Q3 Report 2018

Friday, 26th October 2018

Opening Remarks

Anders Trapp

Vice President of Investor Relations, Autoliv

Welcome

Welcome, everyone, to our third quarter 2018 earnings presentation. Here in Stockholm, we have our President and CEO, Mikael Bratt; our Chief Financial Officer, Mats Backman; and myself, Anders Trapp, Vice President of Investor Relations.

During today's earnings call, our CEO will provide a brief overview of our third-quarter results and outlook, as well as provide an update of our general business and market conditions. Following Mikael, our CFO, Mats Backman, will provide further details and commentary around the Q3 2018 financial results and outlook for the full year 2018.

At the end of our presentation, we will remain available to respond to your questions, and as usual, the slides are available through a link on the homepage of our corporate website.

Safe Harbor

Turning to the next page, we have the Safe Harbor statement, which is an integrated part of this presentation and includes the Q&A that follows.

The results herein present the performance of Autoliv giving effect to the Veoneer spin-off. Historical financial results of Veoneer are reflected as discontinued operations with the exception of cash flows, which are presented on a consolidated basis of both continuing and discontinued operation.

During the presentation, we will reference some non-US GAAP measures. The reconciliations of historical US GAAP to non-US GAAP measures are disclosed in our quarterly press release and the 10-Q that will be filed with the SEC.

Lastly, I should mention that this call is intended to conclude at 15.00 Central European time, so please follow a limit of two questions per person. I will now turn it over to our CEO, Mikael Bratt.

Q3 2018 Highlights

Mikael Bratt

Chief Executive Officer, Autoliv

Highlights

Thank you, Anders. Looking now into Q3 2018 highlights on the next slide. First, I would like to say that I am pleased that our growth momentum continued despite the increasing challenging market conditions we have faced in the third quarter. I also would like to acknowledge and offer my sincere thank you to the entire Autoliv team for delivering a quarter of strong growth. The team is fully focused on delivering increasing value to our stakeholders through our focus on quality and operational excellence.

Strong organic growth

Our growth momentum continued in the third quarter, driven mainly by a large number of product launches in North America. Autoliv grew organically by more than 6% despite light vehicle production decline by about 2% according to IHS, as unfavorable market fundamentals took their toll on global auto demand and production.

Solid operating cash flow

We had a solid operating cash flow in the quarter, supporting our indication of reaching around last year's level for continuing operations.

High level of order intake

I am also pleased that our order intake continued on a high level in the quarter, supporting our growth opportunities for the long term.

Unfavorable market fundamentals

In the third quarter, the industry faced substantial reduction in volumes from our customers, especially in Europe, impacted by the WLTP, and in China due to lower demand for new vehicles. Our recent product launches are on track and we outpaced global light vehicle production by 8.5 percentage points in the quarter.

However, we have experienced continued headwinds from raw material pricing and currency movements in the quarter, which, together with the volatility of market demand and launch-related costs, tempered the operating leverage on the strong sales growth. The volatility of market demand in the quarter resulted in our supply chain production and logistics system having to manage significant and late changes to OEM production plans, corresponding to uneven utilization of our assets while at the same time managing the different challenges of the many launches and the high growth in North America.

We see a similar environment for the rest of the year, with continued uncertainty for light vehicle production, especially in China and Europe, leading to continued challenges with uneven utilization. We are closely following the market development and are ready to act if we judge it necessary. We have a high number of temporary employees both in Europe and China, providing flexibility to flex production volumes down or up.

Implementing mitigating actions

We are implementing actions to reduce costs related to product launches. This includes production line redesign to improve product flows, new methods for on-boarding new employees and reorganization of our supplier support to help our suppliers to meet the growing demand.

Financial Highlights

Step-up in sales growth from strong order book

Looking now at the recap of our third-quarter financial performance on the next slide. Executing on a strong order book, this quarter marks the second quarter of a step up in growth. Our consolidated net sales increased by more than 4% compared to the same quarter of 2017, with organic sales increasing 6%. Adjusted operating income excluding costs for capacity alignments, antitrust-related matters and separation costs decreased by around 5% from $205 million to $194 million, impacted by uneven utilization of our assets

and elevated launch-related costs, raw material pricing and currency movements, while the adjusted operating margin decreased by 100 basis points to 9.5% compared to the same quarter of 2017. EPS diluted increased by 11% to $1.34 as compared to the same quarter of 2017, as a result of lower costs for capacity alignment and antitrust-related matters.

Sales Growth

Sales bridge

Looking to our sales growth on the next slide. Consolidated net sales in the third quarter increased year over year by 4.1% to $2 billion, with an organic growth of 6.4% partly offset by negative currency translation effects of 2.3%.

