

Saving More Lives

'19

Autoliv Annual Report

'19

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# 2019 in Summary

**\$8.5 b**  
net sales

**1.2%**  
organic\* sales growth

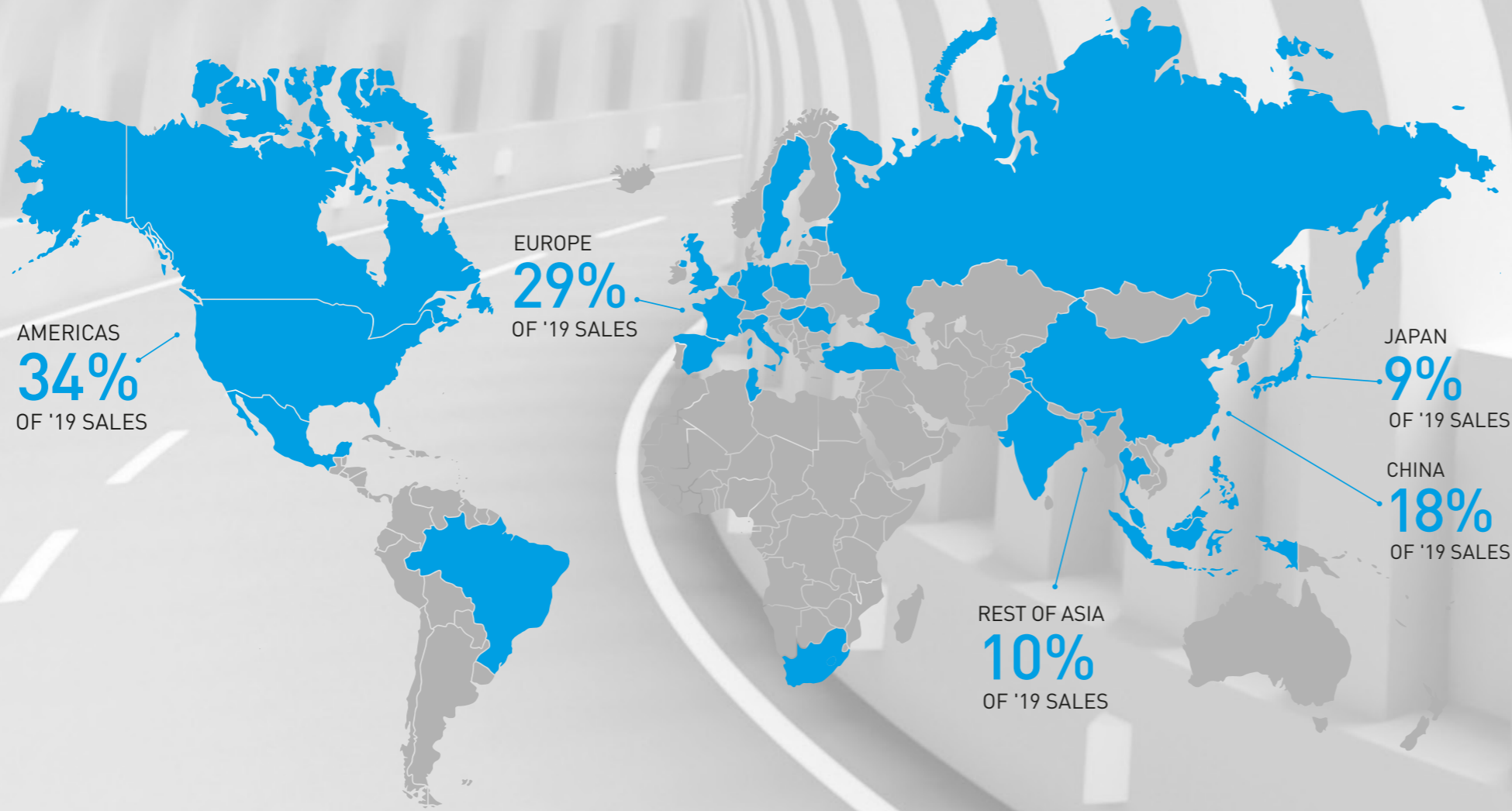
**9.1%**  
adjusted\* operating margin

**\$844 m**  
in operating cash flow<sup>1</sup>

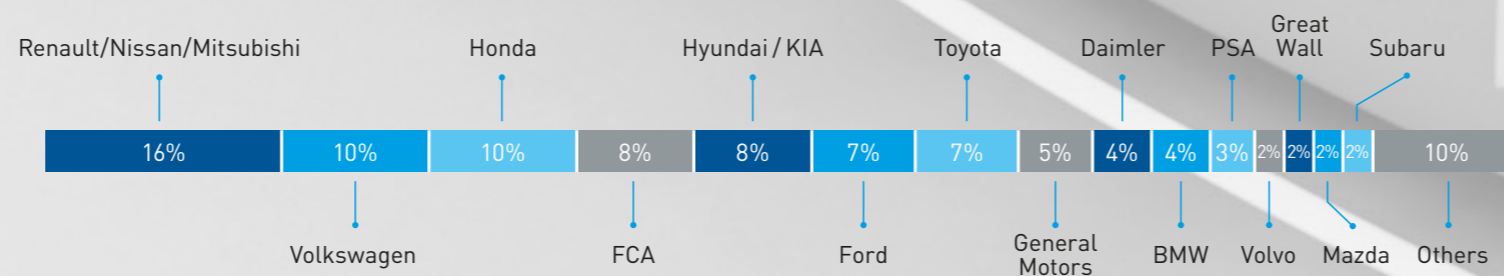
**79%**  
cash conversion\*,<sup>1</sup>

**\$217 m**  
in direct shareholder return

**41%**  
market share



## Sales 2019



# The World's Largest Automotive Safety Supplier

Autoliv is the worldwide leader in automotive safety systems, with sales to all major car manufacturers. Our more than 65,000 associates in 27 countries are passionate about our vision of Saving More Lives. We develop products that save over 30,000 lives each year and prevent ten times as many severe injuries. Our mission is to provide world-class, life-saving solutions for mobility and society. We develop, manufacture and sell

automotive safety systems, such as airbags, seatbelts, steering wheels and pedestrian protection systems for the vehicles of today and tomorrow.

We continuously challenge ourselves to bring excellence into everything we do, providing safety for road users, consistency and quality for our customers, confidence and security for our employees, stability and growth for our shareholders, and pursuing sustainable practices while earning trust within our communities.

Associates >65,000 worldwide

Operations in 27 countries

Tech Center Locations 14 worldwide

Crash Test Tracks 20 worldwide

Lives Saved >30,000 per year

Car Brands ~100 worldwide

Headquarters Stockholm, Sweden

Incorporated Delaware, United States

<sup>\*</sup> Non-U.S. GAAP Measure. See "Non-U.S. GAAP Performance Measures" section in this Annual Report.  
<sup>1</sup> Excluding EC antitrust payment.

