sup>      | 19.5           | —          |
| Contract liabilities <sup>2)</sup> | 29.4           | 33.0       |

<sup>1)</sup> Included in other current assets.

<sup>2)</sup> Included in other current and other non-current liabilities.

### Receivables, net of allowance

(Dollars in millions)

|                                      | At December 31 |            |
|--------------------------------------|----------------|------------|
|                                      | 2018           | 2017       |
| Receivables                          | \$ 1,659.4     | \$ 1,703.0 |
| Allowance at beginning of period     | (6.3)          | (4.2)      |
| Net decrease/(increase) of allowance | (1.3)          | (1.8)      |
| Translation difference               | 0.3            | (0.3)      |
| Allowance at end of period           | (7.3)          | (6.3)      |
| Receivables, net of allowance        | \$ 1,652.1     | \$ 1,696.7 |

Changes in the contract assets and the contract liabilities balances during the period are as follows:

### Change in Contract Balances with Customers

(Dollars in millions)

|   | At December 31, 2018 |                      |
|---|----------------------|----------------------|
|   | Contract assets      | Contract liabilities |
| Beginning balance   | \$ —                 | \$ 33.0              |
| Increases/(decreases) due to cumulative catch up adjustment | 15.0                 | —                    |
| Increases/(decreases) due to revenue recognized             | 19.5                 | (7.4)                |
| Increases/(decreases) due to cash received                  | —                    | —                    |
| Increases/(decreases) due to transfer to receivables        | (15.0)               | —                    |
| Translation difference                                      | —                    | 3.8                  |
| Ending balance  | \$ 19.5              | \$ 29.4              |

The increases/(decreases) in the table above related to contracts assets reflect the total adjustments needed to align revenue recognition for work completed but not billed at year end.

## 5. Fair Value Measurements

### ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, other current liabilities and short-term debt approximate their fair value because of the short-term maturity of these instruments.

The Company uses derivative financial instruments, “derivatives”, as part of its debt management to mitigate the market risk that occurs from its exposure to changes in interest and foreign exchange rates. The Company does not enter into derivatives for trading or other speculative purposes. The Company’s use of derivatives is in accordance with the strategies contained in the Company’s overall financial policy. All derivatives are recognized in the consolidated financial statements at fair value. Certain derivatives are from time to time designated either as fair value hedges or cash flow hedges in line with the hedge accounting criteria. For certain other derivatives hedge accounting is not applied either because non-hedge accounting treatment creates the same accounting result or the hedge does not meet the hedge accounting requirements, although entered into applying the same rationale concerning mitigating market risk that occurs from changes in interest and foreign exchange rates.

The degree of judgment utilized in measuring the fair value of the instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of asset or liability, whether the asset or liability has an established market and the characteristics specific to the transaction. Instruments with readily active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, assets rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment utilized in measuring fair value.

Under existing GAAP, there is a disclosure framework hierarchy associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by the hierarchy are as follows:

**Level 1** - Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

**Level 2** - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

**Level 3** - Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The Company's derivatives are all classified as Level 2 of the fair value hierarchy and there were no transfers between the levels during this or comparable periods.

The tables below present information about the Company's financial assets and liabilities measured at fair value on a recurring basis for the continuing operations as of December 31, 2018 and December 31, 2017. The carrying value is the same as the fair value as these instruments are recognized in the consolidated financial statements at fair value. Although the Company is party to close-out netting agreements (ISDA agreements) with all derivative counterparties, the fair values in the tables below and in the Consolidated Balance Sheets at December 31, 2018 and December 31, 2017 have been presented on a gross basis. According to the close-out netting agreements, transaction amounts payable to a counterparty on the same date and in the same currency can be netted. The amounts subject to netting agreements that the Company choose not to offset are presented below.

#### DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS

There were no derivatives designated as hedging instruments as of December 31, 2018 and December 31, 2017 related to the continuing operations.

#### DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

Derivatives not designated as hedging instruments, relate to economic hedges and are marked to market with all amounts recognized in the Consolidated Statements of Net Income. The derivatives not designated as hedging instruments outstanding at December 31, 2018 and December 31, 2017 were foreign exchange swaps. For 2018, the gains and losses recognized in other non-operating items, net are a loss of \$1.5 million for derivative instruments not designated as hedging instruments. For 2017, the Company recognized a gain of \$1.2 million in other non-operating items, net for derivative instruments not designated as hedging instruments. For 2016, the Company recognized a gain of \$1.3 million in other non-operating items, net for derivative instruments not designated as hedging instruments. For 2018, 2017 and 2016, the gains and losses recognized as interest expense were immaterial.

| Description  | DECEMBER 31, 2018       |   |  | DECEMBER 31, 2017       |   |  |
|--|-------------------------|---|--|-------------------------|---|--|
|  | Fair Value Measurements |   |  | Fair Value Measurements |   |  |
|  | Nominal volume          | Derivative asset (Other current assets) | Derivative liability (Other current liabilities) | Nominal volume          | Derivative asset (Other current assets) | Derivative liability (Other current liabilities) |
| <b>DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS</b>       |                         |   |  |                         |   |  |
| Foreign exchange swaps, less than 6 months                     | 659.1 <sup>1)</sup>     | 1.9 <sup>2)</sup>                       | 1.1 <sup>3)</sup>                                | 468.2 <sup>4)</sup>     | 2.4 <sup>5)</sup>                       | 0.3 <sup>6)</sup>                                |
| <b>TOTAL DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS</b> | <b>\$ 659.1</b>         | <b>\$ 1.9</b>                           | <b>\$ 1.1</b>                                    | <b>\$ 468.2</b>         | <b>\$ 2.4</b>                           | <b>\$ 0.3</b>                                    |

- 1) Net nominal amount after deducting for offsetting swaps under ISDA agreements is \$659.1 million.
- 2) Net amount after deducting for offsetting swaps under ISDA agreements is \$1.9 million.
- 3) Net amount after deducting for offsetting swaps under ISDA agreements is \$1.1 million.
- 4) Net nominal amount after deducting for offsetting swaps under ISDA agreements is \$468.2 million.
- 5) Net amount after deducting for offsetting swaps under ISDA agreements is \$2.4 million.
- 6) Net amount after deducting for offsetting swaps under ISDA agreements is \$0.3 million.

## FAIR VALUE OF DEBT

The fair value of long-term debt is determined either from quoted market prices as provided by participants in the secondary market or for long-term debt without quoted market prices, estimated using a discounted cash flow method based on the Company's current borrowing rates for similar types of financing. The fair value and carrying value of debt is summarized in the table below. The Company has determined that each of these fair value measurements of debt reside within Level 2 of the fair value hierarchy.

On June 18, 2018, Autoliv announced that it priced a 5-year bond offering of EUR 500 million in the Eurobond market (the "Notes"). The Notes were issued on June 26, 2018, at an issue price of 99.527%, and carry a coupon of 0.75% (paid annually in arrears), which implies a per annum yield of 0.847%.

The fair value and carrying value of debt for the continuing operations are summarized in the table below (dollars in millions).

|                                      | DECEMBER 31, 2018<br>CARRYING VALUE <sup>1)</sup> | DECEMBER 31, 2018<br>FAIR VALUE | DECEMBER 31, 2017<br>CARRYING VALUE <sup>1)</sup> | DECEMBER 31, 2017<br>FAIR VALUE |
|--------------------------------------|---|---------------------------------|---|---------------------------------|
| <b>LONG-TERM DEBT</b>                |   |                                 |   |                                 |
| U.S. Private placement               | \$ 1,041.0  | \$ 1,061.1                      | \$ 1,310.5  | \$ 1,379.9                      |
| Eurobond                             | 568.0   | 567.8                           | —   | —                               |
| Other long-term debt                 | —   | —                               | 0.2   | 0.2                             |
| <b>TOTAL</b>                         | <b>\$ 1,609.0</b>                                 | <b>\$ 1,628.9</b>               | <b>\$ 1,310.7</b>                                 | <b>\$ 1,380.1</b>               |
| <b>SHORT-TERM DEBT</b>               |   |                                 |   |                                 |
| Commercial paper                     | \$ 342.6  | \$ 342.6                        | —   | —                               |
| Short-term portion of long-term debt | 268.1   | 270.4                           | 0.2   | 0.2                             |
| Overdrafts and other short-term debt | 10.0  | 10.0                            | 19.5  | 19.5                            |
| <b>TOTAL</b>                         | <b>\$ 620.7</b>                                   | <b>\$ 623.0</b>                 | <b>\$ 19.7</b>                                    | <b>\$ 19.7</b>                  |

1) Debt as reported in balance sheet.

## ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS

In addition to assets and liabilities that are measured at fair value on a recurring basis, the Company also has assets and liabilities in its balance sheet that are measured at fair value on a nonrecurring basis including certain long-lived assets, including equity method investments, goodwill and other intangible assets, typically as it relates to impairment.

The Company has determined that the fair value measurements included in each of these assets and liabilities rely primarily on Company-specific inputs and the Company's assumptions about the use of the assets and settlements of liabilities, as observable inputs are not available. The Company has determined that each of these fair value measurements reside within Level 3 of the fair value hierarchy. To determine the fair value of long-lived assets, the Company utilizes the projected cash flows expected to be generated by the long-lived assets, then discounts the future cash flows over the expected life of the long-lived assets.

For 2018-2016, the Company did not record any material impairment charges on its long-lived assets for its continuing operations.

## 6. Income Taxes

| <b>INCOME BEFORE INCOME TAXES</b> | <b>2018</b>     | <b>2017</b>     | <b>2016</b>     |
|-----------------------------------|-----------------|-----------------|-----------------|
| U.S.                              | \$ 47.0         | \$ 89.0         | \$ 172.0        |
| Non-U.S.                          | 565.4           | 703.4           | 612.2           |
| <b>Total</b>                      | <b>\$ 612.4</b> | <b>\$ 792.4</b> | <b>\$ 784.2</b> |
| <b>PROVISION FOR INCOME TAXES</b> |                 |                 |                 |
| <b>Current</b>                    |                 |                 |                 |
| U.S. federal                      | \$ 31.6         | \$ 53.4         | \$ 79.2         |
| Non-U.S.                          | 192.7           | 162.8           | 167.6           |
| U.S. state and local              | 10.1            | 9.9             | 3.5             |
| <b>Deferred</b>                   |                 |                 |                 |
| U.S. federal                      | 0.8             | 21.8            | (15.8)          |
| Non-U.S.                          | (0.2)           | (44.4)          | (9.7)           |
| U.S. state and local              | (0.1)           | 0.9             | (0.5)           |
| <b>Total income tax expense</b>   | <b>\$ 234.9</b> | <b>\$ 204.4</b> | <b>\$ 224.3</b> |

| <b>EFFECTIVE INCOME TAX RATE</b>    | <b>2018</b>   | <b>2017</b>   | <b>2016</b>   |
|-------------------------------------|---------------|---------------|---------------|
| U.S. federal income tax rate        | 21.0 %        | 35.0 %        | 35.0 %        |
| Foreign tax rate variances          | 5.5           | (7.4)         | (6.4)         |
| Tax credits                         | (3.9)         | (3.3)         | (2.8)         |
| Change in Valuation Allowances      | (3.2)         | (4.8)         | 1.3           |
| Current year losses with no benefit | 0.5           | 0.3           | 1.2           |
| Net operating loss carry-forwards   | (0.1)         | (3.7)         | (3.4)         |
| Changes in tax reserves             | 3.4           | 0.8           | 0.5           |
| U.S. Expense Allocation             | 0.0           | 2.0           | 2.0           |
| Earnings of equity investments      | (0.1)         | (0.1)         | (0.1)         |
| Withholding taxes                   | 3.5           | 2.1           | 2.5           |
| State taxes, net of federal benefit | 1.1           | 0.3           | 0.2           |
| Antitrust settlement                | 9.9           | —             | —             |
| U.S. GILTI Tax                      | 1.7           | —             | —             |
| Change in U.S. tax rate             | —             | 3.0           | —             |
| Deemed mandatory repatriation       | —             | 3.1           | —             |
| Other, net                          | (0.9)         | (1.5)         | (1.4)         |
| <b>Effective income tax rate</b>    | <b>38.4 %</b> | <b>25.8 %</b> | <b>28.6 %</b> |

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017. The Tax Act makes broad and complex changes to the U.S. tax code, including reducing the U.S. federal corporate income tax rate from 35% to 21% for years beginning after December 31, 2017, requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously deferred and created new taxes on certain foreign sourced earnings. The SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”) on December 22, 2017. SAB 118 was issued to address the application of U.S. GAAP in situations when a registrant did not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. In 2017, we made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax and recorded provisional amounts. In the fourth quarter of 2018, the Company filed its 2017 Federal and State tax returns and finalized calculations related to transition tax and deferred tax assets and liabilities previously recorded in the year ended December 31, 2017.

#### **Final Impacts from the Tax Act**

**Deferred tax assets and liabilities:** In December 2017, we remeasured certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future, which is generally 21%. There was not a material difference between the provisional amounts recorded for deferred tax assets and liabilities in December 2017 and the final amounts updated in the fourth quarter 2018 after the completion of the 2017 tax returns.

**Foreign tax effects:** The one-time transition tax is based on our total post-1986 earnings and profits (E&P) that we previously deferred from U.S. income taxes. In December 2017, we recorded a provisional amount of income tax expense for the one-time transition tax. The final amount reported on the 2017 tax returns was not materially different from the amount previously recorded. However, due to the uncertainties inherent in the calculations of the transition tax and the determination of more than twenty years of E&P history, in the fourth quarter of 2018, we have recorded a tax reserve of \$24 million related to the transition tax. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax, or any additional outside basis difference inherent in these entities, as these amounts continue to be indefinitely reinvested in foreign operations. Determining the amount of unrecognized deferred tax liability relating to any remaining outside basis difference in these entities (i.e., basis difference in excess of that subject to the one-time transition tax) is not practical.

**Global Intangible Low Taxed Income (“GILTI”):** The Tax Act created a new requirement that certain income (i.e., GILTI) earned by foreign subsidiaries must be included currently in the gross income of the U.S. shareholder. Under U.S. GAAP, we are permitted to make an accounting policy election to either treat taxes due on future inclusions in U.S. taxable income related to GILTI as a current-period expense when incurred or to factor such amounts into our measurement of our deferred taxes. We have elected to treat the impact of GILTI as a current-period expense when incurred. In 2018, the negative impact of GILTI on our effective tax rate is approximately 1.7% due to the cost of expenses allocated against GILTI that limit the foreign tax credits available for offset against the U.S. tax cost on the GILTI inclusion.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. On December 31, 2018, the Company had net operating loss carryforwards (NOL’s) of approximately \$283 million, of which approximately \$266 million have no expiration date. The remaining losses expire on various dates through 2029. The Company also has \$9 million of U.S. Foreign Tax Credit carry forwards, which begin to expire in 2026 and \$7 million of U.S. capital loss carryforwards which begin to expire in 2022.



Valuation allowances have been established which partially offset the related deferred assets. Such allowances are primarily provided against NOL's of companies that have perennially incurred losses, as well as the NOL's of companies that are start-up operations and have not established a pattern of profitability. The Company assesses all available evidence, both positive and negative, to determine the amount of any required valuation allowance. In 2018, the Company recognized a tax benefit of \$37 million due to the reversal of valuation allowances. This consisted primarily of the reversal of valuation allowances on deferred tax assets, net operating loss carryforwards, and foreign tax credits in Sweden and the reversal of valuation allowances against foreign tax credit carryforwards in the U.S. that were utilized in the final calculation of the transition tax.

The foreign tax rate variance reflects the fact that approximately two-thirds of the Company's non-U.S. pre-tax income is generated by business operations located in tax jurisdictions where the tax rate is between 20-30%. The tax rate from quarter to quarter and from year to year is also impacted by the mix of earnings and tax rates in various jurisdictions compared to the same periods or prior years.

