# Autoliv Inc Second Quarter 2018 Financial Results

Friday, 27th July  2018

## Welcome

Anders Trapp

*Vice President, Investor Relations, Autoliv Inc.*

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

During today's earnings call, our CEO will provide a brief overview of our second quarter results and outlook, as well as provide an update on our general business and market conditions. Following Mikael, our CFO, Mr Mats Backman will provide further details and commentary around the Q2 2018 financial results and outlook for full year 2018.

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

### Safe Harbor statement

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

The results herein present the performance of Autoliv continuing operations, meaning that the historical financial results of Veoneer are reflected as discontinued operations. The exception to this is cash flows, which are presented on a consolidated basis for both continuing and discontinued operations.

During the presentation, we will reference some non-US GAAP measures. The reconciliations of historical US GAAP to non-US GAAP measures are disclosed in our quarterly press release and the 10-Q that will be filed with the FEC. Lastly, I should mention that this call is intended to conclude at 15.00 CET. Please, therefore, follow a limit of two questions per person.

I now hand it over to our Chief Executive Officer, Mikael Bratt.

## Q2 2018 Highlights

Mikael Bratt

*President and CEO, Autoliv Inc.*

### Q2 2018 highlights

Thank you, Anders. I will look now into the Q2 2018 highlights on the next slide. However, first, I would like to say that I am very happy to talk with you here today. The last time many of us met was at the Investor Day and on the following roadshows, when we talked about the road ahead for Autoliv following the spin-off. Now we are, for the first time, presenting the new Autoliv, marking the beginning of a new, exciting journey towards our 2020 financial targets.

I would also like to acknowledge and offer my sincere thank you to the entire Autoliv team for delivering a quarter of strong growth in the midst of all the extra efforts to complete the Veoneer spin-off.

With the Veoneer spin-off now successfully executed, the Autoliv team is fully focused on our automotive occupant and pedestrian safety products, to manage the product launches and deliver increasing value to our stakeholders. The product launches are on track but with some delays in ramp-up in the first quarter of 2018 of certain models and at somewhat elevated levels of launch-related costs.

We have experienced some headwinds from raw material pricing and currency movements in the quarter which, together with the launch-related costs, hampered the operating leverage of the strong sales growth. The management team is fully focused on delivering on the 2020 targets. Our 2018 full-year indication for growth and margin, together with the continued strong order intake, show that we are on track towards our 2020 targets of more than $10 billion in sales and around 13% adjusted operating margin.

Favourable industry fundamentals continued to drive higher automotive demand and production in the quarter. Looking forward, we will continue to carefully monitor the development of issues fundamental to our business, such as the potential impact of trade renegotiations and tariffs on raw materials in the automotive industry.

**Q2 2018 financial highlights**

I will look now at the recap of our second quarter financial performance on the next slide. Built on previous years' strong order intake, the second quarter marks the beginning of the step up in growth that we have been discussing. Our consolidated net sales for continuing operations increased more than 11% compared to the same quarter of 2017. Adjusted operating income increased by more than 6%, from $216 million to $230 million. Adjusted operating margin for continuing operations, excluding costs for capacity alignment and anti-trust-related matters, decreased by 50 bps to 10.4% compared to the same quarter of 2017. Adjusted EPS from continuing operations, diluted, increased by 48% to $2.22, as compared to the same quarter of 2017. This was mainly due to higher gross profit and lower tax, which was partly offset by increased RD&A, net.

**Q2 2018 sales growth**

I will now look to our sales growth on the next slide. Consolidated net sales for continuing operations in the quarter increased year over year by 11.5% to $2.2 billion, with an organic growth of 7.3% and a positive currency translation effect of 4.2%. Sales outperformed LVP, according to IHF, in all markets except Europe and South Korea. In the quarter, 60% of the organic growth came from the growth market: China, India, ASEAN and South America, with China leading the way by growing organically by 18%.

Compared to last year, these growth markets increased their overall share of our sales by three percentage points to 24%. In China, both global OEMs and particularly local OEMs contributed to the strong performance growth. Newly-introduced models from Geely, including their luxury brand, Lynk & Co, as well as Great Wall, have been significant contributors. Local OEMs now account for a quarter of our sales in China, compared to less than 22% a year ago.

Driven by previous quarters' product launches, mainly from FCA, Honda, Nissan and Tesla, our sales in North America grew by close to 12% organically in a market with a 2% decline in LVP.