# Dear Shareholder



## WE DELIVERED IN A CHALLENGING MARKET ENVIRONMENT

As we reflect on the past year, we look back at one of the most challenging years for the automotive industry with light vehicle production down around 6% globally, including a more notable decrease in China of 9%. However Autoliv continued to outpace the market in 2019, and our market share increased to more than 41%. We grew organically\* more than 1%, which was more than 7 percentage points above light vehicle production growth. Business cycle management actions in response to the rapidly deteriorating market conditions and raw material headwinds helped us to deliver an adjusted operating margin\* of 9.1%, down 1.4 percentage points compared to 2018. Our cashflow remained solid and our order intake remained high, supporting our growth opportunities for the long term.

## WE ARE UNIQUELY PLACED TO BENEFIT FROM GROWING DEMAND AND INDUSTRY TRANSFORMATION

Autoliv is a purpose-driven company and we exist because life matters. Our ambition is to save 100,000 lives annually by 2030. By further strengthening our position in 2019 as the undisputed global leader in our market, we are uniquely placed to benefit from the growing long-term demand for traffic safety as well as the significant transformation facing our industry including changing driving modes, emerging technologies and evolving competition. In response to these developments, we have broadened our mission to: Provide World Class Life-Saving Solutions for Mobility and Society. With the new mission statement, we aspire to position Autoliv as the global leader in the wider mobility safety arena, beyond the light vehicle safety

industry, adopting a multi-modal view of transporting people, goods and providing service solutions. This means we continue growing our core business – airbags, seatbelts and steering wheels – while exploring opportunities in key adjacent areas where we can leverage our technological know-how, operational capabilities and strong customer relationships.

## OUR ROADMAP TO LEVERAGE GROWTH INTO HIGHER PROFITABILITY

Our key priorities in 2019 were to make our business more efficient and continue to build a company that delivers long-term profitable growth and increased shareholder value. Furthermore, we implemented business cycle management actions in response to the rapidly deteriorating business conditions. As a result, our headcount declined by more than 1,500 in 2019. To continue building a stronger company, we focus both on our internal and external value chain to drive improvement and excellence through a relentless focus on quality, standardization and Autoliv Production System. The recent years' surge in orders should also enable us to fully leverage additional volumes into higher profitability as they go into production while RD&E costs as share of sales should normalize. To accelerate our roadmap to higher profitability, we also invest in automation and digitalization in our core business and support processes.

## OUR FINANCIAL TARGETS AND AMBITIONS

At our Capital Markets Day on November 19, 2019, we communicated updated financial targets and long-term ambitions. To create shareholder value, we focus on visible near-term and sustainable long-term growth,

profitability improvement and over-the-cycle resilience, cash flow generation and strong balance sheet and a prudent debt policy. Medium term, our target is to grow sales organically\* by 3-4% more than light vehicle production (LVP) growth per year and we aim to improve our adjusted operating margin\* to around 12%, based on an assumed average LVP growth of 1-2% per year. In addition, we aim for a cash conversion of at least 80% and to maintain a net debt leverage ratio\* of around 1x, with a range of 0.5x to 1.5x. Our long-term ambition is to grow at least in line with our market and to increase our earnings capacity to an adjusted operating margin\* of 13%.

## WE INNOVATE FOR BETTER ROAD USER SAFETY AND FOR OPERATIONAL EXCELLENCE

Autoliv has pioneered automotive safety for over 65 years. As the clear market leader, the way we innovate sets us apart from our competitors. Innovation for us is about anticipating safety needs for all road users – in cars, on powered two-wheelers, cyclists and pedestrians – by studying global real-life accident data, human factors and biomechanics. We develop safety solutions meeting these needs by collaborating closely with our customers, universities and business partners. A key success factor for Autoliv is our strong customer focus, from innovation to manufacturing and delivery of our products. Through research conducted in cooperation with customers and leading universities, we are leveraging our combined technological expertise to improve safety for road users, today and for the future. New industry trends, like autonomous driving, electrification and more comfortable interiors and cockpits, are generating new safety needs that call for smaller, lighter and better integrated safety products to protect road users. Innovation is also about continuously improving our processes and transforming our way of conducting business to drive excellence in quality, efficiency and time to market through application of automation, digitalization, simplification and standardization and by proactively building in quality in our upstream value chain.

## OUR INNOVATION FOR FUTURE MOBILITY

Vehicles of the future place new and more complex demands on safety systems to protect all road users. Our innovation efforts for future mobility focus on four areas. Electrification, ADAS/AD, Personalization and Vulnerable Road Users. Electrification provides opportunity to develop seatbelt systems, integrating mechatronics to reduce reaction time, including proactive safety features and improving comfort and customization. Another important area for us is ADAS/AD – as we improve the effectiveness of existing airbags, advances in engineering allow designs for new interiors and new seating positions to protect people traveling in the vehicles of tomorrow, such as the Life Cell Airbag, or our research in steering wheel technology that has resulted in improved ease of control. Two final areas are Adaptivity and Personalization of restraint sys-

tems for age, size and gender and Vulnerable road users (VRU) – pedestrians, cyclists and drivers of two-wheelers such as scooters, motorcycles and e-scooters. VRU's account for nearly half of all road fatalities today. We expect to continue to lead the development of safety systems in this important area.

## SUSTAINABILITY PRIORITIES THAT MATTER TO US

Sustainability is at the core of what we do, and we have a global strategy to align our sustainability priorities, ambitions and targets, to help ensure that our business will continue to thrive long-term by systematically considering all the dimensions of our business in society. As part of our sustainability agenda we support UN Sustainable Development Goal #3 – Good Health and Well-Being – and in 2019 we also became a signatory of UN Global Compact which means that we are committed to making the UN Global Compact and its principles part of our strategy, culture and day-to-day operations. During 2019 we continued to participate in several research collaborations in traffic safety, including vulnerable road user protection. Autoliv is a long-standing member in the well-established China Sweden Research Centre for Traffic Safety. This year we expanded our involvement in research platforms with regional focus to India, continuing a dialogue with the Indian government and other stakeholders, working towards a common goal to Save More Lives. Our Sustainability Report details our progression towards our targets

## WE ARE BUILDING A WINNING TEAM THROUGH TRUST AND EMPOWERMENT

Continuing as the world's leading supplier of automotive safety systems in a changing world requires that all of us at Autoliv share a drive for excellence and a passion for saving more lives. The successful execution of our strategy and the fulfilment of our targets rest on a performance- and quality-oriented culture that can respond to sudden shifts in our circumstances, whether this means capturing unforeseen opportunities or addressing challenges and disruptions. We build a winning team by trusting and empowering our people and by creating a work environment that attracts, retains and engages our employees while promoting development, flexibility and change.

With our commitment to provide world class life-saving solutions for mobility and society,

**Mikael Bratt,**  
President & CEO  
Stockholm February 21, 2020

OUR VISION

# Saving More Lives

OUR MISSION

**Providing World Class,  
Life-Saving Solutions for  
Mobility and Society**

OUR VALUES

## One Autoliv

We execute our work while always considering the value to our customers and impact to our entire company. We respect and rely on one another and all our stakeholders for exceptional results. We work together across the entire value chain to raise Autoliv to its full potential. We value the power of teamwork.