The Company has reserves for income taxes that may become payable in future periods as a result of tax audits. These reserves represent the Company's best estimate of the potential liability for tax exposures. Inherent uncertainties exist in estimates of tax exposures due to changes in tax law, both legislated and concluded through the various jurisdictions' court systems. The Company files income tax returns in the United States federal jurisdiction, and various states and non-U.S. jurisdictions.

At any given time, the Company is undergoing tax audits in several tax jurisdictions, covering multiple years. The Company is no longer subject to income tax examination by the U.S. Federal tax authorities for years prior to 2015. With few exceptions, the Company is no longer subject to income tax examination by U.S. state or local tax authorities or by non-U.S. tax authorities for years before 2010. The Company is undergoing tax audits in several non-U.S. jurisdictions and several U.S. state jurisdictions, covering multiple years. As of December 31, 2018, as a result of those tax examinations, the Company is not aware of any proposed income tax adjustments that would have a material impact on the Company's financial statements, however, other audits could result in additional increases or decreases to the unrecognized tax benefits in some future period or periods.

The Company recognizes interest and potential penalties accrued related to unrecognized tax benefits in tax expense. As of December 31, 2017, the Company had recorded \$34.6 million for unrecognized tax benefits related to prior years, including \$6.3 million of accrued interest and penalties. During 2018, the Company recorded a net increase of \$24.0 million to income tax reserves for unrecognized tax benefits related to the transition tax reported on the 2017 tax return due to uncertainty surrounding the calculations. Also during 2018, the Company recorded a net decrease of \$4.2 million to income tax reserves for other unrecognized tax benefits based on tax positions related to the current and prior years. The Company had \$6.6 million accrued for the payment of interest and penalties as of December 31, 2018. Of the total unrecognized tax benefits of \$54.4 million recorded at December 31, 2018, \$4.0 million is classified as current income tax payable, and \$50.4 million is classified as non-current tax payable included in Other Non-Current Liabilities on the Consolidated Balance Sheets. Substantially all of these reserves would impact the effective tax rate if released into income. The following table summarizes the activity related to the Company's unrecognized tax benefits:

| <b>UNRECOGNIZED TAX BENEFITS</b>  | <b>2018</b>    | <b>2017</b>    | <b>2016</b>    |
|---|----------------|----------------|----------------|
| <b>Unrecognized tax benefits at beginning of year</b>                       | <b>\$ 29.6</b> | <b>\$ 27.2</b> | <b>\$ 25.2</b> |
| Increases as a result of tax positions taken during a prior period          | 24.0           | 2.0            | 4.5            |
| Decreases as a result of tax positions taken during a prior period          | —              | —              | (0.2)          |
| Increases as a result of tax positions taken during the current period      | 4.7            | 6.8            | 5.8            |
| Decreases as a result of tax positions taken during the current period      | (3.1)          | —              | (1.7)          |
| Decreases relating to settlements with taxing authorities                   | (3.2)          | (7.1)          | (1.3)          |
| Decreases resulting from the lapse of the applicable statute of limitations | (1.5)          | (0.3)          | (3.5)          |
| Translation Difference  | (0.9)          | 1.0            | (1.6)          |
| <b>Total unrecognized tax benefits at end of year</b>                       | <b>\$ 49.6</b> | <b>\$ 29.6</b> | <b>\$ 27.2</b> |

The tax effect of temporary differences and carryforwards that comprise significant portions of deferred tax assets and liabilities were as follows.

## DEFERRED TAXES

| DECEMBER 31                                  | 2018             | 2017             | 2016             |
|--|------------------|------------------|------------------|
| <b>Assets</b>                                |                  |                  |                  |
| Provisions                                   | \$ 104.9         | \$ 107.3         | \$ 101.5         |
| Costs capitalized for tax                    | 18.2             | 18.6             | 16.8             |
| Property, plant and equipment                | 13.0             | 14.2             | 18.2             |
| Retirement Plans                             | 50.1             | 50.0             | 65.5             |
| Tax receivables, principally NOL's           | 113.9            | 150.2            | 211.7            |
| <b>Deferred tax assets before allowances</b> | <b>\$ 300.1</b>  | <b>\$ 340.3</b>  | <b>\$ 413.7</b>  |
| Valuation allowances                         | (71.0)           | (110.6)          | (199.6)          |
| <b>Total</b>                                 | <b>\$ 229.1</b>  | <b>\$ 229.7</b>  | <b>\$ 214.1</b>  |
| <b>Liabilities</b>                           |                  |                  |                  |
| Acquired intangibles                         | \$ (6.1)         | \$ (6.6)         | \$ (12.3)        |
| Statutory tax allowances                     | (0.5)            | —                | —                |
| Distribution taxes                           | (22.9)           | (22.8)           | (16.0)           |
| Other  | (10.1)           | (3.9)            | (4.9)            |
| <b>Total</b>                                 | <b>\$ (39.6)</b> | <b>\$ (33.3)</b> | <b>\$ (33.2)</b> |
| <b>Net deferred tax asset</b>                | <b>\$ 189.5</b>  | <b>\$ 196.4</b>  | <b>\$ 180.9</b>  |

The following table summarizes the activity related to the Company's valuation allowances:

## VALUATION ALLOWANCES AGAINST DEFERRED

| TAX ASSETS DECEMBER 31                 | 2018            | 2017            | 2016            |
|--|-----------------|-----------------|-----------------|
| <b>Allowances at beginning of year</b> | <b>\$ 110.6</b> | <b>\$ 199.6</b> | <b>\$ 177.7</b> |
| Benefits reserved current year         | 6.4             | 22.9            | 32.3            |
| Benefits recognized current year       | (36.9)          | (117.0)         | (13.8)          |
| Write-offs and other changes           | —               | (0.1)           | (0.5)           |
| Translation difference                 | (9.1)           | 5.2             | 3.9             |
| <b>Allowances at end of year</b>       | <b>\$ 71.0</b>  | <b>\$ 110.6</b> | <b>\$ 199.6</b> |

## 7. Receivables

| DECEMBER 31                                | 2018              | 2017              | 2016              |
|--|-------------------|-------------------|-------------------|
| <b>Receivables</b>                         | <b>\$ 1,659.4</b> | <b>\$ 1,703.0</b> | <b>\$ 1,519.3</b> |
| <b>Allowance at beginning of year</b>      | <b>\$ (6.3)</b>   | <b>\$ (4.2)</b>   | <b>\$ (3.9)</b>   |
| Reversal of allowance                      | 0.9               | 0.9               | 0.5               |
| Addition to allowance                      | (3.8)             | (3.9)             | (1.5)             |
| Write-off against allowance                | 1.6               | 1.2               | 0.5               |
| Translation difference                     | 0.3               | (0.3)             | 0.2               |
| <b>Allowance at end of year</b>            | <b>\$ (7.3)</b>   | <b>\$ (6.3)</b>   | <b>\$ (4.2)</b>   |
| <b>Total receivables, net of allowance</b> | <b>\$ 1,652.1</b> | <b>\$ 1,696.7</b> | <b>\$ 1,515.1</b> |

## 8. Inventories

| DECEMBER 31                                   | 2018             | 2017             | 2016             |
|---|------------------|------------------|------------------|
| Raw material                                  | \$ 370.9         | \$ 333.2         | \$ 286.4         |
| Work in progress                              | 277.4            | 263.8            | 233.1            |
| Finished products                             | 194.7            | 187.9            | 166.2            |
| <b>Inventories</b>                            | <b>\$ 843.0</b>  | <b>\$ 784.9</b>  | <b>\$ 685.7</b>  |
| <b>Inventory reserve at beginning of year</b> | <b>\$ (80.6)</b> | <b>\$ (76.7)</b> | <b>\$ (68.2)</b> |
| Reversal of reserve                           | 1.4              | 4.8              | 2.9              |
| Addition to reserve                           | (13.9)           | (7.3)            | (16.2)           |
| Write-off against reserve                     | 5.3              | 5.2              | 3.0              |
| Translation difference                        | 2.7              | (6.6)            | 1.8              |
| <b>Inventory reserve at end of year</b>       | <b>\$ (85.1)</b> | <b>\$ (80.6)</b> | <b>\$ (76.7)</b> |
| <b>Total inventories, net of reserve</b>      | <b>\$ 757.9</b>  | <b>\$ 704.3</b>  | <b>\$ 609.0</b>  |

## 9. Investments and Other Non-Current Assets

| <b>DECEMBER 31</b>                              | <b>2018</b>     | <b>2017</b>     |
|---|-----------------|-----------------|
| Equity method investments                       | \$ 12.5         | \$ 12.9         |
| Deferred tax assets                             | 235.6           | 248.9           |
| Income tax receivables                          | 33.6            | 30.4            |
| Other non-current assets                        | 41.8            | 48.8            |
| <b>Investments and other non-current assets</b> | <b>\$ 323.5</b> | <b>\$ 341.0</b> |

As of December 31, 2018, the Company had one equity method investment.

The Company has ownership of 49% in Autoliv-Hirota Safety Sdn, Bhd (parent and subsidiaries) in Malaysia which it currently does not control, but in which it exercises significant influence over operations and financial position.

## 10. Property, Plant and Equipment

| <b>DECEMBER 31</b>                   | <b>2018</b>       | <b>2017</b>       | <b>Estimated life</b> |
|--------------------------------------|-------------------|-------------------|-----------------------|
| Land and land improvements           | \$ 114.7          | \$ 113.4          | n/a to 15             |
| Machinery and equipment              | 3,496.8           | 3,276.1           | 3-8                   |
| Buildings                            | 822.9             | 816.2             | 20-40                 |
| Construction in progress             | 374.3             | 370.6             | n/a                   |
| <b>Property, plant and equipment</b> | <b>\$ 4,808.7</b> | <b>\$ 4,576.3</b> |                       |
| <b>Less accumulated depreciation</b> | <b>(3,118.6)</b>  | <b>(2,967.4)</b>  |                       |
| <b>Net of depreciation</b>           | <b>\$ 1,690.1</b> | <b>\$ 1,608.9</b> |                       |

| <b>DEPRECIATION INCLUDED IN</b>                     | <b>2018</b>     | <b>2017</b>     | <b>2016</b>     |
|---|-----------------|-----------------|-----------------|
| Cost of sales                                       | \$ 300.9        | \$ 268.9        | \$ 248.3        |
| Selling, general and administrative expenses        | 13.9            | 12.5            | 8.6             |
| Research, development and engineering expenses, net | 15.9            | 14.5            | 12.7            |
| <b>Total</b>  | <b>\$ 330.7</b> | <b>\$ 295.9</b> | <b>\$ 269.6</b> |

No significant fixed asset impairments related to the Company's continuing operations were recognized during 2018, 2017 or 2016.

The net book value of machinery and equipment and buildings and land under capital lease contracts recorded at December 31, 2018 and December 31, 2017 were immaterial. The amortization expense related to capital leases is included with depreciation expenses disclosed in the table above.

## 11. Goodwill and Intangible Assets

| <b>GOODWILL</b>                             | <b>2018</b>       | <b>2017</b>       |
|---|-------------------|-------------------|
| <b>Carrying amount at beginning of year</b> | <b>\$ 1,397.0</b> | <b>\$ 1,380.6</b> |
| Translation differences                     | (7.1)             | 16.4              |
| <b>Carrying amount at end of year</b>       | <b>\$ 1,389.9</b> | <b>\$ 1,397.0</b> |

Approximately \$1.2 billion of the Company's goodwill is associated with the 1997 merger of Autoliv AB and the Automotive Safety Products Division of Morton International, Inc. No goodwill impairment charges were recognized in continuing operations during 2018, 2017 or 2016.

| <b>AMORTIZABLE INTANGIBLES</b> | <b>2018</b>    | <b>2017</b>    |
|--------------------------------|----------------|----------------|
| Gross carrying amount          | \$ 391.6       | \$ 355.0       |
| Accumulated amortization       | (358.9)        | (312.4)        |
| <b>Carrying value</b>          | <b>\$ 32.7</b> | <b>\$ 42.6</b> |

At December 31, 2018, intangible assets subject to amortization mainly relate to acquired technology. No significant impairments of intangible assets were recognized during 2018, 2017 or 2016.

Amortization expense related to intangible assets was \$11.3 million, \$11.2 million and \$10.5 million in 2018, 2017 and 2016, respectively. Estimated future amortization expense is (in millions): 2019: \$11.6; 2020: \$10.2; 2021: \$9.1; 2022: \$1.2 and 2023: \$0.6.

## 12. Restructuring

Restructuring provisions are made on a case-by-case basis and primarily include severance costs incurred in connection with headcount reductions and plant consolidations. The Company expects to finance restructuring programs over the next several years through cash generated from its ongoing operations or through cash available under its existing credit facilities. The Company does not expect that the execution of these programs will have an adverse impact on its liquidity position. The changes in the employee-related reserves have been charged against Other income (expense), net in the Consolidated Statements of Net Income.

The majority of the reserve balance as of December 31, 2018 pertains to restructuring activities initiated in Western Europe in the past few years. The Company anticipates that its restructuring initiatives in Western Europe for a number of plants, none of which are individually or in the aggregate material as of December 31, 2018, will continue through dates ranging from 2019 through 2021. The total amount of costs expected to be incurred in connection with these restructuring activities ranges from approximately \$11 million to \$31 million for each individual activity. In the aggregate, the cost for these Western European restructuring initiatives is approximately \$109 million and the remaining restructuring liability as of December 31, 2018 is approximately \$27 million out of the \$33 million total reserve balance.

### 2018

|                                | December 31<br>2017 | Provision/<br>Charge | Provision/<br>Reversal | Cash<br>payments | Translation<br>difference | December 31<br>2018 |
|--------------------------------|---------------------|----------------------|------------------------|------------------|---------------------------|---------------------|
| Restructuring employee-related | \$ 39.4             | \$ 9.0               | \$ (0.1)               | \$ (13.6)        | \$ (1.5)                  | \$ 33.2             |
| Other                          | 0.2                 | 0.2                  | —                      | —                | (0.2)                     | 0.2                 |
| <b>Total reserve</b>           | <b>\$ 39.6</b>      | <b>\$ 9.2</b>        | <b>\$ (0.1)</b>        | <b>\$ (13.6)</b> | <b>\$ (1.7)</b>           | <b>\$ 33.4</b>      |

### 2017

In 2017, the employee-related restructuring provisions, made on a case-by-case basis, and cash payments related mainly to headcount reductions in high-cost countries in Western Europe and Japan. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2016 to December 31, 2017 related to the continuing operations.

|                                | December 31<br>2016 | Provision/<br>Charge | Provision/<br>Reversal | Cash<br>payments | Translation<br>difference | December 31<br>2017 |
|--------------------------------|---------------------|----------------------|------------------------|------------------|---------------------------|---------------------|
| Restructuring employee-related | \$ 35.7             | \$ 29.3              | \$ (6.9)               | \$ (23.3)        | \$ 4.6                    | \$ 39.4             |
| Other                          | 0.1                 | 0.2                  | —                      | —                | (0.1)                     | 0.2                 |
| <b>Total reserve</b>           | <b>\$ 35.8</b>      | <b>\$ 29.5</b>       | <b>\$ (6.9)</b>        | <b>\$ (23.3)</b> | <b>\$ 4.5</b>             | <b>\$ 39.6</b>      |

### 2016

In 2015, the employee-related restructuring provisions, made on a case-by-case basis, and cash payments related mainly to headcount reductions in high-cost countries in Western Europe and Korea. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2015 to December 31, 2016 related to the continuing operations.

|                                | December 31<br>2015 | Provision/<br>Charge | Provision/<br>Reversal | Cash<br>payments | Translation<br>difference | December 31<br>2016 |
|--------------------------------|---------------------|----------------------|------------------------|------------------|---------------------------|---------------------|
| Restructuring employee-related | \$ 86.9             | \$ 23.6              | \$ (2.6)               | \$ (71.3)        | \$ (0.9)                  | \$ 35.7             |
| Other                          | 0.2                 | 0.1                  | —                      | —                | (0.2)                     | 0.1                 |
| <b>Total reserve</b>           | <b>\$ 87.1</b>      | <b>\$ 23.7</b>       | <b>\$ (2.6)</b>        | <b>\$ (71.3)</b> | <b>\$ (1.1)</b>           | <b>\$ 35.8</b>      |

## 13. Product Related Liabilities

Autoliv is exposed to product liability and warranty claims in the event that the Company's products fail to perform as represented and such failure results, or is alleged to result, in bodily injury, and/or property damage or other loss. The Company has reserves for product risks. Such reserves are related to product performance issues including recall, product liability and warranty issues. For further information, see Note 18.

