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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019

or

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

For the transition period from _____ to _____

Commission File Number 001-38636

Garrett Motion Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**82-4873189** **(I.R.S. Employer Identification No.)**
La Pièce 16, Rolle, Switzerland **(Address of Principal Executive Offices)**	**1180** **(Zip Code)**

+41 21 695 30 00

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value per share	**GTX**	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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

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

As of June 28, 2019, the last business day of the registrant's most recently completed second quarter, the approximate market value of the registrant's common stock held by non-affiliates was $1.141 billion. As of February 25, 2020, the registrant had 74,830,133 shares of common stock, $0.001 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into the Annual Report on Form 10-K: Portions of the registrant's definitive Proxy Statement for its 2020 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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BASIS OF PRESENTATION

On October 1, 2018 (the "Distribution Date"), Garrett Motion Inc. became an independent publicly-traded company through a pro rata distribution (the "Distribution") by Honeywell International Inc. ("Former Parent" or "Honeywell") of 100% of the then-outstanding shares of Garrett to Honeywell's stockholders (the "Spin-Off"). Each Honeywell stockholder of record received one share of Garrett common stock for every 10 shares of Honeywell common stock held on the record date. Approximately 74 million shares of Garrett common stock were distributed on October 1, 2018 to Honeywell stockholders. In connection with the Spin-Off, Garrett´s common stock began trading "regular-way" under the ticker symbol "GTX" on the New York Stock Exchange on October 1, 2018.

Unless the context otherwise requires, references to "Garrett," "we," "us," "our," and "the Company" in this Annual Report on Form 10-K refer to (i) Honeywell's Transportation Systems Business (the "Transportation Systems Business" or the "Business") prior to the Spin-Off and (ii) Garrett Motion Inc. and its subsidiaries following the Spin-Off, as applicable.

This Annual Report on Form 10-K contains financial information that was derived partially from the consolidated financial statements and accounting records of Honeywell. The accompanying consolidated and combined financial statements of Garrett ("Consolidated and Combined Financial Statements") reflect the consolidated and combined historical results of operations, financial position and cash flows of Garrett, for periods following the Spin-Off, and the Transportation Systems Business, for all periods prior to the Spin-Off, as it was historically managed in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Therefore, the historical consolidated and combined financial information may not be indicative of our future performance and does not necessarily reflect what our consolidated and combined results of operations, financial condition and cash flows would have been had the Business operated as a separate, publicly traded company during the entirety of the periods presented, particularly because of changes that we have experienced, and expect to continue to experience in the future, as a result of our separation from Honeywell, including changes in the financing, cash management, operations, cost structure and personnel needs of our business.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact contained in this Annual Report, including without limitation statements regarding our future results of operations and financial position, expectations regarding the growth of the turbocharger, electric vehicle and connected vehicle markets, the sufficiency of our cash and cash equivalents, anticipated sources and uses of cash, our business strategy, anticipated payments under our agreements with Honeywell, anticipated interest expense, and the plans and objectives of management for future operations and capital expenditures are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplate," "believe," "estimate," "predict," "potential," or "continue" or the negative of these terms or other similar expressions. The forward-looking statements in this Annual Report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Annual Report and are subject to a number of important factors that could cause actual results to differ materially from those in the forward-looking statements, including:

1. changes in the automotive industry and economic or competitive conditions;
2. our ability to develop new technologies and products, and the development of either effective alternative turbochargers or new replacement technologies;
3. failure to protect our intellectual property or allegations that we have infringed the intellectual property of others; and our ability to license necessary intellectual property from third parties;
4. potential material losses and costs as a result of any warranty claims and product liability actions brought against us;
5. significant failure or inability to comply with the specifications and manufacturing requirements of our original equipment manufacturer customers or by increases or decreases to the inventory levels maintained by our customers;
6. volume of products we produce and market demand for such products and prices we charge and the margins we realize from our sales of our products;
7. loss of or a significant reduction in purchases by our largest customers, material nonpayment or nonperformance by any our key customers, and difficulty collecting receivables;
8. inaccuracies in estimates of volumes of awarded business;
9. work stoppages, other disruptions or the need to relocate any of our facilities;
10. supplier dependency;
11. failure to meet our minimum delivery requirements under our supply agreements;
12. failure to increase productivity or successfully execute repositioning projects or manage our workforce;
13. potential material environmental liabilities and hazards;
14. natural disasters and physical impacts of climate change;
15. pandemics, including without limitation the coronavirus, and effects on our workforce and supply chain;
16. technical difficulties or failures, including cybersecurity risks;
17. the outcome of and costs associated with pending and potential material litigation matters, including our pending lawsuit against Honeywell;
18. changes in legislation or government regulations or policies;

19. risks related to international operations and our investment in foreign markets, including risks related to the withdrawal of the United Kingdom from the European Union, or Brexit;
20. risks related to our agreements with Honeywell, such as the Indemnification and Reimbursement Agreement and Tax Matters Agreement;
21. the terms of our indebtedness and our ability to access capital markets;
22. unforeseen adverse tax effects;
23. costs related to operating as a standalone public company and failure to achieve benefits expected from the Spin-Off;
24. inability to recruit and retain qualified personnel; and
25. the other factors described under the caption "Risk Factors" in this Annual Report on Form 10-K under Part I, Item 1A. “Risk Factors,” and in our other filings with the Securities and Exchange Commission (“SEC”).

You should read this Annual Report and the documents that we reference in this Annual Report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

PART I

Item 1. Business

Our Company

Our Company designs, manufactures and sells highly engineered turbocharger, electric-boosting and connected vehicle technologies for original equipment manufacturers ("OEMs") and the aftermarket. We are a global technology leader with significant expertise in delivering products across gasoline, diesel, natural gas and electrified (hybrid and fuel cell) powertrains.

Our products are highly engineered for each individual powertrain platform, requiring close collaboration with our customers in the earliest years of powertrain and new vehicle design. Our turbocharging and electric-boosting products enable our customers to improve vehicle performance while addressing continually evolving and converging regulations that mandate significant increases in fuel efficiency and reductions in exhaust emissions worldwide.

We offer light vehicle gasoline, light vehicle diesel and commercial vehicle turbochargers that enhance vehicle performance, fuel economy and drivability. A turbocharger provides an engine with a controlled and pressurized air intake, which intensifies and improves the combustion of fuel to increase the amount of power sent through the transmission and to improve the efficiency and exhaust emissions of the engine. Market penetration of vehicles with a turbocharger is expected to increase from approximately 51% in 2019 to approximately 56% by 2023, according to IHS and other industry sources, which we believe will allow our business to grow at a faster rate than overall automobile production.

Building on our expertise in turbocharger technology, we have also developed electric-boosting technologies targeted for use in electrified powertrains, primarily hybrid and fuel cell vehicles. Our products include electric turbochargers and electric compressors that provide more responsive driving and optimized fuel economy in electrified vehicles. Our early-stage and collaborative relationships with our global OEM customer base have enabled us to increase our knowledge of customer needs for vehicle safety, predictive maintenance, and advanced controllers to develop new connected and software-enabled products.

In addition, we have emerging opportunities in technologies, products and services that support the growing connected vehicle market, which include software focused on automotive cybersecurity and integrated vehicle health management ("IVHM"). Our focus is developing solutions for enhancing cybersecurity of connected vehicles, as well as in-vehicle monitoring to provide maintenance diagnostics, which reduce vehicle downtime and repair costs. For example, our Intrusion Detection and Prevention System uses anomaly detection technology that functions like virus detection software to perform real-time data analysis to ensure every message received by a car's computer is valid. Our IVHM tools detect intermittent faults and anomalies within complex vehicle systems to provide a more thorough understanding of the real-time health of a vehicle system and enable customers to fix faults before they actually occur. We are collaborating with tier-one suppliers on automotive cybersecurity software solutions and with several major OEMs on IVHM technologies.

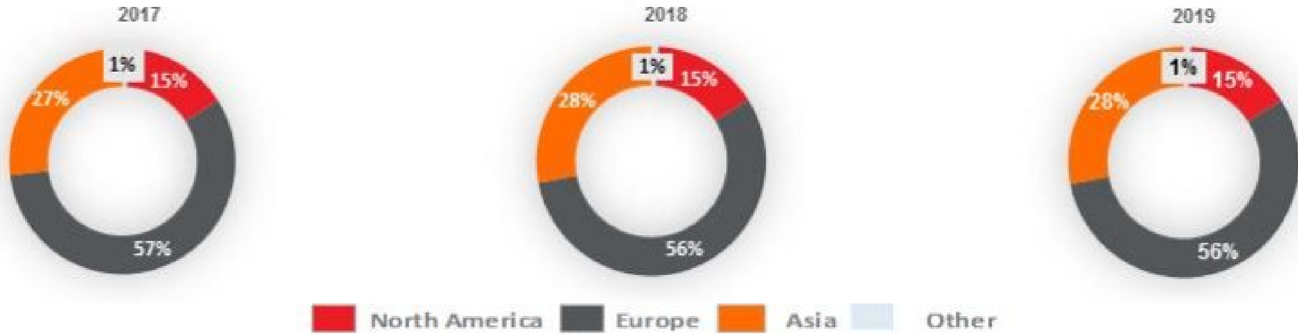
Our comprehensive portfolio of turbocharger, electric-boosting and connected vehicle technologies is supported by our five research and development ("R&D") centers, 14 close-to-customer engineering facilities and 13 factories, which are strategically located around the world. Our operations in each region have self-sufficient sales, engineering and production capabilities, making us a nimble local competitor, while our standardized manufacturing processes, global supply chain, worldwide technology R&D and size enable us to deliver the scale benefits, technology leadership, cross-regional support and extensive resources of a global enterprise. In high-growth regions, including China and India, we have established a local footprint, which has helped us secure strong positions with in-region OEM customers who demand localized engineering and manufacturing content but also require the capabilities and track record of a global leader.

We also sell our technologies in the global aftermarket through our distribution network of more than 190 distributors covering 160 countries. Through this network, we provide approximately 5,300 part-numbers and products to service garages across the globe. Garrett is a leading brand in the independent aftermarket for both service replacement turbochargers as well as high-end performance and racing turbochargers. We estimate that over 100 million vehicles on the road today utilize our products, further supporting our global aftermarket business.

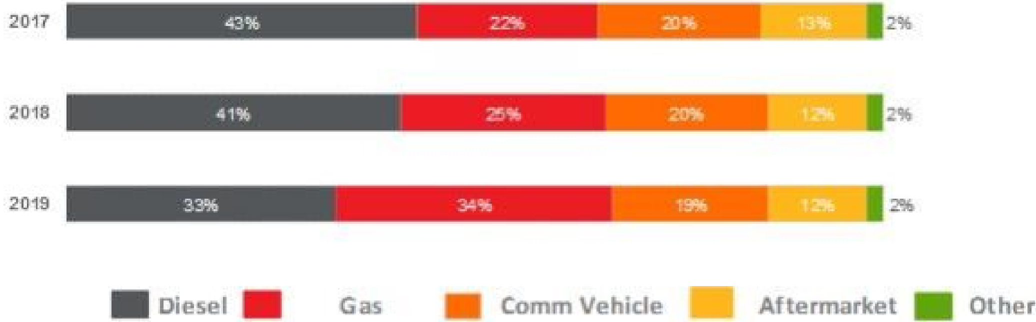
Leading technology, continuous innovation, product performance and OEM engineering collaboration are central to our customer value proposition and a core part of our culture and heritage. In 1962, we introduced a turbocharger for a mass-produced passenger vehicle. Since then, we have introduced many other notable technologies in mass-production vehicles, such as turbochargers with variable geometry turbines, dual-boost compressors, ball-bearing rotors and electronically actuated controls, all of which vastly improve engine response when accelerating at low speeds and increase power at higher speeds and enable significant improvements in overall engine fuel economy and exhaust emissions for both gasoline and diesel engines. Our portfolio today includes more than 1,400 patents and patents pending.

Revenue Summary

By Geography



By Product-line



- We are a global business that generated revenues of approximately $3.2 billion in 2019.
- In 2019, light vehicle products (products for passenger cars, SUVs, light trucks, and other products) accounted for approximately 67% of our revenues. Commercial vehicle products (products for on-highway trucks and off-highway trucks, construction, agriculture and power-generation machines) accounted for 19%.
- In 2019, our OEM sales contributed approximately 86% of our revenues while our aftermarket and other products contributed 14%.
- Approximately 56% of our 2019 revenues came from sales shipped from Europe, 28% from sales shipped from Asia and 15% from sales shipped from North America. For more information, see Note 26 Concentrations of the Notes to our Consolidated and Combined Financial Statements.

Our Industry

We compete in the global turbocharger market for gasoline, diesel and natural gas engines; in the electric- boosting market for electrified (hybrid and fuel cell) vehicle powertrains; and in the emerging connected vehicle software market. As vehicles become more electrified, our electric-boosting products use principles similar to our turbochargers to further optimize air intake and thus further enhance performance, fuel economy and exhaust emissions with the help of an integrated high-speed electric motor. By using a turbocharger or electric-boosting technology, an OEM can deploy smaller, lighter powertrains with better fuel economy and exhaust emissions while delivering the same power and acceleration as larger, heavier powertrains. As such, turbochargers have become one of the most highly effective technologies for helping global OEMs meet increasingly stricter emission standards.

Throughout this section of this Annual Report on Form 10-K, we reference certain industry sources. While we believe the compound annual growth rate (“CAGR”) and other projections of the industry sources referenced in this Annual Report on Form 10-K are reasonable, forecasts based upon such data involve inherent uncertainties, and actual outcomes are subject to change based upon various factors beyond our control.

Global Turbocharger market

The global turbocharger market includes turbochargers for new light and commercial vehicles as well as turbochargers for replacement use in the global aftermarket. According to IHS and other industry sources, the global turbocharger market consisted of approximately 50 million unit sales with an estimated total value of approximately $11 billion in 2019. Within the global turbocharger market, light vehicles accounted for approximately 90% of total unit volume and commercial vehicles accounted for the remaining 10%.

IHS and other industry sources project that the turbocharger production volume will grow at a CAGR of approximately 4% from 2019 through 2023, driven by double-digit growth in turbochargers for light vehicle gasoline engines and continued low single-digit growth for commercial vehicles, offset by a modest decline in diesel turbochargers given a decline in diesel powertrains, particularly for light vehicles. This annual sales estimate would add approximately 222 million turbocharged vehicles on the road globally between 2019 and 2023.

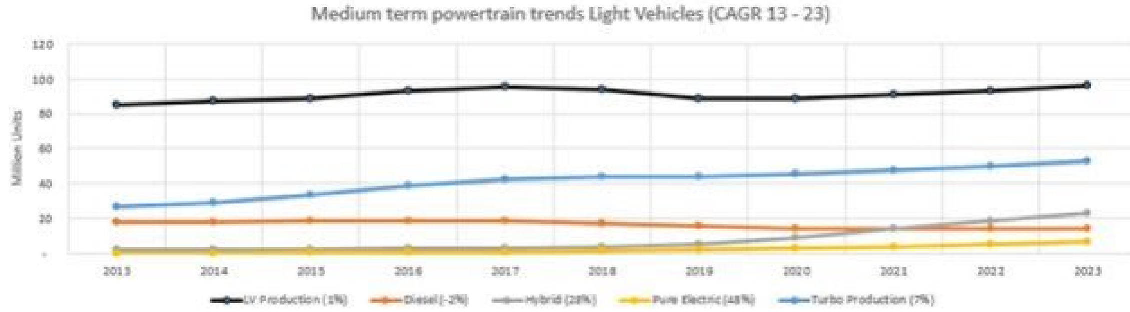
Key trends affecting our industry

Global vehicle fuel efficiency and emissions standards. OEMs are facing increasingly strict constraints for vehicle fuel efficiency and emissions standards globally. Regulatory authorities in key vehicle markets such as the United States, the European Union, China, Japan, and Korea have instituted regulations that require sustained and significant improvements in CO2, NOx and particulate matter vehicle emissions. OEMs are required to evaluate and adopt various solutions to address these stricter standards. Turbochargers allow OEMs to reduce engine size without sacrificing vehicle performance, thereby increasing fuel efficiency and decreasing harmful emissions. Furthermore, turbochargers allow more precise “air control” over both engine intake and exhaust conditions such as gas pressures, flows and temperatures, enabling optimization of the combustion process. This combustion optimization is critical to engine efficiency, exhaust emissions, power and transient response and enables such concepts as exhaust gas recirculation for diesel engines and Miller-cycle operation for gasoline engines. Consequently, we believe turbocharging will continue to be a key technology for automakers to meet future tough fuel economy and emissions standards without sacrificing performance.

Turbocharger penetration. The utilization of turbochargers and electric-boosting technologies on vehicle powertrain systems is one of the most cost-effective solutions to address stricter standards, and OEMs are increasing their adoption of these technologies. IHS and other industry sources expect turbocharger penetration to increase globally from approximately 51% in 2019 to approximately 56% by 2023. IHS forecasts particularly strong turbocharger penetration growth for gasoline turbochargers, expecting an increase from approximately 40% in 2019 to 52% in 2023.

Growth in overall vehicle production. After a decrease of 6% in Light Vehicle production and 2% in On Highway Commercial Vehicle production in 2019, we expect a stabilization in 2020, followed by recovery in the coming years with a modest CAGR of about 1% to 2%. The shift from pure gasoline and diesel internal combustion engines to hybridized powertrains will continue in response to increasingly strict fuel efficiency and regulatory standards. In parallel, the share of pure electric vehicles will continue to increase from a low base as technology and supporting infrastructure continue to improve.

Medium-Term Powertrain Trends



Source: IHS

Engine size and complexity. In order to address stricter fuel economy standards, OEMs have used turbochargers to reduce the average engine size on their vehicles over time without compromising performance. Stricter pollutants emissions standards (primarily for NOx and particulates) have driven higher turbocharger adoption as well, which we believe will continue in the future, with a predicted total automotive turbocharger sales volume CAGR of 4% between 2019 and 2023, in an industry with a predicted total automobile sales volume CAGR of approximately 2% over the same period, in each case according to IHS and other industry sources. In addition, increasingly demanding fuel economy standards require continuous increases in turbocharger technology content (e.g., variable geometry, electronic actuation, multiple stages, ball bearings, electrical control, etc.) which results in steady increases in average turbocharger content per vehicle.

Powertrain electrification. To address stricter fuel economy standards, OEMs also have been increasing the electrification of their vehicle offerings, primarily with the addition of hybrid vehicles, which have powertrains equipped with a gasoline or diesel internal combustion engine in combination with an electric motor. IHS estimates that hybrid vehicles globally will grow from a total of approximately 5.3 million vehicles in 2019 to a total of approximately 23.2 million vehicles by 2023, representing a CAGR of 45%. The electrified powertrain of hybrid vehicles enables the usage of highly synergistic electric-boosting technologies which augment standard turbochargers with electrically assisted boosting and electrical-generation capability. Furthermore, the application of electric boosting extends the requirement for engineering collaboration with OEMs to include electrical integration, software controls, and advanced sensing. Overall, this move to electric boosting further increases the role and value of turbocharging in improving vehicle fuel economy and exhaust emissions.

OEMs are also investing in full battery-electric vehicles, which have gained in popularity in recent years. However, IHS and other industry sources expect that they will compose only 7% of total vehicle production globally by 2023 due to their inherent limitations in driving range and recharging time and their relatively high cost. As OEMs strive to solve the issues of full battery electric vehicles, they are increasing investment in hydrogen fuel cell powered electric vehicles. These vehicles, like battery electric vehicles, have fully electric motor powertrains, but they rely on the hydrogen fuel cell to generate the required electricity. The hydrogen fuel cell also requires advanced electric-boosting technology for optimization of size and efficiency.

Connected vehicles, autonomous vehicles, and shared vehicles. In addition to powertrain evolution, the market for connected vehicles services is growing rapidly. According to Strategy&, a consulting firm, this market is expected to grow 34% per annum from approximately $4 billion in 2018 to approximately $34 billion in 2025. Our IVHM, predictive maintenance, diagnostics and cybersecurity tools address this market. Their adoption should increase as advanced driver assistance features and ultimately autonomous driving increase requirements for vehicle functional safety. Simultaneously, our cybersecurity solutions protect those vehicles against outside interference to ensure correct functionality.

Vehicle ownership in China and other high-growth markets. Vehicle ownership in China and other emerging markets remains well below ownership levels in developed markets and will be a key driver of future vehicle production. At the same time, these markets are following the lead of developed countries by instituting stricter emission standards. Growth in production volume and greater penetration by large global OEMs in these markets, along with evolving emission standards and increasing fuel economy and vehicle performance demands, is driving increasing turbocharger penetration in high-growth regions.

Our Competitive Strengths

We believe that we differentiate ourselves through the following competitive strengths:

Global and broad market leadership

We are a global leader in the $11 billion turbocharger industry. We believe we will continue to benefit from the increased adoption of turbochargers, as well as our global technology leadership, comprehensive portfolio, continuous product innovation and our deep-seated relationships with all global OEMs. We maintain a leadership position across all vehicle types, engine types and regions, including:

Light Vehicles.

- *Gasoline:* The global adoption of turbochargers by OEMs on gasoline engines has increased rapidly from approximately 14% in 2013 to approximately 40% in 2019 and is forecasted by IHS to increase to 52% by 2023. We have launched a leading modern 1.5L variable geometry turbo ("VNT") gasoline application, which we believe to be among the first with a major OEM, and we expect to see increasing adoption of this technology in years to come. Key to our strategy for gasoline growth is to leverage our technology strengths in high-temperature materials and variable geometry as well as our scale, global footprint and in-market capabilities to meet the volume demands of global OEMs.
- *Diesel:* We have a long history of technology leadership in diesel engine turbochargers. Despite diesel market weakness for some vehicle segments, the majority of our diesel turbochargers revenue comes from heavier and bigger vehicles like SUVs, pickup trucks and light commercial vehicles (such as delivery vans), which remain a stable part of the diesel market. Diesel maintains a unique advantage in terms of fuel consumption, hence cost of ownership, and towing capacity makes it still the powertrain of choice for heavier vehicle applications. Diesel also remains essential for OEMs to meet their CO2 fleet average regulatory target going forward, as diesel vehicles produce approximately 10-15% less CO2, on average, than gasoline vehicles.
- *Electrified vehicles*. We provide a comprehensive portfolio of turbocharger and electric-boosting technologies to manufacturers of hybrid-electric and fuel cell vehicles. OEMs have increased their adoption of these electrified technologies given regulatory standards and consumer demands driving an expected CAGR globally of approximately 43% from 2019 to 2023, according to IHS. Similar to turbochargers for gasoline and diesel engines, turbochargers for hybrid vehicles are an essential component of maximizing fuel efficiency and overall engine performance. Our products provide OEMs with solutions that further optimize engine performance and position us well to serve OEMs as they add more electrified vehicles into their fleets.

Commercial vehicles. Our Company traces its roots to the 1950s when we helped develop a turbocharged commercial vehicle for Caterpillar. We have maintained our strategic relationship with key commercial vehicle OEMs for over 60 years as well as market-leading positions across the commercial vehicle markets for both on- and off-highway use. Our products improve engine performance and lower emissions on trucks, buses, agriculture equipment, construction equipment and mining equipment with engine sizes ranging 1.8L to 105L.

High-growth regions. We have a strong track record serving global and emerging OEMs, including customers in China and India, with an in-market, for-market strategy and operate full R&D and three manufacturing facilities in the high-growth regions that serve light and commercial vehicle OEMs. Our local presence in high-growth regions has helped us win business with key international and domestic Chinese OEMs, and we have grown between 2013 and 2018 significantly faster than the vehicle production in these regions.

Strong and collaborative relationships with leading OEMs globally

We supply our products to more than 60 OEMs globally. Our top ten customers accounted for approximately 60% of net sales and our largest customer represents approximately 12% of our net sales in 2019. With over 60 years in the turbocharger industry, we have developed strong capabilities working with all major OEMs. We consistently meet their stringent design, performance and quality standards while achieving capacity and delivery timelines that are critical for customer success. Our track record of successful collaborations, as demonstrated by our strong client base and our ability to successfully launch approximately 100 product applications annually, is well recognized. For example, we received a 2017 Automotive News PACE™ Innovation Partnership Award in supporting Volkswagen's first launch of an industry-leading VNT turbocharged gasoline engine, which is just one example of our strong collaborative relationships with OEMs. Our regional research, development and manufacturing capabilities are a key advantage in helping us to supply OEMs as they expand geographically and shift towards standardized engines and vehicle platforms globally.

Global aftermarket platform

We have an estimated installed base of over 100 million vehicles that utilize our products through our global network of more than 190 distributors covering 160 countries. Our Garrett aftermarket brand has strong recognition across distributors and garages globally, and is known for boosting performance, quality and reliability. Our aftermarket business has historically provided a stable stream of revenue supported by our large installed base. As turbo penetration rates continue to increase, we expect that our installed base and aftermarket opportunity will grow.

Highly-engineered portfolio with continuous product innovation

We have led the revolution in turbocharging technology over the last 60 years and maintain a leading technology portfolio of more than 1,400 patents and patents pending. We have a globally deployed team of more than 1,200 engineers across five R&D centers and 14 close-to-customer engineering centers. Our engineers have led the mainstream commercialization of several leading turbocharger innovations, including variable geometry turbines, dual-boost compressors, ball-bearing rotors, electrically actuated controls and air-bearing electric compressors for hydrogen fuel cells. We maintain a culture of continuous product innovation, introducing about ten new technologies per year and upgrading our existing key product lines approximately every 3 years. Outside of our turbocharger product lines, we apply this culture of continuous innovation to meet the needs of our customers in new areas, particularly in connected automotive technologies. We are developing solutions, including IVHM and cybersecurity software solutions, that leverage our knowledge of vehicle powertrains and experience working closely with OEM manufacturers.

Global and low cost manufacturing footprint with operational excellence

Our geographic footprint locates R&D, engineering and manufacturing capabilities close to our customers, enabling us to tailor technologies and products for the specific vehicle types sold in each geographic market. In all regions where we operate, we leverage low-cost sourcing through our robust supplier development program, which continually works to develop new suppliers that are able to meet our specific quality, productivity and cost requirements. We now source more than two-thirds of our materials from low-cost countries and believe our high-quality, low-cost supplier network to be a significant competitive advantage. We have invested heavily to bring differentiated local capabilities to our customers in high-growth regions, including China and India.

We manufacture more than 86% of our products in low-cost countries, including seven manufacturing facilities in China, India, Mexico, Romania and Slovakia. We have a long-standing culture of lean manufacturing excellence and continuous productivity improvement. We believe global uniformity and operational excellence across facilities is a key competitive advantage in our industry given that OEM engine platforms are often designed centrally but manufactured locally, requiring suppliers to meet the exact same specifications across all locations.

Our Growth Strategies

We seek to continue to expand our business by employing the following business strategies:

Strengthen market leadership across core powertrain technologies

We are focused on strengthening our market position in light vehicles:

- Gasoline turbochargers, which historically lagged adoption of diesel turbochargers, are expected to grow at an 8% annual CAGR from 2019 to 2023, according to IHS, exceeding the growth of diesel turbochargers. We expect to benefit from this higher growth given the gasoline platforms we have been awarded over the past several years. We have launched the first modern 1.5L VNT gasoline application with a major OEM and we expect to see increasing adoption of this technology in years to come. Key to our strategy for gasoline growth is our plan to leverage our technology strengths in high temperature materials and variable geometry technologies as well as our scale, global footprint and in-region capabilities to meet the volume demands of global OEMs.
- We believe growth in our share of the diesel turbochargers market will be driven by new product introductions focused on emissions-enforcement technologies and supported by our favorable positioning with large vehicles and high-growth regions within this market. The more stringent emissions standards require higher turbocharger technology content such as variable geometry, 2-stage systems, advanced bearings and materials which increase our content per vehicle. We expect to grow our commercial vehicle business through new product introductions and targeted platform wins with key on-highway customers and underserved OEMs.

Strengthen our penetration of electrified vehicle boosting technologies

We stand to benefit from the increased adoption of hybrid-electric and fuel cell vehicles and the increased need for turbochargers associated with increased sales volumes for these engine types. IHS estimates that the global production of electrified vehicles will increase from approximately 7 million vehicles in 2019 to approximately 30 million vehicles by 2023, representing an annualized growth rate of approximately 43%. OEMs will need to further improve engine performance for their increasingly electrified offerings, and our comprehensive portfolio of turbocharger and electric-boosting technologies are designed to help OEMs do so. We expect to continue to invest in product innovations and new technologies and believe that we are well positioned to continue to be a technology-leader in the propulsion of electrified vehicles.

Increase market position in high-growth regions

IHS expects vehicle production in emerging markets to grow at an estimated CAGR of approximately 4% from 2019 to 2023. We are closely monitoring the current novel coronavirus outbreak and its implications for the auto industry both within and outside China. We expect this outbreak to affect the auto industry primarily in 2020. We currently do not expect a long-term impact on industry demand beyond 2021. We plan to continue to strengthen our relationships with OEMs in high-growth, emerging regions by demonstrating our technology leadership through our local research, development and manufacturing capabilities. Our local footprint is expected to continue to provide a strong competitive edge in high-growth regions due to our ability to work closely with OEMs throughout all stages of the product lifecycle including aftermarket support. For example, in China, our research center in Shanghai, our manufacturing facilities in Wuhan and Shanghai and our more than 950 employees support our differentiated end-to-end capabilities and we believe will continue to support key platform wins in the Chinese market. Our operations in China are expected to continue to benefit us as OEMs build global platforms in low cost regions. Our commitment to providing high-touch technology support to OEMs has allowed us to be recognized as a local player in other key high-growth regions, such as India.

Grow our aftermarket business

We have an opportunity to strengthen our global network of more than 190 distributors in 160 countries by deepening our channel penetration, leveraging our well-recognized Garrett brand, utilizing new online technologies for customer engagement and sales, and widening the product portfolio. For example, we have launched a global web-based platform providing self-service tools aimed at connecting 20,000 garage technicians in 2019.

Drive continuous product innovation across connected vehicles

We are actively investing in software and services that leverage our capabilities in powertrains, vehicle performance management, and electrical/mechanical design to capitalize on the growth relating to connected vehicles. Approximately 35% of passenger vehicles sold globally in 2015 were estimated to be connected in some way to the Internet. By the end of the decade, that number is expected to exceed 90%. Building on the software and connected vehicle capabilities of our Former Parent, we have assembled a team of engineers, software and technical experts and have opened new design centers in North America, India and Czech Republic. We continue to conduct research to determine key areas of the market where we are best positioned to leverage our existing technology platforms and capabilities to serve our customers. We execute a portion of our connectivity investment in collaboration with OEMs and other Tier 1 suppliers and have multiple early-stage trials with customers underway.

Research, Development and Intellectual Property

We maintain technical engineering centers in major automotive production regions of the world to develop and provide advanced products, process and manufacturing support to all of our manufacturing sites, and to provide our customers with local engineering capabilities and design developments on a global basis. As of December 31, 2019, we employed approximately 1,200 engineers. Our total R&D expenses were $129 million, $128 million and $119 million for the years ended December 31, 2019, 2018 and 2017, respectively.

We currently hold approximately 1,400 patents and patents pending. While no individual patent or group of patents, taken alone, is considered material to our business, taken in the aggregate, these patents provide meaningful protection for our intellectual property.

Materials

The most significant raw materials we use to manufacture our products are grey iron, aluminum, stainless steel and a nickel-, iron- and chromium-based alloy. As of December 31, 2019, we have not experienced any significant shortage of raw materials and normally do not carry inventories of such raw materials in excess of those reasonably required to meet our production and shipping schedules.

Customers

Our global customer base includes nine of the ten largest light vehicle OEMs and nine of the ten largest commercial vehicle engine makers.

Our ten largest applications in 2019 were with seven different OEMs. OEM sales were approximately 86% of our 2019 revenues while our aftermarket and other products contributed 14%.

Our largest customer is Ford Motor Company (“Ford”). In 2019, 2018 and 2017, Ford accounted for 12%, 13%, and 14%, respectively, of our total sales.

Supply Relationships with Our Customers

We typically supply products to our OEM customers through “open” purchase orders, which are generally governed by terms and conditions negotiated with each OEM. Although the terms and conditions vary from customer to customer, they typically contemplate a relationship under which our customers are not required to purchase a minimum amount of product from us. These relationships typically extend over the life of the related engine platform. Prices are negotiated with respect to each business award, which may be subject to adjustments under certain circumstances, such as commodity or foreign exchange escalation/de-escalation clauses or for cost reductions achieved by us. The terms and conditions typically provide that we are subject to a warranty on the products supplied. We may also be obligated to share in all or a part of recall costs if the OEM recalls its vehicles for defects attributable to our products.

Individual purchase orders are terminable for cause or non-performance and, in most cases, upon our insolvency and certain change of control events. In addition, many of our OEM customers have the option to terminate for convenience on certain programs, which permits our customers to impose pressure on pricing during the life of the vehicle program, and issue purchase contracts for less than the duration of the vehicle program, which potentially reduces our profit margins and increases the risk of our losing future sales under those purchase contracts. We manufacture, and ship based on customer release schedules, normally provided on a weekly basis, which can vary due to cyclical automobile production or inventory levels throughout the supply chain.

Although customer programs typically extend to future periods, and although there is an expectation that we will supply certain levels of OEM production during such future periods, customer agreements including applicable terms and conditions do not necessarily constitute firm orders. Firm orders are generally limited to specific and authorized customer purchase order releases placed with our manufacturing and distribution centers for actual production and order fulfillment. Firm orders are typically fulfilled as promptly as possible from the conversion of available raw materials, sub-components and work-in-process inventory for OEM orders and from current on-hand finished goods inventory for aftermarket orders. The dollar amount of such purchase order releases on hand and not processed at any point in time is not believed to be significant based upon the time frame involved.

Regulatory and Environmental Compliance

We are subject to the requirements of environmental and health and safety laws and regulations in each country in which we operate. These include, among other things, laws regulating air emissions, water discharge, hazardous materials and waste management. We have an environmental management structure designed to facilitate and support our compliance with these requirements globally. Although it is our intent to comply with all such requirements and regulations, we cannot provide assurance that we are at all times in compliance. Environmental requirements are complex, change frequently and have tended to become more stringent over time. Accordingly, we cannot assure that environmental requirements will not change or become more stringent over time or that our eventual environmental costs and liabilities will not be material.

Certain environmental laws assess liability on current or previous owners or operators of real property for the cost of removal or remediation of hazardous substances. At this time, we are involved in various stages of investigation and cleanup related to environmental remediation matters at certain of our present and former facilities. In addition, there may be soil or groundwater contamination at several of our properties resulting from historical, ongoing or nearby activities.

As of December 31, 2019, the undiscounted reserve for environmental investigation and remediation was approximately $12 million. We do not currently possess sufficient information to reasonably estimate the amounts of environmental liabilities to be recorded upon future completion of studies, litigation or settlements, and we cannot determine either the timing or the amount of the ultimate costs associated with environmental matters, which could be material to our consolidated and combined results of operations and operating cash flows in the periods recognized or paid. However, considering our past experience and existing reserves, we do not expect that environmental matters will have a material adverse effect on our consolidated and combined financial position.

Additionally, we are required to make payments to Honeywell in amounts equal to 90% of Honeywell's asbestos-related liability payments primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell's net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. Pursuant to the terms of our Indemnification and Reimbursement Agreement with Honeywell (the "Indemnification and Reimbursement Agreement"), we are responsible for paying to Honeywell such amounts, up to a cap equal to the Distribution Date Currency Exchange Rate (as defined in the Indemnification and Reimbursement Agreement to be 1.16977 USD = 1 EUR) equivalent of $175 million (exclusive of any late payment fees) in respect of such liabilities arising in any given calendar year. See "Risk Factors—Risks Relating to Our Business—We are subject to risks associated with the Indemnification and Reimbursement Agreement, pursuant to which we are required to make substantial cash payments to Honeywell, measured in substantial part by reference to estimates by Honeywell of certain of its liabilities". The Indemnification and Reimbursement Agreement provides that the agreement will terminate upon the earlier of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which certain amounts owed to Honeywell during each such year were less than $25 million as converted into Euros in accordance with the terms of the agreement.

We are currently engaged in litigation against Honeywell in connection with the Indemnification and Reimbursement Agreement. For additional information, see Item 3. Legal Proceedings.

Employees

As of December 31, 2019, we employed approximately 6,200 full-time employees and 2,400 temporary and contract workers globally. Approximately 25% of our full-time employees are represented by unions and works councils.

Seasonality

Our business is moderately seasonal. Our primary North American customers historically reduce production during the month of July and halt operations for approximately one week in December; our European customers generally reduce production during the months of July and August and for one week in December; and our Chinese customers often reduce production during the period surrounding the Chinese New Year. Shut-down periods in the rest of the world generally vary by country. In addition, automotive production is traditionally reduced in the months of July, August and September due to the launch of parts production for new vehicle models. Accordingly, our results reflect this seasonality. Our sales predictability in the short term might also be impacted by sudden changes in customer demand, driven by our OEM customers' supply chain management.

We also experience seasonality in cash flow, as a relatively small portion of our full year cash flow is typically generated in the first quarter of the year and a relatively large portion in the last quarter. This seasonality in cash flow is mostly caused by timing of supplier payments for capital expenditures, changes in working capital balances related to the sales seasonality discussed above, and incentive payments.

Additional Information

Our Company was incorporated on March 14, 2018 as a Delaware corporation in connection with the Spin-Off from Honeywell, and we maintain our headquarters in Rolle, Switzerland. For additional information regarding the Spin-Off, see "Basis of Presentation" at the beginning of this Annual Report on Form 10-K.

This Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, as well as all amendments and other reports filed with or furnished to the SEC, are also available free of charge on our internet site at https://www.garrettmotion.com as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Item 1A. Risk Factors

You should carefully consider all of the information in this Annual Report on Form 10-K and each of the risks described below, which we believe are the principal risks we face. Any of the following risks could materially and adversely affect our business, financial condition and results of operations and the actual outcome of matters as to which forward-looking statements are made in this Annual Report on Form 10-K. Other events that we do not currently anticipate or that we currently deem immaterial may also affect our business, prospects, financial condition and results of operations.

Risks Relating to Our Business

Industry and economic conditions may adversely affect the markets and operating conditions of our customers, which in turn can affect demand for our products and services and our results of operations.

We are dependent on the continued growth, viability and financial stability of our customers. A substantial portion of our customers are OEMs in the automotive industry. This industry is subject to rapid technological change often driven by regulatory changes, vigorous competition, short product life cycles and cyclical and reduced consumer demand patterns. In addition to general economic conditions, automotive sales and automotive vehicle production also depend on other factors, such as supplier stability, factory transitions, capacity constraints, the costs and availability of consumer credit, consumer confidence and consumer preferences. When our customers are adversely affected by these factors, we may be similarly affected to the extent that our customers reduce the volume of orders for our products. Economic declines and corresponding reductions in automotive sales and production by our customers, particularly with respect to light vehicles, have in the past had, and may in the future have, a significant adverse effect on our business, results of operations and financial condition.

Even if overall automotive sales and production remain stable, changes in regulations and consumer preferences may shift consumer demand away from the types of vehicles we prioritize or towards the types of vehicles where our products generate smaller profit margins. A decrease in consumer demand for the specific types of vehicles that have traditionally included our turbocharger products, such as a decrease in demand for diesel-fueled vehicles in favor of gasoline-fueled vehicles, or lower-than-expected consumer demand for specific types of vehicles where we anticipate providing significant components as part of our strategic growth plan, such as a decrease in demand for vehicles utilizing electric-hybrid and fuel cell powertrains in favor of full battery electric vehicles, could have a significant effect on our business. If we are unable to anticipate significant changes in consumer sentiment, or if consumer demand for certain vehicle types changes more than we expect, our results of operations and financial condition could be adversely affected.

Sales in our aftermarket operations are also directly related to consumer demand and spending for automotive aftermarket products, which may be affected by additional factors such as the average useful life of OEM parts and components, severity of regional weather conditions, highway and roadway infrastructure deterioration and the average number of miles vehicles are driven by owners. Improvements in technology and product quality are extending the longevity of vehicle component parts, which may result in delayed or reduced aftermarket sales. Our results of operations and financial condition could be adversely affected if we fail to respond in a timely and appropriate manner to changes in the demand for our aftermarket products.

Changes in legislation or government regulations or policies can have a significant impact on demand for our products and our results of operations.

The sales and margins of our business are directly impacted by government regulations, including safety, performance and product certification regulations, particularly with respect to emissions, fuel economy and energy efficiency standards for motor vehicles. Increased public awareness and concern regarding global climate change may result in more regional and/or federal requirements to reduce or mitigate the effects of greenhouse gas emissions. While such requirements can promote increased demand for our turbochargers and other products, several markets in which we operate are undertaking efforts to more strictly regulate or ban vehicles powered by certain older-generation diesel engines. If such efforts are pursued more broadly throughout the market than we have anticipated, such efforts may impact demand for our aftermarket products and consequently affect our results of operations.

In the long-term, several of the markets in which we operate are contemplating or undertaking multi-decade efforts to transition away from internal combustion engines in favor of hybrid or full-battery electric vehicles.

Although we expect a significant number of hybrids will be turbocharged, if we overestimate the turbo penetration rate in hybrids or if a transition to battery-electric vehicles is pursued more broadly throughout the market, or is implemented more rapidly than we have anticipated, the demand for our products could be impacted and our results of operations consequently could be affected.

Conversely, in the U.S., the current political administration has signaled that it may support efforts to slow or even reverse the adoption of environmental regulations. If requirements to reduce or mitigate the effects of greenhouse gas emissions are weakened or rolled back, whether in the U.S. or elsewhere in our markets, customer demand for our turbochargers could fall, negatively affecting our results of operations.

Our future growth is largely dependent upon our ability to develop new technologies and introduce new products with acceptable margins that achieve market acceptance or correctly anticipate regulatory changes.

The global automotive component supply industry is highly competitive. Our future growth rate depends upon a number of factors, including our ability to: (i) identify emerging technological trends in our target end-markets; (ii) develop and maintain competitive products; (iii) enhance our products by adding innovative features that differentiate our products from those of our competitors; (iv) develop, manufacture and bring compelling new products to market quickly and cost effectively; and (v) attract, develop and retain individuals with the requisite technical expertise and understanding of customers' needs to develop new technologies and introduce new products.

We have identified a trend towards increased development and adoption by OEMs of hybrid-electric powertrains, fuel cell powertrains and associated electric boosting technologies in preference to pure battery electric cars, which continue to face range, charging time and sustainability issues. Our results of operations could be adversely affected if our estimates regarding adoption and penetration rates for hybrid-electric and fuel cell powertrains or for pure battery electric cars are incorrect.

Failure to protect our intellectual property or allegations that we have infringed the intellectual property of others could adversely affect our business, financial condition and results of operations.

We rely on a combination of patents, copyrights, trademarks, tradenames, trade secrets and other proprietary rights, as well as contractual arrangements, including licenses, to establish, maintain and protect our intellectual property rights. Effective intellectual property protection may not be available, or we may not be able to acquire or maintain appropriate registered or unregistered intellectual property, in every country in which we do business. Accordingly, our intellectual property rights may not be sufficient to permit us to take advantage of some business opportunities.

The protection of our intellectual property may require us to spend significant amounts of money. Further, the steps we take to protect our intellectual property may not adequately protect our rights or prevent others from infringing, violating or misappropriating our intellectual proprietary rights. Any impairment of our intellectual property rights, including due to changes in U.S. or foreign intellectual property laws or the absence of effective legal protections or enforcement measures, could adversely impact our businesses, financial condition and results of operations.

In addition, as we adopt new technology, we face an inherent risk of exposure to the claims of others that we have allegedly violated their intellectual property rights. Successful claims that we infringe on the intellectual property rights of others could require us to enter into royalty or licensing agreements on unfavorable terms or cause us to incur substantial monetary liability. We may also be prohibited preliminarily or permanently from further use of the intellectual property in question or be required to change our business practices to stop the infringing use, which could limit our ability to compete effectively. In addition, our customer agreements may require us to indemnify the customer for infringement. The time and expense of defending against these claims, whether meritorious or not, may have a material and adverse impact on our profitability, can be time-consuming and costly and may divert management's attention and resources away from our businesses. Furthermore, the publicity we may receive as a result of infringing intellectual property rights may damage our reputation and adversely impact our existing customer relationships and our ability to develop new business.

We may incur material losses and costs as a result of warranty claims, including product recalls, and product liability actions that may be brought against us.

Depending on the terms under which we supply products to an auto manufacturer, we may be required to guarantee or offer warranties for our products and to bear the costs of recalls, repair or replacement of such products pursuant to new vehicle warranties. There can be no assurance that we will have adequate reserves to cover such recall, repair and replacement costs. In the event that any of our products fails to perform as expected, we may face direct exposure to warranty and product liability claims or may be required to participate in a government or self-imposed recall involving such products. Our customers that are not end users, such as auto manufacturers, may face similar claims or be obliged to conduct recalls of their own, and in such circumstances, they may seek contribution from us. Our agreements with our customers typically do not contain limitation of liability clauses, so if any such claims or contribution requests exceed our available insurance, or if there is a product recall, there could be a material adverse impact on our results of operations. In addition, a recall claim could require us to review our entire product portfolio to assess whether similar issues are present in other product lines, which could result in significant disruption to our business and could have a further adverse impact on our results of operations. We cannot assure you that we will not experience any material warranty or product liability claim losses in the future or that we will not incur significant costs to defend such claims.

The operational constraints and financial distress of third parties could adversely impact our business and results of operations.

Our results of operations, financial condition and cash flows could be adversely affected if our third-party suppliers lack sufficient quality control or if there are significant changes in their financial or business condition. If our third-party manufacturers fail to deliver products, parts and components of sufficient quality on time and at reasonable prices, we could have difficulties fulfilling our orders on similar terms or at all, sales and profits could decline, and our commercial reputation could be damaged. See "—Raw material price fluctuations, the ability of key suppliers to meet quality and delivery requirements, or catastrophic events can increase the cost of our products and services, impact our ability to meet commitments to customers and cause us to incur significant liabilities." If we fail to adequately assess the creditworthiness and operational reliability of existing or future suppliers, if there is any unanticipated deterioration in their creditworthiness and operational reliability, or if our suppliers do not perform or adhere to our existing or future contractual arrangements, any resulting increase in nonperformance by them, our inability to otherwise obtain the supplies or our inability to enforce the terms of the contract or seek other remedies could have a material adverse effect on our financial condition and results of operations.

Work stoppages, other disruptions, or the need to relocate any of our facilities could significantly disrupt our business.

Our geographic footprint emphasizes locating, engineering and manufacturing capabilities in close physical proximity to our customers, thereby enabling us to adopt technologies and products for the specific vehicle types sold in each geographic market. Because our facilities offer localized services in this manner, a work stoppage or other disruption at one or more of our R&D, engineering or manufacturing and assembly facilities in a given region could have material adverse effects on our business, especially insofar as it impacts our ability to serve customers in that region. For example, in February 2020, our manufacturing facility in Wuhan, China was shut down longer than expected during the Chinese New Year due to the novel coronavirus outbreak, causing us to delay certain shipments to our customers. Moreover, due to unforeseen circumstances or factors beyond our control, we may be forced to relocate our operations from one or more of our existing facilities to new facilities and may incur substantial costs, experience program delays and sacrifice proximity to customers and geographic markets as a result, potentially for an extended period of time.

The automotive industry relies heavily on "just-in-time" delivery of components during the assembly and manufacture of vehicles, and when we fail to make timely deliveries in accordance with our contractual obligations, we generally have to absorb our own costs for identifying and solving the "root cause" problem as well as expeditiously producing replacement components or products. We typically must also carry the costs associated with "catching up," such as overtime and premium freight. Additionally, if we are the cause for a customer being forced to halt production, the customer may seek to recoup all of its losses and expenses from us. These losses and expenses could be significant, and may include consequential losses such as lost profits.

In addition, a significant disruption in the supply of a key component due to a work stoppage or other disruption at one of our suppliers or any other supplier could impact our ability to make timely deliveries to our customers and, accordingly, have a material adverse effect on our financial results. Where a customer halts production because of another supplier failing to deliver on time, or as a result of a work stoppage or other disruption, it is unlikely we will be fully compensated, if at all.

The novel coronavirus outbreak could adversely impact our business, financial condition and results of operations.

In December 2019, a strain of novel coronavirus surfaced in Wuhan, China. In January 2020, the World Health Organization declared the novel coronavirus outbreak a public health emergency and the U.S. Department of State instructed travelers to avoid all nonessential travel to China. We operate two facilities in China, including a manufacturing facility in Wuhan. The Chinese government has ordered our Wuhan facility to halt operations since January 23, 2020 and our Shanghai facility has operated at partial capacity due to labor constraints during the same period, which has disrupted our production schedules and will likely adversely affect our revenues. The resulting shortage of components produced by our Chinese facilities is expected to lead to lower shipments from the cancellation of new orders as well as lower volumes from existing orders. There can be no assurances as to when our Wuhan facility will re-open or when our Shanghai facility will resume operating at full capacity. Moreover, because of the current restrictions on travel in China, we may continue to have labor shortages even when our Wuhan facility re-opens, which may force us to continue to reduce operations.

Certain of our suppliers and customers in China have been similarly affected and are experiencing closures and labor shortages. As a result of such closures, we have faced difficulty sourcing materials necessary to fulfill production requirements and meet scheduled shipments, including for our plants in Europe and North America, which we believe will negatively affect our revenues. Even if we are able to find alternate sources of supply for such materials, they may cost more, which could affect our profitability and financial condition. In addition, if our customers in China are not able to accept orders or if they delay or cancel such orders, our revenues will be negatively affected.

At this point in time, there remains significant uncertainty relating to the potential effect of the novel coronavirus on our business. Infections may become more widespread, including to other countries where we have operations, and factory closures and travel restrictions may remain or worsen.

As a result of disruptions to our business as a result of the novel coronavirus, we expect that our revenues and results of operations will be negatively affected, which, among other things, could cause us to fail to comply with certain financial covenants in our Credit Agreement by and among us, Garrett LX I S.à r.l., Garrett LX II S.à r.l., Garrett LX III S.à r.l., Garrett Borrowing LLC, and Honeywell Technologies Sàrl, the lenders and issuing banks party thereto and JPMorgan Chase Bank, N.A., as administrative agent (the "Credit Agreement") and our Indemnification and Reimbursement Agreement.

We may not realize sales represented by awarded business or effectively utilize our manufacturing capacity.

When we win a bid to offer products and services to an OEM customer, the customer typically does not commit to award us its business until a separate contract has been negotiated, generally with a term ranging from one year to the life of the model (usually three to seven years). Once business has been awarded, the OEM customer typically retains the ability to terminate the arrangement without penalty and does not commit to purchase a minimum volume of products while the contract is in effect.

In light of the foregoing, while we estimate awarded business using certain assumptions, including projected future sales volumes, the volume and timing of sales to our customers may vary due to: variation in demand for our customers' products; our customers' attempts to manage their inventory; design changes; changes in our customers' manufacturing strategy; the success of customers' goods and models; and acquisitions of or consolidations among customers. A significant decrease in demand for certain key models or a group of related models sold by any of our major customers, or the ability of a manufacturer to re-source and discontinue purchasing from us its requirements for a particular model or group of models, could have a material adverse effect on us. In particular, we may be unable to forecast the level of customer orders with sufficient certainty to allow us to optimize production schedules and maximize utilization of manufacturing capacity. Any excess capacity would cause us to incur increased fixed costs in our products relative to the net revenue we generate, which could have an adverse effect on our results of operations, particularly during economic downturns. Similarly, a significant failure or inability to adapt to increased production or desired inventory levels (including as a result of accelerated launch schedules for new automobile and truck platforms),

comply with customer specifications and manufacturing requirements more generally or respond to other unexpected fluctuations, as well as any delays or other problems with existing or new products (including program launch difficulties) could result in financial penalties, increased costs, loss of sales, loss of customers or potential breaches of customer contracts, which could have an adverse effect on our profitability and results of operations.

If actual production orders from our customers are not consistent with the projections we use in calculating the amount of our awarded business, or if we are unable to improve utilization levels for manufacturing lines that consequently are underutilized and correctly manage capacity, the increased expense levels will have an adverse effect on our business, financial condition and results of operations, and we could realize substantially less revenue over the life of these projects than the currently projected estimate.

We may not be able to successfully negotiate pricing terms with our customers, which may adversely affect our results of operations.

We negotiate sales prices annually with our automotive customers. Our customer supply agreements generally require step-downs in component pricing over the period of production. In addition, our customers often reserve the right to terminate their supply contracts at any time, which enhances their ability to obtain price reductions. OEMs have also exercised significant influence over their suppliers, including us, because the automotive component supply industry is highly competitive and serves a limited number of customers. Based on these factors, our status as a Tier I supplier (one that supplies vehicle components directly to manufacturers) and the fact that our customers' product programs typically last a number of years and are anticipated to encompass large volumes, our customers are able to negotiate favorable pricing, and any cost-cutting initiatives that our customers adopt generally will result in increased downward pressure on our pricing. Any resulting impacts to our sales levels and margins, or the failure of our technologies or products to gain market acceptance due to more attractive offerings by our competitors, could over time significantly reduce our revenues and adversely affect our competitive standing and prospects. In particular, large commercial settlements with our customers may adversely affect our results of operations.

We are subject to the economic, political, regulatory, foreign exchange and other risks of international operations.

We have created a geographic footprint that emphasizes locating R&D, engineering and manufacturing capabilities in close physical proximity to our customers. Our international geographic footprint subjects us to many risks, including: exchange control regulations; wage and price controls; antitrust and environmental regulations; employment regulations; foreign investment laws; monetary and fiscal policies and protectionist measures that may prohibit acquisitions or joint ventures, establish local content requirements, or impact trade volumes; import, export and other trade restrictions (such as embargoes); violations by our employees of anti-corruption laws; changes in regulations regarding transactions with state-owned enterprises; nationalization of private enterprises; natural and man-made disasters, hazards and losses; global health risks and pandemics; backlash from foreign labor organizations related to our restructuring actions; violence, civil and labor unrest; acts of terrorism; and our ability to hire and maintain qualified staff and maintain the safety of our employees in these regions. Additionally, certain of the markets in which we operate have adopted increasingly strict data privacy and data protection requirements or may require local storage and processing of data or similar requirements. The European Commission has approved a data protection regulation, known as the General Data Protection Regulation ("GDPR"), that came into force in May 2018. The GDPR includes operational requirements for companies that receive or process personal data of residents of the European Union and includes significant penalties for non-compliance. The GDPR and similar data protection measures may increase the cost and complexity of our ability to deliver our services.

Following the U.K.'s withdrawal from the European Union on January 31, 2020, the U.K. entered into a transition period during which it will continue its ongoing and complex negotiations with the European Union relating to the future trading relationship between the U.K. and European Union. Significant political and economic uncertainty remains about whether the terms of the relationship will differ materially from the terms before withdrawal, as well as about the possibility that a so-called "no deal" separation could occur if negotiations are not completed by the end of the transition period. Our manufacturing operations in Cheadle and the businesses of our customers and suppliers could be negatively impacted if tariffs or other restrictions are imposed on the free flow of goods to and from the U.K. Trade tensions between the United States and China, and other countries have been escalating in recent years. U.S. tariff impositions against Chinese exports have generally been followed by retaliatory Chinese tariffs on U.S. exports to China. We may not be able to mitigate the impacts of any future tariffs, and our business, results of operations and financial position would be materially adversely affected by such tariffs. Further changes in U.S. trade policies, tariffs, taxes, export restrictions or other trade barriers, or restrictions on raw materials or components may limit our ability to produce products, increase our manufacturing costs, decrease our profit margins, reduce the competitiveness of our products, or inhibit our ability to sell products or purchase raw materials or components, which would have a material

adverse effect on our business, results of operations and financial condition. These and other instabilities and uncertainties arising from the global geopolitical environment, along with the cost of compliance with increasingly complex and often conflicting regulations worldwide, can impair our flexibility in modifying product, marketing, pricing or other strategies for growing our businesses, as well as our ability to improve productivity and maintain acceptable operating margins.

As a result of our global presence, a significant portion of our revenues are denominated in currencies other than the U.S. dollar whereas a significant amount of our payment obligations are denominated in U.S. dollars, which exposes us to foreign exchange risk. We monitor and seek to reduce such risk through hedging activities; however, foreign exchange hedging activities bear a financial cost and may not always be available to us or be successful in eliminating such volatility.

Finally, we generate significant amounts of cash that is invested with financial and non-financial counterparties. While we employ comprehensive controls regarding global cash management to guard against cash or investment loss and to ensure our ability to fund our operations and commitments, a material disruption to the counterparties with whom we transact business could expose us to financial loss.

We have invested substantial resources in specific foreign markets where we expect growth and we may be unable to timely alter our strategies should such expectations not be realized.

We have identified certain countries, such as China and India, as key high-growth geographic markets. We believe these markets are likely to experience substantial long-term growth, and accordingly have made and expect to continue to make substantial investments in numerous manufacturing operations, technical centers, R&D activities and other infrastructure to support anticipated growth in these areas. If market demand for evolving vehicle technologies in these regions does not grow as quickly as we anticipate, or if we are unable to deepen existing and develop additional customer relationships in these regions, we may fail to realize expected rates of return, or even incur losses, on our existing investments and may be unable to timely redeploy the invested capital to take advantage of other markets or product categories, potentially resulting in lost market share to our competitors. In particular, our ability to remain competitive and continue to grow in these regions depends in part on the absence of competing state-sponsored domestic businesses. If a state-sponsored operation entered a local market as a competitor, it might have access to significant social and financial capital that would enable it to overcome the ordinary barriers to entry in the turbocharger industry and acquire potentially significant market share at our expense.

We could be adversely affected by our leading market position in certain markets.

We believe that we are a market leader in the turbocharger industry in many of the markets in which we operate. Although we believe we have acted properly in the markets in which we have significant market share, we could face allegations of abuse of our market position or of collusion with other market participants, which could result in negative publicity and adverse regulatory action by the relevant authorities, including the imposition of monetary fines, all of which could adversely affect our financial condition and results of operations.

A downgrade in our credit ratings, or a deterioration in industry, economic or financial conditions may restrict our ability to access the capital markets on favorable terms.

We may require additional capital in the future to finance our growth and development, upgrade and improve our manufacturing capabilities, implement further marketing and sales activities, fund ongoing R&D activities, satisfy regulatory and environmental compliance obligations, satisfy indemnity obligations to Honeywell, and meet general working capital needs. Our capital requirements will depend on many factors, including acceptance of and demand for our products, the extent to which we invest in new technology and R&D projects and the status and timing of these developments. If our access to capital were to become constrained significantly, or if costs of capital increased significantly, due to lowered credit ratings, prevailing industry conditions, the solvency of our customers, a material decline in demand for or our products, the volatility of the capital markets or other factors, our financial condition, results of operations and cash flows could be adversely affected. These conditions may adversely affect our ability to obtain targeted credit ratings.

Moreover, we have historically relied on Honeywell for assistance in satisfying our capital requirements. As a result of the Spin-Off, we are no longer able to rely on the earnings, assets or cash flow of Honeywell, and Honeywell will not provide funds to finance our capital requirements. We are also responsible for obtaining and maintaining sufficient working capital and other funds to satisfy our cash requirements independent of Honeywell, and debt or equity financing may not be available to us on terms we find acceptable, if at all. Incurring additional debt may significantly increase our interest expense and financial leverage, and our level of indebtedness could restrict our ability to fund future development and acquisition activities. Also, regardless of the terms of our debt or equity financing, our agreements and obligations under the Tax Matters Agreement that address compliance with Section 355 of the Internal Revenue Code of 1986, as

amended (the "Code") may limit our ability to issue stock. We may need additional capital resources in the future in order to meet our projected operating needs, capital expenditures and other cash requirements, and if we are unable to obtain sufficient resources for our operating needs, capital expenditures and other cash requirements for any reason, our business, financial condition and results of operations could be adversely affected. See "Risks Relating to the Spin-Off — We may be unable to make, on a timely or cost-effective basis, the changes necessary to operate effectively as an independent, publicly traded company, and we may experience increased costs due to our separation from Honeywell."

We are subject to risks associated with the Indemnification and Reimbursement Agreement, pursuant to which we are required to make substantial cash payments to Honeywell, measured in substantial part by reference to estimates by Honeywell of certain of its liabilities.

In connection with the Spin-Off, we entered into an Indemnification and Reimbursement Agreement, pursuant to which we have an obligation to make cash payments to Honeywell in amounts equal to 90% of Honeywell's asbestos-related liability payments and accounts payable, primarily related to Honeywell's legacy Bendix friction materials ("Bendix") business in the United States as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of our business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell's net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities.

The amount payable by the Company in respect of such liabilities arising in any given year will be payable in Euros, subject to a cap (denominated in Euros) equal to $175 million, calculated by reference to the Distribution Date Currency Exchange Rate. The cap is exclusive of any late payment fees up to 5% per annum.

For example, if in any given year, Honeywell's annual liabilities including associated legal costs that are within the scope of the Indemnification and Reimbursement Agreement totaled $200 million, and if Honeywell's associated insurance receipts and other specified recoveries totaled $20 million (resulting in a net amount of $180 million), then our payment obligation in respect of that year would be based upon 90% of the net amount ($162 million), payable in Euros, calculated by reference to the Distribution Date Currency Exchange Rate (1.16977 USD = 1 EUR) (totaling approximately €138.5 million). However, if in any given year, such liabilities including associated legal costs totaled $250 million, and the associated insurance receipts and other specified recoveries totaled $30 million, then our payment obligation in respect of that year would be capped at approximately €149.6 million (which equals $175 million divided by the Distribution Date Currency Exchange Rate of 1.16977 USD = 1 EUR) even though 90% of the net amount is higher at $198 million (€169.3 million calculated by reference to the Distribution Date Currency Exchange Rate of 1.16977 USD = 1 EUR).

The Indemnification and Reimbursement Agreement provides that the agreement will terminate upon the earlier of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which certain amounts owed to Honeywell during each such year were less than $25 million as converted into Euros in accordance with the terms of the agreement.

In 2019 and in the fourth quarter of 2018, the Company paid Honeywell $153 million and $41 million, respectively, in connection with the Indemnification and Reimbursement Agreement. Garrett has made all payments under the Indemnification and Reimbursement Agreement under protest, as described below. Prior to the Spin-Off, Honeywell's asbestos-related Bendix liability payments for 2017, including any legal fees, was $223 million, and Honeywell's associated insurance receipts for 2017 was $20 million.

In the event that Honeywell enters into a global settlement of all or substantially all of the asbestos-related Bendix claims in the United States, the Indemnification and Reimbursement Agreement provides that we are obligated to pay 90% of the amount paid or payable by Honeywell in connection with such global settlement payment, less 90% of insurance receipts relating to such liabilities, and in such event, we are required to pay an amount equal to the Distribution Date Currency Exchange Rate equivalent of $175 million per year until the amount payable by us in respect of such global settlement payment is less than an amount equal to the Distribution Date Currency Exchange Rate equivalent of $175 million. During that time, the annual payment by us to Honeywell of an amount equal to the Distribution Date Currency Exchange Rate equivalent of $175 million will be first allocated towards asbestos-related liabilities arising outside of the scope of the global settlement and environmental-related liabilities and then towards the global settlement payment. Payment amounts will be deferred to the extent that the payment thereof would cause a specified event of default under certain indebtedness, including our principal credit agreement or cause us to not be

compliant with certain financial covenants in certain indebtedness, including our principal credit agreement on a pro forma basis, including the maximum total leverage ratio (ratio of debt to consolidated EBITDA as defined by such credit agreement, which excludes any amounts owed to Honeywell under the Indemnification and Reimbursement Agreement), and the minimum interest coverage ratio. In each calendar quarter, our ability to pay dividends and repurchase capital stock in such calendar quarter will be restricted until any amounts payable under the Indemnification and Reimbursement Agreement in such quarter (including any deferred payment amounts) are paid to Honeywell and we will be required to use available restricted payment capacity under our debt agreements to make payments in respect of any such deferred amounts. Payment of deferred amounts and certain other amounts (which are not expected to be material) could cause the amount we are required to pay under the Indemnification and Reimbursement Agreement in any given year to exceed an amount equal to the Distribution Date Currency Exchange Rate equivalent of $175 million per year (exclusive of any late payment fees up to 5% per annum). All amounts payable under the Indemnification and Reimbursement Agreement will be guaranteed by certain of our subsidiaries that act as guarantors under our principal credit agreement, subject to certain exceptions. Under the Indemnification and Reimbursement Agreement, we are also subject to certain of the affirmative and negative covenants to which we are subject under our Credit Agreement or to which we may become subject in the future under new principal credit agreements, and these covenants purport to continue to apply in certain circumstances notwithstanding a replacement of our Credit Agreement or a waiver of the corresponding covenants by our lenders. Further, pursuant to the Indemnification and Reimbursement Agreement, our ability to (i) amend or replace the Credit Agreement, (ii) enter into another credit agreement and make amendments or waivers thereto, or (iii) enter into or amend or waive any provisions under other agreements, in each case, in a manner that would adversely affect the rights of Honeywell under the Indemnification and Reimbursement Agreement, will be subject to Honeywell's prior written consent. These covenants and consent rights in favor of Honeywell in the Indemnification and Reimbursement Agreement may significantly limit our ability to engage in many types of significant transactions on favorable terms (or at all), including, but not limited to, equity and debt financings, liability management transactions, refinancing transactions, mergers, acquisitions, joint ventures and other strategic transactions.