## Transparent

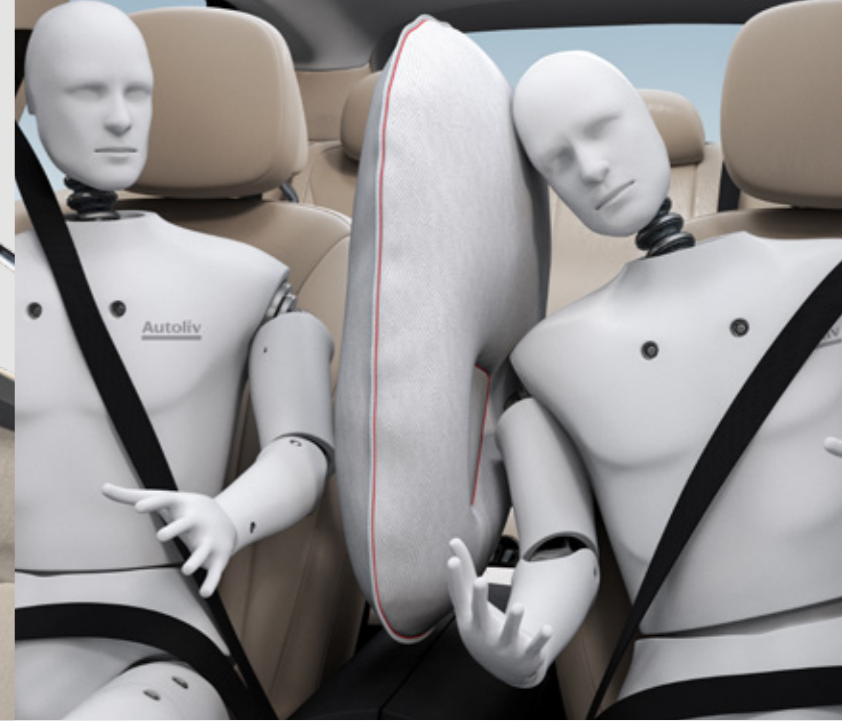
Our actions and behaviors are guided by integrity, openness and what is in the best interest of our company, customers, employees, shareholders and society.

## Innovative

Our passion for saving lives drives us to constantly seek new solutions and improve existing products and processes to create unique selling points. We are curious and receptive to different perspectives and opportunities we are open to challenge the status quo and identify opportunity to drive improvements in everything we do. We dare to lead with a focus beyond tomorrow and take opportunities to learn and grow.

## Agile

We are flexible and clever in anticipating change, adapting quickly and finding ways to deliver excellent results at all times.



## At the Forefront of Technology to Save More Lives

New safety systems: A higher level of autonomy allows for flexible seating with new layouts and positions that requires new safety systems. Improved and new products for Vulnerable Road Users, including airbags for pedestrians and cyclists as well as on-bike airbags and restraint systems for drivers of powered two-wheelers.



# Our Customers and Major Launches in 2019

Autoliv delivers to around 100 car brands worldwide

In 2019, our top five customers represented 52% of sales and the ten largest represented 79% of sale. This reflects the concentration in the automotive industry. The five largest vehicle manufacturers (OEMs) in 2019 accounted for 51% of global light vehicle production (LVP) and the ten largest for 74%. A contract typically covers the lifetime of a vehicle model, which is normally between five and six years depending on customer platform sourcing preferences and strategies.

## CUSTOMER SALES TRENDS

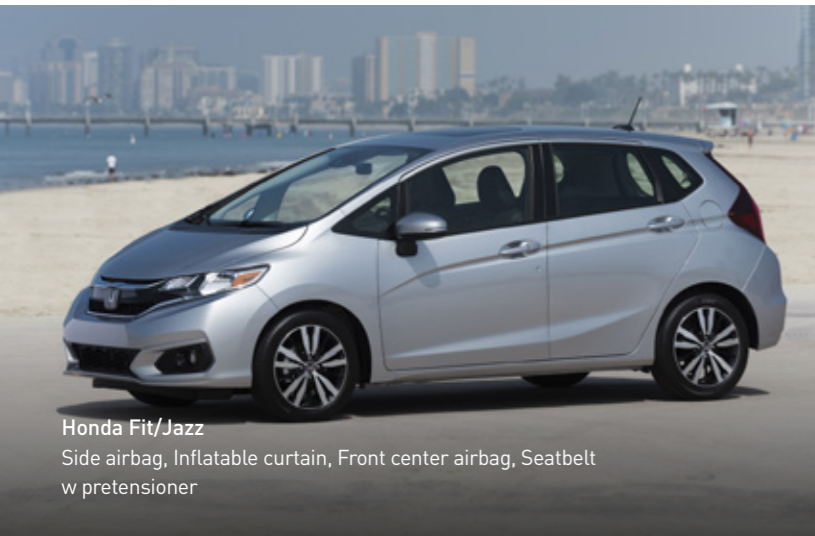
Asian vehicle producers have become increasingly important to Autoliv and now represent around 46% of global sales, compared to 37% five years ago. Of the Asian OEMs, the Japanese OEMs

represent 34% of our sales, compared to 24% in 2014. This is a result of our high order intake with them over the past years, built on our strong local presence in Japan, technology leadership and our global manufacturing footprint. Organic sales growth\* in China was more than 13 percentage points higher than the declining light vehicle production, further strengthening our position with both domestic and global OEMs.

Sales to European OEMs accounted for 31% of our global sales in 2019, this is 2 percentage points less than 2014. The U.S. based OEMs (including Tesla) account for 21% of our global sales, down from 29% in 2014. This is in part due to the sale of GM's European operations, Opel, to PSA. Tesla now accounts for more than one percent of our sales.



**Peugeot 208**  
Driver airbag, Passenger airbag, Side airbag, Inflatable curtain, Seatbelt w pretensioner, Steering wheel



**Honda Fit/Jazz**  
Side airbag, Inflatable curtain, Front center airbag, Seatbelt w pretensioner



**Peugeot 208**  
Driver airbag, Passenger airbag, Side airbag, Inflatable curtain, Seatbelt w pretensioner, Steering wheel



**Opel Corsa**  
Driver airbag, Passenger airbag, Side airbag, Inflatable curtain, Seatbelt w pretensioner, Steering wheel



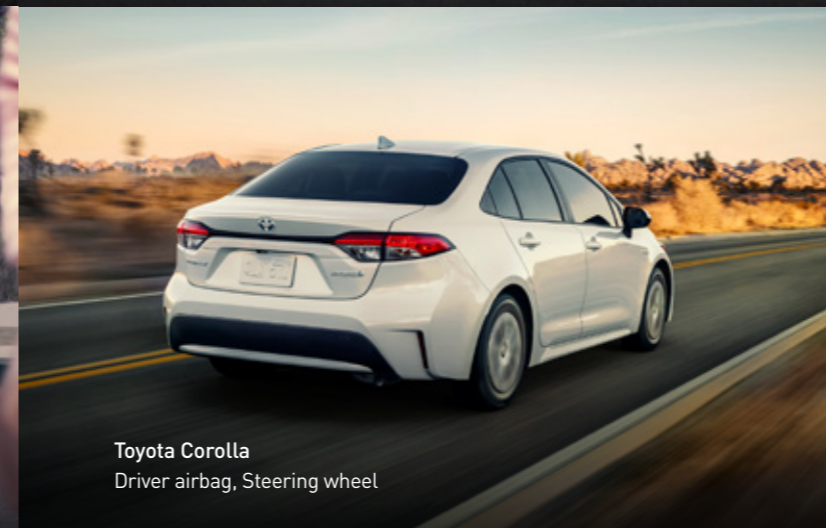
**Renault Clio**  
Passenger airbag, Side airbag, Inflatable curtain, Seatbelt w pretensioner



