



# **Investor Day**

Thursday, 31<sup>st</sup> May 2018

# Introduction

## Anders Trapp

*VP, Investor Relations*

All right. I think it's time to kick off. So, welcome to you all to Autoliv and Veoneer Investor Day 2018. My name is Anders Trapp. I am head of IR and I will kick off today's events. But as always, first, we have the Safe Harbor statement, which is an integrated part of today's presentations - all of today's presentations and the question-and-answer sessions.

Today, we will mention some non-US GAAP measures and a reconciliation to US GAAP can be found in our annual reports, quarterly reports and the press release that was out today.

The broad agenda for today is of course that we're going to have management from Autoliv and Veoneer that will give presentations and between now and lunchtime at 11:40 it's Autoliv; and after lunch from 12:30 to 3:30, there will be presentations by Veoneer.

I should also remind you that we have a beautiful app that you can download where apps are downloaded where you will find all the relevant information from this day's presentations and the agenda. You can download the presentations under each agenda item.

The detailed agenda for the Autoliv part of the presentations is as follows: You have the strategic direction by Mikael Bratt who is the incoming President and CEO of Autoliv. We have Jordi Lombarte, incoming CTO that will talk you through our innovation for profitable growth. Mikael will come back and talk to you about the operational excellence and how that is part of our DNA. Mats Backman, Chief Financial Officer, will give the financial directions for the new Autoliv. We will have a Q&A with the three speakers and then Mikael will give conclusion and closing remarks.

Now, to the reason why we are here today actually, as you know of course, we are intending to list the electronics segment under the name of Veoneer. And hence, the agenda, basically what happens between now and until the first day of trading which is planned for 2<sup>nd</sup> July this year. And of course, as you know, it's going to be listed on both NYSE and Stockholm.

But before we go over to the Autoliv part of the presentations, we will have a few words from someone who's been part of the Autoliv journey for - well, for quite some time. And he is the Chairman and President and CEO of Autoliv and soon to be President and CEO of Veoneer, as well, Mr. Jan Carlson.

# Opening Remarks

Jan Carlson

*Chairman, President & CEO, Autoliv*

So, thank you very much, Anders. Of course, I would also like to welcome all of you to this very exciting investor day here in Stockholm. Also, a very warm welcome to all of you following us over the webcast.

I am very proud to see Autoliv being ready to spin out Veoneer as a company of its own. It is one great company, very, very soon becoming two great companies.

## Autoliv – 65 Years of Dedication to Saving Lives

Autoliv, we have a 65-year history characterized by several important factors - innovation, entrepreneurship, quality, saving lives and partnerships. All of these matters have made it possible to be where we are today.

We are now ready for the next step in our journey. And this is following actually the listing of Autoliv back in 1994 where we were spun out of Electrolux. We had a merger with Morton Industries in 1997 that made us the undisputed leader in passive safety. This acquisition or this merger was a milestone for us being worldwide successful. Several acquisitions in Autoliv and partnerships in electronics over the last 15, 20 years has positioned us as a leader also in electronics.

## Strong Attributes for Individual Success

We will now from here and onwards address two distinct different markets as two different companies. Each company here, Autoliv and Veoneer, will have strong attributes for individual success. When we look to Autoliv, global market leadership, superior quality and execution and technology excellence and also industry-leading cash generation are characteristics that we all know as strong trademarks of Autoliv.

Veoneer is a new company but will be from the start the world's biggest pure play in its field. It will have an exceptional growth opportunity and it will be a long-term value creator - a company in a phenomenal growth market.

## Creating Two Great Companies

In short, we are creating two great companies - Autoliv, a market leader driven by saving lives and Veoneer, a new expert partner to the industry driven by creating trust.

I'm very proud to be a part of Autoliv and have been a part of Autoliv and what we have built together. But I'm also equally proud now to be a part of Veoneer and creating Veoneer, the next chapter in Autoliv's story. And I'm also equally proud to present our incoming CEO, Mikael Bratt. Please join me on stage.

Mikael, you have been with us now here in Autoliv for two years as President of Passive Safety. During this relatively short period of time, you have played a key role in shaping our future plans. Now, it's time for me to hand over the steering wheel of Autoliv to you

and to see you drive execution, continue to drive execution towards our target in 2020 and also beyond that for future success. Very good luck, Mikael.

## Strategic Direction

Mikael Bratt

*Incoming President & CEO, Autoliv*

Thank you very much, Jan. Thank you. Thank you.

So, a very warm welcome from me. I'm really excited about the opportunity to talk to you about Autoliv going forward post-spin. But before we get into the details in the presentation here, I just would like to show a short video to all of you, what we are all about.

[Video Presentation]

It makes me really proud to see this movie as it captures our vision in a very, very strong way, I believe. And the next slide I will show you here really describes what real life safety is all about.

### Our Vision Is Saving More Lives & Creating More Value

The driver of this car, Caroline living in California, US, was driving down the highway when she was hit by a drunk driver on the rear right-hand side so hard that the car went off the road, rolled over in - down an embankment 4.5 meters down before it stopped against a tree.

Fifteen years ago, that accident would have been fatal. But luckily, Caroline was driving a modern car with the latest technology in passive safety installed in that car. So, she escaped the accident with just a few bruises and stitches. And we are really proud to have been the ones that provided these passive safety products into this car.

And that's really what makes the people in our organization energizing themselves every day in our facilities around the world - to save more lives. And we get this kind of evidence I would say daily from end consumers that have experienced our products. And we see that it makes a difference.

### Millions of Reasons to Do More

We have come a long way since Autoliv started in 1953 in terms of saving more lives. But there is still a lot of work to be done. In 2017, 1.3 million people were killed in traffic accidents around the world. If we keep the same situation as today meaning the safety standards that we have in the car fleet - not adding more content per vehicle, don't further enhance our products and so on - the prediction from the World Health Organization is that by 2030, we will have around 2.4 million people killed annually.

Therefore, the target from the World Health Organization is to reduce it from 2017's level with 50%. So, we are going to be an integrated part in that journey going forward.

And on top of this, of course, we also have a large number of people being injured in accidents with not only human suffering but also big impacts on the economy in the respective countries. So, we have definitely millions of reasons to continue to drive passive safety development together with our customers going forward.

## Future Mobility Provides New Opportunities

Also in the future cars, we see a big need for passive safety products. The new interiors and the new seating layouts will require, I would say, more challenging but also more opportunities from our side to provide these components. And Jordi will, in his section, talk more about what that means for us.

During the morning here, we will present the new Autoliv, the Autoliv post-spin. And that is based on our product families - the steering wheels, the seatbelts and the airbags. And then also, we will talk a little bit about adjacent opportunities going forward.

And my vision, what we hope here as a team is that when you leave our presentation here this morning is that the takeaway from this presentation is that you will feel our focus on the delivering the 2020 targets. It is also that we are operating in a long-term sustainable growth market and that we have the tools to maintain the position we have gained over the last couple of years.

As Anders mentioned here, I will come back after the break and talk a little bit more about operational excellence. And that is also a vital part of our journey going forward. And therefore, it's important to spend a little bit of time on that as operational excellence is truly a part of our DNA.

So, I'm really excited about this opportunity and moving forward with Autoliv and I know my team is as well. So, we have, I would say, a clear path for our journey going forward.

## Sustaining Our New Market Position

We have gained a new market position here over the last couple of years. We have moved from 37% in 2014 in new order intake and then between '15 and '17, we have seen that growing to around 50%.

The focus now is to take this growth and turn it into profitable growth going forward through a clear execution plan. And that is what we will spend a large portion of today's presentation on. So, we will come back in greater detail later on.

## Autoliv Key Targets Confirmed

But let me already here establish and confirm our targets for 2020 that we communicated in the Capital Markets Day in September. To start with, we are talking about more than \$10 billion in revenues by 2020 meaning that we have healed the effect as a group from the spin of Veoneer. So, we are back at the same size. So, more than \$10 billion in 2020.

We also are reconfirming the EBIT targets of around 13% in adjusted operating margin by 2020 and that it coming then through the leverage of the increased volumes, our operational excellence work and I would say the overall improvement work that we are doing here in all parts of the company.

Also a prudent view on our balance sheet. So, we have around one times net debt to EBITDA over time. And Mats will come back in the financial section later on and give you more color to these financial targets. But we want already here to confirm them.

## Solid Platform for Profitable Growth

I think we have a solid platform from which we have - we have a solid platform from which we now can leverage. And these platforms have been built over a number of years under Jan's leadership here. And this platform, I just would like to take you through in some greater detail what we mean when we say we have a very solid platform.