Despite negative effects on light vehicle production from transportation strikes in Brazil, our sales in South America grew organically by 34%. In Europe we have been affected by weaker demand for certain models that we supply, in part related to the temporary production cuts connected to the new EU emission testing regulation, WLTP, implementation on 1st September 2018.

### 2018 – key models

Our key growth vehicle models for 2018 are on the next page. Here you see some of the key models which have launched in 2018. These models accounted for a large share of our organic sales growth during the first half of 2018. Despite some of these models contributing slightly less than expected, particularly in Q1 of 2018, we continue to anticipate that they will contribute around $0.5 billion of organic sales growth during full year 2018. Annually, these models represent more than 10% of sales where our content per vehicle is in the range of $100 to more than $400.

### Product launches per quarter

Looking now to our product launches, our strong momentum continues. We continue to see the ramp-up of product launches and business awards in 2015 and 2016, as illustrated by the chart. The ramp-up of growth is developing according to plan after some delays in the first quarter 2018. The number of product launches in the second quarter of 2018 increased by 72% compared to a year earlier. We expect this to result in a step-up in organic growth in the second half of the year compared to the first half of the year and a strong performance versus our market and LVP in subsequent quarters.

As the number of launches is stabilising, we believe we can gradually focus more on productivity improvements through operational excellence while our launch-related costs gradually decline.

### Overall market conditions

Looking to our underlying market conditions on the next slide, despite continued strong global light vehicle sales, the outlook for the major light vehicles market has become increasingly more uncertain due to potential trade tariffs and regulatory changes. Despite strong light vehicle sales in April and May in China, light vehicle inventory levels increased during the quarter. They are now above what had historically been considered to be healthy levels.

During the second quarter the inventory levels declined year over year in the US due to relatively strong sales with what seems to be disciplined production volumes. In Europe, the light vehicle production increased around 4% year over year in the quarter as vehicle registration continued to increase near record levels in the region. For the third quarter overall, global light vehicle production is expected to be quite strong, with an increase, year over year, of around 3% according to the latest IHF forecast figures.

Asia is expected to increase by around 2% in the third quarter. This assumes light vehicle production will increase year over year in China by around 3%. The rest of Asia is expected to remain unchanged and Japan is expected to increase by around 2%.

In North America, the light vehicle production is expected to increase year over year around 6%. In South America it is expected to remain strong and increase around 14% for the third quarter.

However, we have seen a reduction in near-term forecast volumes, particularly in Europe but to some extent also in North America. The reductions in Europe, we believe, are mainly related to the WLTP, as light vehicle sales have been strong in the region, reaching near-record levels. These reductions and our slightly weaker than anticipated sales in Q2 2018 are the main reasons why we have reduced our full-year 2018 organic sales indication.

### Trade and regulatory update

I will move now to the trade and regulatory update on the next slide. Autoliv continue to monitor the trade and regulatory environment. In general, we continue to work on mitigating these risks through a geographically-diverse supply chain.

The negotiations on NAFTA may have a significant impact on the North American automotive industry as a whole. We produce a substantial amount of airbag modules and inflators in the US and have a large footprint for high-level content production in Mexico. We estimate that our net import to the US from other NAFTA countries is less than 50% of our total North American sales.

Most of our production in Mexico is picked up by the OEMs for assembly into vehicles in Mexico, the US and elsewhere.

Looking at imports and exports between China and the US, we have a limited direct exposure thanks to the investment in China for vertical integrations over the past years. However, Chinese tariffs on import vehicles from the US may affect output of certain vehicle models with high safety content.

In September 2018, the EU will switch to a more rigorous emissions-testing procedure, WLTP. This means that all brand model engines, transmission combinations and configurations must be individually tested. OEMs have acknowledged that they will not be able to fully execute the required volume of testing by the deadline and have temporarily reduced their output of certain models in the second half of 2018.

I will now hand over to our CFO, Mats Backman, to speak about the financials.

## Financial Results

Mats Backman

*Chief Financial Officer, Autoliv Inc.*

### Q2 2018

Thank you, Mikael. I will now look at our financials on the next page, where we have our key figures for the second quarter. Including positive currency translation effects of around $80 million and organic sales growth of about $145 million, our consolidated net sales reached $2.2 billion for the quarter.