**Mazda CX-30**  
Driver airbag, Side airbag, Inflatable curtain, Steering wheel



**Ford Escape**  
Knee airbag, Passenger airbag, Side airbag, Seatbelt w pretensioner



**Toyota Corolla**  
Driver airbag, Steering wheel



**Subaru Outback**  
Side airbag, Seatbelt w pretensioner

# Our Market Continues to Grow as the Automotive Industry Transforms

Our strategy, business priorities and targets are deeply rooted in the growing global demand for traffic safety. 1.35 million lives are lost annually on the roads, according to the World Health Organization (WHO). Vulnerable road users – pedestrians, cyclists, and motorcyclists – make up about half of these fatalities. Road traffic accidents are a major cause of death among all age groups and the leading cause of death for children and young adults between the ages of 5 and 29. In addition, tens of millions suffer non-fatal traffic-related injuries, causing not only human suffering but also costs corresponding to about 3% of GDP in a majority of countries. This underlines the importance of our commitment to save more lives and reduce the number of injuries on our roads.

## MARKET DEVELOPMENT

The automotive safety market is driven by two fundamental factors: light vehicle production (LVP) and content per vehicle (CPV). In the long term the introduction of new technologies such as autonomous driving (AD) / advanced driver-assist systems (ADAS) is expected to have a positive effect on the content per vehicle. With advanced protective systems for new flexible seating positions, safety integration in seats, human machine interface (HMI) in steering wheels and protection systems outside the car for vulnerable road users there is an increasing need for innovations in safety systems.

In the medium term, content per vehicle is expected to grow by around 1% per year, mainly due to increased safety content per vehicle in growth markets, but also from higher installation rates of knee airbags and more advanced seatbelt systems in more mature markets.

## LIGHT VEHICLE PRODUCTION (LVP)

LVP has increased at an average annual growth rate of 2.2% since 1997. Our base scenario is for an average LVP growth of 1-2% per year over the next three to five-year period. The majority of the growth is expected to take place in Asia.

This is lower than the historical growth rate, partly due to new regulations regarding emissions particularly in Europe.

## CONTENT PER VEHICLE (CPV)

A global development towards increased safety standards with stricter regulations and increasingly stringent rating frameworks is a strong driver of safety content in vehicles. Other drivers are the premium vehicle trend and the increasing focus on safety in emerging markets. By continuously researching, developing and introducing new technologies with higher value added features, Autoliv can influence safety content per vehicle. As a result of the increasing average CPV, the automotive safety market has outgrown LVP historically and we expect that trend to continue. Our steady flow of new technologies, strong track record of quality and reliability has also enabled us to further outpace the market and increase our market shares in all product areas and regions.

## EVOLVING COMPETITIVE LANDSCAPE

Autoliv is the undisputed leader in automotive safety with a global market share of 41% in its core products. We face a variety of competitors in a landscape that is constantly

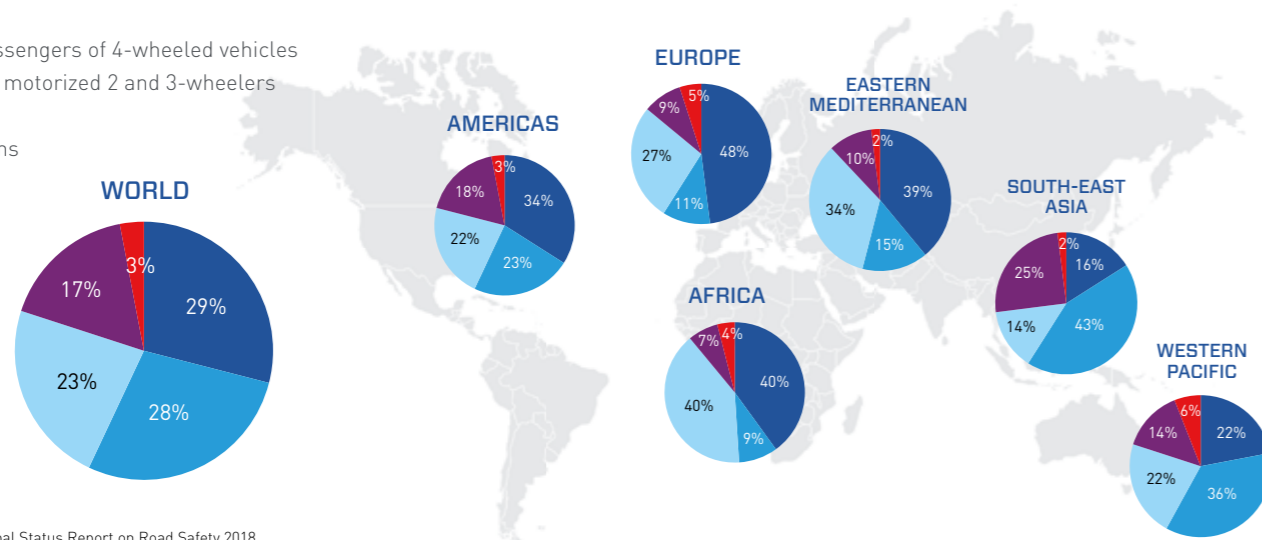
evolving. We consider our key competitors to be Joyson Safety Systems (JSS) and ZF, which we regard as global, full-scope competitors. Our largest automotive safety competitor JSS, formed through the combination of KSS and Takata Corporation, is owned by the Chinese company Ningbo Joyson Electronic. ZF, our second largest competitor, is a broad-based automotive supplier. In Japan, Brazil, South Korea and China, we compete with a number of local suppliers with close ties to domestic vehicle manufacturers. For example, Toyota uses Tokai Rika for seatbelts and Toyoda Gosei for airbags and steering wheels. These suppliers generally receive a significant portion of Toyota's business in Japan. Similarly, Mobis, a major supplier to Hyundai/Kia in South Korea, generally receives a significant part of their business. Other competitors include Nihon Plast and Ashimori in Japan, and YFK and Jinheng in China. We also face competition from product specialists such as ISI.