## Our Platform for Profitable Growth

I would like to divide it into six cornerstones in order to describe the platform here. Firstly, the very strong global position we have, a clear market leader. We have also I would say a clear growth route going forward here. And we have a number of opportunities that we will also take you through later on in the presentation here on how we are planning to take these opportunities.

Technology excellence, I think Jan already told you the rich history of Autoliv and what we have accomplished in terms of world's first. Superior quality and execution strength, operational excellence as a part of our DNA. Quality focus, we have also an experienced and very knowledgeable workforce in all our global sites from our plants to our R&D centers, etc. And also, a strong cash flow generation that also provides us the freedom to really capture these opportunities.

And these six cornerstones will be found in the different presentations throughout the morning. And of course, the technology excellence will be covered by Jordi, his section and the cash flow generation and financial strength through Mats presentation later on here.

## Autoliv Today is Stronger than Ever

Just a snapshot on what is Autoliv post-spin looking like. And I will now take you through all the details here but I would like to summarize it as a clear market leader with a revenue of more than \$8 billion with a broad strong product portfolio with the capabilities to further drive innovation into the future here providing, I would say, an even broader and stronger product portfolio with new customer opportunities. So, that's the starting point when we go into the third quarter here as a standalone entity covering passive safety area.

## Autoliv – The Global Automotive Safety Champion

The market leadership is illustrated on this slide. We have 38% of the world market in our part of the industry, a clear number one. We also here take into consideration the last couple of months development in the industry. As you can see, we are still number one even considering that consolidation.

We also expect as a result of the last year's order intake here that this difference will grow even further in our benefit here as we move into the realization of these new orders.

You can also see that we have the market leadership within the different product families that we have here. So, close to 50% of the side airbags, 30% plus in the steering wheels, seatbelts just under 40 and frontal airbags, 30%. So, I would say a strong position in all the different areas.

## Well-Balanced Customer Base

This market position is also built by a diverse portfolio. If we start with the geographic, you can see roughly one-third in Europe, one-third in Americas and one-third in Asia.

I think the one other good news here is also that we see that we have a large portion of business in the growth markets, meaning Asia here with China and rest of Asia as big growth opportunities going forward.

Looking at the customer base, we are present with all major OEMs. And I would say also good distribution between the different OEMs. But also with the recent order intakes, we see also that we have had successes with - bigger successes with some of the OEMs here that you find in the mid single-digit percentage here. So, over time, it will be even more balanced as we go forward here.

## Truly Global Footprint

This balanced portfolio has been built over a long time period here with strategy to be very close to our customers. And as you can see here, I would say we are probably the most localized company in our part of the industry here with local presence in all the regions, the tech centers very close to our OEMs, engineering centers. And being local with our customers here of course builds trust but also builds capability to further drive development together here.

So, through this global footprint, I would say, we have become the supplier of choice when it comes to global platforms where we have resources to meet up with that.

## Experienced and Skilled Management Team

This is the team that will be part of the journey going forward and will make this strategy happen. It's a team with a wealth of experience, more than 20 years in automotive industry in average and more than 15 years of Autoliv experience in average here. And it ranges from strategic to very operational experience here so a team well-equipped for meeting the future. And I'm really proud and happy to be part of the team going forward here.

## Creating the New Autoliv

The spin in itself provides a number of opportunities for Autoliv. Of course, as a company then solely focused on our part of the business, we will be able to be much more focused throughout the value chain as we move forward.

Of course, also getting the means to reinvest in more profitable growth avenues as we see within the passive safety area. We have also the possibility to take other operational decisions more independently. And I will say building on the rich culture of operational

excellence and cost consciousness from the legacy in Autoliv. So, a lot of exciting opportunities when it comes to the strategic direction for Autoliv as we move forward.

As I mentioned already, we see a number of growth avenues as we move forward into the new phase here. And based on that platform we briefly talked about, the new opportunities that the spin provides for Autoliv and with the skills and competence within the total team in Autoliv, we see that we can create a sustainable growth for the years to come here and a profitable sustainable growth.

### Multiple, Near- & Long-Term Profitable Growth Avenues

So, let's take a quick look on the overall picture when it comes to these growth avenues. And I just want to stress the fact that the near-term priority here is of course focus number one which means that it's to fight hard to maintain our market position as the global leader in the industry.

Then it is also to continue to grow with the industry, the overall automotive production growth and with the content per vehicle increases that we see going forward.

Looking then a little bit more mid-term to I would say long-term, we see also that advanced and integrated solutions into the future cars provide some opportunities for us as well as expansion into adjacent verticals and also I would say potentially then expansion into other end markets as we move forward.

### Unprecedented Business Momentum Translating Into Growth

So, let's quickly go through them one-by-one. As already mentioned, we have had a strong new order intake share the last couple of years here and also, this year have started in a very good way at healthy levels for 2018 year-to-date. This is now translating into our turnover and we have of course 18- to 36-month delay between when the order is taken until it's actually hitting our top line.

But with this program timing, we see here that we are moving towards the 10 billion turnover by 2020 given then an 8% CAGR over this time period. And that's of course one of the reasons we also feel comfortable to reiterate the target.

### Four-Step Plan to Sustain New Market Position

But the focus here now is of course to turn this - the business into profitable growth. And for that, we have a very clear plan, an execution plan to make that happen.

Of course, it is to firstly manage the new order intake we have received here and it starts with the preparation in the engineering area, in the purchasing area to prepare the start of production in a good way and meeting the customers' timelines here. So, diligent preparation for start of production.

Secondly in our plans, making sure that we are ready to ramp up in the pace that the customer is expecting. And I think, you know, in September on the Capital Markets Day, we mentioned here that we have managed to expand our production capacity within the brick and mortars that we have. So, good job there from the whole organization to really capture this opportunity in a good way and get leverage on our plan footprint.



Secondly, flawless execution, I would say, full delivery on quality, delivery and cost in the daily business here. And that is to execute our daily operation with operational excellence. And here, we absolutely need to be best-in-class as quality, delivery and cost is through customer commitment for us.

Also continue to build on the customer focus we have had over the years with a local presence, the close collaboration with our customers here and especially coming down to the new requirements that we see in the future here. So, customer-centric approach in daily operation as well as future opportunities.

And to build this sustainable growth going forward here, I would say we need to be in the forefront of innovation. And that's something you will see in Jordi's presentation later on here that it's an integrated part of our execution plan going forward. So, a clear path forward here.

### Long-Term Customer Focus, Local Presence & Quality Pays Off

I also want to give some data points here in terms of our customer focus and also our opportunities going forward building on then our absolute focus to make sure that we maintain our market position here and healthy levels of new order intake in the years to come here.

What you see on this slide here is that we have grouped our customers by country or region so where the company OEM comes from is really what has categorized it, not where they are operating. So, of course, Ford is classified as an American, Nissan as a Japanese and so on.

And the point being here that we see that we have very good development in all the different regions with one exception - Korea. But otherwise, we see that we are growing in relation to all the OEMs in the market here.

And what we are especially proud of here is what you see in Japan where we have a market leader position in Japan despite the fact that we have a large number of competitors in Japan. So, just pushing the point here that we are really local where we are operating.

And as you can see also in China which is the expected strong growth market, we also see a good trend here with our local Chinese OEMs. So, I would say, we have a good starting position for further growth in China with the setup we have today. But still of course, more work to be done there.

### Strong Underlying Market Growth

Another point is that we see that our underlying market is growing. Our total addressable market is coming from \$21 billion in 2017 up to \$26 billion in 2025 so giving then a 3% CAGR growth over this time period to be compared to the light vehicle production growth of 2%. So, also here, you see that we have LVP plus 1% in the addressable market development here.

### A Long Road Ahead to Democratize Traffic Safety

As I've mentioned before, we have come a long way in terms of saving lives since 1953. And I would say especially Sweden here as one example, have definitely come a long way

in this time period. And you can see here where we, Sweden, are and also the Western markets are compared to the Asian market here - a lot of hard work over a long time period is paying off.

But still, also in the Western world, I would say there is work to be done. There is a clear zero vision in some of these countries in terms of road fatalities.

We, as in Autoliv is I would say working very closely with our colleagues in the industry, associations, customers, etc., in addressing this further. So, I would say a million reasons to continue to focus on this as a society and for us as a company.

These countries that I just mentioned where they are behind in terms of bringing the road fatalities down is also in a situation where we expect over the years to come an economic growth that will make it possible for them also to require more when it comes to passive safety components.

And together with the different NCAP associations where they are not only looking at ratings, etc., but they are also educating end customers around road safety. Road safety is also driving the demand going forward here.