Regional organic growth

Sales outperformed light vehicle production according to IHS in all regions except rest of Asia due to weaker sales in South Korea. In the quarter, North America contributed with $120 million to the organic growth. The sales were driven by the previous quarter's product launches, mainly with FCA, Honda and Nissan. The organic growth of 22% was more than 20 percentage points higher than the light vehicle production growth. Despite South America's light vehicle production growing by only 2%, our sales grew organically by 16%. As a result of the strong growth in South and North America, our region Americas accounted for 34% of total sales in the quarter compared to 30% in the full year of 2017.

In China, both global OEMs and local OEMs contributed to the strong performance. Newly introduced models from Geely, including their luxury brand Lynk & Co, were the major contributors to the growth.

In Europe, we have been affected by weaker demand from a number of OEMs, mainly related to temporary production cuts connected to the new EU emission testing regulation, WLTP, which was implemented on 1st September 2018.

Key Model Launches

Looking to our key launch models Q3 2018 on the next slide. Here, you see some of the key models which have been launched during the third quarter. These models should be important drivers for our organic sales growth during Q4 in 2018 and first half of 2019.

Three of the models are built in North America, continuing the strong momentum we have seen over the last quarters. Three of the models are China-specific, which will help mitigate the effects of the softening Chinese market. Annually, these models should represent around 4% of sales, and our content per vehicle is in the range of $100 to close to $300. This compares favorably to our global average supply value of $80 to $90 per car.

Product Launches Per Quarter

YTD increased >30% YoY

Looking now to our product launches. Our strong launch momentum continues. We continue to see the ramp-up of product launches of business awarded in 2015 to 2016 as illustrated by the chart. The ramp up of growth is developing according to plan. The number of product launches year to date has increased by more than 30% compared to a year earlier.

Year to date, the main increase has been in the US with 90% more launches than the same period last year. We expect a continued high pace of product launches in the US in the fourth

quarter, as well. We therefore expect the strong organic growth to continue into the fourth quarter with a strong performance versus our market and light vehicle production.

Overall Market Conditions

Softening of major light vehicle markets

Looking to our underlying market conditions on the next slide. The outlook for the major light vehicle markets has become increasingly more uncertain due to weaker consumer confidence, trade tariffs and regulatory changes.

Asia

In China, the world's largest market, vehicle sales fell in the third quarter by 6%, with the September tally down 11%. Most automakers posted sharp declines in the past months, showing that the downturn in the Chinese car market has broadened. Only a limited few, such as Toyota and Geely, have managed to maintain growth. Inventory levels in China have increased and are now above normal levels.

Light vehicle production in the third quarter declined by 4% according to IHS, which was seven percentage points worse than the 3% growth that was expected at the beginning of the quarter. IHS expects the softness to continue in the fourth quarter, forecasting about a 3% decline in light vehicle production. As inventory levels are relatively high and the recent trends in sales have deteriorated, we believe there is a downside risk to this estimate.

Americas

US light vehicle sales rebounded slightly in September from slowdowns in July and August as automakers pushed to rid dealer lots of 2018 models before the 2019s became available in October. Inventory levels remain slightly on the high side during the quarter. Light vehicle production in North America grew by 1.6% year over year in the third quarter, according to IHS, which is significantly less than the original forecast of more than 6% growth at the beginning of the quarter. IHS expects light vehicle production to grow 2.6% in the fourth quarter in North America.

Europe

European light vehicle registrations in the third quarter increased by 1.6% after declining by 23% in September, reversing August's inflated sales ahead of the introduction of new more stringent WLTP CO_2 emission testing on 1st September. From a technical testing perspective, the WLTP headwinds should be temporary. There is, however, some uncertainty on how long-term demand effects, as European VAT tax rates are partly based on CO_2 emission.

Impacted by WLTP, light vehicle production in Western Europe declined by 9% in the third quarter, which was about seven percentage points worse than forecasted at the beginning of the quarter. We continue to see WLTP effects also in the fourth quarter. IHS forecast the fourth-quarter light vehicle production to be down by about 3% versus last year. In the third quarter, overall global light vehicle production declined by about 2% according to IHS. This is five percentage points worse than the 3% growth forecasted at the beginning of the quarter.

Fourth-quarter global light vehicle production is forecasted to grow by 0.7%. The forecast for the full year 2018 by IHS is now for a growth of 0.7%, which can be compared to the estimate of 2.2% three months ago. The lowered growth in global light vehicle production is why we are lowering our full-year organic growth indication from about 8% to about 6%.

I will stop here, and hand over to our CFO, Mats Backman, to speak on the financials.