Our gross margin declined year over year. The net operating leverage from the higher sales is offset by higher commodity costs, net currency effects and costs related to ramp-up of recent launches. Our adjusted operating margin of 10.4% declined year over year, mainly due to RD&A net and the lower gross margin. This was partly offset by lower cost for SG&A in relation to sales.

Our adjusted earnings per share of $2.22 improved year over year by $0.72. Our adjusted return on capital employed and return on equity were 21% and 25% respectively.

**Operating margin bridge**

Looking now on the next slide, our adjusted operating margin of 10.4% was 50 bps lower, year over year. As illustrated by this chart, operating leverage from the organic sales growth improved the margin by about 20 bps. This improvement was more than offset by higher raw material costs of about 30 bps and a net currency headwind of about 40 bps. The leverage was negatively impacted by RD&A expenses, net, which increased compared to the same quarter in the prior year. This was mainly as a result of the lower engineering income and the significant increase of product launches in the quarter. We expect the headwinds for raw materials to continue throughout 2018 and to be close to $30 million higher, year over year, due to higher costs for non-ferrous metals, steel and yarn. This was almost twice as high as expected at the beginning of the quarter. We anticipate the currency effects on the operating margin for the full year 2018 to be close to neutral.

**Cash flow including discontinued operations**

Looking now to our cash flow on the next slide, our operating cash flow, including discontinued operations, amounted to $47 million compared to $179 million in the same quarter of 2017. The decrease was primarily driven by cash flow impacts from discontinued operations, including costs of about $80 million for separating our business segments. We also had increased operating working capital, driven mainly by increased sales growth.

Of the total $165 million in capital expenditures, $125 million is related to continued operations, which is about 5.7% in relation to sales. For the full year 2018, we expect capital expenditures to remain in the range of 5-6% of sales. From 2019 we expect the CAPEX [inaudible] to begin to normalize towards the historical range of 4-5%.

Looking at continued operations for the full year, excluding any discrete items, we expect our operating cash flow to be at about the same level as in 2017, which was $870 million.

**Underlying EPS improvement**

I will look now at our earnings per share on the next slide. In second quarter 2018 the adjusted earnings per share increased by 48% to $2.22 compared to the $1.50 for the same period one year ago. The main driver behind the increase is the lower tax rate compared to a year ago, explaining about $0.58. The remaining $0.12 comes from higher operating income.

**Capital structure**

I will look now at our returns on the next slide. We are pleased that the returns are improving in the new corporate structure. Return on capital employed and return on equity for continuing operations for the quarter is about what we have recorded in the full years 2015–2017 in the old structure. We increased the dividends returned to shareholders in the quarter to $54 million. We distributed the Veoneer shares to our shareholders as well in the quarter.

**Strong balance sheet and prudent financial policy**

Turning to the balance sheet and the financial policy on the next slide, we have, as you know, a long history of a prudent financial policy. After the spin our balance sheet focus and shareholder-friendly capital allocation policy remains unchanged. The third quarter 2018 dividend was set at an unchanged level of $0.62, which of course means a significant increase in dividend yield after the spin. At the time of the spin we provided $1 billion of cash liquidity for Veoneer. Standard & Poor's has confirmed the long-term credit rating, A– with a stable outlook, even after the cash injection.

Autoliv's policy is to maintain a leverage ratio of around one-times net debt to EBITDA and to be within a range of 0.5–1.5. As of 30th June 2018 the company had a leverage ratio of 1.6 times. Our strong free cash flow generation allows for fast deleveraging and should allow continual returns to shareholders while providing for flexibility. As a result, we are aiming to reach a target level of one-times in 2019. That is excluded any discrete items.

**Long-term debt**

Turning the page, we have our maturity structure of long-term debt. In June Autoliv issued a five-year bond offering of €500 million in the Eurobond market. The bonds carry a coupon of 0.7%. Standard & Poor's has assigned the bond a rating of A-. The Eurobond market provides diversification of funding sources for Autoliv going forward. Furthermore, as can be seen from the chart, Autoliv has a very well-balanced debt maturity profile going forward.

**Financial outlook**

I will look now to our financial outlook where we have summarized our full-year 2018 indications. Full-year 2018 indications assume mid-July exchange rates prevail and excludes cost for capacity alignment, anti-trust-related matters and costs related to the spin of the electronics segment.