This agreement may have material adverse effects on our liquidity and cash flows and on our results of operations, regardless of whether we experience a decline in net sales. The agreement may also require us to accrue significant long-term liabilities on our consolidated and combined balance sheet, the amounts of which will be dependent on factors outside of our control, including Honeywell's responsibility to manage and determine the outcomes of claims underlying the liabilities. As of December 31, 2019, and 2018, we have accrued $1,090 and $1,244 million, respectively of liability in connection with Bendix-related asbestos as well as environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, representing the estimated liability for pending claims as well as future claims expected to be asserted. The liabilities related to the Indemnification and Reimbursement Agreement may have a significant negative impact on the calculation of key financial ratios and other metrics that are important to investors, rating agencies and securities analysts in evaluating our creditworthiness and the value of our securities. Accordingly, our access to capital to fund our operations may be materially adversely affected and the value of your investment in our company may decline. Moreover, the payments that we are required to make to Honeywell pursuant to the terms of that agreement will not be deductible for U.S. federal income tax purposes.

Although we have access to certain information regarding these liabilities as we may reasonably request for certain purposes, as well as the ability to participate in periodic standing meetings with Honeywell's special counsel responsible for management of the underlying claims, the payment obligations under this agreement relate to legal proceedings that we will not control, and we accordingly do not expect to be able to make definitive decisions regarding settlements or other outcomes that could influence our potential related exposure.

The Indemnification and Reimbursement Agreement also includes other obligations that may impose significant operating and financial restrictions on us and our subsidiaries and limit our ability to engage in actions that may be in our long-term best interests.

In December 2019, we commenced a lawsuit against Honeywell in connection with the Indemnification and Reimbursement Agreement for declaratory judgment, breach of contract, breach of fiduciary duties, aiding and abetting breach of fiduciary duties, corporate waste, breach of the implied covenant of good faith and fair dealing, and unjust enrichment. Our lawsuit seeks to establish that the Indemnification and Reimbursement Agreement is unenforceable in whole or in part and that Honeywell has breached its obligations under this agreement by failing to provide us with information as to the underlying claims to which it is entitled. There can be no assurance as to the time and resources that will be required to pursue these claims or the ultimate outcome of the lawsuit. The costs incurred in litigation may be substantial and result in the diversion of management's attention and resources.

Raw material price fluctuations, the ability of key suppliers to meet quality and delivery requirements, or catastrophic events can increase the cost of our products and services, impact our ability to meet commitments to customers and cause us to incur significant liabilities.

The cost and availability of raw materials (including, but not limited to, grey iron, aluminum, stainless steel and a nickel, iron and chromium-based alloy) is a key element in the cost of our products. Our inability to offset material price inflation through increased prices to customers, formula or long-term fixed price contracts with suppliers, productivity actions or through commodity hedges could adversely affect our results of operations.

We obtain components and other products and services from numerous suppliers and other vendors throughout the world. Many major components and product equipment items are procured or subcontracted on a single- or sole-source basis. Although we believe that sources of supply for raw materials and components are generally adequate, it is difficult to predict what effects shortages or price increases may have in the future. Short- or long-term capacity constraints or financial distress at any point in our supply chain could disrupt our operations and adversely affect our financial performance, particularly when the affected suppliers and vendors are the sole sources of products that we require or that have unique capabilities, or when our customers have directed us to use those specific suppliers and vendors. Our ability to manage inventory and meet delivery requirements may be constrained by our suppliers' inability to scale production and adjust delivery of long-lead time products during times of volatile demand. Our inability to fill our supply needs would jeopardize our ability to fulfill obligations under commercial contracts, and could result in reduced sales and profits, contract penalties or terminations, and damage to customer relationships.

Failure to increase productivity through sustainable operational improvements, as well as an inability to successfully execute repositioning projects or to effectively manage our workforce, may reduce our profitability or adversely impact our business.

Our profitability and margin growth are dependent upon our ability to drive sustainable improvements. In addition, we seek productivity and cost savings benefits through repositioning actions and projects, such as consolidation of manufacturing facilities, transitions to cost-competitive regions, workforce reductions, asset impairments, product line rationalizations and other cost-saving initiatives. Risks associated with these actions include delays in execution of the planned initiatives, additional unexpected costs, realization of fewer than estimated productivity improvements and adverse effects on employee morale. We may not realize the full operational or financial benefits we expect, the recognition of these benefits may be delayed and these actions may potentially disrupt our operations. In addition, organizational changes, attrition, labor relations difficulties, or workforce stoppage could have a material adverse effect on our business, reputation, financial position and results of operations.

Our operations and the prior operations of predecessor companies expose us to the risk of material environmental liabilities.

We are subject to potentially material liabilities related to the investigation and cleanup of environmental hazards and to claims of personal injuries or property damages that may arise from hazardous substance releases and exposures. We are also subject to potentially material liabilities related to the compliance of our operations with the requirements of various federal, state, local and foreign governments that regulate the discharge of materials into the environment and the generation, handling, storage, treatment and disposal of and exposure to hazardous substances. If we are found to be in violation of these laws and regulations, we may be subject to substantial fines and criminal sanctions and be required to install costly equipment or make operational changes to achieve compliance with such laws and regulations. In addition, changes in laws, regulations or government enforcement of policies concerning the environment, the discovery of previously unknown contamination or new information related to individual contaminated sites, the establishment of stricter state or federal toxicity standards with respect to certain contaminants, or the imposition of new clean-up requirements or remedial techniques, could require us to incur additional currently unanticipated costs in the future that would have a negative effect on our financial condition or results of operations.

We cannot predict with certainty the outcome of litigation matters, government proceedings and other contingencies and uncertainties.

In the ordinary course of business, we are or may be party to a number of lawsuits, investigations and disputes (some of which involve substantial amounts claimed) arising out of our current and historical business, including matters relating to our Indemnification and Reimbursement Agreement, commercial transactions, product liability (including legacy asbestos claims involving the friction materials legacy business), prior acquisitions and divestitures, employment, employee benefits plans, intellectual property, antitrust, import and export, and environmental, health and safety matters. For example, we are currently engaged in litigation against Honeywell in connection with the Indemnification and Reimbursement Agreement. We cannot predict with certainty the outcome of our lawsuit against Honeywell, or any other legal proceedings or contingencies. The costs incurred in litigation can be substantial and result in the diversion of management's attention and resources.

We may also make certain commitments, including representations, warranties and indemnities relating to current and past operations, including those related to divested businesses, and issue guarantees of third-party obligations. Our potential liabilities are subject to change over time due to new developments, changes in settlement strategy or the impact of evidentiary requirements, and we may become subject to or be required to pay damage awards or settlements that could have a material adverse effect on our results of operations, cash flows and financial condition. If we were required to make payments, such payments could be significant and could exceed the amounts we have accrued with respect thereto, adversely affecting our business, financial condition and results of operations. While we maintain insurance for certain risks, the amount of our insurance coverage may not be adequate to cover the total amount of all insured claims and liabilities. The incurrence of significant liabilities for which there is no or insufficient insurance coverage could adversely affect our results of operations, cash flows, liquidity and financial condition.

We depend on the recruitment and retention of qualified personnel, and our failure to attract and retain such personnel could adversely affect our business, financial condition and results of operations.

Due to the complex nature of our business, our future performance is highly dependent upon the continued services of our key engineering personnel, scientists and executive officers, the development of additional management personnel and the hiring of new qualified engineering, manufacturing, marketing, sales and management personnel for our operations. Competition for qualified personnel in our industry is intense, and we may not be successful in attracting or retaining qualified personnel. The loss of key employees, our inability to attract new qualified employees or adequately train employees, or the delay in hiring key personnel, could negatively affect our business, financial condition and results of operations.

System or service failures, including as a result of cyber or other security incidents, could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations.

We deploy and maintain IT and engineering systems. Our systems involve sensitive information and may be conducted in hazardous environments. As a result, we are subject to systems or service failures, not only resulting from our failures or the failures of third-party service providers, natural disasters, power shortages or terrorist attacks, but also from exposure to cyber or other security threats. Global cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to IT systems to sophisticated and targeted measures known as advanced persistent threats, directed at the Company, our products, our customers and/or our third-party service providers, including cloud providers. There has been an increase in the frequency and sophistication of cyber and other security threats we face, and our customers are increasingly requiring cyber and other security protections and mandating cyber and other security standards in our products.

Cyber and other security incidents, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption or unavailability of critical data and confidential or proprietary information (our own or that of third parties) and the disruption of business operations. Moreover, employee error or malfeasance, faulty password management or other intentional or inadvertent non-compliance with our security protocols may result in a breach of our information systems. Cyber and other security incidents aimed at the software embedded in our products could lead to third-party claims that our product failures have caused a similar range of damages to our customers, and this risk is enhanced by the increasingly connected nature of our products.

The potential consequences of a material cyber or other security incident include financial loss, reputational damage, litigation with third parties, theft of intellectual property, fines levied by the United States Federal Trade Commission, diminution in the value of our investment in research, development and engineering, and increased cyber and other security protection and remediation costs due to the increasing sophistication and proliferation of threats, which in turn could adversely affect our competitiveness and results of operations. In addition to any costs resulting from contract performance or required corrective action, these incidents could generate increased costs or loss of revenue if our customers choose to postpone or cancel previously scheduled orders or decide not to renew any of our existing contracts.

The costs related to cyber or other security incidents may not be fully insured or indemnified by other means. The successful assertion of a large claim against us with respect to a cyber or other security incident could seriously harm our business. Even if not successful, these claims could result in significant legal and other costs, may be a distraction to our management and harm our customer relationships, as well as our reputation.

Our U.S. and non-U.S. tax liabilities are dependent, in part, upon the distribution of income among various jurisdictions in which we operate.

Our future results of operations could be adversely affected by changes in the effective tax rate as a result of a change in the mix of earnings in countries with differing statutory tax rates, changes in tax laws, regulations and judicial rulings (or changes in the interpretation thereof), changes in generally accepted accounting principles, changes in the valuation of deferred tax assets and liabilities, the results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures and various other governmental enforcement initiatives. Our tax expense includes estimates of tax reserves and reflects other estimates and assumptions, including assessments of our future earnings which could impact the valuation of our deferred tax assets. Changes in tax laws or regulations, including multi-jurisdictional changes enacted in response to the guidelines provided by the Organization for Economic Co-operation and Development to address base erosion and profit shifting, will increase tax uncertainty and may adversely impact our provision for income taxes.

Because we have officers and directors who live outside of the United States, you may have no effective recourse against them for misconduct and may not be able to receive compensation for damages to the value of your investment caused by wrongful actions by our directors and officers.

We have officers and directors who live outside of the United States. As a result, it may be difficult for investors to enforce within the U.S. any judgments obtained against those officers and directors or obtain judgments against them outside of the U.S. that are based on the civil liability provisions of the federal or state securities laws of the U.S. Investors may not be able to receive compensation for damages to the value of their investment caused by wrongful actions by our directors and officers.

Our emerging opportunities in technology, products and services depend in part on intellectual property and technology licensed from third parties.

A number of our emerging opportunities in technology, products and services rely on key technologies developed or licensed from third parties. While none of our current product offerings are covered by third-party licenses, many of our emerging technology offerings that we are developing use software components or other intellectual property licensed from third parties, including both through proprietary and open source licenses. Should such emerging products become a significant part of our product offerings, our reliance on third-party licenses may present various risks to our business. These third-party software components may become obsolete, defective or incompatible with future versions of our emerging technology offerings, our relationship with these third parties may deteriorate, or our agreements with these third parties may expire or be terminated. We may face legal or business disputes with licensors that may threaten or lead to the disruption of inbound licensing relationships. In order to remain in compliance with the terms of our licenses, we must carefully monitor and manage our use of third-party components, including both proprietary and open source license terms that may require the licensing or public disclosure of our intellectual property without compensation or on undesirable terms. Additionally, some of these licenses may not be available for use in the future on terms that may be acceptable or that allow our emerging product offerings to remain competitive. Our inability to obtain licenses or rights on favorable terms could have a material effect on our emerging technology offerings. Moreover, it is possible that as a consequence of a future merger or acquisition we may be involved in, third parties may obtain licenses to some of our intellectual property rights or our business may be subject to certain

restrictions that were not in place prior to such transaction. Because the availability and cost from third parties depends upon the willingness of third parties to deal with us on the terms we request, there is a risk that third parties who license our competitors will either refuse to license us at all, or refuse to license us on terms equally favorable to those granted to our competitors. Consequently, we may lose a competitive advantage with respect to these intellectual property rights or we may be required to enter into costly arrangements in order to obtain these rights.

Risks Relating to the Spin-Off and our Separation from Honeywell

If the Spin-Off were determined not to qualify as tax-free for U.S. federal income tax purposes, we could have an indemnification obligation to Honeywell, which could adversely affect our business, financial condition and results of operations.

If, as a result of any of our representations being untrue or our covenants being breached, the Spin-Off were determined not to qualify for non-recognition of gain or loss under Section 355 and related provisions of the Code, we could be required to indemnify Honeywell for the resulting taxes and related expenses. Further, if any pre-spin restructuring activities that were initiated by Honeywell were determined to be taxable and benefit the Company, we could be required to indemnify Honeywell. Those amounts could be material. Any such indemnification obligation could adversely affect our business, financial condition and results of operations.

In addition, if we or our stockholders were to engage in transactions that resulted in a 50% or greater change by vote or value in the ownership of our stock during the four-year period beginning on the date that begins two years before the date of the Distribution, the Spin-Off would generally be taxable to Honeywell, but not to stockholders, under Section 355(e), unless it were established that such transactions and the Spin-Off were not part of a plan or series of related transactions. If the Spin-Off were taxable to Honeywell due to such a 50% or greater change in ownership of our stock, Honeywell would recognize gain equal to the excess of the fair market value on the Distribution Date of our common stock distributed to Honeywell stockholders over Honeywell's tax basis in our common stock, and we generally would be required to indemnify Honeywell for the tax on such gain and related expenses. Those amounts would be material. Any such indemnification obligation could adversely affect our business, financial condition and results of operations.

We are subject to risks relating to our Tax Matters Agreement with Honeywell.

We have agreed in the Tax Matters Agreement to covenants and indemnification obligations that address compliance with Section 355 of the Code and are intended to preserve the tax-free nature of the Spin-Off. These covenants include certain restrictions on our activity for a period of two years following the Spin-Off, unless Honeywell gives its consent for us to take a restricted action, which Honeywell is permitted to grant or withhold at its sole discretion. These covenants and indemnification obligations may limit our ability to pursue strategic transactions or engage in new businesses or other transactions that may maximize the value of our business and might discourage or delay a strategic transaction that our stockholders may consider favorable.

In addition, pursuant to the terms of the Tax Matters Agreement, we are required to make payments to a subsidiary of Honeywell in an amount payable in Euros (calculated by reference to the Distribution Date Currency Exchange Rate) representing the net tax liability of Honeywell under the mandatory transition tax attributable to us, as determined by Honeywell. Following the Spin-Off, Honeywell determined the portion of its net tax liability attributable to us is $240 million. The remaining amount is payable in installments through 2025 and may be adjusted at Honeywell's discretion in the event of an audit adjustment or otherwise. In connection with the Tax Matters Agreement, we paid Honeywell, under protest, the Euro-equivalent of $18 million and $19 million during 2019 and the fourth quarter of 2018, respectively. Furthermore, Honeywell will control any subsequent tax audits or legal proceedings with respect to the mandatory transition tax, and accordingly we do not expect to be able to make definitive decisions regarding settlements or other outcomes that could influence our potential related

We may be unable to achieve some or all of the benefits that we expect to achieve from the Spin-Off.

We believe that, as an independent, publicly traded company, we will be able to, among other things, design and implement corporate strategies and policies that are better targeted to our business's areas of strength and differentiation, better focus our financial and operational resources on those specific strategies, create effective incentives for our management and employees that are more closely tied to our business performance, provide investors more flexibility and enable us to achieve alignment with a more natural stockholder base and implement and maintain a capital structure designed to meet our specific needs. We may be unable to achieve some or all of the benefits that we expect to achieve as an independent company in the time we expect, if at all, for a variety of reasons, including: (i) operating as a stand-alone public company requires significant amounts of our management's time and effort, which has diverted, and may continue to divert, management's attention from operating and growing our business; (ii) we may be more susceptible to market fluctuations and other adverse events than if we were still a part of Honeywell; and (iii) our businesses is less diversified than Honeywell's businesses prior to the separation. If we fail to achieve some or all of the benefits that we expect to achieve as an independent company, or do not achieve them in the time we expect, our business, financial condition and results of operations could be adversely affected.

As we build our information technology infrastructure and transition our data to our own systems, we could incur substantial additional costs and experience temporary business interruptions, and our accounting and other management systems and resources may not be adequately prepared to meet the financial reporting and other requirements to which we are subject.

We are in the process of installing and implementing information technology infrastructure to support certain of our business functions, including accounting and reporting, manufacturing process control, customer service, inventory control and distribution. We may incur substantially higher costs than currently anticipated as we transition from the existing transactional and operational systems and data centers we previously used as part of Honeywell. If we are unable to transition effectively, we may incur temporary interruptions in business operations. Any delay in implementing, or operational interruptions suffered while implementing, our new information technology infrastructure could disrupt our business and have a material adverse effect on our results of operations.

In addition, if we are unable to replicate or transition certain systems, our ability to comply with regulatory requirements could be impaired. As a result of the Spin-Off, we are directly subject to reporting and other obligations under the Exchange Act. For example, we are required to comply with Section 404 of the Sarbanes Oxley Act of 2002, as amended (the "Sarbanes Oxley Act"), which requires annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm addressing these assessments. These reporting and other obligations have placed, and may continue to place, significant demands on management, administrative and operational resources, including accounting systems and resources.

The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. Under the Sarbanes Oxley Act, we are required to maintain effective disclosure controls and procedures and internal control over financial reporting. To comply with these requirements, we have upgraded our systems, implemented additional financial and management controls, reporting systems and procedures and hired additional accounting and finance staff. We have incurred and expect to continue to incur additional annual expenses for the purpose of addressing these, and other public company reporting, requirements. If we are unable to maintain effective financial and management controls, reporting systems, information technology systems and procedures, our ability to comply with financial reporting requirements and other rules that apply to reporting companies under the Exchange Act could be impaired. Any failure to achieve and maintain effective internal controls could have a material adverse effect on our business, financial condition, results of operations and cash flow. See "—Risks Relating to Our Common Stock and the Securities Market—If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired and investors' views of us could be harmed."

We have a limited operating history as an independent, publicly traded company, and our historical consolidated and combined financial information prior to the Spin-Off is not necessarily representative of the results we would have achieved as an independent, publicly traded company and may not be a reliable indicator of our future results.

We derived much of the financial information included in this Annual Report on Form 10-K from Honeywell's consolidated financial statements, and this information does not necessarily reflect the results of operations and financial position we would have achieved as an independent, publicly traded company during the periods presented, or those that we will achieve in the future. This is primarily because of the following factors:

- Prior to the Spin-Off, we operated as part of Honeywell's broader corporate organization, and Honeywell performed various corporate functions for us. Our historical consolidated and combined financial information prior to the Spin-Off reflects allocations of corporate expenses from Honeywell for these and similar functions. These allocations may not reflect the costs we incur for similar services in the future as an independent publicly traded company.
- We have entered into transactions with Honeywell that did not exist prior to the Spin-Off, such as Honeywell's provision of transition and other services, and undertaken indemnification obligations, which have caused, and will continue to cause us to incur new costs.
- Our historical consolidated and combined financial information prior to the Spin-Off does not reflect changes that we have experienced as a result of our separation from Honeywell, and expect to continue to experience in the future, including changes in the financing, cash management, operations, cost structure and personnel needs of our business. As part of Honeywell, we enjoyed certain benefits from Honeywell's operating diversity, size, purchasing power, borrowing leverage and available capital for investments, and we have lost these benefits due to the Spin-Off. As an independent entity, we may be unable to purchase goods, services and technologies, such as insurance and health care benefits and computer software licenses, or access capital markets, on terms as favorable to us as those we obtained as part of Honeywell prior to the Spin-Off, and our results of operations may be adversely affected. In addition, our historical consolidated and combined financial data prior to the Spin-Off do not include an allocation of interest expense comparable to the interest expense we incurred as a result of the Spin-Off and related reorganization transactions, including interest expense in connection with our incurrence of indebtedness.

Due to our separation from Honeywell, we also face additional costs and demands on management's time associated with being an independent, publicly traded company, including costs and demands related to corporate governance, investor and public relations and public reporting. While we were profitable as part of Honeywell, we cannot assure you that our profits will continue at a similar level now that we are an independent, publicly traded company.

Our indebtedness could adversely affect our business, financial condition and results of operations.

In connection with the Spin-Off, we incurred substantial indebtedness in an aggregate principal amount of approximately $1,660 million, of which $1,628 million of the net proceeds were transferred to Honeywell substantially concurrently with the consummation of the Spin-Off.

We historically relied upon Honeywell to fund our working capital requirements and other cash requirements. We are now responsible for servicing our own debt and obtaining and maintaining sufficient working capital and other funds to satisfy our cash requirements. Due to our separation from Honeywell, our access to and cost of debt financing will be different from the historical access to and cost of debt financing under Honeywell. Differences in access to and cost of debt financing may result in differences in the interest rate charged to us on financings, as well as the amount of indebtedness, types of financing structures and debt markets that may be available to us.

Our ability to make payments on and to refinance our indebtedness, including the debt incurred in connection with the Spin-Off, as well as any future debt that we may incur, will depend on our ability to generate cash in the future from operations, financings or asset sales. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

The terms of the indebtedness we incurred in connection with the Spin-Off restricts our current and future operations, particularly our ability to incur debt that we may need to fund initiatives in response to changes in our business, the industries in which we operate, the economy and governmental regulations.

The terms of our Credit Agreement include a number of restrictive covenants that impose significant operating and financial restrictions on us and our subsidiaries and limit our ability to engage in actions that may be in our long-term best interests. These may restrict our and our subsidiaries' ability to take some or all of the following actions:

- incur or guarantee additional indebtedness or sell disqualified or preferred stock;
- pay dividends on, make distributions in respect of, repurchase or redeem capital stock;
- make investments or acquisitions;
- sell, transfer or otherwise dispose of certain assets;
- create liens;
- enter into sale/leaseback transactions;
- enter into agreements restricting the ability to pay dividends or make other intercompany transfers;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our or our subsidiaries' assets;
- enter into transactions with affiliates;
- prepay, repurchase or redeem certain kinds of indebtedness;
- issue or sell stock of our subsidiaries; and/or
- significantly change the nature of our business.

Moreover, as a result of all of these restrictions, we may be limited in how we conduct our business and pursue our strategy, unable to raise additional debt financing to operate during general economic or business downturns, or unable to compete effectively or to take advantage of new business opportunities. Furthermore, the lenders of this indebtedness have required that we pledge our assets as security for our repayment obligations and that we abide by certain financial or operational covenants. Our ability to comply with such covenants and restrictions may be affected by events beyond our control, including prevailing economic, political, social, financial and industry conditions, such as the novel coronavirus, which has negatively affected our operations in China and will likely have an adverse impact on our revenues, financial condition and results of operations. If market or other economic conditions deteriorate or if the situation in China worsens, our ability to comply with these covenants may be impaired, and we may not be able to refinance our indebtedness on favorable terms or at all. A breach of any of these covenants, if applicable, could result in an event of default under the terms of our Credit Agreement. If an event of default occurred, the lenders under our Credit Agreement would have the right to accelerate the repayment of such debt, and the event of default or acceleration could result in the acceleration of the repayment of any other debt to which a cross-default or cross-acceleration provision applies. We might not have, or be able to obtain, sufficient funds to make these accelerated payments, and lenders could then proceed against any collateral. Any subsequent replacement of the agreements governing such indebtedness, or any new indebtedness could have similar or greater restrictions. The occurrence and ramifications of an event of default could adversely affect our business, financial condition and results of operations.

Uncertainty relating to the LIBOR calculation process and potential phasing out of LIBOR after 2021 may adversely affect the market value of our current or future debt obligations.

The London Inter-bank Offered Rate ("LIBOR") is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rates on loans globally. We generally use LIBOR as a reference rate to calculate interest rates (mainly for USD borrowings) under our Credit Agreement. In 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if LIBOR will cease to exist at that time or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index, the Secured Overnight Financing Rate ("SOFR"), calculated using short-term repurchase agreements backed by Treasury securities. Whether or not SOFR, or

another alternative reference rate, attains market traction as a LIBOR replacement tool remains in question. If LIBOR ceases to exist, we will need to agree upon a replacement index with the banks under our Credit Agreement, and certain of the interest rates under our Credit Agreement may change. The new rates may not be as favorable to us as those in effect prior to any LIBOR phase-out. In addition, the transition process may involve, among other things, increased volatility or illiquidity in markets for instruments that currently rely on LIBOR. The transition may also result in reductions in the value of certain instruments or the effectiveness of related transactions such as hedges, increased borrowing costs, uncertainty under applicable documentation, or difficult and costly consent processes. Any such effects of the transition away from LIBOR, as well as other unforeseen effects, may result in expenses, difficulties, complications or delays in connection with future financing efforts, which could have a material adverse impact on our business, financial condition and results of operations.

Some of our customers, prospective customers, suppliers or other companies with whom we conduct business may need assurances that our financial stability on a stand-alone basis is sufficient to satisfy their requirements for doing or continuing to do business with them. Any failure of parties to be satisfied with our financial stability could cause these parties to cease to do business with us, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may have potential business conflicts of interest with Honeywell with respect to our past and ongoing relationships.

Conflicts of interest may arise between Honeywell and us in a number of areas relating to our past and ongoing relationships, including:

- labor, tax, employee benefit, indemnification and other matters arising from our separation from Honeywell;
- intellectual property matters;
- employee recruiting and retention; and
- business combinations involving our company.

We may not be able to resolve any potential conflicts, and, even if we do so, the resolution may be less favorable to us than if we were dealing with a party with whom we were not previously affiliated.

Certain of our directors and employees may have actual or potential conflicts of interest because of their financial interests in Honeywell.

Because of their former positions with Honeywell, certain of our executive officers and directors own equity interests in Honeywell. Continuing ownership of Honeywell shares could create, or appear to create, potential conflicts of interest if we and Honeywell face decisions that could have implications for both us and Honeywell.

The allocation of intellectual property rights between Honeywell and us as part of the Spin-Off, and our shared use of certain intellectual property rights, could adversely impact our reputation, our ability to enforce certain intellectual property rights that are important to us and our competitive position.

In connection with the Spin-Off, we entered into agreements with Honeywell governing the allocation of intellectual property rights related to our business. These agreements could adversely affect our position and options relating to intellectual property enforcement, licensing negotiations and monetization. We also may not have sufficient rights to grant sublicenses of intellectual property used in our business. These circumstances could adversely affect our ability to protect our competitive position in the industry.

Risks Relating to our Common Stock

An active trading market for our common stock may not be sustained, and our stock price may fluctuate significantly.

The market price of our common stock may fluctuate widely, depending on many factors, some of which may be beyond our control, including:

- actual or anticipated fluctuations in our results of operations due to factors related to our business;
- success or failure of our business strategies;
- competition and industry capacity;
- changes in interest rates and other factors that affect earnings and cash flow;
- our level of indebtedness, our ability to make payments on or service our indebtedness and our ability to obtain financing as needed;
- our ability to retain and recruit qualified personnel;
- our quarterly or annual earnings, or those of other companies in our industry;
- announcements by us or our competitors of significant acquisitions or dispositions;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the failure of securities analysts to cover, or positively cover, our common stock after the Spin-Off;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- investor perception of our company and our industry;
- overall market fluctuations unrelated to our operating performance;
- results from any material litigation or government investigation;
- changes in laws and regulations (including tax laws and regulations) affecting our business;
- changes in capital gains taxes and taxes on dividends affecting stockholders; and
- general economic conditions and other external factors.

Low trading volume for our stock, which may occur if an active trading market is not sustained, among other reasons, would amplify the effect of the above factors on our stock price volatility.

Should the market price of our stock drop significantly, stockholders may institute securities class action lawsuits against us. A lawsuit against us could cause us to incur substantial costs and could divert the time and attention of our management and other resources.

If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired and investors' views of us could be harmed.

We are required to perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002. If we are not able to comply with the requirements of Section 404, the market price of shares of common stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

Our ability to successfully comply with Section 404 requires us to be able to prepare timely and accurate financial statements. Any delay in the implementation of, or disruption in the transition to, new or enhanced systems, procedures or controls, may cause our operations to suffer, and we may be unable to conclude that our internal control over financial reporting is effective, and our independent registered public accounting firm may provide an adverse opinion on our internal control over financial reporting. In the course of preparing our Annual Report on Form 10-K and our Consolidated and Combined Financial Statements for the year ended December 31, 2018, our management determined that there was a material weakness in our internal control over financial reporting relating to the supporting evidence for our liability to Honeywell under the Indemnification and Reimbursement Agreement. Even though we have concluded, and our auditors have concurred, that this material weakness has been remediated as of December 31, 2019, and that our internal control over financial reporting is effective as of that date, we could identify additional material weaknesses in our internal control over financial reporting in the future, which could cause us to have to restate our Combined and Consolidated Financial Statements. In the event of an additional material weakness or restatement, the market price of shares of common stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which could have a material adverse effect on our results of operations and financial condition. See "—Risks Relating to the Spin-Off—As we build our information technology infrastructure and transition our data to our own systems, we could incur substantial additional costs and experience temporary business interruptions, and our accounting and other management systems and resources may not be adequately prepared to meet the financial reporting and other requirements to which we are subject."

We plan to evaluate whether to pay cash dividends on our common stock in the future, and the terms of our indebtedness will limit our ability to pay dividends on our common stock.

We plan to evaluate whether to pay cash dividends to our stockholders. The timing, declaration, amount and payment of future dividends to stockholders, if any, will fall within the discretion of our board of directors. The Board's decisions regarding the payment of dividends will depend on consideration of many factors, such as our financial condition, earnings, sufficiency of distributable reserves, opportunities to retain future earnings for use in the operation of our business and to fund future growth, capital requirements, debt service obligations, obligations under the Indemnification and Reimbursement Agreement, legal requirements, regulatory constraints and other factors that the Board deems relevant. Additionally, the terms of our Credit Agreement and obligations under the Indemnification and Reimbursement Agreement limit our ability to pay cash dividends. There can be no assurance that we will pay a dividend in the future or continue to pay any dividend if we do commence paying dividends.

Your percentage ownership in us may be diluted in the future.

Your percentage ownership in us may be diluted in the future because of equity issuances for acquisitions, capital market transactions or otherwise, including equity awards that we will be granting to our directors, officers and other employees. We expect that shares of our common stock will be issuable upon the future vesting of certain Honeywell equity awards held by our employees that converted into Garrett equity awards in connection with the Spin-Off. Our Board has adopted and Honeywell, as our sole shareholder, approved, the 2018 Stock Incentive Plan of Garrett and its Affiliates (the "Equity Plan") for the benefit of certain of our current and future employees and other service providers. Our non-employee directors will be eligible to participate in the 2018 Stock Incentive Plan for Non-Employee Directors. Awards made under such plans will have a dilutive effect on our earnings per share, which could adversely affect the market price of our common stock.

In addition, our Amended and Restated Certificate of Incorporation authorizes us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designation, powers, preferences and relative, participating, optional and other special rights, including preferences over our common stock with respect to dividends and distributions, as our board of directors may generally determine. The terms of one or more classes or series of preferred stock could dilute the voting power or reduce the value of our common stock. For example, we could grant the holders of preferred stock the right to elect some number of the members of our board of directors in all events or upon the happening of specified events, or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences that we could assign to holders of preferred stock could affect the residual value of our common stock.

From time-to-time, we may opportunistically evaluate and pursue acquisition opportunities, including acquisitions for which the consideration thereof may consist partially or entirely of newly-issued shares of our common stock and, therefore, such transactions, if consummated, would dilute the voting power and/or reduce the value of our common stock.

Certain provisions in our Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws and Delaware law may discourage takeovers.

Several provisions of our Amended and Restated Certificate of Incorporation, Amended and Restated By-Laws and Delaware law may discourage, delay or prevent a merger or acquisition. These include, among others, provisions that:

- provide for staggered terms for directors on our Board for a period following the Spin-Off;
- do not permit our stockholders to act by written consent and require that stockholder action must take place at an annual or special meeting of our stockholders, in each case except as such rights may otherwise be provided to holders of preferred stock;
- establish advance notice requirements for stockholder nominations and proposals;
- limit the persons who may call special meetings of stockholders; and
- limit our ability to enter into business combination transactions.

These and other provisions of our Amended and Restated Certificate of Incorporation, Amended and Restated By-Laws and Delaware law may discourage, delay or prevent certain types of transactions involving an actual or a threatened acquisition or change in control of Garrett, including unsolicited takeover attempts, even though the transaction may offer our stockholders the opportunity to sell their shares of our common stock at a price above the prevailing market price.

Our Amended and Restated Certificate of Incorporation designates the courts of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

Our Amended and Restated Certificate of Incorporation provides, in all cases to the fullest extent permitted by law, unless we consent in writing to the selection of an alternative forum, the Court of Chancery located within the State of Delaware will be the sole and exclusive forum for any derivative action or proceeding brought on behalf of Garrett, any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees or stockholders to us or our stockholders, any action asserting a claim arising pursuant to the Delaware General Corporate Law ("DGCL") or as to which the DGCL confers jurisdiction on the Court of Chancery located in the State of Delaware or any action asserting a claim governed by the internal affairs doctrine or any other action asserting an "internal corporate claim" as that term is defined in Section 115 of the DGCL. However, if the Court of Chancery within the State of Delaware does not have jurisdiction, the action may be brought in any other state or federal court located within the State of Delaware. Any person or entity purchasing or otherwise acquiring or holding any interest in shares of our capital stock will be deemed to have notice of and to have consented to these provisions. This provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits. Alternatively, if a court were to find this provision of our Amended and Restated Certificate of Incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We have created a geographic footprint that emphasizes locating R&D, engineering and manufacturing capabilities in close physical proximity to our customers, thereby enabling us to manage our environmental footprint to meet our sustainability targets and to adopt technologies and products for the specific vehicle types sold in each geographic market. Over the past several years, we have invested heavily to be close to our Chinese, Indian and other high-growth region OEM customers to be able to offer world-leading technologies, localized engineering support and unparalleled manufacturing productivity.

As of December 31, 2019, we owned or leased 13 manufacturing sites, five R&D centers and 14 close-to- customer engineering sites. We also have many smaller sales offices, warehouses, cybersecurity and IVHM sites and other investments strategically located throughout the world. The following table shows the regional distribution of our manufacturing sites, R&D centers and customer engineering sites:

	North America	Europe, Middle East & Africa	South Asia & Asia Pacific	South America	Total
Manufacturing Sites	2	5	5	1	13
R&D Centers	2	1	2	0	5
Close-to-Customer Engineering Sites	3	7	3	1	14

We continually and proactively review our real estate portfolio and develop footprint strategies to support our customers' global plans, while at the same time supporting our technical needs and optimizing operating cost base. We expect our evolving portfolio will meet current and anticipated future needs.

Item 3. Legal Proceedings

On December 2, 2019, the Company and its subsidiary, Garrett ASASCO Inc., filed a Summons with Notice in the Commercial Division of the Supreme Court of the State of New York, County of New York (the "NY Supreme Court") commencing an action (the "Action") against Honeywell, certain of Honeywell's subsidiaries and certain of Honeywell's employees for declaratory judgment, breach of contract, breach of fiduciary duties, aiding and abetting breach of fiduciary duties, corporate waste, breach of the implied covenant of good faith and fair dealing, and unjust enrichment. On January 15, 2020, the Company and Garrett ASASCO Inc. filed a Complaint in the NY Supreme Court in connection with the Action. The lawsuit arises from the Indemnification and Reimbursement Agreement. The Company is seeking declaratory relief, compensatory damages in an amount to be determined at trial rescission of the Indemnification and Reimbursement Agreement, attorneys' fees and costs, and such other and further relief as the Court may deem just and proper. Among other claims, Garrett asserts that Honeywell is not entitled to indemnification because it improperly seeks indemnification for amounts attributable to punitive damages and intentional misconduct, and because it has failed to establish other prerequisites for indemnification under New York law. Specifically, the claim asserts that Honeywell has failed to establish its right to indemnity for each and every asbestos settlement of the thousands for which it seeks indemnification. The Action seeks to establish that the Indemnification and Reimbursement Agreement is not enforceable, in whole or in part.

We are involved in various other lawsuits, claims and proceedings incident to the operation of our businesses, including those pertaining to product liability, product safety, environmental, safety and health, intellectual property, employment, commercial and contractual matters and various other matters. Although the outcome of any such lawsuit, claim or proceeding cannot be predicted with certainty and some may be disposed of unfavorably to us, we do not currently believe that such lawsuits, claims or proceedings will have a material adverse effect on our financial position, results of operations or cash flows. We accrue for potential liabilities in a manner consistent with accounting principles generally accepted in the United States. Accordingly, we accrue for a liability when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable.

Additionally, in connection with our entry into the Indemnification and Reimbursement Agreement, we are required to make payments to Honeywell for a certain amount of Honeywell's asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell's net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities.

Item 4. Mine Safety Disclosures

Not Applicable.

Part II

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

Market Information

On October 1, 2018, we became an independent publicly-traded company through a pro rata distribution by Honeywell of 100% of the outstanding shares of us to Honeywell's stockholders (the "Spin-Off"). Each Honeywell stockholder of record received one share of our common stock for every 10 shares of Honeywell common stock held on the record date. Approximately 74 million shares of our common stock were distributed on October 1, 2018 to Honeywell stockholders. In connection with the separation, our common stock began trading "regular-way" under the ticker symbol "GTX" on the New York Stock Exchange on October 1, 2018.

Holders of Record

As of February 25, 2020, there were 37,237 stockholders of record of our common stock.

Dividend Policy

We currently intend to retain all available funds and any future earnings to fund the development and growth of our business and to repay indebtedness, and therefore we do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future. The timing, declaration, amount and payment of future dividends to stockholders, if any, will fall within the discretion of our Board. Among the items we will consider when establishing a dividend policy will be the capital needs of our business and opportunities to retain future earnings for use in the operation of our business and to fund future growth. Additionally, the terms of our Senior Credit Facilities and obligations under the Indemnification and Reimbursement Agreement each will limit our ability to pay cash dividends. There can be no assurance that we will pay a dividend in the future or continue to pay any dividend if we do commence the payment of dividends.

Stock Performance Graph

The following graph and table illustrate the total return from October 1, 2018 through December 31, 2019, for (i) our common stock, (ii) the Standard and Poor's ("S&P") 600 Index, and (iii) the average stock performance of a group consisting of our peer companies ("Peer Group"), consisting of BorgWarner Inc., Allison Transmission Holdings, Inc., and Delphi Technologies Plc. The Peer Group is used routinely by management for benchmarking purposes. The graph and the table assume that $100 was invested on October 1, 2018 in each of our common stock, the S&P 600 Index, and the common stock of our Peer Group, and that any dividends were reinvested. The comparisons reflected in the graph and table are not intended to forecast the future performance of our common stock and may not be indicative of our future performance.

Indexed Price Performance

Global Markets Intelligence Group

Recent Sales of Unregistered Securities

None

Issuer Purchases of Equity Securities

There were no purchases of equity securities by the issuer or affiliated purchasers during the quarter ended December 31, 2019.

Item 6. Selected Financial Data

Selected Historical Consolidated and Combined Financial Data

The following tables present certain selected historical consolidated and combined financial information as of and for each of the years in the five-year period ended December 31, 2019. Prior to the Spin-Off on October 1, 2018, our historical financial statements were prepared on a stand-alone combined basis and were derived from the consolidated financial statements and accounting records of Honeywell. Accordingly, for periods prior to October 1, 2018, our financial statements are presented on a combined basis and for the periods subsequent to October 1, 2018 are presented on a consolidated basis (collectively, the historical financial statements for all periods presented are referred to as "Consolidated and Combined Financial Statements"). The selected historical consolidated and combined financial data as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018, and 2017 are derived from the historical audited Consolidated and Combined Financial Statements as included in this Form 10-K. Certain amounts as of and for the year ended December 31, 2018 have been revised to correct for errors that were immaterial to our previously issued Consolidated and Combined Financial Statements for the year ended December 31, 2018 as described in Note 8 —Revision of Previously Issued Financial Statements in Part II, Item 8 of this Form 10-K. The selected historical combined financial data as of December 31, 2017 and 2016 and for the years ended December 31, 2016 and 2015 are derived from historical audited combined financial statements not included in this Annual Report on Form 10-K. The selected historical combined financial data as of December 31, 2015 are derived from our unaudited combined financial information.

The selected historical consolidated and combined financial data presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical Consolidated and Combined Financial Statements and the accompanying Notes thereto included elsewhere in this Annual Report on Form 10-K. For each of the periods presented prior to the Spin-Off, our business was wholly owned by Honeywell. The financial information included for these periods may not necessarily reflect our financial position, results of operations and cash flows in the future or what our financial position, results of operations and cash flows would have been had we been an independent, publicly traded company during such periods. In addition, our historical consolidated and combined financial information does not reflect changes that we have experienced or expect to continue to experience in the future as a result of our separation from Honeywell, including changes in the financing, operations, cost structure and personnel needs of our business.

Further, the historical consolidated and combined financial information includes allocations of certain Honeywell corporate expenses, as described in Note 3 Related Party Transactions with Honeywell in our Consolidated and Combined Financial Statements. We believe the assumptions and methodologies underlying the allocation of these expenses are reasonable. However, such expenses may not be indicative of the actual level of expense that we would have incurred if we had operated as an independent, publicly traded company or of the costs expected to be incurred in the future.

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in millions except per share amounts)				
Selected Statement of Operations Information:					
Net sales	$ 3,248	$ 3,375	$ 3,096	$ 2,997	$ 2,908
Net income (loss)	$ 313	$ 1,206 (1)	$ (983) (2)	$ 199	$ 254
Earnings per common share (3)					
Basic:	$ 4.20	$ 16.28	$ (13.27)	$ 2.69	$ 3.43
Diluted:	$ 4.12	$ 16.21	$ (13.27)	$ 2.69	$ 3.43
Weighted average common shares (3)					
Basic:	74,602,868	74,059,240	74,070,852	74,070,852	74,070,852
Diluted:	75,934,373	74,402,148	74,070,852	74,070,852	74,070,852

	As of December 31,				
	2019	2018 [(1)]	2017	2016	2015
			(Dollars in millions)		
Selected Balance Sheet Information:					
Total assets	$ 2,275	$ 2,124	$ 2,997	$ 2,661	$ 2,444
Long-term debt	$ 1,409	$ 1,569	$ —	$ —	$ 116
Total liabilities	$ 4,408	$ 4,641	$ 5,192	$ 3,882	$ 3,803
Total deficit	$ (2,133)	$ (2,517)	$ (2,195)	$ (1,221)	$ (1,359)

(1) 2018 Net income was impacted by an internal restructuring of Garrett's business resulting in a tax benefit of $907 million.

(2) 2017 Net income was impacted by the U.S. Tax Cuts and Jobs Act (the "Tax Act") resulting in a tax expense of $1,335 million; see Note 7 Income Taxes of the Notes to Consolidated and Combined Financial Statements for further details.

(3) On October 1, 2018, the date of consummation of the Spin-Off, 74,070,852 shares of the Company's common stock were distributed to Honeywell stockholders of record as of September 18, 2018. Basic and Diluted EPS for all periods prior to the Spin-Off reflect the number of distributed shares, or 74,070,852 shares. These shares were treated as issued and outstanding from January 1, 2015 for purposes of calculating historical earnings per share.

Non-GAAP Measures

It is management's intent to provide non-GAAP financial information to supplement the understanding of our business operation and performance, and it should be considered by the reader in addition to, but not instead of, the financial statements prepared in accordance with GAAP. Each non-GAAP financial measure is presented along with the most directly comparable GAAP measure so as not to imply that more emphasis should be placed on the non-GAAP measure. The non-GAAP financial information presented may be determined or calculated differently by other companies and may not be comparable to other similarly titled measures used by other companies. Additionally, the non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Company's operating results as reported under GAAP.

EBITDA and Adjusted EBITDA(1) (2)

	Year Ended December 31,		
	2019	2018	2017
Net income (loss) — GAAP	**$ 313**	**$ 1,206**	**$ (983)**
Net interest (income) expense	61	12	(6)
Tax expense (benefit)	33	(810)	1,349
Depreciation	73	72	64
EBITDA (Non-GAAP)	**$ 480**	**$ 480**	**$ 424**
Other expense, net (which primarily consists of indemnification, asbestos and environmental expenses)(3)	40	120	130
Non-operating (income) expense(2)(4)	8	(2)	—
Stock compensation expense(5)	18	21	15
Repositioning charges(6)	2	2	20
Foreign exchange (gain) loss on debt, net of related hedging (gain) loss	7	(7)	—
Spin-Off costs(7)	28	6	—
Adjusted EBITDA (Non-GAAP)	**$ 583**	**$ 620**	**$ 589**

(1) We evaluate performance on the basis of EBITDA and Adjusted EBITDA. We define "EBITDA" as our net income (loss) calculated in accordance with U.S. GAAP, plus the sum of net interest (income) expense, tax (benefit) expense and depreciation. We define "Adjusted EBITDA" as EBITDA, plus the sum of non-operating (income) expense, net, other expense, net (which primarily consists of indemnification, asbestos and environmental expenses), stock compensation expense, repositioning charges, foreign exchange gain (loss) on debt, net of related hedging (gain) loss, non-service component of pension expense and Spin-Off costs. We believe that EBITDA and Adjusted EBITDA are important indicators of operating performance and provide useful information for investors because:

- EBITDA and Adjusted EBITDA exclude the effects of income taxes, as well as the effects of financing and investing activities by eliminating the effects of interest and depreciation expenses and therefore more closely measure our operational performance; and
- certain adjustment items, while periodically affecting our results, may vary significantly from period to period and have disproportionate effect in a given period, which affects comparability of our results.

In addition, our management may use Adjusted EBITDA in setting performance incentive targets in order to align performance measurement with operational performance.

(2) We have elected to change our definition of Adjusted EBITDA to exclude the non-service component of pension expense. Non-service pension expense is comprised of interest costs, expected return on plan assets and actuarial gains/losses. The components of non-service pension expense are primarily tied to financial market performance, changes in market interest rates and investment performance. The service cost component of our pension plans remains in Adjusted EBITDA. We consider the non-service component of pension expense to be outside the performance of our ongoing core business operations and believe that presenting Adjusted EBITDA including only the service component of pension expense, in addition to our GAAP operating results, provides increased transparency as to the operating costs of providing pension benefits to our employees and the underlying trends in our operating business performance. As a result, the prior periods presented were recast to conform to the current year presentation, resulting in a change in Adjusted EBITDA of $2 million and $1 million, for 2018 and 2017 respectively.

(3) For periods prior to the Spin-Off, we reflect an estimated liability for resolution of pending and future asbestos-related and environmental liabilities primarily related to the Bendix legacy Honeywell business, calculated as if we were responsible for 100% of the Bendix asbestos-liability payments. We recognized a liability for any asbestos-related contingency that was probable of occurrence and reasonably estimable. In connection with the recognition of liabilities for asbestos-related matters, we recorded asbestos-related insurance recoveries that are deemed probable. In periods subsequent to the Spin-Off, the accounting for the majority of our asbestos-related liability payments and accounts payable reflect the terms of the Indemnification and Reimbursement Agreement with Honeywell entered into on September 12, 2018, under which we are required to make payments to

Honeywell in amounts equal to 90% of Honeywell's asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell's net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. See Note 23, Commitments and Contingencies of Notes to the Consolidated and Combined Financial Statements.

(4) Non-operating (income) expense adjustment includes the non-service component of pension expense and other expense, net and excludes interest income, equity income of affiliates, and the impact of foreign exchange.

(5) Stock compensation expense adjustment includes only non-cash expenses.

(6) Repositioning charges adjustment primarily includes severance costs related to restructuring projects to improve future productivity.

(7) Spin-Off costs primarily include costs incurred for the set-up of the IT, Legal, Finance, Communications and Human Resources functions after the Spin-Off from Honeywell on October 1, 2018.

Adjusted EBITDA (Non-GAAP) decreased by $37 million in 2019 compared to 2018. The decrease was primarily due to unfavorable impacts of inflation ($26 million), unfavorable impact from price ($36 million), the unfavorable impact of foreign exchange rates including prior year's hedge losses ($8 million) and unfavorable impact of higher research and development expenses ($1 million), partially offset by favorable impact of productivity net of mix ($20 million) and favorable impacts of volume ($14 million).

Cash flow from operations less Expenditures for property, plant and equipment[(1)]

	Year Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
Net cash provided by (used for) operating activities — GAAP	242	373	71
Expenditures for property, plant and equipment	(102)	(95)	(103)
Cash flow from operations less Expenditures for property, plant and equipment (Non-GAAP)	$ 140	$ 278	$ (32)

(1) Cash flow from operations less Expenditures for property, plant and equipment is a non-GAAP financial measure that reflects an additional way of viewing our liquidity that, when viewed with our GAAP results, provides a supplemental understanding of factors and trends affecting our cash flows. Cash flow from operations less Expenditures for property, plant and equipment is calculated by subtracting Expenditures for property, plant and equipment from Net cash provided by (used for) operating activities. We believe it is a more conservative measure of cash flow because purchases of fixed assets are necessary for ongoing operations. We believe it is important to view Cash flow from operations less Expenditures for property, plant and equipment as a supplement to our Consolidated and Combined Statements of Cash Flows.

Cash flow from operations less Expenditures for property, plant and equipment (non-GAAP) decreased by $138 million in 2019 versus 2018, primarily due to the decrease in cash provided by operating activities of $131 million which was driven by a decrease in Obligations to Honeywell of $67 million, higher cash interest payments of $46 million, a decrease in net income, net of deferred taxes of $3 million and a decrease of $39 million in other items (accrued liabilities and other assets), partially offset by a favorable impact from working capital of $24 million. Additionally, Expenditures for property, plant and equipment increased by $7 million in 2019 as compared to 2018.

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

The following discussion and analysis of our financial condition and results of operations, which we refer to as our “MD&A,” should be read in conjunction with our Consolidated and Combined Financial Statements and related notes thereto and other financial information appearing elsewhere in this Information Statement. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report on Form 10-K, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. As a result of many important factors, including those set forth in the "Risk Factors" section of this Annual Report on Form 10-K, our actual results could differ materially from the results described in, or implied, by these forward-looking statements.

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations is intended to help you understand the results of operations and financial condition of Garrett Motion Inc. for the years ended December 31, 2019, 2018 and 2017. Certain amounts as of and for the year ended December 31, 2018 have been revised to correct for errors that were immaterial to our previously issued Consolidated and Combined Financial Statements for the year ended December 31, 2018 as described in Note 8 —Revision of Previously Issued Financial Statements in Part II, Item 8 of this Form 10-K. Unless the context otherwise requires, references to “Garrett,” “we,” “us,” “our,” and “the Company” refer to (i) Honeywell’s Transportation Systems Business (the “Transportation Systems Business” or the “Business”) prior to our spin-off from Honeywell International Inc. (the “Spin-Off”) and (ii) Garrett Motion Inc. and its subsidiaries following the Spin-Off, as applicable.

Overview and Business Trends

Garrett designs, manufactures and sells highly engineered turbocharger and electric-boosting technologies for light and commercial vehicle original equipment manufacturers (“OEMs”) and the global vehicle and independent aftermarket. These OEMs in turn ship to consumers globally. We are a global technology leader with significant expertise in delivering products across gasoline, diesel and electric (hybrid and fuel cell) powertrains. These products are key enablers for fuel economy and emission standards compliance.

Market penetration of vehicles with a turbocharger is expected to increase from approximately 51% in 2019 to approximately 56% by 2023, according to IHS and other industry sources, which we believe will allow our business to grow at a faster rate than overall automobile production. The turbocharger market volume growth was particularly strong in China and other high-growth regions.

The growth trajectory for turbochargers is expected to continue, as the technology is one of the most cost- effective solutions for OEMs to address strict constraints for vehicle fuel efficiency and emissions standards. As a result, OEMs are increasing their adoption of turbocharger technologies across gasoline and diesel engines as well as hybrid-electric and fuel cell vehicles. In recent years, we have also seen a shift in demand from diesel engines to gasoline engines.

In particular, the commercial vehicle OEM market and light vehicle gasoline markets in China and other high-growth regions have increased due to favorable economic conditions and rising income levels which have led to an increase in automotive and vehicle content demand. While the respective growth rates may potentially decline as the local markets mature, we continue to expect an increase in future vehicle production utilizing turbocharger technologies as vehicle ownership remains well below ownership levels in developed markets. We are closely monitoring the current novel coronavirus outbreak and its implications for the auto industry both within and outside China. We expect this outbreak to affect the auto industry primarily in 2020. We currently do not expect a long-term impact on industry demand beyond 2021.

Separation from Honeywell

On October 1, 2018, the Company became an independent publicly-traded company through a pro rata distribution by Honeywell of 100% of the then-outstanding shares of Garrett to Honeywell’s stockholders. Each Honeywell stockholder of record received one share of Garrett common stock for every 10 shares of Honeywell common stock held on the record date. Approximately 74 million shares of Garrett common stock were distributed on October 1, 2018 to Honeywell stockholders. In connection with the separation, Garrett´s common stock began trading “regular-way” under the ticker symbol “GTX” on the New York Stock Exchange on October 1, 2018.

In connection with the Spin-Off, we entered into an Indemnification and Reimbursement Agreement (the “Indemnification and Reimbursement Agreement”) and a Tax Matters Agreement (the “Tax Matters Agreement”) with Honeywell on September 12, 2018, each of which is described in this MD&A. In December 2019, we commenced a lawsuit against Honeywell in connection with the Indemnification and Reimbursement Agreement, as described below.

Basis of Presentation

Prior to the Spin-Off on October 1, 2018, our historical financial statements were prepared on a stand–alone basis and derived from the consolidated financial statements and accounting records of Honeywell. Accordingly, for periods prior to October 1, 2018, our financial statements are presented on a combined basis and for the periods subsequent to October 1, 2018 are presented on a consolidated basis (collectively, the historical financial statements for all periods presented are referred to as “Consolidated and Combined Financial Statements”). The Consolidated and Combined Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The historical consolidated and combined financial information may not be indicative of our future performance and does not necessarily reflect what our consolidated and combined results of operations, financial condition and cash flows would have been had the Business operated as a separate, publicly traded company during the periods presented, particularly because of changes that we have experienced and expect to continue to experience in the future as a result of our separation from Honeywell, including changes in the financing, cash management, operations, cost structure and personnel needs of our business.

For periods prior to the Spin-Off, the Consolidated and Combined Financial Statements include certain assets and liabilities that were held at the Honeywell corporate level prior to the Spin-Off but are specifically identifiable or otherwise allocable to the Business. Additionally, Honeywell provided certain services, such as legal, accounting, information technology, human resources and other infrastructure support, on behalf of the Business. The cost of these services has been allocated to the Business on the basis of the proportion of revenues. We consider these allocations to be a reasonable reflection of the benefits received by the Business. Actual costs that would have been incurred if the Business had been a stand-alone company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure. We consider the basis on which the expenses have been allocated to be a reasonable reflection of the utilization of services provided to or the benefits received by the Business during the periods presented.

Subsequent to the completion of the Spin-Off, we have incurred and continue to expect to incur expenditures consisting of employee-related costs, costs to start up certain stand-alone functions and information technology systems, and other one-time transaction related costs. Recurring stand-alone costs include establishing the internal audit, treasury, investor relations, tax and corporate secretary functions as well as the annual expenses associated with running an independent publicly traded company including listing fees, compensation of non-employee directors, related board of director fees and other fees and expenses related to insurance, legal and external audit. Recurring stand- alone costs that differ from historical allocations may have an impact on profitability and operating cash flows but we believe the impact will not be significant. As a stand-alone public company, we do not expect our recurring stand-alone corporate costs to be materially higher than the expenses historically allocated to us from Honeywell.

Asbestos-Related and Environmental Liabilities

For the periods prior to the Spin-Off, our Consolidated and Combined Financial Statements reflect an estimated liability for resolution of pending and future asbestos-related and environmental liabilities primarily related to the Bendix legacy Honeywell business, calculated as if we were responsible for 100% of the Bendix asbestos-liability payments. However, this recognition model differs from the recognition model applied subsequent to the Spin-Off. In periods subsequent to the Spin-Off, the accounting for the majority of our asbestos-related liability payments and accounts payable reflect the terms of the Indemnification and Reimbursement Agreement with Honeywell entered into on September 12, 2018, under which we are required to make payments to Honeywell in amounts equal to 90% of Honeywell’s asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell’s net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. The Indemnification and Reimbursement Agreement provides that the agreement will terminate upon the earlier of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which certain amounts owed to Honeywell during each such year were less than $25 million as converted into Euros in accordance with the terms of the agreement. During the year ended December 31, 2019 and in the fourth quarter of 2018, we paid Honeywell the Euro-equivalent of $153 million and $41million, respectively, in connection with the Indemnification and Reimbursement Agreement. Garrett has made all payments under the Indemnification and Reimbursement Agreement under protest, as described below.

On October 19, 2018, Honeywell disclosed in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (the “Honeywell Form 10-Q”) that the Division of Enforcement of the Securities and Exchange Commission (the “SEC”) opened an investigation into Honeywell’s prior accounting for liability for unasserted Bendix-related asbestos claims. In addition, Honeywell noted that it revised certain previously-issued financial statements to correct the time period associated with the determination of appropriate accruals for legacy Bendix asbestos-related liability for unasserted claims.

As disclosed, in Honeywell’s Current Report on Form 8-K filed on August 28, 2019, the SEC informed Honeywell that it had concluded its investigation and that it does not intend to recommend any enforcement action against Honeywell.

On December 2, 2019, we filed a Summons with Notice in the Commercial Division of the Supreme Court of the State of New York, County of New York (“NY Supreme Court”) commencing an action (the “Action”) against Honeywell for declaratory judgment, breach of contract, breach of fiduciary duties, aiding and abetting breach of fiduciary duties, corporate waste, breach of implied covenant of good faith and fair dealing, and unjust enrichment. On January 15, 2020, we filed a Complaint in the NY Supreme Court in connection with the Action. The lawsuit arises from the Indemnification and Reimbursement agreement, which was not negotiated at arm’s – length, and purports to obligate Garrett to compensate Honeywell for payments relating to asbestos exposure arising from Honeywell’s legacy Bendix automotive brake business, including payments relating to punitive damages and defense costs. Our lawsuit seeks to establish that the Indemnification and Reimbursement Agreement is unenforceable in whole or part and that Honeywell has breached its obligations under this agreement by filing to provide us with information as to the underlying claims to which it is entitled. There can be no assurance as to the time and recourses that will be required to pursue these claims or the ultimate outcome of the lawsuit, but we intend to press these claims aggressively. Among other claims, Garrett asserts that Honeywell is not entitled to indemnification because it improperly seeks indemnification for amounts attributable to punitive damages and intentional misconduct, and because it has failed to establish other prerequisites for indemnification under New York law. Specifically, the claim asserts that Honeywell has failed to establish its right to indemnity for each and every asbestos settlement of the thousands for which it seeks indemnification. The Action seeks to establish that the Indemnification and Reimbursement Agreement is not enforceable, in whole or in part.

Results of Operations for the Years Ended December 31, 2019, 2018 and 2017

Net Sales

	2019	2018	2017
		(Dollars in millions)	
Net sales	$ 3,248	$ 3,375	$ 3,096
% change compared with prior period	(3.8)%	9.0%	3.3%

The change in net sales compared to the prior year period is attributable to the following:

	2019	2018
Volume	1.3%	7.0%
Price	(1.1)%	(1.4)%
Foreign Currency Translation	(4.0)%	3.4%
	(3.8)%	9.0%

2019 compared with 2018

Our net sales for 2019 were $3,248 million, a decrease of $127 million or 3.8% (including a negative impact of 4.0% due to foreign currency translation), from $3,375 million in 2018. The decrease in sales was primarily driven by light vehicles OEM products decline of $57 million, commercial vehicles OEM products decline of $39 million, aftermarket products decline of $20 million and other products decline of $10 million.

Our light vehicles OEM product decline was primarily driven by lower diesel volumes in Europe and Asia, partially offset by higher gasoline volumes as a result of increased turbocharger penetration in gasoline engines and new product launches. The decrease in net sales for commercial vehicles is mainly driven by lower volumes in Europe and North America. The decrease in aftermarket product sales was primarily driven by a volume decrease in Europe.

2018 compared with 2017

Our net sales for 2018 were $3,375 million, an increase of $279 million, or 9.0% (including a favorable impact of 3.4% due to foreign currency translation), from $3,096 million in 2017, primarily driven by increases in sales volume partially offset by price reductions. The increase in sales volume, net of price reductions, was primarily driven by light vehicles OEM products growth of $220 million, commercial vehicles OEM products growth of $59 million and aftermarket products growth of $8 million.

Our light vehicles OEM product growth was primarily driven by increased gasoline volumes in Europe, China, North America, and South Korea, as a result of increased turbocharger penetration in gasoline engines and new product launches. Additionally, there were increased diesel volumes in China and Japan partially offset by lower diesel volumes to our OEM customers in Europe and South Korea. The commercial vehicles OEM product growth was primarily driven by volume increases in North America and Europe. Our slight aftermarket sales increase was primarily driven by higher volumes in Europe partially offset by lower volumes in Japan.

Cost of Goods Sold

	2019	2018	2017
		(Dollars in millions)	
Cost of goods sold	$ 2,537	$ 2,599	$ 2,361
% change compared with prior period	(2.4)%	10.1%	(0.2)%
Gross Profit percentage	21.9%	23.0%	23.7%

2019 compared with 2018

Cost of goods sold for 2019 was $2,537 million, a decrease of $62 million or 2.4% from $2,599 million in 2018. The decrease was primarily due to a decrease in direct material costs and labor costs of $113 million primarily due to changes in foreign exchange rates and increases in productivity of $98 million, partially offset by unfavorable impacts from volume and mix of $141 million and other impacts of $8 million. Gross profit percentage decreased primarily due to unfavorable impacts from mix (2.8 percentage points), price (0.9 percentage points) and the unfavorable impacts from inflation (0.7 percentage points), partially offset by the favorable impact of productivity (3.1 percentage points) and the favorable impact of foreign exchange rates (0.2 percentage points).

2018 compared with 2017

Cost of goods sold for 2018 was $2,599 million, an increase of $238 million, or 10.1%, from $2,361 million in 2017. This increase was primarily driven by an increase in direct material costs and labor of $215 million, or 12%, (principally due to an increase in volume). Gross profit percentage decreased primarily due to unfavorable impacts from mix and price (3.1 percentage point impact) and inflation (1 percentage point impact), partially offset by higher productivity (3.0 percentage point impact) and net reductions in repositioning and other costs (0.6 percentage point impact).

Selling, General and Administrative Expenses

	2019	2018	2017
		(Dollars in millions)	
Selling, general and administrative expense	$ 249	$ 249	$ 249
% of sales	7.7%	7.4%	8.0%

2019 compared with 2018

Selling, general and administrative expenses were flat for 2019 compared to 2018 leading to an increase in expenses as a percentage of sales.

2018 compared with 2017

Selling, general and administrative expenses were flat for 2018 compared with 2017 leading to a decline in expenses as a percentage of sales.

Other Expense, Net

	2019	2018	2017
		(Dollars in millions)	
Other expense, net	$ 40	$ 120	$ 130
% of sales	1.2%	3.6%	4.2%

2019 compared with 2018

Other expense, net decreased in 2019 by $80 million compared to 2018. For 2019, Other expense, net of $40 million primarily reflects $28 million of legal fees incurred in connection with the Indemnification and Reimbursement Agreement, $11 million of litigation legal fees in connection with the pending litigation against Honeywell, and $1 million in factoring and notes receivables discount fees. For 2018, Other expense, net of $120 million was primarily driven by asbestos-related charges, net of probable insurance recoveries of $131 million.

2018 compared with 2017

For the periods prior to the Spin-Off, our Consolidated and Combined Financial Statements reflect an estimated liability for resolution of pending and future asbestos-related and environmental liabilities primarily related to the Bendix legacy Honeywell business, calculated as if we were responsible for 100% of the Bendix asbestos-liability payments. For the nine months ended September 30, 2018, compared to the same period in 2017, Other expense, net increased by $3 million due to a $6 million increase in environmental charges, partially offset by a $3 million decrease in asbestos charges.

Following the Spin-Off in 2018, the accounting for the majority of our asbestos-related liability payments and accounts payable reflect the terms of the Indemnification and Reimbursement Agreement as described above in the Asbestos-Related and Environmental Liabilities section. During the fourth quarter of 2018, we recognized a $16 million benefit related to a reduction in Honeywell´s long-term estimate of asbestos claims experience, net of legal fees for the quarter, in connection to the Indemnification and Reimbursement Agreement, in comparison to a $1 million environmental charge in the same period of 2017.

Interest Expense

	2019	2018	2017
		(Dollars in millions)	
Interest Expense	$ 68	$ 19	$ 8

2019 compared with 2018

Interest expense in 2019, was $68 million, an increase of $49 million from $19 million in 2018. The increase was primarily driven by interest expense related to our long-term debt. Prior to the Spin-Off, interest expense was primarily related to related party notes from cash pool arrangements with our Former Parent which were settled in cash prior to the Spin-Off.