## Content per Vehicle Growth Propelled by Emerging Markets

And looking at the Western worlds again here, even though they are a little bit ahead, you can see in the last 17 years here how big that journey has been. So, just from 2001 to 2018, the content per vehicle have grown by almost 50% in Europe and more than 50% in North America. So, we can just imagine what that would mean when you translate it into these emerging markets going forward.

## Global Drive for Increased Safety Standards

When it comes to ratings and regulations, Autoliv has been engaged in this for many, many years. And I'm really proud when I see what our engineering community and research departments are capable to do. And also how they are well-regarded in the industry for the work that we are doing in this area. And innovation here of course also is a very important part for how the ratings and regulations is playing out over time.

We have a few - two examples here but just to mention one is the far-side airbag. I think we presented it to the market around ten years ago as a result of our innovation work. But you see here now in Europe, it will be a part of the ratings from 2020.

So, of course, the innovation works, the discussions and interactions between the different players in the industry have resulted in this conclusion that it should be a part of the rating. The same goes with regulations here.

The different stars you see here is things that has been decided to be included in the ratings. This was just one example. But we also see that when Europe is launching a new feature or a new requirement, it normally comes into the other regions within the next couple of years. So, Europe is a little bit leading in this area here.

On the regulation side, we see US also coming here with new requirements when it comes to their oblique tests with - yeah, it's a special setup for - and a special angle on the

accident. So, they have new frontal airbag requirement as a result of that. And I think you will see real examples of that later on in the presentation.

### Premium Vehicle Trend Driving CPV Growth

Another data point driving content per vehicle is the difference between the premium and the non-premium vehicles. We see that no surprise, premium vehicles have some much higher content than non-premiums today. Premium vehicles is increasing more than - in percentage than non-premium. So, you have a growth within the premium segment itself.

But you also have a trend where you see the premiums are being caught up - caught up by the non-premiums as they move forward here. And what we see here is that the difference is shrinking over the next coming years. So, two different dynamics driving content per vehicle going forward.

### Robust Growth Momentum Over Long-Term

So, how is all this now then translated into our top line? I think we already talked about the 2020 numbers being reconfirmed. We can also say here that we have close to 100% of this turnover booked in our orders. And what we just described here will give us at least LVP plus 1% more when we look at LVP and content per vehicle.

### New Advanced and Integrated Solutions

One potential additional growth avenue is what I mentioned around the new and advanced interior solutions and also integrated solutions. You see some examples here but the requirements that will come on our type of products will increase the level of sophistication into our products. We need to think new. We need to look at new solutions and you can see here for example adaptive steering wheel positions, completely new set of requirement. The whole human-machine interface requirements that we expect to see going forward, the pre-crash airbags, etc., etc.

So, a lot of exciting stuff, I would say, within the product development area going forward which also gives additional business opportunities here.

### Finding New Ways to Save More Lives

Lastly, just mentioning the fifth and the sixth growth avenue here which I would say is potential in the sense that it's really maybe early to talk about it here but the reason why I wanted to show it for you today here is that we are looking what could be opportunities beyond the growth that we see here now with the LVP and content per vehicle.

And one area is of course to see how can we utilize our current products but with new markets. And I think there are a number of interesting areas that we will explore going forward here.

Also, as a next step of that is of course where can we use our engineering technology and our manufacturing technology to apply it on new products and potentially new markets. This is of course much further out in time. But the first step here in adjacent would be to see where can we use our products into new usage.

And when we say product here, it's not only the product families on the highest level meaning seatbelts and airbags and so on because we are producing a number of components going into these systems where there could be also alternative use. But it's really to capitalize on what we already have.

So, I don't really want to spend too much time on this but it's just to tell you that we are looking at this in a very small team to see what could be done here.

## Summary

So, by that, let me just summarize this first introduction of today's presentations by saying that we feel good about the fact that we have a strong and solid platform from which we now could continue to build Autoliv into the future. And we know what to do and we know how to do it. So, that will be our focus here.

So, let me now hand over to Jordi Lombarte, our incoming CTO. I hope you will feel his passion for our products. He has been with the company for a long time and he knows everything about our components. So, please join me on stage here, Jordi.

# Innovation for Profitable Growth

## Jordi Lombarte

*Incoming Chief Technology Officer, Autoliv*

### Uniquely Positioned to Save More Lives

Good morning to everybody. I would like to share with you all the excitement that we see in the future with regards to automotive safety. And the first step I want to share with you is that we believe that there is too many people killed on the roads today. And we believe that our innovation path can contribute to reduce this number of fatalities and also to create value for our shareholders.

We believe also that the road to the autonomous driving and these market trends that we all see in the industry are creating new opportunities. And you will see that these will probably end with a new generation of safety products that are needed to satisfy the needs of autonomous cars.

And finally, our philosophy, our DNA, our approach to real-life safety I think is a good platform to cope and to take benefit of these market opportunities that the world is generating.

### The Road to Saving More Lives

So, you can see in that picture that when a real crash happens, it tends to be chaotic, randomly. Speeds can, you know, maybe you hit a tree and then you hit the second impact. So, our approach is really to save lives in real-life situations.

Of course, when we need to try to see how good are our products, we need to end with tests and the test is a parameter that needs to be repetitive. And this also creates a situation where the big difference in my opinion between Autoliv and potentially the other

is that we see the test as a verification, not as a target. We don't develop our systems just to meet specifications. We develop systems that can save lives in real world.

This has implications because it means that our products need to be robust. They need to work in a wider range than what we have in a specific test. And this translates for example in decisions like our propellant for our products which is good news because we thought it was a better product and robust and fitting with our philosophy.

## Long Track-Record of Commercializing Industry Firsts

This approach has been able - has been proven through the years bringing new technology in the market. You see a long track record here of innovation that we brought in the industry. And I would like to see more boxes coming in. Be aware that what I'm presenting today just has the purpose to illustrate things. Of course, we have some new designs that I'm not going to show here. We need to protect that from our competition at this point of time for sure.

Interesting thing is then we find that there is a new solution or a new proposal that can save lives that can protect more people. We tend to partner with key customers. We share this vision of protecting lives with some key customers. And this is also part of our DNA. We don't do innovations just for the sake of doing. We need to see if this is real, if this is in real fields and if the feedback from the customers is positive.

So, this is also a pattern that you will see from now on in the future, this kind of partnership with customers that have the same interest and the same motivation that we do.

## Market-Leading Full-Suite Product Offering

Just at a glance, the biggest main stream of products includes airbags. And an airbag, you see the back, but there is a lot of technology behind an airbag. It's huge technology on inflators, it's technology on initiators, on gas generators and textiles. In any one of these areas, we consider that we are experts and leading market probably in technology.

Airbags market share, 30% in the frontal, 48% on the side. With the market share, with the order intake that you have seen, you can expect this 30% on the frontals to grow significantly. This segment is \$4.3 billion on revenue and we produce 153 million units per year.

When we talk about seatbelts, again, I don't know much do you know about seatbelts but we tend to see only the webbing when we put our belt on it. But behind the webbing, that is pretensioners. A pretensioner is a device with a pyrotechnic thing on it that basically when the car crashes, before you start moving in respect to the seat, it ignites and tightens your belt that you're coupled with the seat to protect you better during the crash.

Now, another technology is pre-pretensioners. Pre-pretensioner is basically a retractor with an electrical motor that when the car - and this is very interesting for the autonomous driving - the car is going to know when there is a potential impact. So, before even the car would start crashing, when the system detects that there is a risky situation, you can activate that motor and couple your body with the seat and actually provide further protection here.

Of course, we have buckles and all kind of elements here.

2017 market share, about 39%, \$2.8 billion on revenue and again, 150 million seatbelt sets that we produce every year.

What can I say about the steering wheels? Be aware that this is the part that everybody touches when sitting in a car. So, in this technology, we are experts on all kind of mechanicals because it's - basically, it's in the structure that it needs to support an airbag. But also, all kind of switches, nice materials because this is the way that you can feel the quality in the car really, really soon.

On top of this, we all like to have all the controls of the car or as many of them in the steering wheel. And actually, for the future it is also really important because for the - in the road to autonomous driving, it will be situations where you can drive autonomous but other times, you need to hold the steering wheel. And this is the best thing to interface with the customer to know if the driver is in control of the car.

### Close Cooperation with Regulators for Higher Safety Standards

More than 20% of people who die in car accidents were pedestrians. In between other products, we got the idea that okay, before even the idea, we even did more research. And we concluded that when a car crashes to a pedestrian, the highest probability of injury comes from the impact of the head to the hood. The hood of the car is metal, is rigid and this creates a humongous amount of acceleration in the brain of the - on the pedestrian.