Our full-year 2018 indication is for an organic sales growth of about 8% and a positive currency translation effect of about 2%, resulting in consolidated net sales growth of about 10% for 2018. The 8% organic sales growth indication is slightly lower than the earlier indication of more than 10% as we have noted some near-term reductions in full-cost volumes, especially in Europe.

The net operating leverage on this sales growth is expected to drive an improvement in operating margin, leading to an adjusted operating margin of more than 11% for the full year 2018. The projected tax rate, excluding discrete items, is expected to be around 27% for the full year 2018. The projected operating cash flow for continuing operations, excluding any discrete items, is expected to be on a similar level as in 2017, which was $870 million. The projected capital expenditures for continuing operations, full year 2018, is expected to be in the range of 5-6% of sales.

I will now hand back to Mr Trapp.

## Q&A

**Anders Trapp:** Thank you Mats. Turning the page, this concludes our formal comments for today's earnings call. We would like to now open up the line for questions.

**Rick (Wells Fargo Securities):** Hi, good morning everyone.

**Mikael Bratt:** Morning.

**Rick:** You addressed the tariffs in some qualitative detail. However, I am just curious if there is any distinct financial impact in the second half of the year under 301 in terms of imported components, etc., that may come through indirectly?

**Mikael Bratt:** I think what we are saying here is that we are very well positioned in general when it comes to tariffs with our localisation strategy. In the US, as you saw on the slide here, we actually also received an exemption from the US authorities here. In terms of impact in the quarter, I would really say that it is more the consequence on the raw material side that hits Autoliv, so to speak, and what we also describe here. I would therefore say, from a tariffs perspective, we are in a good position.

**Rick:** Okay. I just have a quick follow up on that. I know that we have a little bit of a respite from 232 Auto for the time being. However, do you have any broad thoughts on impact there that could emerge?

**Mikael Bratt:** On our side I would say I cannot guide you there. For us it is really all about making sure that we are agile and can adjust according to what the landscape looks like. I think right now the potential exposure in that area is on the effect of the LVP side. That is where it comes through, I would say. It is not in the import duties, as such, for us.

**Rick:** Okay, great. Alright, thank you very much.

**Mikael Bratt:** Thank you.

**Hampus Engellau (Handelsbanken):** I have a question on China. Could you maybe talk a little about your discussions on the new China NCAP and domestic [inaudible]. You highlight the domestic models being one-third of your sales now. Previously I think it has been something around 25%. Is this off the back of seeing a higher content value per existing customer or are you also seeing new customers coming to Autoliv? Those are my questions.

**Mikael Bratt:** Actually we see both. I would say, of course, the relevant growth is really coming from our existing customers, growing with them. We are also growing content per vehicle there. However, we also see increased activity on the broader perspective here and new customers coming through there.

I think when you look at Chinese OEMs per se it is definitely true that content per vehicle is going up in general and we have a broader customer base.

**Hampus Engellau:** Is it broadly spread or could you now talk about maybe seeing an A team and a B team in China? The A team would be more going for a similar take rate as the foreign OEMs and maybe looking at exporting cars? Or is it a broad increase in take rate?

**Mikael Bratt:** I think if you look at, let us call it, the premium Chinese brands here, they have a content per vehicle that is more in the magnitude of around $200 per vehicle. If you then set the broader, let us call it, COEMs, it is $120 per vehicle there. There is therefore a difference in content per vehicle between what you call the A and B team; I would call them more the premium and the volume car makers there.

**Hampus Engellau:** Alright, thank you.

**Victoria Greer (Morgan Stanley):** Hi there, just a couple please, first of all on the full year change in the guidance. I think I saw you comment somewhere that this really just on production changes. Could you talk a bit more about what you are seeing there? You mentioned WLCP a bit. However, I do not think that is, probably, all of it. How much is the WLCP impact and how much is what you are seeing elsewhere?

Then, on the margins, you have mentioned some start-up costs in Q2. Could you tell us how much that has been? Obviously it makes sense, thinking about how much your product launches have been up year over year in Q2. How much of cost have you had in Q2 that probably is not going to repeat for H2? I am really just trying to get to what are the drivers of a stronger margin for H2, which is implied in the full-year guidance being over 11%? Thank you.