2018 compared with 2017

Following the Spin-Off, interest expense primarily relates to interest on our long-term debt. Prior to the Spin-Off, interest expense primarily related to related party notes from cash pool arrangements with our Former Parent which were settled in cash prior to the Spin-Off. Interest expense for 2018, was $19 million, an increase of $11 million from $8 million in 2017. This increase was primarily driven by interest expense related to our long-term debt of $17 million partially offset by a decrease in related party notes interest expense of $5 million. See Note 3 Related Party Transactions with Honeywell and Note 16 Long-term Debt and Credit Agreements of Notes to Consolidated and Combined Financial Statements.

Non-operating expense (income)

	2019	2018	2017
		(Dollars in millions)	
Non-operating expense (income)	$ 8	$ (8)	$ (18)

2019 compared with 2018

Non-operating expense (income) in 2019 decreased to an expense of $8 million from an income of ($8) million in the prior year period, primarily driven by $6 million of marked to market pension costs and other non-service components of pension costs, $7 million of foreign exchange costs, net of hedging and a $4 million decrease in interest income from bank accounts and marketable securities.

2018 compared with 2017

Non-operating (income) expense for 2018 decreased to income of ($8) million from income of ($18) million in 2017. This decrease was primarily driven by a decrease in interest income from bank accounts and marketable securities of $7 million and an increase in non-service related pension ongoing (income) expense of $3 million.

Tax Expense (Benefit)

	2019	2018	2017
		(Dollars in millions)	
Tax expense (benefit)	$ 33	$ (810)	$ 1,349
Effective tax rate	9.5%	(204.5)%	368.6%

2019 compared with 2018

The effective tax rate increased by 214.0 percentage points in 2019 compared to 2018. The increase was primarily attributable to the absence of approximately $910 million of non-recurring tax benefits in 2018 because of a reduction in withholding taxes incurred as part of an internal restructuring of Garrett's business in advance of the Spin-Off. The increase was partially offset by approximately $60 million of tax benefits related to the remeasurement of deferred tax assets and liabilities for tax law changes enacted during 2019, primarily in Switzerland.

2018 compared with 2017

The effective tax rate decreased by 573.1 percentage points in 2018 compared to 2017. The decrease was primarily attributable to the absence of approximately $1,335 million of expense related to the Tax Act incurred during 2017 and approximately $910 million of tax benefits from a reduction of withholding taxes incurred as part of an internal restructuring of Garrett's business in advance of the Spin-Off. The impacts of the Tax Act during 2017 primarily consisted of a tax charge of $354 million related to the imposition of the one-time mandatory transition tax on the Company's undistributed foreign earnings (see below for amounts payable to Honeywell) and a $980 million tax charge because of a change in the Company's intent to no longer permanently reinvest its undistributed foreign earnings outside the US. The $980 million tax charge primarily consisted of withholding taxes on future distributions which were subsequently reduced to approximately $50 million during 2018 primarily in connection with an internal restructuring.

Net Income (loss)

	2019	2018	2017
	(Dollars in millions)		
Net Income (loss)	$ 313	$ 1,206	$ (983)

2019 compared with 2018

As a result of the factors described above, net income was $313 million in 2019 as compared to net income of $1,206 million in 2018. Net income for 2018 includes an $879 million tax benefit from reduced withholding taxes on undistributed earnings and no interest expense related to our long-term debt raised at the time of the Spin-Off.

2018 compared with 2017

As a result of the factors described above, net income was $1,206 million in 2018 as compared to net loss of $983 million in 2017.

Liquidity and Capital Resources

We expect that our primary cash requirements in 2020 will primarily be to fund operating activities, working capital, and capital expenditures, and to meet our obligations under the debt instruments and the Indemnification and Reimbursement Agreement described below, as well as the Tax Matters Agreement. In addition, we may engage in repurchases of our debt and equity securities from time to time. We believe we will meet our known or reasonably likely future cash requirements through the combination of cash flows from operating activities, available cash balances and available borrowings through our debt agreements. If these sources of liquidity need to be augmented, additional cash requirements would likely be financed through the issuance of debt or equity securities; however, there can be no assurances that we will be able to obtain additional debt or equity financing on acceptable terms in the future. Based upon our history of generating strong cash flows, we believe we will be able to meet our short-term liquidity needs for at least the next twelve months.

Senior Credit Facilities

On September 27, 2018, we entered into a Credit Agreement, by and among us, Garrett LX I S.à r.l., Garrett LX II S.à r.l. (“Lux Guarantor”), Garrett LX III S.à r.l. (“Lux Borrower”), Garrett Borrowing LLC (in such capacity, the “US Co-Borrower”), and Honeywell Technologies Sàrl (“Swiss Borrower” and, together with Lux Borrower and US Co-Borrower, the “Borrowers”), the lenders and issuing banks party thereto and JPMorgan Chase Bank, N.A., as administrative agent (the “Credit Agreement”).

The Credit Agreement provides for senior secured financing of approximately the Euro equivalent of $1,254 million, consisting of (i) a seven-year senior secured first-lien term B loan facility, which consists of a tranche denominated in Euro of €375 million and a tranche denominated in U.S. Dollars of $425 million (the “Term B Facility”), (ii) five-year senior secured first-lien term A loan facility in an aggregate principal amount of €330 million (the “Term A Facility” and, together with the Term B Facility, the “Term Loan Facilities”) and (iii) a five-year senior secured first-lien revolving credit facility in an aggregate principal amount of €430 million with revolving loans to Swiss Borrower, to be made available in a number of currencies including Australian Dollars, Euros, Pounds Sterling, Swiss Francs, U.S. Dollars and Yen (the “Revolving Facility” and, together with the Term Loan Facilities, the “Senior Credit Facilities”). Each of the Revolving Facility and the Term A Facility matures five years after the effective date of the Credit Agreement, in each case with certain extension rights in the discretion of each lender. The Term B Facility matures seven years after the effective date of the Credit Agreement, with certain extension rights in the discretion of each lender.

The Senior Credit Facilities are subject to an interest rate, at our option, of either (a) base rate determined by reference to the highest of (1) the rate of interest last quoted by The Wall Street Journal as the “prime rate” in the United States, (2) the greater of the federal funds effective rate and the overnight bank funding rate, plus 0.5% and (3) the one month adjusted LIBOR rate, plus 1% per annum (“ABR”), (b) an adjusted LIBOR rate (“LIBOR”) (which shall not be less than zero), or (c) an adjusted EURIBOR rate (“EURIBOR”) (which shall not be less than zero), in each case, plus an applicable margin. The applicable margin for the U.S. Dollar tranche of the Term B Facility is currently 2.50% per annum (for LIBOR loans) and 1.50% per annum (for ABR loans) while that for the euro tranche of the Term B Facility is currently 2.75% per annum (for EURIBOR loans). The applicable margin for each of the Term A Facility and the Revolving Credit Facility varies based on our leverage ratio. Accordingly, the interest rates for the Senior Credit Facilities will fluctuate during the term of the Credit Agreement based on changes in the ABR, LIBOR, EURIBOR or future changes in our leverage ratio. Interest payments with respect to the Term Loan Facilities are required either on a quarterly basis (for ABR loans) or at the end of each interest period (for LIBOR and EURIBOR loans) or, if the duration of the applicable interest period exceeds three months, then every three months.

We are obligated to make quarterly principal payments throughout the term of the Term Loan Facilities according to the amortization provisions in the Credit Agreement. Borrowings under the Credit Agreement are prepayable at our option without premium or penalty. We may request to extend the maturity date of all or a portion of the Senior Credit Facilities subject to certain conditions customary for financings of this type. The Credit Agreement also contains certain mandatory prepayment provisions in the event that we incur certain types of indebtedness or receive net cash proceeds from certain non-ordinary course asset sales or other dispositions of property, in each case subject to terms and conditions customary for financings of this type.

The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type that, among other things, limit our and our subsidiaries’ ability to incur additional indebtedness or liens, to dispose of assets, to make certain fundamental changes, to enter into restrictive agreements, to make certain investments, loans, advances, guarantees and acquisitions, to prepay certain indebtedness and to pay dividends, to make other distributions or redemptions/ repurchases, in respect of the our and our subsidiaries’ equity interests, to engage in transactions with affiliates, amend certain material documents or to permit the International Financial Reporting Standards equity amount of Lux Borrower to decrease below a certain amount. The Credit Agreement also contains financial covenants requiring the maintenance of a consolidated total leverage ratio of not greater than 4.00 to 1.00 (with step-downs to (i) 3.75 to 1.00 in September 2020 and (ii) 3.50 to 1.00 in September 2021), and a consolidated interest coverage ratio of not less than 2.75 to 1.00. We were in compliance with our financial covenants as of December 31, 2019.

Senior Notes

On September 27, 2018, we completed the offering of €350 million (approximately $410 million based on exchange rates as of September 27, 2018) in aggregate principal amount of 5.125% senior notes due 2026 (the “Senior Notes”). The Senior Notes bear interest at a fixed annual interest rate of 5.125% and mature on October 15, 2026.

The Senior Notes were issued pursuant to an Indenture, dated September 27, 2018 (the “Indenture”), which, among other things and subject to certain limitations and exceptions, limits our ability and the ability of our restricted subsidiaries to: (i) incur, assume or guarantee additional indebtedness or issue certain disqualified equity interests and preferred shares, (ii) pay dividends or distributions on, or redeem or repurchase, capital stock and make other restricted payments, (iii) make investments, (iv) consummate certain asset sales or transfers, (v) engage in certain transactions with affiliates, (vi) grant or assume certain liens on assets to secure debt unless the notes are secured equally and ratably (vii) restrict dividends and other payments by certain of their subsidiaries and (vii) consolidate, merge, sell or otherwise dispose of all or substantially all of our or our restricted subsidiaries’ assets.

Indemnification and Reimbursement Agreement

On September 12, 2018, we entered into the Indemnification and Reimbursement Agreement, under which we are required to make certain payments to Honeywell in amounts equal to 90% of Honeywell’s asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell’s net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. Pursuant to the terms of the Indemnification and Reimbursement Agreement, we are responsible for paying to Honeywell such amounts, up to a cap equal to the Distribution Date Currency Exchange Rate (1.16977 USD = 1 EUR) equivalent of $175 million (exclusive of any late payment fees) in respect of such liabilities arising in any given calendar year. This Indemnification and Reimbursement Agreement may have material adverse effects on our liquidity and cash flows and on our results of operations,

regardless of whether we experience a decline in net sales. See “We are subject to risks associated with the Indemnification and Reimbursement Agreement, pursuant to which we are required to make substantial cash payments to Honeywell, measured in substantial part by reference to estimates by Honeywell of certain of its liabilities.” The payments that we are required to make to Honeywell pursuant to the terms of the Indemnification and Reimbursement Agreement will not be deductible for U.S. federal income tax purposes. The Indemnification and Reimbursement Agreement provides that the agreement will terminate upon the earlier of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which certain amounts owed to Honeywell during each such year were less than $25 million as converted into Euros in accordance with the terms of the agreement.

During the year ended December 31, 2019 and in the fourth quarter of 2018, we paid Honeywell, under protest, the Euro-equivalent of $153 million and $41 million, respectively, in connection with the Indemnification and Reimbursement Agreement. Based on information received related to indemnifiable payments made by Honeywell, we estimate that the 2019 payment includes approximately $34 million of overpayments which, if confirmed by Honeywell in the Prior Year Aggregate Loss Statement (as defined in the Indemnification and Reimbursement Agreement), will be deducted from the indemnity payment for the second quarter of 2020 in accordance with the Indemnification and Reimbursement Agreement.

We are currently engaged in litigation against Honeywell in connection with the Indemnification and Reimbursement Agreement. For additional information, see Part I, Item 3. Legal Proceedings.

Tax Matters Agreement

On September 12, 2018, we entered into a Tax Matters Agreement with Honeywell. The Tax Matters Agreement governs the respective rights, responsibilities and obligations of Honeywell and us after the Spin-Off with respect to all tax matters (including tax liabilities, tax attributes, tax returns and tax contests).

The Tax Matters Agreement generally provides that we are responsible and will indemnify Honeywell for all taxes, including income taxes, sales taxes, VAT and payroll taxes, relating to Garrett for all periods, including periods prior to the completion date of the Spin-Off. Among other items, as a result of the mandatory transition tax imposed by the Tax Cuts and Jobs Act, one of our subsidiaries is required to make payments to a subsidiary of Honeywell in the amount representing the net tax liability of Honeywell under the mandatory transition tax attributable to us, as determined by Honeywell. We estimate that our total aggregate payments to Honeywell with respect to the mandatory transition tax will be $240 million with $193 million in payments remaining as of December 31, 2019. Under the terms of the Tax Matters Agreement, we are required to pay this amount in Euros, without interest, in five annual installments, each equal to 8% of the aggregate amount, followed by three additional annual installments equal to 15%, 20% and 25% of the aggregate amount, respectively. In connection with this agreement, we paid Honeywell the Euro-equivalent of $18 million and $19 million during the year ended December 31, 2019 and the fourth quarter of 2018, respectively.

In addition, the Tax Matters Agreement addresses the allocation of liability for taxes incurred as a result of restructuring activities undertaken to effectuate the Spin-Off. The Tax Matters Agreement also provides that we are required to indemnify Honeywell for certain taxes (and reasonable expenses) resulting from the failure of the Spin-Off and related internal transactions to qualify for their intended tax treatment under U.S. federal, state and local income tax law, as well as foreign tax law.

The Tax Matters Agreement also imposes certain restrictions on us and our subsidiaries (including restrictions on share issuances, redemptions or repurchases, business combinations, sales of assets and similar transactions) that are designed to address compliance with Section 355 of the Internal Revenue Code of 1986, as amended, and are intended to preserve the tax-free nature of the Spin-Off.

Cash Flow Summary for the Years Ended December 31, 2019, 2018 and 2017

Our cash flows from operating, investing and financing activities for the years ended December 31, 2019, 2018 and 2017, as reflected in the audited Consolidated and Combined Financial Statements included elsewhere in this Form 10-K, are summarized as follows:

	Year Ended December 31,		
	2019	**2018**	**2017**
	(Dollars in millions)		
Cash provided by (used for):			
Operating activities	$ 242	$ 373	$ 71
Investing activities	(86)	192	30
Financing activities	(163)	(658)	60
Effect of exchange rate changes on cash	(2)	(11)	20
Net increase (decrease) in cash and cash equivalents	$ (9)	$ (104)	$ 181

2019 compared with 2018

Cash provided by operating activities decreased by $131 million for 2019 in comparison to 2018, primarily due to a a decrease in Obligations to Honeywell of $67 million, higher cash interest payments of $46 million, a decrease in net income, net of deferred taxes of $3 million and a decrease of $39 million in other items (accrued liabilities and other assets), partially offset by a favorable impact from working capital of $24 million.

Cash provided by investing activities decreased by $278 million in 2019 compared to 2018, primarily due to unfavorable net cash impacts from marketable securities investments activities year over year of $291 million and unfavorable impact from Expenditures for property, plant and equipment of $7 million, partially offset by a favorable impact from the cash settlement received on the re-couponing of our cross currency swap contract of $19 million.

Cash used for financing activities decreased by $495 million in 2019, as compared to 2018. The change was driven by payments for related party notes payable of $493 million, net changes to cash pooling and short-term notes of $300 million and the net decrease in invested deficit of $1,493 million during 2018 that did not recur during 2019. This was partially offset by the $1,631 million of proceeds from issuance of long-term debt during 2018 that did not recur during 2019 and payments of long-term debt during 2019 of $163 million, as compared to $6 million during 2018.

2018 compared with 2017

Cash provided by operating activities increased by $302 million for 2018 in comparison to 2017, primarily due to a decrease in cash taxes paid of $354 million and favorable impacts from working capital of $35 million partially offset by an unfavorable impact from changes in Payables to related parties of $82 million.

Cash provided by investing activities increased by $162 million for 2018 in comparison to 2017, primarily due to favorable net cash impacts from marketable securities investment activities year over year of $230 million, partially offset by a decrease in proceeds from related party notes receivables of $66 million.

Cash used for financing activities increased by $718 million for 2018 in comparison to 2017 primarily due to a decrease in proceeds from related party notes payable year over year of $671 million. Additionally, there was $1,631 million in proceeds from issuance of long-term debt in 2018 partially offset by unfavorable impacts from changes in Invested deficit period over period of $1,474 million.

Contractual Obligations and Probable Liability Payments

The following is a summary of our significant contractual obligations and probable liability payments at December 31, 2019:

		Payments by Period			
	Total(5)	2020	2021-2022	2023-2024	Thereafter
	(Dollars in millions)				
Obligations to Honeywell – Asbestos and environmental(1)	1,090	51	192	175	672
Obligations to Honeywell – Mandatory Transition Tax(2)	193	18	36	81	58
Long-term debt(3)	1,440	4	68	231	1,137
Interest payments on long-term debt(4)	266	45	89	79	53
Minimum lease payments	44	9	13	10	12
Purchase obligations(5)	93	84	9	—	—
	$ 3,126	$ 211	$ 407	$ 576	$ 1,932

(1) Excludes legal fees which are expensed as incurred. For additional information, refer to "—Liquidity and Capital Resources—Indemnification and Reimbursement Agreement" section.

(2) Excludes the indemnification obligation for uncertain tax positions for which timing of payment is uncertain. For additional information, refer to "—Liquidity and Capital Resources—Tax Matters Agreement" section.

(3) Assumes all long-term debt is outstanding until scheduled maturity. Does not include expected utilization of our revolving credit facility.

(4) Interest payments are estimated based on the interest rates applicable as of December 31, 2019. This includes the impact of the cross currency interest rate swap and the interest rate swaps. This does not include the expected utilization of our revolving credit facility.

(5) Purchase obligations are entered into with various vendors in the normal course of business and are consistent with our expected requirements.

Capital Expenditures

We believe our capital spending in recent years has been sufficient to maintain efficient production capacity, to implement important product and process redesigns and to expand capacity to meet increased demand.

Productivity projects have freed up capacity in our manufacturing facilities and are expected to continue to do so. We expect to continue investing to expand and modernize our existing facilities and invest in our facilities to create capacity for new product development.

Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet financial arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

The preparation of our Consolidated and Combined Financial Statements in accordance with generally accepted accounting principles is based on the selection and application of accounting policies that require us to make significant estimates and assumptions about the effects of matters that are inherently uncertain. We consider the accounting policies discussed below to be critical to the understanding of our financial statements. Actual results could differ from our estimates and assumptions, and any such differences could be material to our Consolidated and Combined Financial Statements.

Contingent Liabilities—We are subject to lawsuits, investigations and claims that arise out of the conduct of our global business operations or those of previously owned entities, including matters relating to commercial transactions, government contracts, product liability (including asbestos), prior acquisitions and divestitures, employee benefit plans, intellectual property, legal and environmental, health and safety matters. We continually assess the likelihood of any adverse judgments or outcomes to our contingencies, as well as potential amounts or ranges of probable losses, and recognize a liability, if any, for these contingencies based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts. Such analysis includes making judgments concerning matters such as the costs associated with environmental matters, the outcome of negotiations, the number and cost of pending and future asbestos claims, and the impact of evidentiary requirements. Because most contingencies are resolved over long periods of time, liabilities may change in the future due to new developments (including new discovery of facts, changes in legislation and outcomes of similar cases through the judicial system), changes in assumptions or changes in our settlement strategy. See Note 23, Commitments and Contingencies of Notes to Consolidated and Combined Financial Statements for a discussion of management's judgment applied in the recognition and measurement of our environmental and asbestos liabilities which represent our most significant contingencies.

Asbestos-Related Contingencies and Insurance Recoveries—Honeywell is subject to certain asbestos-related and environmental-related liabilities, primarily related to its legacy Bendix business. In conjunction with the Spin-Off, certain operations that were part of the Bendix business, along with the ownership of the Bendix trademark, as well as certain operations that were part of other legacy elements of the Business, were transferred to us. For periods prior to the Spin-Off, we reflect an estimated liability for resolution of pending and future asbestos-related and environmental liabilities primarily related to the Bendix legacy Honeywell business, calculated as if we were responsible for 100% of the Bendix asbestos-liability payments. We recognized a liability for any asbestos-related contingency that was probable of occurrence and reasonably estimable. In connection with the recognition of liabilities for asbestos-related matters, we recorded asbestos-related insurance recoveries that are deemed probable. Asbestos-related expenses, net of probable insurance recoveries, are presented within Other expense, net in the Consolidated and Combined Statement of Operations.

In periods subsequent to the Spin-Off, the accounting for the majority of our asbestos-related liability payments and accounts payable reflect the terms of the Indemnification and Reimbursement Agreement with Honeywell entered into on September 12, 2018, under which we are required to make payments to Honeywell in amounts equal to 90% of Honeywell's asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell's net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. The Indemnification and Reimbursement Agreement provides that the agreement will terminate upon the earlier of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which certain amounts owed to Honeywell during each such year were less than $25 million as converted into Euros in accordance with the terms of the agreement.

We are currently engaged in litigation against Honeywell in connection with the Indemnification and Reimbursement Agreement. For additional information, see Item 3. Legal Proceedings.

Warranties and Guarantees—Expected warranty costs for products sold are recognized based on an estimate of the amount that eventually will be required to settle such obligations. These accruals are based on factors such as past experience, length of the warranty and various other considerations. Costs of product recalls, which may include the cost of the product being replaced as well as the customer's cost of the recall, including labor to remove and replace the recalled part, are accrued as part of our warranty accrual at the time an obligation becomes probable and can be reasonably estimated. These estimates are adjusted from time to time based on facts and circumstances that impact the status of existing claims. See Note 23, Commitments and Contingencies of Notes to Consolidated and Combined Financial Statements included herein for additional information.

Pension Benefits—We sponsor defined benefit pension plans covering certain employees, primarily in Switzerland, the U.S. and Ireland. For such plans, we are required to disaggregate the service cost component of net benefit costs and report those costs in the same line item or items in the Consolidated and Combined Statements of Operations as other compensation costs arising from services rendered by the pertinent employees during the period. The other nonservice components of net benefit costs are required to be presented separately from the service cost component. We record the service cost component of Pension ongoing (income) expense in Cost of goods sold or Selling, general and administrative expenses. The remaining components of net benefit costs within Pension ongoing (income) expense, primarily interest costs and assumed return on plan assets, are recorded in Non-operating expense (income). We recognize net actuarial gains or losses in excess of 10% of the greater of the fair value of plan assets or the plans' projected benefit obligation (the corridor) annually in the fourth quarter each year ("MTM Adjustment"). The MTM Adjustment is recorded in Non-operating expense (income).

The key assumptions used in developing our 2019 net periodic pension (income) expense included the following:

	2019	
	U.S. Plans	**Non-U.S. Plans**
Discount Rate:		
Projected benefit obligation	4.44%	1.65%
Service Cost	4.47%	1.20%
Interest cost	4.06%	1.74%
Assets:		
Expected rate of return	5.80%	3.34%
Actual rate of return	21.26%	10.91%

The MTM Adjustment represents the recognition of net actuarial gains or losses in excess of 10% of the greater of the fair value of plan assets or the plans' projected benefit obligation (the corridor). Net actuarial gains and losses occur when the actual experience differs from any of the various assumptions used to value our pension plans or when assumptions change. The primary factors contributing to actuarial gains and losses are changes in the discount rate used to value pension obligations as of the measurement date each year and the difference between expected and actual returns on plan assets. The mark-to-market accounting method results in the potential for volatile and difficult to forecast MTM Adjustments. MTM charges were $0 for our U.S. Plans and $13 million for our non-U.S. Plans for the year ended December 31, 2019.

We determine the expected long-term rate of return on plan assets utilizing historical plan asset returns over varying long-term periods combined with our expectations of future market conditions and asset mix considerations (see Note 24 Defined Benefit Pension Plan of Notes to Consolidated and Combined Financial Statements for details on the actual various asset classes and targeted asset allocation percentages for our pension plans). We plan to use an expected rate of return on plan assets of 5.49% for our U.S. Plans and 3.79% for our non-U.S. Plans for 2020 as this is a long-term rate based on historical plan asset returns over varying long-term periods combined with our expectations of future market conditions and the asset mix of the plan's investments.

The discount rate reflects the market rate on December 31 (measurement date) for high-quality fixed-income investments with maturities corresponding to our benefit obligations and is subject to change each year. The discount rate can be volatile from year to year as it is determined based upon prevailing interest rates as of the measurement date. We used a 3.30% discount rate to determine benefit obligations for our U.S. Plans and 0.79% for our non-U.S. Plans as of December 31, 2019.

Pension ongoing expense for all of our pension plans is expected to be $1 million in 2020 compared with pension ongoing expense of $2 million in 2019. Also, if required, an MTM Adjustment will be recorded in the fourth quarter of 2020 in accordance with our pension accounting method as previously described. It is difficult to reliably forecast or predict whether there will be an MTM Adjustment in 2020, and if one is required, what the magnitude of such adjustment will be. MTM Adjustments are primarily driven by events and circumstances beyond the control of the Company such as changes in interest rates and the performance of the financial markets.

For periods prior to the Spin-off, certain Garrett employees participated in defined benefit pension plans (the “Shared Plans”) sponsored by Honeywell which includes participants of other Honeywell subsidiaries and operations. We account for our participation in the Shared Plans as a multiemployer benefit plan. Accordingly, we do not record an asset or liability to recognize the funded status of the Shared Plans. The related pension expense is based on annual service cost of active Garrett participants and reported within Cost of goods sold in the Consolidated and Combined Statements of Operations. The pension expense specifically identified for the active Garrett participants in the Shared Plans for the years ended December 31, 2018 and 2017 was $5 million and $7 million, respectively.

Income Taxes—We account for income taxes pursuant to the asset and liability method which requires us to recognize current tax liabilities or receivables for the amount of taxes we estimate are payable or refundable for the current year and deferred tax assets and liabilities for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts and their respective tax bases of assets and liabilities and the expected benefits of net operating loss and credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period enacted. A valuation allowance is provided when it is more likely than not that a portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of deferred tax liabilities during the period in which related temporary differences become deductible.

Our pre-Spin-Off activity in the U.S. will be reported in Honeywell’s U.S. consolidated income tax return and certain foreign activity will be reported in Honeywell tax paying entities in those jurisdictions. For periods prior to the Spin-Off, the income tax provision included in the Consolidated and Combined Financial Statements related to domestic and certain foreign operations was calculated on a separate return basis, as if Garrett was a separate taxpayer and the resulting current tax receivable or liability, including any liabilities related to uncertain tax positions, was settled with Honeywell through equity at the time of the Spin-Off. In other foreign taxing jurisdictions, the operations of Garrett were always conducted through discrete legal entities, each of which filed separate tax returns, and all resulting income tax assets and liabilities, including liabilities related to uncertain tax positions, are reflected in the Consolidated and Combined Balance Sheets of Garrett.

Other Matters

Litigation and Environmental Matters

See Note 23. Commitments and Contingencies of Notes to Consolidated and Combined Financial Statements for a discussion of environmental, asbestos and other litigation matters.

Recent Accounting Pronouncements

See Note 2. Summary of Significant Accounting Policies of Notes to the Consolidated and Combined Financial Statements for a discussion of recent accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risks

Foreign Currency Risk

We are exposed to market risks from changes in currency exchange rates. These exposures may impact future earnings and/or operating cash flows. Our exposure to market risk for changes in foreign currency exchange rates arises from international financing activities between subsidiaries, foreign currency denominated monetary assets and liabilities and transactions arising from international trade.

We hedge currency exposures with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign currency exchange forward contracts (Foreign Currency Exchange Contracts). We hedge monetary assets and liabilities denominated in non-functional currencies. Prior to conversion into U.S. dollars, these assets and liabilities are remeasured at spot exchange rates in effect on the balance sheet date. The effects of changes in spot rates are recognized in earnings and included in Non-operating expense (income).

The Company initiated a cash flow hedging program in the first quarter of 2019 and has since then entered into forward currency exchange contracts to mitigate exposure to foreign currency exchange rate volatility and the associated impact on earnings related to forecasted foreign currency commitments. These forward currency exchange contracts are assessed as highly effective and are designated as cash flow hedges. Gains and losses on derivatives qualifying as cash flow hedges are recorded in Accumulated other comprehensive income (loss) until the underlying transactions are recognized in earnings. On June 7, 2019, the Company entered into interest rate swap contracts to limit its exposure to interest rate risk by converting the interest payments on variable rate debt to fixed rate payments. These interest rate swaps have not been designated as hedging instruments for accounting purposes.

On September 27, 2018, the Company entered into a floating-floating cross-currency swap contract to hedge the foreign currency exposure from foreign currency-denominated debt which will mature on September 27, 2025. In May 2019, the Company re-couponed the cross-currency swap contract with its counterparties and received a cash settlement of $19 million. The gain or loss on this derivative instrument is recognized in earnings and included in Non-operating expense (income). For the year ended December 31, 2019, gains recorded in Non-operating expense (income), under the cross-currency swap contract were $1 million.

At December 31, 2019, we had contracts with notional amounts of $1,259 million, to exchange foreign currencies, principally the U.S. Dollar, Swiss Franc, British Pound, Euro, Chinese Yuan, Japanese Yen, Mexican Peso, New Romanian Leu, Czech Crown, Australian Dollar and Korean Won.

As of December 31, 2019, the net fair value of all financial instruments with exposure to currency risk was a $1 million asset. The potential loss or gain in fair value for such financial instruments from a hypothetical 10% adverse or favorable change in quoted currency exchange rates would be $(63) million and $66 million at December 31, 2019 exchange rates. The model assumes a parallel shift in currency exchange rates; however, currency exchange rates rarely move in the same direction. The assumption that currency exchange rates change in a parallel fashion may overstate the impact of changing currency exchange rates on assets and liabilities denominated in currencies other than the U.S. dollar.

Interest Rate Risk

Our exposure to risk based on changes in interest rates relates primarily to our Credit Agreement. On June 7, 2019, we entered into interest rate swaps for a total notional value of $561 million and with respective maturities of June and December 2020, September 2023 and September 2025. The Credit Agreement bears interest at floating rates. For variable rate debt, interest rate changes generally do not affect the fair market value of such debt assuming all other factors remain constant but do impact future earnings and cash flows. Accordingly, we may be exposed to interest rate risk on borrowings under the Credit Agreement. For our outstanding borrowings under the Credit Agreement as of December 31, 2019, a 25 basis point increase (decrease) in interest rates would have increased (decreased) our interest expense by $1 million and $1 million, respectively, compared to the amount of interest that would have been incurred in such period based on the rates of interest in effect at December 31, 2019 and taking into consideration the interest rate swaps. For additional information regarding our Credit Agreement, see Note 16 Long-term Debt and Credit Agreements of the notes to the Consolidated and Combined Financial Statements.

Commodity Price Risk

While we are exposed to commodity price risk, we pass through abnormal changes in component and raw material costs to our customers based on the contractual terms of our arrangements. In limited situations, we may not be fully compensated for such changes in costs.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Garrett Motion Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Garrett Motion Inc. and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated and combined statement of operations, comprehensive income, equity (deficit), and cash flows, for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with the accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective January 1, 2019, the Company adopted FASB ASC Topic 842, *Leases*, using the modified retrospective approach.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, on October 1, 2018, the Company became an independent publicly-traded company through a pro rata distribution by Honeywell International Inc. ("Honeywell") of 100% of the then-outstanding shares of the Company to Honeywell's stockholders. For the period from January 1, 2018 to October 1, 2018, the financial statements include expense allocations for certain corporate functions historically provided by Honeywell. These allocations may not be reflective of the actual expense that would have been incurred had the Company operated as a separate entity apart from Honeywell. A summary of transactions with related parties is included in Note 3 to the financial statements.

Basis for Opinions

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control

based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Contingent Obligation Associated with the Indemnification and Reimbursement Agreement

Critical Audit Matter Description

As described in Note 23 to the financial statements, the Company recorded an obligation payable to Honeywell as a result of the Indemnification and Reimbursement Agreement (the "Agreement") entered into in connection with the spin-off from Honeywell on October 1, 2018. The Agreement requires that the Company reimburse Honeywell for 90% of the asbestos related liabilities and accounts payable related to the Bendix friction materials business. In accordance with ASC 450 – *Contingencies* and ASC 460 – *Guarantees*, the Company recorded an obligation at the aggregate of the fair value of the stand-ready indemnification obligation, and its estimate of the actual losses incurred to date. In 2019, Garrett initiated a lawsuit against Honeywell, disputing the enforceability of the Agreement.

The carrying value of the obligation payable under the Agreement as of December 31, 2019 is $1,090 million. The actual amount to be paid under the Agreement is subject to both the future claim settlements entered into by Honeywell, and the outcome of the ongoing litigation with Honeywell.

We have identified the Company's measurement of the obligation payable under the Agreement as a critical audit matter. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of management's judgments as to the sufficiency of evidence obtained from Honeywell to support an adjustment to the carrying value of the obligation payable.

How the Critical Audit Matter was Addressed in the Audit

The primary procedures we performed to address this critical audit matter included the following:

- We tested the effectiveness of certain internal controls over the Company's litigation assessment process, including internal controls over the assessment of the Company's pending litigation with Honeywell.
- We reviewed management's evaluation of the accounting impact of the pending litigation with Honeywell and made inquiries of internal counsel regarding the matter.

- We tested the effectiveness of certain internal controls over the Company's evaluation of all reasonably available information related to the indemnifiable incurred losses under the Agreement as of December 31, 2019.
- We obtained an evaluation of future projected payables directly from Honeywell and evaluated the Company's assessment of such information for purposes of estimating the carrying value of the obligation payable under the Agreement as of December 31, 2019. With the assistance of our actuarial subject matter specialists, we:
    - Reviewed and tested management's process in arriving at the value of the obligation payable under the Agreement.
    - Tested the calculations used by management to translate the actuarial and other information received into the year-end value.
    - Performed a retrospective analysis of the prior year's estimate to assess the reliability of the estimate of the obligation payable.

/s/ DELOITTE SA

Geneva, Switzerland
February 27, 2020

We have served as the Company's auditor since 2018.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Garrett Motion Inc.

Opinion on the Financial Statements

We have audited the accompanying combined statements of operations and comprehensive income of Garrett Motion Inc. (formerly the Transportation Systems Business of Honeywell International, Inc.) and subsidiaries (the "Company") for the year ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the results of its operations for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the accompanying financial statements have been derived from the separate records maintained by Honeywell International Inc. The financial statements also include expense allocations for certain corporate functions historically provided by Honeywell International Inc. These allocations may not be reflective of the actual expense that would have been incurred had the Company operated as a separate entity apart from Honeywell International Inc. A summary of transactions with related parties is included in Note 3 to the financial statements.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey

May 1, 2018 (June 8, 2018 as to the effect of adoption of ASU 2017-07; August 7, 2018 as to the effects of the restatement to the 2017 financial statements; March 1, 2019 as to the effects of the change in sales concentration presentation)

We began serving as the Company's auditor in 2018. In 2018 we became the predecessor auditor.

GARRETT MOTION INC.
CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in millions except per share amounts)		
Net sales (Note 4)	$ 3,248	$ 3,375	$ 3,096
Cost of goods sold	2,537	2,599	2,361
Gross profit	711	776	735
Selling, general and administrative expenses	249	249	249
Other expense, net (Note 5)	40	120	130
Interest expense	68	19	8
Non-operating expense (income) (Note 6)	8	(8)	(18)
Income before taxes	346	396	366
Tax expense (benefit) (Note 7)	33	(810)	1,349
Net income (loss)	$ 313	$ 1,206	$ (983)
Earnings (losses) per common share			
Basic	$ 4.20	$ 16.28	$ (13.27)
Diluted	$ 4.12	$ 16.21	$ (13.27)
Weighted average common shares outstanding			
Basic	74,602,868	74,059,240	74,070,852
Diluted	75,934,373	74,402,148	74,070,852

The Notes to Consolidated and Combined Financial Statements are an integral part of this statement.

GARRETT MOTION INC.
CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
Net income (loss)	$ 313	$ 1,206	$ (983)
Foreign exchange translation adjustment	67	(198)	72
Defined benefit pension plan adjustment, net of tax (Note 24)	(14)	(2)	—
Changes in fair value of effective cash flow hedges, net of tax (Note 18)	4	35	(77)
Total other comprehensive income (loss), net of tax	57	(165)	(5)
Comprehensive income (loss)	$ 370	$ 1,041	$ (988)

The Notes to Consolidated and Combined Financial Statements are an integral part of this statement.

GARRETT MOTION INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2019	2018
	(Dollars in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 187	$ 196
Accounts, notes and other receivables, net (Note 9)	707	750
Inventories, net (Note 11)	220	172
Other current assets	85	61
Total current assets	1,199	1,179
Investments and long-term receivables	36	39
Property, plant and equipment, net (Note 13)	471	438
Goodwill (Note 14)	193	193
Deferred income taxes (Note 7)	268	183
Other assets (Note 12)	108	92
Total assets	$ 2,275	$ 2,124
LIABILITIES		
Current liabilities:		
Accounts payable	$ 1,009	$ 916
Current maturities of long-term debt (Note 16)	4	23
Obligations payable to Honeywell, current (Note 23)	69	127
Accrued liabilities (Note 15)	310	374
Total current liabilities	1,392	1,440
Long-term debt (Note 16)	1,409	1,569
Deferred income taxes (Note 7)	51	13
Obligations payable to Honeywell (Note 23)	1,282	1,399
Asbestos-related liabilities (Note 23)	—	1
Other liabilities (Note 19)	274	219
Total liabilities	$ 4,408	$ 4,641
COMMITMENTS AND CONTINGENCIES (Note 23)		
EQUITY (DEFICIT)		
Common stock, par value $0.001; 400,000,000 shares authorized, 74,911,139 and 74,070,852 issued and 74,826,329 and 74,019,825 outstanding as of December 31, 2019 and December 31, 2018 respectively	—	—
Additional paid-in capital	19	5
Retained earnings	(2,282)	(2,595)
Accumulated other comprehensive income (Note 20)	130	73
Total equity (deficit)	(2,133)	(2,517)
Total liabilities and equity (deficit)	$ 2,275	$ 2,124

The Notes to Consolidated and Combined Financial Statements are an integral part of this statement.

GARRETT MOTION INC.
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
Cash flows from operating activities:			
Net income (loss)	313	1,206	(983)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred income taxes	(41)	(931)	973
Depreciation	73	72	64
Amortization of deferred issuance costs	9	2	—
Foreign exchange (gain) loss	19	15	(24)
Stock compensation expense	18	21	15
Pension expense	18	10	9
Other	19	37	(2)
Changes in assets and liabilities:			
Accounts, notes and other receivables	32	(30)	(42)
Receivables from related parties	—	57	—
Inventories	(60)	2	(46)
Other assets	(22)	(46)	1
Accounts payable	87	63	88
Payables to related parties	—	(50)	32
Accrued liabilities	(60)	49	41
Obligations payable to Honeywell	(143)	(76)	—
Asbestos-related liabilities	—	(1)	(69)
Other liabilities	(20)	(27)	14
Net cash provided by operating activities	242	373	71
Cash flows from investing activities:			
Expenditures for property, plant and equipment	(102)	(95)	(103)
Proceeds from related party notes receivables	—	—	66
Increase in marketable securities	—	(21)	(651)
Decrease in marketable securities	—	312	712
Other	16	(4)	6
Net cash (used for) provided by investing activities	(86)	192	30
Cash flows from financing activities:			
Net increase in Invested deficit	—	(1,493)	(19)
Proceeds from revolving credit facilities	745	331	—
Payments of revolving credit facilities	(745)	(331)	—
Proceeds from issuance of long-term debt	—	1,631	—
Payments of long-term debt	(163)	(6)	—
Proceeds for related party notes payable	—	—	671
Payments related to related party notes payable	—	(493)	(670)
Net change to cash pooling and short-term notes	—	(300)	78
Other	—	3	—
Net cash (used for) provided by financing activities	(163)	(658)	60
Effect of foreign exchange rate changes on cash and cash equivalents	(2)	(11)	20
Net increase (decrease) in cash and cash equivalents	(9)	(104)	181
Cash and cash equivalents at beginning of period	196	300	119
Cash and cash equivalents at end of period	$ 187	$ 196	$ 300
Supplemental cash flow disclosures:			
Income taxes paid (net of refunds)	$ 93	$ 76	$ 430
Interest expense paid	$ 54	$ 12	$ 5
Supplemental schedule of non-cash investing and financing activities:			
Expenditures for property, plant and equipment in accounts payable	$ 51	$ 43	$ 42

The Notes to Consolidated and Combined Financial Statements are an integral part of this statement.

GARRETT MOTION INC.
CONSOLIDATED AND COMBINED STATEMENTS OF EQUITY (DEFICIT)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Invested Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Deficit
	Shares	Amount					
				(in millions)			
Balance at December 31, 2016	—	$ —	$ —	$ —	(1,464)	243	(1,221)
Net loss	—	—	—	—	(983)	—	(983)
Other comprehensive income, net of tax	—	—	—	—	—	(5)	(5)
Change in Invested deficit	—	—	—	—	14	—	14
Balance at December 31, 2017	—	—	—	—	(2,433)	238	(2,195)
Net income through September 30, 2018	—	—	—	—	1,137	—	1,137
Net income from October 1, 2018	—	—	—	69	—	—	69
Other comprehensive income, net of tax	—	—	—	—	—	(165)	(165)
Change in Invested deficit	—	—	—	—	(1,168)	—	(1,168)
Spin-Off related adjustments	—	—	—	—	(200)	—	(200)
Issuance of common stock and reclassification of invested deficit	74	—	—	(2,664)	2,664	—	—
Stock-based compensation	—	—	5	—	—	—	5
Balance at December 31, 2018	74	—	5	(2,595)	—	73	(2,517)
Net income	—	—	—	313	—	—	313
Other comprehensive income, net of tax	—	—	—	—	—	57	57
Stock-based compensation	1	—	18	—	—	—	18
Tax withholding related to vesting of restricted stock units and other	—	—	(4)	—	—	—	(4)
Balance at December 31, 2019	75	$ —	$ 19	$ (2,282)	$ —	$ 130	$ (2,133)

The Notes to Consolidated and Combined Financial Statements are an integral part of this statement.

Note 1. Organization, Operations and Basis of Presentation

Background

Garrett Motion Inc. (the “Company” or “Garrett”) designs, manufactures and sells highly engineered turbocharger and electric-boosting technologies for light and commercial vehicle original equipment manufacturers (“OEMs”) and the aftermarket. We are a global technology leader with significant expertise in delivering products across gasoline and diesel propulsion systems and hybrid and fuel cell powertrains.

On October 1, 2018, the Company became an independent publicly-traded company through a pro rata distribution by Honeywell International Inc. (“Former Parent” or “Honeywell”) of 100% of the then-outstanding shares of Garrett to Honeywell’s stockholders (the “Spin-Off”). Each Honeywell stockholder of record received one share of Garrett common stock for every 10 shares of Honeywell common stock held on the record date. Approximately 74 million shares of Garrett common stock were distributed on October 1, 2018 to Honeywell stockholders. In connection with the Spin-Off, Garrett´s common stock began trading “regular-way” under the ticker symbol “GTX” on the New York Stock Exchange on October 1, 2018.

The Spin-Off was completed pursuant to a Separation and Distribution Agreement and other agreements with Honeywell related to the Spin-Off, including but not limited to an indemnification and reimbursement agreement (the “Indemnification and Reimbursement Agreement”) and a tax matters agreement (the “Tax Matters Agreement”). Refer to Note 23, Commitments and Contingencies for additional details related to the Indemnification and Reimbursement Agreement and Tax Matters Agreement.

Unless the context otherwise requires, references to “Garrett,” “we,” “us,” “our,” and “the Company” refer to (i) Honeywell’s Transportation Systems Business (the “Transportation Systems Business” or the “Business”) prior to the Spin-Off and (ii) Garrett Motion Inc. and its subsidiaries following the Spin-Off, as applicable.

Basis of Presentation

Prior to the Spin-Off on October 1, 2018, our historical financial statements were prepared on a stand-alone combined basis and were derived from the consolidated financial statements and accounting records of Honeywell. Accordingly, for periods prior to October 1, 2018, our financial statements are presented on a combined basis and for the periods subsequent to October 1, 2018 are presented on a consolidated basis (collectively, the historical financial statements for all periods presented are referred to as “Consolidated and Combined Financial Statements”). The Consolidated and Combined Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). All amounts presented are in millions, except per share amounts.

Asbestos-related expenses, net of probable insurance recoveries, are presented within Other expense, net in the Consolidated and Combined Statements of Operations. Honeywell is subject to certain asbestos-related and environmental-related liabilities, primarily related to its legacy Bendix business. In conjunction with the Spin-Off, certain operations that were part of the Bendix business, along with the ownership of the Bendix trademark, as well as certain operations that were part of other legacy elements of the Business, were transferred to us. For the periods prior to the Spin-Off, these Consolidated and Combined Financial Statements reflect an estimated liability for resolution of pending and future asbestos-related and environmental liabilities primarily related to the Bendix legacy Honeywell business, calculated as if we were responsible for 100% of the Bendix asbestos-liability payments. However, this recognition model differs from the recognition model applied subsequent to the Spin-Off, with the difference recognized through equity as of the Spin-Off date. In periods subsequent to the Spin-Off, the accounting for the majority of our asbestos-related liability payments and accounts payable reflect the terms of the Indemnification and Reimbursement Agreement with Honeywell entered into on September 12, 2018, under which we are required to make payments to Honeywell in amounts equal to 90% of Honeywell’s asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell’s net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. The Indemnification and Reimbursement Agreement provides that the agreement will terminate upon the earlier of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which certain amounts owed to Honeywell during each such year were less than $25 million as converted into Euros in accordance with the terms of the agreement. We are currently engaged in litigation against Honeywell in connection with the Indemnification and Reimbursement Agreement. For additional information, see Note 23, Commitments and Contingencies.

We evaluated segment reporting in accordance with Accounting Standards Codification ("ASC") 280, *Segment Reporting*. We concluded that Garrett operates in a single operating segment and a single reportable segment based on the operating results available and evaluated regularly by the chief operating decision maker ("CODM") to make decisions about resource allocation and performance assessment. The CODM makes operational performance assessments and resource allocation decisions on a consolidated basis, inclusive of all of the Business's products.

All intracompany transactions have been eliminated. As described in Note 3 Related Party Transactions with Honeywell, all significant transactions between the Business and Honeywell prior to the Spin-Off have been included in the Consolidated and Combined Financial Statements and settled for cash prior to the Spin-Off with the exception of certain related party notes which were forgiven. These transactions which were settled for cash prior to the Spin-Off were reflected in the Consolidated and Combined Balance Sheets as Due from related parties or Due to related parties for the periods prior to the Spin-Off. In the Consolidated and Combined Statements of Cash Flows, the cash flows related to related party notes receivables presented in the Consolidated and Combined Balance Sheets in Due from related parties are reflected as investing activities since these balances represent amounts loaned to Former Parent. The cash flows related to related party notes payables previously presented in the Consolidated and Combined Balance Sheets in Due to related parties are reflected as financing activities since these balances represent amounts financed by Former Parent. Following the Spin-Off, Honeywell is no longer considered a related party.

Honeywell used a centralized approach to cash management and financing of its operations. For the periods prior to the Spin-Off, the majority of the Business's cash was transferred to Honeywell daily and Honeywell funded its operating and investing activities as needed. This arrangement is not reflective of the manner in which the Business would have been able to finance its operations had it been a stand-alone business separate from Honeywell during the periods presented prior to the Spin-Off. Cash transfers to and from Honeywell's cash management accounts are reflected in the Consolidated and Combined Balance Sheet as Due to and Due from related parties, current and in the Consolidated and Combined Statements of Cash Flows as net financing activities.

For the periods prior to the Spin-Off, the Consolidated and Combined Financial Statements include certain assets and liabilities that have historically been held at the Honeywell corporate level but are specifically identifiable or otherwise attributable to Garrett. The cash and cash equivalents held by Honeywell at the corporate level are not specifically identifiable to Garrett and therefore were not attributed for any of the periods presented. Honeywell third-party debt and the related interest expense have not been allocated for any of the periods presented as Honeywell's borrowings were not directly attributable to Garrett.

For the periods prior to the Spin-Off, Honeywell provided certain services, such as legal, accounting, information technology, human resources and other infrastructure support, on behalf of the Business. The cost of these services has been allocated to the Business on the basis of the proportion of revenues. We consider these allocations to be a reasonable reflection of the benefits received by the Business. However, the financial information presented in the Consolidated and Combined Financial Statements may not reflect the consolidated and combined financial position, operating results and cash flows of the Business had the Business been a separate stand-alone entity during the periods presented. Actual costs that would have been incurred if the Business had been a stand-alone company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure. We consider the basis on which the expenses have been allocated to be a reasonable reflection of the utilization of services provided to or the benefits received by the Business during the periods presented.

Revision of Previously Issued Financial Statements

In the fourth quarter of 2019, we identified errors in our income tax accounts for the year ended and as of December 31, 2018. The errors included an overstatement of current and deferred tax liability balances that were recorded in connection with the Spin-Off from Honeywell and an overstatement of income tax expense for the year ended December 31, 2018. As a result, we have revised our previously issued Consolidated and Combined Financial Statements for the year ended and as of December 31, 2018 contained within this Annual Report on Form 10-K. In correcting the errors, we decreased our income tax expense for the year ended December 31, 2018 by $26 million and adjusted certain balance sheet tax accounts by $76 million, $50 million representing Spin-Off related adjustments recorded through retained earnings. We evaluated the materiality of the errors quantitatively and qualitatively and concluded they were not material to our previously issued Consolidated and Combined Financial Statements for the year ended and as of December 31, 2018. Refer to Note 8 for additional information.

Subsequent Event

Subsequent to December 31, 2019, the World Health Organization declared the novel coronavirus outbreak a public health emergency. We operate two facilities in China, including a manufacturing facility in Wuhan. The Chinese government ordered our Wuhan facility to halt operations beginning on January 23, 2020 and our facility in Shanghai has been operating at partial capacity during the same period, which has disrupted our production schedules. The resulting shortage of components produced by our Chinese facilities is expected to lead to lower shipments from the cancellation of new orders as well as lower volumes from existing orders. There can be no assurances as to when our Wuhan facility will reopen or when our Shanghai facility will resume operating at full capacity. Moreover, because of the current restrictions on travel in China, we may continue to have labor shortages even when our Wuhan facility re-opens, which may force us to continue to reduce operations. In addition, we have a significant supplier base in China affected by the outbreak, and the reduction in parts supply will affect our plants in Europe and North America. The combined effects of the closure of our plant in Wuhan, the reduced operations of our facility in Shanghai and the impact of the novel coronavirus on our suppliers may have a significant adverse impact on our revenues and profitability at least through the second quarter of 2020.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation and Combination— For the periods subsequent to the Spin-Off, the Consolidated and Combined Financial Statements include the accounts of Garrett Motion Inc. and all of its subsidiaries in which a controlling financial interest is maintained. We consolidate entities that we control due to ownership of a majority voting interest, and we consolidate variable interest entities (“VIEs”) when we have variable interests and are the primary beneficiary. Our consolidation policy requires equity investments that we exercise significant influence over but in which we do not have a controlling financial interest to be accounted for using the equity method. Investments through which we are not able to exercise significant influence over the investee and which we do not have readily determinable fair values are accounted for under the cost method. All intercompany transactions and balances are eliminated in consolidation.

For the periods prior to the Spin-Off, the Consolidated and Combined Financial Statements were prepared on a stand-alone basis and include our business units and wholly owned direct and indirect subsidiaries and entities in which we had a controlling financial interest.

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand and highly liquid investments having an original maturity of three months or less.

Trade Receivables and Allowance for Doubtful Accounts—Trade accounts receivable are recorded at the invoiced amount as a result of transactions with customers. Garrett maintains allowances for doubtful accounts for estimated losses as a result of a customer’s inability to make required payments. Garrett estimates anticipated losses from doubtful accounts based on days past due as measured from the contractual due date and collection history. Garrett also takes into consideration changes in economic conditions that may not be reflected in historical trends (for example, customers in bankruptcy, liquidation or reorganization). Receivables are written-off against the allowance for doubtful accounts when they are determined uncollectible. Such determination includes analysis and consideration of the particular conditions of the account, including time intervals since last collection, customer performance against agreed upon payment plans, solvency of customer and any bankruptcy proceedings.

Transfer of Financial Instruments—Sales and transfers of financial instruments are accounted for under ASC 860, *Transfers and Servicing (“ASC 860”)*. The Company may discount and sell accounts receivables during the normal course of business. These receivables which are transferred to a third party without recourse to the Company and that meet the criteria of sales accounting as per ASC 860, are excluded from the amounts reported in the Consolidated Balance Sheets. The cash proceeds received from such sales are included in operating cash flows. The expenses associated with the factoring of receivables are recorded within Other expense, net in the Consolidated and Combined Statements of Operations.

The Company may also receive bank notes in settlement of accounts receivables, primarily in the Asia Pacific region. Such bank notes are classified as notes receivables under Accounts, notes and other receivables – net in the Consolidated Balance Sheets. The collections of such bank notes are included in operating cash flows and any expenses related to discounting these are included within Other expense, net in the Consolidated and Combined Statements of Operations. The Company can hold the bank notes until maturity, exchange them with suppliers to settle liabilities, or sell them to third party financial institutions in exchange for cash.

Inventories—Inventories are stated at the lower of cost, determined on a first-in, first-out basis, including direct material costs and direct and indirect manufacturing costs, or net realizable value. Obsolete inventory is identified based on analysis of inventory for known obsolescence issues. The original equipment inventory on hand in excess of forecasted usage and lack of consumption in the previous 12 months is fully reserved, unless the value of such material is recoverable from either the vendor or the customer.

Property, Plant and Equipment—Property, plant and equipment are recorded at cost less accumulated depreciation and amortization. For financial reporting, the straight-line method of depreciation is used over the estimated useful lives of 10 to 50 years for buildings and improvements, 2 to 16 years for machinery and equipment, 3 to 10 years for tooling equipment and 5 to 7 years for software.

Leases—For the periods beginning January 1, 2019, right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date of a lease (the "commencement date") based on the present value of lease payments over the lease term. We determine if an arrangement is a lease at inception. Operating leases are included in Other assets, Accrued liabilities, and Other liabilities in our Consolidated and Combined Balance Sheets. No finance leases have been recognized. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease where it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Variable lease payments are expensed in the period in which they occur. We have lease agreements with lease and non-lease components, which are generally accounted for separately. For machinery and equipment, we account for the lease and non-lease components as a single lease component. We account for short-term leases by recognizing lease payments in net income on a straight-line basis over the lease term and will not recognize any ROU assets and lease liabilities on the Consolidated and Combined Balance Sheet. For the periods prior to January 1, 2019, we accounted for leases in accordance with ASC 840, *Leases ("ASC 840").*

Goodwill—Goodwill is subject to impairment testing annually, and whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. This testing compares carrying value to fair value of our single reporting unit. The Company recognizes an impairment charge for the amount by which the carrying value of the reporting unit exceeds the reporting unit´s fair value. However, any impairment should not exceed the amount of goodwill allocated to the reporting unit. Because we have a single reporting unit with a negative carrying value, no impairment was recognized.

Warranties and Guarantees—Expected warranty costs for products sold are recognized based on an estimate of the amount that eventually will be required to settle such obligations. These accruals are based on factors such as past experience, length of the warranty and various other considerations. Costs of product recalls, which may include the cost of the product being replaced as well as the customer's cost of the recall, including labor to remove and replace the recalled part, are accrued as part of our warranty accrual at the time an obligation becomes probable and can be reasonably estimated. These estimates are adjusted from time to time based on facts and circumstances that impact the status of existing claims. For additional information, see Note 23, Commitments and Contingencies.

Sales Recognition—On January 1, 2018, we adopted the FASB´s updated guidance on revenue from contracts with customers, ASC 606 Revenue from Contracts with Customers ("ASC 606"), using the modified retrospective method applied to contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting.

Product sales are recognized when we transfer control of the promised goods to our customer, which is based on shipping terms. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring the promised goods.

In the sale of products in the OEM channel, the transaction price for these goods is equal to the agreed price of each unit and represents the standalone selling price for the unit.

In the sale of products in the aftermarket channel, the terms of a contract or the historical business practice can give rise to variable consideration due to, but not limited to, discounts and bonuses. We estimate variable consideration at the most likely amount we will receive from customers and reduce revenues recognized accordingly. We include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us.

Prior to January 1, 2018, sales were recognized when there was evidence of a sales agreement, the delivery of goods had occurred, the sales price was fixed or determinable and the collectability of revenue was reasonably assured. Sales were generally recorded upon shipment of product to customers and transfer of title under standard commercial terms. Sales incentives and allowances were recognized as a reduction to revenue at the time of the related sale. In addition, payments made to customers were generally recognized as a reduction to revenue at the time these payments are made or committed to the customers.

Research and Development—Garrett conducts research and development ("R&D") activities, which consist primarily of the development of new products and product applications. R&D costs are charged to expense as incurred. Such costs are included in Cost of goods sold of $129 million, $128 million and $119 million, for the years ended December 31, 2019, 2018 and 2017 respectively. Additionally, the Company incurs engineering-related expenses which are also included in Cost of goods sold of $5 million, $10 million and $19 million for the years ended December 31, 2019, 2018 and 2017.

Asbestos-Related Contingencies and Insurance Recoveries—Honeywell is subject to certain asbestos-related and environmental-related liabilities, primarily related to its legacy Bendix business. In conjunction with the Spin-Off, certain operations that were part of the Bendix business, along with the ownership of the Bendix trademark, as well as certain operations that were part of other legacy elements of the Business, were transferred to us. For periods prior to the Spin-Off, we reflect an estimated liability for resolution of pending and future asbestos-related and environmental liabilities primarily related to the Bendix legacy Honeywell business, calculated as if we were responsible for 100% of the Bendix asbestos-liability payments. We recognized a liability for any asbestos-related contingency that was probable of occurrence and reasonably estimable. In connection with the recognition of liabilities for asbestos-related matters, we recorded asbestos-related insurance recoveries that are deemed probable. Asbestos-related expenses, net of probable insurance recoveries, are presented within Other expense, net in the Consolidated and Combined Statement of Operations. The Indemnification and Reimbursement Agreement provides that the agreement will terminate upon the earlier of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which certain amounts owed to Honeywell during each such year were less than $25 million as converted into Euros in accordance with the terms of the agreement.

In periods subsequent to the Spin-Off, the accounting for the majority of our asbestos-related liability payments and accounts payable reflect the terms of the Indemnification and Reimbursement Agreement with Honeywell entered into on September 12, 2018, under which we are required to make payments to Honeywell in amounts equal to 90% of Honeywell's asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell's net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. Net charges for asbestos-related and environmental-related matters in connection with the Indemnification and Reimbursement Agreement are presented within Other expense, net in the Consolidated and Combined Statements of Operations.

We are currently engaged in litigation against Honeywell in connection with the Indemnification and Reimbursement Agreement. For additional information, see Note 23, Commitments and Contingencies.

Stock-Based Compensation Plans—The principal awards issued under our stock-based compensation plans, which are described in Note 21, Stock-Based Compensation, are restricted stock units. The cost for such awards is measured at the grant date based on the fair value of the award. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods (generally the vesting period of the equity award) and is included in Selling, general and administrative expenses in the Consolidated and Combined Statements of Operations. Forfeitures are estimated at the time of grant to recognize expense for those awards that are expected to vest and are based on our historical forfeiture rates under our Former Parent´s plans.

For periods prior to the Spin-Off, certain employees within the Business participated in stock-based compensation plans sponsored by the Former Parent. The Former Parent's stock-based compensation plans primarily include incentive compensation plans. Awards granted under the plans consist of stock options, restricted stock units ("RSUs") and performance stock units ("PSUs") and are based on the Former Parent's common shares and, as such, are reflected in Invested deficit within the Consolidated and Combined Statements of Equity (Deficit).

Pension Benefits—Following the Spin-Off, we sponsor defined benefit pension plans covering certain employees, primarily in Switzerland, the U.S. and Ireland. For such plans, we are required to disaggregate the service cost component of net benefit costs and report those costs in the same line item or items in the Consolidated and Combined Statements of Operations as other compensation costs arising from services rendered by the pertinent employees during the period. The other nonservice components of net benefit costs are required to be presented separately from the service cost component. We record the service cost component of Pension ongoing (income) expense in Cost of goods sold or Selling, general and administrative expenses. The remaining components of net benefit costs within Pension ongoing (income) expense, primarily interest costs and assumed return on plan assets, are recorded in Non-operating expense (income). We recognize net actuarial gains or losses in excess of 10% of the greater of the fair value of plan assets or the plans' projected benefit obligation (the corridor) annually in the fourth quarter each year ("MTM Adjustment"). The MTM Adjustment is recorded in Non-operating expense (income).

For periods prior to the Spin-Off, we sponsored a defined benefit pension plan covering certain employees in Ireland. Additionally, certain Garrett employees participated in defined benefit pension plans (the "Shared Plans") sponsored by Honeywell which includes participants of other Honeywell subsidiaries and operations. We accounted for our participation in the Shared Plans as a multiemployer benefit plan. Accordingly, we did not record an asset or liability to recognize the funded status of the Shared Plans. The related pension expense was based on annual service cost of active Garrett participants and reported within Cost of goods sold in the Consolidated and Combined Statements of Operations. The pension expense specifically identified for the active Garrett participants in the Shared Plans for the years ended December 31, 2018 and 2017 was $5 million and $7 million , respectively.

Foreign Currency Translation—Assets and liabilities of subsidiaries operating outside the United States with a functional currency other than U.S. Dollars are translated into U.S. Dollars using year-end exchange rates. Sales, costs and expenses are translated at the average exchange rates in effect during the year. Foreign currency translation gains and losses are included as a component of Accumulated other comprehensive income (loss).

Derivative Financial Instruments—We minimize our risks from foreign currency exchange rate fluctuations through our normal operating and financing activities and, when deemed appropriate through the use of derivative financial instruments. Derivative financial instruments are used to manage risk and are not used for trading or other speculative purposes. Derivative financial instruments that qualify for hedge accounting must be designated and effective as a hedge of the identified risk exposure at the inception of the contract. Accordingly, changes in fair value of the derivative contract must be highly correlated with changes in fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract.

All derivatives are recorded on the balance sheet as assets or liabilities and measured at fair value. For derivatives designated as cash flow hedges, the effective portion of the changes in fair value of the derivatives are recorded in Accumulated other comprehensive income (loss) and subsequently recognized in earnings when the hedged items impact earnings. Cash flows of such derivative financial instruments are classified consistent with the underlying hedged item.

On September 27, 2018, we early adopted the new accounting guidance contained in ASU 2017-12 on a modified retrospective approach. The new standard is intended to improve and simplify rules relating to hedge accounting, including the elimination of periodic hedge ineffectiveness, recognition of components excluded from hedge effectiveness assessment, the ability to elect to perform subsequent effectiveness assessments qualitatively, and other provisions designed to provide more transparency around the economics of a company's hedging strategy.

Income Taxes—We account for income taxes pursuant to the asset and liability method which requires us to recognize current tax liabilities or receivables for the amount of taxes we estimate are payable or refundable for the current year and deferred tax assets and liabilities for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts and their respective tax bases of assets and liabilities and the expected benefits of net operating loss and credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period enacted. A valuation allowance is provided when it is more likely than not that a portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of deferred tax liabilities during the period in which related temporary differences become deductible.

Prior to the Spin-Off, the tax provision was presented on a separate company basis as if we were a separate filer. The effects of tax adjustments and settlements from taxing authorities are presented in our Consolidated and Combined Financial Statements in the period to which they relate as if we were a separate filer. Our current obligations for taxes were settled with our Former Parent on an estimated basis and adjusted in later periods as appropriate. All income taxes due to or due from our Former Parent that have not been settled or recovered by the end of the period are reflected in Invested deficit within the Consolidated and Combined Financial Statements. We are subject to income tax in the United States (federal, state and local) as well as other jurisdictions in which we operate. The tax provision was calculated as if the Business was operating on a stand-alone basis and filed separate tax returns in the jurisdiction in which it operates. Therefore, cash tax payments and items of current and deferred taxes may not be reflective of the actual tax balances prior to or subsequent to the Spin-Off.

Earnings per share—Basic earnings per share is based on the weighted average number of common shares outstanding. Diluted earnings per share is based on the weighted average number of common shares outstanding and all dilutive potential common shares outstanding. On October 1, 2018, the date of consummation of the Spin-Off, 74,070,852 shares of the Company's Common Stock were distributed to Honeywell stockholders of record as of September 18, 2018 who held their shares through the Distribution Date. Basic and diluted EPS for all periods prior to the Spin-Off reflect the number of distributed shares, or 74,070,852 shares. For 2018, the distributed shares were treated as issued and outstanding from January 1, 2018 for purposes of calculating historical basic earnings per share. Basic and diluted weighted average of common shares outstanding for the years ended December 31, 2019, 2018 and 2017 were 74,602,868 and 75,934,373, 74,059,240 and 74,402,148, and 74,070,852 and 74,070,852, respectively.

Use of Estimates—The preparation of the Consolidated and Combined Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the Consolidated and Combined Financial Statements and related disclosures in the accompanying notes. Actual results could differ from those estimates. Estimates and assumptions are periodically reviewed and the effects of changes are reflected in the Consolidated and Combined Financial Statements in the period they are determined to be necessary.