Then we come with the idea, what if in that particular situation, we open the hood like 15, 20 centimeters and we create that distance to absorb energy kind of a spring thing. And then it's when we came with the idea of a pop-up hood to create that thing.

We shared that with some customers and they love the idea because I think we have customers that they are very well interested as we do on savings lives. And we went together for - first to introduce that into the market.

In parallel, we verified the benefit of this product. And of course, when we saw the benefit, we promote that to the authorities, to the NCAP organizations where they shared with us the same interest on saving more lives. And something that was an idea, it came up now what we call pedestrian protection. It's mandatory in Europe. And as we said before, Europe seems to be a trending leader on safety. And this now is cascading into the other divisions.

And the message here is that we can bend and shape the future also for our industry because we have the capacity of research on that.

### Future Cars Requires New Safety Solutions

What are the focus areas that we are driving - that drives today our innovation? First big block, autonomous driving. I will summarize why. You have seen all these pictures with nice comfort, you know? These are all the benefits of the autonomous driving that you can be reading your newspaper in comfort positions. There is only one thing that needs to happen is that this new seat positions are safe. If they are not safe, our customers cannot sell these positions as a selling point of the autonomous driving and all the beauty that comes with this.

Second big focus are for innovation, electrification. And electrification per se, why? First, batteries, no engine, low noise. Some of our typical mechanisms have elements of movement and create noise.

The second thing, weight. So, weight reduction has been always a challenge but even more with electric cars because the range, distance that they can drive with batteries is elongating if there is less mass to move.

This creates also opportunities. You know, the batteries, small batteries with humongous amount of energy on them so they are organizing modules. And here, we have some products based on our traditional technology with initiators that we can cut really quick and insulate some modules of these batteries. So, this is an area also very interesting.

Another important area on our focus is adaptivity to age and size of the car of occupants. And with autonomous driving, also this will soon include speed and severity of the crash. So, our systems will be more adaptative than today.

And then there is another bucket where we put the rest but here is where we talk about pedestrian protection. We are also investigating the cyclists. We call cycling, this kind of accidents. But basically, you'll be amazed just in Germany, I think, we got the data that more than 100 people killed by opening the door and just crashing there.

## Autonomous Vehicles Require New Safety Concepts

Being a bit more in detail, I just want to show you in the bottom part of this element a frontal crash. A frontal cash with our current products, you can see that the behavior of this - of the person who is restrained is very natural. It was designed for that.

When you want to have a salon where you can rotate the seat, the second image just to pretend to show that a seatbelt is not enough to protect that person in this angle. It means that we need to provide new solutions for that.

Another thing that you can see is when we have these salon types, to protect that with airbags, we need bigger airbags which you may think, it's the same. It's just a bit bigger textile and that's it. Well, not really.

The traditional technology to inflate an airbag is basically through an inflator. We initiate the combustion of some propellants and these create gases and these gases inflate the airbag.

Imagine what happens in a car where the airbag is going to be - it's going to fill 40% of the volume available in the car. So, if inside of the car you create gas to inflate that size, practically, you are going to inflate the car or you are going to pop the windows or something. So, this has to be a different technology. Basically, what we need to do is to take the air around the car and put it in the bag. We are working on this kind of concepts today.

## Strong Product Pipeline at Forefront of Industry Innovations

The road to autonomous driving, I just tried to scale here to give you an idea on what we are doing today already. So, the race to a small and lighter products has been always. Pedestrian and cyclist protection, we're already there.

There is new NCAPs coming. The one that we show on in the left, this is a solution that Autoliv has developed for the oblique in the US. And this is just a simple airbag. Basically, you know, in an oblique, the biggest problem we have is the protection of the brain. So, if you create a big rotation in your head, the brain can be damaged. So, this is a solution that we have developed that was done in the US by the way because it's inspired in baseball that basically, you know, you send the ball, this halts and holds. It's like catching the ball then you avoid rotation.

This is simple. But I can tell you that we were competing against other solutions with two, three - through inflators, very complex solutions and we have been able with our knowledge to provide a solution that by concept is really competitive.

You will see - and today, we're already working on rear seat - in rear seat safety, airbags in the rear set. They will come up from places where today there is no airbags there.

And the steering wheels, this is today already where you see that we like to have all the functionalities, you know, the speed control, the radio controls. This is there.

When we go towards autonomous driving, we can expect to see more adaptative systems, more retractors that can adapt. As I said before, more electrical pretensioning. We can see more HMI things on the steering while like hands-on detection. The car needs to know if you are in control or not of the car. And just touching the steering wheel seems to be one of the most reliable ways.

And of course, it will be situations on level four where in some areas, you can - the car can drive autonomously. But outside of this context, you may need to have somebody driving the car. So, we can see more steering wheels that they are there when you need them and they disappear when you don't need them. We talk about folding, camouflage, whatever. These are areas that we are studying here.

And the last one, I already mentioned the different positions but the important thing, I just showed the lifestyle concept. It's this kind of systems that we are looking together with some key partners on the seat industry how can we make the protection of the passenger in the domain of a seat because then it's much easier to integrate that to a car without considering the surroundings.

## Reducing Noise through Retractor Electrification

When we go to the electrification of cars, you know, electric cars, I would like you to hear this. I don't know if you know about the seatbelt to block - basically today, the locking of the system is done with a ball. It's like holding a ball that when it vibrates and the ball moves, locks with a retractor. That's why sometimes when you drive a car and you are in a corner, you cannot extract your webbing or when you are in a parking ramp, you also cannot extract because this ball is there. But this ball moves.

[Video Presentation]

What I tried to simulate here is that today, this noise is not perceived because there is an engine that makes this booth. But in an electric car, the engine is not there anymore. So, then these sounds that today are not a big problem, it's becoming a problem. Let's listen again.



[Video Presentation]

I can tell you, our customers don't like this noise. They don't. We have developed some mechanical solutions that are trying to improve this thing. But the fact that now we have a car with high level of energy, we are already dreaming in fully electrical retractors that basically by definition there is no noise on those retractors.

## Continuous Efforts to Maximize Efficiency

In parallel, we talk about the weight reduction. I just put on the screen some evidences on how it's possible to reduce the weight and the space in a car.

Normally, the reduction of weight, the reduction of size and reduction of cost needs to be together to be competitive. And these are three good examples. The first one, maybe the one that I will comment more is the pre-pretensioner. It's the integration of a retractor, electrical motor and a little ECU to control this.

First generation, this looks more like a Christmas tree than really a seatbelt product. We did the second one and the third one that is not in the picture because we are working on them, you can expect the same level of mass reduction and packaging reduction.

## Relentless Engineering Efforts for Weight Reduction

This is what - when it goes to products that we are developing. But then it's how we integrate, how we develop application projects, how we cope with systems. And this is a good example because this is a typical example from a steering wheel where the customer comes to you with a list of requirements and estimated weight of the thing with specification on the vibration because the vibration is how the user perceives the quality of the car.

And we have methods here that we take what the customer wants. We go through our processes and virtual tools, etc. And this is an example. And this is real that a product that came to us with a target of 60, 50 grams in the armature, we were able to achieve all the design targets from the customer reducing more than 10% of the weight of this. And this is also something that is pivotal for Autoliv to keep our competitiveness to be able to fight to the competition here.

## Adaptivity Enabling Optimized Protection for All Occupants

I said that our products need to be adapted to the size of the occupant. This is the same seat. Think in a rear seat where one day you can seat your child and the next day, grandpa in the next seat sometimes different sizes.

And this is just an example to show that for example with a small occupant, we may need a small load on this - on the belt. We don't want to injure that lady. We don't need more force than this. But when we want to restrain a bigger sized occupant, we want to go to another level. This is a product that already exists. It's called an adaptative load limiter.

I just want to highlight that because the trend to the future is not having two levels. Maybe we will have infinite number of levels because if we know the speed of the crash, we know the severity, the system can trigger what's the appropriate load to protect that guy.

## Autoliv Drives Industry Innovations across Product Portfolio

How this thing is going to impact our products? Just to give you a short idea, airbags. You will see more airbags like the one in the top, basically airbags that are fully integrated on a seat. And actually, they protect the passenger not only for the frontal but side and is basically deploying from the seat and fully integrated there.

You will see - we will see more rear seat airbags - not only rear seats, it's for the salon type of configurations. We will see more of these. And because of the adaptativity inside of an airbag, even if you don't see, there is a little bag. Sometimes, we want to inflate the big bag, sometimes only a portion of it, sometimes only the upper portion. It depends on the size of the occupant. So, we will see more adaptative vents or gadgets inside of airbags.