Q3 2018 Financial Overview

Mats Backman

Chief Financial Officer, Autoliv

Key Figures

Thank you, Mikael. Looking now to our financials on the next page, where we have our key figures for the third quarter. Including negative currency translation effects of around $40 million and organic sales growth of about $125 million, our consolidated net sales reached $2 billion in the quarter. Our gross margin declined year over year. The net operating leverage on the higher sales was more than offset by higher commodity costs, net currency effects and costs related to preparation for upcoming launches, as well as ramp-up of recent launches. Additionally, we experienced unbalanced utilization of our assets mainly in Europe.

Our adjusted operating margin of 9.5% declined year over year, mainly due to the lower gross margin and a higher RD&E partly offset by lower cost per SG&A in relation to sales. Our reported earnings per share of $1.34 increased year over year by $0.13. Our reported return on capital employed and return on equity were 20% and 23% respectively. Our dividend of $0.62 was $0.02 higher than a year earlier.

Adjusted Operating Margin Bridge

Q3 2018 vs. prior year

Looking now on the next slide. Our adjusted operating margin of 9.5% was 100 basis points lower year over year. As illustrated by the chart, the operating margin was impacted by higher raw material costs of about 20 basis points and a net currency headwind of about 20 basis points. The negative leverage on the higher sales was a result of higher RD&E expenses which increased compared to the same quarter in the prior year by about 40 basis points, mainly as a result of the many product launches, as well as other launch-related costs, and unbalanced utilization of our supply chain, production and logistics systems.

Margin Headwinds Q3 2018

Looking more into these margin headwinds on the next slide. In the third quarter, our industry experienced significant changes in the light vehicle production, especially in Europe impacted by WLTP, and in China due to lower customer demand. Our supply chain, production and logistic systems thereby had to manage both significant and late changes to OEM production plans, with corresponding uneven utilization. At the same time, we are managing the exceptional growth in North America with continued elevated launch costs.

To meet our expectations for quality and delivery for this wave of launches, we have added personnel in production overhead and RD&E, as well as increased the use of premium freight. As our premier focus has to be on quality and delivery, we have allocated resources accordingly and have therefore not been able to achieve the productivity gains that we expect during normal conditions. As you can deduct from our full-year adjusted operating margin indication, we foresee a similar environment for the rest of the year.

However, as the number of launches is stabilizing, we believe we can gradually focus more on productivity improvement through operational excellence, while our launch-related costs gradually decline. We have initiated a number of actions to address our launch-related costs through management of our product, processes, employees and supply base. These actions include production line redesign to improve product flows, increase product standardization for future launches that will reduce costs for testing and tooling.

Cash Flow – Including Discontinued Operations

Looking at the next page. Our operating cash flow amounted to $238 million compared to $218 million in the same quarter of 2017. Note that our cash flow statement includes discontinued operations up until the second quarter of 2018. The increase was primarily driven by the cash flow impact from higher net income and working capital changes partly offset by lower D&A. Capital expenditures amounted to $117 million, which is about 5.8% in relation to sales. Capital expenditures in the third quarter of 2017 for continuing operations were $122 million. For the full year 2018, we expect capital expenditures to remain in the range of 5% to 6% of sales. Beginning 2019, we expect the capital expenditures to sales ratio to begin to normalize towards the historical range of 4% to 5%. Looking at full year 2018, excluding any discrete items, we expect our operating cash flow of continuing operations to be on a similar level as in 2017.

EPS Development

Looking now to our earnings per share on the next slide. Reported earnings per share improved by $0.13 to $1.34, from lower capacity alignments and antitrust-related matters. In the third quarter 2018, the adjusted earnings per share decreased by 18% to $1.35 compared to $1.64 for the same period one year ago. The main drivers behind the decrease are $0.14 from higher tax rate and $0.09 from lower adjusted operating income.

Capital Structure

Looking now to our returns on the next slide. We are pleased that returns are higher in the new corporate structure. Return on capital employed and return on equity for the quarter is above what we have recorded in the full year 2015 to 2016 in the old structure. During the last 12 months, we have returned $213 million to shareholders through dividends.

Strong Balance Sheet and Prudent Financial Policy

Turning to the balance sheet and financial policy on the next slide. We have, as you know, a long history of prudent financial policy. After the spin, our balance sheet focus and shareholder-friendly capital allocation policy remains unchanged. The fourth quarter 2018 dividend was set at $0.62, unchanged versus the third quarter, but an increase of $0.02 versus a year ago. Autoliv's policy is to maintain a leverage ratio of around one times net debt to EBITDA and to be within the range of 0.5 to 1.5. As of 30th September 2018, this ratio remained at 1.6 times even though we reduced our net debt by $60 million in the quarter.