Recently Adopted Accounting Pronouncements

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,* which allows for an entity to elect to reclassify stranded tax effects within Accumulated other comprehensive income, resulting from U.S. Tax Cuts and Jobs Act ("U.S. tax reform"), to retained earnings. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. The guidance allows for adoption (i) at the beginning of the period of adoption or (ii) retrospective to each period in which the income tax effects of the U.S. tax reform related to items recognized in Accumulated other comprehensive income are recognized. Upon adoption, the Company did not elect to reclassify the stranded income tax effects of the U.S. tax reform from accumulated other comprehensive income to retained earnings.

In February 2016, the FASB issued ASU 2016-02 and subsequent amendments, collectively known as ASC 842 *Leases*, which requires lessees to recognize most leases on their balance sheets for the rights and obligations created by those leases. The guidance requires enhanced disclosures regarding the amount, timing and uncertainty of cash flows arising from leases that will be effective for periods beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. Effective January 1, 2019, the Company adopted the new lease accounting standard using the modified retrospective transition option of applying the new standard at the adoption date while electing not to recast comparative periods in the transition. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification. In adopting the new leases standard, the Company has applied the practical expedients as per ASC 842-10-65-1(f) and (g). Adoption of the new standard resulted in the recording of additional lease assets and lease liabilities of $34 million as of January 1, 2019. The adoption of this standard did not have a material impact related to existing leases and as a result, a cumulative-effect adjustment was not recorded.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement,* which amends certain disclosure requirements related to fair value measures. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Early adoption is permitted. The Company is currently evaluating the impact on its disclosures.

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits Defined Benefit Plans – General (Subtopic 715-20),* which amends certain disclosure requirements related to the defined benefit pension and other postretirement plans. The guidance is effective for fiscal years beginning after December 15, 2020, including interim periods within that fiscal year. Early adoption is permitted. The Company is currently evaluating the impact on its disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires measurement and recognition of expected credit losses for financial assets held. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on our Consolidated and Combined Financial Statements. The initial adoption impact will be recognized as a cumulative-effect adjustment to opening retained earnings as of January 1, 2020.

Note 3. Related Party Transactions with Honeywell

Subsequent to Spin-Off

Following the Spin-Off, Honeywell is no longer considered a related party.

We have Obligations payable to Honeywell related to the Indemnification and Reimbursement Agreement and Tax Matters Agreement. See Note 23 Commitments and Contingencies for further details.

Prior to Spin-Off

The Consolidated and Combined Financial Statements for periods prior to the Spin-Off have been prepared on a stand-alone basis and are derived from the consolidated financial statements and accounting records of Honeywell.

Prior to the Spin-Off, Honeywell provided certain services, such as legal, accounting, information technology, human resources and other infrastructure support, on behalf of the Business. The cost of these services has been allocated to the Business on the basis of the proportion of revenues. We consider the allocations to be a reasonable reflection of the benefits received by the Business. During the years ended December 31, 2018 and 2017, Garrett was allocated $87 million and $127 million, respectively, of general corporate expenses incurred by Honeywell, and such amounts are included within Selling, general and administrative expenses in the Consolidated and Combined Statements of Operations. As certain expenses reflected in the Consolidated and Combined Financial Statements include allocations of corporate expenses from Honeywell, these statements could differ from those that would have been prepared had Garrett operated on a stand-alone basis.

Honeywell used a centralized approach for the purpose of cash management and financing of its operations. Prior to the Spin-Off, the Business' cash was historically transferred to Honeywell daily, and Honeywell funded its operating and investing activities as needed. Honeywell had operated a centralized non-interest-bearing cash pool in the U.S. and regional interest-bearing cash pools outside of the U.S. As of December 31, 2017, the Company had non-interest-bearing cash pooling balances of $51 million which are presented in Invested deficit within the Consolidated and Combined Balance Sheets.

The Company received interest income for related party notes receivables of $1 million for each of the years ended December 31, 2018 and 2017. Additionally, the Company incurred interest expense for related party notes payable of $1 million and $6 million for the years ended December 31, 2018 and 2017, respectively.

Honeywell centrally hedged its exposure to changes in foreign exchange rates principally with forward contracts. Certain contracts were specifically designated to and entered on behalf of the Business with the Former Parent as a counterparty and were used to hedge known or probable anticipated foreign currency sales and purchases. The Business designated these hedges as cash flow hedges. These hedges were marked-to-market with the effective portion of the changes in fair value of the derivatives recorded in Accumulated other comprehensive income (loss) and subsequently recognized in earnings when the hedged items impact earnings. See Note 18, Financial Instruments and Fair Value Measures for further information of these financial instruments, and Note 6, Non-Operating (Income) Expense and Note 20, Accumulated Other Comprehensive Income (Loss), for their net impact.

Net transfers to and from Honeywell are included within Invested deficit on the Consolidated and Combined Balance Sheets. The components of the net transfers to and from Honeywell prior to the Spin-Off, for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
General financing activities	$ 1,774	$ (363)
Distribution to Former Parent	(2,994)	(97)
Unbilled corporate allocations	41	70
Stock compensation expense and other compensation awards	17	19
Pension expense	7	9
Mandatory Transition Tax	(13)	354
Other Income Tax	—	22
Spin-Off related adjustments	(200)	—
Issuance of common stock and reclassification of invested deficit	2,664	—
Total net decrease (increase) in Invested deficit	$ 1,296	$ 14

Note 4. Revenue Recognition and Contracts with Customers

The Company generates revenue through the sale of products to customers in the OEM and aftermarket channels. OEM and aftermarket contracts generally include scheduling agreements that stipulate the pricing and delivery terms that identify the quantity and timing of the product to be transferred.

Revenue recognition under ASC 606 is generally consistent with the previous standard, with the exception of how we account for payments made to customers in conjunction with future business. Historically these payments were recognized as a reduction of revenue at the time the payments were made. Under ASC 606, these payments result in deferred reductions to revenue that are subsequently recognized when the products are delivered to the customer. The Company evaluates the amounts capitalized each period end for recoverability and expenses any amounts that are no longer expected to be recovered over the term of the business arrangement. These payments are recorded in Other current assets and Other assets in our Consolidated and Combined Balance Sheets.

Disaggregated Revenue

For Net sales by region (determined based on country of shipment) and channel, refer to Note 26, Concentrations.

We recognize virtually all of our revenues arising from performance obligations at a point in time. Less than 1% of our revenue is satisfied over time.

Contract Balances

The timing of revenue recognition, billings and cash collections results in unbilled receivables (contract assets) and billed accounts receivable, reported in Accounts, notes and other receivables – net, and customer advances and deposits (contract liabilities), reported in Accrued Liabilities, on the Consolidated and Combined Balance Sheets. Contract assets arise when the timing of cash collected from customers differs from the timing of revenue recognition. Contract assets are recognized when the revenue associated with the contract is recognized prior to billing and derecognized once invoiced in accordance with the terms of the contract. Contract liabilities are recorded in scenarios where we enter into arrangements where customers are contractually obligated to remit cash payments in advance of us satisfying performance obligations and recognizing revenue. Contract liabilities are generally derecognized when revenue is recognized.

These assets and liabilities are reported on the Consolidated and Combined Balance Sheets on a contract-by-contract basis at the end of each reporting period.

The following table summarizes our contract assets and liabilities balances:

		2019
Contract assets—January 1	$	5
Contract assets—December 31		6
Change in contract assets—Increase/(Decrease)		1
Contract liabilities—January 1	$	(2)
Contract liabilities—December 31		(3)
Change in contract liabilities—(Increase)/Decrease	$	(1)

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is defined as the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. For product sales, typically each product sold to a customer represents a distinct performance obligation.

Virtually all of our performance obligations are satisfied as of a point in time. Performance obligations are supported by contracts with customers, providing a framework for the nature of the distinct goods, services or bundle of goods and services. The timing of satisfying the performance obligation is typically indicated by the terms of the contract. All performance obligations are expected to be satisfied within one year, with substantially all performance obligations being satisfied within a month.

The timing of satisfaction of our performance obligations does not significantly vary from the typical timing of payment, with cash advances (contract liabilities) and unbilled receivables (contract assets) being settled within 3 months. For some contracts, we may be entitled to receive an advance payment.

We have applied the practical expedient to not disclose the value of remaining performance obligations for contracts with an original expected term of one year or less.

Note 5. Other Expense, Net

	Years Ended December 31,		
	2019	2018	2017
Indemnification related — post Spin-Off	$ 28	$ (16)	$ —
Indemnification related — litigation	$ 11	$ —	$ —
Asbestos related, net of probable insurance recoveries	—	131	132
Environmental remediation, non-active sites	—	5	(2)
Factoring and notes receivables discount fees	1	—	—
	$ 40	$ 120	$ 130

Note 6. Non-Operating Expense (Income)

	Years Ended December 31,		
	2019	2018	2017
Equity income of affiliated companies	$ (6)	$ (5)	$ (4)
Interest income	(7)	(7)	(14)
Pension expense (income) —non service	8	2	(1)
Foreign exchange	13	6	—
Others, net	—	(4)	1
	$ 8	$ (8)	$ (18)

Note 7. Income Taxes

The sources of income (loss) from continuing operations, before income taxes, classified between domestic entities and those entities domiciled outside of the U.S., are as follows:

	Years Ended December 31,		
Income before taxes	2019	2018	2017
Domestic entities	$ (54)	$ (99)	$ (105)
Entities outside the U.S.	400	495	471
	$ 346	$ 396	$ 366

Tax expense (benefit)

Tax expense (benefit) consists of:

	Years Ended December 31,		
	2019	2018	2017
Current:			
Federal	$ 9	$ 7	$ 311
State	1	1	(2)
Foreign	64	113	67
	$ 74	$ 121	$ 376
Deferred:			
Federal	2	(8)	3
State	—	—	6
Foreign	(43)	(923)	964
	$ (41)	$ (931)	$ 973
	$ 33	$ (810)	$ 1,349

The U.S. federal statutory income tax rate is reconciled to our effective income tax rate as follows:

	Years Ended December 31,		
	2019	2018	2017
U.S. federal statutory income tax rate	21.0%	21.0%	35.0%
Taxes on non-U.S. earnings different from U.S. tax	(2.3)%	(7.7)%	(28.0)%
Reserves for tax contingencies	2.5%	4.1%	(14.3)%
Non-deductible expenses	1.7%	6.0%	11.6%
Withholding and other taxes on foreign earnings	4.4%	(231.6)%	—
Tax law changes	(17.3)%	—	364.7%
Changes in valuation allowance	0.5%	5.3%	—
All other items	(1.0)%	(1.6)%	(0.4)%
	9.5%	(204.5)%	368.6%

The effective tax rate increased by 214.0 percentage points in 2019 compared to 2018. The increase was primarily attributable to the absence of approximately $910 million of non-recurring tax benefits in 2018 because of a reduction in withholding taxes incurred as part of an internal restructuring of Garrett's business in advance of the Spin-Off. The increase was partially offset by approximately $60 million of tax benefits related to the remeasurement of deferred tax assets and liabilities for tax law changes enacted during the year, primarily in Switzerland.

The effective tax rate decreased by 573.1 percentage points in 2018 compared to 2017. The decrease was primarily attributable to the absence of approximately $1,335 million of expense related to U.S. tax reform incurred during 2017 and approximately $910 million tax benefits from a reduction of withholding taxes incurred as part of an internal restructuring of Garrett's business in advance of the Spin-Off. The impacts of U.S. tax reform during 2017 primarily consisted of a tax charge of $354 million related to the imposition of the one-time mandatory transition tax on the Company's undistributed foreign earnings (refer to Note 23 for amounts payable to Honeywell) and a $980 million tax charge because of a change in the Company's intent to no longer permanently reinvest its undistributed foreign earnings outside the U.S. The $980 million tax charge primarily consisted of withholding taxes on future distributions which were subsequently reduced to approximately $50 million during 2018 primarily in connection with an internal restructuring.

Deferred tax assets (liabilities)

The tax effects of temporary differences and tax carryforwards which give rise to future income tax benefits and payables are as follows:

	December 31,	
	2019	2018
Deferred tax assets:		
Intangibles and fixed assets	$ 205	$ 165
Pension	12	$ 6
Accruals and reserves	30	33
Net operating losses and other tax attribute carryforwards	27	26
Outside basis differences	17	7
Other	23	13
Total Deferred tax assets	314	250
Valuation allowance	(27)	(24)
Net deferred tax assets	$ 287	$ 226
Deferred tax liabilities:		
Outside basis differences	$ (49)	$ (50)
Other	(21)	(6)
Total deferred tax liabilities	(70)	(56)
Net deferred tax asset/(liability)	$ 217	$ 170

As of December 31, 2019, the Company had net operating loss carryforwards of approximately $85 million in various jurisdictions. The majority of the net operating losses have an indefinite carryforward.

We maintain a valuation allowance of $27 million against a portion of the non-U.S. total deferred tax assets. In the event we determine that we will not be able to realize our net deferred tax assets in the future, we will reduce such amounts through an increase to tax expense in the period such determination is made. Conversely, if we determine that we will be able to realize net deferred tax assets in excess of the carrying amounts, we will decrease the recorded valuation allowance through a reduction to tax expense in the period that such determination is made. Our balance sheets present a deferred tax asset of $268 million and a deferred tax liability of $51 million after taking into account jurisdictional netting.

The Company does not intend to permanently reinvest the undistributed earnings of its foreign subsidiaries and has recorded a deferred tax liability mainly consisting of withholding taxes of approximately $49 million as of December 31, 2019.

The following table summarizes the activity related to the Company's uncertain tax positions (excluding interest and penalties and related tax attributes):

	2019	2018	2017
Change in unrecognized tax benefits:			
Balance at beginning of year	$ 48	$ 100	$ 152
Gross increases related to current period tax positions	8	19	11
Gross increases related to prior periods tax positions	—	9	1
Gross decreases related to prior periods tax positions	—	(8)	(64)
Decrease related to resolutions of audits with tax authorities	—	—	(2)
Expiration of the statute of limitations for the assessment of taxes	(2)	—	—
Potential Indemnifications to Honeywell for US and foreign taxes as contractually obligated in connection with Tax Matters Agreement	—	(71)	—
Foreign currency translation	—	(1)	2
Balance at end of year	$ 54	$ 48	$ 100

As of December 31, 2019, 2018, and 2017 there were $54 million, $48 million, and $100 million, respectively, of unrecognized tax benefits that, if recognized, would be recorded as a component of Tax expense.

Estimated interest and penalties related to uncertain tax benefits are classified as a component of tax expense in the Consolidated and Combined Statements of Operations and totaled $3 million of expense, $2 million of income, and $6 million of income for the years ended December 31, 2019, 2018, and 2017, respectively. Accrued interest and penalties were $26 million, $23 million, and $35 million, as of December 31, 2019, 2018, and 2017, respectively.

We are currently under audit in a few jurisdictions for tax years ranging from 2006 through 2017. Based on the outcome of these examinations, or as a result of the expiration of statutes of limitations for specific jurisdictions, it is reasonably possible that certain unrecognized tax benefits for tax positions taken on previously filed tax returns will materially change from those recorded as liabilities in our financial statements.

Note 8. Revision of Previously Issued Financial Statements

In the fourth quarter of 2019, we identified errors in our income tax accounts for the year ended and as of December 31, 2018. The errors included an overstatement of current and deferred tax liability balances that were recorded in connection with the Spin-Off from Honeywell and an overstatement of income tax expense for the year ended December 31, 2018. As a result, we have revised our previously issued Consolidated and Combined Financial Statements for the year ended and as of December 31, 2018 contained within this Annual Report on Form 10-K. In correcting the errors, we decreased our income tax expense for the year ended December 31, 2018 by $26 million and adjusted certain balance sheet tax accounts by $76 million, $50 million representing Spin-Off related adjustments recorded through retained earnings. We have evaluated the materiality of the impact of these items both quantitatively and qualitatively and concluded the errors were not material to our previously issued Consolidated and Combined Financial Statements for the year ended and as of December 31, 2018.

The following tables identify each financial statement line item affected by the revision for the year ended and as of December 31, 2018.

	Year Ended December 31, 2018		
	Previously Reported	Adjustment	As Revised
Consolidated and Combined Statement of Operation			
Tax benefit	(784)	(26)	(810)
Net income	$ 1,180	$ 26	$ 1,206
Earnings (losses) per common share			
Basic	$ 15.93	$ 0.35	$ 16.28
Diluted	$ 15.86	$ 0.35	$ 16.21

	Year Ended December 31, 2018		
	Previously Reported	Adjustment	As Revised
Consolidated and Combined Statement of Comprehensive Income			
Net income	$ 1,180	$ 26	$ 1,206
Comprehensive income	$ 1,015	$ 26	$ 1,041

	Year Ended December 31, 2018		
	Previously Reported	Adjustment	As Revised
Consolidated Balance Sheet			
Assets			
Other current assets	$ 71	$ (10)	$ 61
Total current assets	1,189	(10)	1,179
Deferred income taxes	165	18	183
Other assets	80	12	92
Total assets	$ 2,104	$ 20	$ 2,124
Liabilities			
Accrued liabilities	$ 426	$ (52)	$ 374
Total current liabilities	1,492	(52)	1,440
Deferred income taxes	27	(14)	13
Other liabilities	209	10	219
Total liabilities	$ 4,697	$ (56)	$ 4,641
Equity			
Retained earnings	(2,671)	76	(2,595)
Total stockholders´ deficit	(2,593)	76	(2,517)
Total liabilities and stockholders´ deficit	$ 2,104	$ 20	$ 2,124

	Year Ended December 31, 2018		
	Previously Reported	Adjustment	As Revised
Consolidated and Combined Statement of Cash Flows			
Cash flows from operating activities:			
Net income	$ 1,180	$ 26	$ 1,206
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	(905)	(26)	(931)
Net cash provided by operating activities	$ 373	$ —	$ 373

	Previously Reported		
	Retained Earnings	Invested Deficit	Total Deficit
Consolidated and Combined Statement of Equity (Deficit)			
Net (loss) income from October 1, 2018	$ 43	$ —	$ 43
Spin-Off related adjustments	—	(250)	(250)
Issuance of common stock and reclassification of invested deficit	(2,714)	2,714	—
Balance at December 31, 2018	$ (2,671)	$ —	$ (2,593)

	Adjustment		
	Retained Earnings	Invested Deficit	Total Deficit
Consolidated and Combined Statement of Equity (Deficit)			
Net (loss) income from October 1, 2018	$ 26	$ —	$ 26
Spin-Off related adjustments	—	50	50
Issuance of common stock and reclassification of invested deficit	50	(50)	—
Balance at December 31, 2018	$ 76	$ —	$ 76

	As Revised		
	Retained Earnings	Invested Deficit	Total Deficit
Consolidated and Combined Statement of Equity (Deficit)			
Net (loss) income from October 1, 2018	$ 69	$ —	$ 69
Spin-Off related adjustments	—	(200)	(200)
Issuance of common stock and reclassification of invested deficit	(2,664)	2,664	—
Balance at December 31, 2018	$ (2,595)	$ —	$ (2,517)

Note 9. Accounts, Notes and Other Receivables—Net

	December 31, 2019	December 31, 2018
Trade receivables	$ 574	$ 593
Notes receivables	68	93
Other receivables	69	67
	$ 711	$ 753
Less—Allowance for doubtful accounts	(4)	(3)
	$ 707	$ 750

Trade receivables include $4 million and $5 million of unbilled balances as of December 31, 2019 and 2018, respectively.

Note 10. Factoring and Notes Receivables

The Company entered into arrangements with financial institutions to sell eligible trade receivables. For the year ended December 31, 2019, the Company sold $27 million of eligible receivables, without recourse, and accounted for these arrangements as a true sale. There were no factoring arrangements for the year ended December 31, 2018.

The Company also received guaranteed bank notes without recourse, in settlement of accounts receivables, primarily in the Asia Pacific region. The Company can hold the bank notes until maturity, exchange them with suppliers to settle liabilities, or sell them to third party financial institutions in exchange for cash. For the year ended December 31, 2019, the Company sold $105 million of bank notes, without recourse, and accounted for these as true sales. There were no bank notes discounted for the year ended December 31, 2018.

Note 11. Inventories—Net

	December 31, 2019	December 31, 2018
Raw materials	$ 142	$ 112
Work in process	18	19
Finished products	85	64
	$ 245	$ 195
Less—Reserves	(25)	(23)
	$ 220	$ 172

Note 12. Other Assets

	December 31,	
	2019	2018
Advanced discounts to customers, non-current	$ 62	$ 56
Operating right-of-use assets (Note 17)	35	—
Undesignated cross-currency swap at fair value	—	16
Other	11	20
	$ 108	$ 92

Note 13. Property, Plant and Equipment—Net

	December 31,	
	2019	2018
Machinery and equipment	$ 639	$ 623
Tooling	324	306
Buildings and improvements	141	136
Construction in progress	100	57
Software	57	54
Land and improvements	16	16
Others	24	24
	1,301	1,216
Less—Accumulated depreciation and amortization	(830)	(778)
	$ 471	$ 438

Depreciation and amortization expense was $73 million, $72 million and $64 million in 2019, 2018 and 2017, respectively.

Note 14. Goodwill

The change in the carrying amount of goodwill for the years ended December 31, 2019 and 2018 is as follows:

	December 31, 2018	Currency Translation Adjustment	December 31, 2019
Goodwill	$ 193	—	$ 193

Note 15. Accrued Liabilities

	December 31, 2019	December 31, 2018
Customer pricing reserve	$ 90	$ 107
Compensation, benefit and other employee related	64	71
Repositioning	4	15
Product warranties and performance guarantees	29	32
Taxes	33	61
Advanced discounts from suppliers, current	19	17
Customer advances and deferred income	12	14
Accrued interest	5	6
Short-term lease liability (Note 17)	8	—
Other (primarily operating expenses)	46	51
	$ 310	$ 374

The Company accrued repositioning costs related to projects to optimize our product costs and to right-size our organizational structure. Expenses related to the repositioning accruals are included in Cost of goods sold in our Consolidated and Combined Statement of Operations.

	Severance Costs	Exit Costs	Total
Balance at December 31, 2017	$ 53	$ 7	$ 60
Charges	2	—	2
Usage—cash	(42)	(5)	(47)
Foreign currency translation	—	—	—
Balance at December 31, 2018	13	2	15
Charges	2	—	2
Usage—cash	(8)	(2)	(10)
Adjustments	(3)	1	(2)
Foreign currency translation	(1)	—	(1)
Balance at December 31, 2019	$ 3	$ 1	$ 4

Note 16. Long-term Debt and Credit Agreements

The principal amounts outstanding on long-term debt and the revolving credit facility are as follows:

	December 31, 2019
Term Loan A	$ 283
Term Loan B	764
Senior Notes	393
	1,440
Less: current portion	(4)
	$ 1,436

On September 27, 2018, we entered into a Credit Agreement, by and among us, Garrett LX I S.à r.l., Garrett LX II S.à r.l. (“Lux Guarantor”), Garrett LX III S.à r.l. (“Lux Borrower”), Garrett Borrowing LLC (in such capacity, the “US Co-Borrower”), and Honeywell Technologies Sàrl (“Swiss Borrower” and, together with Lux Borrower and US Co-Borrower, the “Borrowers”), the lenders and issuing banks party thereto and JPMorgan Chase Bank, N.A., as administrative agent (the “Credit Agreement”).

The Credit Agreement provides for senior secured financing of approximately the Euro equivalent of $1,254 million, consisting of (i) a seven-year senior secured first-lien term B loan facility, which consists of a tranche denominated in Euro of €375 million and a tranche denominated in U.S. Dollars of $425 million (the "Term B Facility"), (ii) five-year senior secured first-lien term A loan facility in an aggregate principal amount of €330 million (the "Term A Facility" and, together with the Term B Facility, the "Term Loan Facilities") and (iii) a five-year senior secured first-lien revolving credit facility in an aggregate principal amount of €430 million with revolving loans to Swiss Borrower, to be made available in a number of currencies including Australian Dollars, Euros, Pounds Sterling, Swiss Francs, U.S. Dollars and Yen (the "Revolving Facility" and, together with the Term Loan Facilities, the "Senior Credit Facilities"). Each of the Revolving Facility and the Term A Facility matures five years after the effective date of the Credit Agreement, in each case with certain extension rights in the discretion of each lender. The Term B Facility matures seven years after the effective date of the Credit Agreement, with certain extension rights in the discretion of each lender.

The Senior Credit Facilities are subject to an interest rate, at our option, of either (a) base rate determined by reference to the highest of (1) the rate of interest last quoted by The Wall Street Journal as the "prime rate" in the United States, (2) the greater of the federal funds effective rate and the overnight bank funding rate, plus 0.5% and (3) the one month adjusted LIBOR rate, plus 1% per annum ("ABR"), (b) an adjusted LIBOR rate ("LIBOR") (which shall not be less than zero), or (c) an adjusted EURIBOR rate ("EURIBOR") (which shall not be less than zero), in each case, plus an applicable margin. The applicable margin for the U.S. Dollar tranche of the Term B Facility is currently 2.50% per annum (for LIBOR loans) and 1.50% per annum (for ABR loans) while that for the Euro tranche of the Term B Facility is currently 2.75% per annum (for EURIBOR loans). The applicable margin for each of the Term A Facility and the Revolving Credit Facility varies based on our leverage ratio. Accordingly, the interest rates for the Senior Credit Facilities will fluctuate during the term of the Credit Agreement based on changes in the ABR, LIBOR, EURIBOR or future changes in our leverage ratio. Interest payments with respect to the Term Loan Facilities are required either on a quarterly basis (for ABR loans) or at the end of each interest period (for LIBOR and EURIBOR loans) or, if the duration of the applicable interest period exceeds three months, then every three months.

We are obligated to make quarterly principal payments throughout the term of the Term Loan Facilities according to the amortization provisions in the Credit Agreement. Borrowings under the Credit Agreement are prepayable at our option without premium or penalty. We may request to extend the maturity date of all or a portion of the Senior Credit Facilities subject to certain conditions customary for financings of this type. The Credit Agreement also contains certain mandatory prepayment provisions in the event that we incur certain types of indebtedness or receive net cash proceeds from certain non-ordinary course asset sales or other dispositions of property, in each case subject to terms and conditions customary for financings of this type.

On May 23, 2019, the Company made a prepayment of the Euro-equivalent of $14 million related to the mandatory amortizations of its Term Loan A Facility due in the third and fourth quarters of 2019. On September 27, 2019, the Company made a prepayment of the Euro-equivalent of $41 million related to the mandatory amortizations of its Term Loan A Facility due through the first half of 2021. On December 27, 2019, the Company made a prepayment of the Euro-equivalent of $23 million related to the mandatory amortizations of its Term Loan A Facility due through the end of 2021.

On December 27, 2019, the Company made a principal repayment of the Euro-equivalent of $76 million on the Euro denominated Term Loan B Facility.

The schedule of principal payments on long-term debt is as follows:

	December 31, 2019
2020	$ 4
2021	4
2022	64
2023	227
2024	4
Thereafter	1,137
	$ 1,440
Less: current portion	(4)
	$ 1,436

The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type that, among other things, limit our and our subsidiaries' ability to incur additional indebtedness or liens, to dispose of assets, to make certain fundamental changes, to enter into restrictive agreements, to make certain investments, loans, advances, guarantees and acquisitions, to prepay certain indebtedness and to pay dividends, to make other distributions or redemptions/ repurchases, in respect of the our and our subsidiaries' equity interests, to engage in transactions with affiliates, amend certain material documents or to permit the International Financial Reporting Standards equity amount of Lux Borrower to decrease below a certain amount. The Credit Agreement also contains financial covenants requiring the maintenance of a consolidated total leverage ratio of not greater than 4.00 to 1.00 (with step downs to (i) 3.75 to 1.00 in September 2020 and (ii) 3.50 to 1.00 in September 2021), and a consolidated interest coverage ratio of not less than 2.75 to 1.00. We are in compliance with our financial covenants as of December 31, 2019.

On September 27, 2018, we completed the offering of €350 million (approximately $400 million) in aggregate principal amount of 5.125% senior notes due 2026 (the "Senior Notes"). The Senior Notes bear interest at a fixed annual interest rate of 5.125% and mature on October 15, 2026.

The Senior Notes were issued pursuant to an Indenture, dated September 27, 2018 (the "Indenture"), which, among other things and subject to certain limitations and exceptions, limits our ability and the ability of our restricted subsidiaries to: (i) incur, assume or guarantee additional indebtedness or issue certain disqualified equity interests and preferred shares, (ii) pay dividends or distributions on, or redeem or repurchase, capital stock and make other restricted payments, (iii) make investments, (iv) consummate certain asset sales or transfers, (v) engage in certain transactions with affiliates, (vi) grant or assume certain liens on assets to secure debt unless the Senior Notes are secured equally and ratably (vii) restrict dividends and other payments by certain of their subsidiaries and (vii) consolidate, merge, sell or otherwise dispose of all or substantially all of our or our restricted subsidiaries' assets.

All debt issuance costs, except for those associated to the Revolving Credit Facility, are deferred and recognized as a direct deduction to the related debt liability and are amortized to interest expense over the debt term. The company paid approximately $37 million of debt issuance costs in connection with the Term A Facility, Term B Facility, and Senior Notes.

The unutilized portion of the Revolving Credit Facility is subject to an annual commitment fee of 0.40% to 0.50% depending on the Company's consolidated leverage ratio. Debt issuance costs associated with the Revolving Credit Facility were capitalized in Other assets and are amortized to interest expense over the debt term. Approximately, $6 million of debt issuance costs were paid in connection with the Revolving Credit Facility.

Note 17. Leases

We have operating leases that primarily consist of real estate, machinery and equipment. Our leases have remaining lease terms of up to 11 years, some of which include options to extend the leases for up to two years, and some of which include options to terminate the leases within the year.

The components of lease expense are as follows:

	Year Ended December 31, 2019
Operating lease cost	$ 14

Rent expense under ASC 840, was $14 million and $10 million in 2018 and 2017, respectively.

Supplemental cash flow information related to operating leases is as follows:

	Year Ended December 31, 2019	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	$	12
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$	12

Supplemental balance sheet information related to operating leases is as follows:

	Year Ended December 31, 2019	
Other assets	$	35
Accrued liabilities		8
Other liabilities		28

	Year Ended December 31, 2019
Weighted-average lease term (in years)	6.30
Weighted-average discount rate	6.36

Maturities of operating lease liabilities were as follows:

	Year Ended December 31, 2019	
2020	$	9
2021		7
2022		6
2023		5
2024		5
Thereafter		12
Total lease payments		44
Less imputed interest		(8)
	$	36

Note 18. Financial Instruments and Fair Value Measures

Credit and Market Risk—We continually monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. The terms and conditions of our credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer.

Foreign Currency Risk Management—We are exposed to market risks from changes in currency exchange rates. These exposures may impact future earnings and/or operating cash flows. Our exposure to market risk for changes in foreign currency exchange rates arises from international financing activities between subsidiaries, foreign currency denominated monetary assets and liabilities and transactions arising from international trade.

For the periods prior to the Spin-Off, as part of Honeywell´s centralized treasury function, the primary objective was to preserve the U.S. Dollar value of foreign currency denominated cash flows and earnings. We hedged major exposures to foreign currency denominated cash flows to mitigate the effects of fluctuations in foreign currency exchange rates on earnings. We designated the related hedging instruments as cash flow hedges, except in cases where the hedged item was recognized on balance sheet. The gain or loss from a derivative financial instrument designated as a cash flow hedge was classified in the same line of the Consolidated and Combined Statements of Operations as the offsetting loss or gain on the hedged item.

The historical treasury strategies implemented by Honeywell's centralized treasury function differ from our treasury strategy as a standalone company, which is described below.

We hedge currency exposures with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign currency exchange forward contracts (foreign currency exchange contracts). We hedge monetary assets and liabilities denominated in non-functional currencies. Prior to conversion into U.S. dollars, these assets and liabilities are remeasured at spot exchange rates in effect on the balance sheet date. The effects of changes in spot rates are recognized in earnings and included in Non-operating (income) expense.

At December 31, 2019 and December 31, 2018, we had contracts with aggregate gross notional amounts of $1,820 million and $838 million, respectively, to limit interest rate risk and to exchange foreign currencies, principally the U.S. Dollar, Swiss Franc, British Pound, Euro, Chinese Yuan, Japanese Yen, Mexican Peso, New Romanian Leu, Czech Koruna, Australian Dollar and Korean Won.

Fair Value of Financial Instruments—The FASB's accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).Financial and nonfinancial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2019 and December 31, 2018:

	Notional Amounts		Fair Value			
			Assets		Liabilities	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Designated forward currency exchange contracts	$ 392	$ —	$ 5	$ — (a)	$ 1	$ — (b)
Undesignated instruments:						
Undesignated cross-currency swap	420	425	—	16 (c)	1	—
Undesignated interest rate swap	561	—	—	—	1	— (d)
Undesignated forward currency exchange contracts	447	413	2	4 (a)	3 (c)	1 (b)
	1,428	838	2	20	5	1
	$ 1,820	$ 838	$ 7	$ 20	$ 6	$ 1

(a) Recorded within Other current assets in the Company's Consolidated and Combined Balance Sheets

(b) Recorded within Accrued liabilities in the Company's Consolidated and Combined Balance Sheets

(c) Recorded within Other assets in the Company's Consolidated and Combined Balance Sheets

(d) Recorded within Other liabilities in the Company´s Consolidated and Combined Balance Sheets

On June 7, 2019, the Company entered into interest rate swap contracts to limit its exposure to interest rate risk by converting the interest payments on variable rate debt to fixed rate payments. These interest rate swaps have not been designated as hedging instruments for accounting purposes.

The Company initiated a cash flow hedging program in the first quarter of 2019 and has since then entered into forward currency exchange contracts to mitigate exposure to foreign currency exchange rate volatility and the associated impact on earnings related to forecasted foreign currency commitments. These forward currency exchange contracts are assessed as highly effective and are designated as cash flow hedges. Gains and losses on derivatives qualifying as cash flow hedges are recorded in Accumulated other comprehensive income (loss) until the underlying transactions are recognized in earnings.

On September 27, 2018, the Company entered into a floating-floating cross-currency swap contract to hedge the foreign currency exposure from foreign currency-denominated debt which will mature on September 27, 2025. The gain or loss on this derivative instrument is recognized in earnings and included in Non-operating expense (income). For the years ended December 31, 2019 and 2018, gains recorded in Non-operating expense (income), under the cross-currency swap contract were $1 million and $16 million, respectively. In May 2019, Garrett re-couponed the cross-currency swap contract with its counterparties and received a cash settlement of $19 million.

The foreign currency exchange, interest rate swap and cross-currency swap contracts are valued using market observable inputs. As such, these derivative instruments are classified within Level 2. The assumptions used in measuring fair value of the cross-currency swap are considered level 2 inputs, which are based upon market observable interest rate curves, cross currency basis curves, credit default swap curves, and foreign exchange rates.

The carrying value of Cash and cash equivalents, Account receivables, Notes and Other receivables, and Account payables contained in the Consolidated and Combined Balance Sheets approximates fair value.

The following table sets forth the Company's financial assets and liabilities that were not carried at fair value:

	December 31, 2019	
	Carrying Value	Fair Value
Long-term debt and related current maturities	$ 1,413	$ 1,448

The Company determined the fair value of certain of its long-term debt and related current maturities utilizing transactions in the listed markets for similar liabilities. As such, the fair value of the long-term debt and related current maturities is considered level 2.

Note 19. Other Liabilities

	Years Ended December 31,	
	2019	2018
Pension and other employee related	$ 94	$ 71
Advanced discounts from suppliers	46	63
Income taxes	79	69
Long-term lease liability (Note 16)	28	—
Other	27	16
	$ 274	$ 219

Note 20. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) are provided in the tables below:

	Pre-Tax	Tax	After-Tax
Year Ended December 31, 2017			
Foreign exchange translation adjustment	$ 72	$ —	$ 72
Pension adjustments	—	—	—
Changes in fair value of effective cash flow hedges	(84)	7	(77)
	$ (12)	$ 7	$ (5)
Year Ended December 31, 2018			
Foreign exchange translation adjustment	$ (198)	$ —	$ (198)
Pension adjustments	(2)	—	(2)
Changes in fair value of effective cash flow hedges	37	(2)	35
	$ (163)	$ (2)	$ (165)
Year Ended December 31, 2019			
Foreign exchange translation adjustment	$ 59	$ 8	$ 67
Pension adjustments	(18)	4	(14)
Changes in fair value of effective cash flow hedges	2	2	4
	$ 43	$ 14	$ 57

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Foreign Exchange Translation Adjustment	Changes in Fair Value of Effective Cash Flow Hedges	Pension Adjustments	Total Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2017	$ 284	$ (35)	$ (11)	$ 238
Other comprehensive income (loss) before reclassifications	(198)	12	(5)	(191)
Amounts reclassified from accumulated other comprehensive income (loss)	—	23	3	26
Net current period other comprehensive income (loss)	(198)	35	(2)	(165)
Balance at December 31, 2018	$ 86	$ —	$ (13)	$ 73
Other comprehensive income (loss) before reclassifications	67	27	(27)	67
Amounts reclassified from accumulated other comprehensive income	—	(23)	13	(10)
Net current period other comprehensive income (loss)	67	4	(14)	57
Balance at December 31, 2019	$ 153	$ 4	$ (27)	$ 130

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

Year ended December 31, 2019
Affected Line in the Consolidated and Combined Statement of Operations

	Net Sales	Cost of Goods Sold	Selling, General and Administrative Expenses	Non-Operating (Income) Expense	Total
Amortization of Pension and Other Postretirement Items:					
Actuarial losses recognized	$ —	$ —	$ —	$ 13	$ 13
Losses (gains) on cash flow hedges	—	(25)	—	—	(25)
Tax expense (benefit)	—	—	—	—	2
Total reclassifications for the period, net of tax					$ (10)

Year ended December 31, 2018
Affected Line in the Consolidated and Combined Statement of Operations

	Net Sales	Cost of Goods Sold	Selling, General and Administrative Expenses	Non-Operating (Income) Expense	Total
Amortization of Pension and Other Postretirement Items:					
Actuarial losses recognized	$ —	$ —	$ —	$ 3	$ 3
Losses (gains) on cash flow hedges	(1)	26	—	—	25
Tax expense (benefit)					(2)
Total reclassifications for the period, net of tax					$ 26

Note 21. Stock-Based Compensation

On September 14, 2018, our Board adopted, and Honeywell, as our sole stockholder, approved, the 2018 Stock Incentive Plan of Garrett Motion Inc. and its Affiliates (the “Stock Incentive Plan”) and the 2018 Stock Plan for Non-Employee Directors (the “Director Equity Plan”). The Stock Incentive Plan provides for the grant of stock options, stock appreciation rights, performance awards, restricted stock units, restricted stock, other stock-based awards, and cash-based awards to employees of Garrett or its affiliates, and independent contractors or consultants of Garrett. The maximum aggregate number of shares of our common stock that may be issued under the Stock Incentive Plan is 10,000,000 shares and, for the Director Equity Plan, 400,000 shares. Up to 5,000,000 shares may be granted as incentive stock options under the Stock Incentive Plan.

As of December 31, 2019, there were 5,508,176 and 344,860 shares of our common stock available for future issuance under the Stock Incentive Plan and Director Equity Plan, respectively.

Restricted Stock Units —Restricted stock unit (“RSU”) awards are issued to certain key employees and directors at fair market value at the date of grant. RSUs typically vest over a period of three or four years, and when vested, each unit entitles the holder to one share of our common stock.

The following table summarizes information about RSU activity related to our Stock Incentive Plan and Director Equity Plan for the year ended December 31, 2019:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share
Non-vested at October 1, 2018	2,848,541	$ 8.70
Granted	530,840	17.76
Vested	(4,452)	6.67
Forfeited	(5,307)	14.16
Non-vested at December 31, 2018	3,369,622	$ 10.12
Granted	629,037	15.36
Vested	(967,518)	5.26
Forfeited	(236,501)	14.47
Non-vested at December 31, 2019	2,794,640	$ 12.62

As of December 31, 2019, there was approximately $17 million of total unrecognized compensation cost related to unvested RSUs granted under our Stock Incentive Plan, which is expected to be recognized over a weighted-average period of 2.2 years.

The following table summarizes information about the income statement impact from RSUs for the year ended December 31, 2019:

Compensation expense	$ 15

Stock Options — The exercise price, term and other conditions applicable to each option granted under our stock incentive plans are generally determined by the Compensation Committee of the Board. The exercise price of stock options is set on the grant date and may not be less than the fair market value per share of our stock on that date. The fair value is recognized as an expense over the employee's requisite service period (generally the vesting period of the award). Options generally vest over a period four years and expire after ten years.

The following table summarizes information about the income statement impact from stock options for the year ended December 31, 2019. There were no stock options granted prior to 2019.

Compensation expense	$ 1

The fair value related to stock options granted was determined using Black-Scholes option pricing model and the weighted average assumptions are shown in the table below:

Key Black-Scholes Assumptions	Year Ended December 31, 2019
Risk-free interest rate	2.6%
Expected term (years)	6.25
Volatility	42.08%
Dividend yield	0.0%
Fair value per stock option	7.28

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. Volatility is determined based on the historical volatility of peer companies over a period corresponding to the expected term. Expected term is determined using a simplified approach, calculated as the midpoint between the vesting period and the contractual term of the award. The risk-free interest rate is determined based upon the yield of an outstanding U.S. Treasury note with a term equal to the expected term of the option granted.

The following table summarizes information about stock option activity related to the Stock Incentive Plan for the year ended December 31, 2019:

	Number of Stock Options	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2018	—	$ —	—	—
Granted	483,408	16.17		
Exercised	—	—		
Forfeited	(34,375)	16.17		
Expired	—	—		
Outstanding as of December 31, 2019	449,033	16.17	9.26	—
Exercisable as of December 31, 2019	—	$ —	—	—

The weighted average grant date fair value of options granted in 2019 was $16.17. No options were exercised during the year ended December 31, 2019. As of December 31, 2019, there was no intrinsic value for the outstanding and exercisable shares under options.

As of December 31, 2019, there was $2 million of unrecognized stock-based compensation expense related to stock options that is expected to be recognized over a weighted average period of approximately 3.2 years.

Performance Stock Units — The Company has issued PSUs to certain of its officers which, upon vesting, entitles the holder to shares of our common stock. The actual number of shares an employee receives for each PSU depends on the Company's performance against various measures related to organic revenue growth, adjusted EBITDA and leveraged cash flows over a three-year period. Each grantee is granted a target level of PSUs and may earn between 0% and 200% of the target level depending on the Company's performance against the financial goals.

The following table summarizes information about PSU activity related to the Stock Incentive Plan for the year ended December 31, 2019:

	Number of Performance Stock Units	Weighted Average Grant Date Fair Value Per Share
Non-vested at December 31, 2018	—	$ —
Granted	379,090	16.17
Vested	—	—
Forfeited	(47,769)	16.17
Non-vested at December 31, 2019	331,321	$ 16.17

The fair value of the PSUs is based on the fair market value of the Company's stock at the grant date. The number of underlying shares to be issued will be based on actual performance achievement over the performance period. The per unit weighted average fair value at the date of grant for PSUs granted during the year ended December 31, 2019 was $16.17. The fair value of each PSU grant is amortized monthly into compensation expense on a graded vesting (accelerated) basis over a vesting period of 36 months. The accrual of compensation costs is based on our estimate of the final expected value of the award and is adjusted as required for the performance-based condition. The Company estimates forfeitures at time of issuance, which results in a reduction in compensation expense. As the payout of PSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the PSUs. The Company currently does not pay dividends.

As of December 31, 2019, there was approximately $4 million of total unrecognized compensation cost related to non-vested PSUs granted under the Stock Incentive Plan which is expected to be recognized over a weighted-average period of 2 years.

The following table summarizes information about the income statement impact from PSUs for the year ended December 31, 2019. There were no PSUs granted prior to 2019.

Compensation expense	$	2

Stock Based Awards Granted by Honeywell—For periods prior to the Spin-Off, Honeywell maintained stock-based compensation plans for the benefit of its officers, directors and employees. Under the Former Parent´s stock-based compensation plans, Honeywell awarded RSUs, stock options and PSUs to certain employees. Stock-based compensation expense related to awards granted by Honeywell recognized in the Consolidated and Combined Statements of Operations amounted to $16 million and $15 million for the years ended December 31, 2018 and 2017, respectively, of which approximately $10 million and $8 million are specifically identified for employees within the Business, respectively and $6 million and $7 million is related to shared employees not specifically identifiable to the Business, respectively. These amounts represent stock-based compensation expenses attributable to the Business based on the awards and terms previously granted under the incentive compensation plans to employees within the Business and an allocation of Former Parent's corporate and shared functional employee stock based compensation expenses. Accordingly, the amounts presented are not necessarily indicative of current and future awards and do not necessarily reflect the results that the Business would have experienced as an independent company for the periods presented.

The activity related to stock based awards granted by Honeywell to employees of the Business for the year ended December 31, 2017 consisted of the following:

	RSUs		Options	
	Number of RSUs	Wtd Avg Grant Date Fair Value	Number of Options	Wtd Avg Exercise Price
Outstanding as of December 31, 2016	163,110	$ 96	475,476	$ 87
Granted(a)	45,503	131	162,600	125
Vested/exercised	(41,137)	83	(121,231)	79
Outstanding as of December 31, 2017	167,476 (b) (c)	$ 108	516,845 (d)	$ 101

(a) Primarily represents awards granted by Honeywell in February and July 2017.

(b) Aggregate unrecognized compensation expense related to RSUs was $9.4 million as of December 31, 2017, which is expected to be recognized over a weighted average period of 3.6 years.

(c) Substantially all RSUs outstanding as of December 31, 2017 are expected to vest over time.

(d) Aggregate unrecognized compensation expense related to stock options was $4.2 million as of December 31, 2017, which is expected to be recognized over a weighted average period of 2.5 years.

Note 22. Earnings Per Share

On October 1, 2018, the date of consummation of the Spin-Off, 74,070,852 shares of the Company's common stock were distributed to Honeywell stockholders of record as of September 18, 2018 who held their shares through the Distribution Date. Basic and Diluted EPS for all historical periods prior to the Spin-Off reflect the number of distributed shares, or 74,070,852 shares. For 2018, these shares are treated as issued and outstanding from January 1, 2018 to the Spin-Off for purposes of calculating basic earnings per share.

The details of the earnings per share calculations for the years ended December 31, 2019, 2018 and 2017 are as follows:

	Years Ended December 31,		
	2019	2018	2017
Basic			
Net Income	$ 313	$ 1,206	$ (983)
Weighted average common shares outstanding	74,602,868	74,059,240	74,070,852
EPS – Basic	$ 4.20	$ 16.28	$ (13.27)

	Years Ended December 31,		
	2019	2018	2017
Diluted			
Net Income	$ 313	$ 1,206	$ (983)
Weighted average common shares outstanding – Basic	74,602,868	74,059,240	74,070,852
Dilutive effect of unvested RSUs	1,331,505	342,908	—
Weighted average common shares outstanding – Diluted	75,934,373	74,402,148	74,070,852
EPS – Diluted	$ 4.12	$ 16.21	$ (13.27)

Diluted EPS is computed based upon the weighted average number of common shares outstanding for the year plus the dilutive effect of common stock equivalents using the treasury stock method and the average market price of our common stock for the year.

The diluted earnings per share calculations exclude the effect of stock options when the options' assumed proceeds exceed the average market price of the common shares during the period. For the year-ended December 31, 2019, there were 483,408 options of which 34,375 were forfeited. The remaining weighted number of stock options excluded from the computations was 371,529. These stock options were outstanding at December 31, 2019.

Note 23. Commitments and Contingencies

Obligations payable to Honeywell

Honeywell is a defendant in asbestos-related personal injury actions mainly related to its legacy Bendix friction materials ("Bendix") business. The Bendix business manufactured automotive brake linings that contained chrysotile asbestos in an encapsulated form. Claimants consist largely of individuals who allege exposure to asbestos from brakes from either performing or being in the vicinity of individuals who performed brake replacements. Certain operations that were part of the Bendix business were transferred to Garrett.

In connection with the Spin-Off, we entered into an Indemnification and Reimbursement Agreement with Honeywell on September 12, 2018. As of the Spin-Off date of October 1, 2018, we are obligated to make payments to Honeywell in amounts equal to 90% of Honeywell's asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell's net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. Pursuant to the terms of this Indemnification and Reimbursement Agreement, we are responsible for paying to Honeywell such amounts, up to a cap equal to the Euro-to-U.S. dollar exchange rate determined by Honeywell as of a date within two business days prior to the date of the Distribution (1.16977 USD = 1 EUR) equivalent of $175 million in respect of such liabilities arising in any given calendar year. The payments that we are required to make to Honeywell pursuant to the terms of this agreement will not be deductible for U.S. federal income tax purposes. The Indemnification and Reimbursement Agreement provides that the agreement will terminate upon the earlier of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which certain amounts owed to Honeywell during each such year were less than $25 million as converted into Euros in accordance with the terms of the agreement. During 2019 and in the fourth quarter of 2018, we paid Honeywell the Euro-equivalent of $153 million and $41 million, respectively, in connection with the Indemnification and Reimbursement Agreement. Garrett has made all payments under the Indemnification and Reimbursement Agreement under protest, as described below.

On December 2, 2019, the Company and its subsidiary, Garrett ASASCO Inc., filed a Summons with Notice in the Commercial Division of the Supreme Court of the State of New York, County of New York (the "NY Supreme Court") commencing an action (the "Action") against Honeywell, certain of Honeywell's subsidiaries and certain of Honeywell's employees for declaratory judgment, breach of contract, breach of fiduciary duties, aiding and abetting breach of fiduciary duties, corporate waste, breach of the implied covenant of good faith and fair dealing, and unjust enrichment. On January 15, 2020, the Company and Garrett ASASCO Inc., filed a Complaint in the NY Supreme Court in connection with the Action. The lawsuit arises from the Indemnification and Reimbursement Agreement. The Company is seeking declaratory relief; compensatory damages in an amount to be determined at trial; rescission of the Indemnification and Reimbursement Agreement; attorneys' fees and costs and such other and further relief as the Court

may deem just and proper. There can be no assurance as to the time and resources that will be required to pursue these claims or the ultimate outcome of the lawsuit. Among other claims, Garrett asserts that Honeywell is not entitled to indemnification because it improperly seeks indemnification for amounts attributable to punitive damages and intentional misconduct, and because it has failed to establish other prerequisites for indemnification under New York law. Specifically, the claim asserts that Honeywell has failed to establish its right to indemnity for each and every asbestos settlement of the thousands for which it seeks indemnification. The Action seeks to establish that the Indemnification and Reimbursement Agreement is not enforceable, in whole or in part.

On September 12, 2018, we also entered into a Tax Matters Agreement with Honeywell (the "Tax Matters Agreement"), which governs the respective rights, responsibilities and obligations of Honeywell and us after the Spin-Off with respect to all tax matters (including tax liabilities, tax attributes, tax returns and tax contests). The Tax Matters Agreement generally provides that, following the Spin-Off date of October 1, 2018, we are responsible and will indemnify Honeywell for all taxes, including income taxes, sales taxes, VAT and payroll taxes, relating to Garrett for all periods, including periods prior to the completion date of the Spin-Off. Among other items, as a result of the mandatory transition tax imposed by the Tax Cuts and Jobs Act, one of our subsidiaries is required to make payments to a subsidiary of Honeywell in the amount representing the net tax liability of Honeywell under the mandatory transition tax attributable to us, as determined by Honeywell. We estimate that our total aggregate payments to Honeywell with respect to the mandatory transition tax will be $240 million with $193 million in payments remaining as of December 31, 2019. Under the terms of the Tax Matters Agreement, we are required to pay this amount in Euros, without interest, in five annual installments, each equal to 8% of the aggregate amount, followed by three additional annual installments equal to 15%, 20% and 25% of the aggregate amount, respectively. In connection with this agreement, we paid Honeywell the Euro-equivalent of $18 million and $19 million during 2019 and the fourth quarter of 2018, respectively.

In addition, the Tax Matters Agreement addresses the allocation of liability for taxes incurred as a result of restructuring activities undertaken to effectuate the Spin-Off. The Tax Matters Agreement also provides that we are required to indemnify Honeywell for certain taxes (and reasonable expenses) resulting from the failure of the Spin-Off and related internal transactions to qualify for their intended tax treatment under U.S. federal, state and local income tax law, as well as foreign tax law. Further, the Tax Matters Agreement also imposes certain restrictions on us and our subsidiaries (including restrictions on share issuances, redemptions or repurchases, business combinations, sales of assets and similar transactions) that are designed to address compliance with Section 355 of the Internal Revenue Code of 1986, as amended, and are intended to preserve the tax-free nature of the Spin-Off.

The following table summarizes our Obligation payable to Honeywell related to these agreements following the Spin-Off:

	2019		
	Asbestos and environmental	**Tax Matters**	**Total**
Beginning of year	$ 1,244	$ 282	$ 1,526
Accrual for update to estimated liability	(18)	3	(15)
Legal fees expensed	44	—	44
Payments to Honeywell	(153)	(18)	(171)
Currency translation adjustment	(27)	(6)	(33)
End of year	$ 1,090	$ 261	$ 1,351
Current	51	18	69
Non-current	1,039	243	1,282
Total	$ 1,090	$ 261	$ 1,351

	2018		
	Asbestos and environmental	Tax Matters	Total
Beginning of year	$ —	$ —	$ —
Spin-Off related adjustments	1,328	308	1,636
Accrual for update to estimated liability	(30)	—	(30)
Legal fees expensed	14	—	14
Payments to Honeywell	(41)	(19)	(60)
Currency translation adjustment	(27)	(7)	(34)
End of year	$ 1,244	$ 282	$ 1,526
Current	108	19	127
Non-current	1,136	263	1,399
Total	$ 1,244	$ 282	$ 1,526

Asbestos Matters

For the periods prior to the Spin-Off, these Consolidated and Combined Financial Statements reflect an estimated liability for resolution of pending and future asbestos-related and environmental liabilities primarily related to the Bendix legacy Honeywell business, calculated as if we were responsible for 100% of the Bendix asbestos-liability payments. However, this recognition model differs from the recognition model applied subsequent to the Spin-Off as outlined above. In periods subsequent to the Spin-Off, the accounting for the majority of our asbestos-related liability payments and accounts payable reflect the terms of the Indemnification and Reimbursement Agreement with Honeywell entered into on September 12, 2018, under which we are required to make payments to Honeywell in amounts equal to 90% of Honeywell's asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell's net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. The Indemnification and Reimbursement Agreement provides that the agreement will terminate upon the earlier of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which certain amounts owed to Honeywell during each such year were less than $25 million as converted into Euros in accordance with the terms of the agreement.

The following table summarizes information concerning both Bendix and other asbestos-related balances. Other represents asbestos liabilities related to claimants outside the United States.

Asbestos-Related Liabilities

	Year ended December 31, 2019			Year ended December 31, 2018			Year ended December 31, 2017		
	Bendix	Other	Total	Bendix	Other	Total	Bendix	Other	Total
Beginning of year	$ —	$ 1	$ 1	$ 1,703	$ 9	$ 1,712	$ 1,789	$ 6	$ 1,795
Accrual for update to estimated liabilities	—	—	—	141	—	141	199	4	203
Change in estimated cost of future claims	—	—	—	—	—	—	(65)	—	(65)
Update of expected resolution values for pending claims	—	—	—	—	—	—	3	—	3
Asbestos-related liability payments	—	—	—	(151)	(4)	(155)	(223)	(1)	(224)
Spin-Off related adjustments	—	—	—	(1,693)	(4)	(1,697)	—	—	—
Balance Sheet Reclassification	—	(1)	(1)	—	—	—	—	—	—
End of year	$ —	$ —	$ —	$ —	$ 1	$ 1	$ 1,703	$ 9	$ 1,712

Insurance Recoveries for Asbestos-Related Liabilities

	2019	2018	2017
	Bendix	Bendix	Bendix
Beginning of year	$ —	$ 191	$ 201
Probable insurance recoveries related to estimated liability	—	10	10
Insurance receipts for asbestos-related liabilities	—	(24)	(20)
Insurance receivables settlements and write-offs	—	1	—
Other	—	—	—
Spin-Off related adjustments	—	(178)	—
	$ —	$ —	$ 191

Asbestos balances are included in the following balance sheet accounts:

	December 31,	
	2019	2018
Accrued liabilities	$ —	$ —
Asbestos-related liabilities	—	1
	$ —	$ 1

The following tables present information regarding Bendix-related asbestos claims activity:

Claims Activity	Years Ended December 31, 2019	2018
Claims Unresolved at the beginning of year	6,209	6,280
Claims Filed	2,659	2,430
Claims Resolved	(2,388)	(2,501)
Claims Unresolved at the end of the year	6,480	6,209

Disease Distribution of Unresolved Claims	December 31, 2019	2018
Mesothelioma and Other Cancer Claims	3,399	2,949
Nonmalignant Claims	3,081	3,260
Total Claims	6,480	6,209

Honeywell has experienced average resolutions per Bendix-related asbestos claim, excluding legal costs, as follows:

	Years Ended December 31,				
	2019	2018	2017	2016	2015
				(in whole dollars)	
Malignant claims	$ 50,200	$ 55,300	$ 56,000	$ 44,000	$ 44,000
Nonmalignant claims	$ 3,900	$ 4,700	$ 2,800	$ 4,485	$ 100

It is not possible to predict whether resolution values for Bendix-related asbestos claims will increase, decrease or stabilize in the future.

Other Matters

We are subject to other lawsuits, investigations and disputes arising out of the conduct of our business, including matters relating to commercial transactions, government contracts, product liability, prior acquisitions and divestitures, employee benefit plans, intellectual property and environmental, health and safety matters. We recognize a liability for any contingency that is probable of occurrence and reasonably estimable. We continually assess the likelihood of adverse judgments of outcomes in these matters, as well as potential ranges of possible losses (taking into consideration any insurance recoveries), based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts. To date, no such matters are material to the Consolidated and Combined Statements of Operations.

Warranties and Guarantees

In the normal course of business, we issue product warranties and product performance guarantees. We accrue for the estimated cost of product warranties and performance guarantees based on contract terms and historical experience at the time of sale to the customer. Adjustments to initial obligations for warranties and guarantees are made as changes to the obligations become reasonably estimable. Product warranties and product performance guarantees are included in Accrued liabilities. The following table summarizes information concerning our recorded obligations for product warranties and product performance guarantees.

	Years Ended December 31,		
	2019	2018	2017
Beginning of year	$ 32	$ 28	$ 22
Accruals for warranties/guarantees issued during the year	31	33	14
Settlement of warranty/guarantee claims	(34)	(29)	(8)
	$ 29	$ 32	$ 28

Note 24. Defined Benefit Pension Plans

We sponsor several funded U.S. and non-U.S. defined benefit pension plans. Pension benefits for many of our U.S. employees are provided through a non-contributory, qualified defined benefit plan. All non-union hourly and salaried employees that joined the Business or Garrett for the first time after December 31, 2012, are not eligible to participate in our U.S. defined benefit pension plans. We also sponsor defined benefit pension plans which cover non-U.S. employees who are not U.S. citizens, in Switzerland and Ireland. Other pension plans outside of the U.S. are not material to the Company either individually or in the aggregate.

For periods prior to the Spin-Off, we only accounted for our pension plan in Ireland as a defined benefit pension plan. Our other pension plans were accounted for as multiemployer plans.

On October 1, 2018, in connection with the Spin-Off, we performed an interim remeasurement of our defined benefit pension plan in Ireland to update the discount rate as of the date immediately prior to the Spin-Off as mandated by the Employee Matters Agreement.

The following tables summarize the balance sheet impact, including the benefit obligations, assets and funded status associated with our significant pension plans.

	Pension Benefits			
	U.S. Plans	U.S. Plans	Non-U.S. Plans	Non-U.S. Plans
	2019	2018	2019	2018(1)
Change in benefit obligation:				
Benefit obligation at beginning of the year	$ 178	$ —	$ 172	$ 107
Transfer of plan obligations from Former Parent	—	181	—	65
Spin-Off remeasurement adjustment	—	—	—	2
Service cost	1	—	6	4
Interest cost	7	2	2	2
Plan amendments	—	—	1	1
Actuarial (gains) losses	29	(3)	37	(5)
Benefits paid	(9)	(2)	(6)	(3)
Foreign currency translation	—	—	—	(5)
Transfers	—	—	10	4
Other	—	—	4	—
Benefit obligation at end of the year	206	178	226	172
Change in plan assets:				
Fair value of plan assets at beginning of the year	177	—	123	64
Transfer of plan assets from Former Parent	—	181	—	54
Spin-Off remeasurement adjustment	—	—	—	(10)
Actual return on plan assets	36	(2)	14	2
Employer contributions	—	—	6	16
Benefits paid	(9)	(2)	(6)	(3)
Foreign currency translation	—	—	—	(4)
Transfers	—	—	10	4
Other	—	—	3	—
Fair value of plan assets at end of year	204	177	150	123
Funded status of plans	$ (2)	$ (1)	$ (76)	$ (49)
Amounts recognized in Consolidated Balance Sheet consist of:				
Accrued pension liabilities - noncurrent(2)	(2)	(1)	(76)	(49)
Net amount recognized	$ (2)	$ (1)	$ (76)	$ (49)

(1) For the periods prior to the Spin-Off, only the pension plan in Ireland is reflected as a non-U.S. defined benefit pension plan as all other pension plans were accounted for as multiemployer plans. Following the Spin-Off, the defined benefit pension plan in Switzerland is also reflected.

(2) Included in Other liabilities in the Consolidated and Combined Balance Sheet

Amounts recognized in Accumulated other comprehensive (income) loss associated with our significant pension and other postretirement benefit plans at December 31, 2019 are as follows:

	Pension Benefits			
	U.S. Plans	U.S. Plans	Non-U.S. Plans	Non-U.S. Plans
	2019	2018	2019	2018(1)
Prior service (credit)	$ (2)	$ (2)	$ 1	$ —
Net actuarial loss	6	4	21	7
Net amount recognized	$ 4	$ 2	$ 22	$ 7

(1) For the periods prior to the Spin-Off, only the pension plan in Ireland is reflected as a non-U.S. defined benefit pension plan as all other pension plans were accounted for as multiemployer plans. Following the Spin-Off, the defined benefit pension plan in Switzerland is also reflected.

The components of net periodic benefit (income) cost and other amounts recognized in Other comprehensive (income) loss for our significant pension and other postretirement benefit plans include the following components:

	Pension Benefits				
	U.S. Plans		Non-U.S. Plans		
Net Periodic Benefit Cost	2019	2018	2019	2018(1)	2017(1)
Service cost	$ 1	$ —	$ 6	$ 4	$ 2
Interest cost	7	2	2	2	2
Expected return on plan assets	(10)	(3)	(4)	(3)	(2)
Recognition of actuarial losses	—	—	13	3	—
Net periodic benefit (income) cost	$ (2)	$ (1)	$ 17	$ 6	$ 2

(1) For the periods prior to the Spin-Off, only the pension plan in Ireland is reflected as a non-U.S. defined benefit pension plan as all other pension plans were accounted for as multiemployer plans. Following the Spin-Off, the defined benefit pension plan in Switzerland is also reflected.

Other Changes in Plan Assets and Benefits Obligations Recognized in	U.S. Plans		Non-U.S. Plans		
Other Comprehensive (Income) Loss	2019	2018	2019	2018(1)	2017(1)
Actuarial (gains) losses	$ 2	$ 2	$ 27	$ (4)	$ —
Prior service (credit)	—	—	1	1	—
Actuarial losses recognized during year	—	—	(13)	(3)	—
Foreign currency translation	—	—	1	—	—
Total recognized in other comprehensive (income) loss	$ 2	$ 2	$ 16	$ (6)	$ —
Total recognized in net periodic benefit (income) cost and other comprehensive (income) loss	$ —	$ 1	$ 33	$ —	$ 2

(1) For the periods prior to the Spin-Off, only the pension plan in Ireland is reflected as a non-U.S. defined benefit pension plan as all other pension plans were accounted for as multiemployer plans. Following the Spin-Off, the defined benefit pension plan in Switzerland is also reflected.

The estimated prior service (credit) for pension benefits that will be amortized from Accumulated other comprehensive (income) loss into net periodic benefit (income) cost in 2020 are expected to be less than $1 million for both the U.S. and non-U.S. pension plans.

Major actuarial assumptions used in determining the benefit obligations and net periodic benefit (income) cost for our significant benefit plans are presented in the following table as weighted averages.

	Pension Benefits				
	U.S. Plans		Non-U.S. Plans		
	2019	2018	2019	2018(1)	2017(1)
Actuarial assumptions used to determine benefit obligations as of December 31:					
Discount rate	3.30%	4.33%	0.79%	1.50%	1.80%
Expected annual rate of compensation increase	3.74%	3.74%	1.77%	1.77%	2.00%
Actuarial assumptions used to determine net periodic benefit (income) cost for years ended December 31:					
Discount rate—benefit obligation	4.44%	4.33%	1.65%	1.50%	1.80%
Discount rate—service cost	4.47%	4.11%	1.20%	1.50%	1.80%
Discount rate—interest cost	4.06%	4.02%	1.74%	1.50%	1.80%
Expected rate of return on plan assets	5.80%	6.00%	3.34%	3.77%	4.00%
Expected annual rate of compensation increase	3.74%	3.74%	1.77%	1.77%	2.00%

(1) For the periods prior to the Spin-Off, only the pension plan in Ireland is reflected as a non-U.S. defined benefit pension plan as all other pension plans were accounted for as multiemployer plans. Following the Spin-Off, the defined benefit pension plan in Switzerland is also reflected.