## Competitive landscape



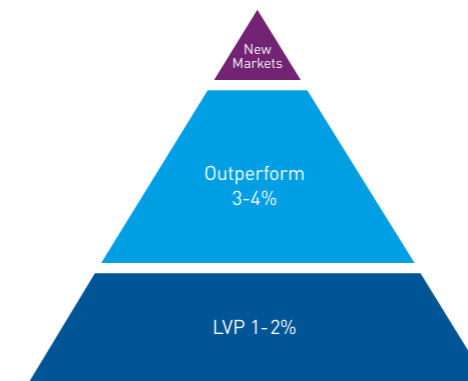
## Distribution of fatalities by road user type

- Driver/passengers of 4-wheeled vehicles
- Drivers of motorized 2 and 3-wheelers
- Cyclists
- Pedestrians
- Others



Source: WHO Global Status Report on Road Safety 2018.

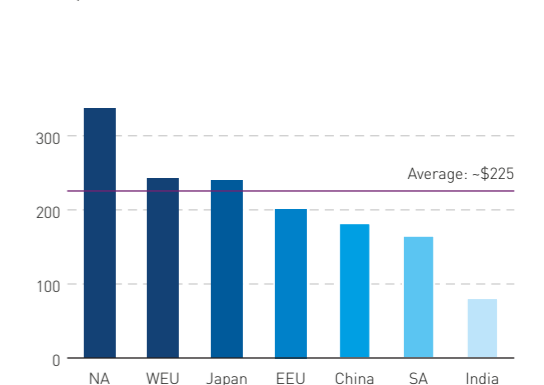
## Medium-term organic sales growth\*



\*] Non-U.S. GAAP Measure. See "Non-U.S. GAAP Performance Measures" section in this Annual Report.

## 2019 Content per vehicle

US\$ per vehicle



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

# We Exist Because Life Matters

**A**utoliv has pioneered automotive safety for over 65 years. We exist because life matters. Our products save over 30,000 lives each year and prevent ten times as many severe injuries, and our ambition is that our products will save over 100,000 lives annually by 2030. Saving More Lives

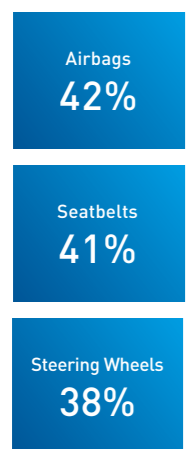
represents the essence of what our business is about. This vision has guided our company from our first seatbelt in 1956 and drives the culture within our company. Ever since the start, we have been at the forefront of our industry, delivering a string of world-first safety innovations to customers around the world.

## Autoliv is uniquely positioned to benefit from the industry transformation

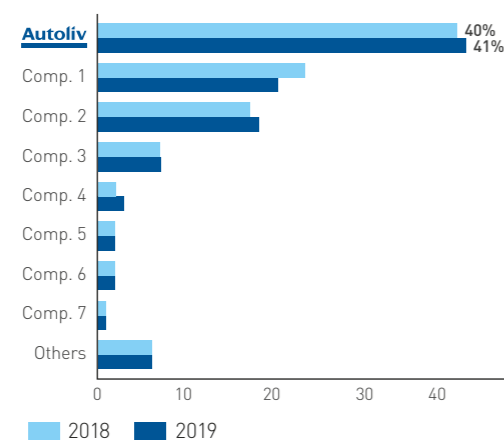
Since the formation of Autoliv Inc. in 1997, our compound annual growth rate (CAGR) has been 5.3%, compared with a market growth rate of 2.6%. Our ability to consistently outperform market growth is rooted in a steady flow of new safety technologies, a strong focus on quality and a superior production and engineering footprint serving around 100 car brands globally. This has enabled us to increase our global market share from 27% in 1997 to more than

41% in 2019, with leading market shares across all three core products areas - airbags, seatbelts and steering wheels. One key to this progression in market share is our quality leadership. Due to our relentless focus on quality, covering all aspects of our business, less than 2% of recalled vehicles (passive safety recalls) since 2010 have been related to Autoliv. This is a favorable result given our global market share of 41%.

### 2019 Market share

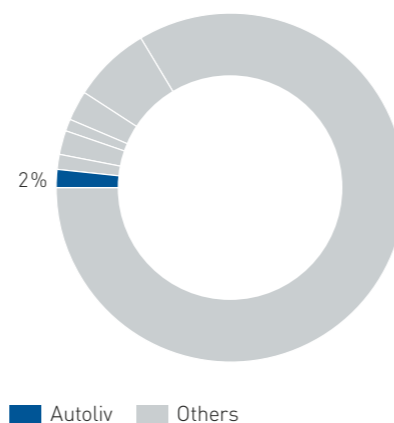


### Firm Industry Leader at 41%<sup>1</sup>



### Minimal recalls

Less than 2% of recalled vehicles since 2010



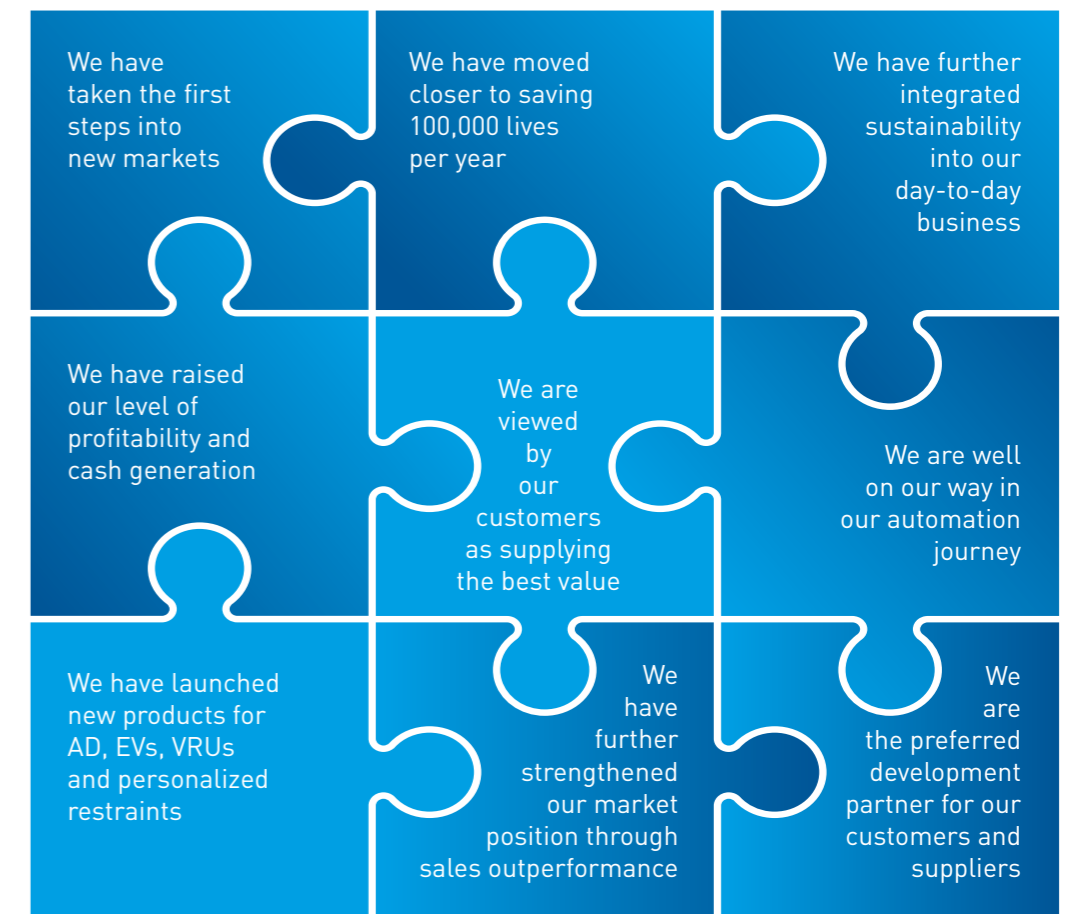
<sup>1</sup>) Company estimates. Based on Autoliv's passive safety market definition including airbags, seatbelts, steering wheels and pedestrian safety.