Our strong free cash flow generation should allow a fast deleveraging and should allow continued returns to shareholders while providing flexibility. As a result, we are aiming to reach the upper end of our target range by year-end and to reach our target level of one times sometime in 2019. This is excluding any discrete items and other non-foreseeable changes to our business.

Financial Outlook

Turning the page, we have summarized our full-year 2018 indication. Full year 2018 indication assumes mid-October exchange rates prevail and excludes cost for capacity alignment, antitrust-related matters and cost related to the spin of the electronic segment. Our full-year 2018 indication is for an organic sales growth of about 6% and a positive currency translation effect of around 2%, resulting in a consolidated net sales growth of about 8% for 2018. The 6% organic sales growth indication is lower than the earlier indication of about 8%, reflecting the weaker-than-expected market development in the third and fourth quarter, especially in Europe and China.

Our indication for the adjusted operating margin is 10.5% for the full year 2018, which is lower than the previous indication of more than 11%, reflecting our weaker sales indication. We expect the headwind for raw materials to continue throughout 2018 and to be close to $30 million higher year over year due to higher costs for non-ferrous metals, steel and iron. This is unchanged since the beginning of the quarter.

We now anticipate the currency effect on the operating margin for the full year 2018 to be slightly negative, instead of being neutral as we previously indicated after the second quarter.

The projected tax rate excluding discrete items is expected to be around 28% for the full year 2018. The projected operating cash flow for continuing operations, excluding any discrete items, is expected to be in a similar level as in 2017. The projected capital expenditure for continuing operations full year 2018 is expected to be in the range of 5% to 6% of sales.

Q&A

Hampus Engellau (Handelsbanken): I have two questions. The first question is on the launch cost, if you could talk a bit about that. Is the launch cost in Q3 higher than Q2? If I look on the number of launches, maybe I should do that. The second question is on this visibility problem. I guess, with your visibility on your customers' call-offs, there would be some kind of a catch-up effect when this bottleneck has been sold. Could you maybe discuss a little bit how you would plan that looking at Q1, Q2 next year, since it could probably come into a situation with some overproduction unless the consumer stops buying new cars? Those are my questions. Thanks.

Mikael Bratt: Hi, Hampus. Mikael here. Let me start and comment on the launch costs. I think you should not really think that the launch costs per se are gradually increasing here. I think it is the general activity as such that is increasing. What we have said all along here is that what is the primary focus for us in these launches is, of course, to protect the customer and making sure that we meet the deadlines, which we are. We are well on track there and with full quality here. So, meaning then that the cost per launch has been higher than previously forecasted, so to speak. So what we are working on now is to trim our launch teams here to be more efficient in the way we are conducting the launches.

On the second question around the potential catch-up effects or increased production here coming out on the other side of WLTP. As we have said for the fourth quarter, we see that the negative aspects of WLTP will have their toll also on the Q4 volumes. We are always following very closely the call-offs and the volume indication from the customers. For us, it is of course to continue to secure high flexibility in order to meet the either increasing demand

or lower demand. I think going back in time, we have managed significant increases with very short lead time in the past. So that would not be something unusual for us. That is something we are used to handling.

Richard Kwas (Wells Fargo): Hi, good morning. Just on China, you indicated there is downside risk on the production assumption from IHS. Have you factored some contingency in the updated outlook here for the fourth quarter?

Mikael Bratt: As always, the outlook or the guidance for the full year is built on our best knowledge at the time here. What we have said here is, as a part of that assessment, we believe that if you look at Asia's figures here, there could be a potential downward risk. We will see. Once again, it is based on our best knowledge at this point in time.

Richard Kwas: Okay. Then just given some of the dynamics here that we are seeing in the broader environment in China and to some degree the other parts of the world, what are the latest thoughts around the 2020 outlook for margin and growth? Obviously, you have a number of launches that will continue over the next couple of years. When you think about margin trajectory, etc., any updated thoughts?

Mikael Bratt: No. As you see, we have not changed our targets for 2020 either up or down based on where we stand right now. Our focus is towards these targets as we move forward. We have no thoughts around that, more than that.

Steven Hempel (Barclays): This is actually Steven Hempel, on for Brian Johnson. Just to follow on to Richard's question in terms of the 2020 targets which were effectively reiterated, obviously, there were a lot of headwinds here post when those targets were set. So it would not be unreasonable to see a further downside to those targets. It sounds like you implemented some actions or are in the process of developing a game plan for implementing actions to reduce some costs, reduce elevated launch costs and whatnot, to be able to hit those targets. Also from a top-line perspective, it looks like your new order intake rate is still holding in at a high level, which is good. So is it fair to assume that obviously some of the WLTP and potentially China production could be more temporary to 3Q and 4Q? Is it fair to assume that some of these actions that have been taken in a temporary nature of WLTP plus the higher sales, implied sales growth through 2020, given higher order intake rate, means basically those tend to offset and you could still hit those targets? Or would you say there is some potential downside in those targets now, just given the current environment?