**Mats Backman:** I will start with the first question here, around the adjusted indication for the organic growth for the full year. It is correctly stated there, it 100% contributed to the underlying LVP. However, the reason for the underlying LVP changing, I would say, is a little bit of a mixed bag here depending on which region you are talking about. I think in Europe the WLTP is one contributor, I think also the Q2 effect we saw here. We also have a mix effect in our own portfolio, so to speak, between the different customers and how they develop in the quarter. That of course carries on and impacts the full year number here. We then have the uncertainty in North America. I think you have seen here also some of our customers coming out just recently talking about the full year for them. When we, of course, look in our own systems here and see the call-outs from them, it makes our up, then, the adjustments we are doing here. I think it is difficult to single out any specific, major part here. It comes from different root causes, so to speak.

**Mikael Bratt:** When it comes to the margin and comparing the first half and the second half, I think you need, probably, to divide it in two different parts, looking at above gross profit and below gross profit. Starting below gross profit, we have a higher-than-normal RD&A in the quarter. I think it was like 5.3%, year to date 5.1%. We are expecting a lower level in the second half of the year. That is partly driven by the higher engineering income in the fourth quarter but also a lower relative underlying RD&A cost, so that will be one of the drivers down.

Looking above the gross profit at our contribution level, first of all we will have less impact from currencies in the second half comparing to the first half. Raw materials are on about the same level, looking at the total effect for the full year. But we also have some inefficiencies in the system as well, driven by the very, very high amount of launches in the second quarter. We have more than 70% increase in launches in the second quarter, year over year. That is also driving some inefficiencies in the system as well that we can see that we can improve on in the second half.

**Victoria Greer:** I wanted to ask about the RD&A as well. We should think about that as being at an unusually high level in Q2, partly because of the lower engineering contribution and it comes down for the second half. Is that right?

**Mikael Bratt:** Yes, yeah. It is partly the lower engineering income in the second quarter. However, it is also related to the high number of new launches as well, so you have two different components in that.

**Victoria Greer:** Thank you. Then just a couple of housekeeping ones: could you talk about your full-year expectations for the tax rate and for the interest costs, please?

**Mikael Bratt:** Now I am just talking continued operations. We are expecting, or we are targeting, a tax rate of about 27% for the full year. That is the full cost for the tax rate. What was the other one there?

**Victoria Greer:** Interest costs.

**Mikael Bratt:** It will not be a significant effect in the remainder of the year. The Eurobond will start kind of kicking in now, starting the third quarter. You can make the math from that one, otherwise there are no changes.

**Victoria Greer:** Okay, great, thank you.

**Chris McNally (Evercore):** Good afternoon gentlemen. Thanks so much for taking the question. Maybe we could just dive into the step-up in the second half. It sounds like the production guidance is roughly in line with IHS, around 2%. I guess that would imply something like a 12% outgrowth, before 2% pricing, to hit the 12% organic in the second half. If I just use that 12% on last year's $4 billion, I get to a number that approaches $500 million in new launches just for the half. You mentioned $500 million for full year launches. Could you just help bridge the math because I would not imagine that 100% of your new launches were all in the second half?

**Mats Backman:** No, that is correct. The $500 million is what we contribute to these 13 identified models. Then, of course, we have an organic growth that comes from, let us call it, the ordinary course of business that is not directed to the 13 models. I think there you have the difference between what you see in the numbers and what we referred to, the $500 million. What we have said and what we are saying is that we have roughly delivered half of this $500 million, year to date, so we have another half to go there in 2018.

**Chris McNally:** Okay. Is it fair to at least say that, with the large amount of launches that you had in Q2, obviously the production and maybe the mix can move around from that 2%. However, that outgrowth, that 10%, do you have that visibility locked for the next six months? Essentially the only changes would be actual production, meaning that there are not any more launches. The majority of launches are pretty much known by the summer for Q3?

**Mikael Bratt:** We have a very good visibility of the launches we have in front of us. That is what we say: everything is going according to plan and we are expecting that to deliver its share of the organic growth here. So, yes, if you have changes here it is mainly related to the underlying light vehicle production in the market.

**Chris McNally:** Okay, great, thank you so much.

**Mikael Bratt:** Thank you.

**Brian Johnson (Barclays):** Good morning and afternoon. My question is around, really, the interaction of pricing contracts, the cost pressures from commodities and perhaps tariffs. One, can you just maybe remind us of the level of indexing in your contracts? Two, assuming there is not indexing, what have the discussions been with the OEMs on pass-throughs? Three, is that factoring into the annual price-down discussions that you are having with the OEMs? I have talked years to Jan Carlson about the fact that it does not seem fair that Autoliv consistently delivers the highest quality in the airbag business but consistently gets pushed for price-downs by OEMs.