The Company records liabilities for product related risks when probable claims are identified and when it is possible to reasonably estimate costs. Provisions for warranty claims are estimated based on prior experience, likely changes in performance of newer products, and the mix and volume of the products sold. The provisions are recorded on an accrual basis.

Pursuant to the Spin-off Agreements, Autoliv is also required to indemnify Veoneer for recalls related to certain qualified Electronics products. At December 31, 2018, the indemnification liabilities are approximately \$12 million within accrued expenses on the Consolidated Balance Sheet. Insurance receivables are included within Other current assets in the Condensed Consolidated Balance Sheet.

The decrease in reserves in 2018 was mainly due to a lower recalls and higher cash payments. A majority of the Company's recall related issues as of December 31, 2018 are covered by insurance. Insurance receivables are included within other current assets in the Consolidated Balance Sheet. The decrease in reserves in 2017 was mainly due to a decrease in recall related issues and payments, while the increase in reserves in 2016 was mainly due to recall related issues. Cash payments in 2018 were mainly recall related. Cash payments in 2017 were mainly recall related, while 2016 were mainly warranty related.

The table below summarizes the change in the balance sheet position of the product related liabilities.

|   | 2018           | 2017           | 2016           |
|---|----------------|----------------|----------------|
| <b>Reserve at beginning of the year</b> | <b>\$ 95.6</b> | <b>\$ 90.6</b> | <b>\$ 39.0</b> |
| Change in reserve                       | 20.6           | 32.2           | 68.1           |
| Cash payments                           | (54.3)         | (29.4)         | (15.6)         |
| Translation difference                  | 0.3            | 2.2            | (0.9)          |
| <b>Reserve at end of the year</b>       | <b>\$ 62.2</b> | <b>\$ 95.6</b> | <b>\$ 90.6</b> |

## 14. Debt and Credit Agreements

### SHORT-TERM DEBT

As of December 31, 2018, total short-term debt was \$621 million. Short-term debt consisted of \$208 million U.S. Private Placement loan maturing in April 2019, \$60 million U.S. Private Placement loan maturing in November 2019, and \$343 million commercial paper loans with maturities in Q1 and Q2 2019.

The Company's subsidiaries have credit agreements, principally in the form of overdraft facilities with several local banks. Total available short-term facilities as of December 31, 2018, excluding commercial paper facilities as described below, amounted to \$381 million, of which approximately \$10 million was utilized. The weighted average interest rate on total short-term debt outstanding at December 31, 2018 and 2017, excluding the short-term portion of long-term debt, was 1.4% and 2.0%, respectively.

### LONG-TERM DEBT

As of December 31, 2018, total long-term debt was \$1,609 million.

In June 2018, the Company issued EUR 500 million of 5-year notes in the Eurobond market. The notes carry a coupon of 0.75%.

In 2014, the Company issued long-term debt securities in a U.S. Private Placement. The current long-term debt outstanding from the 2014 issuance consist of; \$275 million aggregate principal amount of 7-year senior notes with an interest rate of 3.51%; \$297 million aggregate principal amount of 10-year senior notes with an interest rate of 4.09%; \$285 million aggregate principal amount of 12-year senior notes with an interest rate of 4.24%; and \$185 million aggregate principal amount of 15-year senior notes with an interest rate of 4.44%.

### CREDIT FACILITIES

In July 2016, the Company signed a \$1,100 million senior unsecured revolving credit facility with 14 banks. The term of the facility was 5 years with two one-year extension options. The Company has utilized these extension options and extended the maturity to July 2023. The Company pays a commitment fee on the undrawn amount. The commitment fee is 35% of the applicable margin. The applicable margin is related to the Company's credit rating. Given the Company's current credit rating of A- from S&P Global Ratings the applicable margin is 0.225%. As of December 31, 2018, and December 31, 2017, the facility was unutilized.

The Company has two commercial paper programs: one SEK 7 billion (approx. \$780 million) Swedish program and one \$1.0 billion U.S. program. At December 31, 2018 a total of \$343 million had been issued under these programs. Both programs were unutilized at December 31, 2017.

The Company is not subject to any financial covenants, i.e. performance related restrictions, in any of its significant long-term borrowings or commitments.

## CREDIT RISK

In the Company's financial operations, credit risk arises in connection with cash deposits with banks and when entering into forward exchange agreements, swap contracts or other financial instruments. In order to reduce this risk, deposits and financial instruments are only entered with a limited number of banks up to a calculated risk amount of \$150 million per bank for banks rated A- or above and up to \$50 million for banks rated BBB+. The policy of the Company is to work with banks that have a strong credit rating and that participate in the Company's financing. In addition to this, deposits of up to an aggregate amount of \$2 billion can be placed in U.S. and Swedish government paper and in certain AAA rated money market funds. As of December 31, 2018, the Company had placed \$1 million in money market funds.

The table below shows debt maturity as cash flow. For a description of hedging instruments used as part of debt management, see the Financial Instruments section of Note 2 and Note 5.

## DEBT PROFILE

| <b>PRINCIPAL AMOUNT BY EXPECTED MATURITY</b> | <b>2019</b>    | <b>2020</b> | <b>2021</b>    | <b>2022</b> | <b>2023</b>    | <b>Thereafter</b> | <b>Total long-term</b> | <b>Total</b>                   |
|--|----------------|-------------|----------------|-------------|----------------|-------------------|------------------------|--------------------------------|
| Eurobond                                     | \$ —           | \$ —        | \$ —           | \$ —        | \$572.7        | \$ —              | \$ 572.7               | \$ 572.7                       |
| U.S. private placement notes                 | \$268.0        | \$ —        | \$275.0        | \$ —        | \$ —           | \$ 767.0          | \$1,042.0              | \$1,310.0                      |
| Commercial papers                            | \$342.6        | \$ —        | \$ —           | \$ —        | \$ —           | \$ —              | —                      | \$ 342.6                       |
| Other short-term debt                        | \$ 10.1        | \$ —        | \$ —           | \$ —        | \$ —           | \$ —              | \$ —                   | \$ 10.1                        |
| <b>Total principal amount</b>                | <b>\$620.7</b> | <b>\$ —</b> | <b>\$275.0</b> | <b>\$ —</b> | <b>\$572.7</b> | <b>\$ 767.0</b>   | <b>\$1,614.7</b>       | <b>\$2,235.4 <sup>1)</sup></b> |

1) The difference between reported total debt and total principal amount is mainly related to capitalized debt issuance costs.

## 15. Shareholders' Equity

The number of shares outstanding as of December 31, 2018 was 87,144,520.

| <b>DIVIDENDS</b>  | <b>2018</b>       | <b>2017</b>       | <b>2016</b>       |
|---|-------------------|-------------------|-------------------|
| Cash dividend paid per share  | \$ 2.46           | \$ 2.38           | \$ 2.30           |
| Cash dividend declared per share                                      | \$ 2.48           | \$ 2.40           | \$ 2.32           |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)/ ENDING BALANCE<sup>1)</sup></b> | <b>2018</b>       | <b>2017</b>       | <b>2016</b>       |
| Cumulative translation adjustments                                    | \$ (381.2)        | \$ (230.5)        | \$ (493.5)        |
| Net (loss) gain of cash flow hedge derivatives                        | —                 | (0.8)             | 8.1               |
| Net pension liability   | (55.0)            | (56.2)            | (80.1)            |
| Distribution to Veoneer   | 13.0              | —                 | —                 |
| <b>Total (ending balance)</b>   | <b>\$ (423.2)</b> | <b>\$ (287.5)</b> | <b>\$ (565.5)</b> |
| Deferred taxes on the pension liability                               | \$ 15.4           | \$ 16.5           | \$ 35.3           |

1) The components of Other Comprehensive Income (Loss) are net of any related income tax effects.

## SHARE REPURCHASE PROGRAM

The Company's Board of Directors approved a share repurchase program in 2000 authorizing the repurchase of 10 million shares and subsequently expanded the authorization four times between 2000 and 2014 to 47.5 million shares. There were no share repurchases made during 2018. The Company made repurchases during the second quarter of 2017. There is no expiration date for the share repurchase program. The Company is authorized to repurchase an additional 2,986,288 shares under the program at December 31, 2018.

| <b>SHARES</b>                           | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|-------------|
| Shares repurchased (shares in millions) | —           | 1.4         | —           |
| Cash paid for shares                    | \$ —        | \$ 157.0    | \$ —        |

In total, Autoliv has repurchased 44.5 million shares between May 2000 and December 2018 for cash of \$2,498 million, including commissions. Of the total amount of repurchased shares, 23.6 million shares were utilized for the equity unit offering during 2009-2012. In addition, 5.3 million shares have been utilized by the Stock Incentive Plan whereof 0.2 million, 0.2 million and 0.1 million were utilized during 2018, 2017 and 2016, respectively. At December 31, 2018, 15.7 million of the repurchased shares remain in treasury stock.

## 16. Supplemental Cash Flow Information

Payments for interest and income taxes were as follows:

|              | 2018   | 2017   | 2016   |
|--------------|--------|--------|--------|
| Interest     | \$ 66  | \$ 64  | \$ 64  |
| Income taxes | \$ 214 | \$ 204 | \$ 247 |

## 17. Stock Incentive Plan

Eligible employees and non-employee directors of Autoliv participate in the Autoliv, Inc. 1997 Stock Incentive Plan (the Plan) and received Autoliv stock-based awards which include stock options (SOs), restricted stock units (RSUs) and performance shares (PSs). In connection with the Veoneer spin-off, each outstanding Autoliv stock-based award as of June 29, 2018 (the Distribution Date) was converted to a stock award that has underlying shares of both Autoliv and Veoneer common shares.

The conversion that occurred on the Distribution Date was based on the following:

- SOs - A number of SOs comprising 50% of the value of the outstanding SOs calculated immediately prior to the spin-off continued to be applicable to Autoliv common stock. A number of SOs comprising the remaining 50% percent of the pre spin-off value were replaced with options to acquire shares of Veoneer common stock.
- RSUs - A number of RSUs comprising 50% of the value of the outstanding RSUs calculated immediately prior to the spin-off continued to be applicable to Autoliv common stock. A number of RSUs comprising the remaining 50% of the pre spin-off value were replaced with RSUs with underlying Veoneer common stock.
- PSs - Outstanding PSs pre spin-off were converted to time-based RSUs and were divided between Autoliv and Veoneer common stock in the same manner as other outstanding RSUs (as described above) on the Distribution Date. The number of outstanding PSs pre spin-off to be converted was determined based on pro-ration of the performance period such as:
  - 1) The level of actual achievement of performance goals for each outstanding PS for the period between the first day of the performance period and December 31, 2017 (the "Performance Measurement Date"), referred to as "Level of Performance-to-Date"; and
  - 2) The greater of the Level of Performance-to-Date and the target performance level for the period between the Performance Measurement Date and the last day of the performance period.

In each case above, the conversion was intended to generally preserve the intrinsic value of the original award determined as of the Distribution Date. The number of converted RSUs and SOs for Autoliv and Veoneer was based on the average of Autoliv closing stock prices for the last 5 trading days prior to the spin-off and the average of closing stock prices of Autoliv and Veoneer, respectively, for the first 5 trading days after the spin-off. Accordingly, 50% of the outstanding awards as of the Distribution Date, and the related exercise price, were converted to Adjusted Autoliv Awards using a conversion factor of 1.41.

As a result of the spin-off and the related conversion, it was determined that the stock based awards were modified in accordance with ASC 718, Compensation – Stock Compensation. The fair value of the RSUs and SOs immediately before and after the modification was assessed in order to determine if the modification resulted in any incremental compensation cost related to the awards, including consideration of the impact of conversion using the 5 trading day average. Based on the valuation performed, it was determined that the conversion did not result in any incremental compensation cost for any of the outstanding awards. The post spin-off stock-based compensation expense will be based on the original grant date fair value related to only Autoliv employees.

With certain limited exceptions, including the freezing of the Performance Measurement Date to December 31, 2017 as noted above, the adjusted SOs and RSUs outstanding after the spin-off are subject to the same terms and conditions (including with respect to vesting and expiration) that were applicable to such Autoliv stock-based awards immediately prior to the conversion and as described below.

The fair value of the RSUs and PSs is calculated as the grant date fair value of the shares expected to be issued. The RSUs granted in 2018 and 2017 entitle the grantee to receive dividend equivalents in the form of additional RSUs subject to the same vesting conditions as the underlying RSUs. The RSUs granted prior to 2017 do not have dividend equivalent rights. For the grants made during 2018 and 2017, the fair value of a PS and a RSU was calculated by using the closing stock price on the grant date. For the grants made during 2016 and earlier, the fair value of a RSU and a PS was estimated using the Black Scholes valuation model to account for the difference in the value of the awards resulting from such awards not having dividend equivalent rights. The grant date fair value for the RSUs on February 13, 2018 was \$16.6 million (pre-spin grant date fair value). The amount of this cost attributable to Autoliv employees after the spin-off will be amortized straight line over the vesting period.

Pursuant to the Company's director compensation policy, the Company's non-employee directors receive RSUs as payment of 50% of their annual base retainer, which RSUs vest in one installment on the earlier of the date of the next AGM or the first anniversary of the grant date, in each case subject to the grantee's continued service as a non-employee director on the vesting date with certain exceptions. The RSUs granted to the Company's non-employee directors entitle the grantee to receive dividend equivalents in the form of additional RSUs subject to the same vesting conditions as the underlying RSUs. The grant date fair value for the RSUs granted in 2018 to the Company's non-employee directors was \$1.4 million.

The source of the shares issued upon vesting of awards is generally from treasury shares. The Stock Incentive Plan provides for the issuance of up to 9,585,055 common shares for awards. At December 31, 2018, 6,394,392 of these shares have been issued for awards which includes 37,103 shares of common stock issued to non-executive directors in satisfaction of all or a portion of his or her annual base retainer for service on the Board. Included within the RSUs granted in 2018 are 7,869 RSUs issued to non employee directors in satisfaction of all or a portion of his or her annual base retainer for service on the Board.

During 2015 and earlier, stock awards were granted in the form of SOs and RSUs. All SOs were granted for 10-year terms, had an exercise price equal to the fair value of the share at the date of grant, and became exercisable after one year of continued employment following the grant date. The average grant date fair values of SOs were calculated using the Black-Scholes valuation model. The Company used historical exercise data for determining the expected life assumption. Expected volatility was based on historical and implied volatility.

The Company recorded \$9.1 million, \$6.1 million and \$8.4 million stock-based compensation expense in continuing operations related to RSUs and PSs for 2018, 2017 and 2016, respectively. The total compensation cost related to non-vested awards not yet recognized is \$10.3 million for RSUs and the weighted average period over which this cost is expected to be recognized is approximately 1.7 years. There are no remaining unrecognized compensation costs associated with stock options.