Seatbelts, I already said a little bit about adaptative retractors, new layouts for seatbelts or other solutions that protect, electrical pretensioning.

And in steering wheels, too many touch switches. It's going to be there. Obvious here the look nice parts like new materials, sexy materials, sometimes sporty look, like to see carbon fibers while classic looks like to see wood. All these things need to work together with sensors, heat maps, hands-on detection.

It will be more driver alert features also on the seatbelt - on the steering wheel. And the foldable and camouflage and intermittent use steering wheels, let's say it that way.

## Road to Excellence: Engineering 4.0

Just that you know, I mean, one thing is - what we are doing to generate the next - to create the next generation of products but then one of the biggest portion of our engineering efforts are to introduce these products in real cars. And this is what we call application engineering.

And here, we are also under the Engineering 4.0 doing - creating initiatives in my opinion. The first one as an example is basically the traditional way to create a product is to start from a drawing. We make components. We believe that in the future, with some clicks in a computer, we will be able to make a configuration of a new product. Just with little add value of engineers, we can go with this.

We do a lot of covers and a lot of elements on our traditional business. Cover for airbags is our traditional business. The interface with that cover, with the rigid parts is quite often the same. So, we have already tools that we are developing that basically we only need to concentrate on the final shape, on the added value, on what makes the difference. The rest is going to be there.

And if I may make just a quick example on a very practical thing, very simple, any seatbelt that we sell today, anybody sells a seatbelt needs to have a label like your clothes, right? And in this one, it says the number of homologation, the certificate number, blah, blah, blah.

Today, every single label has a drawing. A drawing takes three, four hours to do it. Today, we have a system that we are finalizing right now that we even don't need a drawing. We just need to push a button in operations with the part number that we are producing and

automatically is printing the label. And this saves a lot of money. And our target here is that we are doing this to save time to market and also engineering effort.

## Selected Engineering 4.0 Solutions

Another good thing is all the tools behind that. And this is a real example and I'm proud to show that because when we do steering wheels today, we can basically design virtually the steering wheel almost 100% on a virtual system. We can analyze frequencies, we can analyze strength.

When we have this, then we can simulate how this thing is going to be produced because it's really sensitive to process to the point that we can modify the process to - for optimum conditions.

And then finally, we can verify that with virtual testing. So, just to give you an idea, five years ago, the average number of iterations that we had to do in a steering wheel was five to seven easily. Today, it's one or two maximum. And this is also a huge improvement in our efficiencies.

## Our Vision is to Save More Lives & Create More Value

Bear with me in these pictures. Do you know what is the theme that brings all these real crashes together is that in all of these, people walked without injuries. And this is what motivates us to continue with our innovation path, on how can we save more lives because as I said at the beginning, there's still too many people dying in car accidents that we believe that we can help.

Our vision is to save more lives and create more value. And I think that this is the energy that fuels our teams and our passion to continue in this path. That's all. Thank you.

## Closing Remarks

Anders Trapp

*VP, Investor Relations*

Yes. Thank you, Jordi. That was, I think, very interesting to see how we're working with innovation and continuously trying to improve both the products and the efficiency in how we come to our new innovations.

With that, it is actually time for the first break of the day, coffee break, and it's served just outside here. And please be back here for the continuation of the presentations by Mikael and Mats by 10.30. Thank you.

# Operational Excellence

Mikael Bratt

*Incoming President and Chief Executive Officer, Autoliv Inc.*

## Welcome

Welcome back then to this section of the Autoliv presentations. I hope you enjoyed the coffee break. Let's go back then to operational excellence. Operational excellence is really something that is really close to my heart and burning a lot in terms of driving operational excellence in our daily operation.

## Operational Excellence is in Our DNA

We talked about the clear execution plan earlier on here where we had the four components in order to drive the future profitable growth going forward here. And the intention now is to talk about the flawless execution. And as I mentioned, it's all about full delivery on QDCs and to drive operational excellence in everything we do.

## Navigating in a Competitive Landscape

Just as you, we are well aware of the challenges in our industry, but we also have the means to meet these challenges through the Autoliv strengths and opportunities. For example, we are in a dynamic, competitive environment with continued price pressure.

There of course, to have the leading production system, superior scale and a strong business momentum is the key to meet these challenges.

And therefore, we need to always lean forward, looking at the challenges and making sure that we are agile and fast to improve our strengths and opportunities.

## We are Never Satisfied

And the key here is to never be satisfied on where we are and where we are performing, so always become a little bit better tomorrow than what we were today.

For that we have a number of tools within Autoliv – and methods. And here is, of course, the Autoliv production system, one key element in that. And here, we have also upgraded the Autoliv – and updated, maybe I should say – the Autoliv production system during the last 12 months here. And I will come back to that later on here.

Another area is the Q5. You heard us talk about that in the past, also here with the Zero Defects mindset in driving quality.

Inside the Company, we have One Product One Process and a global approach to secure the robustness of our products. And of course innovation, as we already talked about here before, to make sure that we are always leaning forward here.

What you see on the left-hand side of this slide is, I would say, a real working document. However, the dots representing our sites – is just for illustration. So it's not the exact

places where they are in reality, but just to show how we are working inside a company in terms of judging and driving the improvement of our respective sites.

So here comes the updated APS tool – in also – where we have connected – let's call it the lean maturity on the left-hand side – the tools and methods – with the pure performance. And to link them together to make sure that it's not only continuous improvement for the sake of it, but it's really continuous improvement to drive QDC in our performance.

And here we have plans, but we also have tech centers as we move forward here and other functions inside the Company to always make sure that we move up in the scale here to reach the gold and platinum levels. And the ambition here is to have all our plants on sites within that part of the graph, because that's where you really need to be in order to be world-class.

But the point here is that it's not a static measurement, it's also subject to continuous improvements to always drive world-class, so also improving and updating the wanted position here as we also move up in the scale. So it's a moving target all the time here to sharpen our minds and our means.

## Relentless Focus on Quality

Quality comes first. We are in an industry where our products always need to work when they are needed. That's of course extremely important for us, but quality in everything we do is also a top priority to be a world-class company.

In 2010, we launched the Q5 initiative, which was really driving quality in all dimensions. So we are addressing products, we are addressing processes, we are addressing people and we are addressing behaviours.

And here, it's really a question of making sure that 'It Starts With Me' – me as an individual inside the Company where I need to think Q5, I need to speak Q5, I need to feel Q5, I need to do Q5. And that is applicable for all the people in the organization. So regardless of where you are in the organization, you have a role to play when it comes to driving quality.

## Highest Reliability and Industry-Leading Quality Standards

So we are really working throughout the whole value chain here, and both upstreams and downstreams where in the products – securing that we are producing in our R&D centers the drawings and the details around the products which are robust: robust to manufacture, robust to use and that we also get it optimized and designed for manufacturing here.

It comes to the supplier management side, it's to have flawless components being bought, making sure that our suppliers live up to the standard we are putting on ourselves; it's in our manufacturing areas – flawless production. And if we have issues, we need to have a good verification system here, so we can verify our products to conformity here. So a waterproof value chain to secure serial defects on our products here.

And as I said, we have been working on this since 2010. In the middle graph area, you'll see that it is paying off. We have reduced the non-conformity events by 61% since 2011. And here, I would say, these also are very short measurements here. It's not the parts per million or anything like that; it's really all cases are measured here as one case. So

regardless of the size or the manager or other issue, it's registered as an issue or an event. So very, I would say, tough measurements here.

We also see that it's paying off in terms of recalls. We have the market leader position with 38% of the market share. We just have 2% of the recalls, but it's still 2% too – units too much. So it's – it should be zero there, and that's what we're working on to achieve.

## Preventing Quality Issues by Proactive Quality Culture

Here's a real life example of what I would say is a hero inside our organization. It's a person that really lives the Q5, and her name is Naime, an operator in our Turkish plant. And she is operating with – managing in her process what we call height-adjusted rails. You see the examples here. And she discovered just by being very focused on what she's doing that there were 31g weight difference between one component and another.

And not just let it – the production go, she raises her hand, stops the production. And then we take measures and going into a more – I mean detailed measurements of the components. And we could then stop the production, get the right equipment in and the right components in, and by that avoided a recall.

And these are the examples we are celebrating internally and really shows – good example of living the Q5, meaning taking responsibility for your part in the value chain and not hesitating to raise your hand if there is an issue.

And I believe in September when we had a Capital Markets Day there, we also showed another example from Poland. So it's really to promote this behavior inside the Company that will make the difference for us and is making the difference in our daily operations.