The discount rate for our significant pension plans reflects the current rate at which the associated liabilities could be settled at the measurement date of December 31. To determine the discount rates, we use a modeling process that involves matching the expected cash outflows of our benefit plans to a yield curve constructed from a portfolio of high quality, fixed-income debt instruments. We use the single weighted-average yield of this hypothetical portfolio as a discount rate benchmark.

For both our U.S. and non-U.S. defined benefit pension plans, we estimate the service and interest cost components of net period benefit (income) cost by utilizing a full yield curve approach in the estimation of these cost components by applying the specific spot rates along the yield curve used in the determination of the pension benefit obligation to their underlying projected cash flows. This approach provides a more precise measurement of service and interest costs by improving the correlation between projected cash flows and their corresponding spot rates.

For non-U.S. benefit plans, actuarial assumptions reflect economic and market factors relevant to each country.

The following amounts relate to our significant pension plans with accumulated benefit obligations exceeding the fair value of plan assets.

	December 31,			
	U.S. Plans		Non-U.S. Plans	
	2019	2018	2019	2018(1)
Projected benefit obligation	$ —	$ 178	$ 226	$ 172
Accumulated benefit obligation	—	177	212	164
Fair value of plan assets	—	177	150	123

(1) For the periods prior to the Spin-Off, only the pension plan in Ireland is reflected as a non-U.S. defined benefit pension plan as all other pension plans were accounted for as multiemployer plans. Following the Spin-Off, the defined benefit pension plan in Switzerland is also reflected.

Our asset investment strategy for our U.S. pension plan focuses on maintaining a diversified portfolio using various asset classes in order to achieve market exposure and diversification on an interim basis as we develop our long-term investment objectives on a risk adjusted basis. Once finalized, we will implement our long-term strategy. Our interim target allocations are as follows: 35% equity securities, 50% fixed income securities and cash, 10% real estate investments, and 5% high yield bonds. Equity securities include mutual funds that invest in companies located both inside and outside the United States. Fixed income securities include exposure to medium and high quality investment grade corporate bonds, pooled consumer loans and U.S. government bonds with an average maturity of 5 – 25 years. The real estate fund invests in real estate investment trusts – companies that purchase office buildings, hotels and other real estate property. The high yield bond fund invests in a diversified portfolio of intermediate term below investment-grade debt securities. Our assets are reviewed on a daily basis to ensure that we are within the targeted asset allocation ranges and, if necessary, asset balances are adjusted back within target allocations.

Our non-U.S. pension assets are typically managed by decentralized fiduciary committees. Our non-U.S. investment policies are different for each country as local regulations, funding requirements, and financial and tax considerations are part of the funding and investment allocation process in each country.

The fair values of both our U.S. and non-U.S. pension plans assets by asset category are as follows:

	U.S. Plans December 31, 2019			
	Total	Level 1	Level 2	Level 3
Equity funds	$ 74	$ —	$ 74	$ —
Short-term investments	2	—	2	—
Corporate bond funds	106	—	106	—
Real estate funds	22	—	22	—
Total assets at fair value	$ 204	$ —	$ 204	$ —

	U.S. Plans December 31, 2018			
	Total	Level 1	Level 2	Level 3
Equity funds	$ 60	$ —	$ 60	$ —
Short-term investments	8	—	8	—
Corporate bond funds	92	—	92	—
Real estate funds	17	—	17	—
Total assets at fair value	$ 177	$ —	$ 177	$ —

	Non-U.S. Plans December 31, 2019			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 2	$ 2	$ —	$ —
Equity funds	68	—	68	—
Government bond funds	30	—	30	—
Corporate bond funds	21	—	21	—
Real estate funds	18	—	18	—
Other	11	—	11	—
Total assets at fair value	$ 150	$ 2	$ 148	$ —

	Non-U.S. Plans			
	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Equity funds	$ 48	$ —	$ 48	$ —
Short-term investments	12	—	12	—
Government bond funds	28	—	28	—
Corporate bond funds	16	—	16	—
Real estate funds	11	—	11	—
Other	8	—	8	—
Total assets at fair value	$ 123	$ —	$ 123	$ —

Equity funds, corporate bond funds, government bond funds, real estate funds and short-term investments are valued either by bids provided by brokers or dealers or quoted prices of securities with similar characteristics. Other includes diversified mutual funds. These investments are valued at estimated fair value based on quarterly financial information received from the investment advisor and/or general partner.

Our general funding policy for qualified defined benefit pension plans is to contribute amounts at least sufficient to satisfy regulatory funding standards. We are not required to make any contributions to our U.S. pension plan in 2020. In 2019, contributions of $6 million were made to our non-U.S. pension plans to satisfy regulatory funding requirements. In 2020, we expect to make contributions of cash and/or marketable securities of approximately $7 million to our non-U.S. pension plans to satisfy regulatory funding standards. Contributions for both our U.S. and non-U.S. pension plans do not reflect benefits paid directly from Company assets.

Benefit payments, including amounts to be paid from Company assets, and reflecting expected future service, as appropriate, are expected to be paid as follows:

	U.S. Plans	Non-U.S. Plans
2020	$ 10	$ 3
2021	10	3
2022	10	3
2023	11	4
2024	11	4
2025-2029	57	21

Note 25. China Variable Interest Entity

On September 20, 2018 in preparation of the Spin-Off, the Company entered into an agreement by and between Honeywell International Inc. and Garrett Motion Inc. (the “China Purchase Agreement”) in which Honeywell agreed to sell to Garrett 100% of the equity interests of Honeywell Transportation Investment (China) Co., Ltd. (“Garrett China”) consisting of our primary operations in China, in exchange for upfront consideration of 8,444,077 shares of our common stock. No further consideration from Garrett is due. The China Purchase Agreement has been amended to extend the date of the transfer of the equity interests in Garrett China from September 20, 2019 to June 30, 2020.

Garrett China is considered a variable interest entity for which Garrett is the primary beneficiary because the China Purchase Agreement provides Garrett, prior to the transfer of the equity interests, control to direct the management and operation of Garrett China as well as all economic benefits and losses. The intent of the agreement is to place Garrett in the same position as if it already owned 100% of the equity interests of Garrett China. As the agreement was effective prior to the Spin-Off date while the Company and Garrett China were under common control of Honeywell, the assets and liabilities of Garrett China are recognized at their carrying amounts. Additionally, the assets and liabilities and related operations of Garrett China were included in our Consolidated and Combined Balance Sheets and Consolidated and Consolidated and Combined Statements of Operations as of and for the years ended December 31, 2017 and 2016 which were prepared on a carve-out basis.

The following table summarizes the consolidated assets and liabilities of Garrett China:

	December 31, 2019	December 31, 2018
	(Dollars in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 141	$ 70
Accounts, notes and other receivables, net	254	224
Inventories, net	27	19
Other current assets	1	—
Total current assets	423	313
Property, plant and equipment, net	82	67
Deferred income taxes	26	28
Other assets	1	1
Total assets	$ 532	$ 409
LIABILITIES		
Current liabilities:		
Accounts payable	$ 326	$ 261
Accrued liabilities	80	84
Total current liabilities	406	345
Other liabilities	10	13
Total liabilities	$ 416	$ 358

Net sales from Garrett China were $530 million, $470 million and $393 million for the years ended December 31, 2019, 2018 and 2017 respectively. Related expenses primarily consisted of Costs of Goods Sold of $370 million, $340 million and $310 million, Selling, general and administrative expenses of $14 million, $19 million and $20 million and Tax expense of $25 million, $25 million and $28 million for the years ended December 31, 2019, 2018 and 2017 respectively.

Note 26. Concentrations

Sales concentration—Net sales by region (determined based on country of shipment) and channel are as follows:

	Year ended December 31, 2019			
	OEM	Aftermarket	Other	Total
United States	$ 307	$ 171	$ 7	$ 485
Europe	1,631	136	39	1,806
Asia	843	51	29	923
Other International	15	19	—	34
	$ 2,796	$ 377	$ 75	$ 3,248

	Year ended December 31, 2018			
	OEM	Aftermarket	Other	Total
United States	$ 338	$ 175	$ 5	$ 518
Europe	1,686	151	54	1,891
Asia	847	50	26	923
Other International	22	21	—	43
	$ 2,893	$ 397	$ 85	$ 3,375

	Year ended December 31, 2017			
	OEM	Aftermarket	Other	Total
United States	$ 277	$ 178	$ 6	$ 461
Europe	1,568	140	54	1,762
Asia	750	49	33	832
Other International	19	22	—	41
	$ 2,614	$ 389	$ 93	$ 3,096

Customer concentration—Net sales to Garrett's largest customers and the corresponding percentage of total net sales are as follows:

	Net sales Years ended December 31,					
	2019	%	2018	%	2017	%
Customer A	$ 374	12	$ 455	13	$ 423	14
Others	2,874	88	2,920	87	2,673	86
	$ 3,248	100	$ 3,375	100	$ 3,096	100

Long-lived assets concentration—Long-lived assets by region are as follows:.

	Long-lived Assets(1) December 31,		
	2019	2018	2017
United States	$ 24	$ 26	$ 23
Europe	285	273	273
Asia	141	123	124
Other International	21	16	22
	$ 471	$ 438	$ 442

(1) Long-lived assets are comprised of property, plant and equipment–net.

Supplier concentration—The Company's largest supplier accounted for 12%, 14% and 16% of direct materials purchases for the years ended December 31, 2019, 2018 and 2017 respectively.

Note 27. Unaudited Quarterly Financial Information

The following tables show selected unaudited quarterly results of operations for 2019 and 2018. The quarterly data have been prepared on the same basis as the audited annual financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair statement of our results of operations for these periods.

	2019				
	March 31	June 30	September 30	December 31	Year Ended December 31,
Net Sales	$ 835	$ 802	$ 781	$ 830	$ 3,248
Gross Profit	196	182	172	161	711
Net Income (Loss)	73	66	38	136	313
Earnings (loss) per share - basic	0.98	0.88	0.51	1.82	4.20
Earnings (loss) per share - diluted	0.97	0.86	0.50	1.79	4.12

	2018				
	March 31	June 30	September 30(b)	December 31(c)	Year Ended December 31,
Net Sales	$ 915	$ 877	$ 784	$ 799	$ 3,375
Gross Profit	211	215	178	172	776
Net Income (Loss)	58	150	929	69	1,206
Earnings (Loss) per share - basic(a)	0.78	2.03	12.54	0.93	16.28
Earnings per share - diluted(a)	0.78	2.03	12.54	0.92	16.21

(a) On October 1, 2018, the date of consummation of the Spin-Off, 74,070,852 shares of the Company's common stock were distributed to Honeywell stockholders of record as of September 18, 2018 who held their shares through the Distribution Date. Basic and Diluted EPS for all periods prior to the Spin-Off reflect the number of distributed shares, or 74,070,852 shares.

(b) Net income for three months ended September 30, 2018 was impacted by an $870 million reduction in tax expense primarily due to tax benefits from an internal restructuring of Garrett's business in advance of the Spin-Off and tax benefits related to the currency impacts on withholding taxes on undistributed foreign earnings, partially offset by adjustments to the provisional tax amount related to U.S. tax reform and non-deductible expenses.

(c) In the fourth quarter of 2019, we identified errors in our income tax accounts for the year ended and as of December 31, 2018. The errors included an overstatement of current and deferred tax liability balances that were recorded in connection with the Spin-Off from Honeywell and an overstatement of income tax expense for the quarter ended December 31, 2018. As a result, we have revised our previously issued unaudited consolidated financial statements for the quarter ended and as of December 31, 2018. Refer to Note 8 for additional information.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The information required by this Item 9 was previously reported in the Company's Current Report on Form 8-K that was filed with the Securities and Exchange Commission on November 6, 2018.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. Based on management's evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2019.

Remediation of Material Weakness in Internal Control Over Financial Reporting

As previously disclosed, in the course of preparing our 2018 Form 10-K and our Consolidated and Combined Financial Statements for the year ended December 31, 2018, our management determined that there was a material weakness in our internal control over financial reporting relating to the lack of information, documentation and supporting evidence for our liability to Honeywell under the Indemnification and Reimbursement Agreement (the "Indemnification Liability"). Specifically, despite our requests, we did not receive sufficient information, documents and explanations from Honeywell, including with regard to information provided in Honeywell's actuary report and the amounts of settlement values and insurance receivables.

Throughout the year ended December 31, 2019, management engaged in an active dialogue with Honeywell that resulted in the Company obtaining access to additional information and documentation from Honeywell, including information regarding historical settlement trends, Honeywell's claims management and valuation processes for asserted claims and associated legal expenses, and the nature of insurance receivables and likelihood of recoverability. Additionally, as part of the additional information and documentation we received from Honeywell, we gained increased visibility into the methodology behind, and data sources and inputs included in, Honeywell's actuary report, and engaged our own expert to review and evaluate the report. During the quarter ended December 31, 2019, management completed its remediation activities and tested the design and operational effectiveness of the modified and new controls. As a result of the remediation activities and controls in place as of December 31, 2019, management concluded that we have remediated the material weakness described above.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in "Internal Control-Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that, as of December 31, 2019, our internal control over financial reporting was effective.

Deloitte SA, our independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting, which is included in Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

Other than as relates to the remediation of the material weakness described below, there have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information about Directors and Executive Officers

The following table presents information concerning our executive officers and directors.

Name	Age	Position
Olivier Rabiller	49	Director, President & Chief Executive Officer
Carlos Cardoso	62	Chairman of the Board
Maura J. Clark	61	Director
Courtney Enghauser	47	Director
Susan L. Main	61	Director
Carsten J. Reinhardt	52	Director
Scott Tozier	54	Director
Craig Balis	55	Senior Vice President & Chief Technology Officer
Peter Bracke	53	Interim Chief Financial Officer
Daniel Deiro	47	Senior Vice President, Global Customer Management & General Manager Japan/Korea
Thierry Mabru	52	Senior Vice President, Integrated Supply Chain
Jerome Maironi	54	Senior Vice President, General Counsel & Corporate Secretary
Fabrice Spenninck	51	Senior Vice President & Chief Human Resources Officer

The following are brief biographies describing the backgrounds of our executive officers and directors.

Olivier Rabiller

Mr. Rabiller has served as President & Chief Executive Officer ("CEO") as well as a member of the Board of Directors since the Company the Spin-Off. Prior to the Spin Off, Mr. Rabiller served as President and CEO of the Transportation Systems division at Honeywell from 2016 until the Spin Off. Mr. Rabiller's global career spanned approximately 16 years at Honeywell where he also served as Vice President and General Manager of Transportation Systems for High Growth Regions, Business Development, and Aftermarket (from July 2014 to July 2016) as well as Vice President and General Manager, Transportation Systems Aftermarket (from January 2012 to July 2014). Earlier positions within Honeywell included Vice President of Sourcing for Transportation Systems; Vice President of Customer Management for Passenger Vehicles at Honeywell Turbo Technologies; Vice President, European Sales and Customer Management; and Director of Marketing and Business Development for the European region. He joined Honeywell in 2002 as Senior Program Manager and Business Development Manager for Turbo Technologies EMEA. Mr. Rabiller is a director of the Swiss-American Chamber of Commerce, a non-profit organization which facilitates business relations between Switzerland and the United States. From 2012 to 2016, Mr. Rabiller was a director of Friction Material Pacifica, Australia. He holds a Master's degree in Engineering from Ecole Centrale Nantes and an MBA from INSEAD. We believe Mr. Rabiller is qualified to serve as a member of our Board of Directors because of his extensive experience at the Transportation Systems division at Honeywell, his background within the automotive industry and his strong leadership abilities.

Carlos Cardoso

Mr. Cardoso has served as the Non-Executive Chairman of our Board of Directors since the Spin-Off and the Principal of CMPC Advisors LLC since January 2015. Previously, he served as Senior Advisor of Irving Place Capital where he focused on investments in industrial manufacturing and distribution companies from July 2015 to August 2018. Mr. Cardoso was also Chairman and CEO of Kennametal, a global leader in metalworking solutions and engineered components serving a diverse set of industrial and infrastructure markets. Before serving as CEO, Mr. Cardoso served as Kennametal's Vice President and Chief Operating Officer ("COO"). Prior to Kennametal, he held executive roles at Flowserve and Honeywell (Allied Signal). Mr. Cardoso currently serves on the Boards of Stanley Black & Decker, Inc. and Hubbell Incorporated. He has been named one of America's "Best Chief Executive Officers" by Institutional Investor Magazine. Mr. Cardoso earned a Bachelor of Science degree in Business Administration from Fairfield University and a Master's degree in Management from Rensselaer Polytechnic Institute. He received an honorary degree of Doctor of Humane Letters from Saint Vincent College in Latrobe, Pennsylvania. We believe Mr. Cardoso is qualified to serve as a member and Chairman of our Board of Directors because of his background as a director for public companies and his expertise in companies with extensive manufacturing and distribution operations.

Maura J. Clark

Ms. Clark has served as a member of our Board of Directors since the Spin-Off. From 2005 to 2014, Ms. Clark served as President of Direct Energy Business, LLC, a leading North American retail energy business serving commercial and industrial companies, and Senior Vice President North American Strategy and Mergers and Acquisitions of Direct Energy. Her prior experience includes serving as Managing Director of Investment Banking Services at Goldman Sachs & Co. and as Executive Vice President of Corporate Development and Chief Financial Officer ("CFO") of Clark USA, an independent oil refining and marketing company. Ms. Clark is a member of the Boards of Nutrien Ltd, Fortis Inc., and Sanctuary for Families, a New York-based not-for-profit organization. She previously served on the Boards of Elizabeth Arden, Inc. and Primary Care Development Corp. She graduated from Queens University with a Bachelor of Arts in Economics. She is also qualified as a Charted Professional Accountant. We believe Ms. Clark is qualified to serve as a member of our Board due to her financial management expertise and experience managing the operations of a retail energy business serving industrial and commercial customers. She also has significant experience serving on other public company boards.

Courtney M. Enghauser

Ms. Enghauser has served as a member of our Board of Directors since the Spin-Off and has served as the CFO of Agility Global Holdings, a private equity owned platform acquiring and operating businesses in the automotive plastics sector, since November 2019. Prior to her current role, she advised private equity firms on acquisitions and transactions in a variety of industries. From April 2013 to June 2017, she was the CFO of Sensus, a leading provider of smart meters, network technologies, and advanced data analytics services that was acquired by Xylem Inc. in 2016. Prior to her time at Sensus, Ms. Enghauser was the CFO of Kinetek, Inc., where she was responsible for the financial management, treasury, and reporting of a global portfolio company consisting of 11 operating subsidiaries and 16 holding companies in the electric motors and controls industries located throughout the world. Ms. Enghauser also served as CFO of other businesses and held a variety of other financial positions including Director of Finance - Mergers and Acquisitions, and Corporate Controller. She started her career as an Auditor at PriceWaterhouseCoopers. Ms. Enghauser graduated with a Bachelor of Science in Accounting from Indiana University and is a Certified Public Accountant. We believe Ms. Enghauser is qualified to serve on our Board due to her significant experience in the technology sector and her expertise in global financial strategy.

Susan L. Main

Ms. Main has served as a member of our Board of Directors since the Spin-Off and has served as the Senior Vice President and CFO of Teledyne Technologies Incorporated, a leading provider of sophisticated instrumentation, digital imaging products and software, aerospace and defense electronics, and engineered systems, since November 2012. Prior to her current role, Ms. Main was Teledyne's Vice President and Controller for approximately nine years. From 1999 to 2004, Ms. Main served as Vice President and Controller for Water Pik Technologies, Inc. Ms. Main also held numerous financial roles at the former Allegheny Teledyne Inc. within its government, industrial and commercial segments. Earlier in her career, Ms. Main held financial and auditing roles at the former Hughes Aircraft Company. Ms. Main is a member of the Board of Ashland Global Holdings, Inc., where she serves as the Chairperson of the Audit Committee and as a member of the Governance and Nominating Committee. Ms. Main is a member of the National Association of Corporate Directors and Women Corporate Directors. Ms. Main graduated from California State University, Fullerton with a Bachelor of Arts in Business Administration. We believe Ms. Main is qualified to serve on our Board based on her experience in financial management.

Carsten J. Reinhardt

Mr. Reinhardt has served as a member of our Board of Directors since the Spin-Off and is currently an Independent Senior Advisor. From 2012 to October 2016, Mr. Reinhardt was President and CEO of Voith Turbo GmbH & Co. KG, a supplier of advanced powertrain technologies to the rail, commercial vehicle, marine, power generation, oil & gas and mining industries. Prior to that, Mr. Reinhardt served as COO of Meritor Inc. from 2008 to 2011 and as President of Meritor's Commercial Vehicle Division from 2006 to 2008. Before joining Meritor, Mr. Reinhardt served as President and CEO of Detroit Diesel Corp. from 2003 to 2006, following 10 years in a variety of management positions at Daimler Trucks North America. Mr. Reinhardt started his career as management trainee at Daimler AG in Stuttgart, Germany. Mr. Reinhardt is a member of the Boards of Grundfos Holding A/S Holding, SAF-Holland S.A., Tegimus Holding GmbH and Beinbauer Automotive GmbH. Mr. Reinhardt holds a Bachelor's degree in Mechanical Engineering from Esslingen Technical University in Germany and a Master of Science degree in Automobile Engineering from the University of Hertfordshire, UK. We believe Mr. Reinhardt is qualified to serve on our Board due to his extensive experience and operational expertise in the automotive industry across global markets.

Scott Tozier

Mr. Tozier has served as a member of our Board of Directors since the Spin-Off and has been the CFO and Executive Vice President of Albemarle Corporation since January 2011. Prior to joining Albemarle, he served as Vice President of Finance, Transformation and Operations of Honeywell where he was responsible for Honeywell's global financial shared services and best practices management. His 16-year career with Honeywell spanned senior financial positions in the United States, Asia Pacific and Europe. Mr. Tozier currently serves as a member of the Boards for MARBL and Volta Energy Technologies. He is also a trustee for Blumenthal Performing Arts, and on the Board of Advisors for Junior Achievement of the Carolinas. He holds a Bachelor of Business Administration in Accounting from the University of Wisconsin-Madison. Mr. Tozier holds an MBA from the University of Michigan, where he graduated with honors. He is a Certified Public Accountant. We believe Mr. Tozier is qualified to serve on our Board due to his experience as a former executive within Honeywell, a global public company, as well as his financial management skills given his background as a CFO and a Certified Public Accountant.

Craig Balis

Mr. Balis has served as our Senior Vice President and Chief Technology Officer since the Spin-Off. From June 2014 until such appointment, Mr. Balis was the Vice President and Chief Technology Officer of Honeywell Transportation Systems. From 2008 to 2014, Mr. Balis was the Vice President of Engineering of Honeywell Transportation Systems. Mr. Balis has a Bachelor of Science and Master’s degree in Engineering from the University of Illinois.

Peter Bracke

Mr. Bracke has served as Vice President and Interim CFO since September 2019. Previously, Mr. Bracke was Vice President, FP&A and Business Finance for Garrett where he was responsible for the financial planning and control of operational and commercial activities from the Spin-Off to September 2019. Prior to this, Mr. Bracke held various senior-level roles within multiple divisions at Honeywell. During his more than 20-year tenure at Honeywell, Mr. Bracke was CFO for Honeywell Homes & Buildings Technologies and CFO for Honeywell Transportation Systems, which was renamed Garrett following the Spin Off. Prior to joining Honeywell, Mr. Bracke was an auditor at KPMG. He received his undergraduate degree in Business Administration and his Master's degree in Accountancy from the University of Ghent in Belgium.

Daniel Deiro

Mr. Deiro has served as our Senior Vice President, Global Customer Management, and General Manager Japan/Korea since the Spin-Off. From August 2014 until such appointment, Mr. Deiro was the Vice President of Customer Management and General Manager for Honeywell Transportation Systems for Japan and Korea. From 2012 until 2014, Mr. Deiro was a Senior Customer Management Director at Honeywell Transportation Systems. Mr. Deiro has a degree in Automotive Engineering from Haute ecole specialisee bernoise, Technique et lnformatique (BFH-TI), Biel, Switzerland.

Thierry Mabru

Mr. Mabru has served as our Senior Vice President, Integrated Supply Chain since the Spin-Off. From March 2013 until such appointment, Mr. Mabru was the Vice President of Global Integrated Supply Chain for Honeywell Transportation Systems. From 2011 until 2013, Mr. Mabru was Senior Director of Global Advanced Manufacturing Engineering for Honeywell Transportation Systems. From 2006 to 2011, Mr. Mabru was Director of the Program Management Office of Honeywell Aerospace EMEAI. Mr. Mabru currently serves as a member of the Board of Friction Material Pacific (FMP) Group Australia PTY Limited and the Board of Friction Material Pacific (FMP) Group PTY Limited. Mr. Mabru holds a Master of Science degree from the Ecole Nationale de Mecanique et d'Aerotechniques (ISAE/ENSMA), Poitier, France.

Jerome Maironi

Mr. Maironi has served as our Senior Vice President, General Counsel and Corporate Secretary since the Spin-Off. Previously, Mr. Maironi served as the Vice President of Global Legal Affairs for Honeywell Performance Materials and Technologies for approximately five years. Mr. Maironi received a post-graduate degree in Law & Practice of International Trade and a Master of Law from the University Rene Descartes, Paris, France. Mr. Maironi is a member of the Association Francaise des Juristes d'Entreprise and has also passed the French Bar Exam. Mr. Maironi graduated with an Executive Directors Programme from INSEAD, Fontainebleau, France.

Fabrice Spenninck

Mr. Spenninck has served as our Senior Vice President and Chief Human Resources Officer since the Spin-Off. From August 2015 until such appointment, Mr. Spenninck was Vice President of Human Resources of Honeywell Transportation Systems. From 2013 to 2015, Mr. Spenninck was Vice President of Labor and Employee Relations and, from 2011 to 2013, he was Senior Director of Human Resources (One Country Leader) in France and North Africa at Honeywell. Mr. Spenninck holds a Master's degree in Human Resources and Labor Relations from the University of Montpellier, France.

Code of Business Conduct

The Board has adopted a written code of business conduct (the "Code of Conduct"), which applies to all of our directors, officers and employees, including our principal executive officer and our principal financial and accounting officer. Our Code of Conduct is available on our website www.garrettmotion.com in the "Investors" section under "Governance." In addition, we intend to post on our website all disclosures that are required by law or New York Stock Exchange listing rules concerning any amendments to, or waivers from, any provision of our Code of Conduct.

Other

The remaining information required to be disclosed by this item will be included under the headings "Election of Directors," "Corporate Governance," and, if applicable, "Delinquent Section 16(a) Reports" in our definitive proxy statement for our 2020 Annual Meeting of Stockholders, and such information is incorporated herein by reference.

Item 11. Executive Compensation

The information required to be disclosed by this item will be included under the headings "Executive Compensation" and "Compensation Committee Interlocks and Insider Participation" in our definitive proxy statement for our 2020 Annual Meeting of Stockholders, and such information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Securities Authorized For Issuance under Equity Compensation Plans (As of December 31, 2019)

Plan category:	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights	Number of Securities Available for Future Issuance Under Equity Compensation Plans (excludes securities Reflected in first column)
Equity compensation plans approved by security holders	3,574,994	16.17	5,853,036
Equity compensation plans not approved by security holders	—	—	—
Total	3,574,994	$ 16.17	5,853,036

Other

The remaining information required to be disclosed by this item will be included under the heading "Security Ownership of Certain Beneficial Owners and Management" in our definitive proxy statement for our 2020 Annual Meeting of Stockholders, and such information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required to be disclosed by this item will be included under the headings "Certain Relationships and Related Person Transactions," "Corporate Governance" and "Director Independence" in our definitive proxy statement for our 2020 Annual Meeting of Stockholders, and such information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required to be disclosed by this item will be included under the heading "Principal Accountant Fees and Services" in our definitive proxy statement for our 2020 Annual Meeting of Stockholders, and such information is incorporated herein by reference.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

1. The following financial statements are included in Item 8 "Financial Statements and Supplementary Data" herein.

Report of Independent Registered Accounting Firm	58
Consolidated and Combined Statements of Operations for the Years Ended December 31, 2019, 2018 and 2017.	62
Consolidated and Combined Statements of Comprehensive Income for the Years Ended December 31, 2019, 2018 and 2017.	63
Consolidated Balance Sheets as of December 31, 2019 and 2018.	64
Consolidated and Combined Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017.	65
Consolidated And Combined Statements Of Equity (Deficit) for the years ended December 2019, 2018 and 2017.	66
Notes to Consolidated And Combined Financial Statements	67

2. All schedules are omitted because they are not applicable, not required or the required information is shown in the consolidated financial statements or notes thereto.

3. The exhibits to this report are listed below

		Incorporated by Reference				
Exhibit Number	**Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Filed/ Furnished Herewith**
2.1	Indemnification and Reimbursement Agreement, dated September 12, 2018, by and among Honeywell ASASCO Inc., Honeywell ASASCO 2 Inc., and Honeywell International Inc.					*
2.2	Tax Matters Agreement, dated September 12, 2018, by and between Honeywell International Inc., Garrett Motion Inc., and, solely for purposes of Section 3.02(g), 5.05 and 6.13(b), Honeywell ASASCO Inc. and Honeywell ASASCO 2 Inc.	8-K	001-38636	2.2	9/14/2018	
2.3	Separation and Distribution Agreement, dated September 27, 2018, between Honeywell and Garrett	8-K	001-38636	2.1	10/1/2018	
2.4	Transition Services Agreement, dated September 27, 2018, between Honeywell and Garrett Transportation I Inc.	8-K	001-28636	2.2	10/1/2018	
2.5	Employee Matters Agreement, dated September 27, 2018, between Honeywell and Garrett	8-K	001-28636	2.3	10/1/2018	
2.6	Intellectual Property Agreement, dated September 27, 2018, between Honeywell and Garrett	8-K	001-28636	2.4	10/1/2018	
2.7	Trademark License Agreement, dated September 27, 2018, between Honeywell and Garrett	8-K	001-28636	2.5	10/1/2018	
3.1	Amended and Restated Certificate of Incorporation of Garrett Motion Inc.	S-8	333-227619	4.1	10/1/2018	
3.2	Amended and Restated By-laws of Garrett Motion Inc.	8-K	333-227619	4.2	10/1/2018	
4.1	Indenture, dated as of September 27, 2018, between Garrett LX I S.à r.l, Garrett Borrowing LLC, the Company, the guarantors named therein, Deutsche Trustee Company Limited, as Trustee, Deutsche Bank AG, London Branch, as Security Agent and Paying Agent, and Deutsche Bank Luxembourg S.A., as Registrar and Transfer Agent	8-K	001-38636	4.1	10/1/2018	
4.2	Description of Capital Stock					*

10.1	Credit Agreement, dated as of September 27, 2018, by and among the Company, Garrett LX I S.à r.l., Garrett LX II S.à r.l., Garrett LX III S.à r.l., Garrett Borrowing LLC, and Honeywell Technologies Sàrl, the Lenders and Issuing Banks party hereto and JPMorgan Chase Bank, N.A., as administrative agent.	8-K	001-38636	10.1	10/1/2018	
10.2	Intercreditor Agreement, dated as of September 27, 2018, among Garrett Motion Inc., Garrett LX I S.à r.l, Garrett LX II S.à r.l, Garrett LX III S.à r.l, Honeywell Technologies Sàrl, Garrett Borrowing LLC, other debtors and grantors party thereto, JPMorgan Chase Bank, N.A., Deutsche Trust Company Limited, Deutsche Bank AG, London Branch, other lenders party thereto from time to time, Honeywell ASASCO 2 Inc., and each additional representative from time to time party thereto	8-K	001-38636	10.2	10/1/2018	
10.3†	2018 Stock Incentive Plan of Garrett Motion Inc. and its Affiliates	S-8	333-227619	4.3	10/1/2018	
10.4†	2018 Stock Plan for Non-Employee Directors of Garrett Motion Inc.	S-8	333-227619	4.4	10/1/2018	
10.5†	2018 Stock Incentive Plan of Garrett Motion Inc. and its Affiliates Form of Stock Option Award Agreement	S-8	333-227619	4.5	10/1/2018	
10.6†	2018 Stock Incentive Plan of Garrett Motion Inc. and its Affiliates Form of Restricted Stock Unit Agreement	S-8	333-227619	4.6	10/1/2018	
10.7†	2018 Stock Incentive Plan of Garrett Motion Inc. and its Affiliates Form of Restricted Stock Unit Agreement (for replacement awards)	S-8	333-227619	4.7	10/1/2018	
10.8†	2018 Stock Incentive Plan of Garrett Motion Inc. and its Affiliates Form of Performance Stock Unit Agreement	S-8	333-227619	4.8	10/1/2018	
10.9†	2018 Stock Incentive Plan of Garrett Motion Inc. and its Affiliates Form of Performance Unit Agreement	S-8	333-227619	4.9	10/1/2018	
10.10†	2018 Stock Plan for Non-Employee Directors of Garrett Motion Inc. Form of Stock Option Award Agreement	S-8	333-227619	4.10	10/1/2018	
10.11†	2018 Stock Plan for Non-Employee Directors of Garrett Motion Inc. Form of Restricted Stock Unit Agreement	S-8	333-227619	4.11	10/1/2018	
10.12†	Offer Letter for Olivier Rabiller, dated May 2, 2018	10-12B	001-38636	10.1	8/23/2018	
10.13†	Employment Contract for Alessandro Gili, dated May 2, 2018	10-12B	001-38636	10.2	8/23/2018	
10.14†	Offer Letter for Daniel Deiro, dated June 1, 2018	10-12B	001-38636	10.3	8/23/2018	
10.15†	Offer Letter for Thierry Mabru, dated June 1, 2018	10-12B	001-38636	10.4	8/23/2018	
10.16†	Offer Letter for Craig Balis, dated June 1, 2018	10-12B	001-38636	10.5	8/23/2018	
10.17†	Agreement, dated as of September 2, 2019, between Garrett Motion Inc. and Alessandro Gili	10-Q	001-38636	10.1	11/8/2019	
10.18†	Letter Agreement, dated May 31, 2018, between Honeywell Transportation Systems and Peter Bracke	10-Q	001-38636	10.2	11/8/2019	
10.19†	Addendum to Employment Contract, dated as of September 3, 2019, between Garrett Motion Sàrl and Peter Bracke	10-Q	001-38636	10.3	11/8/2019	
10.20†	Non-Employee Director Compensation Program					*
10.21†	Severance Pay Plan for Designated Executive Employees of Garrett Motion Inc.					*
21.1	List of Subsidiaries					*
23.1	Consent of Independent Registered Public Accounting Firm					*
23.2	Consent of Independent Registered Public Accounting Firm					*
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					*

31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	*
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	**
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	**
101.INS	XBRL Instance Document	*
101.SCH	XBRL Taxonomy Extension Schema Document	*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	*

* Filed herewith
** Furnished herewith
† Management contract or compensation plan or arrangement

Item 16. Form 10- K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 27, 2020

Garrett Motion Inc.
By: /s/ Olivier Rabiller
Olivier Rabiller
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Olivier Rabiller **Olivier Rabiller**	President, Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2020
/s/ Peter Bracke **Peter Bracke**	Interim Chief Financial Officer (Principal Financial Officer)	February 27, 2020
/s/ Russell James **Russell James**	Vice President and Corporate Controller (Principal Accounting Officer)	February 27, 2020
/s/ Carlos M. Cardoso **Carlos M. Cardoso**	Chairman of the Board and Director	February 27, 2020
/s/ Maura J. Clark **Maura J. Clark**	Director	February 27, 2020
/s/ Courtney M. Enghauser **Courtney M. Enghauser**	Director	February 27, 2020
/s/ Susan L. Main **Susan L. Main**	Director	February 27, 2020
/s/ Carsten J. Reinhardt **Carsten J. Reinhardt**	Director	February 27, 2020
/s/ Scott A. Tozier **Scott A. Tozier**	Director	February 27, 2020

Exhibit 2.1

INDEMNIFICATION AND REIMBURSEMENT AGREEMENT

BY AND AMONG

HONEYWELL ASASCO INC.,

HONEYWELL ASASCO 2 INC.,

AND

HONEYWELL INTERNATIONAL INC.

Dated as of September 12, 2018

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INDEMNIFICATION AND REIMBURSEMENT AGREEMENT

This INDEMNIFICATION AND REIMBURSEMENT AGREEMENT (as may be amended, restated, supplemented or otherwise modified from time to time, this **"Agreement"**), dated September 12, 2018, by and among (i) Honeywell ASASCO Inc., a corporation organized under the Laws of the State of Delaware (**"Payor"**), (ii) Honeywell ASASCO 2 Inc., a corporation organized under the Laws of the State of Delaware (**"Payee"**), and (iii) Honeywell International Inc., a corporation organized under the Laws of the State of Delaware (**"Honeywell"** or the **"Claim Manager"** and, together with Payee and Payor, the **"Parties"** and each, a **"Party"**).

W I T N E S S E T H:

WHEREAS the board of directors of Honeywell has determined that it is in the best interests of Honeywell and its shareholders to create a new publicly-traded company that will operate the Transportation Systems Business;

WHEREAS Honeywell and Garrett Motion Inc., a corporation organized under the Laws of the State of Delaware (**"Transportation Systems"**), intend to enter into a Separation and Distribution Agreement (the **"Separation Agreement"**);

WHEREAS, (i) Payee is currently a wholly-owned subsidiary of Payor, (ii) following the entry into this Agreement and certain related transactions, Payor will distribute 100% of the stock of Payee to Honeywell Asia Pacific Inc., a corporation organized under the laws of Delaware (**"HAPI"**), (iii) following such distribution, Payor will assign the obligations hereunder to Garrett ASASCO Inc. (**"New ASASCO"**) (a wholly owned direct subsidiary of Payor and indirect subsidiary of Honeywell at such time) and contribute the shares of the Transportation Systems Issuer to New ASASCO, (iv) following such transactions, (a) New ASASCO will be Payor for all purposes under this Agreement and (b) substantially all of the Transportation Systems Business and certain related assets and liabilities will be held by New ASASCO and its subsidiaries, and (v) following certain additional internal restructuring transactions, shares of New ASASCO and certain other assets relating to the Transportation Systems Business will be contributed to Transportation Systems;

WHEREAS, the transportation systems business (as such business has been described in the Claim Manager's Form 10-K) historically included the operation of certain businesses at properties that were sold to Persons not Affiliated with Honeywell and third-party waste disposal sites, and certain environmental liabilities subject to indemnification by the Honeywell Group (and, indirectly, Payor Group) have been identified at such properties (collectively, as listed on Exhibit A hereto);

WHEREAS, prior to the Distribution, entities that, after the Distribution, will be Affiliates of Payor were part of the Claim Manager's transportation systems business (as such business has been described in the Claim Manager's Form 10-K), which, among other things, was in the business of designing, developing, manufacturing, marketing, repairing, overhauling and selling friction materials for automotive, industrial and rail applications on a worldwide basis (the **"Bendix Friction Materials Business"**);

WHEREAS, the US Bendix Claims and the Ex-US Bendix Claims arise from, and relate to, the Bendix Friction Materials Business;

WHEREAS, despite the relationship of Payor and its Affiliates to the US Bendix Claims and the Ex-US Bendix Claims as of the date hereof and following the Distribution, the Claim Manager has determined that it is likely that the Claim Manager will continue to incur Losses (as defined below) arising from and related to the US Bendix Claims and the Ex-US Bendix Claims;

WHEREAS, in light of Payor's association with the Bendix Friction Materials Business, Payor has determined that it is appropriate and desirable for Payor to agree to pay to Payee the Environmental Obligation, the Ex-US Bendix Obligation and the US Bendix Obligation and, because of its recognized experience with and efficient management of such matters, for the Claim Manager to manage such Environmental Claims, US Bendix Claims and Ex-US Bendix Claims as more fully described in this Agreement; and

NOW, THEREFORE, in consideration of the premises and of the mutual covenants, representations, warranties and agreements herein contained, the parties hereto, intending to be legally bound, agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Definitions. When used in this Agreement, the following terms shall have the respective meanings specified below.

"4Q Payment" shall have the meaning set forth in Section 2.3(d).

"4Q Payment Date" shall have the meaning set forth in Section 2.3(d).

"4Q Reports" shall mean, in respect of any calendar year, the Environmental Report and the Ex-US Bendix Report providing information in respect of the first three Fiscal Quarters of such calendar year. If a Global Asbestos Resolution Event has occurred, then the US Bendix Post-GARE Report providing information in respect of the first three Fiscal Quarters of such calendar year shall also be a **"4Q Report"**.

"Accrued Amounts" shall have the meaning set forth in Section 2.5(b).

"Adverse Change" shall have the meaning set forth in Section 2.12(a).

“Affiliate” of any Person shall mean a Person that controls, is controlled by or is under common control with such Person. As used herein, **“control”** of any entity shall mean the possession, directly or indirectly, of the power to direct, or cause the direction of, the management or policies of such entity, whether through ownership of voting securities or other interests, by contract or otherwise; *provided*, *however*, that (i) Transportation Systems and the other members of the Transportation Systems Group shall not be considered Affiliates of Honeywell or any of the other members of the Honeywell Group and (ii) Honeywell and the other members of the Honeywell Group shall not be considered Affiliates of Transportation Systems or any of the other members of the Transportation Systems Group.

“Aggregate Annual Obligation” shall mean, in respect of any calendar year, *the sum of* (i) the Environmental Obligation in respect of such calendar year, *plus* (ii) the Ex-US Bendix Obligation in respect of such calendar year, *plus* (iii) the US Bendix Obligation in respect of such calendar year, *plus* (iv) any Disallowance Payment calculated as of December 31 of such year.

“Agreement” shall have the meaning given to it in the preamble to this Agreement. **“Agreement Amendment”** shall have the meaning set forth in Section 2.12(a).

“Ancillary Agreement” shall mean the instruments, assignments, documents and agreements executed in connection with the implementation of the transactions contemplated by the Separation Agreement.

“Annual and Year-to-Date Liability and Defense Costs Report” shall mean the report delivered to Payor providing information regarding the previous year’s and year-to-date spend for liability and defense costs relating to the US Bendix Claims, the form of which is attached hereto as Exhibit B.

“Annual Cash Deficiency Payment” shall have the meaning set forth in Section 2.3(e)(ii).

“Bendix Corporation” shall mean The Bendix Corporation and its predecessors or successors-in-interest. **“Bendix Friction Materials Business”** shall have the meaning given to it in the recitals to this Agreement. **“Bendix Newco”** shall have the meaning set forth in Section 4.7(c).

“Business Day” shall mean any day that is not a Saturday, a Sunday or any other day on which commercial banks in New York City or Zurich, Switzerland are authorized or required by Law to remain closed.

“Cap” shall mean $175,000,000, as converted into Euros in accordance with Section 2.6(d).

“Cash Amounts” shall mean, in respect of any Person (i) amounts of cash actually paid by such Person to any other Person or (ii) amounts to be paid by such person to any other Person that are classified as accounts payable; *provided*, for the avoidance of doubt, that any amount previously counted as a Cash Amount pursuant to clause (ii) may not be counted as a Cash Amount pursuant to clause (i) in a subsequent year’s calculation of the Aggregate Annual Obligation.

“Cash True-Up Payments” shall have the meaning set forth in Section 2.4(b).

“Claims Activity Report” shall mean the report delivered to Payor providing information regarding the status of existing US Bendix Claims, the form of which is attached hereto as Exhibit C.

“Claim Manager” shall have the meaning given to it in the preamble to this Agreement.

“Claims” shall mean any and all Environmental Claims, US Bendix Claims and the Ex-US Bendix Claims.

“Cumulative Outstanding GARE Losses” shall mean, in respect of any calendar year, an amount equal to: (i) 90% of the Global Asbestos Resolution Amount as of January 1st of such year, *less* (ii) 90% of the GARE Insurance Receipts received in respect of the Global Asbestos Resolution Event as of January 1st of such year, *less* (iii) the aggregate amount of all GARE Payments paid prior to January 1st of such year.

“Current Credit Agreement” shall mean the Credit Agreement to be entered into by and among, *inter alia*, Transportation Systems, the Transportation Systems Swiss Borrower, the lenders from time to time party thereto and JPMORGAN CHASE BANK, N.A., as administrative agent.

“Default” shall have the meaning set forth in Section 2.13(a).

“Default Date” shall have the meaning set forth in the proviso in Section 2.13(a).

“Default Deferral” shall have the meaning set forth in Section 2.5(a).

“Deficiency Amount” shall mean, in respect of any calendar year, the amount, if any, by which (i) *the sum of* (A) the Estimated Annual US Bendix Obligation for such year, *plus* (B) the 4Q Payment for such year *is less than* (ii) the lesser of: (A) the Aggregate Annual Obligation and (B) the Cap.

“Disallowance Payment” shall mean, as of any date, 90% of Insurance Disallowances during the term of this Agreement that Payor has not already paid to Payee pursuant to this Agreement; *provided* that if any Disallowance Payment would result in an amount in excess of the Cap being paid in respect of the year the related Insurance Receipt was applied, then such Disallowance Payment shall be limited to the difference between the Cap and the amount of the Aggregate Annual Obligation for such year.

“Dispute” shall have the meaning set forth in Section 4.3.

“Distribution” shall mean the distribution by Honeywell to Record Holders, on a pro rata basis, of all of the outstanding shares of common stock of Transportation Systems owned by Honeywell.

“Distribution Date” shall mean the date, determined by Honeywell in accordance with the Separation Agreement, on which the Distribution occurs.

“Environmental Claims” shall mean (i) any and all claims asserted, made or alleged against any member of the Honeywell Group or the Transportation Systems Group or their respective Representatives, or any of the heirs, executors, successors and assigns of any of the foregoing, regardless of when they are made, arise or arose, alleging any injury, harm, risk, damage, cost or expense of any kind or nature, which are asserted to be related in any way, directly or indirectly, to (A) any violation of, noncompliance with, or liability under any HSE Laws associated with the Specified Sites, including, without limitation, response to, investigation and remediation of Releases, (B) the Release or exposure to Hazardous Materials associated with the Specified Sites, or (C) any natural resource damages with respect to the Specified Sites, and (ii) any investigation and remediation of Releases with respect to the Specified Sites unrelated, or in addition, to any claim. For the avoidance of doubt, **“**Environmental Claims**”** shall not include any SpinCo HSE Liabilities (as defined under the Separation Agreement).

“Environmental Insurance Receipts” shall mean, for any calendar period for which an Environmental Obligation is owed, as applicable, the amount of cash actually received by the Claim Manager or its Affiliates in such period with respect to any casualty insurance policies of the Claim Manager or its Affiliates in respect of Losses related to Environmental Claims, *less* all costs and expenses (including attorneys’ fees and costs) incurred by the Claim Manager or its Affiliates in connection with the collection of such proceeds.

“Environmental Obligation” shall mean, in respect of any period, an amount *equal to* (i) 90% of the Losses incurred by Payee Parties related to Environmental Claims in such period, *less* (ii) 90% of the Environmental Insurance Receipts for such period, *less* (iii) 90% of amounts received by any member of the Honeywell Group resulting from affirmative litigation relating to Environmental Claims in such period, net of any costs or expenses of whatever kind in respect of Managing, investigating, responding to, prosecuting, settling, compromising or resolving claims relating to such affirmative litigation, including attorneys’ fees and costs (including, but not limited to, the costs of experts and vendors necessary to prosecute, compromise and manage such affirmative litigation) (**“Affirmative Environmental Litigation Proceeds”**), *less* (iv) 90% of the net proceeds received in such period by any member of the Honeywell Group in respect of sales of any property comprising the Specified Sites in such period (**“Property Sales Proceeds”**), and *less* (v) 90% of any other amounts contributed to or otherwise paid to or on behalf of any member of the Honeywell Group by other Persons not within the Honeywell Group relating to Environmental Claims in such period, net of any costs to the Honeywell Group in connection with recovering such amounts (**“Co-Contributions Proceeds”**).

“Environmental Report” shall mean the report delivered to Payor providing a summary of Losses incurred by Payee Parties related to Environmental Claims for a period, the form of which is attached hereto as Exhibit D.

“Estimated Annual US Bendix Loss Statement” shall mean an annual written estimate, a form of which is attached hereto as Exhibit E, of

(i) the amount of Losses that the Claim Manager expects to be incurred by the Payee Parties in respect of US Bendix Claims in the following calendar year and (ii) the amount of US Bendix Insurance Receipts that the Claim Manager expects it or its Affiliates to receive in the following calendar year.

“Estimated Annual US Bendix Obligation” shall mean, in respect of any calendar year, (i) 90% of the amount of estimated Losses incurred by the Payee Parties in respect of US Bendix Claims *less* (ii) 90% of the amount of estimated US Bendix Insurance Receipts, in each case, as such estimate is set forth in the Estimated Annual US Bendix Loss Statement.

“Estimated Initial US Bendix Obligation” shall mean, in respect of the Initial Period, (i) 90% of the amount of estimated Losses incurred by the Payee Parties in respect of US Bendix Claims *less* (ii) 90% of the amount of estimated US Bendix Insurance Receipts.

“Euro” or **“€”** shall mean the single currency of the European Union as constituted by the Treaty on European Union and as referred to in the EMU Legislation.

“Ex-US Bendix Claims” shall mean any and all claims asserted, made or alleged against any member of the Honeywell Group or the Transportation Systems Group (other than an Ex-US TS Brake Subsidiary) or their respective Representatives, or any of the heirs, executors, successors and assigns of any of the foregoing, by any Person in a jurisdiction outside of the boundaries of the United States of America or its territories, regardless of when they are made, arise or arose, alleging any injury, harm, risk, damage, cost or expense of any kind or nature, which are asserted to be related in any way, directly or indirectly, to the use of asbestos and/or asbestos-containing product or material, or to the direct or indirect exposure or the possibility or potential of direct or indirect exposure of such Person or any other Person (including, in each case, indirect exposure to spouses, children or any other Person coming into contact with a Person who was directly or indirectly exposed) to asbestos or asbestos-containing dust, products or materials in connection with the business of the Bendix Corporation or any of its Affiliates, including, without limitation, the manufacturing, licensing, sale, distribution, packaging, handling, use, installation, removal or repair of products manufactured, licensed, sold, distributed, packaged, handled, used, installed or removed by the Bendix Corporation, including, but not solely, from asbestos-containing friction materials.

“Ex-US Bendix Insurance Receipts” shall mean, for any period for which an Ex-US Bendix Obligation is owed, the amount of cash actually received by the Claim Manager or its Affiliates in such period with respect to any casualty insurance policies of the Claim Manager or its Affiliates in respect of Losses related to Ex-US Bendix Claims, *less* all costs and expenses (including attorneys’ fees and costs) incurred by the Claim Manager or its Affiliates in connection with the collection of such proceeds.

"Ex-US Bendix Obligation" shall mean, in respect of any period, 90% of the Losses incurred by Payee Parties related to Ex-US Bendix Claims in such period *less* 90% of the Ex-US Bendix Insurance Receipts for such period.

"Ex-US Bendix Report" shall mean the reports delivered to Payor providing a summary of Losses incurred by Payee Parties related to Ex-US Bendix Claims for a period, the form of which is attached hereto as Exhibit F.

"Ex-US TS Brake Subsidiaries" shall mean members of the Transportation Systems Group domiciled outside of the United States of America or its territories, following the Distribution.

"FCCR Test" shall have the meaning set forth in Section 2.5(a).

"Financial Covenant Deferral" shall have the meaning set forth in Section 2.5(a).

"Financial Indebtedness" shall mean, for any Person, all obligations of such Person under the applicable governing documentation to pay principal, interest, penalties, fees, guarantees, reimbursements, damages, costs of unwinding and other liabilities with respect to (a) indebtedness for borrowed money, whether current or funded, fixed or contingent, secured or unsecured or (b) indebtedness evidenced by bonds, debentures, notes, mortgages or similar instruments or debt securities.

"Financial Representative" shall mean any arranger, collateral agent, administrative agent, indenture trustee or other agent trustee or representative for any holder of Senior Indebtedness.

"Fiscal Quarter" shall mean the fiscal quarter of Claim Manager, it being understood that for purposes hereof (including, without limitation, Section 2.3(d)), the fourth Fiscal Quarter of any calendar year shall mean the Fiscal Quarter ending on December 31st; *provided* that if Claim Manager changes its fiscal year, the Parties shall work together in good faith to amend this Agreement as may be necessary.

"GARE Deficiency Payment" shall have the meaning set forth in Section 2.4(b).

"GARE Insurance Receipts" shall mean, for any period in which a Cumulative Outstanding GARE Loss is owed, the amount of cash actually received by the Claim Manager or its Affiliates in such period with respect to any casualty insurance policies of the Claim Manager or its Affiliates in respect of Losses related to Global Asbestos Resolution Amounts, *less* all costs and expenses (including attorneys' fees and costs) incurred by the Claim Manager or its Affiliates in connection with the collection of such proceeds.

"GARE Payment" shall have the meaning set forth in Section 2.4(a).

"General RP Basket" shall have the meaning set forth in Section 2.11.

"Global Asbestos Resolution Amount" or **"GARE"** shall mean the aggregate amounts paid or payable by the Honeywell Group at any time following the date of this Agreement in satisfaction of a Global Asbestos Resolution Event.

"Global Asbestos Resolution Event" shall mean any settlement of all or substantially all of the current and future US Bendix Claims in which Losses of Payee Parties in respect of such US Bendix Claims is forever extinguished, whether such settlements are mandated by a Governmental Authority, such as an enactment of congress or regulation, or by private settlement approved by a court of competent jurisdiction.

"Governmental Approvals" shall mean any notices, reports or other filings to be given to or made with, or any consents, registrations or permits to be obtained from, any Governmental Authority.

"Governmental Authority" shall mean any federal, state, local, foreign or international court, government, department, commission, board, bureau, agency, official or other legislative, judicial, regulatory, administrative or governmental authority.

"Guarantee" shall have the meaning set forth in Section 2.14.

"HAPI" shall have the meaning given to it in the recitals to this Agreement.

"Hazardous Materials" means (i) any natural or artificial substance (whether solid, liquid, gas or other form of matter, noise, microorganism or electromagnetic field) that could cause harm to human health or the environment, including petroleum, petroleum products and byproducts, asbestos-containing materials, perfluoroalkyl substances, urea formaldehyde foam insulation, carcinogens, endocrine disrupters, lead-based paint, electronic, medical or infectious wastes, polychlorinated biphenyls, radon gas, radioactive substances, greenhouse gases and ozone-depleting substances and (ii) any other chemical, material, substance or waste that could result in liability under, or that is prohibited, limited or regulated by or pursuant to, any HSE Law.

"Honeywell" shall have the meaning given to it in the preamble to this Agreement.

"Honeywell Group" shall mean Honeywell and each of its Subsidiaries, including any Person that becomes a Subsidiary of Honeywell following the Distribution, but excluding any member of the Transportation Systems Group.

"HSE Law" shall mean any Law or Governmental Approvals, or any standard used by a Governmental Authority pursuant to any Law or Governmental Approvals, relating to (i) pollution, (ii) protection or restoration of the indoor or outdoor environment or natural resources, (iii) the transportation, treatment, storage or Release of, or exposure to, hazardous or toxic materials, (iv) the registration, manufacturing, sale, labeling or distribution of hazardous or toxic materials or products containing such materials (including the REACH Regulation and similar requirements), (v) process safety management or (vi) the protection of the public, worker health and safety or threatened or endangered species.

"Indenture" shall mean the Indenture to be entered into prior to the Distribution by and among the Transportation Systems Issuer, the guarantors named therein and the trustee named therein.

"Information Statement" means the Information Statement sent to the holders of common stock of Honeywell in connection with the Distribution, as such Information Statement may be amended from time to time.

"Initial Cap" shall mean *the product of* (x) the Cap *multiplied by* (y) *the quotient represented by* (1) the number of days between the Distribution Date and December 31, 2018 (inclusive of such dates), *divided by* (2) 365.

"Initial Cash Deficiency Payment" shall have the meaning set forth in Section 2.3(b)(ii).

"Initial Deficiency Amount" shall mean the amount, if any, by which the Estimated Initial US Bendix Obligation *is less than* the lesser of: (i) the Initial Cap and (ii) the Initial Obligation.

"Initial Obligation" shall mean an amount *equal to* (i) 90% of Losses incurred by Payee Parties in respect of (A) Environmental Claims, (B) US Bendix Claims and (C) Ex-US Bendix Claims, in each case, incurred during the Initial Period, *less* (ii) 90% of (A) Environmental Insurance Receipts, (B) Affirmative Environmental Litigation Proceeds, (C) US Bendix Insurance Receipts, (D) Ex-US Bendix Insurance Receipts, Co-Contributions Proceeds and (F) Property Sales Proceeds, in the case of (A), (B), (C), (D) and (E), in respect of Losses incurred during the Initial Period, and in the case of (F), in respect of property sales consummated during the Initial Period, *plus* (iii) any Disallowance Payment calculated as of the last day of the Initial Period.

"Initial Overage Amount" shall mean the amount, if any, by which the Initial Obligation is less than the lesser of: (i) the Estimated Initial US Bendix Obligation and (ii) the Initial Cap.

"Initial Period" shall have the meaning set forth in Section 2.2(a).

"Initial Prior Year Aggregate Loss Statement" shall mean a written statement, a form of which is attached hereto as Exhibit G, setting forth (i) the Initial Obligation and (ii) the Initial Deficiency Amount or the Initial Overage Amount, as applicable, in respect of the Initial Period.

"Insolvency Proceeding" shall mean, with respect to any Person, any distribution to creditors of such Person in (a) any liquidation or dissolution of such Person; (b) any bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to such Person or such Person's property; (c) any assignment by such Person for the benefit of its creditors; or (d) any marshalling of such Person's assets and liabilities.

"Insurance Disallowances" shall mean the amount of any insurance disallowances relating to Insurance Receipts actually paid to the Honeywell Group (not disputed by the Claim Manager at the time of calculating the Initial Obligation or the Aggregate Annual Obligation).

"Insurance Receipts" shall mean Environmental Insurance Receipts, Ex-US Bendix Insurance Receipts, and US Bendix Insurance Receipts.

"Interim Liability and Defense Costs Report" shall mean the report delivered to Payor providing information regarding a year-to-date spend for liability and defense costs relating to the US Bendix Claims, the form of which is attached hereto as Exhibit H.

"Law" shall mean any statute, law, regulation, ordinance, rule, judgment, rule of common law, order, decree, government approval, concession, grant, franchise, license, agreement, directive, guideline, policy, requirement or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority, whether now or hereinafter in effect and, in each case, as amended.

"Losses" shall mean Cash Amounts in respect of losses, damages, liabilities, deficiencies, judgments, interest, awards, penalties, fines, costs, financial assurance or expenses of whatever kind in respect of Managing, investigating, responding to, remediating, defending, settling, compromising or resolving Claims, including attorneys' fees and costs (including, but not limited to, the costs of experts, consultants, and vendors necessary to defend, compromise and Manage the Claims, security costs and real estate Taxes) and including, without limitation, punitive, incidental, consequential, special or indirect Losses (or any other Cash Amounts paid or to be paid to any Person). Losses shall include, but are not limited to: (a) Losses claimed by workers' compensation, employers' liability insurance associations or similar employee benefit schemes in respect of Claims; (b) increases in contributions to worker's compensation, employers' liability insurance associations or similar employee benefit schemes to the extent resulting from Claims; and (c) any fines or other penalties imposed by, or reimbursement, Tax or levy requested by, any Governmental Authority in respect of such Claims. For the avoidance of doubt, and without limiting the ability of Payee to estimate the amount of such Losses as contemplated by this Agreement, Losses incurred by Payee Parties in respect of US Bendix Claims in any given calendar year (i) shall include and be limited to the asbestos-related liability payments for the US Bendix Claims set forth annually in the Claim Manager's "Contingencies and Commitments" footnote to its audited financial statements, as filed with the SEC in its Annual Report on Form 10-K (the **"Form 10-K"**) for the relevant year for so long as the Claim Manager continues to disclose such liabilities in its Form 10-K in a manner substantially similar to the disclosure set forth in the "Contingencies and Commitments" footnote to its audited financial statements for the fiscal year ended December 31, 2017, included in its Form 10-K for the year ended December 31, 2017 (the **"2017 Form 10-K"**), and (ii) thereafter shall mean all Losses related to US Bendix Claims for such calendar year. By way of example, Losses incurred in respect of US Bendix Claims for the fiscal year ended December 31, 2017, were $223,000,000, as set forth in the 2017 Form 10-K.

“Management” or **“Managing”** shall mean, with respect to any Claim, the defense, settlement and payment of such Claim, including the management of insurance claims relating thereto (and the defense, settlement, payment and receipt of amounts in respect thereof).

“Material Indebtedness” shall have the meaning set forth in the Current Credit Agreement. **“New Loan Parties”** shall have the meaning set forth in Section 2.14.

“Obligations” shall mean any principal, interest, premiums, penalties, fees, indemnifications, reimbursements, fees and expenses, damages and other liabilities payable under the documentation governing any Financial Indebtedness.

“Order” shall mean any judgment, order, injunction, decision, determination, award, ruling, writ, stipulation, restriction, assessment or decree of, or entered by, with or under the supervision of, any Governmental Authority.

“Ordinary Course of Business” shall mean the ordinary course of business (including with respect to nature, scope, magnitude, quantity and frequency) that does not require any board of director or shareholder approval or any other separate or special authorization of any nature and similar in nature, scope and magnitude to actions customarily taken in the ordinary course of the normal day-to-day operations of other persons that are in the same line of business acting in good faith; *provided* that, for the avoidance of doubt, the payment of reasonable and customary corporate overhead costs and expenses (including administrative, legal, accounting and similar expenses payable to third parties), the payment of taxes and the payment of costs and expenses in connection with litigation matters shall be deemed to be in the ordinary course of business.

“Overage Amount” shall mean, in respect of any calendar year, the amount, if any, by which the Aggregate Annual Obligation *is less than*

the lesser of: (i) *the sum of* (A) the Estimated Annual US Bendix Obligation for such year, *plus* (B) the 4Q Payment for such year and (ii) the Cap.

“Overage Credit” shall have the meaning set forth in Section 2.3(b)(i).

“Party” and **“Parties”** shall have the meaning set forth in the preamble to this Agreement. **“Payee”** shall have the meaning given to it in the preamble to this Agreement.

“Payee Parties” shall mean any member of the Honeywell Group or its Representatives, or any of the heirs, executors, successors and assigns of any of the foregoing.

“Payment Blockage Notice” shall have the meaning set forth in Section 2.15(c)(ii).

“Payment Blockage Period” shall have the meaning set forth in Section 2.15(c)(ii).

“Payment Default Notice” shall have the meaning set forth in the proviso in Section 2.13(a).

“Payment Deferral” shall have the meaning set forth in Section 2.5(a).

“Payment in Full” or **“Paid in Full”** shall mean, with respect to any Financial Indebtedness, payment in full in cash, cash collateralization of all letters of credit, hedging and cash management obligations and the termination of all commitments to lend, as applicable pursuant to the documents evidencing such Financial Indebtedness.

“Payor” shall have the meaning given to it in the preamble to this Agreement.

“Payor Group” shall mean (a) Payor, (b) each Person that will be a Subsidiary of Payor immediately prior to the Distribution and (c) each Person that is or becomes a Subsidiary of Payor after the Distribution, including, in each case, any Person that is merged or consolidated with and/or into Payor or any Subsidiary of Payor and any Person that becomes a Subsidiary of Payor as a result of transactions that occur following the Distribution.

“Person” shall mean an individual, a general or limited partnership, a corporation, a trust, a joint venture, an unincorporated organization, a limited liability company, any other entity and any Governmental Authority.

“Principal Credit Agreement” shall mean the Current Credit Agreement; *provided*, that, if, as of any date, the Current Credit Agreement shall not be the credit facility of Transportation Systems Group with the largest aggregate amount of revolving commitments and revolving loans outstanding (or, if no revolving commitments or revolving loans are outstanding, the largest aggregate amount of commitments and loans outstanding), the Principal Credit Agreement shall be the credit facility of Transportation Systems with the largest aggregate amount of revolving commitments and revolving loans outstanding as of such date (or, if no revolving commitments or revolving loans are outstanding, the largest aggregate amount of commitments and loans outstanding).

“Prior Year Aggregate Loss Statement” shall mean an annual written statement, a form of which is attached hereto as Exhibit I, setting forth (i) the Aggregate Annual Obligation for the immediately preceding year, (ii) if applicable, the Cumulative Outstanding GARE Losses and (iii) the Deficiency Amount or the Overage Amount, as applicable, in respect of such year.

"Quarterly Cap" shall have the meaning set forth in Section 2.3(c).

"Quarterly Payment" shall have the meaning set forth in Section 2.3(c).

"Quarterly Payment Date" shall have the meaning set forth in Section 2.3(c).

"REACH Regulation" shall mean Regulation (EC) No. 1907/2006 on the Registration, Evaluation, Authorisation and Restriction of Chemicals, including any implementing legislation or regulations, in each case as may be amended.

"Record Holders" shall mean holders of common stock of Honeywell as of the close of business on the date determined by the Honeywell board of directors as the record date for determining the shares of common stock of Honeywell in respect of which shares of common stock of Transportation Systems will be distributed pursuant to the Distribution.

"Release" shall mean any actual or threatened release, spill, emission, discharge, flow (whether through constructed or natural ditches, pipes, watercourses, overland flows or other means of conveyance), leaking, pumping, pouring, dumping, injection, deposit, disposal, dispersal, leaching or migration into or through the indoor or outdoor environment (including ambient air, surface water, groundwater and surface or subsurface strata) of a Hazardous Material; provided that, for the avoidance of doubt, mere vehicular transportation from an initial location to an offsite location, without more, shall not be deemed to constitute a Release from that initial location to the offsite location.