Information on the number of RSUs, PSs and SOs related to the Stock Incentive Plan during the period of 2016 to 2018 is as follows.

| <b>RSUs</b>  | <b>2018</b>      | <b>2017</b>      | <b>2016</b>      |
|--|------------------|------------------|------------------|
| <b>Weighted average fair value at grant date <sup>1)</sup></b> | <b>\$ 131.51</b> | <b>\$ 105.64</b> | <b>\$ 100.77</b> |
| <b>Outstanding at beginning of year</b>                        | <b>188,410</b>   | <b>188,494</b>   | <b>204,552</b>   |
| Granted  | 131,246          | 84,771           | 71,870           |
| Shares issued  | (84,425)         | (70,795)         | (66,651)         |
| Cancelled/Forfeited/Expired                                    | (6,485)          | (14,060)         | (21,277)         |
| Spin conversion <sup>2)</sup>                                  | 33,328           | —                | —                |
| <b>Outstanding at end of year<sup>3)</sup></b>                 | <b>262,074</b>   | <b>188,410</b>   | <b>188,494</b>   |

<sup>1)</sup> Weighted average fair value at grant date pre-spin.

<sup>2)</sup> Reflects the impact of the cancellation of PS awards outstanding as of the Distribution Date, and the conversion to RSUs in accordance with the conversion factor described above.

<sup>3)</sup> Outstanding at the end of 2018 reflects the RSUs held by employees of Autoliv and Veoneer, in accordance with the conversion factor described above. Outstanding at the end of 2017 and 2016, respectively reflects RSUs held by employees of Autoliv. The corresponding weighted average grant date fair value after applying the conversion factor is \$100.74 as of December 31, 2018.

The aggregate intrinsic value for RSUs outstanding at December 31, 2018 was \$18.4 million.

| <b>PSs</b>   | <b>2018</b>      | <b>2017</b>      | <b>2016</b>     |
|--|------------------|------------------|-----------------|
| <b>Weighted average fair value at grant date <sup>1)</sup></b> | <b>\$ 105.87</b> | <b>\$ 105.87</b> | <b>\$ 98.57</b> |
| <b>Outstanding at beginning of year</b>                        | <b>139,891</b>   | <b>138,548</b>   | <b>—</b>        |
| Change in performance conditions                               | —                | (69,274)         | —               |
| Granted <sup>2)</sup>  | 588              | 75,379           | 143,740         |
| Shares issued  | —                | —                | —               |
| Cancelled/Forfeited/Expired                                    | (3,076)          | (4,762)          | (5,192)         |
| Spin conversion <sup>3)</sup>                                  | (137,403)        | —                | —               |
| <b>Outstanding at end of year <sup>4)</sup></b>                | <b>—</b>         | <b>139,891</b>   | <b>138,548</b>  |

<sup>1)</sup> Weighted average fair value at grant date pre-spin.

<sup>2)</sup> 2018 grants reflect awards issued pre-spin as a result of dividend equivalent rights.

<sup>3)</sup> Reflects the replacement of awards due to the spin-off. Outstanding PS awards were converted to RSU awards in accordance with the conversion factor described above.

<sup>4)</sup> Outstanding at the end of 2017 and 2016, respectively reflects PSs held by employees of Autoliv.



The PSs granted include assumptions regarding the ultimate number of shares that will be issued based on the probability of achievement of the performance conditions. Changes in those assumptions result in changes in the estimated shares to be issued which is reflected in the "Change in performance conditions" line above.

| SOs  | Number<br>of options | Weighted<br>average<br>exercise<br>price |
|--|----------------------|--|
| <b>Outstanding at Dec 31, 2015</b>               | <b>473,051</b>       | <b>\$ 87.88</b>                          |
| Exercised  | (51,084)             | 88.10                                    |
| Cancelled/Forfeited/Expired                      | (10,858)             | 102.31                                   |
| <b>Outstanding at Dec 31, 2016</b>               | <b>411,109</b>       | <b>\$ 87.47</b>                          |
| Exercised  | (100,184)            | 79.58                                    |
| Cancelled/Forfeited/Expired                      | (10,976)             | 112.20                                   |
| <b>Outstanding at Dec 31, 2017</b>               | <b>299,949</b>       | <b>\$ 89.20</b>                          |
| Exercised  | (92,485)             | 86.59                                    |
| Cancelled/Forfeited/Expired                      | —                    | —  |
| Spin conversion <sup>1)</sup>                    | (65,390)             | 88.75                                    |
| <b>Outstanding at Dec 31, 2018 <sup>2)</sup></b> | <b>142,074</b>       | <b>\$ 63.43</b>                          |

#### **OPTIONS EXERCISABLE**

|                      |         |          |
|----------------------|---------|----------|
| At December 31, 2016 | 254,842 | \$ 71.48 |
| At December 31, 2017 | 299,949 | \$ 89.20 |
| At December 31, 2018 | 142,074 | \$ 63.43 |

<sup>1)</sup> Reflects the cancellation of SOs outstanding as of the Distribution Date, and the conversion to new awards in accordance with the conversion factor described above. The weighted average exercise price reflects the exercise price of the shares cancelled due to the spin-off.

<sup>2)</sup> Reflects outstanding SOs held by employees of Autoliv and Veoneer at the end of the year and the weighted average exercise price, in accordance with the conversion factor described above.

The following summarizes information about SOs outstanding and exercisable at December 31, 2018:

| <b><u>RANGE OF EXERCISE PRICES</u></b> | Number<br>outstanding &<br>exercisable | Remaining<br>contract life<br>(in years) | Weighted<br>average<br>exercise<br>price |
|--|--|--|--|
| \$11.57                                | 5,885                                  | 0.14                                     | \$ 11.57                                 |
| \$31.71                                | 7,047                                  | 1.13                                     | 31.71                                    |
| \$47.52– \$49.07                       | 27,553                                 | 3.64                                     | 48.30                                    |
| \$51.74                                | 10,120                                 | 2.15                                     | 51.74                                    |
| \$67.29                                | 37,768                                 | 5.14                                     | 67.29                                    |
| \$80.40                                | 53,701                                 | 6.13                                     | 80.40                                    |
|  | <b>142,074</b>                         | <b>4.64</b>                              | <b>\$ 63.43</b>                          |

The total aggregate intrinsic value, which is the difference between the exercise price and \$70.23 (closing price per share at December 31, 2018), for all "in the money" SOs, both outstanding and exercisable as of December 31, 2018, was \$10.0 million.

## **18. Contingent Liabilities**

### **LEGAL PROCEEDINGS**

Various claims, lawsuits and proceedings are pending or threatened against the Company or its subsidiaries, covering a range of matters that arise in the ordinary course of its business activities with respect to commercial, product liability and other matters. Litigation is subject to many uncertainties, and the outcome of any litigation cannot be assured. After discussions with counsel, and with the exception of losses resulting from the antitrust proceedings described below, it is the opinion of management that the various legal proceedings and investigations to which the Company currently is a party will not have a material adverse impact on the consolidated financial position of Autoliv, but the Company cannot provide assurance that Autoliv will not experience material litigation, product liability or other losses in the future.

In October 2014, one of the Company's Brazilian subsidiaries received a notice of deficiency from the state tax authorities from the state of São Paulo, Brazil which, primarily, alleged violations of ICMS (VAT) payments and improper warehousing documentation. The aggregate assessment for all alleged violations was R\$81 million (approximately \$21 million), inclusive of fines, penalties and interest. The Company believed that a loss was probable with respect to at least a portion of the assessed amount and accrued an amount in 2015 that was not material to the Company's results of operations. During the first quarter of 2018, the Brazilian authorities offered an amnesty period which would allow taxpayers to reduce the penalties associated with eligible tax matters by up to 85%. During the second quarter of 2018, the Company applied to participate in such tax amnesty program which was accepted by the Brazilian authorities. The Company paid an immaterial amount during the period ended June 30, 2018 to resolve this matter.

## ANTITRUST MATTERS

Authorities in several jurisdictions are currently or have been conducting broad, and in some cases, long-running investigations of suspected anti-competitive behavior among parts suppliers in the global automotive vehicle industry. These investigations include, but are not limited to, the products that the Company sells. In addition to concluded and pending matters, authorities of other countries with significant light vehicle manufacturing or sales may initiate similar investigations. It is the Company's policy to cooperate with governmental investigations.

### European Commission ("EC") Investigations:

On June 7-9, 2011, representatives of the European Commission ("EC"), the European antitrust authority, visited two facilities of a Company subsidiary in Germany to gather information for an investigation of anti-competitive behavior among suppliers of occupant safety systems.

On November 22, 2017, the EC concluded a discrete portion of its investigation and imposed a fine on the Company of EUR 8.1 million (approximately \$9.7 million) with respect to this portion of the EC's overall investigation while it continues the more significant portion of its investigation. The Company paid this amount during the first quarter of 2018, and had previously accrued EUR 8.3 million (approximately \$9.9 million) in 2017 with respect to this discrete portion of the investigation.

Management does not believe the outcome of this discrete portion of the EC's investigation as noted above provides an indication of the total probable loss associated with the EC investigation as a whole. The Company believes that the EC will seek to impose a fine in connection with the remaining portion of the EC investigation. According to management's best estimation and based on advice of our legal counsel, the Company accrued EUR 184 million (approximately \$210 million) during the fourth quarter of 2018, which was recorded in Accrued expenses and Other income (expense), net. The Company believes that a fine could be issued during the first half of 2019, although this may be delayed. The fine would be payable within 90 days after the investigation is ultimately resolved and would be denominated in euros.

### South Africa Investigation:

In August 2014, the Competition Commission of South Africa (the "CCSA") contacted the Company regarding an investigation into the Company's sales of occupant safety systems in South Africa. In September 2017, the Company entered into a settlement agreement with the CCSA in which the Company agreed to pay an administrative penalty of R150 million (approximately \$11 million), which the Competition Tribunal in South Africa confirmed on November 22, 2017. The Company had previously accrued a total of approximately \$6 million in 2016 for this matter, and accrued an additional \$5 million in 2017 with respect to the proposed settlement, and final payment of the settlement amount was made in February 2018.

### Brazil Investigation:

On July 6, 2015, the Company learned that the General Superintendence of the Administrative Council for Economic Defense ("CADE") in Brazil had initiated an investigation of an alleged cartel involving sales in Brazil of seatbelts, airbags, and steering wheels by the Company's Brazilian subsidiary and the Brazilian subsidiary of a competitor. In November 2016, the Company and the CADE entered into a settlement agreement with respect to this matter for an amount that is not material to the Company's results of operations. Settlement amounts were accrued for this matter during the periods ended December 31, 2015 and December 31, 2016, and final payment of the accrued amounts was made in 2017.

### Civil Litigation:

The Company is subject to civil litigation alleging anti-competitive conduct in the U.S. and Canada. Specifically, the Company, several of its subsidiaries and its competitors were named as defendants in a total of nineteen purported antitrust class action lawsuits filed between June 2012 and June 2015. Fifteen of these lawsuits were filed in the U.S. and were consolidated in the Occupant Safety Systems (OSS) segment of the Automobile Parts Antitrust Litigation, a Multi-District Litigation (MDL) proceeding in the United States District Court for the Eastern District of Michigan. Plaintiffs in the U.S. cases sought to represent four purported classes - direct purchasers, auto dealers, end-payors, and, as of the filing of the last class action in June 2015, truck and equipment dealers - who purchased occupant safety systems or components directly from a defendant, indirectly through purchases or leases of new vehicles containing such systems, or through purchases of replacement parts.

In May 2014, the Company, without admitting any liability, entered into separate settlement agreements with the direct purchasers, auto dealers, end-payors plaintiff classes, which were granted final approval by the MDL court in 2015 and 2016. The total settlement amount of \$65 million (later reduced to approximately \$60.5 million as a result of opt-outs from the direct purchaser settlement) was expensed in 2014. In April 2016, the Company entered into a settlement agreement with the truck and equipment dealers' class, which was granted final approval by the MDL court in 2016, for an amount that is immaterial to the Company's results of operations. The class settlements do not resolve any claims of settlement class members who opt-out of the settlements or the unasserted claims of any purchasers of occupant safety systems who are not otherwise included in a settlement class, such as states and municipalities. Two direct purchasers opted out of the Company's direct purchaser class settlement and several individuals and one insurer (and its affiliated entities) opted-out of the end-payer class settlements, including the Company's settlement.

In September 2016, the insurer (and its affiliated entities) that opted out of the end-payor class settlement filed an antitrust lawsuit in the United States District Court for the Eastern District of Michigan, the venue for the MDL, against the Company and the other settling defendants in the end-payor class settlements. The defendants' motion to dismiss the complaint on various grounds was granted in part and denied in part in August 2018. Since this decision, various amended pleadings and motions have been made by insurer. To date, no decision has been rendered by the Court. The Company cannot predict or estimate the duration or ultimate outcome of this matter.

In March 2015, the Company, without admitting any liability, reached agreements regarding additional settlements to resolve certain direct purchasers' global (including U.S.) or non-U.S. antitrust claims that were not covered by the direct purchaser class settlement described above. The total amount of these additional settlements was \$81 million. Autoliv expensed during the first quarter of 2015 approximately \$77 million as a result of these additional settlements, net of existing amounts that had been accrued in 2014.

The remaining four antitrust class action lawsuits were filed in Canada (Sheridan Chevrolet Cadillac Ltd. et al. v. Autoliv, Inc. et al., filed in the Ontario Superior Court of Justice on January 18, 2013; M. Serge Asselin v. Autoliv, Inc. et al., filed in the Superior Court of Quebec on March 14, 2013; Ewert v. Autoliv, Inc. et al., filed in the Supreme Court of British Columbia on July 18, 2013; and Cindy Retallick and Jagjeet Singh Rajput v. Autoliv ASP, Inc. et al., filed in the Queen's Bench of the Judicial Center of Regina in the province of Saskatchewan on May 14, 2014) asserting claims on behalf of putative classes of both direct and indirect purchasers of occupant safety systems. In February 2017, the Company entered into, and the courts subsequently approved, a settlement agreement with plaintiffs in three of the four class actions to settle on a nationwide class basis for an amount that is not material to the Company's results of operations. Settlement amounts were accrued for this matter during the period ended December 31, 2016 and final payment of the accrued amounts was made in 2017. This national settlement includes the claims of the putative members of the fourth class action.

## **PRODUCT WARRANTY, RECALLS AND INTELLECTUAL PROPERTY**

Autoliv is exposed to various claims for damages and compensation if its products fail to perform as expected. Such claims can be made, and result in costs and other losses to the Company, even where the product is eventually found to have functioned properly. Where a product (actually or allegedly) fails to perform as expected or is defective, the Company may face warranty and recall claims. Where such (actual or alleged) failure or defect results, or is alleged to result, in bodily injury and/or property damage, the Company may also face product liability and other claims. There can be no assurance that the Company will not experience material warranty, recall or product (or other) liability claims or losses in the future, or that the Company will not incur significant costs to defend against such claims. The Company may be required to participate in a recall involving its products. Each vehicle manufacturer has its own practices regarding product recalls and other product liability actions relating to its suppliers. As suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, vehicle manufacturers are increasingly looking to their suppliers for contribution when faced with recalls and product liability claims. Government safety regulators may also play a role in warranty and recall practices. A warranty, recall or product-liability claim brought against the Company in excess of its insurance may have a material adverse effect on the Company's business. Vehicle manufacturers are also increasingly requiring their outside suppliers to guarantee or warrant their products and bear the costs of repair and replacement of such products under new vehicle warranties. A vehicle manufacturer may attempt to hold the Company responsible for some, or all, of the repair or replacement costs of products when the product supplied did not perform as represented by us or expected by the customer. Accordingly, the future costs of warranty claims by the customers may be material. However, the Company believes its established reserves are adequate. Autoliv's warranty reserves are based upon the Company's best estimates of amounts necessary to settle future and existing claims. The Company regularly evaluates the adequacy of these reserves, and adjusts them when appropriate. However, the final amounts actually due related to these matters could differ materially from the Company's recorded estimates.

In addition, as vehicle manufacturers increasingly use global platforms and procedures, quality performance evaluations are also conducted on a global basis. Any one or more quality, warranty or other recall issue(s) (including those affecting few units and/or having a small financial impact) may cause a vehicle manufacturer to implement measures such as a temporary or prolonged suspension of new orders, which may have a material impact on the Company's results of operations.