Mikael Bratt: As I said before, we have no reason to adjust any targets for 2020 either up or down based on where we stand right now. What we are talking about here when it comes to the launch cost here is to make sure that we optimize the organization and trim the organization to manage a new normal when it comes to the number of launches. That is something that will take some time, of course, to get efficiency in our launch organization here. We have indicated that it will take several quarters to get that on track. Then of course, when it comes to uneven performance connected to WLTP, etc., we expect that to be of a temporary nature. Then of course, we will see what happens with the overall demand when it comes to vehicles on our customer side. We have not made any further outlook than what we have indicated in our guidance for the full year here. So that, we will have to come back to.

Steven Hempel: Understood. So should we be expecting an update on the 4Q release around Detroit?

Mikael Bratt: The 2019 guidance is expected to come together with the Q4 release.

Steven Hempel: Got it, okay. So no update for 2020. Just one financial related in terms of tax, for Mats. Just can you help us better understand the tax rate, the reason why it moved up in the quarter and for the full year? Then any potential for that to move lower into 2020?

Mats Backman: If we are looking at the underlying tax rate, we have a reported of 31.1%. Under that, we had some smaller discrete items giving an underlying tax rate of 29.5%, indication for the full year of 28%. What you need to remember when you are looking at the full year guidance of 28% is the effect from the second quarter, very low reported tax rate because we had positive discrete items that brought the tax rate in the second quarter down to 8%. So it is a factor of that when you are looking at the full-year number.

I would not start now to speculate when it comes to the tax rate into 2019. What we have communicated previously is that we should see some positive effects from the tax reform in the US. Given the high growth rates we have in the US, that should also be reflected in terms of profitability in the US so maybe some positives coming from the US in terms of the tax reform. Other than that, it is the 28% guidance for the full year that stands.

Erik Golrang (SEB): I have two questions. I apologize if you have been on the topic; I have had a bad line on and off. The first one is on order intake, talk a bit more about what trends you have seen recently. I assume you are now booking orders beyond 2020. Any updates on that side?

Then the second question, you touched on the topic, but to what extent does the full-year margin guidance reflect that all or a certain share of the operational headwinds that you had in Q3 remains in the fourth quarter? Do you see that there is any ease in terms of the uneven asset utilization or so on? Or do you more or less assume that it will stay for the remainder of the year? Thank you.

Mikael Bratt: Let me take the first one here and Mats answering the margin guidance question here. We are not putting out a number for the order intake as such at this point in time. We normally do that only on a yearly basis here. What we can say is that the order intake continues on a high level and supporting then our market position for a longer term. So that is good news in terms of what is happening on that end.

When it comes to the margin guidance, Mats?

Mats Backman: If you are looking at the margin and especially looking at the margin for the quarter and the year-over-year, we basically have three buckets of the things that are affecting the margin. First of all, the kind of external headwind that we see in terms of the currencies and the raw materials, the 40bps. Secondly, the increased launch costs that we also talked about. Thirdly, this kind of uneven utilization of our assets due to the underlying LVP.

If you are looking on the three items and going into the fourth quarter, this kind of uneven utilization of assets, that is difficult to say. If we see sudden changes that we saw in the third quarter, then we will have some challenges for balancing that one. When it comes to the launch costs, we have been putting together a lot of actions in order to mitigate the effects on

the launch costs. What we can see is to have an effect continued into the fourth quarter as well as the launch costs.

If you are looking at the sequential margin development, we always have a kind of seasonality with the higher margin in the fourth quarter. That is what you will get to if you are making the kind of backward calculation when it comes to the margin in the fourth quarter. However, when we are saying that this kind of environment will continue into the fourth quarter, that is kind of the year-over-year comparison that you saw in the third quarter and into the fourth quarter. So that is the kind of guidance I can give, given the full-year guidance we have on the margin.

Chris McNally (Evercore): Two follow-up questions that have slightly been asked before. So first on the 2020 plan, you are saying no change. Is there a time when you may revise or update that? Particularly, will you give any financials at these analyst events that you are having over the next couple of weeks?

Mikael Bratt: No. As I said before, we have no reasons to revise our targets based on where we are right now. If we would have a revision of our targets up or down, we would do that according to all the principles and, of course, not in separate meetings. So, no, it is not a question at this point in time.