## Our roadmap to leverage growth into higher profitability

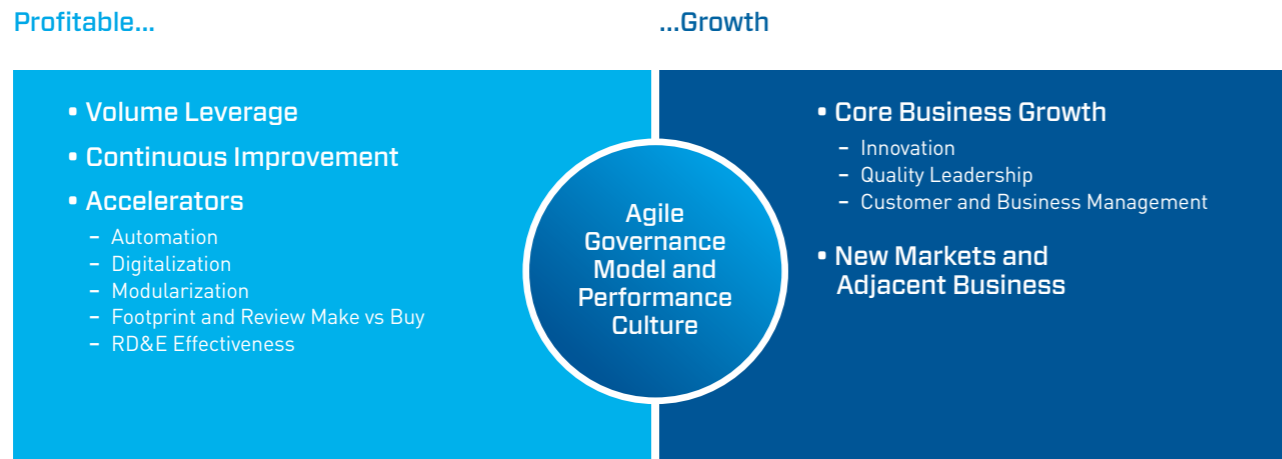
Autoliv operates in an industry undergoing a significant transformation, driven by changing driving behavior, emission regulation, emerging technologies and evolving competitors. Our strategic roadmap, business priorities and targets are deeply rooted in the growing demand for traffic safety and a strong belief that the need for our products will continue to grow. Our leading role, developed over many years, places us in the pole position to spearhead the transformation in our industry. We aspire to position ourselves as the global leader in the wider mobility safety arena, beyond the light vehicle safety industry. In the coming years, we want to go

from a solid industry leader to a true industry transformer. We intend to not just lead but set the trends in our industry. We expect to also expand our mission to encompass safety for mobility and society. Mobility refers to a multi-modal view of transporting people, goods and services beyond our traditional market of safety for light vehicles. We want to go beyond a focus on manufacturing excellence towards Business 4.0 throughout our entire value chain. We expect to make further use of digitalization, connectivity and automation to enhance and streamline our business processes. This journey goes hand in hand with Autoliv's focus on profitable growth.

## Autoliv's medium-term intension







### Profitable...

**Volume leverage:** While the recent surge in orders and product launches has required a significant organizational focus and increased engineering costs, this step-change in activity should enable us to fully leverage additional volumes into higher profitability. Upon successful completion of the current product launches, we should be able to normalize our research, development and engineering (RD&E) costs as a share of sales. This normalization will be further driven by RD&E effectiveness programs geared toward enhancing productivity, while some resources will be redirected to investments in new technology and product development areas. **Continuous improvement** remains a cornerstone of Autoliv's ongoing efforts to strengthen productivity and efficiency. In addition to enhanced RD&E effectiveness, Autoliv's production system enables us to pursue a broad agenda of continuous improvement activities across all functions including sales, operations, supply chain and support functions. To accelerate our margin expansion journey, we **invest in automation and digitalization** of our core business and support processes. We design for modularization to drive complexity reduction. We will review opportunities to externalize non-strategic manufacturing processes which lack a financial rationale for remaining in-house.

### ... Growth

In the medium term, we will continue to **grow our core business** – airbags, seatbelts and steering wheels – through successful execution of the current product launch programs and order book. To maintain growth momentum beyond the ongoing step-change, we are pursuing an **ambitious innovation program** which includes targeting several "world firsts". Successful organic growth will also rely on **driving operational excellence while providing superior quality** to our customers in terms of product performance and delivery reliability prior to and after the start of serial production. We constantly review our product portfolio and optimize it from a total life-cycle perspective. We are also addressing long-term growth through opportunities in new markets and adjacent businesses. We are looking into closely related areas such as vulnerable road users (VRU), pyro-safety, commercial vehicles, digital services and seat safety modules. We intend to **explore opportunities in key adjacent areas** where we can leverage our technological know-how, operational capabilities and strong customer relationships.

## Agile, performance-oriented culture

The successful execution of our strategic roadmap rests on the performance and quality-oriented culture at Autoliv, combined with agility in responding to sudden

shifts in our circumstances, whether this means leveraging unforeseen opportunities, or addressing internal and external disruptions and challenges.



## Addressing long-term growth

We have a multi-modal view that extends beyond our traditional markets. To do this we explore new markets and adjacent

businesses where we can leverage our existing customer relationships and our core capabilities.

### Mobility Safety Solutions



**VRUs**  
Account for 50% of global fatalities



**Pyro-Safety**  
Technology Leverage



**Commercial Vehicles**  
New market, Existing products



**Digital Services**  
New service model



**Seat Safety Modules**  
Evolving end-user model

AUTOLIV SEATBELTS

## No. 1 Life-Saving Device

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

# 45%

Source: Kahane, C. J. (2015, January). Lives saved by vehicle safety technologies and associated Federal Motor Vehicle Safety Standards, 1960 to 2012.

# Financial Targets\*

<p>Medium term <b>Organic Growth vs. LVP</b> +3-4% per year</p>	<p>Medium term <b>Cash Conversion<sup>2</sup></b> ≥80%</p>	<p>Long term <b>Grow at least in line with market Adj. Operating Margin<sup>1</sup></b> ~13%</p>
<p>Medium term <b>Adj. Operating Margin<sup>1</sup></b> ~12%</p>	<p>Medium term <b>~1.0x Leverage Ratio<sup>3</sup></b> (0.5-1.5x Range)</p>	

■ Targets ■ Ambitions

1) Excludes costs to capacity alignments and antitrust matters.  
 2) Operating cash flow less capex, net in relation to net income excluding anti-trust related costs and payments.  
 3) Net Debt including pension liabilities in relation to last twelve month EBITDA.  
 \*) Non-U.S. GAAP Measures. See "Non-U.S. GAAP Performance Measures" section in this Annual Report.