The Company carries insurance for potential recall and product liability claims at coverage levels based on our prior claims experience. In addition, a number of the agreements entered into by the Company, including the Spin-off Agreements, require Autoliv to indemnify the other parties for certain claims. Autoliv cannot assure that the level of coverage will be sufficient to cover every possible claim that can arise in our businesses or with respect to other obligations, now or in the future, or that such coverage always will be available should we, now or in the future, wish to extend, increase or otherwise adjust our insurance.

### Toyota Recall:

On June 29, 2016, the Company announced that it is cooperating with Toyota Motor Corp. in its recall of approximately 1.4 million vehicles equipped with a certain model of the Company's side curtain airbag (the "Toyota Recall"). Toyota has informed the Company that there have been eight reported incidents where a side curtain airbag has partially inflated without a deployment signal from the airbag control unit. The incidents have all occurred in parked, unoccupied vehicles and no personal injuries have been reported. The root cause analysis of the issue is ongoing. However, at this point in time the Company believes that a compromised manufacturing process at a sub-supplier may be a contributing factor and, as no incidents have been reported in vehicles produced by other OEMs with the same inflator produced during the same period as those recalled by Toyota, that vehicle-specific characteristics may also contribute to the issue. The sub-supplier's manufacturing process was changed in January 2012, and the vehicles now recalled by Toyota represent more than half of all inflators of the relevant type manufactured before the sub-supplier process was changed.

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, the Company determined pursuant to ASC 450 that a loss with respect to this issue is reasonably possible. If the Company is obligated to indemnify Toyota for the costs associated with the Toyota Recall, the Company expects that its insurance will generally cover such costs and liabilities and estimates that the Company's loss, net of expected insurance recoveries, would be less than \$20 million. However, the ultimate costs of the Toyota Recall could be materially different. The main variables affecting the ultimate cost for the Company are: the determination of proportionate responsibility (if any) among Toyota, the Company, and any relevant sub-suppliers; the ultimate number of vehicles repaired; the cost of repair per vehicle; and the actual recoveries from sub-suppliers and insurers. The Company's insurance policies generally include coverage of the costs of a recall, although costs related to replacement parts are generally not covered.

In its products, the Company utilizes technologies which may be subject to intellectual property rights of third parties. While the Company does seek to procure the necessary rights to utilize intellectual property rights associated with its products, it may fail to do so. Where the Company so fails, the Company may be exposed to material claims from the owners of such rights. Where the Company has sold products which infringe upon such rights, its customers may be entitled to be indemnified by the Company for the claims they suffer as a result thereof. Such claims could be material.

The table in Note 13 Product Related Liabilities above summarizes the change in the balance sheet position of the product related liabilities for the fiscal year ended December 31, 2018.

## **19. Lease Commitments**

### **OPERATING LEASES**

The Company leases certain offices, manufacturing and research buildings, machinery, automobiles, data processing and other equipment under operating lease contracts. The operating leases, some of which are non-cancellable and include renewals, expire at various dates through 2045. The Company pays most maintenance, insurance and tax expenses relating to leased assets. Rental expense for operating leases was \$47 million, \$46 million and \$41 million for 2018, 2017 and 2016, respectively.

At December 31, 2018, future minimum lease payments for non-cancellable operating leases totaled \$186 million and are payable as follows (in millions): 2019: \$42; 2020: \$36; 2021: \$29; 2022: \$26; 2023: \$20; 2024 and thereafter: \$33.

### **CAPITAL LEASES**

At December 31, 2018, future minimum lease payments for non-cancellable capital leases were not material.

## **20. Retirement Plans**

### **DEFINED CONTRIBUTION PLANS**

Many of the Company's employees are covered by government sponsored pension and welfare programs. Under the terms of these programs, the Company makes periodic payments to various government agencies. In addition, in some countries the Company sponsors or participates in certain non-governmental defined contribution plans. Contributions to defined contribution plans for the years ended December 31, 2018, 2017 and 2016 were \$19.2 million, \$21.7 million and \$21.3 million, respectively.

### **MULTIEMPLOYER PLANS**

The Company participates in a multiemployer plan in Sweden, which is deemed insignificant. The Swedish ITP-2 pension plan is funded through Alecta. For employees born before 1979, the plan provides a final pay pension benefit based on all service with participating employers. The Company must pay for wage increases in excess of inflation on service earned with previous employers. The plan also provides disability and family benefits. The plan is more than 100% funded. The Company contributions to the multiemployer plan in Sweden for the years ended December 31, 2018, 2017 and 2016 were \$6.1 million, \$9.7 million and \$4.4 million, respectively.

## DEFINED BENEFIT PLANS

The Company has a number of defined benefit pension plans, both contributory and non-contributory, in the U.S., Germany, France, Japan, Mexico, Sweden, South Korea, India, Turkey, Thailand, Philippines and the United Kingdom. There are funded as well as unfunded plan arrangements which provide retirement benefits to both U.S. and non-U.S. participants.

The main plan is the U.S. plan for which the benefits are based on an average of the employee's earnings in the years preceding retirement and on credited service. In a prior year, the Company closed participation in the Autoliv ASP, Inc. Pension Plan to exclude those employees hired after December 31, 2003. Within the U.S. there is also a non-qualified restoration plan that provides benefits to employees whose benefits in the primary U.S. plan are restricted by limitations on the compensation that can be considered in calculating their benefits. During December 2017 the Company decided to amend the U.S. defined benefit pension plan, communicating a benefits freeze that will begin on December 31, 2021. There were no curtailment expenses due to U.S. plan freeze. The curtailment caused a decrease in the projected benefit obligation (PBO) of \$62 million as of December 31, 2017, with the offset recorded to OCI.

For the Company's non-U.S. defined benefit plans the most significant individual plan resides in the U.K. The Company has closed participation in the U.K. defined benefit plan to exclude all employees hired after April 30, 2003 with few members accruing benefits.

## CHANGES IN BENEFIT OBLIGATIONS AND PLAN ASSETS RELATED TO CONTINUING OPERATIONS FOR THE PERIODS ENDED DECEMBER 31

|   | U.S.             |                  | Non-U.S.          |                   |
|---|------------------|------------------|-------------------|-------------------|
|   | 2018             | 2017             | 2018              | 2017              |
| <b>Benefit obligation at beginning of year</b>        | <b>\$ 368.6</b>  | <b>\$ 361.2</b>  | <b>\$ 220.9</b>   | <b>\$ 190.6</b>   |
| Service cost  | 8.7              | 9.0              | 10.8              | 10.4              |
| Interest cost   | 12.8             | 14.8             | 5.7               | 5.5               |
| Actuarial (gain) loss due to:                         |                  |                  |                   |                   |
| Change in discount rate                               | (44.6)           | 53.4             | (12.1)            | 5.9               |
| Experience  | 0.8              | (2.0)            | 4.7               | (4.3)             |
| Other assumption changes                              | 3.5              | 4.2              | 4.8               | 1.4               |
| Plan amendments                                       | —                | —                | (0.1)             | (0.5)             |
| Benefits paid   | (17.7)           | (9.8)            | (7.9)             | (7.9)             |
| Plan settlements                                      | —                | —                | (0.8)             | (0.1)             |
| Curtailments  | —                | (62.2)           | —                 | —                 |
| Special termination benefits                          | —                | —                | 0.5               | 0.3               |
| Translation difference                                | —                | —                | (9.6)             | 19.6              |
| <b>Benefit obligation at end of year</b>              | <b>\$ 332.1</b>  | <b>\$ 368.6</b>  | <b>\$ 216.9</b>   | <b>\$ 220.9</b>   |
| <b>Fair value of plan assets at beginning of year</b> | <b>\$ 297.9</b>  | <b>\$ 256.5</b>  | <b>\$ 84.8</b>    | <b>\$ 76.5</b>    |
| Actual return on plan assets                          | (13.9)           | 44.5             | (1.9)             | 2.3               |
| Company contributions                                 | 6.7              | 6.7              | 9.0               | 6.3               |
| Benefits paid   | (17.7)           | (9.8)            | (7.9)             | (7.9)             |
| Plan settlements                                      | —                | —                | (0.8)             | (0.1)             |
| Translation difference                                | —                | —                | (5.4)             | 7.7               |
| <b>Fair value of plan assets at end of year</b>       | <b>\$ 273.0</b>  | <b>\$ 297.9</b>  | <b>\$ 77.8</b>    | <b>\$ 84.8</b>    |
| <b>Funded status recognized in the balance sheet</b>  | <b>\$ (59.1)</b> | <b>\$ (70.7)</b> | <b>\$ (139.1)</b> | <b>\$ (136.1)</b> |

The U.S. plan provides that benefits may be paid in the form of a lump sum if so elected by the participant. In order to more accurately reflect a market-derived pension obligation, Autoliv adjusts the assumed lump sum interest rate to reflect market conditions as of each December 31. This methodology is consistent with the approach required under the Pension Protection Act of 2006, which provides the rules for determining minimum funding requirements in the U.S.

## COMPONENTS OF NET PERIODIC BENEFIT COST FROM CONTINUING OPERATIONS ASSOCIATED WITH THE DEFINED BENEFIT RETIREMENT PLANS

|                                      | U.S.          |                |                |
|--------------------------------------|---------------|----------------|----------------|
|                                      | 2018          | 2017           | 2016           |
| Service cost                         | \$ 8.7        | \$ 9.0         | \$ 8.3         |
| Interest cost                        | 12.8          | 14.8           | 14.6           |
| Expected return on plan assets       | (20.4)        | (17.6)         | (16.6)         |
| Amortization of prior service credit | 0.1           | 0.0            | (0.9)          |
| Amortization of actuarial loss       | 2.2           | 6.0            | 4.8            |
| Curtailment loss                     | —             | 0.2            | —              |
| <b>Net periodic benefit cost</b>     | <b>\$ 3.4</b> | <b>\$ 12.4</b> | <b>\$ 10.2</b> |

|                                     | Non-U.S.       |                |                |
|-------------------------------------|----------------|----------------|----------------|
|                                     | 2018           | 2017           | 2016           |
| Service cost                        | \$ 10.8        | \$ 10.4        | \$ 10.8        |
| Interest cost                       | 5.7            | 5.5            | 5.8            |
| Expected return on plan assets      | (2.0)          | (1.9)          | (2.2)          |
| Amortization of prior service costs | 0.3            | 0.2            | 0.2            |
| Amortization of actuarial loss      | 1.4            | 1.9            | 1.4            |
| Settlement loss (gain)              | 0.2            | 0.1            | (2.4)          |
| Special termination benefits        | 0.5            | 0.3            | 0.1            |
| <b>Net periodic benefit cost</b>    | <b>\$ 16.9</b> | <b>\$ 16.5</b> | <b>\$ 13.7</b> |

The service cost and amortization of prior service cost components from continuing operations are reported among other employee compensation costs in the Consolidated Statements of Income. The remaining components, interest cost, expected returns on plan assets and amortization of actuarial loss, are reported as Other non-operating items, net in the Consolidated Statements of Income.

The estimated prior service credit for the U.S. defined benefit pension plans that will be amortized from other comprehensive income into net benefit cost over the next fiscal year is immaterial. Amortization of net actuarial losses is expected to be \$1.6 million in 2019. Net periodic benefit cost associated with these U.S. plans was \$3.4 million in 2018 and is expected to be approximately \$9.6 million in 2019. The estimated prior service cost and net actuarial loss for the non-U.S. defined benefit pension plans that will be amortized from other comprehensive income into net benefit cost over the next fiscal year are \$0.3 million and \$0.9 million, respectively. Net periodic benefit cost associated with these non-U.S. plans was \$16.9 million in 2018 and is expected to be around \$16.9 million in 2019. The amortization of the net actuarial loss is made over the estimated remaining service lives of the plan participants, 10 years for U.S. and 7-33 years for non-U.S. participants, varying between the different countries depending on the age of the work force.

#### COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME BEFORE TAX RELATED TO CONTINUING OPERATIONS AS OF DECEMBER 31

|   | U.S.           |                | Non-U.S.       |                |
|---|----------------|----------------|----------------|----------------|
|   | 2018           | 2017           | 2018           | 2017           |
| Net actuarial loss  | \$ 48.0        | \$ 56.2        | \$ 30.8        | \$ 32.6        |
| Prior service cost  | 0.1            | 0.1            | 3.1            | 2.9            |
| <b>Total accumulated other comprehensive income recognized in the balance sheet</b> | <b>\$ 48.1</b> | <b>\$ 56.3</b> | <b>\$ 33.9</b> | <b>\$ 35.5</b> |

#### CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME BEFORE TAX FROM CONTINUING OPERATIONS FOR THE PERIODS ENDED DECEMBER 31

|   | U.S.           |                | Non-U.S.       |                |
|---|----------------|----------------|----------------|----------------|
|   | 2018           | 2017           | 2018           | 2017           |
| <b>Total retirement benefit recognized in accumulated other comprehensive income at beginning of year</b> | <b>\$ 56.3</b> | <b>\$ 95.9</b> | <b>\$ 35.5</b> | <b>\$ 32.2</b> |
| Net actuarial (gain) loss   | (6.0)          | (33.4)         | 1.6            | 2.4            |
| Amortization of prior service credit (cost)   | 0.0            | (0.2)          | (0.3)          | (0.2)          |
| Amortization of actuarial loss  | (2.2)          | (6.0)          | (1.5)          | (2.0)          |
| Translation difference  | —              | —              | (1.4)          | 3.1            |
| <b>Total retirement benefit recognized in accumulated other comprehensive income at end of year</b>       | <b>\$ 48.1</b> | <b>\$ 56.3</b> | <b>\$ 33.9</b> | <b>\$ 35.5</b> |

The accumulated benefit obligation for the U.S. non-contributory defined benefit pension plans was \$314.8 million and \$336.9 million at December 31, 2018 and 2017, respectively. The accumulated benefit obligation for the non-U.S. defined benefit pension plans was \$167.8 million and \$173.5 million at December 31, 2018 and 2017, respectively.

Pension plans for which the accumulated benefit obligation (ABO) is notably in excess of the plan assets reside in the following countries: U.S., France, Germany, Japan, South Korea and Sweden.

**PENSION PLANS FOR WHICH ABO EXCEEDS THE FAIR VALUE OF PLAN ASSETS RELATED TO CONTINUING OPERATIONS AS OF DECEMBER 31**

|                                      | U.S.     |          | Non-U.S. |          |
|--------------------------------------|----------|----------|----------|----------|
|                                      | 2018     | 2017     | 2018     | 2017     |
| Projected Benefit Obligation (PBO)   | \$ 332.1 | \$ 368.6 | \$ 143.3 | \$ 143.6 |
| Accumulated Benefit Obligation (ABO) | 314.8    | 336.9    | 110.8    | 112.5    |
| Fair value of plan assets            | 272.9    | 297.9    | 3.9      | 4.1      |

The Company, in consultation with its actuarial advisors, determines certain key assumptions to be used in calculating the projected benefit obligation and annual net periodic benefit cost.

**ASSUMPTIONS USED TO DETERMINE THE BENEFIT OBLIGATIONS AS OF DECEMBER 31**

| % WEIGHTED AVERAGE                      | U.S. |      | Non-U.S. <sup>1)</sup> |           |
|---|------|------|------------------------|-----------|
|   | 2018 | 2017 | 2018                   | 2017      |
| Discount rate                           | 4.35 | 3.55 | 0.50-3.25              | 0.25-3.25 |
| Rate of increases in compensation level | 2.65 | 2.65 | 2.00-5.00              | 2.00-5.00 |

**ASSUMPTIONS USED TO DETERMINE THE NET PERIODIC BENEFIT COST FOR YEARS ENDED DECEMBER 31**

| % WEIGHTED AVERAGE                          | U.S. |      |      |
|---|------|------|------|
|   | 2018 | 2017 | 2016 |
| Discount rate                               | 3.55 | 4.15 | 4.50 |
| Rate of increases in compensation level     | 2.65 | 2.65 | 2.65 |
| Expected long-term rate of return on assets | 7.08 | 7.08 | 7.08 |

| % WEIGHTED AVERAGE                          | Non-U.S. <sup>1)</sup> |           |           |
|---|------------------------|-----------|-----------|
|   | 2018                   | 2017      | 2016      |
| Discount rate                               | 0.25-3.25              | 0.50-3.25 | 0.50-3.60 |
| Rate of increases in compensation level     | 2.00-5.00              | 2.00-5.00 | 2.25-5.00 |
| Expected long-term rate of return on assets | 2.25-2.50              | 1.50-2.50 | 1.50-3.60 |

1) The Non-U.S. weighted average plan ranges in the tables above have been prepared using significant plans only, which in total represent around 86% of the total Non-U.S. projected benefit obligation.