Chris McNally: Okay. I think just because the general question would be, given the 2018 starting point is $400 million or $500 million lower and obviously a lower margin starting point, to get to 13% is an implied 33% incremental margin, which I am not really sure you guys have ever done before. It just seems, unless we can quantify some of the launch costs, that would subside and I think the launch costs will continue as you have some business coming on in 2019 and 2020, that that does seem, given some of these headwinds – FX, raw materials – would continue. It just seems like it is a steep incline. You would expect that you would have to get, I do not know, half of the way there in 2019.

Mikael Bratt: I do not have any more comments than what I have already made around that. Mats, if you can add something there?

Mats Backman: In terms of indications, as usual, we will issue our full-year 2019 indication when we release the fourth-quarter report, then you are basically half through the 2020. So, I guess, that is a kind of milestone for that discussion.

Chris McNally: Okay, fair, that is great. Then a second one really quickly, you mentioned the continued good order momentum. You used to put in a slide that showed 50% plus market share gains. I was curious if qualitatively, that is still the case. Is Joyson or KSS at all back in the market taking a single order, so that maybe 50% plus market share may not be the case on orders specifically going forward, even though the revenue obviously continued to tick up in share?

Mikael Bratt: As I mentioned before, we will only present the new order intake market share on an annual basis. As I indicated, we continue to see high order intake supporting our market positions in the outer years here. So I think that is as much as we can say at this point.

Thomas Besson (Kepler Cheuvreux): I have two very simple questions, please. The first is on the visibility you have short term on vehicle production in each region. Talking with

some of your peers or some of your competitors, it looks like September has been the first time in decades they have not been really aware of what could happen the following week. Could you say first if that happened to you as well and whether this is improving in October? Whether this is really an indicative of major hiccups, or whether this has improved?

Second, could you give us an indication on what you are using for your budget assumption for 2019 global light vehicle production? Are you using the October IHS figure, the September IHS figure, or are you becoming more conservative in your budget plan? Thank you.

Mats Backman: On the first question when it comes to the OEMs and the behavior, that is exactly what we are talking about when it comes to the late changes in production schedules. That is one component that has been affecting our margin negatively in the third quarter in a kind of underutilization of some assets as we have not been able to shift the planning quickly enough.

If that will continue or not, it is very difficult to say. It depends on the kind of underlying LVP in the fourth quarter. However, in the third quarter, it was very much related to the WLTP and the effects from that for single customers then. So, difficult to say if we see the same thing into the fourth quarter, but it was completely driven by the situation in Europe though.

On the second one, can you repeat that one, please?

Thomas Besson: Sure. The second question was, what are you assuming in your budget for the change in global light vehicle production in 2019? Are you sticking with the habits of using IHS or LMC? Or are you taking a subjective view, or are you making a choice given the trend we are seeing in global demand currently? So I am asking you if you are still assuming plus two next year basically, or if you are thinking maybe it is going to be zero or minus two?

Mikael Bratt: We use always IHS as the basis for our forecasting or budgeting as you wish. Of course, when we are looking into 2019, that is what we will be using. So of course, the freshest version of that is always what goes into the numbers when we give an update to the market there.

Victoria Greer (Morgan Stanley): Hi there, a couple please. Definitely got the message that there is nothing you need to change here on your 2020 targets. However, we are hearing from quite a few of your competitors that they are seeing some changes in OEM planning around their production schedules not just in the short term, but in the out years as well. Is that something you are seeing? Maybe some things are coming forward and others are going back, and that is why there is no change to your 2020 targets, or are you just not seeing anything change around the production schedules at all?

Then secondly, thinking about the dividend, could you give us some steer on the policy and how you will think about that this year? Clearly in terms of free cash flow, keeping that flat year over year, paying the dividend at sort of last year's levels or the current consensus levels is very comfortable in cash terms, but in terms of payout ratio, maybe that comes down a little bit with the small EPS downgrade that we do from the guidance change. How will you think about dividend policy for this year?

Mikael Bratt: When it comes to our visibility, when it comes to production delays, etc., I would say we do not see any delays of launches and models coming from our OEMs. So we do not see what you referred to there. I would say the question in the outer years here is the

light vehicle production per se, which we do not have that visibility on at this point in time. So that is the normal way of looking at the outer years here. So nothing to report there, looks like usual.

On the dividend side, as we have said before here, our prime focus right now is to get back into the range. Mats explained that earlier here on our ambition to get towards the one times net debt to EBITDA also. We do not have a dividend policy per se. I would say we have the intention to continue to be shareholder-friendly in terms of giving dividends and returns through buybacks, etc. I would say we will also have a pragmatic view on this. So it is not that we need to go down to the bottom of the range in order to trigger some activities. However, we need to be comfortably within the range before we do something.