"Reorganization" shall mean the transactions described on Schedule I to the Separation Agreement.

"Representatives" shall mean the directors, officers, employees, investment bankers, consultants, attorneys, accountants and other advisors and representatives of a Person.

"Resolution Value Experience Report" shall mean the report delivered to Payor providing information regarding the resolution value of US Bendix Claims, the form of which shall be attached hereto as Exhibit J on the Distribution Date.

"Restricted Subsidiary" means any subsidiary of Transportation Systems that is a **"**Restricted Subsidiary**"** under the Principal Credit Agreement.

"SEC" shall mean the U.S. Securities and Exchange Commission.

"Senior Agent" shall mean such Person acting as administrative agent for the lenders party to the Principal Credit Agreement or, if there is only one lender thereunder, such lender.

"Senior Indebtedness" shall mean, collectively, the principal of, premium, if any, and interest (including all interest accruing subsequent to the commencement of any bankruptcy or similar proceeding, whether or not a claim for post-petition interest is allowable as a claim in any such proceeding) payable pursuant to the terms of all agreements, documents and instruments governing Financial Indebtedness of Payor Group (together with all fees, costs, expenses and other amounts accrued or due on or in connection therewith) whether outstanding on the date of this Agreement or subsequently created, incurred, assumed, guaranteed or in effect guaranteed by Payor (including all deferrals, refinancings, renewals, extensions or refundings of, or amendments, restatements, modifications, waivers or supplements to, or deferrals to, the foregoing), except for: (i) any Financial Indebtedness that by its terms expressly provides that such Financial Indebtedness shall not be senior in right of payment to payments made by Payor to Payee hereunder or expressly provides that such Financial Indebtedness is equal with or junior in right of payment with payments made by Payor to Payee hereunder; (ii) any Financial Indebtedness between or among the members of Payor Group, other than, for the avoidance of doubt, Financial Indebtedness incurred for the benefit of Affiliates arising by reason of guaranties by Affiliates of Financial Indebtedness of such Affiliate to a Person that is not a member of Payor Group; (iii) any liability for federal, state, local or other taxes owed or owing by Payor; or (iv) Payor's trade payables and accrued expenses (including, without limitation, accrued compensation and accrued restructuring charges) or deferred purchase prices for goods, services or materials purchased or provided in the ordinary course of business. For the avoidance of doubt, Financial Indebtedness under the Principal Credit Agreement or the Indenture constitutes Senior Indebtedness.

"Senior Payment Default" shall have the meaning set forth in Section 2.15(c)(i).

"Separation" shall mean (a) the Reorganization and (b) any other transfers of assets and assumptions of liabilities, in each case, between a member of the Honeywell Group, on the one hand, and a member of the other Transportation Systems Group, on the other hand, provided for in the Separation Agreement or in any Ancillary Agreement.

"Separation Agreement" shall have the meaning given to it in the recitals to this Agreement.

"Separation Transaction" shall mean any spin-off, split-off, carve-out, demerger, recapitalization or similar transaction.

"Specified Event of Default" shall mean, with respect to any Senior Indebtedness having commitments or an outstanding principal amount of at least $25,000,000, as converted into Euros in accordance with Section 2.6(d), (a) a payment or bankruptcy event of default thereunder or (b) if a financial maintenance covenant exists under such Senior Indebtedness, an event of default resulting from a breach of such financial maintenance covenant.

“Specified Sites” shall mean the sites listed on Exhibit A hereto or any other sites historically owned or operated by the transportation systems business (as such business has been described in the Claim Manager’s Form 10-K); *provided*, that **“**Specified Sites**”** shall not include those sites listed on Schedule VIII of the Separation Agreement.

“Subsidiary” of any Person shall mean any corporation or other organization, whether incorporated or unincorporated, of which at least a majority of the securities or interests, having, by the terms thereof, ordinary voting power to elect at least a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries.

“Tax” or **“Taxes”** shall mean all taxes, assessments, charges, duties, fees, levies or other governmental charges, including all United States or other federal, state, provincial, territorial, local, foreign and other income, gross receipts, franchise, profits, capital gains, capital stock, capital, transfer, sales, use, value added, goods and services, harmonized sales, occupation, employer health, property, excise, severance, windfall profits, stamp, license, payroll, employment, customs, social security (or similar), pension plan, unemployment, disability, workers’ compensation, real property, personal property, registration, alternative or add-on minimum, withholding and other taxes, assessments, charges, duties, fees, levies, premiums or other governmental charges of any kind whatsoever, including all installments of tax, estimated taxes, deficiency assessments, additions to tax, penalties and interest, and indemnity obligations in respect of tax, in each case whether disputed or not.

“Tax Matters Agreement” shall mean the Tax Matters Agreement by and between Honeywell and Transportation Systems and, solely for purposes of Section 3.02(g) of the Tax Matters Agreement, Payor and Payee.

“Termination Date” shall have the meaning set forth in Section 3.1.

“Transportation Systems” shall have the meaning given to it in the recitals to this Agreement.

“Transportation Systems Swiss Borrower” shall mean Honeywell Technologies Sàrl, a limited liability company organized under the Laws of Switzerland.

“Transportation Systems Issuer” shall mean Garrett LX I S.à r.l., a *société à responsabilité limitée* incorporated and existing under the laws of the Grand Duchy of Luxembourg, having its registered office at 19, rue de Bitbourg, L-1273 Luxembourg and registered with the Luxembourg Trade and Companies Register under number B225642.

“Transportation Systems Business” shall mean the business of designing, manufacturing and selling turbocharger, electric-boosting and connected vehicle technologies for light and commercial vehicle original equipment manufacturers and the aftermarket, as conducted by Honeywell and its Affiliates prior to the Distribution, including as described in the Information Statement.

“Transportation Systems Group” shall mean (a) Transportation Systems, (b) each Person that will be a Subsidiary of Transportation Systems immediately prior to the Distribution and (c) each Person that becomes a Subsidiary of Transportation Systems after the Distribution, including in each case any Person that is merged or consolidated with or into Transportation Systems or any Subsidiary of Transportation Systems and any Person that becomes a Subsidiary of Transportation Systems following the Distribution.

“Transportation Systems Restricted Group” shall mean the Transportation Systems Group excluding any Unrestricted Subsidiary of Transportation Systems.

“True-Up Payment Date” shall mean the dates identified as such in Section 2.3(b) and Section 2.3(e).

“True-Up Reports” shall mean, in respect of any calendar year, the Environmental Report and the Ex-US Bendix Report providing information in respect of such calendar year. If a Global Asbestos Resolution Event has occurred, then the US Bendix Post-GARE Report providing information in respect of such calendar year shall also be a **“**True-Up Report**”**.

“Unrestricted Subsidiary” shall mean any Subsidiary of Transportation Systems that is an “Unrestricted Subsidiary” under the Principal Credit Agreement.

“US Bendix Claims” shall mean any and all claims asserted, made or alleged against any member of the Honeywell Group or the Transportation Systems Group or their respective Representatives, or any of the heirs, executors, successors and assigns of any of the foregoing, by any Person in the United States of America or its territories, regardless of when they are made, arise or arose, alleging any injury, harm, risk, damage, cost or expense of any kind or nature, which are asserted to be related in any way, directly or indirectly, to the use of asbestos and/or asbestos-containing product or material, or to the direct or indirect exposure or the possibility or potential of direct or indirect exposure of such Person or any other Person (including, in each case, indirect exposure to spouses, children or any other Person coming into contact with a Person who was directly or indirectly exposed) to asbestos or asbestos-containing dust, product or material in connection with the business of the Bendix Corporation or any of its Affiliates, including, without limitation, the manufacturing, licensing, sale, distribution, packaging, handling, use, installation, removal or repair of products manufactured, licensed, sold, distributed, packaged, handled, used, installed or removed by the Bendix Corporation, including, but not solely, from asbestos-containing friction materials.

“US Bendix Insurance Receipts” shall mean, for any period in which a US Bendix Obligation is owed, the amount of cash actually received by the Claim Manager or its Affiliates in such period with respect to any casualty insurance policies of the Claim Manager or its Affiliates in respect of Losses related to US Bendix Claims, *less* all costs and expenses (including attorneys’ fees and costs) incurred by the Claim Manager or its Affiliates in connection with the collection of such proceeds.

"US Bendix Obligation" shall mean, in respect of any period, (i) 90% of the Losses incurred by Payee Parties in respect of US Bendix Claims (other than any Losses that are included in the calculation of a Global Asbestos Resolution Amount) in such period, *less* (ii) 90% of the US Bendix Insurance Receipts (other than any Insurance Receipts in respect of a Global Asbestos Resolution Amount) for such period.

"US Bendix Post-GARE Report" shall mean the report delivered to Payor providing a summary of Losses incurred by Payee Parties related to US Bendix Claims (other than Losses that are included in the calculation of the Cumulative Outstanding GARE Losses) for a period, the form of which is attached hereto as Exhibit K.

"US Bendix Reports" shall mean the Claims Activity Report, the Resolution Value Experience Report, the Interim Liability and Defense Costs Report, and the Annual and Year-to-Date Liability and Defense Costs Report.

ARTICLE II
PAYMENT

Section 2.1 Payment by Payor. From and after the Distribution Date, Payor hereby agrees to, and shall, make payments to Payee in accordance with the terms and subject to the conditions set forth in this Agreement.

Section 2.2 Estimates; Statements; and Reports.

(a) The Claim Manager shall deliver to Payor, prior to the Distribution Date, a written estimate of the Estimated Initial US Bendix Obligation for the period (the **"Initial Period"**) commencing on the Distribution Date through December 31, 2018. On March 1, 2019, the Claim Manager shall deliver to Payor the Initial Prior Year Aggregate Loss Statement, the Ex-US Bendix Report and an Environmental Report, in each case, in respect of the Initial Period.

(b) Beginning no later than December 14, 2018, and thereafter on or prior to December 15 of each year, the Claim Manager shall deliver to Payor an Estimated Annual US Bendix Loss Statement in respect of the following calendar year; *provided*, that, in the event that a Global Asbestos Resolution Event has occurred and the Cumulative Outstanding GARE Losses are greater than zero, the Claim Manager shall no longer have an obligation to deliver the Estimated Annual US Bendix Loss Statement.

(c) On March 29, 2019 and each subsequent date that is forty-five (45) days following the end of each Fiscal Quarter, the Claim Manager shall deliver to Payor the US Bendix Reports, updated in respect of the prior Fiscal Quarter; *provided*, that, if a Global Asbestos Resolution Event has occurred and the Cumulative Outstanding GARE Losses are greater than zero, the Claim Manager shall have no obligation to deliver the US Bendix Reports.

(d) On November 14, 2019 and each subsequent date that is forty-five (45) days following the end of the third Fiscal Quarter of each calendar year, the Claim Manager shall deliver to Payor the 4Q Reports, updated in respect of the prior three Fiscal Quarters; *provided*, that, the Claim Manager shall have no obligation to deliver the 4Q Reports in any given year if the Estimated Annual US Bendix Obligation for such year exceeds the Cap.

(e) On March 2, 2020, and on or before March 1 of each year thereafter until the Termination Date, the Claim Manager shall deliver to Payor (i) the Prior Year Aggregate Loss Statement and (ii) the True-Up Reports.

(f) If any report is due under this Agreement on a date that is not a Business Day, such report shall be due on the next following Business Day.

(g) In the event that any member of the Honeywell Group is notified of, and is required to pay any amount in respect of, an Insurance Disallowance, the Claim Manager shall reasonably promptly notify Payor of such Insurance Disallowance.

(h) If a Global Asbestos Resolution Event occurs, the Claim Manager shall reasonably promptly notify Payor of such Global Asbestos Resolution Event and the Global Asbestos Resolution Amount relating to such Global Asbestos Resolution Event.

(i) Upon reasonable request, the Claim Manager shall provide such additional information from time to time as may be necessary for Payor to satisfy its obligations as an SEC registrant, in accordance with, and giving due regard to the principles of confidentiality and legal privilege identified in, Section 2.16 hereof.

(j) The Claim Manager shall have no obligation to provide information to Transportation Systems or Payor or any of their respective Affiliates other than as set forth in this Section 2.2, Section 2.9 and Section 3.3(a).

(k) To the extent not already provided under Section 2.10, Payor shall provide to the Claim Manager any financial statements and other information (in each case other than information regarding collateral matters) provided by Payor to the lenders under the Principal Credit Agreement or other Senior Indebtedness reasonably promptly after such information is required to be delivered to such lenders.

Section 2.3 Payments to Payee Pre-GARE. If a Global Asbestos Resolution Event has not occurred, Payor shall make the payments to Payee set forth in this Section 2.3.

(a) *Estimated Initial US Bendix Obligation*. Thirty (30) days following the Distribution Date, Payor shall pay to Payee the Estimated Initial US Bendix Obligation; *provided*, that, in the event that the Estimated Initial US Bendix Obligation exceeds the Initial Cap, Payor shall pay to Payee an amount equal to the Initial Cap.

(b) *Initial Obligation True-Up*. On March 20, 2019 (which shall be a True-Up Payment Date):

(i) if there is an Initial Overage Amount, then such Initial Overage Amount shall be applied as a credit (an **"Overage Credit"**) to the next Quarterly Payment and, to the extent any portion of such Overage Credit remains, to any subsequent Quarterly Payments, 4Q Payments or Cash True-Up Payments, and the amount of the Overage Credit shall be reduced by the amount thereof applied as a credit in respect of such payments until the Overage Credit is equal to zero; and

(ii) if there is an Initial Deficiency Amount, then such Initial Deficiency Amount shall be paid by payment of cash from Payor to Payee (any such cash payment, the **"Initial Cash Deficiency Payment"**).

(c) *Quarterly Payments*. On January 30, 2019, and each subsequent date that is thirty (30) days following the start of each Fiscal Quarter until the Termination Date (each, a **"Quarterly Payment Date"**), Payor shall pay Payee an amount equal to one-fourth (1/4) of the Estimated Annual US Bendix Obligation for such year (each such payment, a **"Quarterly Payment"**); *provided*, *however*, that, if the Estimated Annual US Bendix Obligation for such year exceeds the Cap, then each Quarterly Payment for purposes of this Agreement shall be $43,750,000, as converted into Euros in accordance with Section 2.6(d) (the **"Quarterly Cap"**).

(d) *4Q Payments*. On December 2, 2019, and each subsequent date that is sixty (60) days following the start of the fourth Fiscal Quarter of each calendar year until the Termination Date (each, a **"4Q Payment Date"**), Payor shall pay Payee *the sum of* (i) the Environmental Obligation in respect of the first three quarters of such calendar year, *plus* (ii) the Ex-US Bendix Obligation in respect of the first three quarters of such calendar year (such payment, the **"4Q Payment"**); *provided*, that, if *the sum of* the 4Q Payment, *plus* the Estimated Annual US Bendix Obligation *is greater than* the Cap, then such 4Q Payment shall be an amount *equal to* the Cap, *less* the Estimated Annual US Bendix Obligation (which amount may not be less than zero).

(e) *Annual True-Up of Estimated Payments*. On the second Quarterly Payment Date of each calendar year until the Termination Date (each such date shall be a True-Up Payment Date):

(i) if there is an Overage Amount set forth in the Prior Year Aggregate Loss Statement, then such Overage Amount shall be applied as an Overage Credit to the next Quarterly Payment and, to the extent any portion of such Overage Credit remains, to any subsequent Quarterly Payments, 4Q Payments or Cash True-Up Payments, and the amount of the Overage Credit shall be reduced by the amount thereof applied as a credit in respect of such payments until the Overage Credit is equal to zero;

(ii) if there is a Deficiency Amount set forth in the Prior Year Aggregate Loss Statement, then such Deficiency Amount shall be paid first by reducing the amount of any remaining Overage Credit and then, if such Overage Credit has been reduced to zero, by payment of cash from Payor to Payee (any such cash payment, a **"Annual Cash Deficiency Payment"**).

Section 2.4 Payments to Payee Post-GARE. If a Global Asbestos Resolution Event has occurred, beginning on January 1st of the calendar year following such Global Asbestos Resolution Event, Payor shall pay Payee as set forth in this Section 2.4.

(a) For so long as the Cumulative Outstanding GARE Losses in respect of a calendar year are equal to or exceed the Cap, on each Quarterly Payment Date, Payor shall pay Payee an amount equal to the Quarterly Cap. The aggregate annual payment under this Section 2.4(a) shall first be allocated to satisfy the Aggregate Annual Obligation, and then to satisfy the Cumulative Outstanding GARE Losses (the amount of any payment made in respect of the Cumulative Outstanding GARE Losses, a **"GARE Payment"**), and in respect of any calendar year the amounts of such allocations shall be included in the Prior Year Aggregate Loss Statement delivered in the following year under Section 2.2(e). Any amounts payable pursuant to this Section 2.4(a) shall be a **"Quarterly Payment"** for all purposes under this Agreement and shall be paid first by reducing the amount of any remaining Overage Credit and then, if such Overage Credit has been reduced to zero, by payment of cash from Payor to Payee. For the avoidance of doubt, the Cumulative Outstanding GARE Losses shall be carried over year-to-year and recalculated as of January 1st of each calendar year following a Global Asbestos Resolution Event, until the earlier of (i) the year that there are no Cumulative Outstanding GARE Losses or (ii) the Termination Date. Such recalculation will be set forth in the applicable Prior Year Aggregate Loss Statement.

(b) From and after such time as the Cumulative Outstanding GARE Losses in respect of a calendar year are less than the Cap:

(i) on each Quarterly Payment Date, Payor shall pay Payee an amount equal to one-fourth (1/4) of the Cumulative Outstanding GARE Losses for such year and such payment shall be a **"Quarterly Payment"** for all purposes under this Agreement;

(ii) on each 4Q Payment Date, Payor shall pay Payee *the sum of* (i) the Environmental Obligation in respect of the first three quarters of such calendar year, *plus* (ii) the Ex-US Bendix Obligation in respect of the first three quarters of such calendar year, *plus* (iii) the US Bendix Obligation in respect of the first three quarters of such calendar year (such payment shall be a **"4Q Payment"** for all purposes under this Agreement); *provided*, that, if *the sum of* the 4Q Payment *plus* the Cumulative Outstanding GARE Losses for such calendar year *is greater than* the Cap, then such 4Q Payment shall be an amount *equal to* the Cap, *less* such Cumulative Outstanding GARE Losses;

(iii) on the True-Up Payment Date, Payor shall pay Payee the amount, if any, by which (A) *the sum of* (1) the Cumulative Outstanding GARE Losses for such year, *plus* (2) the 4Q Payment for such year *is less than* the lesser of: (x) *the sum of* (i) the Aggregate Annual Obligation, *plus* (ii) such Cumulative Outstanding GARE Losses and (y) the Cap; and

(iv) all payments made pursuant to this Section 2.4(b) shall first be allocated to satisfy the Aggregate Annual Obligation, and then to satisfy the Cumulative Outstanding GARE Losses (such amount paid in respect of the Cumulative Outstanding GARE Losses shall be a **"GARE Payment"** for all purposes under this Agreement), and in respect of any calendar year the amounts of such allocations shall be included in the Prior Year Aggregate Loss Statement delivered in the following year under Section 2.2(e). Any amounts payable pursuant to this Section 2.4(b) shall be paid first by reducing the amount of any remaining Overage Credit and then, if such Overage Credit has been reduced to zero, by payment of cash from Payor to Payee (any such cash payment, the **"GARE Deficiency Payment"** and, together with the Annual Cash Deficiency Payment and the Initial Cash Deficiency Payment, the **"Cash True-Up Payments"**).

(c) From and after such time as the Cumulative Outstanding GARE Losses equal zero, Payor shall make the payments to Payee set forth in Section 2.3.

Section 2.5 Payment Deferrals.

(a) Payor shall defer any Quarterly Payment, any 4Q Payment, any Cash True-Up Payment, or payment of Accrued Amounts to the extent that, as of a Quarterly Payment Date or, as applicable, a 4Q Payment Date or a True-Up Payment Date: (i) a Specified Event of Default has occurred and is continuing under the Principal Credit Agreement or any other Senior Indebtedness (a **"Default Deferral"**) or (ii) if, after giving effect to any such cash payment due and payable, (x) the Transportation Systems Restricted Group, on a consolidated basis, would fail to be in compliance with any financial maintenance covenant under the Principal Credit Agreement or (y) the Transportation Systems Restricted Group, on a consolidated basis, would fail to maintain a Fixed Charge Coverage Ratio (as defined in the Indenture) of at least 2:00 to 1:00 (the **"FCCR Test"**); *provided* that this clause (y) shall only apply in the event that at the time such cash payment is due and payable, (1) no Principal Credit Agreement exists, (2) no financial maintenance covenant exists under the terms of any Senior Indebtedness and (3) the Indenture (or a replacement indenture that constitutes Senior Indebtedness) exists and the FCCR Test remains applicable (a **"Financial Covenant Deferral"** and, together with a Default Deferral, a **"Payment Deferral"**). For the avoidance of doubt, Payor shall pay such portion of any Quarterly Payment, 4Q Payment, Cash True-Up Payment or Accrued Amounts subject to a Financial Covenant Deferral to the extent that payment would not result in a Financial Covenant Deferral.

(b) If Payor shall defer any cash payments in accordance with Section 2.5(a), any amounts so deferred (**"Accrued Amounts"**) shall be paid in accordance with this Section 2.5(b).

(i) On each True-Up Payment Date, if any Accrued Amounts have accrued and remain unpaid, then Payor shall pay such Accrued Amounts, subject to Payment Deferral pursuant to Section 2.5(a), *provided* that, if *the sum of* (A) that amount of the Aggregate Annual Obligation that was due and payable (including payable by reduction in Overage Credit) in respect of the preceding calendar year, *plus* (B) if applicable, any GARE Payment in respect of the preceding calendar year, *plus* (C) such Accrued Amounts exceeds the Cap, then Payor shall only pay such Accrued Amounts exceeding the Cap that Payor is permitted to pay under Section 6.08(a)(xii) (Limitations on Restricted Payments) of the Principal Credit Agreement (or any successor provision).

(ii) Any Accrued Amounts that remain unpaid following any True-Up Payment Date shall be paid on the next succeeding True-Up Payment Date as provided in this Section 2.5.

(c) In any Fiscal Quarter, unless and until all amounts due in such Fiscal Quarter in respect of Quarterly Payments, 4Q Payments, Cash True-Up Payments and Accrued Amounts have been paid in full:

(i) no member of Payor Group shall declare, make or commit to make or pay any dividend or other distribution on, or redeem, purchase or otherwise acquire, the equity of any member of Payor Group, directly or indirectly (other than dividends or distributions by a wholly owned Subsidiary to its parent; *provided*, that no such dividend or distribution may be made by Payor to its parent unless such dividend or distribution is (x) used to pay obligations owing under Senior Indebtedness that are due and payable or (y) permitted under Section 2.5(c)(ii)); and

(ii) other than in the Ordinary Course of Business, no member of Payor Group shall assume or enter into any intercompany transactions resulting in the payment of any amount by a member of Payor Group to any member of the Transportation Systems Group that is not a member of Payor Group.

Section 2.6 Manner of Payment; Currency Exchange Rate.

(a) All payments to Payee to be made hereunder shall be made in Euros by wire transfer of immediately available funds, to an account specified by Payee in writing, and Payor shall send a payment confirmation to Payee by fax or e-mail.

(b) In addition to any other amounts payable hereunder (including those payable pursuant to Section 4.11 and Section 3.3(a)(i)) and any other rights Payee may have hereunder, Payor shall pay Payee a late payment fee of five percent (5%) per annum on all payments that are more than thirty (30) days past due, with such late payment fee accruing as of such date thirty (30) days following the missed payment. For the avoidance of doubt,

(i) any late payment fees made pursuant to this Section 2.6 shall not be included in, or subject to, the Cap and (ii) Accrued Amounts shall not accrue any late payment fee hereunder unless such amounts are required to be paid pursuant to Section 2.5 and are not so paid.

(c) If any payment is due and payable under this Agreement on a date that is not a Business Day, such payment shall be due and payable on the next following Business Day.

(d) To the extent that any amounts estimated, calculated, determined, paid, received, applied, allocated, deferred or accrued pursuant to this Agreement are denominated in U.S. dollars, such amounts shall be converted into Euros on a U.S. dollar-to-Euro exchange rate determined by Honeywell, in good faith, as of a date within two Business Days prior to the Distribution Date. For the avoidance of doubt, the following amounts that are denominated in U.S. dollars shall, without limitation, be converted to Euros pursuant to this Section 2.6(d): Losses, Global Asbestos Resolution Amounts, Insurance Disallowances, Insurance Receipts, Affirmative Environmental Litigation Proceeds, Property Sale Proceeds and Co-Contribution Proceeds.

(e) To the extent any amounts estimated, calculated, determined, paid, received, applied, allocated, deferred or accrued pursuant to this Agreement are denominated in a currency other than Euros or U.S. dollars, such amounts shall (i) be converted into U.S. dollars at the rate at which such currency may be exchanged into U.S. dollars, as set forth at approximately 11:00 a.m., London time, on the date such amounts are estimated, calculated, determined, paid, received, applied, allocated, deferred or accrued on the Reuters World Currency Page **"**FX=**"** for such currency (or, in the event that such rate does not appear on any Reuters World Currency Page, then the exchange rate as determined by reference to such other publicly available service for displaying exchange rates as may be agreed upon by the Parties), and then (ii) such amount of U.S. dollars shall be converted to Euros in accordance with Section 2.6(d).

Section 2.7 Limitations to Payments. For the avoidance of doubt, (i) payments of Accrued Amounts are not subject to the Cap and shall be payable as provided in Section 2.5(b), and (ii) except as set forth in Section 2.4, any amounts payable under this Agreement that are not paid due to the Cap shall not be applied to another year.

Section 2.8 Illustrative Examples. Set forth on Schedule 2.8 hereto are examples of the payments that may be made pursuant to Section 2.3, 2.4, and 2.5, which are being provided for illustrative purposes only and are not the sole examples of a particular concept or intended to be a representation as to any future payments.

Section 2.9 Management of Claims. The Claim Manager shall be solely responsible for, and shall have sole discretion with respect to, the Management of all Claims. Payor shall have the right to meet with the Claim Manager's outside litigation or environmental counsel once each Fiscal Quarter to discuss the US Bendix Reports, the 4Q Reports or the True-Up Reports; provided, that (a) the Claim Manager shall have no obligation to implement or adopt Payor's requests during such meeting or otherwise consult, seek the consent of, cooperate with or otherwise inform (except pursuant to this sentence, Section 2.2 and Section 3.3(a)) Payor or any of its Affiliates or their respective Representatives regarding the investigation, defense, compromise, settlement or resolution of any Claim, regardless of the party against whom any such Claim may be asserted, (b) the content of such meetings shall be limited to the information contained in the US Bendix Reports, 4Q Reports or True-Up Reports, and (c) Payor shall pay all fees and expenses relating to such quarterly meetings. All Claims brought against any Payor Party subject to payment hereunder shall be referred to the Claim Manager for Management promptly and, in any event, within fifteen (15) days of notice thereof. Notwithstanding the above, in no event shall the Claim Manager or the Claim Manager's counsel be under any obligation to share privileged information with Payor or Payor's Representatives.

Section 2.10 Covenants. The provisions of Article V (Affirmative Covenants) (other than Sections 5.12, 5.13, 5.14 and 5.15(a)) and Article VI (Negative Covenants) of the Current Credit Agreement shall be incorporated herein and shall apply mutatis mutandis with changes thereto as set forth in Exhibit L (such exhibit to be agreed following the date hereof and prior to the Distribution Date); provided that members of Payor Group may enter into intercompany transactions with members of the Transportation Systems Group in the Ordinary Course of Business.

Section 2.11 Restricted Payment Capacity. Payor shall, and shall cause its Restricted Subsidiaries to, preserve at least $50,000,000, as converted into Euros in accordance with Section 2.6(d), of the payment capacity under Section 6.08(a)(xii)(A) (Limitations on Restricted Payments) (or any successor provision) of the Principal Credit Agreement (the **"**General RP Basket**"**) solely for the purpose of paying Accrued Amounts; provided that such General RP Basket shall be reduced by the amount of any Accrued Amounts paid pursuant to Section 2.5(a).

Section 2.12 No Acts to Impair Rights.

(a) Payor shall not, and shall not permit its Subsidiaries or Affiliates that are members of the Transportation Systems Group to, take any action intended to, or which would reasonably be expected to, prohibit, restrict, circumvent, diminish or impair (or have the effect, directly or indirectly, of prohibiting, restricting, circumventing, diminishing or impairing) in any material respect (i) the ability of Payor to make any payments under this Agreement, (ii) the rights of Payee under this Agreement or (iii) the ability of Payee to enforce its rights under this Agreement; *provided* that this Section 2.12(a) shall not prohibit the repayment of any Senior Indebtedness that has become due and payable. Without limiting the foregoing, Payor agrees that it shall not, and it shall not permit its Subsidiaries or Affiliates that are members of the Transportation Systems Group to, amend or enter into waivers under the Current Credit Agreement or the Indenture, or enter into another Principal Credit Agreement or indenture or other agreement (including other agreements relating to Senior Indebtedness) or make amendments or waivers thereto (any such amendment or waiver or entry into a new agreement, an **"Agreement Amendment"**), in each case, in a manner that would (x) adversely affect the rights of Payee hereunder or (y) reasonably be expected to (I) prohibit, restrict, circumvent, diminish or impair (or have the effect, directly or indirectly, of prohibiting, restricting, circumventing, diminishing or impairing) the ability of Payor to satisfy its obligations hereunder or (II) trigger a Payment Deferral (an **"Adverse Change"**) without Payee's prior written consent (such consent not to be unreasonably withheld, delayed or conditioned). Payor agrees that it shall not, and it shall not permit its Subsidiaries to, effect any Agreement Amendment with respect to the Current Credit Agreement or the Indenture, or any Principal Credit Agreement or indenture or similar agreement, in each case without providing prior written notice to Payee at least ten (10) Business Days prior to effecting such Agreement Amendment.

(b) Without limiting the foregoing, the Parties agree that it is understood that (i) any amendment or waiver of the negative covenants of the Current Credit Agreement or the Indenture resulting in such negative covenants being less restrictive to Transportation Systems and its subsidiaries than the Current Credit Agreement or the Indenture, respectively, shall not constitute an Adverse Change and (ii) any amendment or waiver of the provisions of clauses (a)(ii), (a)(iii), (a)(v), (a)(xi) and (a)(xii) of Section 6.08 and Sections 6.11(a) (as it relates to this Agreement), 6.12, 6.13, 6.15, 6.17 and 6.18 of the Current Credit Agreement or the corresponding provisions of the Indenture or any Principal Credit Agreement or other indenture, if any, that is more restrictive (or any amendment or waiver that has the effect, directly or indirectly, of making such provisions more restrictive) to Transportation Systems

and its subsidiaries than the Current Credit Agreement or the Indenture, respectively, shall, in each case, without limitation, be deemed to be an **"**Adverse Change**"**. In the event of any Agreement Amendment (including any Adverse Change) permitted to be made pursuant to the terms hereunder that is more restrictive to Transportation Systems and its Subsidiaries than the Current Credit Agreement, any Principal Credit Agreement or any indenture (including the Indenture), the provisions of such Agreement Amendment shall, unless otherwise agreed in writing by Transportation Systems and Payee, also apply (or be deemed to apply automatically) to the corresponding covenant incorporated herein under Section 2.10, *mutatis mutandis*, such that Payee shall receive the same benefit of such more restrictive terms as the financing sources under the Current Credit Agreement or such Principal Credit Agreement or such indenture, as applicable.

Section 2.13 Default.

(a) Notwithstanding anything to the contrary contained in this Agreement, the occurrence of the following events shall constitute a default under, and a breach of, this Agreement (a **"Default"**):

(i) any failure to make a Quarterly Payment, a 4Q Payment, a Cash True-Up Payment or Accrued Amount when due and payable (except any such amount subject to a Financial Covenant Deferral or a Default Deferral);

(ii) any material breach of this Agreement that is not curable or, if curable, is not cured within thirty (30) days of written notice thereof;

(iii) the failure by Transportation Systems or any of its Restricted Subsidiaries to make any payment when due (after giving effect to any applicable grace period) under any Material Indebtedness; or

(iv) any default in the performance of any agreement or condition contained in the Principal Credit Agreement, or any other event or condition, the effect of which default or other event or condition is to cause, or to permit the creditors under the Principal Credit Agreement to cause, the indebtedness under the Principal Credit Agreement to become due prior to its stated maturity or to be required to be repurchased, prepaid, redeemed or deferred prior to its stated maturity;

provided, that, (A) in the case of clause (iv) above, any such Default shall be deemed to have occurred only if (x) sixty (60) calendar days have passed since the first date on which a Default would otherwise have been deemed to occur thereunder (such date, the **"Default Date"**) and (y) thirty (30) calendar days have passed since Payee provides written notice (a **"Payment Default Notice"**) of such default to the Senior Agent (and each Financial Representative for any other Senior Indebtedness having commitments or an outstanding principal amount of at least $25,000,000, as converted into Euros in accordance with Section 2.6(d)), which such Payment Default Notice may be delivered on or after the Default Date, and during such sixty (60) calendar day and thirty (30) calendar day periods, the relevant creditors under the Principal Credit Agreement have not waived such default and (B) in the case of clauses (i), (ii) and (iii) above, any such Default shall be deemed to have occurred only if thirty (30) days have passed since Payee provides a Payment Default Notice to the Senior Agent (and each Financial Representative for any other Senior Indebtedness having commitments or outstanding principal amount of at least $25,000,000, as converted into Euros in accordance with Section 2.6(d)) and during such thirty (30) calendar day period, Payee has not waived such default.

(b) Promptly, and in any event within five (5) Business Days, upon obtaining knowledge of any Default, Payor shall deliver notice of such Default to Payee in accordance with Section 4.9, specifying the nature of such Default and what actions Payor has taken, is taking or proposes to take with respect thereto.

Section 2.14 Guarantee. Payor and each Restricted Subsidiary of Payor that is a Loan Party (as defined in the Principal Credit Agreement) shall, on the Distribution Date, enter into a guarantee, which shall be set forth as Exhibit M on the Distribution Date (the **"Guarantee"**). In the event that any additional Persons shall become a Restricted Subsidiary of Payor and a Loan Party under the Principal Credit Agreement (**"New Loan Parties"**), Payor shall promptly, and, in any event, within ten (10) Business Days after becoming a Loan Party under the Principal Credit Agreement, cause such New Loan Parties to enter into the Guarantee. The joinder to the Guarantee, and execution and delivery thereof by such New Loan Parties, shall not require the consent of any other party to the Guarantee.

Section 2.15 Subordination.

(a) Payee agrees that all amounts payable by Payor to Payee hereunder shall be subordinated in right of payment to the prior Payment in Full of all Senior Indebtedness (whether outstanding on the date hereof or hereafter created, incurred, assumed or guaranteed) as provided in this Section 2.15.

(b) In the event of any payment or distribution of assets during any Insolvency Proceeding of Payor or any Person providing a Guarantee, subject to governing law of the relevant Insolvency Proceeding:

(i) holders of Senior Indebtedness shall first be entitled to receive Payment in Full of all Obligations due in respect of such Senior Indebtedness (including interest after the commencement of any such Insolvency Proceeding at the rate specified in the documentation for the applicable Senior Indebtedness) or provision shall be made for such amount in cash, or other payments satisfactory to all of the holders of Senior Indebtedness (such satisfaction to be evidenced in writing by such holders of Senior Indebtedness), before Payee shall be entitled to receive any payment hereunder; and

(ii) until all Obligations with respect to Senior Indebtedness (as provided in clause (i) above) are Paid in Full, any distribution to which Payee would be entitled but for this Section 2.15 shall be made to the Applicable Designated Representative under (and as defined in) the Intercreditor Agreement (as defined in the Principal Credit Agreement) and applied in accordance with the terms thereof.

(c) Default *on Senior Indebtedness*.

(i) No payment may be made hereunder, directly or indirectly, if a default in payment of the principal of, premium, if any, or interest on, or other Obligations with respect to any Senior Indebtedness, occurs (each, a **"Senior Payment Default"**), by reason of acceleration or otherwise, until all Senior Payment Defaults have been cured or waived in accordance with the terms of the agreement, indenture or other document governing such Senior Indebtedness (as evidenced by a written waiver from the holders (or a Financial Representative thereof) of the applicable Senior Indebtedness).

(ii) During the continuance of any event of default with respect to any Senior Indebtedness (other than a Senior Payment Default), permitting the holders thereof (or their Financial Representative) to accelerate the maturity thereof, no payment may be made hereunder, directly or indirectly, for a period (a **"Payment Blockage Period"**) commencing upon the receipt by Payor of written notice (a **"Payment Blockage Notice"**) of such event of default from Persons entitled to give such notice under any agreement pursuant to which that Senior Indebtedness may have been issued, that such an event of default has occurred and is continuing and ending on the earliest of: (1) one hundred and eighty (180) days from the date of receipt of the Payment Blockage Notice; (2) the date such event of default has been cured or waived in accordance with the terms of such Senior Indebtedness; or (3) the date such Payment Blockage Period shall have been terminated by written notice from the Person initiating such Payment Blockage Period. Notwithstanding any of the foregoing, until the Obligations under the Principal Credit Agreement are Paid in Full, (x) only the Senior Agent shall have the right to give a Payment Blockage Notice and (y) any Payment Blockage Notice given by a holder of any Senior Indebtedness that is not the Senior Agent shall not be effective for any purposes. Transportation Systems shall deliver any Payment Blockage Notice promptly to Payee.

(iii) Payor may resume payments hereunder at the end of the Payment Blockage Period unless a Senior Payment Default then exists.

(iv) Until all Obligations with respect to Senior Indebtedness are Paid in Full, so long as a Senior Payment Default has occurred and is continuing or a Payment Blockage Period has commenced and is continuing, Payee shall not (and shall not permit any member of the Honeywell Group to) make, sue for, ask or demand from any member of the Transportation Systems Group payment of all or any of the obligations hereunder, or commence, or join with any creditor other than the Senior Agent in commencing, directly or indirectly cause any member of the Transportation Systems Group, or assist any member of the Transportation Systems Group in commencing, any Insolvency Proceeding; provided, however, that nothing herein shall restrict Payee from filing a proof of claim with respect to obligations hereunder in any Insolvency Proceeding.

(v) Payor shall promptly provide written notice to Payee regarding the occurrence or termination of a Senior Payment Default.

(d) In the event that Payee receives any payment hereunder, whether in cash, property or securities (including, without limitation, by way of setoff, recovery from a judgment lien or otherwise), at a time when such payment or distribution is prohibited by this Section 2.15, such payment or distribution shall be held by Payee, in trust for the benefit of, and shall be paid forthwith over and delivered to the Applicable Designated Representative under (and as defined in) the Intercreditor Agreement (as defined in the Principal Credit Agreement) and applied in accordance with the terms thereof.

(e) Payor shall promptly notify Payee of any facts known to Payor that would cause a payment hereunder to violate this Section 2.15, but failure to give such notice shall not affect the subordination of payments hereunder to the Senior Indebtedness as provided in this Section 2.15.

(f) After (and only after) all Senior Indebtedness is Paid in Full in cash or other payment satisfactory to the holders of the Senior Indebtedness (such satisfaction to be evidenced in writing by such holders of Senior Indebtedness), Payee shall be subrogated (equally and ratably with all other indebtedness pari passu with Payee and entitled to similar rights of subrogation) to the rights of holders of Senior Indebtedness to receive payments or distributions applicable to Senior Indebtedness to the extent that payments or distributions otherwise payable to Payee have been applied to the payment of Senior Indebtedness. A distribution made under this Section 2.15 to holders of Senior Indebtedness that otherwise would have been made to Payee is not, as between Payor and Payee, a payment on amounts due hereunder.

(g) This Section 2.15 defines the relative rights of, on the one hand, Payee and, on the other hand, the holders of Senior Indebtedness. Nothing in this Section 2.15 shall:

(i) impair, as between Payor and Payee, the obligation of Payor, which is absolute and unconditional, to pay amounts payable by Payor to Payee hereunder;

(ii) affect the relative rights of Payee and creditors of Payor Group other than their rights in relation to holders of Senior Indebtedness; or

(iii) subject to Section 2.15(c)(iv), prevent Payee from exercising its available remedies upon the occurrence of a Default, subject to the rights of holders and owners of Senior Indebtedness under this Section 2.15 to receive distributions and payments otherwise payable to Payee.

If Payor fails, because of this Section 2.15, to pay any amounts due and payable to Payee hereunder on the due date, the failure shall still constitute a Default.

(h) No right of any holder of Senior Indebtedness to enforce the subordination of the amounts payable by Payor to Payee hereunder shall be impaired by any act, or failure to act, by Payor, Transportation Systems or Payee or by the failure of Transportation Systems, Payor or Payee to comply with this Section 2.15 or any other provision of this Agreement.

(i) Whenever a distribution is to be made or a notice given to holders of Senior Indebtedness, the distribution may be made and the notice given to their Financial Representative. Upon any payment or distribution of assets of any member of Payor Group referred to in this Section 2.15, Payee shall be entitled to rely upon any order or decree made by any court of competent jurisdiction or upon any certificate of a Financial Representative of a holder of Senior Indebtedness or of the liquidating trustee or agent or other person making any distribution to Payee for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of the Senior Indebtedness and other indebtedness of Payor Group, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Section 2.15.

(j) The provisions of this Section 2.15 and related definitions in Section 1.1 shall not be amended or modified in any manner adverse to the holders of Senior Indebtedness without the written consent of the holders of all Senior Indebtedness (or, in the case of any holders of Senior Indebtedness represented by a Financial Representative, without the written consent of such Financial Representative acting on behalf of such holders pursuant to the terms of the agreement, indenture or other document governing such Senior Indebtedness).

(k) To the fullest extent permitted by law, the provisions of this Section 2.15 and the obligations under this Agreement shall remain in full force and effect irrespective of (i) any amendment, modification or supplement of, or any rescission, waiver or consent to, any of the terms of the Senior Indebtedness or the agreement or instrument governing the Senior Indebtedness, this Agreement or any other agreement, (ii) the taking, exchange, release or non-perfection of any collateral securing the Senior Indebtedness, or the taking, release or amendment or waiver of or consent to departure from any guaranty of the Senior Indebtedness, (iii) the manner of sale or other disposition of the collateral securing the Senior Indebtedness or the application of the proceeds upon such sale, (iv) the failure of any holder of the Senior Indebtedness or any other Person to assert any claim or demand or to enforce any right or remedy under the provisions of the agreement or instrument governing the Senior Indebtedness, this Agreement or otherwise, (v) any illegality, lack of validity or lack of enforceability of any of the terms of the Senior Indebtedness or the agreement or instrument governing the Senior Indebtedness or this Agreement, (vi) any change in the corporate existence, structure or ownership of Payor or any member of Payor Group, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting any such Person or its assets, (vii) any action permitted or authorized hereunder; or (viii) any other circumstance which might otherwise constitute a defense available to, or a discharge of, Payor, any member of Payor Group, Payee or any other subordinated creditor. Payee and Payor each hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Senior Indebtedness and any requirement that any holder of the Senior Indebtedness or Financial Representative of any holders of Senior Indebtedness secure, perfect or insure any security interest or lien or any property or exhaust any right or take any action against Payor, any member of Payor Group or any other person or entity or any collateral. The holders of the Senior Indebtedness (and each Financial Representative of the holders of Senior Indebtedness) are hereby authorized to demand specific performance of this Agreement. Payee and Payor each hereby irrevocably waives any defense based on the adequacy of a remedy at law, which might be asserted as a bar to such remedy of specific performance.

(l) The holders of the Senior Indebtedness (and each Financial Representative of the holders of Senior Indebtedness) shall be third-party beneficiaries of this Section 2.15 and shall be entitled to enforce the provisions hereof directly against Payee and Payor.

Section 2.16 Confidentiality; Privilege.

(a) From and after the Distribution Date until two (2) years following the date of termination of this Agreement, Payor Group shall, and shall cause its Affiliates that are members of the Transportation Systems Group and Representatives to, keep confidential any and all non-public information provided pursuant to Section 2.2 and Section 3.3(a); *provided*, *however*, that Payor shall not be liable hereunder with respect to any disclosure to the extent such disclosure is determined by Payor (with the advice of counsel) to be required by any applicable Law or Order, including applicable rules of any securities exchange. In the event that Payor or any of its Affiliates or Representatives are required by any applicable Law or Order to disclose any such non-public information, Payor shall, (i) to the extent permissible by such applicable Law or Order, provide the Claim Manager with prompt written notice of such requirement, (ii) disclose only that information that Payor determines (with the advice of counsel) is required by such applicable Law or Order to be disclosed and (iii) use reasonable efforts to preserve the confidentiality of such non-public information, including by, at the request of the Claim Manager, reasonably cooperating with the Claim Manager to obtain an appropriate protective order or other reliable assurance that confidential treatment will be accorded such non-public information. Notwithstanding the foregoing, such non-public information shall not include information that (A) is or becomes available to the public after the Distribution Date other than as a result of a disclosure by Payor or any of its Affiliates or Representatives in breach of this Section 2.16 or (B) becomes available to Payor or any of its Affiliates or Representatives after the Distribution Date from a source other than the Claim Manager or its Affiliates or Representatives if the source of such information is not known by Payor or its Affiliates or Representatives to be bound by a confidentiality agreement with, or other contractual, legal or fiduciary obligation of confidentiality to, the Claim Manager or its Affiliates with respect to such information. Notwithstanding anything to the contrary in this Agreement, any member of Payor Group may share such non-public information with its Affiliates and Representatives, *provided* that: (i) such Representatives or Affiliate (where such Affiliate is not a member of Payor Group) shall enter into a confidentiality agreement with such member of Payor Group on terms substantially similar to this Section 2.16 to keep such non-public information confidential and will not disclose such information to any other Person; (ii) such Representatives shall not use such non-public information in any manner that is detrimental to the interests of the Claim Manager or its Affiliates; and (iii) Payor agrees that it is responsible to the Claim Manager for any action, or failure to act, that would constitute a breach or violation of this Section 2.16 by any such Representative or Affiliate.

(b) The Claim Manager shall be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities in connection with any privileged information that relates solely or primarily to the Claims, whether or not the privileged information is in the possession or under the control of any Affiliate of Payor or any Affiliate of the Claim Manager. The Claim Manager shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities in connection with any privileged information that relates solely or primarily to any Claims in connection with any legal proceedings that are now pending or may be asserted in the future, whether or not the privileged information is in the possession or under the control of any Affiliate of Payor or any Affiliate of the Claim Manager.

(c) If the Parties do not agree as to whether certain information is privileged information, then such information shall be treated as privileged information, and the Claim Manager shall be entitled to control the assertion or waiver of all privileges and immunities in connection with any such information until such time as it is finally judicially determined that such information is not privileged information or unless the Parties otherwise agree.

(d) The Parties agree that their respective rights to access information, witnesses and other Persons, the furnishing of notices and documents and other cooperative efforts between the Parties contemplated by this Agreement and the transfer of privileged information between the Parties pursuant to this Agreement, shall not be deemed a waiver of any privilege that has been or may be asserted under this Agreement or otherwise.

Section 2.17 Tax Treatment. Payments under this Agreement shall be treated for U.S. federal income tax purposes as payments made in respect of an obligation contributed by Payor to Payee simultaneously with the contributions by Payor to Payee of AlliedSignal Aerospace Service LLC, a limited liability company organized under the Laws of the State of Delaware, and the payment obligation under Section 3.02(g) of the Tax Matters Agreement immediately prior to and as part of a plan with the distribution of Payee by Payor to HAPI in accordance with the Separation Agreement. Neither Payor nor any of its Affiliates shall claim any deduction for U.S. federal income tax purposes in respect of such payments other than any portion of such payments treated as interest under applicable U.S. federal income tax rules. Honeywell shall be the only person entitled to claim deductions for U.S. federal, state or local income tax purposes in respect of any Losses relating to Claims. All Parties hereto shall and shall cause their Affiliates to file all Tax returns on a basis consistent with the foregoing, and neither any Party nor an Affiliate shall take any Tax position inconsistent with this Section 2.17.

ARTICLE III
TERM AND TERMINATION

Section 3.1 Term. This Agreement shall be effective as of the date hereof and, *unless* the Agreement is terminated earlier as provided herein, shall continue until the earliest to occur of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which *the sum of* (i) the Aggregate Annual Obligation, *plus* (ii) if applicable, the GARE Payment, *plus* (iii) any Accrued Amounts has been less than $25,000,000, as converted into Euros in accordance with Section 2.6(d) (the **"Termination Date"**).

Section 3.2 Termination. This Agreement may be terminated prior to the Termination Date by mutual written agreement of the Parties (in which case, the date of such termination shall be the "Termination Date" for all other purposes under this Agreement).

Section 3.3 Effect of Termination.

(a) Upon the termination of this Agreement, no Party shall have any liability or further obligation to any other Party or any of such Party's Affiliates under this Agreement; *provided*, *however,* that on February 15 of the calendar year following the Termination Date, the Claim Manager shall deliver to Payor a Prior Year Aggregate Loss Statement and:

(i) if there is a Deficiency Amount set forth in the Prior Year Aggregate Loss Statement, then such Deficiency Amount shall be due and payable;

(ii) any Accrued Amounts outstanding as of such date shall be due and payable;

(iii) any payments of such Deficiency Amount and any remaining Accrued Amount shall first be paid by reducing the amount of any Overage Amount and any remaining Overage Credit and then, if any such Overage Amount and Overage Credit has been reduced to zero, by payment of cash from Payor to Payee; and

(iv) if there is an Overage Amount set forth in the Prior Year Aggregate Loss Statement and/or any remaining Overage Credit following any payments contemplated by Section 3.3(a)(iii), Payee shall pay to Payor *the sum of* such Overage Amount, *plus* any such remaining Overage Credit.

Any payment made hereunder shall be made promptly following delivery of the Prior Year Aggregate Loss Statement and, in any event, within twenty (20) days thereof, in cash, by wire transfer of immediately available funds, to an account specified by the receiving Party in writing and the paying Party shall send a payment confirmation to the receiving Party by fax or e-mail.

(b) Notwithstanding any expiration or termination of this Agreement, Section 2.6, 2.15 and 2.16, this Section 3.3, and ARTICLE IV shall survive and remain in effect in accordance with their terms. Any termination of this Agreement shall be without prejudice to any other rights or remedies available under this Agreement or at Law.

ARTICLE IV
MISCELLANEOUS

Section 4.1 Counterparts; Entire Agreement. This Agreement may be executed in one or more counterparts, all of which counterparts shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each Party and delivered to the other Party. This Agreement may be executed by facsimile or PDF signature and scanned and exchanged by electronic mail, and such facsimile or PDF signature or scanned and exchanged copies shall constitute an original for all purposes. This Agreement, the Exhibits hereto and the Separation Agreement contain the entire agreement between the Parties with respect to the subject matter hereof and supersede all previous agreements, negotiations, discussions, writings, understandings, commitments and conversations with respect to such subject matter, and there are no agreements or understandings between the Parties with respect to the subject matter hereof other than those set forth or referred to herein or therein. For the avoidance of doubt, losses, damages, liabilities, deficiencies, judgments, interest, awards, penalties, fines, costs or expenses of whatever kind in respect of Managing, investigating, defending, settling, compromising or resolving claims against any Ex-US TS Brake Subsidiary in any way related to or arising out of asbestos or asbestos-containing dust are subject to indemnification pursuant to the terms of the Separation Agreement.

Section 4.2 Representations and Warranties. Each Party, severally as to itself only, and not jointly or jointly and severally, hereby represents and warrants to each other Party hereto as of the date of this Agreement as follows:

(a) each such Person has the requisite corporate or other power and authority and has taken all corporate or other action necessary in order to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby and thereby;

(b) this Agreement has been duly executed and delivered by it and constitutes a valid and binding agreement of it enforceable in accordance with the terms thereof;

(c) neither the execution, delivery or performance by each such Person of this Agreement, nor the consummation of the transactions contemplated hereby, will (i) result in a material violation or material breach of, or material default under, any provision of the organizational documents of such Party or (ii) conflict with or result in a violation of, or give any Governmental Authority or other Person the right to challenge any of the transactions contemplated hereby under, any Law or Order applicable to such Party; and

(d) both (i) immediately after entering into this Agreement and (ii) upon the payment of the Estimated Initial US Bendix Obligation, Payor shall be solvent and shall (a) be able to pay its debts as they become due, (b) own property that has a fair saleable value greater than the amounts required to pay its debts (including a reasonable estimate of the amount of all contingent liabilities) and (c) have adequate capital to carry on its businesses.

Section 4.3 Dispute Resolution. In the event that any Party, acting reasonably, forms the view that another Party has caused a material breach of the terms of this Agreement, then the Party that forms such a view shall serve written notice of the alleged breach on the other Parties and the Parties shall work together in good faith to resolve any such alleged breach within thirty (30) days of such notice (a **"Dispute"**). If any such alleged breach is not so resolved, then a senior executive of each Party shall, in good faith, attempt to resolve any such alleged breach within the following thirty (30) days of the referral of the matter to the senior executives. If no resolution is reached with respect to any such alleged breach in accordance with the procedures contained in this Section 4.3, then the Parties may seek to resolve such matter in accordance with Section 4.4 and Section 4.5.

Section 4.4 Governing Law; Jurisdiction. Any disputes arising out of or relating to this Agreement, including, without limitation, to its execution, performance, or enforcement, shall be governed by, and construed in accordance with, the Laws of the State of New York, regardless of the Laws that might otherwise govern under applicable principles of conflicts of Laws thereof. Each Party irrevocably consents to the exclusive jurisdiction, forum and venue of any state or federal court sitting in New York City in the State of New York over any and all claims, disputes, controversies or disagreements between the Parties or any of their respective Affiliates, successors and assigns under or related to this Agreement or any of the transactions contemplated hereby, including, without limitation, to their execution, performance or enforcement, whether in contract, tort or otherwise. Each of the Parties hereby agrees that it shall not assert and shall hereby waive any claim or right or defense that it is not subject to the jurisdiction of such courts, that the venue is improper, that the forum is inconvenient or any similar objection, claim or argument. Each Party agrees that a final judgment in any legal proceeding resolved in accordance with this Section 4.4, Section 4.5 and Section 4.6 shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by applicable Law.

Section 4.5 Waiver of Jury Trial. EACH PARTY HEREBY WAIVES ITS RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON, ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY INCLUDING, WITHOUT LIMITATION, THEIR EXECUTION, PERFORMANCE OR ENFORCEMENT, WHETHER IN CONTRACT, TORT OR OTHERWISE. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS TRANSACTION, INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS (INCLUDING NEGLIGENCE), BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. THIS SECTION HAS BEEN FULLY DISCUSSED BY EACH OF THE PARTIES AND THESE PROVISIONS WILL NOT BE SUBJECT TO ANY EXCEPTIONS.

Section 4.6 Court-Ordered Interim Relief. In accordance with Section 4.4 and Section 4.5, at any time after giving notice of a Dispute, each Party shall be entitled to interim measures of protection duly granted by a court of competent jurisdiction: (1) to preserve the status quo pending resolution of the dispute; (2) to prevent the destruction or loss of documents and other information or things relating to the dispute; or (3) to prevent the transfer, disposition or hiding of assets. Any such interim measure (or a request therefor to a court of competent jurisdiction) shall not be deemed incompatible with the provisions of Section 4.3, Section 4.4, or Section 4.5. Until such Dispute is resolved in accordance with Section 4.3 or final judgment is rendered in accordance with Section 4.4 and Section 4.5, each Party agrees that such Party shall continue to perform its obligations under this Agreement and that such obligations shall not be subject to any defense or set-off, counterclaim, recoupment or termination.

Section 4.7 Assignability; Transfer.

(a) Except as set forth in Section 4.7(b), (c), (d) and (e), neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by operation of Law or otherwise by either Party without the prior written consent of the other Party (consent to be provided in such Party's sole discretion); provided that the Claim Manager may assign this Agreement to any Affiliate, in whole or in part, without the consent of any other Party hereto.

(b) Any Party may assign this Agreement without prior written consent if: (i) such assignment is pursuant to (a) a merger transaction in which the surviving entity acquires or assumes all, or substantially all, of such Party's assets or (b) the sale of all, or substantially all, of such Party's assets; and (ii) other than in respect of an assignment by Honeywell pursuant to clause (b)(i) above, (A) the assignee or successor-in-interest shall have corporate credit ratings assigned to it by Moody's Corporation and S&P Global Inc. (or any respective successors thereof) of no less than BBB/Baa2, respectively; and (B) it shall not be reasonably foreseeable as of the date of such assignment that such assignee or successor-in-interest will be downgraded as a result of the contemplated transaction with Payor or otherwise. Notwithstanding the foregoing, in no event shall an assignment occur under this Section 4.7(b) unless the assignee or successor-in-interest expressly assumes in writing all of the obligations of the assigning Party under this Agreement, and the assigning Party provides written notice and evidence of such assignment, assumption or succession to the non-assigning Party.

(c) In the event that Payor Group effects a separation of a substantial portion of its business into one or more entities (each a **"**Bendix Newco**"**), whether existing or newly-formed, including by way of a Separation Transaction, prior to such separation, Payor shall cause any such Bendix Newco to enter into an agreement with Payee that contains rights and obligations that are substantially similar to those set forth in this Agreement and under which Bendix Newco and Payor shall be jointly and severally responsible for the payment obligations set forth in this Agreement. For the avoidance of doubt, any sale of equity interests or assets for consideration is not subject to this Section 4.7(c). Notwithstanding the foregoing, Payor Group may not enter into any Separation Transaction unless Bendix Newco shall have corporate credit ratings assigned to it by Moody's and S&P of no less than BBB/Baa2, respectively, and it shall not be reasonably foreseeable, as of the date of such Separation Transaction, that Bendix Newco will be downgraded.

(d) Notwithstanding the foregoing, Payee may assign this Agreement without the consent of any other Party hereto to Honeywell or any of its Subsidiaries and any such transferees or assignees shall thereafter be treated as **"**Payee**"** for all purposes under this Agreement.

(e) Notwithstanding the foregoing, Payor may assign this Agreement without the consent of any other Party hereto to New ASASCO, and New ASASCO shall assume all liability hereunder, in connection with the transactions contemplated by the Separation Agreement. Following such assignment and assumption, New ASASCO shall be treated as **"Payor"** for all purposes under this Agreement and Honeywell ASASCO Inc. shall be relieved of all liability hereunder.

(f) Notwithstanding the foregoing, any Person which becomes an assignee, successor or transferee to the Payee pursuant to this Section 4.7 shall accede to the Intercreditor Agreement (as defined in the Principal Credit Agreement) in its capacity as the **"**Honeywell Indemnitee**"** as defined thereunder. The lenders under the Principal Credit Agreement shall be third-party beneficiaries of this Section 4.7(f) and shall be entitled to enforce the provisions hereof directly against Payee and Payor.

(g) Any purported assignment in contravention of this Section 4.7 shall be void. Subject to this Section 4.7, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the Parties and their respective successors and assigns.

Section 4.8 Third-Party Beneficiaries. Except (i) as set forth in Section 2.15(l), (ii) as set forth in Section 4.14 and (iii) as set forth in Section 4.7 (f), and (iv) for the payment rights under this Agreement of any Payee in her, his or its respective capacities as such, (a) the provisions of this Agreement are solely for the benefit of the Parties hereto and are not intended to confer upon any Person except the Parties hereto any rights or remedies hereunder and (b) there are no third-party beneficiaries of this Agreement and this Agreement shall not provide any third person with any remedy, claim, liability, reimbursement, cause of action or other right in excess of those existing without reference to this Agreement.

Section 4.9 Notices. All notices or other communications under this Agreement shall be in writing and shall be deemed to be duly given when (a) delivered in person, (b) on the date received, if sent by a nationally recognized delivery or courier service or (c) upon the earlier of confirmed receipt or the fifth business day following the date of mailing if sent by registered or certified mail, return receipt requested, postage prepaid and addressed as follows:

(a) if to Payor:

Honeywell ASASCO Inc. 115
Tabor Road
Morris Plains, NJ 07950 Attention: Su
Ping Lu, President
Email: Suping.Lu@Honeywell.com

(b) if to Payee,

Honeywell ASASCO 2 Inc.
c/o Honeywell International Inc. 115 Tabor Road
Morris Plains, NJ 07950
Attention: Anne T. Madden, Senior Vice President, General Counsel and Corporate Secretary
Email: Anne.Madden@Honeywell.com

(c) if to the Claim Manager,

Honeywell International Inc.
115 Tabor Road
Morris Plains, NJ 07950
Attention: Anne T. Madden, Senior Vice President, General Counsel and Corporate Secretary
Email: Anne.Madden@Honeywell.com

(d) with a copy of any such notice sent to Payee, Payor or the Claim Manager (which shall not constitute notice) to:

Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York, NY 10006
Attention: Craig B. Brod
Kimberly R. Spoerri
Fax: (212) 225-3999
Email: cbrod@cgsh.com
kspoerri@cgsh.com

and:

Paul, Weiss, Rifkind, Wharton & Garrison LLP 1285 Avenue of the Americas
New York, NY 10019-6064
Attention: Scott A. Barshay
Steven J. Williams
Fax: 212-492-0040
Email: sbarshay@paulweiss.com
swilliams@paulweiss.com

and

McDermott, Will & Emery LLP 340 Madison
Avenue
New York, NY 10173 Attention: Peter J.
Sacripanti
Fax: 212-547-5444
Email: psacripanti@mwe.com

Either Party may, by notice to the other Party, change the address to which such notices are to be given. Each Party agrees that nothing in this Agreement shall effect the other Parties' right to serve process in any other manner permitted by Law (including pursuant to the rules for foreign service of process authorized by the Hague Convention).

Section 4.10 Severability. If any provision of this Agreement or the application thereof to any Person or circumstance is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to Persons or circumstances or in jurisdictions other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either Party. Upon any such determination, any such provision, to the extent determined to be invalid, void or unenforceable, shall be deemed replaced by a provision that such court determines is valid and enforceable and that comes closest to expressing the intention of the invalid, void or unenforceable provision.

Section 4.11 Fees and Expenses. Except as otherwise expressly provided in this Agreement, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the Party incurring such costs and expenses. Notwithstanding the foregoing, if any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing Party shall be entitled to recover from the non-prevailing Party attorneys' fees and other costs and expenses incurred in connection with any such action in addition to any other relief to which such Party may be entitled. For the avoidance of doubt, any such costs and expenses shall not be included in, or subject to, the Cap.

Section 4.12 Headings. The article, section and paragraph headings contained in this Agreement, including in the table of contents of this Agreement, are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 4.13 Waivers of Default. No failure or delay of any Party in exercising any right or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, or any course of conduct, preclude any other or further exercise thereof or the exercise of any other right or power. Waiver by any Party of any default by the other Party of any provision of this Agreement shall not be deemed a waiver by the waiving Party of any subsequent or other default.

Section 4.14 Amendments. No provisions of this Agreement shall be deemed waived, amended, supplemented or modified by any Party, unless such waiver, amendment, supplement or modification is in writing and signed by the authorized representative of each Party; *provided* that no amendment resulting in the increase of the late payment fee set forth in Section 2.6(b) shall be effective without the written consent of the **"**Required Lenders**"** (as defined in the Principal Credit Agreement) under the Principal Credit Agreement. The lenders under the Principal Credit Agreement shall be third-party beneficiaries of this Section 4.14 and shall be entitled to enforce the provisions hereof directly against Payee and Payor.

Section 4.15 Interpretation. Words in the singular shall be held to include the plural and vice versa and words of one gender shall be held to include the other gender as the context requires. The terms "hereof," "herein," "herewith" and words of similar import, unless otherwise stated, shall be construed to refer to this Agreement as a whole (including all of the schedules hereto) and not to any particular provision of this Agreement. Article, Section or Exhibit references are to the articles, sections and Exhibits of or to this Agreement unless otherwise specified. Any capitalized terms used in any Exhibit to this Agreement but not otherwise defined therein shall have the meaning as defined in this Agreement. Any definition of or reference to any agreement, instrument or other document herein (including any reference herein to this Agreement) shall, unless otherwise stated, be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth therein, including in Section 4.14 above). The word "including" and words of similar import when used in this Agreement shall mean **"**including, without limitation,**"** unless the context otherwise requires or unless otherwise specified. The word **"**or**"** shall not be exclusive. All references to **"**$**"** or dollar amounts are to lawful currency of the United States of America. In the event that an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring either Party by virtue of the authorship of any provisions hereof.

* * * * *

IN WITNESS WHEREOF, each of the Parties have caused this Agreement to be duly executed by their respective officers thereunto duly authorized, all as of the date first above written.

HONEYWELL INTERNATIONAL INC.

By: /s/ Richard Kent
Name: Richard Kent
Title: Vice President, Deputy General Counsel, Finance and Assistant Secretary

HONEYWELL ASASCO INC.

By: /s/ Su Ping Lu
Name: Su Ping Lu
Title: President

HONEYWELL ASASCO 2 INC.

By: /s/ Su Ping Lu
Name: Su Ping Lu
Title: President

EXHIBIT L

ARTICLE I

As of the Distribution Date, the Parties agree to the rights and obligations set forth in the affirmative and negative covenants set forth in Article II and Article III hereof, in accordance with Section 2.10 of this Agreement.

SECTION 1.01. Defined Terms.

(a) Capitalized terms used in this Exhibit L and not otherwise defined herein have the meanings specified in the Current Credit Agreement (as in effect on the Distribution Date).