In 2019, Autoliv's organic sales\* increased by 1.2%, compared with a total light vehicle production (LVP) decrease of 5.9%. Sales for airbags (including steering wheels) accounted for 66% of group sales, while seatbelts accounted for 34%. Autoliv achieved an adjusted

operating margin\* of 9.1% and a cash conversion, adjusted for the EC antitrust payment, was 79%. During 2019, Autoliv's net debt position increased by \$31 million to \$1,650 million. At the end of 2019 the leverage ratio\* was 1.7 times which is slightly above the target range.



# Sustainability Targets

Sustainability is about ensuring that our business will continue to thrive in the long term by systematically considering all the dimensions of our business in society.

See our Sustainability Report for further information.

## Our Priorities

## Our Targets

**Innovate Life-Saving Products**

**100,000**  
Lives saved  
By 2030

**Limit Our Impact on the Environment**

\*) Efficiency target, measured per part delivered

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

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

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

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

**Commit to Our Employees**

**0.50**  
Incident Rate  
By 2022

**5.00**  
Severity Rate  
By 2022

**Act Ethically & Commit to Society**

\*) Completion rate measured from the annual target group

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

**100%**  
Antitrust training completion\*  
Continuous

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

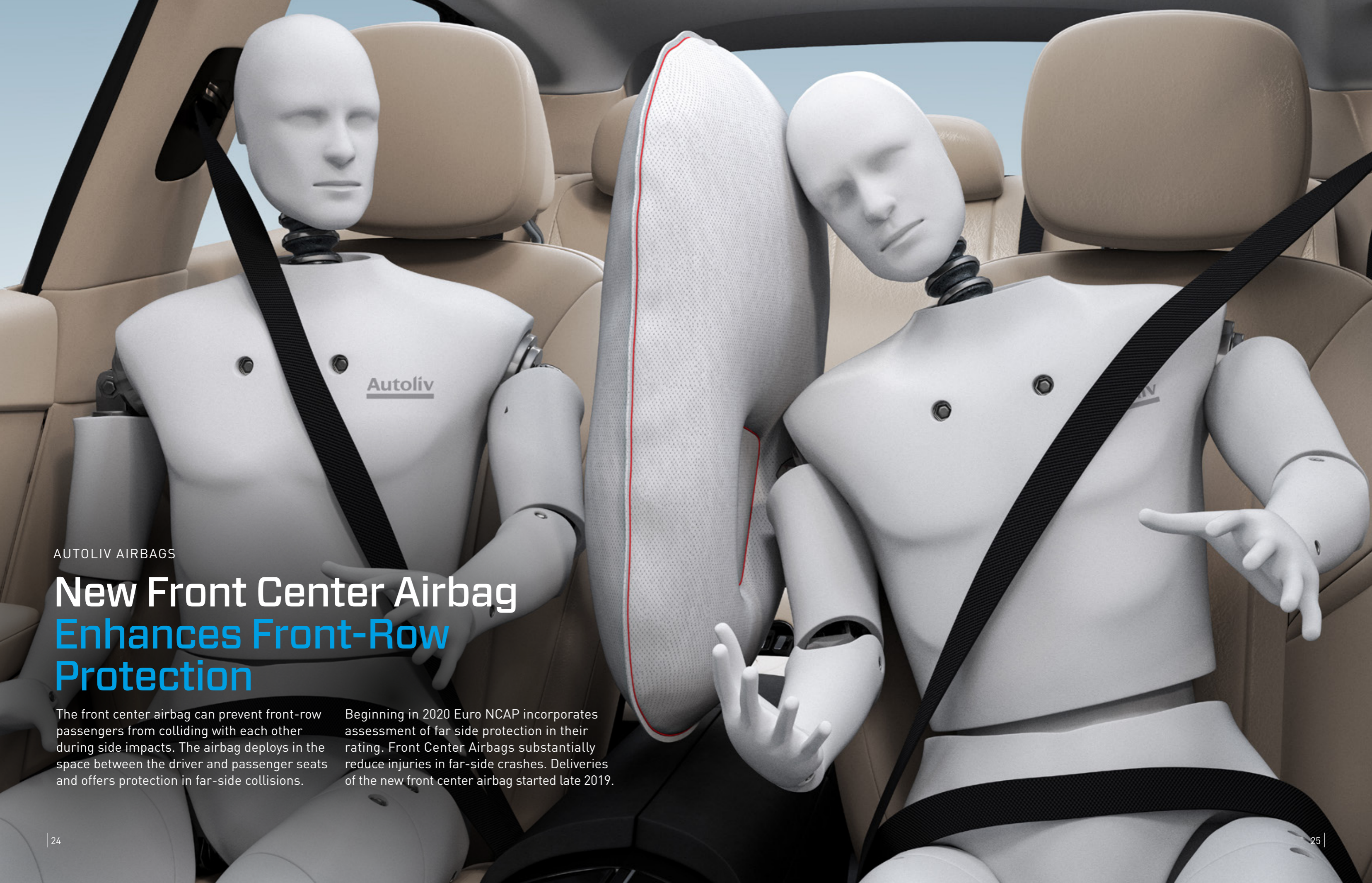
**Supply Chain Sustainability**

\*) DM = Direct Material

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

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

**95%**  
DM\* suppliers respond to conflict minerals survey. By 2022



AUTOLIV AIRBAGS

## New Front Center Airbag Enhances Front-Row Protection

The front center airbag can prevent front-row passengers from colliding with each other during side impacts. The airbag deploys in the space between the driver and passenger seats and offers protection in far-side collisions.

Beginning in 2020 Euro NCAP incorporates assessment of far side protection in their rating. Front Center Airbags substantially reduce injuries in far-side crashes. Deliveries of the new front center airbag started late 2019.

# Driving Excellence Through our Global Platform



## GLOBAL PRODUCTION FOOTPRINT

Autoliv develops, manufactures and sells protective systems, such as airbags, seatbelts and steering wheels, for the automotive industry. We also provide additional safety features, such as battery cut-off switches, automatic bolt release and integrated child booster seats. Autoliv spun off its former Electronics segment, Veoneer, in mid-2018, resulting in a company with a more focused strategy and increased operational flexibility. With operations in 27 countries covering all regions, Autoliv has the largest global footprint in the industry. We strive to be the supplier of choice on global vehicle platforms and to grow with our customers as they expand their global production. Component production is concentrated to a few locations, while

final assembly plants and tech centers are located closer to our customers. Finished products are delivered “just in time,” sometimes several times a day, to vehicle manufacturer plants. For some customers, we have established final assembly centers inside or close to their manufacturing plants. Our products are fed into the vehicle assembly line in the right order, in accordance with the car buyers’ selections of colors and optional equipment. Our final assembly center receives a new order almost every minute, and within two to five hours (depending on the product), the order is executed and the product delivered.