The discount rate for the U.S. plans has been set based on the rates of return on high-quality fixed-income investments currently available at the measurement date and expected to be available during the period the benefits will be paid. The expected timing of cash flows from the plan has also been considered in selecting the discount rate. In particular, the yields on bonds rated AA or better on the measurement date have been used to set the discount rate. The discount rate for the U.K. plan has been set based on the weighted average yields on long-term high-grade corporate bonds and is determined by reference to financial markets on the measurement date.

The expected rate of increase in compensation levels and long-term rate of return on plan assets are determined based on a number of factors and must take into account long-term expectations and reflect the financial environment in the respective local market. The expected return on assets for the U.S. and U.K. plans are based on the fair value of the assets as of December 31.

The level of equity exposure is currently targeted at approximately 40% for the primary U.S. plan. The investment objective is to provide an attractive risk-adjusted return that will ensure the payment of benefits while protecting against the risk of substantial investment losses. Correlations among the asset classes are used to identify an asset mix that Autoliv believes will provide the most attractive returns. Long-term return forecasts for each asset class using historical data and other qualitative considerations to adjust for projected economic forecasts are used to set the expected rate of return for the entire portfolio. The Company has assumed a long-term rate of return on the U.S. plan assets of 7.08% for calculating the 2018 expense and 5.05% for calculating the 2019 expense.

The Company has assumed a long-term rate of return on the non-U.S. plan assets in a range of 2.25-2.50% for 2018. The closed U.K. plan which has a targeted and actual allocation of almost 100% debt instruments accounts for approximately 79% of the total non-U.S. plan assets.

Autoliv made contributions to the U.S. plan during 2018 and 2017 amounting to \$6.7 million and \$6.7 million, respectively. Contributions to the U.K. plan during 2018 and 2017 amounted to \$1.3 million and \$1.2 million, respectively. The Company expects to contribute \$7 million to its U.S. pension plan in 2019 and is currently projecting a yearly funding at approximately the same level in the years thereafter. For the UK plan, which is the most significant non-U.S. pension plan, the Company expects to contribute \$1.2 million in 2019 and in the years thereafter.

#### FAIR VALUE OF TOTAL PLAN ASSETS RELATED TO CONTINUING OPERATIONS FOR YEARS ENDED DECEMBER 31

| ASSETS CATEGORY IN % WEIGHTED AVERAGE | U.S.              | U.S.       |            | Non-U.S.   |            |
|---------------------------------------|-------------------|------------|------------|------------|------------|
|                                       | Target allocation | 2018       | 2017       | 2018       | 2017       |
| Equity securities                     | 40                | 38         | 56         | 0          | 0          |
| Debt instruments                      | 60                | 62         | 43         | 79         | 79         |
| Other assets                          | —                 | 0          | 1          | 21         | 21         |
| <b>Total</b>                          | <b>100</b>        | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> |

The following table summarizes the fair value of the Company's U.S. and non-U.S. defined benefit pension plan assets:

|   | Fair value measurement at December 31, 2018 | Fair value measurement at December 31, 2017 |
|---|---|---|
| <b>Assets</b>   |   |   |
| <b>Non-U.S. Bonds</b>                                 |   |   |
| Corporate   | 61.4  | 66.9  |
| Insurance Contracts                                   | 12.6  | 13.8  |
| Other Investments                                     | 4.5   | 7.4   |
| <b>Assets at fair value Level 2</b>                   | <b>78.5</b>                                 | <b>88.1</b>                                 |
| <b>Investments measured at net asset value (NAV):</b> |   |   |
| Common collective trusts                              | 272.3                                       | 294.6                                       |
| <b>Total</b>  | <b>\$ 350.8</b>                             | <b>\$ 382.7</b>                             |

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Certain assets that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. Plan assets not measured using the NAV are classified as Level 2 in the table above. Plan assets measured using the NAV mainly relate to the U.S. defined benefit pension plans and are separately disclosed as Common collective trusts below the level 2 assets in the table above.

The estimated future benefit payments for the pension benefits reflect expected future service, as appropriate. The amount of benefit payments in a given year may vary from the projected amount, especially for the U.S. plan since historically this plan pays the majority of benefits as a lump sum, where the lump sum amounts vary with market interest rates.

| PENSION BENEFITS EXPECTED PAYMENTS | U.S.   | Non-U.S. |
|------------------------------------|--------|----------|
| 2019                               | \$ 13  | \$ 8     |
| 2020                               | \$ 14  | \$ 8     |
| 2021                               | \$ 17  | \$ 9     |
| 2022                               | \$ 19  | \$ 9     |
| 2023                               | \$ 20  | \$ 10    |
| Years 2024-2028                    | \$ 123 | \$ 63    |



## POSTRETIREMENT BENEFITS OTHER THAN PENSIONS RELATED TO CONTINUING OPERATIONS

The Company currently provides postretirement health care and life insurance benefits to most of its U.S. retirees.

In general, the terms of the plans provide that U.S. employees who retire after attaining age 55, with 15 years of service (5 years before December 31, 2006), are reimbursed for qualified medical expenses up to a maximum annual amount. Spouses for certain retirees are also eligible for reimbursement under the plan. Life insurance coverage is available for those who elect coverage under the retiree health plan. During 2014, the plan was amended to move from a self-insured model where employees were charged an estimated premium based on anticipated plan expenses for continued coverage, to a plan where retirees are provided a fixed contribution to a Health Retirement Account (HRA). Retirees can use the HRA funds to purchase insurance through a private exchange. Employees hired on or after January 1, 2004 are not eligible to participate in the plan.

The Company has reviewed the impact of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Part D) on its financial statements. Although the Plan may currently qualify for a subsidy from Medicare, the amount of the subsidy is so small that the expenses incurred to file for the subsidy may exceed the subsidy itself. Therefore, the impact of any subsidy is ignored in the calculations as Autoliv will not be filing for any reimbursement from Medicare.

### CHANGES IN BENEFIT OBLIGATION FOR POSTRETIREMENT BENEFIT PLANS OTHER THAN PENSIONS RELATED TO CONTINUING OPERATIONS AS OF DECEMBER 31

|  | 2018           | 2017           |
|--|----------------|----------------|
| <b>Benefit obligation at beginning of year</b> | <b>\$ 17.8</b> | <b>\$ 15.8</b> |
| Service cost                                   | 0.3            | 0.3            |
| Interest cost                                  | 0.6            | 0.6            |
| Actuarial (gains) losses                       | (1.2)          | 0.7            |
| Benefits paid                                  | (0.3)          | (0.2)          |
| Other  | (1.7)          | 0.6            |
| <b>Benefit obligation at end of year</b>       | <b>\$ 15.5</b> | <b>\$ 17.8</b> |

The liability for postretirement benefits other than pensions is classified as other non-current liabilities in the balance sheet.

### COMPONENTS OF NET PERIODIC BENEFIT COST FROM CONTINUING OPERATIONS ASSOCIATED WITH THE POST RETIREMENT BENEFIT PLANS OTHER THAN PENSIONS

| PERIOD ENDED DECEMBER 31                  | 2018            | 2017            | 2016            |
|---|-----------------|-----------------|-----------------|
| Service cost                              | \$ 0.3          | \$ 0.3          | \$ 0.3          |
| Interest cost                             | 0.6             | 0.6             | 0.7             |
| Amortization of prior service cost        | (2.2)           | (2.2)           | (2.2)           |
| Amortization of actuarial loss            | (0.3)           | (0.5)           | —               |
| <b>Net periodic benefit (credit) cost</b> | <b>\$ (1.6)</b> | <b>\$ (1.8)</b> | <b>\$ (1.2)</b> |

### COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME BEFORE TAX ASSOCIATED WITH POSTRETIREMENT BENEFIT PLANS OTHER THAN PENSIONS RELATED TO CONTINUING OPERATIONS AS OF DECEMBER 31

|   | U.S.             |                  |
|---|------------------|------------------|
|   | 2018             | 2017             |
| Net actuarial loss (gain)   | \$ (4.6)         | \$ (3.7)         |
| Prior service cost (credit)   | (8.2)            | (10.6)           |
| <b>Total accumulated other comprehensive income recognized in the balance sheet</b> | <b>\$ (12.8)</b> | <b>\$ (14.3)</b> |

For measuring end-of-year obligations at December 31, 2016, health care trends are not needed due to the fixed-cost nature of the benefits provided in 2014 and beyond. After 2014, all retirees receive a fixed dollar subsidy toward the cost of their health benefits. This individual retiree subsidy will not increase in future years.

The weighted average discount rate used to determine the U.S. postretirement benefit obligation was 4.45% in 2018 and 3.75% in 2017. The average discount rate used in determining the postretirement benefit cost was 3.75% in 2018, 4.40% in 2017 and 4.65% in 2016.

A one percentage point increase or decrease in the annual health care cost trend rates would have had no impact on the Company's net benefit cost for the current period or on the accumulated postretirement benefit obligation at December 31, 2017. This is due to the fixed-dollar nature of the benefits provided under the postretirement benefit plan.

The estimated net gain and prior service credit for the postretirement benefit plans that will be amortized from other comprehensive income into net benefit cost over the next fiscal year are approximately \$(2.5) million combined.

The estimated future benefit payments for the postretirement benefits reflect expected future service as appropriate.

| <b>POSTRETIREMENT BENEFITS</b> | <b>EXPECTED PAYMENTS</b> |
|--------------------------------|--------------------------|
| 2019                           | \$ 0.4                   |
| 2020                           | \$ 0.4                   |
| 2021                           | \$ 0.5                   |
| 2022                           | \$ 0.5                   |
| 2023                           | \$ 0.6                   |
| Years 2024–2028                | \$ 3.5                   |

## 21. Related Party Transactions

Throughout the periods covered by consolidated financial statements, Autoliv purchased finished goods from Veoneer. Related party purchases from Veoneer amounted to approximately \$78 million and \$76 million for the full year 2018 and 2017, respectively.

Amounts due to and due from related parties as of December 31, 2018 and December 31, 2017 are summarized in the below table:

| <b>Related party</b><br><i>(Dollars in millions)</i> | <b>As of</b>                 |                              |
|--|------------------------------|------------------------------|
|  | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
| Related party receivables                            | \$ 15.0                      | \$ —                         |
| Related party payables                               | 50.7                         | —                            |
| Related party accrued expenses                       | 13.0                         | —                            |

Related party receivables primarily relate to an agreement between Autoliv and Veoneer.

The related party payables are mainly driven by Reseller Agreements put in place in connection with the spin-off. The Reseller Agreements are between Autoliv and Veoneer to facilitate the temporary arrangement of the sale of Veoneer products in the interim period post spin-off. For further information, see Note 3. Discontinued Operations above.

## 22. Segment Information

The Company has one operating segment, Passive Safety, which includes Autoliv's airbag and seatbelt products and components. The operating results of the operating segment are regularly reviewed by the Company's chief operating decision maker to assess the performance of the individual operating segment and make decisions about resources to be allocated to the operating segment.

The Company's customers consist of all major European, U.S. and Asian automobile manufacturers. Sales to individual customers representing 10% or more of net sales were:

In 2018: Renault 15% (including Nissan and Mitsubishi) and VW 10%.

In 2017: Renault 15% (including Nissan and Mitsubishi) and Ford 10%.

In 2016: Renault 12% (including Nissan), Ford 10% and Hyundai 10%.

| <b>NET SALES BY REGION</b> | <b>2018</b>       | <b>2017</b>       | <b>2016</b>       |
|----------------------------|-------------------|-------------------|-------------------|
| Asia                       | \$ 3,194.9        | \$ 2,998.1        | \$ 2,830.2        |
| Whereof: China             | 1,522.2           | 1,421.2           | 1,385.4           |
| Japan                      | 827.9             | 787.0             | 718.6             |
| Rest of Asia               | 844.8             | 789.9             | 726.2             |
| Americas                   | 2,735.1           | 2,435.2           | 2,548.0           |
| Europe                     | 2,748.2           | 2,703.5           | 2,543.4           |
| <b>Total</b>               | <b>\$ 8,678.2</b> | <b>\$ 8,136.8</b> | <b>\$ 7,921.6</b> |

The Company has attributed net sales to the geographic area based on the location of the entity selling the final product.

External sales in the U.S. amounted to \$1,943 million, \$1,689 million and \$1,862 million in 2018, 2017 and 2016, respectively. Of the external sales, exports from the U.S. to other regions amounted to approximately \$384 million, \$362 million and \$423 million in 2018, 2017 and 2016, respectively.

| <b>NET SALES BY PRODUCT</b>     | <b>2018</b>       | <b>2017</b>       | <b>2016</b>       |
|---------------------------------|-------------------|-------------------|-------------------|
| Airbag Products <sup>1)</sup>   | \$ 5,698.6        | \$ 5,343.2        | \$ 5,256.4        |
| Seatbelt Products <sup>1)</sup> | 2,979.6           | 2,793.6           | 2,665.2           |
| <b>Total net sales</b>          | <b>\$ 8,678.2</b> | <b>\$ 8,136.8</b> | <b>\$ 7,921.6</b> |

1) Including Corporate and other sales.

| <b>LONG-LIVED ASSETS</b> | <b>2018</b>     | <b>2017</b>     |
|--------------------------|-----------------|-----------------|
| Asia                     | \$ 881          | \$ 975          |
| Whereof: China           | \$ 500          | \$ 548          |
| Japan                    | \$ 135          | \$ 196          |
| Rest of Asia             | \$ 246          | \$ 231          |
| Americas                 | \$ 1,708        | \$ 1,572        |
| Europe                   | \$ 847          | \$ 843          |
| <b>Total</b>             | <b>\$ 3,436</b> | <b>\$ 3,390</b> |

Long-lived assets in the U.S. amounted to \$1,527 million and \$1,601 million for 2018 and 2017, respectively. For 2018, \$1,250 million (2017, \$1,263 million) of the long-lived assets in the U.S. refers to intangible assets, principally from acquisition goodwill.

## 23. Earnings Per Share

The computation of basic and diluted EPS under the two-class method were as follows (dollars and shares in millions):

|  | 2018            | 2017            | 2016            |
|--|-----------------|-----------------|-----------------|
| <b>Numerator:</b>  |                 |                 |                 |
| Basic and diluted:   |                 |                 |                 |
| Net income from continuing operations                          | \$ 375.9        | \$ 586.0        | \$ 558.4        |
| Net (loss) income from discontinued operations                 | (185.5)         | (158.9)         | 8.7             |
| <b>Net income attributable to controlling interest</b>         | <b>190.4</b>    | <b>427.1</b>    | <b>567.1</b>    |
| Participating share awards with dividend equivalent rights     | 0.0             | 0.0             | —               |
| Net income available to common shareholders                    | <b>190.4</b>    | <b>427.1</b>    | <b>567.1</b>    |
| Earnings allocated to participating share awards <sup>1)</sup> | 0.0             | 0.0             | —               |
| Net income attributable to common shareholders                 | <b>\$ 190.4</b> | <b>\$ 427.1</b> | <b>\$ 567.1</b> |
| <b>Denominator: <sup>1)</sup></b>                              |                 |                 |                 |
| Basic: Weighted average common stock                           | 87.1            | 87.5            | 88.2            |
| Add: Weighted average stock options/share awards               | 0.2             | 0.2             | 0.2             |
| <b>Diluted:</b>  | <b>87.3</b>     | <b>87.7</b>     | <b>88.4</b>     |
| <b>Basic EPS:</b>  |                 |                 |                 |
| Continuing operations  | \$ 4.32         | \$ 6.70         | \$ 6.33         |
| Discontinued operations  | (2.13)          | (1.82)          | 0.10            |
| <b>Basic EPS</b>   | <b>\$ 2.19</b>  | <b>\$ 4.88</b>  | <b>\$ 6.43</b>  |
| <b>Diluted EPS:</b>  |                 |                 |                 |
| Continuing operations  | \$ 4.31         | \$ 6.68         | \$ 6.32         |
| Discontinued operations  | (2.13)          | (1.81)          | 0.10            |
| <b>Diluted EPS</b>   | <b>\$ 2.18</b>  | <b>\$ 4.87</b>  | <b>\$ 6.42</b>  |

- 1) The Company's unvested RSUs and PSs, of which some included the right to receive non-forfeitable dividend equivalents, are considered participating securities. Calculations of EPS under the two-class method exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities. The related participating securities are similarly excluded from the denominator.