**Mikael Bratt:** Just to start with your question around the index here, related to raw materials, etc., there is, in general, not any automation, I would say, or a pass-through for us on that type of cost. I would say that in the cases where we have good reasons to go to the customer in specific cases, it becomes a commercial negotiation. Of course, depending where we are in the negotiations in general, it comes into the annual price-down discussions there. It is, therefore, a pure commercial negotiation there, so correct.

I would say, in general, of course, there are no changes in the dynamics in our market here. I think there is a lot of continued focus, for sure, on the price competitiveness from our customers here towards us. There is no change to that compared to what has been in the past.

**Brian Johnson:** Are you having those commercial negotiations or do you plan to have them towards the end of the year to true-up the recoveries, if any?

**Mikael Bratt:** As I said, if we have specific circumstances of course that is something we bring up with the customer. However, on a general note, it is nothing I can say that we are expecting to see any contribution from.

**Brian Johnson:** Okay, thank you.

**Mikael Bratt:** Sure.

**Erik Karlsson (Industrial Equity Partners):** Thank you. My first question is on organic growth. In the first quarter organic growth was a bit below expectations and you called out certain models flipping a little bit there in terms of launch schedule. I was wondering if these models have now caught up and we are back on track there?

**Mikael Bratt:** Yeah, those models are catching up to a large extent. Of course there are some spill-over effects also into the second quarter here. However, to a large extent, they are tracking towards our expectations here.

**Erik Karlsson:** Good. Just as a follow-up on that, what is the uncertainty around the $500 million contribution? That you have kept intact but at the full year and in the first two quarters here. How much wiggle room is that in the $500 million for the full year at this stage?

**Mikael Bratt:** What we have stated here before and what is remaining for the full year is that it is the best estimate we have at hand. We have no reason to state anything differently here, so we will not do that[?].

**Erik Karlsson:** Okay, very good. Just on the margin improvement that you expect during the second half of the year, for the full year you guide for 20 bps or greater improvement and the first half was –30 bps. Maths tells us the second half would therefore be up at least 70 bps year on year, roughly.

**Mats Backman:** Yeah.

**Erik Karlsson:** Can you just help us understand if that is equally weighted between Q3 and Q4?

**Mats Backman:** No, we have a seasonality in Autoliv looking on the financial performance between the quarters. Normally the best quarter for Autoliv is the fourth quarter, where we are getting a lot of engineering income and some other kind of positive items coming in. If you are looking at the sequential development, we have the normal seasonality with the strongest quarter being in the fourth quarter. That is from sequential development and with seasonality.

However, again, we are not that happy with the leverage in the second quarter. We talked about the number of launches and so forth. We can therefore see an underlying improvement in the second half. As I answered Victoria as well, when it comes to the leverage in the second quarter, it is also driven by the RD&E development, where we are expecting to have a lower RD&E in relation to sales than in the third and more importantly, in the fourth quarter. It is many different factors contributing to the leverage in the second half.

**Erik Karlsson:** I understand that but just to understand: we should think about it as Q3 improving on a year-on-year basis. However, the biggest improvement on a year-on-year basis is really Q4-weighted. Is that a fair assumption?

**Mats Backman:** Yeah. Having the strongest quarter in the fourth quarter and also looking in particular when you are in a situation with high growth as well, we have the natural kind of sequential, seasonal difference between the third quarter and fourth quarter. It actually might be almost a little bit bigger this year due to the development of the growth and the ramp-up.

**Erik Karlsson:** Good. One more question, if I may? You have upgraded raw material headwind here throughout the first half. I am therefore just wondering: do you have now all the raw materials basically sourced for the second half of the year or is there still some uncertainty around the $30 million?

**Mats Backman:** There are still some uncertainties around the $30 million depending on what will happen out there. However, the absolute best kind of estimate we have today is the $30 million, or 30 bps, on the full year.

**Erik Karlsson:** Very clear, thank you so much.

**Mats Backman:** Thank you.

**Vijay Rakesh (Mizuho Securities):** Hi guys, just a question here on your content. I know you have called out, in China, almost $200 at the premium end and $100 at the volume level. With the new NCAP regulations, where you do see content going on the passive safety side in China?