## Management and Workforce with First-Class Execution Skills

Just a few results around what we are driving when it comes to the overall operational excellence journey. Here, I would say in those examples and in these activities, we are capturing all elements of the QDC here.

The Zero Defect approach is also a way to drive quality. But it's been known that it's also that we see that we get significant reduction when it comes to cost in waste and scrap, but also I would say productivity. But with – what this means is really that we drive and measure our lines, how they – long they can drive and produce uninterrupted for any reasons connected to, you know, not following our production standards.

So even if an operator – have a component that is dropped on the floor, it doesn't really impact the quality or – or the production speed. But it's a part of the process that should not be there; it's measured as a defect in our measurement on running in a flawless way day after day here.

So an example here that we have – one site machine line here running in 16 days without any flaws – includes all those minor things as well. So we are really raising the bar on our different production cells and production lines inside the Company.

And as of today, we have 17% of all lines have achieved this Zero Defect target. And we have not rolled it out on all of them. So we have a pretty momentum here, and we have

just been running this for, I would say two years, you know, in a short way. So, good potential in all dimensions here.

We also have a new manufacturing system in place, the Leading2Lean cloud solution, also giving good visibility in our effectiveness in our different plants. And by that we also see an increased operating availability of 5% in 2017, so good progress there. This means that we have full visibility of all our production lines globally from basically one site here.

Target condition is there to drive then our, I would say, continuous improvement journey. It's the definition of each process or each function in a world-class situation where we can go today. So it's not a futuristic description on how we would like to function; it's actually something we could achieve today.

And then we drive towards these levels of performance. It's a very effective way to set a target for our different parts of the organization here, and also a subject for continuous improvements here.

## New Technology Enables Simplified Supply Network

Another area is where we are looking at getting more connection around the logistics setup. We have something we call One Network, we have a lot of the logistics responsibility delegated into the division under local plans. That will of course continue, but what we are providing here is better visibility and clarity when it comes to how to more effectively – utilising our global flows.

And you can see on the left-hand side that is has been a lot of bilateral solutions between supplier and the respective plant. Now we cluster it as a company, and by that cutting the volume scale to hit the bottom line in a better way here. But also we see – and actually, the capital tied up potential in this also, so – double effect there.

## Significant Benefits from 1P1P

1P1P is one of the methods and tools we described earlier here, which is really the same product should have the same process globally here. And here is the effort to minimize the variance we have, and also to get the robustness in our products here. And we've been working with this since 2013, so a number of years.

And this took us – takes time, because it means that it – the next opportunity to really move in the right direction is when we have new engineering efforts being put into new programs. And it's a stringent process here to get to common parts.

And we have, in this example here with the retractor frames, gone from 32 parts down to two standard parts, at the same time then being able to improve the robustness in the product here. And I think we have definitely a lot of potential in continuing this journey here.

## Direct Profitability Impact from Operational Excellence

Here you see some data points as a result of the operational excellence efforts. Where we are driving down the number of suppliers, we have seen a reduction in non-conforming materials. And as I said, we don't take into considering the volume increases, so like you do in parts per million. So here we have reduced non-conforming materials with 42%. At

the same time, the volume has significantly increased in the last couple of years, so good effect there.

And on the productivity side, 32% since 2011 here as a result of all these initiatives here, so good effect here.

## Clear Path Towards Manufacturing 4.0

But lastly, before I hand over to Mats here, the intention here was just to describe that the width of activities that is being put into this area here. We are also looking forward into the different potentials that Manufacturing 4.0 or Industry 4.0 provides for the manufacturing side inside Autoliv here, where we can see benefits with digitalization, connectivity and automatization.

And I think we have an approach to this where we definitely don't drive this for the sake of Manufacturing 4.0; it's really to see how this can contribute to our continuous improvement journey by selecting relevant pieces here. And I think we have a very clear path going forward in this area.

And I'm really excited about the opportunity, especially within automatization where I think we will see good effects coming through in a reasonable timeframe here. And I think you all know that we are a company with a lot of manual activities that will be benefiting from automatization in terms of once again driving quality and cost efficiency in the future here. So really excited about that, and more to come when it comes to operational excellence for sure here.

So with that, I would like to invite Mats to the stage, and take you through the financial direction. So, please welcome Mats.

## Financial Direction

### Mats Backman

*Chief Financial Officer and Group Vice President, Finance, Autoliv Inc.*

### Key Targets and Ambitions Confirmed

Thank you, Mikael. So to start with, the financial direction for Autoliv in the new context now, or after the spin-off of Veoneer.

But before I'm getting into that one, I would like to return to the Capital Markets Day back in September, when we talked about our targets and long-term ambitions. We talked about the more than \$10 billion when it comes to top line in 2020, we talked about the adjusted operating margin of 13% in 2020, we talked about the long-term ambition to have at least a growth that is LVP plus 1%, and a long-term ambition to have an adjusted operating margin at least in line with the target for 2020, the 13%.

For the balance sheet, we said that we are targeting a net debt to EBITDA of 1x and to be within the range of 0.5 to 1.5. And we are today confirming all the targets and ambitions that we presented at the Capital Markets Day in September.



## Creating Long-Term Value for Shareholders

Talking about creating long-term value for shareholders, we identified key – four key areas when it comes to creating long-term value.

The first two ones that you can see here is very much related to profit for growth and the higher order intake we have had over the last couple of years. But that is on a very, very strong foundation within Autoliv, and a strong heritage when it comes to the cash flow generation focus as well as shareholder returns, and also a strong balance sheet with a prudent leverage policy as well.

### Visible near-term growth and sustainable long-term growth

Looking into the first area, the visible near-term growth and sustainable long-term growth – you have already seen this picture a couple of times, but I will repeat it again because it's so important when it comes to the near-term opportunities we have there.

In 2015, we saw a step up when it comes to order intake. We went from a global market share when it comes to order intake with 37% up to 50%. That continued into '16, into '17. We have seen the same development in the beginning of 2018 as well. With a lead time of between 18 and 36 months, this means that this will realize in a top line growth now in 2018. And that you have seen when it comes to the guidance and what we have communicated when it comes to personal safety for 2018, with inorganic growth of more than 10%.

Also important to see when it comes to the target 2020 of more than \$10 billion, almost all of it is already in the order stock; it's booked. And to summarise, that will give us a CAGR from 2017 to 2020 of about 8%.

Moving into the long-term ambition when it comes to growth, and starting off with the Light Vehicle Production forecast from IHS – which is the base there for our ambition – they are forecasting CAGR from 2017 to '25 of close to 2%.

About 40% of the unit growth is driven by China, 25% by India, really highlighting how important emerging markets will be going forward.

Looking on the mature markets, we can see increases when it comes to Western Europe, we can see increases in North America where the forecast indicates increases in Western Europe and North America – however, offset by declines in Japan and South Korea.

So looking into the Autoliv-specific ambitions, we have the Light Vehicle Production as a base for the growth assumption. But on top of that, we can see big opportunities when it comes to content-per-vehicle growth as well. And we have identified four key areas when it comes to that kind of growth in terms of content:

- The safety evolution in emerging markets – and it's very clear when you saw Mikael's picture with the road fatalities in some countries that are huge opportunities when it comes to saving more lives in emerging markets;
- We have increasing safety standards, and I think a great example is the Chinese NCAP that will be effective in the later part of 2019, which will increase the safety content in vehicles as well;

- We have the premium car trend with a relatively higher growth for premium cars, which will also – increases the content per vehicle;
- And last but not least the future mobility trends. There, both Jordi and Mikael talked about that. And we can see great opportunities when it comes to the new configurations in the new AD world, so to speak.

So all in all, it is – this is giving our long-term ambition when it comes to growing at least Light Vehicle Production plus 1%.

## Profitability Improvement Opportunities and Over-the-Cycle Resilience

Looking to the second area, when it comes to profitability improvements and over-the-cycle flexibility, and starting with the profitability improvement opportunities, we talked about the 13% when it comes to the adjusted operating margin in 2020. However, what we also need to understand is the base where we are starting from.

So if we recalculate 2017, starting with the reported segment result of passive safety of 10.2%, adding on top of that non-GAAP adjustments when it comes to antitrust and capacity alignment, and also on top of that adjustment for accounting going from a segment to a standalone business, we are at a starting point of 11% in adjusted operating margin, which gave us a margin expansion from 2017 to 2020 of about 200 basis points.