SECTION 1.02. Other Defined Terms. As used in this Exhibit L, the following terms have the meanings specified below:

"Agreed Indemnity Guaranty Principles" shall mean those principles set forth on Schedule 1.01 or as such principles may be supplemented or modified from time to time.

"Credit Default" shall mean **"**Event of Default**"** under and as defined in the Current Credit Agreement (as in effect on the Distribution Date).

"Debt-Related Guarantee" shall have the meaning of **"**Guarantee**"** set forth in the Current Credit Agreement (as in effect on the Distribution Date).

"Default" shall have the meaning set forth in this Agreement. **"Guarantee"** shall have the meaning set forth in this Agreement.

"Indemnity Guarantee Requirement" shall mean, at any time and, in the case of Non-U.S. Payor Group Loan Parties, subject to the Agreed Indemnity Guaranty Principles in all respects, the requirement that:

(a) the Payee shall have received from Payor, each other Payor Group Loan Party and each Payor Group Designated Subsidiary (i) a counterpart of the Guarantee to which such Person is a party duly executed and delivered on behalf of such Person or (ii) in the case of any Subsidiary that becomes a Payor Group Loan Party or a Payor Group Designated Subsidiary after the Distribution Date, (A) if such Subsidiary is a U.S. Subsidiary, a supplement to the Guarantee Agreement in substantially the form attached as Exhibit A thereto and other security documents reasonably requested by the Payee, in form and substance reasonably satisfactory to the Payee (consistent with the Guarantee in effect on the Distribution Date), duly executed and delivered on behalf of such Person and (B) if such Subsidiary is a Non-U.S. Subsidiary, subject to the Agreed Indemnity Guaranty Principles, a supplement to the Guarantee and other local law security documents reasonably requested by Payee, in form and substance reasonably satisfactory to Payee (consistent with the Guarantee in effect on the Distribution Date), duly executed and delivered on behalf of such Person; provided that any such obligation arising under this definition (including paragraph (b) below) in respect of an entity organized or incorporated in Australia shall be subject to prior completion of any and all applicable steps and procedures required pursuant to the Australian Corporations Act in respect of the provision of financial assistance (where applicable), it being understood that such steps shall be completed no later than 90 days after the obligation has arisen for any such entity organized or incorporated in Australia to comply with the relevant Indemnity Guarantee Requirement; and

(b) except as otherwise provided for in the Guarantee, each Payor Group Loan Party shall have obtained all consents and approvals required to be obtained by it in connection with the execution and delivery of the Guarantee to which it is a party, the performance of its obligations thereunder.

"Material Adverse Effect" shall mean a material adverse effect on (a) the business, financial condition or results of operations of Payor, the Borrowers and the Payor Group Restricted Subsidiaries, taken as a whole, (b) the ability of the Payor Group Loan Parties (taken

as a whole) to perform their material obligations to Payee under this Agreement or (c) the material rights of, or remedies available to, Payee under this Agreement or the Guarantee.

"Non-U.S. Payor Group Loan Parties" shall mean each Non-U.S. Loan Party that is a Subsidiary of Payor.

"Payor Group" shall have the meaning set forth in this Agreement.

"Payor Group Designated Subsidiary" shall mean any Designated Subsidiary that is a Subsidiary of Payor.

"Payor Group Loan Parties" shall mean each Loan Party that is a Subsidiary of Payor.

"Payor Group Non-Loan Parties" shall mean any member of Payor Group that is not a Loan Party.

"Payor Group Restricted Subsidiaries" shall mean each Restricted Subsidiary that is a subsidiary of Payor.

"Payor Restricted Group" shall mean Payor, the Borrowers and each Payor Group Restricted Subsidiary.

"Payor Group Unrestricted Subsidiaries" shall mean Unrestricted Subsidiaries that are Subsidiaries of Payor.

ARTICLE II
Affirmative Covenants

From and including the Distribution Date and until all payment obligations under the Agreement have terminated following the Termination Date, Payor covenants and agrees, and shall (except in the case of Sections 2.01 and 2.03 hereof) cause the Borrowers (limited to the Swiss Borrower with respect to Section 5.18) to covenant and agree with the Payee that:

SECTION 2.01. Financial Statements and Other Information. In the case of Payor, Payor will furnish to Payee the following:

(a) within 90 days after the end of each fiscal year of Holdings (or such later date as Form 10-K of Holdings is required to be filed with the SEC taking into account any extension granted by the SEC, provided that Payor gives Payee notice of any such extension), Holdings's audited consolidated balance sheet and audited consolidated statements of operations, shareholders' equity and cash flows as of the end of and for such fiscal year, and related notes thereto, setting forth in each case in comparative form the figures for the previous fiscal year, prepared in accordance with generally accepted auditing standards and reported on by an independent public accountants of recognized national standing (without a "going concern" or like qualification, exception or statement and without any qualification or exception as to the scope of such audit, but may contain a "going concern" or like qualification that is due to (i) an upcoming maturity date of any Indebtedness occurring within one year from the time such opinion is delivered or (ii) any potential inability to satisfy a financial maintenance covenant on a future date or in any future period) to the effect that such financial statements present fairly in all material respects the financial condition, results of operations and cash flow of Holdings and its Subsidiaries on a consolidated basis as of the end of and for such fiscal year and accompanied by a narrative report describing the financial position, results of operations and cash flow of Holdings and its consolidated Subsidiaries;

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year of Holdings (or such later date as Form 10-Q of Holdings is required to be filed with the SEC taking into account any extension granted by the SEC, provided that Payor gives Payee notice of any such extension), its unaudited consolidated balance sheet and unaudited consolidated statements of operations and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by a Financial Officer of Holdings as presenting fairly in all material respects the financial condition, results of operations and cash flows of Holdings and its Subsidiaries on a consolidated basis as of the end of and for such fiscal quarter and such portion of the fiscal year in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes, and accompanied by a narrative report describing the financial position, results of operations and cash flow of Holdings and its consolidated Subsidiaries;

(c) concurrently with each delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer of Holdings (i) certifying as to whether a Credit Default has occurred and is continuing and, if a Credit Default has occurred and is continuing, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations (A) demonstrating compliance with the covenants contained in Sections 3.12 and 3.13 hereof and (B) in the case of financial statements delivered under clause (a) above and, solely to the extent either of the Borrowers would be required to prepay the Term Loans pursuant to Section 2.11(d) of the Current Credit Agreement, beginning with the financial statements for the fiscal year of Holdings ending December 31, 2019, of Excess Cash Flow, (iii) in the case of the delivery of financial statements under clause (a) above, stating whether the amounts directly or indirectly on-lent by the Lux Borrower (or any of its direct or indirect Subsidiaries (other than the Swiss Entities)) to the Swiss Entities (including the TLB Proceeds Loan) exceed the IFRS Equity Amount and (iv) at any time when there is any Unrestricted Subsidiary, including as an attachment with respect to each such financial statement, an Unrestricted Subsidiary Reconciliation Statement (except to the extent that the information required thereby is separately provided with the public filing of such financial statement) and (v) certifying that the representation in Section 3.19(i) of the Current Credit Agreement is true and correct in all material respects with respect to each Lux Intermediate Holdco.

(d) within 90 days after the end of each fiscal year of Holdings (or such longer period as permitted under Section 2.01(a) hereof), a detailed consolidated budget for the current fiscal year (including a projected consolidated balance sheet and consolidated statements of projected operations and cash flows as of the end of and for such fiscal year and setting forth the assumptions used for purposes of preparing such budget);

(e) [reserved];

(f) promptly after the same becomes publicly available, copies of all periodic and other reports, proxy statements and other materials filed by Holdings, any Borrower or any Restricted Subsidiary with the SEC or with any national securities exchange, or distributed by Holdings to the holders of its Equity Interests generally, as applicable; and

(g) promptly following any request therefor, but subject to the limitations set forth in the proviso to the last sentence of Section 2.10 hereof and Section 2.16 of the Agreement, such other information regarding the operations, business affairs, assets, liabilities (including contingent liabilities) and financial condition of Holdings, any Borrower or any Restricted Subsidiary, or compliance with the terms of the Current Credit Agreement, this Agreement, the Guarantee or any Loan Document, as Payee may reasonably request; provided that none of Payor, any Borrower or any Restricted Subsidiary will be required to provide any information (i) that constitutes non-financial trade secrets or non-financial proprietary information of the Transportation Systems Group (as defined in this Agreement) or any of their respective customers and suppliers, (ii) in respect of which disclosure to Payor (or any of its representatives) is prohibited by applicable Requirements of Law or (iii) the revelation of which would violate any confidentiality obligations owed to any third party by Holdings, any Borrower or any Restricted Subsidiary (not created in contemplation thereof); provided, further, that if any information is withheld pursuant to clause (i), (ii), or (iii) above, Payor shall promptly notify Payee of such withholding of information and the basis therefor.

Information required to be furnished pursuant to clause (a), (b), (f) or (g) of this Section shall be deemed to have been furnished if such information, or one or more annual or quarterly reports containing such information, shall have been provided to Payee or shall be available on the website of the SEC at http://www.sec.gov. Information required to be furnished pursuant to this Section may also be furnished by electronic communications pursuant to procedures approved by Payee.

SECTION 2.02. Notices of Material Events. Payor shall, and shall cause each Borrower and Payor Group Restricted Subsidiary to, furnish to Payee prompt written notice of the following:

(a) the occurrence of any Default or Credit Default;

(b) to the extent permitted by the Requirements of Law, the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or, to the knowledge of a Financial Officer or another executive officer of Payor, any Borrower or any Restricted Subsidiary, affecting Payor, any Borrower or any Payor Group Restricted Subsidiary, that in each case would reasonably be expected to result in a Material Adverse Effect; and

(c) the occurrence of any Environmental Liability or ERISA Event that has resulted, or would reasonably be expected to result, in a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a written statement of a Financial Officer or other executive officer of Payor, Holdings or the Swiss Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 2.03. Information Regarding Payor Group Loan Parties. Payor will furnish to Payee prompt written notice of any change (i) in the legal name of any Payor Group Loan Party, as set forth in such Payor Group Loan Party's organizational documents, (ii) in the jurisdiction of incorporation or organization of any Payor Group Loan Party, (iii) in the form of organization of any Payor Group Loan Party or (iv) in any Payor Group Loan Party's organizational identification number, if any.

SECTION 2.04. Existence; Conduct of Business. Payor will, and will cause each of the Payor Group Restricted Subsidiaries to, do or cause to be done all things necessary to maintain, preserve, protect, enforce, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges, franchises and IP Rights in each case to the extent necessary for the conduct of its business; provided that the foregoing shall not prohibit (i) any merger, consolidation, liquidation or dissolution permitted under Section 3.03 or (ii) Payor, each Borrower and each Payor Group Restricted Subsidiary from allowing registered or applied-for IP Rights to lapse, expire, become abandoned or otherwise terminate in the ordinary course of business or where, in its reasonable business judgment, the lapse, expiration, abandonment or termination would not materially interfere with the business of Payor, any Borrower or any Payor Group Restricted Subsidiary, as applicable.

SECTION 2.05. Payment of Taxes. Payor will, and will cause each Payor Group Restricted Subsidiary to, pay its Tax liabilities before the same shall become delinquent or in default, except where (a) (i) the validity or amount thereof is being contested in good faith by appropriate proceedings and (ii) Payor or such Payor Group Restricted Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP or (b) the failure to make payment would not reasonably be expected to result in a Material Adverse Effect.

SECTION 2.06. Maintenance of Properties. Except if failure to do so would not reasonably be expected to have a Material Adverse Effect, Payor will, and will cause each of the Payor Group Restricted Subsidiaries to, keep and maintain all property necessary for the conduct of its business in good working order and condition, ordinary wear and tear excepted and casualty and condemnation excepted.

SECTION 2.07. [Reserved]

SECTION 2.08. Swiss Tax. Any Payor Group Loan Party organized under the laws of Switzerland shall conduct its business in a manner such that it would not reasonably likely to result in the imposition of any withholding tax liability in respect of any payment to a Secured Party under a Loan Document or the Payee under the Indemnification Agreement or the Guarantee.

SECTION 2.10. Books and Records; Inspection and Audit Rights. Each of Payor and the Borrowers will, and will cause each of the Payor Group Restricted Subsidiaries to, keep proper books of record and accounts in which full, true and correct entries in conformity with GAAP and all Requirements of Law are made of all dealings and transactions in relation to its business and activities. Each of Payor and the Borrowers will, and will cause each of the Payor Group Restricted Subsidiaries to, permit any representatives designated by Payee, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times during regular office hours but no more often than one (1) time during any calendar year absent the existence of a Default; provided, that none of Payor, any Borrower or any Payor Group Restricted Subsidiary will be required to disclose, permit the inspection, examination or making copies or abstracts of, or discussion of, any document, information or other matter (i) that constitutes non-financial trade secrets or non- financial proprietary information, (ii) in respect of which disclosure to Payee (or its representatives or contractors) is prohibited by Requirement of Law or any binding agreement (not created in contemplation thereof) or (iii) that is subject to attorney-client or similar privilege or constitutes attorney work product.

SECTION 2.11. Compliance with Laws. Each of Payor and the Borrowers will, and will take reasonable action to cause each of the Payor Group Restricted Subsidiaries to, comply with all Requirements of Law (including ERISA, Environmental Laws and the USA PATRIOT Act) with respect to it or its property, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect.

SECTION 2.12. Use of Proceeds; Letters of Credit. (a) The proceeds of the Term Loans, together with the proceeds of the Senior Subordinated Notes and cash on hand, will be used solely for (i) the payment of fees and expenses payable in connection with the Transactions, (ii) the Effective Date Repayment and the Post-Effective Date Repayment and (iii) general corporate purposes. On the Effective Date, the proceeds of the Revolving Loans will be used for working capital and other general corporate purposes of the Restricted Group (including payments under this Agreement) in an amount not to exceed €45,000,000. Thereafter, the proceeds of the Revolving Loans, as well as the proceeds of any Incremental Extension of Credit (unless otherwise provided in the applicable Incremental Facility Amendment) will be used for working capital and other general corporate purposes, including acquisitions permitted by this Agreement, of Holdings, the Borrowers and the Restricted Subsidiaries. Letters of Credit will be used by Payor, the Borrowers and the Payor Group Restricted Subsidiaries for general corporate purposes.

(b) The Borrowers will not request any Borrowing or Letter of Credit, and each of Payor and the Borrowers shall not use, and shall procure that its Subsidiaries and its or their respective directors, officers, and employees shall not use, the proceeds of any Borrowing or Letter of Credit (A) in furtherance of an offer, payment, promise to pay or authorization of the payment or giving of money, or anything else of value, to any Person in material violation of any Anti-Corruption Laws by Payor, the Borrowers or any of their respective Subsidiaries; (B) for the purpose of funding, financing or facilitating any activities, business or transaction of or with any Sanctioned Person, or in any Sanctioned Country, except to the extent permitted for a person required to comply with Sanctions, or (C) in any manner that would result in the violation of any Sanctions applicable to any party hereto. This Section 2.12(b) is subject to Section 8.07 of the Current Credit Agreement.

SECTION 2.13. [Reserved].

SECTION 2.14. [Reserved].

SECTION 2.15. [Reserved].

SECTION 2.16. Post-Effective Date Matters. On or prior to the 120th day after the Distribution Date (or such longer period as Payee may, in its reasonable discretion, agree to in writing (such agreement not to be unreasonably withheld or delayed)), Payor shall cause each of its Subsidiaries (other than any Excluded Subsidiary) that is organized in Australia, Ireland, Italy, Japan, Mexico and Slovakia to satisfy the Indemnity Guarantee Requirement to the extent any such Subsidiary has not already satisfied the Indemnity Guarantee Requirement. Until the expiration of such 120 day period (or such longer period as agreed by Payee), each such Payor Group Restricted Subsidiary who is party to the Guarantee shall be treated as a Payor Group Loan Party for the purposes of Article III of this Exhibit L (and, to the extent such Subsidiary is not in compliance with the Indemnity Guarantee Requirement upon the expiration of such period, such Subsidiary shall cease to be treated as a Payor Group Loan Party).

SECTION 2.17. [Reserved].

SECTION 2.18. Designation of Subsidiaries. Payor may at any time designate any Payor Group Restricted Subsidiary as a Payor Group Unrestricted Subsidiary or any Payor Group Unrestricted Subsidiary as a Payor Group Restricted Subsidiary; provided that (a) immediately before and after such designation, no Default or Credit Default shall have occurred and be continuing or would result from such designation, (b) immediately after giving effect to such designation, the Consolidated Total Leverage Ratio, determined on a Pro Forma Basis as of the last day of the most recently ended fiscal quarter of Holdings, is less than 3.25 to 1.00, and the Swiss Borrower shall have delivered to Payee a certificate of a Financial Officer setting forth reasonably detailed calculations demonstrating compliance with this clause (b) and (c) no Subsidiary may be designated as a Payor Group Unrestricted Subsidiary if it is (i) a **"**restricted subsidiary**"** or a **"**guarantor**"** (or any similar designation) for the Senior Subordinated Notes or any Material Indebtedness that is subordinated in right of payment to the Obligations or (ii) an Intermediate Holdco or a Borrower. The designation of any Subsidiary as a Payor Group Unrestricted Subsidiary shall constitute an Investment by the parent company of such Subsidiary therein under Section 3.04(u) at the date of designation in an amount equal to the fair market value of such parent company's investment therein. The designation of any Payor Group Unrestricted Subsidiary as a Payor Group Restricted Subsidiary shall constitute (i) the incurrence at the time of designation of any Indebtedness or Liens of such Subsidiary, and the making of an Investment by such Subsidiary in any Investments of such Subsidiary, in each case existing at such time, and (ii) a return on any Investment in Unrestricted Subsidiaries pursuant to the preceding sentence in an amount equal to the fair market value at the date of such designation of any Borrower's or its Subsidiary's (as applicable) Investment in such Subsidiary.

SECTION 2.19. Non-Bank Rules. The Swiss Borrower shall ensure that it is in compliance with the Non-Bank Rules, provided that the Swiss Borrower shall not be in breach of this undertaking if its number of creditors in respect of either the 10 Non-Bank Rule or the 20 Non-Bank Rule is exceeded solely because a Lender having (a) made an incorrect declaration of its status as to whether or not it is a Qualifying Bank or (b) ceased to be a Qualifying Bank other than as a result of any Change in Law after the date it became a Lender. For the purpose of its compliance with the 20 Non-Bank Rule under this Section 2.19, the number of Lenders under this Agreement which are not Qualifying Banks shall be deemed to be ten (irrespective of whether or not there are, at any time, any such Lenders) and it will be assumed that the Lenders are in compliance with the assignment provisions in Section 9.04(b) of the Current Credit Agreement (as in effect on the Distribution Date).

ARTICLE III

Negative Covenants

Until all payment obligations under the Agreement have terminated following the Termination Date:

SECTION 3.01. Indebtedness; Certain Equity Securities. (a) Neither Payor no any of the Borrowers will, nor will Payor or any Borrower permit any of the Payor Group Restricted Subsidiaries to, create, incur, assume or permit to exist any Indebtedness, except:

(i) Indebtedness created under the Current Credit Agreement and under the other Loan Documents (including any Indebtedness incurred pursuant to Section 2.21 or 2.23 of the Current Credit Agreement (as set forth on the date hereof));

(ii) (A) the Senior Subordinated Notes and (B) subject to the last paragraph of this Section 3.01, Refinancing Indebtedness in respect of the Senior Subordinated Notes (it being understood and agreed that, for purposes of this Section, any Indebtedness that is incurred for the purpose of repurchasing or redeeming any Senior Subordinated Notes (or any Refinancing Indebtedness in respect thereof) shall, if otherwise meeting the requirements set forth in the definition of the term "Refinancing Indebtedness", be deemed to be Refinancing Indebtedness in respect of the Senior Subordinated Notes (or such Refinancing Indebtedness), and shall be permitted to be incurred and be in existence pursuant to this Section 3.01(a) notwithstanding that the proceeds of such Refinancing Indebtedness shall not be applied to make such repurchase or redemption of the Senior Subordinated Notes (or such Refinancing Indebtedness) immediately upon the incurrence thereof, if the proceeds of such Refinancing Indebtedness are applied to make such repurchase or redemption no later than 90 days following the date of the incurrence thereof;

(iii) Indebtedness (and Debt-Related Guarantees thereof) existing on the Effective Date and to the extent having a principal amount in excess of €5,000,000 individually or €10,000,000 in the aggregate, set forth in Schedule 6.01 of the Current Credit Agreement (except for intercompany Indebtedness), any Refinancing Indebtedness in respect thereof and any intercompany Indebtedness existing on the Effective Date arising out of, or in connection with, the Transactions (including the Post-Effective Date Repayment);

(iv) Indebtedness of any Borrower to any Restricted Subsidiary and of any Restricted Subsidiary to Holdings, any Borrower or any other Restricted Subsidiary so long as (A) such Indebtedness of any Subsidiary that is not a Loan Party to Holdings, any Borrower or any other Loan Party shall be permitted under Section 3.04(f) and (B) such Indebtedness of any Borrower

or any other Loan Party owing to any Restricted Subsidiary (other than intercompany loans made by any Swiss Entity to any entity that is not a Subsidiary of such Swiss Entity) shall be subordinated in right of payment to the Obligations, subject to the Agreed Guaranty and Security Principles, on the terms set forth in the Global Intercompany Note (or any other agreement with substantially similar terms of subordination reasonably satisfactory to the Administrative Agent) and the Intercreditor Agreement as Intra-Group Indebtedness (as defined in the Intercreditor Agreement); provided that Restricted Subsidiaries that are not Loan Parties shall not be required to become party to the Intercreditor Agreement or the Global Intercompany Note, in each case, until the 120th day after the Effective Date (or such longer period as agreed by the Administrative Agent, acting reasonably);

(v) Debt-Related Guarantees by any Borrower of Indebtedness of any Restricted Subsidiary and by any Restricted Subsidiary of Indebtedness of Holdings, any Borrower or any other Restricted Subsidiary (other than Indebtedness incurred pursuant to clause (a)(iii) or (a)(vii) of this Section 3.01), subject to the last paragraph of this Section 3.01(a); provided that

(A) the Indebtedness so guaranteed is permitted by this Section, (B) Debt-Related Guarantees by any Borrower or any other Loan Party of Indebtedness of any Subsidiary that is not a Loan Party shall be subject to Section 3.04, and (C) Debt-Related Guarantees permitted under this clause (v) shall be subordinated to the Obligations of the applicable Restricted Subsidiary to the same extent and on the same terms as the Indebtedness so guaranteed is subordinated to the Obligations pursuant to the terms set out in the Intercreditor Agreement and (D) none of the Senior Subordinated Notes shall be guaranteed by any Subsidiary unless such Subsidiary is a Loan Party;

(vi) (A) Indebtedness of any member of the Payor Restricted Group incurred to finance the acquisition, construction, repair, replacement or improvement of any fixed or capital assets, including Capital Lease Obligations and any Indebtedness assumed by any member of Payor Restricted Group in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof; provided that such Indebtedness is incurred prior to or within 270 days after such acquisition or the completion of such construction, repair, replacement or improvement, and (B) Refinancing Indebtedness in respect of Indebtedness incurred or assumed pursuant to clause (A) above; provided further that at the time of incurrence thereof, the aggregate principal amount of Indebtedness permitted by this clause (vi), together with any sale and leaseback transaction incurred pursuant to Section 3.06, outstanding under this clause (vi) at any time shall not exceed the greater of (x) €45,000,000 and (y) 2.50% of Consolidated Total Assets.

(vii) (A) Indebtedness of any Person that becomes a Payor Group Restricted Subsidiary (or of any Person not previously a Payor Group Restricted Subsidiary that is merged or consolidated with or into a Payor Group Restricted Subsidiary in a transaction permitted hereunder) after the Distribution Date, or Indebtedness of any Person that is assumed by Payor or any such Payor Group Restricted Subsidiary in connection with an acquisition of assets by Payor or such Payor Group Restricted Subsidiary in an acquisition permitted by Section 3.04; provided that such Indebtedness exists at the time such Person becomes a Payor Group Restricted Subsidiary (or is so merged or consolidated) or such assets are acquired and is not created in contemplation of or in connection with such Person becoming a Payor Group Restricted Subsidiary (or such merger or consolidation) or such assets being acquired and (B) Refinancing Indebtedness in respect of Indebtedness incurred or assumed, as applicable, pursuant to clause

(A) above;

(viii) other Indebtedness in an aggregate principal amount outstanding under this clause (viii) at any time not exceeding, the greater of (x) €130,000,000 and (y) 7.00% of Consolidated Total Assets, subject to the last paragraph of this Section 3.01,

(ix) Indebtedness incurred pursuant to Permitted Receivables Facilities; provided that the Indebtedness outstanding in reliance on this clause (ix) shall not exceed, at the time of incurrence thereof, the greater of (x) €85,000,000 and (y) 4.50% of Consolidated Total Assets in the aggregate;

(x) Indebtedness and obligations in respect of self-insurance and obligations in respect of bids, tenders, trade contracts (other than for payment of Indebtedness), leases (other than Capital Lease Obligations), public or statutory obligations, surety, stay, customs and appeal bonds, performance bonds and other obligations of a like nature and similar obligations or obligations in respect of letters of credit, bank guarantees or similar instruments related thereto, in each case provided in the ordinary course of business;

(xi) Indebtedness in respect of Hedging Agreements permitted by Section 3.07 (including any Back to Back Arrangements);

(xii) Indebtedness in respect of any overdraft facilities, employee credit card programs, netting services, automated clearinghouse arrangements and other cash management and similar arrangements in the ordinary course of business; provided with respect to any such Indebtedness that constitutes Secured Cash Management Obligations and is incurred in reliance on this clause (xii) by Payor Group Restricted Subsidiaries that are not Loan Parties, at the time such Indebtedness is incurred and after giving effect thereto, the Non-Guarantor Debt and Investment Basket shall not be exceeded;

(xiii) Indebtedness in the form of deferred compensation (including payment obligations under this Agreement, obligations in respect of purchase price adjustments, earnouts, non-competition agreements and other contingent arrangements) or other arrangements representing acquisition consideration or deferred payments of a similar nature incurred in connection with any acquisition or other investment permitted under this Agreement;

(xiv) Refinancing Term Loan Indebtedness incurred pursuant to Section 2.23 of the Current Credit Agreement (as in effect on the Distribution Date), subject to the last paragraph of this Section 3.01;

(xv) Alternative Incremental Facility Debt, subject to the last paragraph of this Section 3.01, provided that the aggregate principal amount of such Alternative Incremental Facility Debt shall not exceed the amount permitted under Section 2.21 of the Current Credit Agreement (as in effect on the Distribution Date);

(xvi) Indebtedness representing deferred compensation to directors, officers, consultants or employees of Holdings, the Borrowers and Restricted Subsidiaries incurred in the ordinary course of business;

(xvii) Indebtedness consisting of promissory notes issued by any Payor Group Loan Party to current or former officers, directors, consultants and employees or their respective estates, spouses or former spouses to finance the purchase or redemption of Equity Interests of Holdings permitted by Section 3.08;

(xviii) [Reserved];

(xix) Indebtedness of Payor Group Restricted Subsidiaries that are not Payor Group Loan Parties under bilateral local law credit and other working capital facilities; provided that at the time such Indebtedness is incurred under this clause (xix) and after giving effect thereto, such incurrence shall not cause the Non-Guarantor Debt and Investment Basket to be exceeded (without duplication of any Cash Management Financing Facilities); provided, further that any such Indebtedness secured by a Letter of Credit issued under the Current Credit Agreement in a principal amount not to exceed the face amount of such Indebtedness shall not count toward the aggregate amount permitted under this Section 3.01(a)(xix) (including the Non-Guarantor Debt and Investment Basket);

(xx) subject to the last paragraph of this Section 3.01, other Indebtedness of Payor or any of the Payor Group Restricted Subsidiaries so long as (A) after giving thereto on a Pro Forma Basis (1) in the case of Indebtedness secured by a Lien on the Collateral, the Consolidated Senior Secured Leverage Ratio does not exceed 1.75 to 1.00 and (2) in the case of any Indebtedness that is unsecured, (x) the Consolidated Total Leverage Ratio is no greater than 0.50:1.00 less than the applicable maximum Consolidated Total Leverage Ratio set forth in Section 3.12 and (y) the Consolidated Interest Coverage Ratio is greater than or equal to 2.75 to 1.00, (B) the incurrence of Indebtedness pursuant to this clause (xx) by a Payor Group Restricted Subsidiary that is not a Loan Party shall not cause the Non-Guarantor Debt and Investment Basket to be exceeded (after giving effect thereto on a Pro Forma Basis), (C) such Indebtedness shall not mature or, in the case of unsecured Indebtedness and Indebtedness secured by a Lien on the Collateral that is junior to the Liens securing the Obligations, require any scheduled amortization or require any scheduled amortization or require scheduled payments of principal or shall be subject to any mandatory redemption, repurchase, repayment or sinking fund obligation, in each case, prior to the Latest Maturity Date as of such date, and shall have a weighted average life to maturity not shorter than the longest remaining weighted average life to maturity of the Loans, (D) no Event of Default shall exist or shall result therefrom (it being understood that if the proceeds of the relevant Indebtedness will be applied to finance a Limited Condition Transaction and the Swiss Borrower has made an LCT Election, no Event of Default shall exist and be continuing as of the LCT Test Date) and (E) such Indebtedness has terms and conditions that in the good faith determination of the Swiss Borrower are no less favorable to the Swiss Borrower (when taken as a whole) to the terms and conditions of the Loan Documents (when taken as a whole);

(xxi) Indebtedness constituting Cash Management Obligations;

(xxii) Indebtedness constituting Secured Hedging Obligations;

(xxiii) Indebtedness consisting of (A) the financing of insurance premiums or (B) take- or-pay obligations contained in supply arrangements, in each case, in the ordinary course of business;

(xxiv) [reserved];

(xxv) Indebtedness incurred by Payor or a Payor Group Restricted Subsidiary in connection with bankers' acceptances, discounted bills of exchange or the discounting or factoring of receivables for credit management purposes, in each case incurred or undertaken in the ordinary course of business on arm's length commercial terms on a non-recourse basis;

(xxvi) Indebtedness incurred by Payor, any Borrower or any of the Payor Group Restricted Subsidiaries in respect of letters of credit, bank guarantees, bankers' acceptances or similar instruments issued or created in the ordinary course of business or consistent with past practice, in each case, in respect of workers' compensation claims, health, disability or other employee benefits or property, casualty or liability insurance or self-insurance or other reimbursement-type obligations regarding workers' compensation claims;

(xxvii) (x) Indebtedness in respect of obligations of any Borrower, Payor or any Payor Group Restricted Subsidiary to pay the deferred purchase price of goods or services or progress payments in connection with such goods and services; provided that such obligations are incurred in connection with open accounts extended by suppliers on customary trade terms in the ordinary course of business and not in connection with the borrowing of money and (y) Indebtedness in respect of intercompany obligations of any Borrower, Payor or any Payor Group Restricted Subsidiary in respect of accounts payable incurred in connection with goods sold or services rendered in the ordinary course of business and not in connection with the borrowing of money;

(xxviii) Indebtedness to a customer to finance the acquisition of any equipment necessary to perform services for such customer; provided that the terms of such Indebtedness are consistent with those entered into with respect to similar Indebtedness prior to the Distribution Date, including that (x) the repayment of such Indebtedness is conditional upon such customer ordering a specific volume of goods and (y) such Indebtedness does not bear interest or provide for scheduled amortization or maturity;

(xxix) (x) tenant improvement loans and allowances in the ordinary course of business and (y) to the extent constituting Indebtedness, guaranties in the ordinary course of business of the obligations of suppliers, customers, franchisees, lessors and licensees of any Borrower and any Restricted Subsidiary;

(xxx) Indebtedness or guarantees arising from or in connection with any cross guarantee entered into pursuant to Part 2M of the Australian Corporations Act or any equivalent provision from time to time; and

(xxxi) all premiums (if any), interest (including post-petition interest), fees, expenses, charges and additional or contingent interest on obligations described in clauses (i) through (xxx) above.

(b) For purposes of determining compliance with this Section 3.01, in the event that an item of Indebtedness at any time, whether at the time of Incurrence or upon the application of all or a portion of the proceeds thereof or subsequently, meets the criteria of more than one of the categories (other than ratio-based baskets) of Section 3.01(a), Payor, any Borrower and the Restricted Subsidiaries shall, in their sole discretion, divide, classify or reclassify, or at any later time divide, classify or reclassify, such item of Indebtedness solely between and among such categories and in each case, that would be permitted to be incurred in reliance on the applicable exception as of the date of such reclassification; provided that Indebtedness incurred hereunder shall only be classified as incurred under Section 3.01(a)(i) and the Senior Subordinated Notes shall only be classified as incurred under Section 3.01(a)(ii)(A). Accrual of interest or dividends, the accretion of accreted value, the accretion or amortization of original issue discount, the payment of interest or dividends in the form of additional Indebtedness with the same terms, the accretion of liquidation preference and increases in the amount of Indebtedness outstanding solely as a result of fluctuations in the exchange rate of currencies will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant. Debt-Related Guarantees of, or obligations in respect of letters of credit relating to, Indebtedness that are otherwise included in the determination of a particular amount of Indebtedness shall not be included in the determination of such amount of Indebtedness; provided that the Incurrence of the Indebtedness represented by such guarantee or letter of credit, as the case may be, was in compliance with this covenant.

(c) For purposes of determining compliance with any Euro-denominated restriction on the Incurrence of Indebtedness, the Euro Equivalent of principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term debt, or first committed or first incurred (at the Borrowers' election), in the case of revolving credit debt; provided that if such Indebtedness is incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable Euro-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such Euro-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced (plus the aggregate amount of premiums (including reasonable tender premiums), defeasance costs and fees, discounts and expenses in connection therewith).

(d) For purposes of this Section 3.01 (including in respect of ratio-based baskets), notes or loans incurred by LuxCo 1 shall be deemed unsecured if they are secured only by the HY Proceeds Loan and the Equity Interests in LuxCo 2 held by LuxCo 1.

SECTION 3.02. Liens. (a) Neither Payor nor any Borrower will, nor will Payor or any Borrower permit any of the Payor Group Restricted Subsidiaries to, create, incur, assume or permit to exist any Lien on any asset now owned or hereafter acquired by it, except:

(i) Liens created under the Loan Documents;

(ii) Permitted Encumbrances;

(iii) any Lien on any asset of Payor, any Borrower or any Payor Group Restricted Subsidiary existing on the Effective Date and to the extent securing Indebtedness or obligations (other than intercompany Indebtedness or obligations) having a principal amount in excess of €5,000,000 individually or €10,000,000 in the aggregate as set forth in Schedule 6.02 of the Current Credit Agreement; provided that (A) such Lien shall not apply to any other asset of Payor, any Borrower or any Payor Group Restricted Subsidiary (other than assets financed by the same financing source in the ordinary course of business) and (B) such Lien shall secure only those obligations that it secures on the Effective Date and extensions, renewals, replacements and refinancings thereof so long as the principal amount of such extensions, renewals, replacements and refinancings does not exceed the principal amount of the obligations being extended, renewed, replaced or refinanced or, in the case of any such obligations constituting Indebtedness, that are permitted under Section 3.01(a)(iii) as Refinancing Indebtedness in respect thereof;

(iv) any Lien existing on any asset prior to the acquisition thereof by Payor, any Borrower or any Payor Group Restricted Subsidiary or existing on any asset of any Person that becomes a Payor Group Restricted Subsidiary (or of any Person not previously a Payor Group Restricted Subsidiary that is merged or consolidated with or into a Payor Group Restricted Subsidiary in a transaction permitted hereunder) after the Distribution Date prior to the time such Person becomes a Payor Group Restricted Subsidiary (or is so merged or consolidated); provided that (A) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Payor Group Restricted Subsidiary (or such merger or consolidation), (B) such Lien shall not apply to any other asset of Payor, any Borrower or any Payor Group Restricted Subsidiary (other than (x) assets financed by the same financing source in the ordinary course of business and (y) in the case of any such merger or consolidation, the assets of any special purpose merger Subsidiary that is a party thereto) and (C) such Lien shall secure only those obligations that it secures on the date of such acquisition or the date such Person becomes a Payor Group Restricted Subsidiary (or is so merged or consolidated) and extensions, renewals, replacements and refinancings thereof so long as the principal amount of such extensions, renewals and replacements does not exceed the principal amount of the obligations being extended, renewed or replaced or, in the case of any such obligations constituting Indebtedness, that are permitted under Section 3.01(a)(vii) as Refinancing Indebtedness in respect thereof;

(v) Liens on fixed or capital assets acquired, constructed, repaired, replaced or improved (including any such assets made the subject of a Capital Lease Obligation incurred) by Payor, any Borrower or any Payor Group Restricted Subsidiary; provided that (A) such Liens secure Indebtedness incurred to finance such acquisition, construction, repair, replacement or improvement and permitted by clause (vi)(A) of Section 3.01(a) or any Refinancing Indebtedness in respect thereof permitted by clause (vi)(B) of Section 3.01(a), (B) such Liens and the Indebtedness secured thereby are incurred prior to or within 270 days after such acquisition or the completion of such construction, repair, replacement or improvement (provided that this clause (B) shall not apply to any Refinancing Indebtedness permitted by clause (vi)(B) of Section 3.01(a) or any Lien securing such Refinancing Indebtedness), (C) the Indebtedness secured thereby does not exceed the cost of acquiring, constructing, repairing, replacing or improving such fixed or capital asset and in any event, the aggregate principal amount of such Indebtedness does not exceed the amount permitted under the second proviso of Section 3.01(a)(vi) at any time outstanding and (D) such Liens shall not apply to any other property or assets of Payor, any Borrower or any Payor Group Restricted Subsidiary (except assets financed by the same financing source in the ordinary course of business);

(vi) customary rights and restrictions contained in agreements relating to such sale or transfer pending the completion thereof in connection with the sale or transfer of any Equity Interests or other assets in a transaction permitted under Section 3.05;

(vii) any encumbrance or restriction (including put and call arrangements, tag, drag, right of first refusal and similar rights) with respect to Equity Interests of any (A) Payor Group Restricted Subsidiary that is not a wholly owned Subsidiary or (B) joint venture or similar arrangement pursuant to any joint venture or similar agreement;

(viii) Liens on any cash advances or cash earnest money deposits, escrow arrangements or similar arrangements made by Payor, any Borrower or any Payor Group Restricted Subsidiary in connection with any letter of intent or purchase agreement for an acquisition or other transaction permitted hereunder;

(ix) Liens on Collateral securing any Permitted Second Priority Refinancing Debt or Alternative Incremental Facility Debt;

(x) Liens granted by a member of Payor Group that is not a Loan Party in respect of Indebtedness permitted to be incurred by such member under Section 3.01;

(xi) Liens not otherwise permitted by this Section to the extent that the aggregate outstanding principal amount of the obligations secured thereby outstanding under this clause (xi) at any time does not exceed the greater of (x) €130,000,000 and (y) 7.00% of Consolidated Total Assets;

(xii) Liens securing Indebtedness incurred as secured Indebtedness under Section 3.01(a)(xv) or 3.01(a)(xx);

(xiii) Liens on HY Proceeds Loan and Equity Interests in LuxCo 2 held by LuxCo 1 securing the Senior Subordinated Notes, any Additional Senior Subordinated Notes or any Refinancing Indebtedness of Senior Subordinated Notes or any Additional Senior Subordinated Notes;

(xiv) Liens that are deemed security interests under the Australian PPSA that do not, in substance, secure payment or performance of an obligation;

(xv) Liens on property or other assets of any Payor Group Restricted Subsidiary that is not a Loan Party, which Liens secure Indebtedness of such Payor Group Restricted Subsidiary or another Restricted Subsidiary that is not a Loan Party, in each case permitted under Section 3.01(a);

(xvi) Liens on the Collateral securing Secured Cash Management Obligations and Secured Hedging Obligations;

(xvii) Liens on cash and Permitted Investments used to satisfy or discharge Indebtedness; provided such satisfaction or discharge is permitted hereunder;

(xviii) Liens on Equity Interests of any joint venture or Payor Group Unrestricted Subsidiary (a) securing obligations of such joint venture or Payor Group Unrestricted Subsidiary or (b) pursuant to the relevant joint venture agreement or arrangement;

(xix) Liens on cash, Permitted Investments or other marketable securities securing (A) letters of credit of any Loan Party that are cash collateralized on the Effective Date in an amount of cash, Permitted Investments or other marketable securities with a fair market value of up to 105% of the face amount of such letters of credit being secured or (B) letters of credit and other credit support obligations in the ordinary course of business; and

(xx) any Liens on cash or deposits granted in favor of any Issuing Bank to cash collateralize any Defaulting Lender's participation in Letters of Credit or other obligations in respect of Letters of Credit, in each case as contemplated by the Current Credit Agreement;

provided that the expansion of Liens by virtue of accretion or amortization of original issue discount, the payment of dividends in the form of Indebtedness, and increases in the amount of Indebtedness outstanding solely as a result of fluctuations in the exchange rate of currencies will not be deemed to be an incurrence of Liens for purposes of this Section 3.02. For purposes of determining compliance with this Section 3.02, (x) a Lien need not be incurred solely by reference to one category of Liens described in this Section 3.02 but may be incurred under any combination of such categories (including in part under one such category and in part under any other such category) and (y) in the event that a Lien (or any portion thereof) meets the criteria of one or more of such categories hereof (other than ratio-based baskets, if any), Payor, the Borrowers and the Restricted Subsidiaries shall, in their sole discretion, classify or reclassify such Lien (or any portion thereof) solely between and among such categories and, in each case, that would be permitted to be incurred in reliance on the applicable exception as of the date of such reclassification.

SECTION 3.03. Fundamental Changes. (a) Neither Payor nor any Borrower will, nor will they permit any of their Restricted Subsidiaries (including, without limitation, any Intermediate Holdco) to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or liquidate or dissolve, divide, or otherwise dispose of all or substantially all of its properties and assets to any Person or group of Persons (which, for the avoidance of doubt, shall not restrict the change in organizational form), except that, if at the time thereof and immediately after giving effect thereto no Default or Credit Default shall have occurred and be continuing:

(i) any Restricted Subsidiary may merge into or consolidate with (A) any Borrower so long as such Borrower shall be the continuing or surviving Person (and continues to be organized under the laws of the same jurisdiction), (B) any Restricted Subsidiary that is an Intermediate Holdco so long as the continuing or surviving Person is also an Intermediate Holdco and (C) any other Restricted Subsidiary in a transaction in which the surviving entity is a Restricted Subsidiary and, if any party to such merger or consolidation is a Loan Party, either (x) the continuing or surviving entity is a Loan Party or (y) the acquisition of such Loan Party by such continuing or surviving Person is otherwise permitted under Section 3.04; provided, that, after giving effect to any such activities under this Section 3.03(a)(i), the Payor Group Loan Parties are in compliance with the Indemnity Guarantee Requirement;

(ii) [reserved];

(iii) any Payor Group Restricted Subsidiary that is neither an Intermediate Holdco nor a Borrower may liquidate or dissolve if Payor or the Swiss Borrower determines in good faith that such liquidation or dissolution is in the best interests of the business of the Payor Restricted Group and is not materially disadvantageous to Payee; provided that any such merger or consolidation involving a Person that is not a wholly owned Payor Group Restricted Subsidiary immediately prior to such merger or consolidation shall not be permitted unless it is also permitted by Section 3.04;

(iv) any Payor Group Restricted Subsidiary may engage in a merger, consolidation, dissolution or liquidation, the purpose of which is to effect an Investment permitted pursuant to Section 3.04 or a disposition permitted pursuant to Section 3.05; and

(v) [Reserved].

(b) The Borrowers, Payor and the Payor Group Restricted Subsidiaries, taken as a whole, will not engage to any material extent in any business other than businesses of the type to be conducted by the Borrowers, Payor and the Payor Group Restricted Subsidiaries as described in the Form 10 if as a result thereof the business conducted by the Borrowers, Payor and the Restricted Subsidiaries, taken as a whole, would be substantially different from the business conducted by the Borrowers, Payor and the Payor Group Restricted Subsidiaries, taken as a whole, on the Distribution Date; provided that businesses reasonably related, incidental or ancillary thereto to the business conducted by the Borrowers, Payor and the Payor Group Restricted Subsidiaries, taken as a whole, on the Distribution Date or reasonable extensions thereof shall be permitted hereunder.

SECTION 3.04. Investments, Loans, Advances, Guarantees and Acquisitions. Neither Payor nor any Borrower will, nor will they permit any Payor Group Restricted Subsidiary to, make any Investment, except:

(a) Permitted Investments and cash;

(b) investments constituting the purchase or other acquisition (in one transaction or a series of related transactions) of all or substantially all of the property and assets or business of any Person or of assets constituting a business unit, a line of business or division of such Person, or the Equity Interests in a Person that, upon the consummation thereof, will be a Payor Group Restricted Subsidiary if, after giving effect thereto on a Pro Forma Basis, the Borrowers would be in compliance with Section 3.12 and Section 3.13; provided that the aggregate amount of cash consideration paid in respect of such investments (including in the form of loans or advances made to Payor Group Restricted Subsidiaries that are not Loan Parties) by Loan Parties involving the acquisition of Payor Group Restricted Subsidiaries that do not become Loan Parties outstanding under this clause (b) at any time shall not exceed the greater of (i) €100,000,000 and (ii) 5.50% of Consolidated Total Assets (provided, that to the extent such Payor Group Restricted Subsidiaries do become Loan Parties, the aggregate amount outstanding in reliance on this clause (b) shall be reduced by the amount initially utilized);

(c) [reserved];

(d) Investments existing on the Effective Date and to the extent having a principal amount in excess of €5,000,000 individually or €10,000,000 in the aggregate (other than with respect to intercompany Investments) set forth on Schedule 6.04 of the Current Credit Agreement and any modification, replacement, renewal, reinvestment or extension thereof;

(e) Investments by Payor in the Borrowers and by Payor, the Borrowers and the Payor Group Restricted Subsidiaries in Equity Interests of their respective Subsidiaries; provided that the making of any Investment by any Payor Group Loan Party in any Payor Group Restricted Subsidiary that is not a Loan Party shall not, at the time such Investment is made and after giving effect thereto, cause the Non-Guarantor Debt and Investment Basket to be exceeded, provided that if any such investment under this Section 3.04(e) is made for the purpose of making an investment, loan or advance permitted under Section 3.04(u), the amount available under this Section 3.04(e) shall not be reduced by the amount of any such investment, loan or advance which reduces the basket under Section 3.04(u);

(f) loans or advances made by Holdings or any Borrower to any Restricted Subsidiary and made by any Restricted Subsidiary to any Borrower or any other Restricted Subsidiary; provided that (i) any such loans and advances made by a Loan Party shall be evidenced, on and after the Distribution Date, by the Global Intercompany Note or other promissory notes reasonably acceptable to Payee and (ii) the outstanding amount of such loans and advances made by Loan Parties to Restricted Subsidiaries that are not Loan Parties at the time such loans or advances are made, and after giving effect thereto, shall not cause the Non-Guarantor Debt and Investment Basket to be exceeded, provided that any intercompany loans or advances made by any Loan Party to any Restricted Subsidiary that is not a Loan Party using the proceeds of intercompany loans or advances received from Restricted Subsidiaries that are not Loan Parties no more than 120 days prior to making such intercompany loan or advance shall not be taken into account in the calculation of any restriction or basket set forth in this subclause (ii) (including the Non-Guarantor Debt and Investment Basket); provided further that if any such loan or advance under this subclause (ii) is made for the purpose of making an investment, loan or advance permitted under Section 3.04(u), the amount available under this clause (f) shall not be reduced by the amount of any such investment, loan or advance which reduces the basket under Section 3.04(u), provided further that any loan or advance made by any Loan Party to a Restricted Subsidiary that is not a Loan Party, for the purposes of calculating usage under this subclause (ii) and the Non-Guarantor Debt and Investment Basket, shall be reduced euro-for-euro (or other applicable currency) by any amounts owed by such Loan Party to such Restricted Subsidiary that is not a Loan Party;

(g) Debt-Related Guarantees by Holdings, the Borrower or any Restricted Subsidiary in respect of Indebtedness permitted under Section 3.01 and in respect of other obligations not otherwise contemplated by this Section 3.04, in each case of Holdings, any Borrower or any Restricted Subsidiary; provided that any such Debt-Related Guarantees of Indebtedness and such other obligations, in each case of Restricted Subsidiaries that are not Loan Parties by any Loan Party shall not, at the time any such Debt-Related Guarantee is provided and after giving effect thereto, cause the Non-Guarantor Debt and Investment Basket to be exceeded;

(h) loans or advances to directors, officers, consultants or employees of Holdings, any Borrower or any Restricted Subsidiary made in the ordinary course of business of Holdings, such Borrower or such Restricted Subsidiary, as applicable, not exceeding €10,000,000 in the aggregate outstanding at any time (determined without regard to any write-downs or write-offs of such loans or advances);

(i) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses of Holdings, any Borrower or any Restricted Subsidiary for accounting purposes and that are made in the ordinary course of business;

(j) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers or upon the foreclosure with respect to any secured Investment or other transfer of title with respect to any secured Investment, in each case in the ordinary course of business;

(k) investments in the form of Hedging Agreements permitted by Section 3.07 (including any Back to Back Arrangements);

(l) investments of any Person existing at the time such Person becomes a Payor Group Restricted Subsidiary or consolidates or merges with any Borrower or any Payor Group Restricted Subsidiary so long as such investments were not made in contemplation of such Person becoming a Payor Group Restricted Subsidiary or of such consolidation or merger;

(m) investments resulting from pledges or deposits described in clause (c) or (d) of the definition of the term "Permitted Encumbrance";

(n) investments made as a result of the receipt of noncash consideration from a sale, transfer, lease or other disposition of any asset in compliance with Section 3.05;

(o) investments that result solely from the receipt by Payor, any Borrower or any Payor Group Restricted Subsidiary from any of its Subsidiaries of a dividend or other Restricted Payment in the form of Equity Interests, evidences of Indebtedness or other securities (but not any additions thereto made after the date of the receipt thereof);

(p) receivables or other trade payables owing to Payor, a Borrower or a Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided that such trade terms may include such concessionary trade terms as Payor, any Borrower or any Restricted Subsidiary deems reasonable under the circumstances;

(q) mergers and consolidations permitted under Section 3.03 that do not involve any Person other than Holdings, the Borrowers and Restricted Subsidiaries that are wholly owned Restricted Subsidiaries;

(r) Investments in the form of letters of credit, bank guarantees, performance bonds or similar instruments or other creditor support or reimbursement obligations made in the ordinary course of business by Holdings or any Borrower on behalf of any Restricted Subsidiary and made by any Restricted Subsidiary on behalf of any Borrower or any other Restricted Subsidiary; provided that at the time such letters of credit, bank guarantees, performance bonds or similar instruments or other creditor support or reimbursement obligations are made by Loan Parties on behalf of Restricted Subsidiaries that are not Loan Parties pursuant to this Section 3.04(r), and after giving effect thereto, such obligations shall not cause the Non- Guarantor Debt and Investment Basket to be exceeded;

(s) Debt-Related Guarantees by Payor, any Borrower or any Restricted Subsidiary of leases (other than Capitalized Leases) or of other obligations that do not constitute Indebtedness, in each case entered into in the ordinary course of business;

(t) [reserved]; and

(u) other Investments by Payor, any Borrower or any Payor Restricted Subsidiary (and loans and advances by Payor) in an aggregate amount, as valued at cost at the time each such Investment is made and including all related commitments for future Investments (and the principal amount of any Indebtedness that is assumed or otherwise incurred in connection with such Investment), outstanding under this Section 3.04(u) at any time in an aggregate amount not exceeding the sum of (i) (x) the greater of €85,000,000 and (y) 4.50% of Consolidated Total Assets plus (ii) so long as no Credit Default has occurred and is continuing or would result therefrom, the Available Amount at such time in the aggregate for all such investments made or committed to be made from and after the Effective Date plus an amount equal to any returns of capital or sale proceeds actually received in cash in respect of any such Investments (which amount shall not exceed the amount of such Investment valued at cost at the time such investment was made);

(v) Investments consisting of (i) extensions of trade credit and accommodation guarantees in the ordinary course of business and (ii) loans and advances to customers; provided that the aggregate principal amount of such loans and advances outstanding under this clause (ii) at any time shall not exceed €10,000,000;

(w) Investments on or prior to the Effective Date in connection with the Transactions (or, if after the Effective Date, as reflected in the Tax Steps Plan);

(x) Investments in the ordinary course of business consisting of Uniform Commercial Code Article 3 endorsements for collection or deposit and Uniform Commercial Code Article 4 customary trade arrangements with customers in the ordinary course of business;

(y) Investments (A) for utilities, security deposits, leases and similar prepaid expenses incurred in the ordinary course of business and (B) in the form of trade accounts created, or prepaid expenses accrued, in the ordinary course of business;

(z) non-cash Investments in connection with tax planning and reorganization activities;

(aa) customary Investments in connection with Permitted Receivables Facilities;

(bb) Investments in joint ventures and Unrestricted Subsidiaries; provided that at the time of any such Investment on a Pro Forma Basis, the aggregate amount at any time outstanding of all such Investments made in reliance on this clause (bb) shall not exceed the greater of €25,000,000 and 1.50% of Consolidated Total Assets;

(cc) Investments in the form of loans or advances made to distributors and suppliers in the ordinary course of business; and

(dd) to the extent they constitute Investments, guaranties in the ordinary course of business of the obligations of suppliers, customers, franchisees, lessors and licensees of any Borrower and any Restricted Subsidiary.

For purposes of this Section 3.04, if any Investment (or a portion thereof) would be permitted pursuant to one or more of the provisions described above and/or one or more of the exceptions contained in this Section 3.04 (other than ratio-based baskets, if any), Payor, the Borrowers and the Payor Group Restricted Subsidiaries may divide and classify such Investment (or a portion thereof) in any manner that complies with this covenant and may later divide and reclassify any such Investment so long as the Investment (as so divided and/or reclassified) would be permitted to be made in reliance on the applicable exception as of the date of such reclassification.

SECTION 3.05. Asset Sales. Neither Payor nor any Borrower will, nor will they permit any Payor Group Restricted Subsidiary to, sell, transfer, lease or otherwise dispose of any asset (other than assets sold, transferred, leased or otherwise disposed of in a single transaction or a series of related transactions with a fair market value of €20,000,000 or less), including any Equity Interest owned by it, nor will Payor or any Borrower permit any Payor Group Restricted Subsidiary to issue any additional Equity Interest in such Payor Group Restricted Subsidiary (other than issuing directors' qualifying shares and other than issuing Equity Interests to Payor, a Borrower or another Payor Group Restricted Subsidiary), except:

(a) sales, transfers, leases and other dispositions of (i) inventory, (ii) used, obsolete, damaged, worn out or surplus equipment, (iii) property no longer used or useful in the conduct of the business of Payor, the applicable Borrower and the Payor Group Restricted Subsidiaries (including intellectual property), (iv) immaterial assets and (v) cash and Permitted Investments, in each case in the ordinary course of business;

(b) sales, transfers, leases and other dispositions to Payor, a Borrower or a Restricted Subsidiary; provided that any such sales, transfers, leases or other dispositions involving a Restricted Subsidiary that is not a Loan Party shall, to the extent applicable, be made in compliance with Section 3.04 and Section 3.09;

(c) sales, transfers and other dispositions or forgiveness of accounts receivable in connection with the compromise, settlement or collection thereof not as part of any accounts receivables financing transaction (including sales to factors or other third parties);

(d) (i) sales, transfers, leases and other dispositions of assets to the extent that such assets constitute an investment permitted by clause (j), (l) or (n) of Section 3.04 or another asset received as consideration for the disposition of any asset permitted by this Section (in each case, other than Equity Interests in a Payor Group Restricted Subsidiary, unless all Equity Interests in such Payor Group Restricted Subsidiary (other than directors' qualifying shares) are sold) and (ii) sales, transfers, and other dispositions of the Equity Interests of a Payor Group Restricted Subsidiary by Payor, a Borrower or a Payor Group Restricted Subsidiary to the extent such sale, transfer or other disposition would be permissible as an Investment in a Restricted Subsidiary permitted by Section 3.04(e) or Section 3.04(u);

(e) leases or subleases entered into in the ordinary course of business, to the extent that they do not materially interfere with the business of Payor, any Borrower or any Payor Group Restricted Subsidiary;

(f) non-exclusive licenses or sublicenses of IP Rights granted in the ordinary course of business or other licenses or sublicenses of IP Rights granted in the ordinary course of business that do not materially interfere with the business of Payor, any Borrower or any Payor Group Restricted Subsidiary;

(g) dispositions resulting from any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceeding of, and transfers of property arising from foreclosure or similar action with regard to, any asset of Payor, any Borrower or any Payor Group Restricted Subsidiary;

(h) dispositions of assets to the extent that (i) such assets are exchanged for credit against the purchase price of similar replacement assets or (ii) the proceeds of such disposition are promptly applied to the purchase price of such replacement assets;

(i) dispositions permitted by Section 3.08;

(j) dispositions set forth on Schedule 6.05 of the Current Credit Agreement (as in effect on the Distribution Date);

(k) sales, transfers, leases and other dispositions of assets that are not permitted by any other clause of this Section; provided that (i) the aggregate fair value of all assets sold, transferred, leased or otherwise disposed of in reliance upon this Section 3.04(k) shall not exceed (A) in any fiscal year, 15% of Consolidated Total Assets as of the fiscal year most recently ended prior to such sale, transfer, lease or other disposition and (B) 40% of Consolidated Total Assets as of the fiscal year most recently ended prior to such sale, transfer, lease or other disposition and (ii) no Default or Event of Default has occurred and is continuing or would result therefrom;

(l) sales, transfers or other dispositions of accounts receivable in connection with Permitted Receivables Facilities;

(m) [reserved];

(n) sales, transfers or other dispositions of any assets (including Equity Interests) (A) acquired in connection with any acquisition or other investment permitted under Section 3.04, which assets are not used or useful to the core or principal business of the Swiss Borrower and the Payor Group Restricted Subsidiaries and/or (B) made to obtain the approval of any applicable antitrust authority in connection with an acquisition permitted under Section 3.04; and

(o) sales, transfers or other dispositions of Investments in joint ventures to the extent required by, or made pursuant to customary buy/sell arrangements between, the joint venture parties set forth in joint venture arrangements and similar binding arrangements;

provided that all sales, transfers, leases and other dispositions permitted hereby (other than those permitted by Sections 3.05(a)(iii), (a)(iv) and (b)) for a purchase price in excess of €25,000,000 shall be made for fair value (as determined in good faith by the Swiss Borrower), and at least 75% of the consideration from all sales, transfers, leases and other dispositions permitted hereby (other than those permitted by clauses (b), (d), (g) or (h)) since the Effective Date, on a cumulative basis, is in the form of cash or Permitted Investments; provided further that (i) any consideration in the form of Permitted Investments that are disposed of for cash consideration within 30 Business Days after such sale, transfer or other disposition shall be deemed to be cash consideration in an amount equal to the amount of such cash consideration for purposes of this proviso, (ii) any liabilities (as shown on Payor, such Borrower's or such Payor Group Restricted Subsidiary's most recent balance sheet provided hereunder or in the footnotes thereto) of Payor, such Borrower or such Payor Group Restricted Subsidiary, other than liabilities that are by their terms subordinated to the payment in cash of the Obligations, that are assumed by the transferee with respect to the applicable sale, transfer, lease or other disposition and for which Payor, the Borrowers and all the Restricted Subsidiaries shall have been validly released by all applicable creditors in writing shall be deemed to be cash consideration in an amount equal to the liabilities so assumed and (iii) any Designated Non-Cash Consideration received by Payor, such Borrower or such Subsidiary in respect of such sale, transfer, lease or other disposition having an aggregate fair market value, taken together with all other Designated Non-Cash Consideration received pursuant to this clause (iii) that is at that time outstanding, not in excess of €45,000,000 at the time of the receipt of such Designated Non-Cash Consideration, with the fair market value of each item of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value, shall be deemed to be cash consideration.

SECTION 3.06. Sale and Leaseback Transactions. Neither Payor nor any Borrower will, nor will they permit any Payor Group Restricted Subsidiary to, enter into any arrangement, directly or indirectly, whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property that it intends to use for substantially the same purpose or purposes as the property sold or transferred, except for any such sale of any fixed or capital assets by Payor, any Borrower or any Payor Group Restricted Subsidiary that is made for cash consideration in an amount not less than the fair value of such fixed or capital asset and is consummated within 270 days after Payor, such Borrower or such Payor Group Restricted Subsidiary acquires or completes the construction of such fixed or capital asset; provided that, if such sale and leaseback results in a Capital Lease Obligation, such Capital Lease Obligation is permitted by Section 3.01(a)(vi) and any Lien made the subject of such Capital Lease Obligation is permitted by Section 3.02(a)(v).

SECTION 3.07. Hedging Agreements. Neither Payor nor any Borrower shall, nor shall they permit any Payor Group Restricted Subsidiary to, enter into any Hedging Agreement other than Hedging Agreements (including any Back to Back Arrangements) entered into in the ordinary course of business and not for speculative purposes.

SECTION 3.08. Restricted Payments; Certain Payments of Junior Indebtedness. (a) Neither Payor nor any Borrower will, nor will they permit any Restricted Subsidiary to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, except that:

(i) Payor and/or any Payor Group Restricted Subsidiary may make the Effective Date Repayment and the Post-Effective Date Repayment;

(ii) any Borrower and any Payor Group Restricted Subsidiary may declare and pay dividends or make other distributions with respect to its Equity Interests, or make other Restricted Payments in respect of its Equity Interests, in each case ratably to the holders of such Equity Interests;

(iii) Payor may make payments pursuant to and as required under this Agreement;

(iv) Payor may declare and pay dividends with respect to its Equity Interests payable solely in shares of Equity Interests permitted hereunder;

(v) Payor may make Restricted Payments, not exceeding the greater of (A)

€25,000,000 and (B) 1.50% of Consolidated Total Assets (with unused amounts being carried over to the succeeding fiscal years, subject to an aggregate cap of up to €50,000,000 in any fiscal year under this clause (v)) during any fiscal year, pursuant to and in accordance with stock option plans or other benefit plans approved by Holdings's board of directors for directors, officers, consultants or employees of Holdings, the Borrowers and the Restricted Subsidiaries;

(vi) [reserved];

(vii) [reserved];

(viii) [reserved];

(ix) [reserved];

(x) [reserved];

(xi) Payor's Subsidiaries may pay dividends to Payor concurrently with Payor's payment of dividends pursuant to Section 3.08(a)(xii);

(xii) Payor may declare and make Restricted Payments in an aggregate amount not to exceed, at the time such Restricted Payments are made and after giving effect thereto, the sum of (A) €85,000,000 plus (B) the Available Amount at such time; provided that Payor may only make Restricted Payments under this clause (xii) if (w) no Event of Default has occurred and is continuing (or would result therefrom), (x) after giving effect thereto on a Pro Forma Basis, Payor would be in compliance with Section 3.12 and Section 3.13, (y) there is no outstanding payment obligation under this Agreement unless such Restricted Payment under this clause (xii) will be applied to satisfy all or a portion of such outstanding payment obligation and (z) €42,500,000 of such Restricted Payments made under clause (A) of this Section 3.08 are used only for payments of Accrued Amounts;

(xiii) for any taxable period for which (A) Payor, any Borrower and/or any Subsidiaries of Payor are members of a consolidated, combined or similar income tax group for

U.S. federal and/or applicable state, local or non-U.S. income or corporation Tax purposes of which a direct or indirect parent of Payor is the common parent (a "Tax Group") or (B) the assets, income, profits or operations of Payor and/or any of its Subsidiaries are otherwise reflected on any tax return of any direct or indirect parent of Payor (a "Tax Inclusion"), Restricted Payments may be made in an amount not in excess of (A) in the case of a Tax Group, the U.S. federal, state, local or non-U.S. income Taxes that Payor, the applicable Borrower and/or applicable Subsidiaries of Payor would have paid had Payor, such Borrower and/or such Subsidiaries of Payor been a stand-alone taxpayer (or a stand-alone group) or (B) in the case of a Tax Inclusion, the portion of any Taxes on any such tax return for such taxable period that is attributable to the assets, income, profits or operations of Payor, the applicable Borrower and/or Payor's applicable Subsidiaries, net of any credits for any foreign Taxes allocable to such Tax Inclusion, calculated as if such parent had claimed such credits to the full extent permissible; provided that Restricted Payments in respect of a Payor Group Unrestricted Subsidiary shall be permitted only to the extent that cash distributions were made by such Payor Group Unrestricted Subsidiary to Payor, such Borrower or any of Payor's Subsidiaries for such purpose;

(xiv) (i) any non-cash repurchases or withholdings of Equity Interests in connection with the exercise of stock options, warrants or similar rights if such Equity Interests represent a portion of the exercise of, or withholding obligations with respect to, such options, warrants or similar rights (for the avoidance of doubt, it being understood that any required withholding or similar tax related thereto may be paid by Payor, any Borrower or any Payor Group Restricted Subsidiary in cash), and (ii) loans or advances to officers, directors and employees of Holdings, any Borrower or any Restricted Subsidiary in connection with such Person's purchase of Equity Interests of Holdings, provided that no cash is actually advanced pursuant to this clause (ii) other than to pay taxes due in connection with such purchase, unless immediately repaid; and

(xv) Payor may make payments pursuant to and required under the Tax Matters Agreement.