**Mikael Bratt:** I cannot give you a number here. However, as we have alluded to before, we see the content per vehicle increasing. That is both in the premium segment as well as in the volume car segment here, where you see more and more components coming in. I think we are on track when it comes to that.

**Vijay Rakesh:** Got it. With all the issues at Takata, are you seeing a better order uptake in passive safety in China versus other regions? Or is it pretty much similar as you look globally?

**Mikael Bratt:** No, I think the way we have performed in the past we do not see any changes. As we said, we have continued a strong order intake in the quarter here without quantifying that. I would say that counts for all our different regions, in terms of the business climate and our progress in the past here. There are no material changes there to report on.

**Vijay Rakesh:** Got it, thanks.

**Mikael Bratt:** Thank you.

**David Leiker (Baird):** Hello everyone.

**Mikael Bratt:** Hello.

**Mats Backman:** Hello.

**David Leiker:** There are a few things I want to kind of walk through. Let us start with slide seven, where you list a number of product launches. If you extended that out to 2019, just directionally, what would that look like?

**Mikael Bratt:** We normally do not guide on product launches here. However, I would say 2018 is the peak year, so to speak, if you had those three years in the writing here. In 2019 we will be slightly lower but compared to where we have been, it will still be on a relatively high level of launches here. However, it will be slightly lower than [inaudible].

**David Leiker:** Great, thanks. Then, as we look at Europe with the WLTP, what is your sense of when we will get back to some sort of normalized production, where that is not impacting the build rates?

**Mikael Bratt:** It is difficult to speculate. It is more a question for the OEMs to answer on that. I think what we have indicated in our numbers is as much as we see here. I do not think I can give you any guidance there, it depends most on the different OEMs, here, I assume. It is more a question for them to answer.

**David Leiker:** Is this something you think can drag over into Q4 and Q1 of next year?

**Mikael Bratt:** As I said, we cannot speculate here. I think we have, in our numbers, what we have visible here. The impact for us is, together with the other contributing that we have talked about here, the 2%. Q3 and Q4 especially yes but we have no major indications beyond that, no.

**David Leiker:** Okay. The last one is: if we look at the EBIT margin, you were just under 11% last year; you are guiding above 11% this year. Then, at the Analyst Day, you were talking about a 13% number for 2020. If we look at that slope, is that evenly spread across that time period or is it more back-end weighted?

**Mats Backman:** It is difficult. We have not really guided about the sequential over the years when it comes to the EBIT margin development. However, it is fair to assume, when we have the high number of launches that we have right now, it kind of takes some time to fine tune everything in production in order to get the full effect, in terms of leverage, from the additional volumes. We see a gradual improvement from higher volumes. I think it is difficult to start kind of stating something going into 2019 and 2020. However, if you are looking from a sequential point of view, quarter by quarter, it is definitely so that we have bigger opportunities when it comes to leverage when we have fine-tuned production and we have the volumes in production.

**David Leiker:** Okay, great. Thank you very much.

**Mats Backman:** Thank you.

**Joseph Spak (RBC Capital Markets):** Just to follow on the prior WLTP discussion, obviously there are some qualification and capacity issues. However, one of the other things that some of the auto makers indicated was, because of that, they are delaying some new programs. I am wondering if that impacts some of your order intake that you expected to come on as well. Is it both volume and launches or is it really just more volume?

**Mikael Bratt:** It is more volume from our side here, when we look into the rest of the year, so no pushes forward of any product launches as such. That is following the plan. For us, in the second half of the year here, it is purely volume related.

**Joseph Spak:** Okay.

**Mikael Bratt:** I cannot say that we have seen anything related to WLTP commented when it comes to the new programs. That is much further out in time as well, so I would be surprised if that came into that.

**Joseph Spak:** Okay. Then just, maybe, any sort of high-level comments on the competitor environment with Joyson sort maybe coming together a little bit? What are you seeing in terms of the bidding and quoting process from a competitive nature?

**Mikael Bratt:** I think the dynamics in the market are as they have been; we see no changes to that. We look, of course, at all our competitors with great respect and we are leading forward and fighting every day here for our business here. However, there are no changes in the dynamics.

**Joseph Spak:** Okay, thank you.

**Agnieszka Vilela (Nordea):** Could we just dive in on what happened in Europe during the quarter? You did not have any growth in spite of the fact that, at least the official, production numbers were positive. You mentioned that you had some negative mix impact there. Can you just elaborate on this one and also tell us if that will prevail in the coming quarters? Thanks.