We can see that margin expansion coming from mainly three areas:

- First of all, utilizing our existing footprint for growth. This is a great example from Japan, where we have a plant for airbag production, where we're actually doubling the output within existing footprint. 100% volume increases over five years, but we're only investing in 26% more production lines and no changes to footprint. So higher volume in existing facilities will give leverage a better fixed cost absorption.
- Looking into the second area – and this is also very, very important looking on the leverage from now to 2020 – we will start to see leverage on the RD&E side as well. As we have communicated earlier, we have spent quite a lot when it comes to investing in application and engineering driven by the higher order intake. This is something that we'll have allowed now, and we will see the benefits from order intake translating into sales. And we'll see the growth, hence a leverage also from the RD&E when that will start to neutralize a decline in relation to sales.
- And last but not least, Mikael gave a couple of examples when it comes to all the ongoing efficiency improvements we have within Autoliv with 1P1P. And we have the example here of a 32% productivity improvement in terms of direct labour.

But what you also need to remember, in our business there are some negatives as well; everything is not contributing to margin expansion. We have an annual price erosion of between 2% to 4%; we have cost inflation, so we need to have underlying efficiency improvements constantly in order just to meet the negatives we can see in our business.

Moving into the flexibility we have built into the system, in our business it's not the question of if we'll see a downturn, it's when; it is cyclical. We need to be prepared to meet the downturn if we see one. And Mikael also talked about this one when it comes to our diversified sales streams. And I think that is important, that we have a very well-balanced

geographical footprint with basically one foot in Asia, one foot in Europe and one foot in Americas.

And it's also important to realize that we have a well-diversified customer base as well. We are not dependant on one or two or three single OEMs; we are represented at all global OEMs.

Secondly, we believe that we have a flexible employee structure as well. About 80% of our total workforce we have in best-cost countries. Looking on the three biggest countries with Mexico, Romania and China, they represent about 50% of the total workforce. So we believe that we have flexibility opportunities built into our structure when it comes to mitigating down to – and if we see it, from an employee point of view.

And last but not least, the working capital side of things. It is extremely important to have strict control of working capital, especially looking on inventories, because if you are hitting a downturn with high inventories, then you will go through a de-stocking, and – which will hit your absorption as well. So have good inventory controls – that is important. And we have the target when it comes to operating working capital to be below 10%. And we have been between 5.5% and 8% over the last ten years. So we are there, and we will to be there.

## Cash Flow Generation Focus on Shareholder Returns

Moving into the cash flow side and the cash flow generation, but also looking a little bit a shareholder returns, I think this is also important to realize: that we have a slightly different underlying cash flow in the new structure after the spin.

And what you can see here is a comparison of Autoliv in the old structure and Autoliv in the new structure. And looking at 2017, we have a cash conversion of about 70% in the new structure in Autoliv, a return on capital employed of about 24% in the new structure to be compared with 19%. So we have an incremental higher underlying cash flow in the new setup, and we have higher returns.

What is so simple to realize when you're looking at the cash flow of the last couple of years is the higher level of capital expenditures that we have had, naturally driven by the higher order intake while we are investing for the new loan shifts in terms of production lines and so forth.

So if you go back a couple of years in the Autoliv history, you will find capital expenditures on the level of between 4% to 5% in relation to sales. We have been, for the last couple of years, on the level of between 5% and 6% when it comes to capital expenditures, and that is what we're expecting for 2018 as well, as we are in the mid of a big launch just now with a higher order – with a higher market share.

But what we will – or what we're expecting to see is our CapEx start normalizing in 2019 towards the historical levels when it comes to capital expenditures between 4% and 5%. But still for 2018 – a higher level than you have seen historically within Autoliv.

The underlying stronger cash flow is, of course, extremely important when it comes to the shareholder returns. And I mean this slide is just to illustrate how much we have returned

to shareholders over the last decade. So, it's a total of \$3 billion returned to shareholders in buybacks and dividends.

### **Strong Balance Sheet and Prudent Financial Policy**

Looking into the last area when it comes to a strong balance sheet and a prudent leverage policy, as I said, we are keeping the target when it comes to net debt to EBITDA one times. With the cash injection into Veoneer of \$1 billion, we are forecasting to increase our net debt to EBITDA ratio 1.5 times by the time of the spin. However, the strong underlying cash flow we are expecting to be back on target level again during 2019, but this is excluding any discreet items and, as most of you can remember, we have created a big EUMP trust in the investigation ongoing out there, so that is not including. So, that is excluding any discreet items. And we were also very happy when we saw the press release from Standard & Poor's yesterday, where they confirmed our A- rating and it was actually changed in the outlook from negative to stable, driven that – driven by a slightly lower cash injection into Veoneer than we originally said in the first press release. So, we are basically back on the same level as before announcing the spin when it comes to our credit rating.

### **Summary**

So, just lastly, to summarise the four different areas and looking on the near-term and the long-term growth. Near-term driven by the high order intake we have seen that we have in the older stock and long-term very much driven by the LVP, but also the opportunities when it comes to content. Profitability improvement very much related what we have in the order book to what we have the flawless execution that Mikael talked about in order to get the leverage from the value and to reach our target of 13% in 2020. And, when it comes to mitigating a downturn or meeting a downturn, we think we have very good tools in place to do that. When it comes to the cashflow generation, we have a strong underlying cashflow as I showed and that's just kind of looking at the incremental difference to the old structure we actually have a higher, higher underlying cashflow and then last but not least, we are committed to the strong investment grade, so the balance sheet is very important for us, and especially as we are in a secretive business, like we are in.

So, with that, I think I hand back to Anders Trapp.

## **Q&A**

**Anders Trapp:** Thank you, Mats. So, we are now going to set the stage for the question and answer session. I guess it will take one or two minutes for that. The Q&A session will be of course question from you, the audience here in the room. There will also be an opportunity for you to type questions in the online webcast that are ongoing. We will have Mikael, Mats and Jordy on stage here and the microphones that we will provide, state your name and your affiliation or your organization. And, please limit your question to one at a time so everyone has the chance to ask a question and then you can come back with follow-up questions.

I think actually we are – should be ready to do the Q&A, so if I ask Jordi and Mikael and Mats back on stage. Okay, Hampus, you're the closest one.

**Hampus Engellau (Handelsbanken):** I have a question on how would the collaboration be between Autoliv and Veoneer when it comes to restraint control in terms of the signing and sensors etc. Could you talk a bit about that, or maybe I'm forefronting something that we were talking this afternoon about? Anyway, that's my question.

**Mikael Bratt:** I think it's pretty straightforward, I mean after the separation here, I mean it will be two companies within arm-length's distance. I mean today, we are buying the ECU components from electronics, we will have an agreement with them to continue to do that, but we will also free to go anywhere else to look for that component if we would like to or if we see more competitiveness from another place. So, they will be as any other supplier so to speak from our side. Of course, there is opportunities to – so, that's the starting point. But of course, going forward here, we have everything we talked about here, we will see with our close relationship we have today what we can do more, or potentially do more as two separate companies can do together here. But it's very limited relationship at the starting point.

**Hampus Engellau:** Will you need to change or assign the product to use another supplier?

**Mikael Bratt:** We will have the own capability on the engineering side to drive this development, but maybe Jordi could add a little bit to what it requires and so forth?

**Jordi Lombarte:** Yeah, I mean as you have seen some of the path in our development of passage safety includes mechatronics integration and maybe a small ECUs for the hands-on detection, but these are, we are going to do the – we will have the knowledge, but then we will subcontract that production to other parties, and Veoneer is a potential good partner for us to do that. But no, there is no restriction in our way that we designed these things to link ourselves to only one option at this point of time.

**Hampus Engellau:** Thank you.

**Agnieszka Vilela (Nordea):** I have a question about your capital structure. You basically keep the target for net debt EBITDA and the same as you had for Autoliv as a group, despite the fact that Veoneer, which is cash-losing and a bit more risky asset is now disappearing. What's the reason for that? And then a follow-up also, you expect net debt to EBITDA to fall by only 0.5 times until the end of 2019, meaning that in the next six quarters you expect only limiting your debt by half of the EBITDA. What's the reason behind this kind of conservative expectations for the cashflow generation? Thank you.

**Mats Backman:** When it comes to normalisation on net debt to EBITDA, I said during 2019, not necessarily the end of 2019, to state that one. But when it comes to the target and the one times net debt to EBITDA, I think it's also important to realise exactly where we are right now. I mean, we will increase our net debt quite a bit with the capital injection into Veoneer. We'll fund if not the whole building, we have some from cash on hand, as well, when it comes to the cash injection. It may be 70/30 in terms of the split between new funding and cash at hand. And we also have, like I said when it comes to discreet tide, that the investigation ongoing out there, that will have a material impact on our financials. And I think in that environment, when looking at short- to mid-term, I think it's prudent to keep what we have until we have stabilised everything.