Viktor Lindeberg (Carnegie): I had a question on the order intake but I think it was answered. So maybe I can follow up on if you have seen any change to the pricing environment. Looking where you are right now with a very strong market position globally, are you more "picky" when it comes to orders and pricing or is it market share that is the most important driver for you?

Then secondly, thinking about product launches into 2019, can you remind us of what level of product launches you have? If I do not recall, I think you have said that it will decline at least year over year, but can you quantify this? Thank you.

Mikael Bratt: On the pricing environment, I would say, there is no change to the dynamics here. It continues to be a very competitive industry. We always need to lean forward to make sure that we are in the forefront when it comes to competitiveness in all aspects: pricing, delivery precision, reliability and quality. So there is nothing changing there. I would not say that it is either/or, as you indicated. It is to make sound business altogether here and balance all the aspects in our dialogues to be supportive to our customers and have customer focus in everything we do. I would say it is very much business as usual when it comes to the market dynamics.

On the product launches side, I would not say it is declining. However, I would say that the step up is decreasing. It will still be a big year in 2019 in terms of launches. However, the step up relative to the previous year will be lower than what we have seen in 2018.

Julian Radlinger (UBS): Two quick ones from my side. The first one is, on those key models that you mentioned at the beginning of this year that you said at the time of the full year 2017 results would deliver $0.5 billion of incremental revenue, you updated us at the time of the H1 results that they delivered about half of that at that time. Can you give us an update on how much revenue those models delivered in Q3?

Mikael Bratt: I do not have the number for Q3 specifically. As I mentioned before, we see that will be coming in around $0.4 billion instead of $0.5 billion for the full year, but very much connected to the light vehicle development we are seeing here during the second half of the year.

Julian Radlinger: Okay, perfect. Thanks. Then my second question, another one that has been asked in some form or another. On raw materials, some of your key raw materials, they have really been shooting up in the last six to nine months. I was just wondering if you can give us a little update on raw materials in 2019, even if that just means explaining to us how

long it takes typically from a raw material price change to translate into a cost change on your P&L. Maybe even just qualitatively, what are we looking at here for next year? Do you see a raw material headwind going into 2019?

Mats Backman: I think it is too early to say, because what we have seen is recently spot prices going in the other direction with all the kind of volatility we have had in the market. What you can expect is about a six-month time lag when it comes to prices and effects on Autoliv. On top of that, it is also very much a question about negotiations with suppliers and on the customer side as well, when we are trying to mitigate effect. So it is very difficult to start already now to talk about the 2019 effect. We need to come back to that when we give the full-year guidance for 2019 with the fourth-quarter earnings release.

Ashik Kurian (Jefferies): Thanks for taking my questions. I have two. The first one is on the cadence of your outperformance. I know you highlighted that 2018 is a big step up in terms of the product launches, in terms of what you have in your schedule, in terms of the outperformance of growth, which is around 9% in Q3. I think your implied guidance for Q4 assumes the same level of outperformance. Was second half 2018 and first half 2019 always the period of the peak outperformance, so to say, within your budget? Or is there anything that would justify the outperformance continuing at this level for maybe second half of 2019 into 2020 as well?

Mats Backman: Coming back to the guidance for 2019 and we are looking into 2019, I think it is too many moving parts in order to start to kind of quantify any outperformance in 2019. We are happy with the 8.5 percentage points in the third quarter in terms of outperformance. If you calculate backwards with our guidance for the full year, you can see an outperformance in the fourth quarter, as well. So to talk about 2019, I would say, is premature given the volatility we are seeing down the line in LVP.

Ashik Kurian: Maybe I will try my luck on the margins. I know there is a lot of discussion on the 2020 margins. Part of the margin headwind that you have in 2018, as you pointed out, is due to the WLTP and production disruptions. Assuming that some of that reverses in 2019 but you still have headwinds from raw materials, is there any way of giving us some color on what is the level of growth you need to have to at least keep your margins flat in 2019, because the market is clearly discounting a slightly less optimistic LVP scenario than maybe what IHS has? I know you have a positive 13% with the $10 billion revenue target, but at least for us to have some sort of a sensitivity factoring in the raw material headwind, etc. What is the minimum level of growth you need to have to maybe keep your margins flat year over year?

Mats Backman: It is very difficult to give you a number on that one, especially looking into 2019 and 2020. Using the third quarter as a starting point and the effects you can see year over year in terms of margin effects, first of all, external factors like the currencies and raw materials, very difficult to say right now what it will be during this time period and going forward.

The second big effect in the quarter related to launch costs. You need to remember that, year over year, if you are looking specifically on North America, we had a 90 increase in number of launches in the quarter. That is the big kind of underlying reason for the increased launch costs. Even though we have a higher number of launches in 2019, the year-over-year

increase in launches is less in 2019. So it is very much of dealing with the problem we have now in launch costs.