There were no antidilutive shares outstanding for the year ended December 31, 2018, approximately 0.1 million antidilutive shares outstanding for the year ended December 31, 2017 and 0.2 million antidilutive shares outstanding for the year ended December 31, 2016.

## 24. Subsequent Events

There were no reportable events subsequent to December 31, 2018.

## 25. Quarterly Financial Data (unaudited)

| 2018   | Q1         | Q2         | Q3         | Q4         |
|--|------------|------------|------------|------------|
| Net sales  | \$ 2,240.9 | \$ 2,211.5 | \$ 2,033.0 | \$ 2,192.8 |
| Gross profit   | 460.3      | 439.7      | 386.1      | 425.2      |
| Income from Continuing Operations before income taxes                      | 228.9      | 210.1      | 171.3      | 2.1        |
| Income from Continuing Operations  | 159.1      | 193.2      | 118.0      | (92.8)     |
| Net income attributable to controlling interest from Continuing Operations | 158.7      | 192.7      | 117.5      | (93.0)     |
| Earnings per share Continuing Operations                                   |            |            |            |            |
| – basic  | 1.82       | 2.21       | 1.35       | (1.07)     |
| – diluted  | 1.82       | 2.20       | 1.34       | (1.06)     |
| Dividends paid   | 0.60       | 0.62       | 0.62       | 0.62       |

| 2017   | Q1         | Q2         | Q3         | Q4         |
|--|------------|------------|------------|------------|
| Net sales  | \$ 2,041.6 | \$ 1,983.9 | \$ 1,952.6 | \$ 2,158.7 |
| Gross profit   | 428.7      | 415.3      | 394.9      | 440.8      |
| Income from Continuing Operations before income taxes                      | 199.7      | 201.2      | 150.7      | 240.8      |
| Income from Continuing Operations  | 148.3      | 136.1      | 106.2      | 197.4      |
| Net income attributable to controlling interest from Continuing Operations | 147.9      | 135.7      | 105.7      | 196.7      |
| Earnings per share Continuing Operations                                   |            |            |            |            |
| – basic  | 1.67       | 1.54       | 1.22       | 2.26       |
| – diluted  | 1.67       | 1.54       | 1.21       | 2.26       |
| Dividends paid   | 0.58       | 0.60       | 0.60       | 0.60       |

### Quarterly movements

In the fourth quarter of 2018, income from Continuing Operations before taxes was negatively impacted by the Company recognizing an accrual of \$210 million in connection with the remaining portion of the European Commission's investigation of anti-competitive behavior among suppliers of occupant safety systems in the European Union.

### EXCHANGE RATES FOR KEY CURRENCIES VS. U.S.

|          | 2018<br>Average | 2018<br>Year end | 2017<br>Average | 2017<br>Year end | 2016<br>Average | 2016<br>Year end | 2015<br>Average | 2015<br>Year end | 2014<br>Average | 2014<br>Year end |
|----------|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|
| EUR      | 1.182           | 1.145            | 1.129           | 1.196            | 1.106           | 1.052            | 1.110           | 1.094            | 1.327           | 1.218            |
| CNY      | 0.151           | 0.146            | 0.148           | 0.154            | 0.150           | 0.144            | 0.159           | 0.154            | 0.162           | 0.161            |
| JPY/1000 | 9.061           | 9.051            | 8.916           | 8.878            | 9.222           | 8.544            | 8.261           | 8.303            | 9.452           | 8.367            |
| KRW/1000 | 0.909           | 0.896            | 0.885           | 0.937            | 0.863           | 0.832            | 0.885           | 0.854            | 0.950           | 0.913            |
| MXN      | 0.052           | 0.051            | 0.053           | 0.051            | 0.053           | 0.048            | 0.063           | 0.058            | 0.075           | 0.068            |
| SEK      | 0.115           | 0.111            | 0.117           | 0.121            | 0.117           | 0.110            | 0.119           | 0.120            | 0.146           | 0.128            |
| BRL      | 0.276           | 0.258            | 0.313           | 0.302            | 0.289           | 0.307            | 0.306           | 0.259            | 0.426           | 0.370            |

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There have been no changes to and no disagreements with our independent auditors regarding accounting or financial disclosure matters in our two most recent fiscal years.

### **Item 9A. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

An evaluation has been carried out by the Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

#### **Internal Control over Financial Reporting**

##### **(a) Management's Annual Report on Internal Control Over Financial Reporting**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting.

Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Autoliv's internal control over financial reporting as of December 31, 2018. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013 framework).

Based on our assessment, we believe that, as of December 31, 2018, the Company's internal control over financial reporting is effective.

##### **(b) Attestation Report of the Registered Public Accounting Firm**

Ernst & Young AB has issued an attestation report on the Company's internal control over financial reporting, which is included herein as the Report of Independent Registered Public Accounting Firm under Item 8. Financial Statements and Supplementary Data for the year ended December 31, 2018.

##### **(c) Changes in Internal Control over Financial Reporting**

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15 (f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Item 9B. Other Information**

None.

## Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10. regarding executive officers, directors and nominees for election as directors of Autoliv, Autoliv's Audit Committee, Autoliv's code of ethics, and compliance with Section 16(A) of the Securities Exchange Act is incorporated herein by reference from the information under the captions "Executive Officers of the Company" and "Item 1: Election of Directors", "Committees of the Board" and "Audit Committee Report", "Corporate Governance Guidelines and Codes of Conduct and Ethics", and "Section 16(a) Beneficial Ownership Reporting Compliance", respectively, in the Company's 2019 Proxy Statement. Information on Board meeting attendance is provided under the caption "Board Meetings" in the 2019 Proxy Statement and incorporated herein by reference.

## Item 11. Executive Compensation

The information required by Item 11. regarding executive compensation for the year ended December 31, 2018 is included under the captions "Compensation Discussion and Analysis" and "Executive Compensation" in the 2019 Proxy Statement and is incorporated herein by reference. The information required by the same item regarding Leadership Development and Compensation Committee is included in the sections "Compensation Committee Interlocks and Insider Participation" and "Leadership Development and Compensation Committee Report" in the 2019 Proxy Statement and is incorporated herein by reference.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12. regarding beneficial ownership of Autoliv's common stock is included under the caption "Security Ownership of Certain Beneficial Owners and Management" in the 2019 Proxy Statement and is incorporated herein by reference.

## Shares Previously Authorized for Issuance Under the 1997 Stock Incentive Plan

The following table provides information as of December 31, 2018, about the common stock that may be issued under the Autoliv, Inc. Stock Incentive Plan. The Company does not have any equity compensation plans that have not been approved by its stockholders.

| Plan Category  | (a) Number of Securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted-average exercise price of outstanding options, warrants and rights(2) | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(3) |
|--|---|--|--|
| Equity compensation plans approved by security holders (1) | 404,148   | \$ 63.43   | 3,190,663  |
| Equity compensation plans not approved by security holders | —   | —  | —  |
| <b>Total</b>   | <b>404,148</b>  | <b>\$ 63.43</b>  | <b>3,190,663</b>   |

(1) Autoliv, Inc. Stock Incentive Plan, as amended and restated on May 6, 2009, as amended by Amendment No. 1 dated December 17, 2010 and Amendment No. 2 dated May 8, 2012.

(2) Excludes restricted stock units and performance shares which convert to shares of common stock for no consideration.

(3) All such shares are available for issuance pursuant to grants of full-value stock awards.

## Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding the Company's policy and procedures concerning related party transactions is included under the caption "Related Person Transactions" in the 2019 Proxy Statement and is incorporated herein by reference. Information regarding director independence can be found under the caption "Board Independence" in the 2019 Proxy Statement and is incorporated herein by reference.

## Item 14. Principal Accounting Fees and Services

The information required by Item 9(e) of Schedule 14A regarding principal accounting fees and the information required by Item 14 regarding the pre-approval process of accounting services provided to Autoliv is included under the caption "Ratification of Appointment of Independent Auditors" in the 2019 Proxy Statement and is incorporated herein by reference.

## Item 15. Exhibits and Financial Statement Schedules

### (a) Documents Filed as Part of this Report

#### (1) Financial Statements

- (i) Consolidated Statements of Net Income – Years ended December 31, 2018, 2017 and 2016;
- (ii) Consolidated Statements of Comprehensive Income – Years ended December 31, 2018, 2017 and 2016;
- (iii) Consolidated Balance Sheets – as of December 31, 2018 and 2017;
- (iv) Consolidated Statements of Cash Flows – Years ended December 31, 2018, 2017 and 2016;
- (v) Consolidated Statements of Total Equity – as of December 31, 2018, 2017 and 2016;
- (vi) Notes to Consolidated Financial Statements; and
- (vii) Reports of Independent Registered Public Accounting Firm.

#### (2) Financial Statement Schedules

All of the schedules specified under Regulation S-X to be provided by Autoliv have been omitted either because they are not applicable, they are not required, or the information required is included in the financial statements or notes thereto.

#### (3) Exhibits

| Exhibit No.       | Description  |
|-------------------|--|
| 2.1               | <a href="#"><u>Stock Purchase Agreement, dated as of July 16, 2015, by and among Autoliv ASP Inc., M/A-COM Technology Solutions Inc., M/A-COM Auto Solutions Inc. and, for the limited purposes specified therein, M/A-COM Technology Solutions Holdings, Inc., incorporated herein by reference to Exhibit 2.1 to the Current Report on Form 8-K (File No. 001-12933, filing date July 17, 2015).</u></a> |
| 2.2               | <a href="#"><u>Distribution Agreement, dated June 28, 2018, between Veoneer, Inc. and Autoliv, Inc., incorporated herein by reference to Exhibit 2.1 to the Current Report on Form 8-K (File No. 001-12933, filing date July 2, 2018).</u></a>   |
| 3.1               | <a href="#"><u>Autoliv's Restated Certificate of Incorporation, as amended, incorporated herein by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 22, 2015).</u></a>   |
| 3.2               | <a href="#"><u>Autoliv's Third Restated By-Laws, incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 001-12933, filing date December 18, 2015).</u></a>  |
| 4.1               | <a href="#"><u>Indenture, dated March 30, 2009, between Autoliv, Inc. and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 to Autoliv's Registration Statement on Form 8-A (File No. 001-12933, filing date March 30, 2009).</u></a>  |
| 4.2               | <a href="#"><u>Second Supplemental Indenture (including Form of Global Note), dated March 15, 2012, between Autoliv, Inc. and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 to the Current Report on Form 8-K (File No. 001-12933, filing date March 15, 2012).</u></a>  |
| 4.3               | <a href="#"><u>Form of Note Purchase and Guaranty Agreement dated April 23, 2014, among Autoliv ASP, Inc., Autoliv, Inc. and the purchasers named therein, incorporated herein by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 25, 2014).</u></a>  |
| 4.4               | <a href="#"><u>Amendment and Waiver 2014 Note Purchase and Guaranty Agreement, dated May 24, 2018 among Autoliv, Inc., Autoliv ASP, Inc. and the noteholders named therein, incorporated herein by reference to Exhibit 4.4 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</u></a>  |
| 4.5               | <a href="#"><u>General Terms and Conditions for Swedish Depository Receipts in Autoliv, Inc., representing common shares in Autoliv, Inc., effective as of May 30, 2018 with Skandinaviska Enskilda Banken AB (publ) serving as a custodian, incorporated herein by reference to Exhibit 4.5 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</u></a>                 |
| 4.6               | <a href="#"><u>Agency Agreement dated June 26, 2018 among Autoliv, Inc., Autoliv ASP Inc. and HSBC Bank PLC, incorporated herein by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</u></a>   |
| 10.1 <sup>+</sup> | <a href="#"><u>Form of Employment Agreement between Autoliv, Inc. and certain of its executive officers, incorporated herein by reference to Exhibit 10.4 to the Annual Report on Form 10-K/A (File No. 001-12933, filing date July 2, 2002).</u></a>  |
| 10.2 <sup>+</sup> | <a href="#"><u>Form of Supplementary Agreement to the Employment Agreement between Autoliv, Inc. and certain of its executive officers, incorporated herein by reference to Exhibit 10.5 to the Annual Report on Form 10-K/A (File No. 001-12933, filing date July 2, 2002).</u></a>   |
| 10.3 <sup>+</sup> | <a href="#"><u>Form of Severance Agreement between Autoliv, Inc. and certain of its executive officers, incorporated herein by reference to Exhibit 10.7 to the Annual Report on Form 10-K/A (File No. 001-12933, filing date July 2, 2002).</u></a>   |
| 10.4 <sup>+</sup> | <a href="#"><u>Form of Amendment to Employment Agreement between Autoliv, Inc. and certain of its executive officers – notice, incorporated herein by reference to Exhibit 10.9 to the Annual Report on Form 10-K (File No. 001-12933, filing date March 14, 2003).</u></a>  |