(b) Neither Payor nor any Borrower will, nor will they permit any Payor Group Restricted Subsidiary to, prepay, redeem, purchase or otherwise satisfy any Indebtedness that is subordinated in right of payment to the Obligations (excluding, for the avoidance of doubt, the Senior Subordinated Notes and any subordinated obligations owed to Payor or any Payor Group Restricted Subsidiary):

(i) payments of Indebtedness under the Credit Agreement or any other Loan Document;

(ii) regularly scheduled interest and principal payments as and when due in respect of any such Indebtedness, other than payments in respect of such Indebtedness prohibited by the subordination provisions thereof;

(iii) refinancings of Indebtedness with the proceeds of other Indebtedness permitted under Section 3.01;

(iv) payments of or in respect of Indebtedness in an amount equal to, at the time such payments are made and after giving effect thereto, (A) the greater of (x) €65,000,000 and (y) 3.50% of Consolidated Total Assets plus (B) the Available Amount at such time; provided that the Borrowers may only use the Available Amount under this clause (iv) if (x) no Credit Default shall have occurred and be continuing (or would result therefrom) and (y) after giving effect thereto on a Pro Forma Basis, the Borrowers would be in compliance with Section 3.12 and Section 3.13; and

(v) prepayments of subordinated obligations owed to the Borrowers or any Payor Group Restricted Subsidiary or any Refinancing Indebtedness with the proceeds of other subordinated Indebtedness.

For purposes of this Section 3.08, if any Restricted Payment (or a portion thereof) would be permitted pursuant to one or more provisions described above and/or one or more of the exceptions contained in this Section 3.08, Payor, the Borrowers and the Payor Group Restricted Subsidiaries may divide and classify such Restricted Payment (or a portion thereof) in any manner that complies with this covenant and may later divide and reclassify (other than with respect to ratio-based baskets, if any) any such Restricted Payment so long as the Restricted Payment (as so divided and/or reclassified) would be permitted to be made in reliance on the applicable exception as of the date of such reclassification.

SECTION 3.09. Transactions with Affiliates. Neither Payor nor any Borrower will, nor will they permit any Payor Group Restricted Subsidiary to, sell, lease or otherwise transfer any assets to, or purchase, lease or otherwise acquire any assets from, or otherwise engage in any other transactions involving aggregate consideration in excess of €25,000,000 with, any of its Affiliates, except (i) transactions that are at prices and on terms and conditions not less favorable to Payor, such Borrower or such Payor Group Restricted Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (ii) transactions between or among the Loan Parties not involving any other Affiliate, (iii) advances, equity issuances, repurchases, retirements or other acquisitions or retirements of Equity Interests and other Restricted Payments permitted under Section 3.08 and investments, loans and advances to Restricted Subsidiaries permitted under Section 3.04 and any other transaction involving Payor, the Borrowers and Restricted Subsidiaries permitted under Section 3.03 to the extent such transaction is between Payor, a Borrower and one or more Restricted Subsidiaries or between two or more Restricted Subsidiaries and Section 3.05 (to the extent such transaction is not required to be for fair value thereunder), (iv) the payment of reasonable fees to directors of Holdings, any Borrower or any Restricted Subsidiary who are not employees of Holdings, any Borrower or any Restricted Subsidiary, and compensation and employee benefit arrangements paid to, and indemnities provided for the benefit of, directors, officers, consultants or employees of Holdings, the Borrowers or the Restricted Subsidiaries in the ordinary course of business, (v) any issuances of securities or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment agreements, stock options and stock ownership plans approved by the Swiss Borrower's board of directors; (vi) employment and severance arrangements entered into in the ordinary course of business between Holdings, any Borrower or any Restricted Subsidiary and any employee thereof and approved by the Swiss Borrower's board of directors; and (vii) payments made to other Restricted Subsidiaries arising from or in connection with any customary tax consolidation and grouping arrangements.

SECTION 3.10. Restrictive Agreements. Neither Payor nor any Borrower will, nor will they permit any Payor Group Restricted Subsidiary to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon (a) the ability of any Payor Group Restricted Subsidiary to pay dividends or other distributions with respect to any of its Equity Interests, to make or repay loans or advances to any Borrower or any Restricted Subsidiary, to guarantee Indebtedness of any Borrower or any Restricted Subsidiary, to transfer any of its properties or assets to any Borrower or any Restricted Subsidiary; provided that (i) the foregoing shall not apply to (A) restrictions and conditions imposed by law, this Agreement, any Spin-Off Document, the Current Credit Agreement, any other Loan Document, any Incremental Facility Amendment, any Refinancing Facility Agreement, any document governing any Refinancing Term Loan Indebtedness or Refinancing Indebtedness or any document governing Alternative Incremental Facility Debt, (B) restrictions and conditions imposed by the Senior Subordinated Notes Documents as in effect on the Effective Date or any agreement or document evidencing Refinancing Term Loan Indebtedness in respect of the Senior Subordinated Notes Documents permitted under clause (ii) of Section 3.01(a), (C) in the case of any Payor Group Restricted Subsidiary that is not a wholly owned Payor Group Restricted Subsidiary, restrictions and conditions imposed by its organizational documents or any related joint venture or similar agreements; provided that such restrictions and conditions apply only to such Payor Group Restricted Subsidiary and to the Equity Interests of such Payor Group Restricted Subsidiary, (D) customary restrictions and conditions contained in agreements relating to the sale of a Payor Group Restricted Subsidiary or any assets of Payor, any Borrower or any Payor Group Restricted Subsidiary, in each case pending such sale; provided that such restrictions and conditions apply only to such Payor Group Restricted Subsidiary or the assets that are to be sold and, in each case, such sale is permitted hereunder, (E) restrictions and conditions existing on the Effective Date and identified on Schedule 6.10 to the Current Credit Agreement (as in effect on the Distribution Date) (and any extension or renewal of, or any amendment, modification or replacement of the documents set forth on such schedule that do not expand the scope of, any such restriction or condition in any material respect), (F) restrictions and conditions imposed by any agreement relating to Indebtedness of any Payor Group Restricted Subsidiary in existence at the time such Payor Group Restricted Subsidiary became a Payor Group Restricted Subsidiary and otherwise permitted by clause (vii) of Section 3.01(a) or to any restrictions in any Indebtedness of a non-Loan Party Restricted Subsidiary permitted by clause (viii) of Section 3.01(a), in each case if such restrictions and conditions apply only to such Payor Group Restricted Subsidiary and its subsidiaries, (G) restrictions and conditions imposed by this Agreement or the Guarantee, (H) customary prohibitions, restrictions and conditions contained in agreements relating to a Permitted Receivables Facility, (I) any encumbrance or restriction under documentation governing other Indebtedness of Holdings, any Borrower and any Payor Group Restricted Subsidiaries permitted to be incurred pursuant to Section 3.01, provided that such encumbrances or restrictions will not materially impair Payor's ability to make payments pursuant to this Agreement or the Borrower's ability to make principal and interest payments pursuant to the Credit Agreement, (J) customary provisions in leases, licenses, sublicenses and other contracts (including non-exclusive licenses and sublicenses of intellectual property) restricting the assignment thereof, (K) restrictions imposed by any agreement relating to secured Indebtedness permitted by this Agreement to the extent such restriction applies only to the property securing such Indebtedness, (L) restrictions on cash (or Permitted Investments) or other deposits imposed by agreements entered into in the ordinary course of business (or other restrictions on cash or deposits constituting Permitted Encumbrances); (M) customary restrictions contained in leases, subleases, licenses, sublicenses or asset sale agreements otherwise permitted hereby so long as such restrictions relate only to the assets subject thereto, (N) customary provisions restricting subletting or assignment of any lease governing a leasehold interest of Payor, any Borrower or any Payor Group Restricted Subsidiary and (O) customary net worth provisions contained in real property leases entered into by Subsidiaries, so long as Payor has determined in good faith that such net worth provisions would not reasonably be expected to impair the ability of Payor and its Subsidiaries to meet their ongoing obligations; and (ii) clause (a) of the foregoing shall not apply to (A) restrictions and conditions imposed by any agreement relating to secured Indebtedness permitted by Section 3.01(a)(vi) if such restrictions and conditions apply only to the assets securing such Indebtedness and (B) customary provisions in leases and other agreements restricting the assignment thereof.

SECTION 3.11. Amendment of Material Documents, Etc.

(a) Payor will not, nor will Payor permit any of the Payor Group Restricted Subsidiaries to, amend, modify or waive its certificate of incorporation, bylaws or other organizational documents, in each case if the effect of such amendment, modification or waiver would be materially adverse to Payee without the consent of Payee.

SECTION 3.12. Consolidated Interest Coverage Ratio. Payor will not, and will cause its Subsidiaries not to, permit the Consolidated Interest Coverage Ratio as of the end of any fiscal quarter of Holdings, in each case for any period of four consecutive fiscal quarters of Holdings ending on the last day of such fiscal quarter, to be less than 2.75 to 1.00.

SECTION 3.13. Consolidated Total Leverage Ratio. Payor will not, and will cause its Subsidiaries not to, permit the Consolidated Total Leverage Ratio for any period of four consecutive fiscal quarters of Holdings ending on or about any date during any period set forth below, to exceed the ratio set forth below opposite such period:

Fiscal Quarter Ending	Consolidated Total Leverage Ratio
September 30, 2018	4.25 to 1.00
December 31, 2018	4.25 to 1.00
March 31, 2019	4.25 to 1.00
June 30, 2019	4.25 to 1.00
September 30, 2019	4.00 to 1.00
December 31, 2019	4.00 to 1.00
March 31, 2020	4.00 to 1.00
June 30, 2020	4.00 to 1.00
September 30, 2020	3.75 to 1.00
December 31, 2020	3.75 to 1.00
March 31, 2021	3.75 to 1.00
June 30, 202	3.75 to 1.00
September 30, 2021 and thereafter	3.50 to 1.00

SECTION 3.14. Changes in Fiscal Periods. If Holdings changes its fiscal year, Payor and Payee will make any adjustments to this Agreement that are necessary to reflect such change in fiscal year.

SECTION 3.15. [Reserved].

SECTION 3.16. Limitation on Activities. Notwithstanding anything contained in this Agreement:

(a) Neither Payor nor any other Intermediate Holdco shall own or acquire any assets or property or engage in any business activity, other than (i) the ownership of Equity Interests in accordance with paragraph (b) below, (ii) participating in tax, accounting and other administrative matters as a member of the consolidated group of Holdings and its Subsidiaries,

(iii) activities directly relating to the offering, sale, issuance, incurrence and servicing, purchase, redemption, amendment, exchange, refinancing or retirement of the Obligations, the Senior Subordinated Notes or the Proceeds Loans, (iv) activities undertaken with the purpose of fulfilling any of its other obligations under this Agreement, the Guarantee, the Loan Documents, the Senior Unsecured Notes Documents or the Proceeds Loans Documents, the Hedging Agreements and the Spin-Off Documents, in each case to which it is a party, (v) activities directly related or reasonably incidental to the establishment and/or maintenance of its corporate existence, including the ability to incur fees, costs and expenses relating to such establishment and maintenance and the acquisition, holding or disposition of assets permitted to be held by it under this Agreement or its function as a holding company, (vi) the receipt of any Restricted Payments to the extent permitted by Section 3.08 and the making of Restricted Payments to the extent permitted by Section 3.08, (vii) incurring fees, costs and expenses relating to overhead and general operating including professional fees for legal, tax and accounting issues and paying taxes, (viii) providing indemnification to officers and members of the board of directors (or similar governing body), (ix) activities incidental to the consummation of the Transactions, (x) the creation, incurrence, assumption or existence of any Indebtedness or other liabilities in accordance with paragraph (b) below, and (xi) activities reasonably incidental to the businesses or activities described in clauses (i) through (x) of this paragraph;

(b) (i) Payor and each of the following Intermediate Holdco may only own the following Equity Interests: (A) in the case of Payor, Equity Interests of any Intermediate Holdco (other than, for the avoidance of doubt, Luxco 2 or the Lux Borrower), (B) in the case of U.S. HoldCo 1, Equity Interests of any Subsidiary, (B) in the case of LuxCo 1, Equity Interests of LuxCo 2, (C) in the case of LuxCo 2, Equity Interests of the Lux Borrower and (D) in the case of Payor, Equity Interests of any Subsidiary, (ii) the only Indebtedness pursuant to which Payor or an Intermediate Holdco may be a creditor must be permitted under the Current Credit Agreement, this Agreement and subordinated to the Obligations and (iii) neither Payor nor any other Intermediate Holdco shall grant any Liens over any of its assets other than to secure the Obligations or to facilitate the making of the Proceeds Loans or to secure Intra-Group Indebtedness; and

(c) (i) Payor shall not merge, consolidate, amalgamate or otherwise combine with or into another Person unless otherwise permitted under Section 3.03 and Section 4.7 of this Agreement; (ii) neither any Lux Intermediate HoldCo nor U.S. HoldCo 1 shall merge, consolidate, amalgamate or otherwise combine with or into another Person; (iii) no Non-Lux Intermediate Holdco (other than U.S. HoldCo 1) shall merge, consolidate, amalgamate or otherwise combine with or into another Person unless the surviving or continuing Person at the time of such merger, consolidation, amalgamation or combination with an Intermediate Holdco (other than U.S. HoldCo 1) is organized under the laws of the same jurisdiction of such Intermediate Holdco (or if such Intermediate Holdco is a U.S. Subsidiary, the laws of the United States of America, any State thereof or the District of Columbia), and (iv) no Intermediate Holdco shall sell, convey, assign, transfer, lease or otherwise dispose of all or substantially all of its properties or assets to any Person or group of Persons except to another Intermediate Holdco with whom it would have merged into pursuant to the foregoing clauses of this Section 3.16(c).

SECTION 3.17. Intragroup Transactions. In any Fiscal Quarter (as defined in this Agreement), unless and until all amounts due in such Fiscal Quarter in respect of Quarterly Payments (as defined in this Agreement), 4Q Payments (as defined in this Agreement), Cash True-Up Payments (as defined in this Agreement) and Accrued Amounts (as defined in this Agreement) have been paid in full, other than in the Ordinary Course of Business or transactions with a maximum aggregate consideration not to exceed €5,000,000, neither Payor nor its subsidiaries (the "US HoldCo Group") shall assume or enter into any intercompany transactions resulting directly or indirectly in the payment of any amount by a member of the U.S. HoldCo Group to any of Holdings or its Subsidiaries that are not part of the U.S. HoldCo Group; *provided* that this Section 3.17 shall not prohibit the making of Restricted Payments permitted pursuant to Section 3.08.

SECTION 3.18. IFRS Equity Amount. The Lux Borrower shall not permit, as of the end of each fiscal year, the aggregate amount directly or indirectly on-lent by the Lux Borrower (for any of its direct or indirect Subsidiaries (other than any Swiss Entity)) to the Swiss Borrower (and its direct or indirect Subsidiaries, where such direct or indirect Subsidiaries are organized under the laws of Switzerland or, if different, are considered to be tax resident in Switzerland for Swiss Withholding Tax purposes ("*Verrechnungssteuer*")) (collectively, the **"Swiss Entities"** and individually, a **"Swiss Entity"**) (including the TLB Proceeds Loan) and outstanding at such fiscal year-end to exceed the IFRS Equity Amount at such fiscal year-end, it being understood and agreed that such on-lending during the year may exceed such IFRS Equity Amount so long as such practice does not violate the abuse of law principle according to the practice of the Swiss Federal Tax Administration.

Notwithstanding anything to the contrary set forth in this Agreement, the Current Credit Agreement or any other Loan Document, no provision of this Agreement, the Current Credit Agreement or any other Loan Document shall prevent or restrict the consummation of any of the Transactions, nor shall the Transactions give rise to any Default, or constitute the utilization of any basket, under this Agreement (including this Article III) or any other Loan Document).

SCHEDULE 1.01
AGREED INDEMNITY GUARANTY PRINCIPLES

1. GENERAL PRINCIPLES

1.1 The guarantee to be provided by any Payor Group Loan Party not organized in a U.S. jurisdiction or over assets located outside of a U.S. jurisdiction will be given in accordance with certain principles (these "Agreed Indemnity Guaranty Principles") set forth in this schedule. This schedule addresses the manner in which these Agreed Indemnity Guaranty Principles will impact on the guaranties required to be given in relation to the Agreement.

1.2 These Agreed Indemnity Guaranty Principles embody recognition by all parties to the Agreement that there may be certain legal and practical difficulties in obtaining effective guaranties from the Payor Group in jurisdictions in which they are organized or conduct business. In particular:

(a) general applicable law and statutory limitations, regulatory restrictions, financial assistance, capital maintenance, corporate benefit, financial assistance, fraudulent preference, equitable subordination, **"**transfer pricing", "thin capitalization", "earnings stripping", "controlled foreign corporation" and other corporate law or tax restrictions or costs, retention of title claims, "capital maintenance" and "liquidity impairment" laws or regulations (or analogous restrictions), exchange control restrictions and similar principles may limit or delay the ability of a member of the Payor Group to provide a guaranty or may require that the guaranty be limited by an amount or otherwise, and if so, the guaranty will be limited or delayed accordingly;

(b) the maximum guarantied amount may be limited as agreed by the Payee and the applicable members of the Payor Group in order to minimize stamp duty, notarization, registration or other applicable fees, Taxes and duties on any member of the Payor Group, taking into account the amount of such limit as compared to the fees, Taxes or duties saved;

(c) [Reserved];

(d) members of the Payor Group will not be required to give guaranties if it is not within the legal capacity of the relevant members of the Payor Group or if the same would, as reasonably determined by the relevant members of the Payor Group, conflict with the fiduciary or statutory duties of the directors (or other officers) of the relevant member of the Payor Group or contravene any legal prohibition or regulatory condition, as reasonably determined by the relevant members of the Payor Group, to result in (or in a material risk of) civil or criminal liability on the part of any director (or other officer) of any member of the Payor Group; provided, in each case, however, that the relevant member of the Payor Group shall use commercially reasonable efforts lawfully available to it to overcome any such obstacle;

(e) [Reserved];

(f) [Reserved];

(g) no guaranty shall be given to the extent that it would result in material incremental costs that are disproportionate to the benefit obtained by the beneficiaries of that guaranty;

(h) [Reserved];

(i) certain supervisory board, works council or another external body's consent or advice may be required to enable a member of the Payor Group to provide a guaranty; such guaranty shall not be provided until such consent or advice has been received provided that commercially reasonable efforts have been used by the relevant member of the Payor Group to obtain the relevant consent or advice to the extent reasonably practicable and permissible by law, regulation and custom; and

(j) the giving of a guaranty will not be required if:

(i) it would have a material adverse effect on the ability of the relevant Payor Group Loan Party to conduct its operations and business in the ordinary course as otherwise permitted by the Guarantee and this Agreement; or

(ii) it would have a material adverse effect on the tax arrangements of the Payor Group or any member of the Payor Group; provided, in each case, that the relevant member of the Payor Group shall use commercially reasonable efforts to overcome any such obstacle; or

(iii) the guarantor is an investment company under the Investment Company Act of 1940 (or would be such an investment company if it were to provide or maintain a guaranty).

1.3 These Agreed Indemnity Guaranty Principles as expressed herein (other than the obligations set forth in Section 3.1 herein) shall not be treated as covenants of any Payor Group Loan Party and shall not impose any obligations on the Payor Group Loan Parties unless and until such time as any such principle is incorporated into an executed guaranty document.

1.4 For the avoidance of doubt, in these Agreed Indemnity Guaranty Principles, "cost" includes, but is not limited to, income tax cost, registration taxes payable on the execution of the guaranty, stamp duties, out of pocket expenses, adverse effects on interest deductibility, notarial costs and other fees and expenses directly incurred in connection with the guaranty by the relevant Payor Group Loan Party.

2. [RESERVED]

3. GUARANTIES

3.1 Subject to payment of all registration fees and documentary Taxes, and subject to these Agreed Indemnity Guaranty Principles, Payee shall receive the benefit of an upstream, cross-stream and downstream guarantee from the Payor Group Loan Parties organized in a Material Jurisdiction granted to secure all obligations under this Agreement in accordance with the Indemnity Guarantee Requirement.

Exhibit 4.2

DESCRIPTION OF CAPITAL STOCK

General

The following description of our capital stock and certain provisions of our Amended and Restated Certificate of Incorporation and Amended and Restated By-laws are summaries and are qualified in their entirety by reference to the full text of our Amended and Restated Certificate of Incorporation and Amended and Restated By-laws.

Authorized Capital Stock

Our authorized capital stock consists of 400,000,000 shares of common stock, par value $0.001 per share, and 50,000,000 shares of preferred stock, par value $0.001 per share. We do not have any shares of preferred stock outstanding.

Common Stock

Dividends

Holders of shares of our common stock are entitled to receive dividends when, as and if declared by our Board of Directors (the "Board") at its discretion out of funds legally available for that purpose, subject to the preferential rights of any preferred stock that may be outstanding. The timing, declaration, amount and payment of future dividends will depend on our financial condition, earnings, capital requirements and debt service obligations, as well as legal requirements, regulatory constraints, industry practice and other factors that our Board deems relevant. Additionally, the terms of our indebtedness and our obligations under our Indemnification and Reimbursement Agreement with Honeywell International Inc. each limit our ability to pay cash dividends.

Voting Rights

The holders of our common stock are entitled to one vote for each share held of record on all matters on which stockholders generally are entitled to vote. Except as otherwise required by law, holders of common stock are not entitled to vote on any amendment to our Amended and Restated Certificate of Incorporation (including any Certificate of Designation relating to any series of Preferred Stock) that relates solely to the terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together with the holders of one or more other such series, to vote thereon.

Other Rights

Subject to the preferential liquidation rights of any preferred stock that may be outstanding, upon our liquidation, dissolution or winding-up, the holders of our common stock are entitled to share ratably in our assets legally available for distribution to our stockholders.

Fully Paid

The issued and outstanding shares of our common stock are fully paid and non-assessable. Any additional shares of common stock that we may issue in the future will also be fully paid and non-assessable.

The holders of our common stock do not have preemptive rights or preferential rights to subscribe for shares of our capital stock.

Preferred Stock

Our Amended and Restated Certificate of Incorporation authorizes our Board to designate and issue from time to time one or more series of preferred stock without stockholder approval. Our Board may fix and determine the preferences, limitations and relative rights of each series of preferred stock. There are no present plans to issue any shares of preferred stock.

Certain Provisions of Delaware Law, Our Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws

Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws

Certain provisions in our Amended and Restated Certificate of Incorporation and our Amended and Restated By-Laws summarized below may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a stockholder might consider to be in its best interests, including attempts that might result in a premium being paid over the market price for the shares held by stockholders. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our Board and in the policies formulated by our Board and to discourage certain types of transactions that may involve an actual or threatened change of control.

- *Classified Board.* Our Amended and Restated Certificate of Incorporation provides that, until the annual stockholder meeting in 2022, our Board is divided into three classes, with each class consisting, as nearly as may be possible, of one-third of the total number of directors. The directors designated as Class I directors currently have terms expiring at the 2022 annual meeting of stockholders. The directors designated as Class II directors currently have terms expiring at the 2020 annual meeting and the directors designated as Class III directors currently have terms expiring at the 2021 annual meeting. Individuals elected to succeed the Class II and Class III directors whose terms then expire will be elected for a term of office to expire at the 2022 annual meeting. Beginning at the 2022 annual meeting, all of our directors will stand for election each year for annual terms, and our Board will therefore no longer be divided into three classes. Before our Board is declassified, it would take at least two elections of directors for any individual or group to gain control of our Board. Accordingly, while the classified board is in effect, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to control us.
- *Removal.* Our Amended and Restated Certificate of Incorporation provides that (i) prior to our Board being declassified as discussed above, our stockholders may remove directors only for cause and (ii) after our Board has been fully declassified, our stockholders may remove directors with or without cause. Removal requires the affirmative vote of holders of at least a majority of our voting stock.
- *Blank Check Preferred Stock.* Our Amended and Restated Certificate of Incorporation authorizes our Board to designate and issue, without any further vote or action by the stockholders, up to 50,000,000 shares of preferred stock from time to time in one or more series and, with respect to each such series, to fix the number of shares constituting the series and the designation of the series, the voting powers (if any) of the shares of the series, and the preferences and relative, participating, optional and other rights, if any, and any qualifications, limitations or restrictions, of the shares of such series. The ability to issue such preferred stock could discourage potential acquisition proposals and could delay or prevent a change in control.
- *No Stockholder Action by Written Consent.* Subject to the rights of any series of preferred stock then outstanding, our Amended and Restated Certificate of Incorporation expressly excludes the right of our stockholders to act by written consent. Stockholder action must take place at an annual meeting or at a special meeting of our stockholders.
- *Special Stockholder Meetings.* Our Amended and Restated Certificate of Incorporation and our Amended and Restated By-Laws provide that only our Chairman or our Board, pursuant to a resolution approved by a majority of our entire Board, is able to call a special meeting of stockholders. Stockholders will not be permitted to call a special meeting or to require our Board to call a special meeting.

- *Requirements for Advance Notification of Stockholder Nominations and Proposals.* Our Amended and Restated By-Laws establish advance notice procedures for stockholder proposals to be brought before an annual meeting of our stockholders and proposed nominations of persons for election to our Board to be brought before an annual or special meeting of our stockholders. Although the Amended and Restated By-Laws do not give our Board the power to approve or disapprove stockholder nominations of candidates or proposals regarding other business to be conducted at a special or annual meeting, the Amended and Restated By-Laws may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed or may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempting to obtain control of us.
- *Cumulative Voting.* The Delaware General Corporation Law ("DGCL") provides that stockholders are denied the right to cumulate votes in the election of directors unless the company's certificate of incorporation provides otherwise. Our Amended and Restated Certificate of Incorporation does not provide for cumulative voting.
- *Amendments to Certificate of Incorporation and By-Laws.* The DGCL provides that the affirmative vote of holders of a majority of a company's voting stock then outstanding is required to amend the company's certificate of incorporation unless the company's certificate of incorporation provides a higher threshold, and our Amended and Restated Certificate of Incorporation does not provide for a higher threshold. Our Amended and Restated Certificate of Incorporation provides that our Amended and Restated By-Laws may be amended by our Board or by the affirmative vote of holders of at least a majority of our voting stock then outstanding.

Delaware Takeover Statute

We are subject to Section 203 of the DGCL, which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder.

Limitation on Liability of Directors and Indemnification of Directors and Officers

Delaware law authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties as directors, and our Amended and Restated Certificate of Incorporation includes such an exculpation provision. Our Amended and Restated By-Laws and Amended and Restated Certificate of Incorporation include provisions that indemnify, to the fullest extent allowable under the DGCL, the personal liability of directors or officers for monetary damages for actions taken as a director, officer or agent of us, or for serving at our request as a director, officer or agent at another corporation or enterprise, as the case may be. Our Amended and Restated By-Laws and Amended and Restated Certificate of Incorporation also provide that we must indemnify and advance reasonable expenses to our directors, officers and employees, subject to our receipt of an undertaking from the indemnified party as may be required under the DGCL. Our Amended and Restated By-Laws expressly authorize us to carry directors' and officers' insurance to protect us, our directors, officers and employees for some liabilities.

Exclusive Forum

Our Amended and Restated Certificate of Incorporation provides, in all cases to the fullest extent permitted by law, that unless we consent in writing to the selection of an alternative forum, the Court of Chancery located within the State of Delaware is the sole and exclusive forum for any derivative action or proceeding brought on behalf of us, any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees or stockholders to us or our stockholders, any action asserting a claim arising pursuant to the DGCL or as to which the DGCL confers jurisdiction on the Court of Chancery located in the State of Delaware, any action asserting a claim governed by the internal affairs doctrine or any other action asserting an "internal corporate claim" as that term is defined in Section 115 of the DGCL. However, if the Court of Chancery within the State of Delaware does not have jurisdiction, the action may be brought in any other state or federal court located within the State of Delaware.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Equiniti Trust Company.

Listing

Our common stock is listed on the New York Stock Exchange, under the ticker symbol “GTX.”

Exhibit 10.20

GARRETT MOTION INC.

NON-EMPLOYEE DIRECTOR COMPENSATION PROGRAM

Eligible Directors (as defined below) on the board of directors (the "***Board***") of Garrett Motion Inc. (the "***Company***") shall be eligible to receive cash and equity compensation as set forth in this Non-Employee Director Compensation Program (this "***Program***"). The cash and equity compensation described in this Program shall be paid or be made, as applicable, automatically as set forth herein and without further action of the Board, to each member of the Board who is not an employee of the Company or any of its parents, affiliates or subsidiaries (each, an "***Eligible Director***").

This Program shall remain in effect until it is revised or rescinded by further action of the Board. This Program may be amended, modified or terminated by the Board at any time in its sole discretion. No Eligible Director shall have any rights hereunder, except with respect to equity awards granted pursuant to Section 2 of this Program.

1. Cash Compensation. The annual cash retainers described below shall be earned on a quarterly basis based on a calendar quarter and shall be paid by the Company in arrears on or about the first business day of January, April, July and October.

Board Service	
Annual Retainer:	$80,000
Independent Chairman:	$100,000
Committee Service	
Committee Chair Annual Retainer:	
Audit	$20,000
Compensation	$15,000
Nominating and Governance	$15,000
Other	$10,000
Committee Member Annual Retainer:	
Audit	$10,000
Compensation	$7,500
Nominating and Governance	$5,000
Other	$5,000

2. Equity Compensation.

a. General. Eligible Directors shall be granted the equity awards described below. The awards described below shall be granted under and shall be subject to the terms and provisions of the 2018 Stock Plan for Non-Employee Directors of Garrett Motion Inc. (such plan, as may be amended from time to time, the "***Equity Plan***") and may be granted subject to the execution and delivery of

award agreements, including attached exhibits, in substantially the forms approved by the Board prior to or in connection with such grants. All applicable terms of the Equity Plan apply to this Program as if fully set forth herein, and all grants of equity awards hereby are subject in all respects to the terms of the Equity Plan. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Equity Plan.

b. Annual Awards. An Eligible Director who is serving on the Board as of the date of any annual meeting of the Company's stockholders (the "***Annual Meeting***") and will continue to serve as an Eligible Director immediately following such meeting shall be automatically granted, on such date of the applicable meeting, a number of Restricted Stock Units with a target value equal to $120,000 (the "***Target Value***"). The Restricted Stock Units described in this Section 2(b) shall be referred to herein as the "***Annual Awards***". Each Annual Award shall vest in full on the earlier of (i) the one-year anniversary of the grant date, (ii) death, (iii) disability, or (iv) the Eligible Director's removal from the Board coincident with the occurrence of a Change in Control (such date, the "***Vesting Date***"), subject to the Eligible Director continuing in service as an Eligible Director through the Vesting Date. The actual number of Restricted Stock Units granted shall be determined by dividing the Target Value by the Fair Market Value of the Company common stock on the date of the Annual Meeting.

3. Compensation Limits. Notwithstanding anything to the contrary in this Program, all compensation payable under this Program will be subject to any limits on the maximum amount of non-employee director compensation set forth in the Equity Plan, as in effect from time to time.

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Exhibit 10.21

SEVERANCE PAY PLAN
FOR DESIGNATED EXECUTIVE EMPLOYEES
OF GARRETT MOTION INC.

PREAMBLE

The purpose of this Severance Pay Plan for Designated Executive Employees of Garrett Motion Inc. (the "Plan") is to provide severance benefits to Eligible Employees of Garrett Motion Inc. and its participating divisions, subsidiaries and affiliates who are employed in the United States in an Executive Level position and whose employment relationship is (i) involuntarily terminated at the initiative of the Employer for reasons other than Cause, (ii) terminated as a Handraiser, or (iii) terminated pursuant to a Voluntary Reduction in Force, and who are thereafter, as a result of such termination, no longer employed by the Company or any successor thereto, any Outsource Entity, joint venture partner or other entity responsible for the work such employee performed prior to his or her termination of employment with the Company. This Plan is intended to be a "welfare benefit plan" within the meaning of Section 3(1) of ERISA.

The terms of this Plan are intended to, and shall be interpreted so as to, comply in all respects with the provisions of Section 409A of the Internal Revenue Code of 1986 (the "Code"), and the regulations and rulings promulgated thereunder (collectively, "Code Section 409A"). Accordingly, if necessary, any provision of the Plan shall be held null and void to the extent such provision (or any part thereof) fails to comply with Code Section 409A.

1. Definitions

As used throughout the Plan unless otherwise clearly or necessarily indicated by context:

(a) **"Cause"** means any of the following, as determined in the sole discretion of the Plan Administrator: (i) clear evidence of a significant violation of the Company's Code of Business Conduct; (ii) a fraud committed against the Company; (iii) the misappropriation, embezzlement or reckless or willful destruction of Company property; (iv) the willful failure to perform, or gross negligence in the performance of, duties; (v) the conviction (treating a nolo contendere plea as a conviction) of a felony (whether or not any right to appeal has been or may be exercised); (vi) the knowing falsification of any records or documents of the Company; (vii) a significant breach of any statutory or common law duty of loyalty to the Company; (viii) intentional and improper conduct that is significantly prejudicial to the business of the Company; (ix) the failure to cooperate fully in a Company investigation or the failure to be fully truthful when providing evidence or testimony in such investigation; or (x) the violation of Company rules and policies that, based on a single occurrence, might not meet the significance thresholds of (i), (vii) or (viii) above, but that shall, for purposes of such significance thresholds, be deemed to constitute a violation thereof in the event any such violation occurs more than once.

(b) **"Company"** means Garrett and its subsidiaries and affiliated entities.

(c) "**Covered Termination**" means a termination event giving rise to severance benefits under this Plan as detailed in Section 4 hereof.

(d) **"Eligible Employee"** means an Employee who is eligible, subject to Section 4, to receive severance benefits in accordance with Section 3 of the Plan.

(e) **“Employee”** means any individual who (i) is on the Employer’s payroll, (ii) is classified in the employment records of an Employer as an employee, and (iii) would be considered to be in an employer-employee relationship under general principles of law. Any individual who is not on the Employer’s payroll or who is not classified in the employment records of an Employer as an employee, but who is retroactively or prospectively classified as a common law employee by any state or federal governmental agency or court shall not be treated as an Employee for purposes of this Plan. In addition, any individual who would not satisfy this definition but who is classified as an “employee” by the Employer for limited purposes (including, but not limited to, tax withholding or specified benefit plans) shall not be treated as an Employee for purposes of this Plan unless such limited purpose specifically references this Plan.

(f) **“Employer”** means Garrett and its divisions, subsidiaries, affiliates, strategic business units, and their respective successors, which are participating in this Plan.

(g) **“ERISA”** means the Employee Retirement Income Security Act of 1974, as amended from time to time, together with applicable regulations thereunder.

(h) **“Executive Level”** means a position designated as such in the employment records of an Employer.

(i) **“Full-time Employee”** means any Employee of an Employer who is classified in the employment records of an Employer as a full-time employee.

(j) **“Handraiser”** means an Eligible Employee whose request to be considered for an involuntary Reduction in Force has been accepted by the Company.

(k) **“Last Day of Active Employment”** means an Eligible Employee’s final day of employment with the Company (typically the day prior to the date the Eligible Employee would be eligible to commence the receipt of Severance Benefits), and shall be the date on which the Eligible Employee’s active employment with the Company is severed within the meaning of Code Section 409A.

(l) **“Medical Leave of Absence”** means an absence from active employment due to an Employee’s inability to perform the functions of his or her job, provided that during such absence the Employee (i) is receiving short-term disability benefits, (ii) is receiving long-term disability benefits, (iii) is on a medical leave of absence granted by an Employer, or (iv) any combination of (i)-(iii).

(m) **“Outsource Entity”** means an entity (other than the Company) to which work or services previously performed by Employees has been outsourced or contracted, regardless of whether such work or services are performed remotely or at a Company facility.

(n) **“Part-time Employee”** means any Employee of an Employer who is classified in the employment records of an Employer as a part-time employee and who is regularly scheduled to work at least 20 hours per week.

(o) **"Pay"** means an Eligible Employee's annualized base salary divided by 12. Pay shall be determined on the Last Day of Active Employment, and shall exclude commissions, bonuses, mid and long term incentive awards, and any other remuneration; provided, however, in the event an Eligible Employee becomes eligible for Severance Benefits while working a temporary, reduced schedule with reduced pay, Pay shall be determined on the day prior to the commencement of such temporary, reduced schedule with reduced pay.

(p) **"Quit"** means a voluntary termination of the employment relationship initiated by an Eligible Employee, including retirement and the abandonment of employment, but shall not include Handraisers.

(q) **"Reduction in Force"** means an involuntary termination of the employment relationship, without Cause, due to the elimination of an Eligible Employee's position as a result of a reduction in personnel, declining business, discontinuance of operations, location closings or corporate restructuring.

(r) **"Release"** has the meaning set forth in Section 3(b) of the Plan.

(s) **"Garrett"** means Garrett Motion Inc., a Delaware corporation.

(t) **"Severance Benefit"** means the severance benefit described in Section 5(a) of the Plan.

(u) **"Voluntary Reduction in Force"** means a voluntary termination of the employment relationship, without Cause, due to a Reduction in Force, which termination is the result of, and in accordance with the terms of, a voluntary reduction in force program that has been approved by the Garrett's Chief Human Resources Officer, or his designee.

2. EFFECTIVE DATE

The Plan is effective as of the first day of Garrett's existence as a publicly traded company with respect to Eligible Employees whose employment is terminated by an Employer on or after such date.

3. ELIGIBLE EMPLOYEES

(a) An Employee is eligible, subject to Section 4, to receive Severance Benefits under this Plan if he or she:

(i) is a regular Full-time Employee or Part-time Employee paid on a salaried basis and not in a category of employment or business location designated as not covered by this Plan as set forth in Exhibit A, the terms of which are fully incorporated into and shall be considered part of the Plan;

(ii) is employed in the United States (the United States includes the 50 several states and the District of Columbia, but does not include a United States possession, commonwealth or territory, including Puerto Rico) in an Executive Level position (including employees from the United States on an expatriate assignment outside of the United States);

(iii) is not classified by the Employer as a temporary, contract, contingent or leased worker;

(iv) is not covered by collective bargaining agreement between the Employer and a labor organization unless such collective bargaining agreement expressly provides for coverage under the Plan;

(v) is not classified by the Employer as a consultant or an independent contractor;

(vi) is not entitled to severance benefits from the Company under another plan, arrangement or program (including any statutory or other governmental entitlement (including entitlements under foreign law)) or a separate agreement (whether formal or informal, written or unwritten), unless such plan, arrangement, program or agreement expressly provides for coverage under the Plan; and

(vii) executes a Release not later than sixty (60) days after the Employee's Last Day of Active Employment.

(b) Severance Benefits shall be provided in consideration for, and conditioned upon, (i) the execution of a release by the Eligible Employee of all claims, known or unknown, arising on or before the date of the release, against the Company and its officers, directors and employees in the form and manner prescribed by the Employer (which release may include cooperation, nondisclosure, non-competition, non-disparagement and confidentiality covenants) (the "Release"), (ii) the affirmation or initial agreement (as the case may be), in a form and manner prescribed by the Employer, of the Eligible Employee's obligations under confidentiality, non-solicitation and intellectual property covenants in favor of the Company (which affirmation/ initial agreement may be made part of the Release), (iii) the execution of a non-competition agreement by the Eligible Employee in favor of the Company in a form and manner prescribed by the Employer (which non-competition agreement may be made part of the Release), (iv) the repayment of any amounts due to the Company, and (v) the return by the Eligible Employee to the Employer of all property of the Employer, including any electronic devices, documents, electronic data, and all trade secrets, proprietary and confidential information in the Eligible Employee's possession, custody or control.

Consistent with Section 5(f), the Employer may, in its sole discretion, terminate or suspend all Plan benefits upon learning, or having good reason to believe, that the Eligible Employee has violated the conditions and covenants described in this Section 3(b). In such case, any consideration received by an Eligible Employee prior to the date of such cessation or suspension of Plan benefits shall be considered adequate consideration for the Release and other covenants hereunder. The Employer's right to suspend or terminate Plan benefits hereunder shall not preclude the Employer from pursuing other remedies for such violations, including, without limitation, seeking injunctive relief.

An Employee must execute all required documents, including the Release, not later than sixty (60) days after the Employee's Last Day of Active Employment. Except as otherwise provided in Section 7(c), if such an Employee fails to execute such documents within the required time period, the Employee shall not be entitled to receive Severance Benefits under this Plan.

4. Covered Terminations

Severance Benefits are payable to an Eligible Employee under the Plan if he or she is part of a Voluntary Reduction in Force or upon his or her involuntary termination of employment by an Employer, except that in no event shall Severance Benefits be payable:

(a) to an Eligible Employee who is discharged for Cause, Quits or otherwise voluntarily terminates his or her employment (other than as a Handraiser);

(b) upon the death of an Eligible Employee during active employment;

(c) if the Eligible Employee's termination is due to the Eligible Employee's failure to timely return to work upon expiration of an authorized leave of absence, in which case such an Eligible Employee will be separated as a Quit;

(d) if the Eligible Employee is transferred to an affiliate or other location of Garrett; provided, however, that an Eligible Employee whose employment is terminated solely as a result of his or her reasonable refusal to transfer to an affiliate or another Garrett location that is more than 50 miles from his or her current work location shall be eligible for Severance Benefits hereunder;

(e) if Garrett or the Employer is merged into another entity or otherwise reorganized and the Eligible Employee is offered employment with any successor entity; provided, however, if an Eligible Employee is offered employment with any successor entity and such Eligible Employee declines such employment because it would require him to transfer to a location that is more than 50 miles from his current work location, such Eligible Employee shall be eligible for Severance Benefits hereunder if he or she is terminated solely as a result of such declination;

(f) if the subsidiary, division or other business unit or operation at which the Eligible Employee works is sold or otherwise disposed of (including a licensing of assets) and the Eligible Employee is offered employment with the acquirer/successor/licensee or an entity related to the acquirer/successor/licensee ("Successor Entity"); provided, however, if the Eligible Employee is offered employment with the Successor Entity and such Eligible Employee declines such employment because it would require him to transfer to a location that is more than 50 miles from his current work location, such Eligible Employee shall be eligible for Severance Benefits hereunder if he or she is terminated solely as a result of such refusal. Moreover, if an Eligible Employee who is receiving Severance Benefits hereunder because he was not offered employment with the Successor Entity is subsequently offered employment with such Successor Entity, Severance Benefits shall cease, effective as of the date of the offer of employment, if such Eligible Employee either accepts such offer of employment or refuses such offer of employment, unless such offer would require him to transfer to a location which is more than 50 miles from his most recent Company work location;.

(g) if the Eligible Employee is identified for Reduction in Force and declines employment at the same or another Garrett location; provided, however, that an Eligible Employee (A) whose employment is terminated solely as a result of his or her refusal to accept any such employment at a location that is more than 50 miles from his or her current work location, or (B) who, after voluntarily initiating a job search within Garrett, declines an offer of employment, shall be eligible for Severance Benefits hereunder.. Any Eligible Employee who is ineligible for Severance Benefits in accordance with this subsection will be separated as a Quit;

(h) if the work performed by the Eligible Employee is transferred to an Outsource Entity and the Eligible Employee is offered employment with such entity; provided, however, if the Eligible Employee is offered employment with the Outsource Entity and such Eligible Employee declines such employment because it would require him to transfer to a location that is more than 50 miles from his current work location, such Eligible Employee shall be eligible for Severance Benefits hereunder if he or she is terminated solely as a result of such declination. Moreover, if an Eligible Employee who is receiving severance benefits hereunder because he was not offered employment with the Outsource Entity is subsequently offered employment with such entity, severance benefits shall cease, effective as of the date of the offer of employment, if such Eligible Employee either accepts such offer of employment or declines such offer of employment, unless such offer would require him to transfer to a location which is more than 50 miles from his most recent Company work location;

(i) in the case of an Eligible Employee who is classified by the Company as being furloughed or on temporary layoff, unless such furlough or temporary layoff shall last for more than (A) one hundred twenty (120) consecutive days, or (B) one hundred eighty (180) days in any calendar year. An Eligible Employee who fails to return from a furlough or temporary layoff when recalled shall be separated as a Quit; or

(j) if the Eligible Employee does not return to active employment within eighteen (18) months of commencing a Medical Leave of Absence; provided, however, if an Eligible Employee is medically cleared to return to work before the conclusion of such eighteen (18) month period and is ready and willing to do so but does not return to active employment because (a) no job for which he or she qualified is available for such Eligible Employee within 50 miles of his or her previous work location, or (b) such Eligible Employee is unable to locate another Company position within thirty (30) days following his or her return to work, then such Eligible Employee shall be entitled to Severance Benefits under this Plan.

For purposes of subparagraphs (e), (f) and (h) above, an Eligible Employee's failure to comply fully with the acquiring, successor or Outsource Entity's job application process shall be deemed to constitute a refusal of employment within 50 miles of his or her previous work location and such Eligible Employee shall be treated as a Quit and shall not be eligible for a Severance Benefit under this Plan.

5. SEVERANCE BENEFITS

(a) Severance Benefits. The Severance Benefit payable to an Eligible Employee who has satisfied the requirements of Sections 3 and 4 (including, without limitation, Section 3(b)) of the Plan shall be nine (9) months of Pay. Notwithstanding the foregoing, any Eligible Employee who, on December 31, 2013, was categorized in the employment records of an Employer as an employee in salary band 6, shall be entitled to twelve (12) months of Pay if such employee becomes eligible for Severance Benefits under this Plan.

(b) Reduction of Benefits. Notwithstanding anything in this Plan to the contrary, an Eligible Employee's Severance Benefit shall be reduced by:

(i) any amount paid or payable by an Employer to or on behalf of the Eligible Employee by operation of the Worker Adjustment Retraining and Notification Act or any other Federal or state law requiring the Employer to provide payment to an Eligible Employee for reasons giving rise to a Severance Benefit entitlement under this Plan; and

(ii) any amount the Eligible Employee owes to the Employer (other than properly documented business expenses) including, without limitation, unpaid bills under the Employer's corporate credit card program, vacation taken in excess of vacation accrued and tax equalization payments. With respect to amounts paid under the Plan that are not subject to Code Section 409A, the timing and method of recovering such amounts shall be determined in the sole discretion of the Employer. With respect to amounts paid under the Plan that are subject to Code Section 409A, the timing and method of recovering such amounts shall be determined in the sole discretion of the Employer, but such deductions shall not exceed $5,000.

(c) Forfeiture of Benefits. The Employer reserves the right, in it sole and absolute discretion, to cancel all benefits under this Plan in the event an Eligible Employee engages in any activity that the Employer considers detrimental to its interests, as determined by the Garrett's General Counsel or Chief Human Resources Officer, or their delegees. Activities that the Employer considers detrimental to its interests include, but are not limited to:

(i) any effort on the part of the Eligible Employee, either directly or indirectly, to recruit or solicit employees of the Company for employment with another company without the written approval of Garrett;

(ii) any effort on the part of the Eligible Employee, either directly or indirectly, to recruit or solicit customers of the Company;

(iii) disclosure of any Company confidential or proprietary information, or the breach of any obligations under the Eligible Employee's agreements relating to intellectual property and confidential information;

(iv) knowingly making false or misleading statements about the Company or its products, officers or employees to competitors or customers or potential customers of the Company, or to current or former employees of the Company;

(v) any intentional misconduct substantially damaging to the property or business of the Company;

(vi) the commission of a fraud or misappropriation of property, proprietary information, intellectual property or trade secrets of the Company for personal gain or for the benefit of another party;

(vii) an Eligible Employee's holding himself or herself out as an active employee of the Company; or

(viii) breaching any of the terms of the Release or any IP, confidentiality or noncompetition agreement or covenant.

(d) Subsequent Employment. In the event an Eligible Employee is receiving Severance Benefits under circumstances more fully described in Sections 4(f) or 4(h) (except that such Eligible Employee was not offered continuing employment), such Eligible Employee shall have such Severance Benefits terminated if he or she later accepts employment with the acquiring or Outsource Entity, as the case may be.

(e) Nonduplication of Benefits. Any benefit determined to be payable to an Eligible Employee under this Plan shall, subject to and consistent with Code Section 409A, be reduced by the amount of any similar severance, redundancy or employment termination benefit payable to the Eligible Employee under (i) any other severance plan sponsored or funded by the Company, (ii) any agreement between the Company and the Eligible Employee, whether oral or written, express or implied, relating to termination related benefits, or (iii) any statutory or court mandated entitlement (including entitlements under foreign law), regardless of whether the benefit determined under such other plan, agreement, statutory or court mandated entitlement is payable at an earlier or a later date than payments under the Plan, it being the intention of this subparagraph (e) to protect the Company from the payment of duplicative severance, redundancy or employment termination benefits.

6. Form and Timing of Severance Benefits

Severance Benefits shall be paid in periodic installments corresponding to the Eligible Employee's normal payroll period commencing after the Eligible Employee's Last Day of Active Employment. Notwithstanding the foregoing, the Employer may, at its sole discretion, delay the commencement of Severance Benefits until the Eligible Employee has executed a Release and the time period for revoking such Release, if applicable, has expired. In such case, the Employer shall commence Severance Benefits upon the receipt of the Release or the expiration of the revocation period, as applicable, and any arrearages paid as part of the next payroll period.

Payment of Severance Benefits shall cease in the event an Eligible Employee (i) accepts employment with the Company, (ii) is offered employment by the Company at a location that is not more than 50 miles from the location he or she last worked while employed by the Employer, (iii) is hired by an entity that is providing services to the Company through any type of contractual relationship, written or unwritten, including, but not limited to, worker leasing, contract or sub-contract employment, consulting agreements or independent contractor agreements, and, pursuant to that relationship, the Eligible Employee is providing services to the Company, or (iv) commences the receipt of his pension benefits from a Company-sponsored defined benefit pension plan.

If the Eligible Employee dies after signing and returning the Release (without revoking the Release) and before all Severance Benefits have been paid, the balance of such payments will be paid to the Eligible Employee's estate in a lump sum within sixty (60) days following the Eligible Employee's death.

7. ADMINISTRATION

(a) Plan Administration. The Plan Administrator for purposes of ERISA shall be Garrett's Vice President, Compensation and Benefits, or his designee.

The Plan Administrator shall serve without additional compensation. The Plan Administrator shall keep or cause to be kept such records and shall prepare or cause to be prepared such returns or reports as may be required by law or necessary for the proper administration of the Plan.

(b) Powers and Duties of Plan Administrator. The Plan Administrator shall have the full discretionary power and authority to (i) construe and interpret the Plan (including, without limitation, supplying omissions from, correcting deficiencies in, or resolving inconsistencies or ambiguities in, the language of the Plan); (ii) determine all questions of fact arising under the Plan, including questions as to eligibility for and the amount of benefits; (iii) establish such rules and regulations (consistent with the terms of the Plan) as he deems necessary or appropriate for administration of the Plan; (iv) delegate responsibilities to others to assist him in administering the Plan; and (v) perform all other acts he believes reasonable and proper in connection with the administration of the Plan. The Plan Administrator shall be entitled to rely on the records of the Employer in determining any Eligible Employee's entitlement to, and amount of, Severance Benefits under the Plan. Any determination of the Plan Administrator, including interpretations of the Plan and determinations of questions of fact, shall be final and binding on all parties.

The Plan Administrator may retain attorneys, consultants, accountants or other persons (who may be employees of the Company) to render advice and assistance and may delegate any of the authorities conferred on him under this Plan to such persons as he shall determine to be necessary to effect the discharge of his duties hereunder. The Plan Administrator, the Company and its officers and directors shall be entitled to rely upon the advice, opinions and determinations of any such persons. Any exercise of the authorities set forth in this Section 7, whether by the Plan Administrator or his delegee, shall be final and binding upon the Company and all Employees.

(c) Additional Discretionary Authority. The Plan Administrator may, in his sole and absolute discretion, take the following actions under the Plan:

(i) subject to Section 3(b), grant Severance Benefits to an Employee who would not otherwise be eligible for Severance Benefits under the Plan;

(ii) waive the requirement set forth in Section 3(b) that an Eligible Employee or group of Eligible Employees execute a Release or confidentiality, non-competition, non-disparagement, non-solicitation and intellectual property covenants in order to receive Severance Benefits; and

(iii) grant additional Severance Benefits to an Eligible Employee.

(d) Indemnification. To the extent permitted by law, Garrett shall indemnify the Plan Administrator from all claims for liability, loss, or damage (including payment of expenses in connection with defense against such claims) arising from any act or failure to act in connection with the Plan.

8. Claims and Appeals Procedures

(a) Any request or claim for Plan benefits shall be deemed to be filed when a written request is made by the claimant or the claimant's authorized representative that is reasonably calculated to bring the claim to the attention of the Plan Administrator.

(b) The Plan Administrator, or his designee, shall respond, in writing, to any claimant's claim for benefits under the Plan. Such response shall be provided within 90 days of its receipt by the Plan Administrator or, if special circumstances require and the claimant is so notified, in writing, before the expiration of the initial 90-day period, within 180 days of its receipt by the Plan Administrator. If the extension is necessary because the claimant has failed to submit the information necessary to decide the claim, the Plan Administrator's period for responding to such claim shall be tolled until the date that the claimant responds to the request for additional information. The response shall be written in a manner calculated to be understood by the claimant and shall, in the case of an adverse benefit determination:

(i) set forth the specific reasons for the adverse benefit determination;

(ii) contain specific references to Plan provisions relative to the adverse benefit determination;

(iii) describe any material and information, if any, necessary for the claim for benefits to be perfected, and an explanation of why such material or information is necessary; and

(iv) advise the claimant that any appeal of an adverse benefit determination must be made, in writing, to the Plan Administrator within 60 days after receipt of such adverse benefit determination, and must set forth the facts upon which the appeal is based.

(c) If the claimant fails to appeal the Plan Administrator's adverse benefit determination, in writing, within 60 days after its receipt by the claimant (or within 60 days after a deemed denial of the claim), the Plan Administrator's determination shall become final and conclusive.

(d) If the claimant appeals the Plan Administrator's adverse benefit determination in a timely fashion, the Plan Administrator shall re-examine all issues relevant to the original denial of benefits. Any such claimant or his or her duly authorized representative may review any pertinent documents and records, including documents and records that were relied upon in making the benefit determination, documents submitted, considered or generated in the course of making the benefit determination (even if such documents were not relied upon in making the benefit determination), and documents that demonstrate compliance, in making the benefit determination, with the Plan's required administrative processes and safeguards. In addition, the claimant or his duly authorized representative may submit, in writing, any documents, records, comments or other information relating to such claim for benefits. In the course of his review, the Plan Administrator shall take into account all comments, documents, records and other information submitted by the claimant or his duly authorized representative relating to such claim, regardless of whether it was submitted or considered as part of the initial benefit determination.

(e) The Plan Administrator shall advise the claimant and such claimant's representative, in writing, of its decision within 60 days of receipt of the written appeal, unless special circumstances require an extension of such 60-day period for not more than an additional 60 days. Where such extension is necessary, the claimant shall be given written notice of the delay before the expiration of the initial 60-day period, which notice shall set forth the reasons for the delay and the date the Plan Administrator expects to render its decision. In the event of an adverse benefit determination on appeal, the Plan Administrator shall advise the claimant, in a manner calculated to be understood by the claimant, of (i) the specific reasons for the adverse benefit determination, and (ii) the specific Plan provisions on which the adverse benefit determination was based. The Plan Administrator's written notice will advise the claimant of his or her right to receive, upon request and free of charge, copies of all documents, records and other information relevant to such claim.

(f) In the event of an adverse benefit determination after the Plan Administrator's review, the claimant's sole remedy shall be to file an action in court.

The Plan's claims procedures do not create any independent rights to Plan benefits. A current or former Employee who files a claim for Plan benefits must satisfy all Plan requirements, including the requirements of Section 3(b), in order to be entitled to benefits.

9. Time Period for Filing a Claim or a Lawsuit Against the Plan, the Company or Plan Fiduciaries

(a) Any claim for Severance Benefits under the Plan must be filed in writing with the Plan Administrator within sixty (60) days after the current or former Employee knew or should have known of his/her putative right to Plan benefits. However, in no event will any claim be considered timely if it is filed more than one hundred eighty (180) days after the date a current or former Employee's employment with the Company is terminated. Requests or claims submitted more than sixty (60) days after a current or former Employee knew or should have know of his/her potential right to Plan benefits, or one-hundred eighty (180) days after the date his/her employment with the Company is terminated, are deemed waived by the claimant and considered time-barred.

(b) Any lawsuit against the Plan, the Company, the Plan Administrator, or any other Plan fiduciary, must be filed no later than the six (6) month anniversary of the following, as applicable: (i) the date the claim or appeal is denied by the Plan Administrator, or (ii) the date the claimant knows, or should reasonably know, that the claim has been, or is treated as being, denied (e.g., if the claim, or the appeal in the case of an adverse benefit determination, is not denied within the time limits described in Section 8 above).

10. Restriction on Venue

Any action in connection with the Plan must be filed in the Federal District Court of Delaware.

11. Unfunded Obligation

All benefits payable under this Plan shall constitute an unfunded obligation of the Employer. Payments shall be made, as due, from the general funds of the Company. This Plan shall constitute solely an unsecured promise by the Employer to pay severance benefits to Eligible Employees to the extent provided herein.

12. Inalienability of Benefits

No Eligible Employee shall have the power to transfer, assign, anticipate, mortgage or otherwise encumber any rights or any amounts payable under this Plan; nor shall any such rights or amounts payable under this Plan be subject to seizure, attachment, execution, garnishment or other legal or equitable process, or for the payment of any debts, judgments, alimony, or separate maintenance, or be transferable by operation of law in the event of bankruptcy, insolvency, or otherwise. In the event a person who is receiving or is entitled to receive benefits under the Plan attempts to assign, transfer or dispose of such right, or if an attempt is made to subject such right to such process, such assignment, transfer or disposition shall be null and void.

13. Withholding

The Employer shall have the right to withhold any taxes required to be withheld with respect to any benefits due under this Plan.

14. Amendment or Termination

Garrett reserves the right to amend or terminate the Plan at any time without prior notice to or the consent of any Employee. No amendment or termination shall adversely affect the rights of any Eligible Employee whose employment terminated prior to such amendment or termination. Any Eligible Employee whose employment continues after amendment of the Plan shall be governed by the terms of the Plan as so amended. Any Eligible Employee whose employment continues after termination of the Plan shall have no right to a benefit under the Plan. Any amendment or termination of the Plan must comply with all applicable legal requirements including, without limitation, compliance with Code Section 409A, securities, tax or other laws, rules, regulations or regulatory interpretations thereof that apply to the Plan.

15. Plan Not a Contract of Employment

Nothing contained in this Plan shall give an Employee the right to be retained in the employment of an Employer. This Plan is not a contract of employment between the Employer and any Employee.

16. Action by an Employer

Unless expressly indicated to the contrary herein, any action required to be taken by an entity may be taken by action of its governing body or by any appropriate officer or officers traditionally responsible for such determination or actions, or such other individual or individuals as may be designated by such governing body, officer or employee.

17. Governing Law

The Plan is an employee welfare benefit plan within the meaning of Section 3(1) of ERISA, and will be construed in accordance with the provisions of ERISA and the laws of the State of Delaware.

18. Severability

If any provision of this Plan (other than Section 3(b)) shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts of this Plan, but this Plan shall be construed and enforced as if said illegal or invalid provision had never been included herein. If Section 3(b) shall be held illegal or invalid for any reason, said illegality or invalidity shall nullify the remainder of this Plan with respect to the affected Employees.

19. Code Section 409A

(a) Notwithstanding any provision of the Plan to the contrary, if required by Code Section 409A and if an Eligible Employee is a "Specified Employee" (as defined below), no benefits shall be paid under this Plan during the "Postponement Period" (as defined below). If an Eligible Employee is a Specified Employee and payment of benefits is required to be delayed for the Postponement Period under Code Section 409A, the accumulated amounts withheld on account of Code Section 409A shall be paid in a lump sum payment within 30 days after the end of the Postponement Period and no interest or other adjustment shall be made for the delayed payment. If the Eligible Employee dies during the Postponement Period prior to the payment of benefits, the amounts withheld on account of Code Section 409A shall be paid to the Eligible Employee's estate within sixty (60) days after the Eligible Employee's death.

(b) This Plan is intended to meet the requirements of the "short-term deferral" exception, the "separation pay" exception and other exceptions under Code Section 409A. Notwithstanding anything in the Plan to the contrary, if required by Code Section 409A, payments may only be made under this Plan upon an event and in a manner permitted by Code Section 409A, to the extent applicable. For purposes of Code Section 409A, the right to a series of payments under the Plan shall be treated as a right to a series of separate payments. All reimbursements and in-kind benefits

provided under the Plan shall be made or provided in accordance with the requirements of Code Section 409A, including, where applicable, the requirement that (i) any reimbursement is for expenses eligible for reimbursement during the period of time specified in the Plan; (ii) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in-kind benefits provided in any other calendar year; (iii) the reimbursement of an eligible expense will be made no later than the last day of the calendar year following the year in which the expense is incurred; and (iv) the right to reimbursement or in-kind benefit is not subject to liquidation or exchange for another benefit. In no event may an Eligible Employee designate the year of payment for any amounts payable under the Plan.

(c) Notwithstanding any provision of the Plan to the contrary, any payments of Severance Benefits under this Plan that (i) are, or may be, deferred compensation subject to Code Section 409A ("409A Severance Benefits"), and (ii) are subject to a Release, where the period for execution and non-revocation of the Release spans more than one calendar year, any payment of 409A Severance Benefits that is contingent on the execution of the Release shall not be paid until the second calendar year, or later if required by the applicable terms of the Plan. In no event may an Eligible Employee, either directly or indirectly, designate the calendar year of payment of any 409A Severance Benefits.

(d) For purposes of this Section 19, the following definitions apply:

(i) "Specified Employee" means an Employee who, at any time during the 12-month period ending on the identification date, is a "specified employee" under Code Section 409A, as determined by the Vice President – Compensation and Benefits (or his delegee), which determination of "specified employees," including the number and identity of persons considered "specified employees" and identification date, shall be made by the Vice President – Compensation and Benefits (or his delegee) in accordance with the provisions of Code Sections 416(i) and 409A.

(ii) "Postponement Period" means for a Specified Employee, the period of six months after the Specified Employee's Last Day of Active Employment (or such other period as may be required by Code Section 409A) during which deferred compensation may not be paid to the Specified Employee under Code Section 409A.

**SEVERANCE PAY PLAN
FOR DESIGNATED EXECUTIVE EMPLOYEES
OF GARRETT MOTION INC.**

Exhibit A

Excluded Employees, Businesses and Location

Notwithstanding the foregoing, any Employee covered by another severance pay plan maintained by the Company shall not be covered by the Plan unless and until such severance pay plan has been terminated by the Company and such Employee is not excluded for another reason.

Exhibit 21.1

Garrett Motion Inc. (a Delaware corporation)
Significant Subsidiaries

Country	Entity	State
United States	Garrett ASASCO Inc.	DE
United States	Garrett Transportation I Inc.	DE
Brazil	Garrett Motion Industria Automotiva Brasil Ltda	
Switzerland	Garrett Motion Sarl	
India	Garrett Motion Technologies (India) Private Limited	
Japan	Garrett Motion Japan, Inc.	
South Korea	Garrett Motion Korea Ltd.	
Romania	Garrett Motion Romania S.r.l.	
Slovakia	Garrett Motion Slovakia s.r.o.	
France	Garrett Motion France S.A.S.	
China	Honeywell Automotive Parts Services (Shanghai) Co., Ltd. (1)	
China	Honeywell Turbo Technologies (Wuhan) Co., Ltd. (1)	

(1) These legal entities represent variable interest entities which are consolidated in our Consolidated and Combined Financial Statements. Refer to Note 25 China Variable Interest Entity in our Consolidated and Combined Financial Statements which are included in our Annual Report on Form 10-K.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-227619 on Form S-8 of our report dated February 27, 2020, relating to the financial statements of Garrett Motion Inc. (the “Company”), and the effectiveness of the Company’s internal control over financial reporting appearing in this Annual Report on Form 10-K for the year ended December 31, 2019.

/s/ DELOITTE SA

Geneva, Switzerland
February 27, 2020

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-227619 on Form S-8 of our report dated May 1, 2018 (June 8, 2018 as to the effect of adoption of ASU 2017-07, August 7, 2018 as to the effects of the restatement to the 2017 financial statements, and March 1, 2019 as to the effects of the change in sales concentration presentation), relating to the combined financial statements of Garrett Motion Inc. (formerly the Transportation Systems Business of Honeywell International, Inc.) and subsidiaries appearing in the Annual Report on Form 10-K of Garrett Motion Inc. and subsidiaries for the year ended December 31, 2019.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 27, 2020

Exhibit 31.1

CERTIFICATION

I, Olivier Rabiller, certify that:

1. I have reviewed this Annual Report on Form 10-K of Garrett Motion Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2020

By: /s/ Olivier Rabiller
Olivier Rabiller
President and Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CERTIFICATION

I, Peter Bracke, certify that:

1. I have reviewed this Annual Report on Form 10-K of Garrett Motion Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2020

By: /s/ Peter Bracke

Peter Bracke
Interim Chief Financial Officer
(*principal financial officer*)

Exhibit 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Garrett Motion Inc. (the “Company”) for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 27, 2020

By: /s/ Olivier Rabiller

Olivier Rabiller
President and Chief Executive Officer
(*principal executive officer*)

Exhibit 32.2

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Garrett Motion Inc. (the “Company”) for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 27, 2020

By: /s/ Peter Bracke

Peter Bracke
Interim Chief Financial Officer
(*principal financial officer)*