The third big component looking on the third quarter, that is the uneven utilization of assets. It is extremely difficult to fully mitigate effects when we have customers who are changing their production plans maybe on a weekly basis. So that is the kind of unknown in this one, and a little bit also depending on the LVP and the changes in LVP. So those are the kind of basic assumptions that you need to calculate on and make your own assumptions in order to figure out where we are in that.

Ashik Kurian: Maybe just a quick follow-up on your free cash flow. I think during the last downturn, you managed your free cash flow better than most suppliers. I think it was partly helped by your working capital structure. Just wondering, has anything changed? In case we would have a slower production environment in 2019, can you get your working capital to support your free cash flow again in 2019?

Mats Backman: We are on top of managing our working capital, operational working capital. The difference if you are looking on where we are right now is that we have actually an underlying growth given the market share gains we have had over the last couple of years when it comes to the order intake. Meaning that if you are looking at the working capital as such, when we are growing organically, you have a growth automatically looking on accounts receivables. We have also been building some inventories related to launches, where we need to be prepared for the new launches. So I guess the difference from the previous downturn is really the market share gains, that we have some regions like in North America that we can see now where we will have China and also Japan to some extent, where we have market share gains that will drive the organic growth. I guess that is the difference. However, I cannot really see any kind of different starting point in Autoliv today comparing to where we have been before.

Joe Vruwink (R.W. Baird): Hello, Joe Vruwink ringing for David. My first question: how has growth from the Americas performed relative to your expectation at the beginning of the year?

Mikael Bratt: I think when it comes to our own organic growth, when it comes to the launches, we are all tracking according to the expectations here. We are following the plan that we have seen. I would say the fluctuation or changes compared to beginning of the year, it is all related to the underlying light vehicle production that you have seen, also coming through from IHS. We have no other changes than that. So we are on track with our own deliveries to the market there.

Joe Vruwink: So on slide 11, the supply chain logistical challenges. The first sub-bullet notes exceptional growth in the Americas. Were some of these costs anticipated because of the high level of launch activity and they are worse than expected? Or are they just tracking in line with your expectations?

Mikael Bratt: No. When it comes to North America, the elevated launch costs, that is connected to what I mentioned before here of making a more efficient launch organization here to be more effective in this, as we have had a 90% step-up from the previous year in our launch activities. Of course, that is a challenge for our organization. It has come to

higher costs than what we anticipated, so that is really what we refer to there. That is what we are working on now to improve.

Joe Vruwink: My last question, it would be your expectation. Obviously, your backlog suggests organic growth can remain pretty strong, high-single-digit growth in 2019 and 2020. Is it your expectation that some of the launch costs and other challenges you have experienced with high levels of volume this year, there will be improvement from the 2018 experience in future years?

Mikael Bratt: Yes, we are working on efficiency in our launch activities here. As I indicated, it will have a gradual improvement. However, it will take several quarters until we are in the level where we should be and want to be.

Anders Trapp: We can take one more question on this call.

Agnieszka Vilela (Nordea): Could you just quantify the contribution from the market share gains to your sales in the quarter? Was it predominantly related to North America? Also, should we expect more such contribution coming in on other regions as well, like in Japan or Europe in the coming quarters? Thanks.

Mats Backman: Looking at the growth in the quarter, it is all related to market share gains. If you are just looking on the North America number, it is corresponding to the full growth number, actually. So all growth you see and the contribution from launches, it is actually the full organic growth in the quarter.

Agnieszka Vilela: Given the very high growth in North America, is it correct to say that these market share gains are appearing mainly in North America today?

Mats Backman: Yes. This is what we have stated before as well when it comes to the market share gains and the higher order intake over the last couple of years. It is mainly related to North America first, secondly China and also, to some extent, to Japan. So you have those three regions that we can see the more pronounced market share gains.

Agnieszka Vilela: Perfect, thank you. The last question from me on WLTP. What is your feeling about when will these production disturbances ease in Europe?

Mikael Bratt: I think it is a question for the OEMs here. We do not have any second-guessing here. What we have said is that we believe and we see that it is affecting also Q4. So beyond that, we have to come back to you in that case.

Before we end today’s call, I would like to say that we continue to execute on our growing business volumes and new opportunities with a never-ending focus on quality and operational excellence. Also, I should mention that our fourth-quarter earnings call is scheduled for Tuesday, 29th January 2019.

Thank you, everyone, for participating on today’s call. We sincerely appreciate your continued interest in Autoliv and hope you have a safe and relaxing upcoming holiday season. Goodbye for this time.

[END OF TRANSCRIPT]