**Mikael Bratt:** I think in Europe it is, as we stated there, a mixed question for us. We do not have the wave, as we have referred to, in the step up of launches in Europe as we have done mainly in North America and China. We were not offsetting the mix effect with the increased product launches; they were not appearing in Europe there.

It is really related to the respective customer we have that we saw the volume effect there. It was not, I think, a clear picture in Europe here. That is why we refer to the mix.

**Agnieszka Vilela:** Okay. When you look at these, then, say, important customers for you in Europe and their outlook for production in H2, what do you see there? Should we expect still negative performance versus the car production in Europe and your business?

**Mikael Bratt:** No, I think when it comes to the remaining of the year here, we will continue to see some challenges in Europe here when it comes to the figures we see and what you may see from IHS, where they have slightly higher numbers. That is probably because of what we see connected to the new emissions standards here.

**Agnieszka Vilela:** Okay, perfect, thank you. Then I think I have one question to Mats on the financials, a bit of nitty gritty. If I look at your P&L and the line above the operating income, you have the line called 'Other income expenses, net of', $9.6 million. When I look at my model, usually this kind of line correlates quite well with the one-offs that you take in the quarter, they are not much higher than that. However, in this quarter it was actually $10 million. The question is: do you have any kind of undisclosed positive non-recurring items that you encountered during the quarter?

**Mats Backman:** No. I think it was $9.6 million or something like that, looking at the second quarter. If you compare year over year I think we had a little bit more than $8 million last year. Just looking on the year-over-year development of these items, it contains a lot of smaller items that are kind of summarizing up to the $9 million. We do not have anything unusual in that one. A good example of an item that is positive that is ending up in this one is, for an instance, government income that we might receive from China that is coming kind of regularly. That is a part of this one, as an example. However, it is nothing out of the normal when it comes to the other income this quarter.

**Agnieszka Vilela:** Perfect, thank you.

**Mats Backman:** Thank you.

**Viktor Lindeberg (Carnegie Investment Bank):** Just to understand, when you now reiterate the margin outlook for 2018 and also 2020, thinking about the headwinds that you experienced on FX and also raw materials, this sums up to, I think it was, 70 bps. What is counteracting, or mitigating this, given that you more or less now reiterate the margins for both 2018 and also looking all the way to 2020? Thank you.

**Mats Backman:** We actually did not have any margin guidance, looking at 2018, to start with. I think the only thing we have stated was for the segment to be better, year over year. We did not really give any guidance when it comes to 2018. This is the first guidance as a standalone company for 2018. As I have said, looking at the currencies, for an instance, we see a very limited, if close to neutral, effect for the full year. You are right about the raw materials. However, to kind of consider that in a target that is in 2020 I think is extremely difficult, given the volatility we have seen, both on raw materials and on currencies then. The only thing we can do is to reiterate the target of the 13%, looking at 2020. Now we have the new guidance for 2018 of more than 11%. That is a new guidance and that is including the raw materials effect we see and the neutral currency.

**Viktor Lindeberg:** Just to understand, should we say, maybe, that you had a decent cushion in the numbers you provided, both on the 13% 2020 but also that margins are to expand, year over year, in 2018? Is that one of the –

**Mats Backman:** No, I would not say so. You always have positives and negatives along the road. What we are communicating is our best estimate, basically.

**Viktor Lindeberg:** Then just a follow-up question on the order intake. Can you update us on if you have any data on the market shares, year to date, on your global order intake? You have been trending at 50%, or 50% plus. Is this something that you continue to see throughout 2018 so far?

**Mikael Bratt:** We are not giving the market share number of the order intake. What we stated here earlier in the call, which we also have in the report, is that we see continued strong new order intake. That is what we keep it to.

**Viktor Lindeberg:** Alright, thanks. Good luck with Q3.

**Mikael Bratt:** Thank you.

**Mats Backman:** Thank you.

**Mikael Bratt:** Very good, thank you very much. However, before we end today's call I just would like to say that we continue to execute our growing business volumes and now new opportunities in a more focused Autoliv. We have a never-ending focus on quality, innovation and operational excellence. I also should mention that our third quarter earnings call is scheduled for Friday, October 26th 2018. By that, thank you everyone for participating on today's call. We sincerely appreciate your continued interest in Autoliv and hope you have a great summer. Goodbye and thank you.

[END OF TRANSCRIPT]