| Exhibit No.        | Description   |
|--------------------|---|
| 10.5 <sup>+</sup>  | <a href="#">Form of Supplementary Agreement to Employment Agreement between Autoliv, Inc. and certain of its executive officers – pension, incorporated herein by reference to Exhibit 10.10 to the Annual Report on Form 10-K (File No. 001-12933, filing date March 14, 2003).</a>  |
| 10.6 <sup>+</sup>  | <a href="#">Form of Pension Agreement between Autoliv, Inc. and certain of its executive officers – additional pension, incorporated herein by reference to Exhibit 10.11 to the Annual Report on Form 10-K (File No. 001-12933, filing date March 14, 2003).</a>   |
| 10.7 <sup>+</sup>  | <a href="#">Employment Agreement, dated March 31, 2007, between Autoliv, Inc. and Mr. Jan Carlson, incorporated herein by reference to Exhibit 10.13 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 25, 2007).</a>   |
| 10.8 <sup>+</sup>  | <a href="#">Retirement Benefits Agreement, dated August 14, 2007, between Autoliv AB and Mr. Jan Carlson, incorporated herein by reference to Exhibit 10.14 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 25, 2007).</a>  |
| 10.9 <sup>+</sup>  | <a href="#">Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated on May 6, 2009, incorporated herein by reference to Appendix A of the Definitive Proxy Statement of Autoliv, Inc. on Schedule 14A (filing date March 23, 2009).</a>  |
| 10.10              | <a href="#">Revolving Credit Facility Agreement, dated June 21, 2010, between Autoliv AB, Autoliv, Inc., and Nordea Bank AB (publ), incorporated herein by reference to Exhibit 10.21 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 23, 2010).</a>   |
| 10.11              | <a href="#">Facility Agreement, dated June 21, 2010, among Autoliv, Inc., Autoliv AB, Swedish Export Credit Corporation, National Export Credits Guarantee Board and Skandinaviska Enskilda Banken AB (publ), incorporated herein by reference to Exhibit 10.22 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 23, 2010).</a> |
| 10.12 <sup>+</sup> | <a href="#">Amendment No. 1 to the Autoliv, Inc. 1997 Stock Incentive Plan as amended and restated on May 6, 2009, dated December 17, 2010, incorporated herein by reference to Exhibit 10.24 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 23, 2011).</a>  |
| 10.13 <sup>+</sup> | <a href="#">Form of Amendment to Employment Agreement between Autoliv, Inc. and certain of its executive officers – pension, incorporated herein by reference to Exhibit 10.26 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 23, 2012).</a>   |
| 10.14 <sup>+</sup> | <a href="#">Form of Amendment to Employment Agreement between Autoliv, Inc. and certain of its executive officers – non-equity incentive award, incorporated herein by reference to Exhibit 10.27 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 23, 2012).</a>  |
| 10.15 <sup>+</sup> | <a href="#">Amendment, dated December 19, 2011, to Employment Agreement, dated March 31, 2007, between Autoliv, Inc. and Mr. Jan Carlson (pension), incorporated herein by reference to Exhibit 10.28 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 23, 2012).</a>  |
| 10.16              | <a href="#">Remarketing Agreement, dated as of February 9, 2012, incorporated herein by reference to Exhibit 1.1 to the Current Report on Form 8-K (File No. 001-12933, filing date March 15, 2012).</a>  |
| 10.17 <sup>+</sup> | <a href="#">Amendment No. 2 to the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated on May 6, 2009, dated May 8, 2012, incorporated herein by reference to Exhibit 10.29 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 20, 2012).</a>  |
| 10.18 <sup>+</sup> | <a href="#">Amendment, dated January 18, 2013 to Employment Agreement, dated March 31, 2007, between Autoliv, Inc. and Mr. Jan Carlson – additional pension, dated January 18, 2013, incorporated herein by reference to Exhibit 10.33 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 22, 2013).</a>                         |
| 10.19 <sup>+</sup> | <a href="#">Form of Employment Agreement between Autoliv, Inc. and certain of its executive officers (with Change-in-Control Severance Agreement), incorporated herein by reference to Exhibit 10.34 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 22, 2013).</a>   |
| 10.20 <sup>+</sup> | <a href="#">Form of Employment Agreement between Autoliv, Inc. and certain of its executive officers (without Change-in-Control Severance Agreement), incorporated herein by reference to Exhibit 10.35 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 22, 2013).</a>  |
| 10.21 <sup>+</sup> | <a href="#">Form of Change-in-Control Severance Agreement between Autoliv, Inc. and certain of its executive officers, incorporated herein by reference to Exhibit 10.36 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 22, 2013).</a>   |
| 10.22              | <a href="#">Form of Indemnification Agreement between Autoliv, Inc. and its directors and certain of its executive officers, incorporated herein by reference to Exhibit 99.i to the Annual Report on Form 10-K (File No. 001-12933, filing date February 24, 2009).</a>  |
| 10.23†             | <a href="#">Finance Contract, dated July 16, 2013, among European Investment Bank, Autoliv AB (publ) and Autoliv, Inc., incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 24, 2013).</a>   |
| 10.24              | <a href="#">Guarantee Agreement, dated July 16, 2013, between European Investment Bank and Autoliv, Inc., incorporated herein by reference to Exhibit 10.12 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 24, 2013).</a>  |

| Exhibit No. | Description   |
|-------------|---|
| 10.25       | <a href="#"><u>Form of Note Purchase and Guaranty Agreement, dated April 23, 2014, among Autoliv ASP, Inc., Autoliv, Inc. and the purchasers named therein, incorporated herein by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 25, 2014).</u></a>  |
| 10.26+      | <a href="#"><u>Form of Supplement to Employment Agreement between Autoliv, Inc. and certain of its executive officers, dated August 13, 2014 and effective as of September 1, 2014, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 23, 2014).</u></a>   |
| 10.27       | <a href="#"><u>Amendment, dated January 27, 2015, to the Finance Contract, dated July 16, 2013, among European Investment Bank, Autoliv AB (publ) and Autoliv, Inc., incorporated herein by reference to Exhibit 10.36 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 19, 2015).</u></a>   |
| 10.28       | <a href="#"><u>Consulting Agreement, dated as of July 16, 2015, by and between Autoliv ASP Inc. and M/A-COM Technology Solutions Inc., incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-12933, filing date July 17, 2015).</u></a>  |
| 10.29+      | <a href="#"><u>International Assignment Agreement, dated as of August 27, 2015, by and among Autoliv ASP, Inc., Autoliv AB and Steven Fredin, incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-12933, filing date August 28, 2015).</u></a>   |
| 10.30+      | <a href="#"><u>Employment Agreement, dated August 20, 2015, between Autoliv, Inc. and Lars Sjöbring, incorporated herein by reference to Exhibit 10.38 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 19, 2016).</u></a>   |
| 10.31+      | <a href="#"><u>Separation Agreement, dated November 20, 2015, between Autoliv, Inc. and Mats Wallin, incorporated herein by reference to Exhibit 10.39 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 19, 2016).</u></a>   |
| 10.32       | <a href="#"><u>General Terms and Conditions for Swedish Depository Receipts in Autoliv, Inc. representing common shares in Autoliv, Inc., effective as of May 30, 2018, with Skandinaviska Enskilda Banken AB (publ) serving as custodian, incorporated herein by reference to Exhibit 4.5 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</u></a>  |
| 10.33+      | <a href="#"><u>Form of performance shares award agreement to be used under the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 29, 2016).</u></a>  |
| 10.34+      | <a href="#"><u>Form of restricted stock units award agreement to be used under the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated, incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 29, 2016).</u></a>  |
| 10.35+      | <a href="#"><u>Employment Agreement, dated November 20, 2015, between Autoliv, Inc. and Mats Backman, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 22, 2016).</u></a>  |
| 10.36+      | <a href="#"><u>Employment Agreement, dated December 15, 2015, between Autoliv, Inc. and Mikael Bratt, incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 22, 2016).</u></a>  |
| 10.37       | <a href="#"><u>Facilities Agreement of \$1,100,000,000, dated July 14, 2016, among Autoliv, Inc., Autoliv ASP, Inc., Autoliv AB, HSBC Bank PLC, Mizuho Bank, Ltd. and Investment Banking, Skandinaviska Enskilda Banken AB (publ), and the other parties and lenders named therein, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 27, 2016).</u></a> |
| 10.38+      | <a href="#"><u>Mutual Separation Agreement, dated May 31, 2016 and effective as of May 18, 2016, between Autoliv, Inc. and Jonas Nilsson, incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 27, 2016).</u></a>   |
| 10.39+      | <a href="#"><u>Mutual Separation Agreement, dated September 30, 2016 and effective as of October 1, 2016, between Autoliv, Inc. and Frank Melzer, incorporated herein by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 27, 2016).</u></a>   |
| 10.40+      | <a href="#"><u>Supplement to Employment Agreement, dated October 3, 2016, between Autoliv, Inc. and Johan Löfvenholm, incorporated herein by reference to Exhibit 10.47 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 23, 2017).</u></a>  |
| 10.41+      | <a href="#"><u>Supplement to Employment Agreement, dated October 3, 2016, between Autoliv, Inc. and Steve Fredin, incorporated herein by reference to Exhibit 10.48 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 23, 2017).</u></a>  |
| 10.42+      | <a href="#"><u>Autoliv, Inc. Non-employee Director Compensation Policy, effective January 1, 2017, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 28, 2017).</u></a>  |
| 10.43+      | <a href="#"><u>Amendment No. 3 to the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated, dated April 24, 2017, incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 28, 2017).</u></a>   |
| 10.44+      | <a href="#"><u>Form of Non-Employee Director restricted stock unit award agreement to be used under the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated, incorporated herein by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 28, 2017).</u></a>   |

| Exhibit No.          | Description  |
|----------------------|--|
| 10.45 <sup>+</sup>   | <a href="#">Form of Employee restricted stock unit award agreement (2017) to be used under the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated, incorporated herein by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 28, 2017).</a> |
| 10.46 <sup>+</sup>   | <a href="#">Form of performance share award agreement (2017) to be used under the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated, incorporated herein by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 28, 2017).</a>              |
| 10.47 <sup>+</sup> * | <a href="#">Mutual Separation Agreement, dated March 23, 2018 and effective as of December 31, 2018, between Autoliv, Inc. and Karin Eliasson.</a>   |
| 10.48                | Employee Matters Agreement, dated June 28, 2018, between Veoneer, Inc. and Autoliv, Inc., incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-12933, filing date July 2, 2018).   |
| 10.49                | Tax Matters Agreement, dated June 28, 2018, between Veoneer, Inc. and Autoliv, Inc., incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K (File No. 001-12933, filing date July 2, 2018).  |
| 10.50                | Amended and Restated Transition Services Agreement, dated June 28, 2018, between Veoneer, Inc. and Autoliv, Inc., incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K (File No. 001-12933, filing date July 2, 2018).   |
| 10.51                | <a href="#">Facilities Agreement, dated May 24, 2018, among Autoliv, Inc., Autoliv ASP, J.P. Morgan Securities PLC and Skandinaviska Enskilda Banken AB (publ), incorporated herein by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>   |
| 10.52                | <a href="#">Separation Agreement, effective as of September 1, 2018, by and between Autoliv, Inc. and Steve Fredin, incorporated herein by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>   |
| 10.53                | <a href="#">Interim Employment Agreement, effective as of April 1, 2018, by and between Veoneer, Inc. and Jan Carlson, incorporated herein by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>  |
| 10.54                | <a href="#">Supplement to Employment Agreement, effective as of April 1, 2018, by and between Autoliv, Inc. and Jan Carlson, incorporated herein by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>                                      |
| 10.55                | <a href="#">Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Mikael Bratt, incorporated herein by reference to Exhibit 10.8 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>   |
| 10.56                | <a href="#">Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Jennifer Cheng, incorporated herein by reference to Exhibit 10.9 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>   |
| 10.57                | <a href="#">Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Daniel Garceau, incorporated herein by reference to Exhibit 10.10 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>  |
| 10.58                | <a href="#">Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Michael A. Hague, incorporated herein by reference to Exhibit 10.11 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>  |
| 10.59                | <a href="#">Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Jordi Lombarte incorporated herein by reference to Exhibit 10.12 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>   |
| 10.60                | <a href="#">Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Bradley J. Murray, incorporated herein by reference to Exhibit 10.13 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>   |
| 10.61                | <a href="#">Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Anthony J. Nellis, incorporated herein by reference to Exhibit 10.14 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>   |
| 10.62                | <a href="#">Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Sherry Vasa, incorporated herein by reference to Exhibit 10.15 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>   |
| 21*                  | <a href="#">Autoliv's List of Subsidiaries.</a>  |
| 23*                  | <a href="#">Consent of Independent Registered Public Accounting Firm.</a>  |
| 31.1*                | <a href="#">Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.</a>  |
| 31.2*                | <a href="#">Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.</a>  |

| Exhibit No. | Description  |
|-------------|--|
| 32.1*       | <a href="#"><u>Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.</u></a>   |
| 32.2*       | <a href="#"><u>Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.</u></a>   |
| 101*        | The following financial information from the Annual Report on Form 10-K for the fiscal year ended December 31, 2018, formatted in XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Statements of Net Income; (ii) the Consolidated Statements of Comprehensive Income; (iii) the Consolidated Balance Sheets; (iv) the Consolidated Statements of Cash Flows; (v) the Consolidated Statements of Total Equity; and (vi) the Notes to the Consolidated Financial Statements. |
| *           | Filed herewith.  |
| +           | Management contract or compensatory plan.  |
| †           | Confidential treatment requested as to portions of the exhibit. Confidential materials omitted and filed separately with the Securities and Exchange Commission.   |

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, as of February 21, 2019.

AUTOLIV, INC.  
(Registrant)

By /s/ Mats Backman  
Mats Backman  
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, as of February 21, 2019.

| <b>Title</b>  | <b>Name</b>   |
|---|---|
| Chairman of the Board of Directors  | <u>/s/ Jan Carlson</u><br>Jan Carlson               |
| Chief Executive Officer and President (Principal Executive Officer)               | <u>/s/ Mikael Bratt</u><br>Mikael Bratt             |
| Chief Financial Officer<br>(Principal Financial and Principal Accounting Officer) | <u>/s/ Mats Backman</u><br>Mats Backman             |
| Director  | <u>/s/ Hasse Johansson</u><br>Hasse Johansson       |
| Director  | <u>/s/ Leif Johansson</u><br>Leif Johansson         |
| Director  | <u>/s/ David E. Kepler</u><br>David E. Kepler       |
| Director  | <u>/s/ Franz-Josef Kortüm</u><br>Franz-Josef Kortüm |
| Director  | <u>/s/ Xiaozhi Liu</u><br>Xiaozhi Liu               |
| Director  | <u>/s/ James M. Ringler</u><br>James M. Ringler     |
| Director  | <u>/s/ Thaddeus Senko</u><br>Thaddeus Senko         |

## **Glossary and Definitions**

In this report, the following company or industry specific terms and abbreviations are used:

### **BCC**

Best Cost Country

### **CAPITAL EMPLOYED**

Total equity and net debt (net cash).

### **CAPITAL EXPENDITURES**

Investments in property, plant and equipment.

### **CAPITAL TURN-OVER RATE**

Annual sales in relation to average capital employed.

### **CPV**

Content Per Vehicle, i.e. value of the safety products in a vehicle.

### **DAYS INVENTORY OUTSTANDING**

Outstanding inventory relative to average daily sales.

### **DAYS RECEIVABLES OUTSTANDING**

Outstanding receivables relative to average daily sales.

### **DEVELOPED MARKETS**

Includes North America, Western Europe, Japan and South Korea

### **EARNINGS PER SHARE**

Net income attributable to controlling interest relative to weighted average number of shares (net of treasury shares) assuming dilution and basic, respectively.

### **EBIT**

Earnings before interest and taxes.

### **FREE CASH FLOW, NET**

Cash flows from operating activities less capital expenditures, net.

### **GROSS MARGIN**

Gross profit relative to sales.

### **GROWTH MARKETS**

Includes all markets except North America, Western Europe, Japan and South Korea

### **HCC**

High Cost Country

### **HEADCOUNT**

Employees plus temporary, hourly personnel.

**LEVERAGE RATIO**

Debt per the Policy in relation to EBITDA per the Policy (Earnings Before Interest, Taxes, Depreciation and Amortization), see Non-U.S. GAAP Performance Measures in Item 7 for calculation of this non-U.S. GAAP measure.

**LMPU**

Labor minutes per produced unit.

**LVP**

Light vehicle production of light motor vehicles with a gross weight of up to 3.5 metric tons.

**NET DEBT (CASH)**

Short and long-term debt including debt-related derivatives less cash and cash equivalents, see Non-U.S. GAAP Performance Measures in Item 7 for reconciliation of this non-U.S. GAAP measure.

**NET DEBT TO CAPITALIZATION**

Net debt in relation to total equity (including non-controlling interest) and net debt.

**NUMBER OF EMPLOYEES**

Employees with a continuous employment agreement, recalculated to full time equivalent heads.

**OEM**

Original Equipment Manufacturer referring to customers assembling new vehicles.

**OPERATING MARGIN**

Operating income relative to sales.

**OPERATING WORKING CAPITAL**

Current assets excluding cash and cash equivalents less current liabilities excluding short-term debt. Any current derivatives reported in current assets and current liabilities related to net debt are excluded from operating working capital. See Non-U.S. GAAP Performance Measures in Item 7 for reconciliation of this non-U.S. GAAP measure.

**OUR MARKET**

Our products include seatbelts, airbags and steering wheels.

**PRETAX MARGIN**

Income before taxes relative to sales.

**RETURN ON CAPITAL EMPLOYED**

Operating income and equity in earnings of affiliates, relative to average capital employed.

**RETURN ON TOTAL EQUITY**

Net income relative to average total equity.

**ROA**

Rest of Asia includes all Asian countries except China and Japan.

**TOTAL EQUITY RATIO**

Total equity relative to total assets.