**Agnieszka Vilela:** Thank you.

**Bjorn Enarson (Danske Bank):** A question on airbags and the more deeply integration with the seating, looking ahead. How are you attacking that? Are you starting to cooperate with the seat developers, or how should we look upon that?

**Mikael Bratt:** Yes, I mean we need partners on that and we have talked about the relationship we have with Aegis and we have a number of projects running in parallel where we're looking at different solutions for the future cars here. I don't know, I think right now it's too early to give an example as to what we are doing together here, but we have a very close collaboration and we have a long-standing commitment. And we will see how we will bring the solutions to the market. I think that you can see primarily coming through the respective sales channels, so. But, we will not be able to talk in more details about that.

**Bjorn Enarson:** Is partnership the main forward?

**Mikael Bratt:** In those cases, yes.

**Bjorn Enarson:** Thank you.

**Erik Karlsson (Industrial Equity Partners):** I would be interested to hear what the sentiment is among the OEMs now that you've been running higher market shares for over three years for order intake. Is there any sense that they are concerned about that in the longer term and that they would like a more balanced competitive situation or are they quite happy with you with having such a big share of the market? Thank you.

**Mikael Bratt:** I think as I have mentioned before here, I mean, we have started the year on a healthy level when it comes to new ordering intake and we don't really see any new dynamics in the market here, but of course we need to always make sure that we are the best choice and that's why we need to continue to fight when it comes to our continuous improvement journey and around quality as well here. So, never lean back here. So, we are continuing to drive and protect the petition and changes in the dynamics as we see.

**Erik Karlsson:** Maybe as a quick follow up, for 2018, would you expect a similar dynamic as 2017, more or less?

**Mikael Bratt:** I don't want to do a preaction for the full year in this, but so far, so good.

**Erik Karlsson:** Thank you.

**Victoria Greer (Morgan Stanley):** Good morning. Coming back to the order question and related onto the long-term margin expectation, you now last September at the Capital Markets Day, you talked about ending 2020 at about 45% market share, so implying that you go back to 40%, probably from '18 onwards. Is that still the right way to think about it? I know you don't want to commit, but you know, if it's 40% you're looking at right now or if it's 50%, it is pretty material. And also, if it is closer to 40% right now, so 45% for 2020, you know, why does the margin continue at this rebased higher level, you know to

2020? You've got a lot of operational leverage on the higher order intake base, that's clear. But, why does it remain at 13% after that and not revert back to more the sort of 11% levels that you've done over the long-term?

**Mikael Bratt:** I think, I mean, first of all, we are confirming the targets when it comes to the top line and the EBIT when it comes to 2020 and I don't think there is any reason to start to talk about what's beyond 2020 at this point in time. I mean, it's a very clear target and not very far away. So, that's our focus right now and I mean in terms of market share, we're not guiding or having any targets on the market share as such here. So, it's really the new order intake that translates into a stronger market share than what we have today, so we'll see where that will be in relation to the overall market. But, that's as far as we go when it comes to targets, yeah.

**Victoria Greer:** And on the margin?

**Mikael Bratt:** Yeah, as I said, I mean, we have 13% for 2020 as the target, then speculating you know, where it will be beyond that I think that we need to focus on the 2020 before we start to talk about any guidance or new targets or indications or whatever you call it, beyond that. So, it's the 2020 we are talking about, yeah.

**Kai Mueller (Bank of America Merrill Lynch):** Following up from Victoria's question actually, when you look at the competitive environment and, obviously, you know, Takata sort of being risky and Kasus driving that change, have you seen OEMs being more aggrieved not only on allocating the orders but also trying to push the prices down again?

**Mikael Bratt:** We don't see any changes in the dynamics in the market place compared to a couple of months ago or so, so it's basically the same as we have seen in the past. So, no changes there.

**Kai Mueller:** And if you think about obviously you showed the increased content in terms of units of airbags being put into the car and the big growth rates you expect in terms of the actual revenue per car, is there a theme though that OEMs give you extra orders, extra units, but want to get a discount on the whole product portfolio, so that your, you know your sales increase, but your margin goes down?

**Mikael Bratt:** No, I think I mean, same there. I mean, the dynamics in terms of negotiating the prices varies between OEMs and I think we don't see any changes in that dynamics as a result of increasing content. I mean, we have been on increasing content for vehicle journey for quite some time and for one of the slides, I mean that's significant increases I would say since 2001 in Americas and Europe and I mean, that we continue, but no I don't see any changes from what we see today.

**Kai Mueller:** Okay. Thank you.

**Olof Cederholm (ABG Sundal Collier):** Just a question on capital allocation, as a big part of Autoliv acquisitions was on Veoneer side. Are there anything that you will look at now, adjacent areas, types of growth paths that you haven't considered before, which would acquire acquisitions?

**Mikael Bratt:** As I said, the focus is absolutely on delivering the new orders that we have received. So, I think that is priority number one, two and three. Then, of course, we need to have a more long-term perspective as well, and that's why I showed the adjacent opportunities there. So, yes, there you could see potentially some M&A opportunities, but that's nothing we are looking at today or tomorrow, so that's really long-term opportunities. On the MP&PA front, I would say it could be bolt-on opportunities that comes to us, but that's nothing that we're looking for or driving, so we'll say the M&A front is on the backburner from that perspective.

**Joel Arnande (ND Asset Management) [?]:** I'm coming back to your top line target for 2020 and I look at I mean the market share gains that you've done, the normal lead time in order to delivery and also that you've mentioned that around 20% of the market is negotiable every year more or less, which ends me ending up quite significantly above 11 and not \$10 billion, so I'm just wondering that they will start delivering out this year. I'm just wondering, is it timing uncertainty that is sort of the reason for your cautiousness, because I think no matter how you slice and dice it, you should be able to deliver quite significantly above your expectations or your target.

**Mikael Bratt:** We said above ten and not ten.

**Joel Arnande:** I know, but above 11 is another –

**Mikael Bratt:** So, there is some room there. But of course, there is a lot of things you know, in play when you look at top line three years out in terms of dynamics, the LVP etc. So, I think, we feel comfortable with the more than ten, but you have done the calculations. And you would say also, when you look at the new order intake, it's not like it's staggered when it comes in. We could have order won today that will be owned 2020 also, so you have to take that into consideration. Of course, that is a part of the crudeness when it comes to looking at the top line in 2020.

**Agnieszka Vilela (Nordea):** A follow up from me, can you confirm your growth targets of 2018 above 10% growth and also, how should we think about the trajectory of that growth, given that Q1 was somewhat weaker? Thank you.

**Mikael Bratt:** I mean, first of all, the more than 10%, that was what we communicated when we released the report. I mean we're not giving any updates to that, so that was what we released when we had the earnings release. And yes, I mean, as we said when we released the first quarter, I mean the real growth and launches in the way of that will start kicking in in the second quarter and throughout the year.

**Agnieszka Vilela:** Thanks.

**Anders Trapp:** I think that we could take one question from the webcast. It's from David Lim who wants us to, again, bucket the operating margin improvement up until 2020, the RD&E, the utilization and the efficiency improvement, is it 60-70 bps each, or is it a different distribution? From David Lim.



**Mats Backman:** I mean, what's important is AB in this one. If you take C, you take it to the current operational efficiencies and the operational excellence that Mikael talked about and that's always ongoing. What was new right now, that's the first two ones. So, the first two ones will stand for the majority of the margin improvement, but I wouldn't like to go into kind of specific numbers. It's the two first one there. The utilization of the entire volumes in existing facilities and the E&E leverage that's – those are the two most important ones.

**Anders Trapp:** Any follow-up questions? I think you've done a good job, there's no more questions. Crystal clear. I think with that, we end the Q&A session and I leave the floor and stage for Mikael for concluding remarks.

**Mikael Bratt:** Thank you, Anders. Okay. Let me thank you all for joining us here today, it has been a pleasure to talk to you about Autoliv post-Steam and as I said, I hope the takeaway from this morning here is first of all, first and foremost our focus and passion to continue to develop this company from the basis that has been built over a number of years. We have a very strong platform from which we now could leverage. The spin in itself provides a number of opportunities to drive then profitable growth going forward. And we are operating in an addressable market that is growing with size, but I will say also with innovation and sophistication when it comes to our product. And all together, I think we have the tools and we know what to do and we know how to do it and our operational focus will be in the forefront over the next coming years here.

So, once again, thank you very much. Looking forward to interact with all of you in the future here. And next checkpoint will be then the Q2 earnings that will take place on the 27<sup>th</sup> of July and then we intend also to invite you all to Capital Markets Day sometime during 2019 and of course we will come back with more details around that when the time comes. Thank you very much, enjoy the rest of the day.