Our production lines and equipment are often developed by Autoliv to ensure standardization, productivity, high quality and the integrity of proprietary production technologies. Including joint venture operations, we have approximately

64 production facilities located in 25 countries, consisting of component factories and final assembly factories. The products manufactured in 2019 consisted of approximately 146 million complete seatbelt systems (of which about 85 million were fitted with pretensioners), approximately 156 million airbags where of 98 million side airbags (including curtain airbags) and about 57 million frontal airbags, and about 21 million steering wheels.

## OPERATIONAL EXCELLENCE

Our reputation for quality and maintaining a customer focus in our innovation and operations has created a strong market position. Together with effective standardization, One Product One Process (1P1P) and our manufacturing philosophy for governing processes, known as the Autoliv Production System (APS), they represent our

tools and methods for to leverage growth into higher profitability and for laying a strong foundation for continued operational excellence.

Operational excellence is our “Roadmap to Winning,” focusing on all areas of our operations, from managing our order intake with seamless launches and smooth ramp-ups to demonstrating best-in-class quality, cost optimization and improving asset utilization. We have a strong customer focus, from innovation to manufacturing and delivery of our products. And we continue to innovate and explore adjacent areas, leveraging our expertise and core competence to enable sustainable profitable growth. As part of our strategic roadmap, we are accelerating our commitments to commercial excellence.

### LOCATIONS AND CAPABILITIES

	BRAZIL <sup>1)</sup>	CANADA	CHINA <sup>1)</sup>	ESTONIA <sup>1)</sup>	FRANCE	GERMANY	HUNGARY <sup>1)</sup>	INDIA <sup>1)</sup>	INDONESIA <sup>1)</sup>	ITALY	JAPAN	MALAYSIA <sup>1,2)</sup>	MEXICO <sup>1)</sup>	NETHERLANDS	PHILIPPINES <sup>1)</sup>	POLAND <sup>1)</sup>	ROMANIA <sup>1)</sup>	RUSSIA <sup>1)</sup>	SOUTH AFRICA <sup>1)</sup>	SOUTH KOREA	SPAIN	SWEDEN	THAILAND <sup>1)</sup>	TUNISIA <sup>1)</sup>	TURKEY <sup>1)</sup>	UNITED KINGDOM	USA
<b>Headcount</b>	1,009	396	8,227	823	2,144	1,248	2,131	2,292	180	14	2,256		14,220	7	1,244	3,264	10,047	164	149	724	352	499	3,427	2,522	2,896	209	4,774
<b>Tech center</b>			■		■	■		■			■					■	■			■		■					■
<b>Production</b>																											
<b>Airbags</b>	■		■		■			■			■	■	■			■	■	■	■	■	■			■	■		■
<b>Seatbelts</b>	■		■	■		■	■	■	■			■	■			■	■	■	■	■	■			■	■		■
<b>Steering wheels</b>	■		■		■			■	■		■	■	■		■		■	■					■	■	■		■
<b>Other<sup>3)</sup></b>		■	■	■	■			■			■		■			■	■					■	■	■	■	■	■
<b>Sales and support office</b>	■		■		■	■		■		■	■			■				■		■	■	■	■	■	■	■	■

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



OUR JOB IS TO

# Save Lives

**Autoliv**

#### TEDDY BEAR CAMPAIGN PROMOTES PASSION FOR SAVING LIVES

In the fall 2019 Autoliv in Detroit and Salt Lake City USA launched a promotional campaign featuring a cuddly teddy bear, safely buckled into a vehicle with a clear message of saving lives and protecting loved ones. The campaign was designed to highlight the great pride that every Autoliv employee brings the office every day knowing their work matters.



**AUTOLIV PRODUCTION SYSTEM**

The Autoliv Production System is our way to become more efficient day in and day out. We follow guiding principles like continuous flow, quality right the first time, visualization and teamwork to keep us moving in the right direction. These principles enable us to deliver our goods and services at the right time, in the right amount, at the required quality and at the lowest cost to all our customers. Each element in the APS House provides critical support to the other elements. All elements (Just in time, Employee involvement, Quality first, Teamwork, 5S, Waste elimination, Standards, and TPM) are needed to reach our goal. APS defines the key target conditions necessary to move all our processes closer to the ideal condition. We are committed to maintain our direction while incorporating key elements of automation and factory of the future to increase the speed of our efficiency. As part of our strategy we apply the APS mindset to our footprint optimization decisions. Every step we take moves us to a higher level of operational excellence and closer to our strategic objectives.



**QUALITY**

Autoliv exists because life matters. We can never compromise on quality as our life-saving products never get a second chance. Since people's lives depend on our safety products, at Autoliv, we are committed to delivering the highest quality, safety and performance while striving for zero defects in all we do. Our quality culture is demonstrated by daily efforts throughout the organization. Our pursuit of excellence extends throughout the value chain to ensure robust product designs, flawless components from suppliers and our own in-house component companies, manufacturing of superior products with a system for verifying that our products conform with specifications, and an advanced traceability system in the event of a recall. Quality is also key to our financial performance, since excellent quality is critical for winning new orders, preventing recalls and maintaining low scrap rates. We implement our quality strategy through

the Q5 program, which aims to create a proactive quality culture of zero defects. Q5 addresses quality in five dimensions: customers, products, suppliers, growth and behavior. Employee engagement through our "It Starts with Me" philosophy is a cornerstone of our Q5 program. Another vital aspect is Jidoka, the commitment that when an operator detects an abnormality, he or she can directly stop the line to take appropriate actions. Our zero-defect mindset extends beyond Autoliv to our supplier base. All suppliers must accept our strict quality standards, prevent bad parts from being produced, and help eliminate defective intermediate products in our assembly lines as early as possible. Our quality management system is regularly audited by both internal and external parties. As part of our strategy to leverage growth into higher profitability, we intend to further enhance our Q5 culture and zero-defect mindset to realize and sustain results, including further pursuing zero defects in our supplier base and adopting digitalization and data analytics for proactive quality measures.



**ONE PRODUCT ONE PROCESS – 1P1P**

Through effective standardization, we create customer and shareholder value. One Product One Process (1P1P) promotes total cost management in engineering, manufacturing and purchasing. Reducing complexity is key to lowering costs and increasing product robustness, resulting in higher customer satisfaction. Autoliv's 1P1P initiative achieves reduced complexity by standardizing certain parts, resulting in fewer parts needed to satisfy customer projects. Progress is driven by cross-functional product teams with the authority and responsibility to manage one or several product families with a global mindset in terms of product design, manufacturing and supplier management. These product teams also ensure proper usage of the products in customer projects and manage the transfer of product knowledge. 1P1P promotes a culture in which lessons learned are shared globally, thereby incrementally bringing us closer to zero defects.



**Q5 is the journey which will shape an Autoliv culture leading to zero defects and best value for all our customer**

**Behavior**

- Starts with me
- Working together – One Autoliv

**Customer**

- The reason we are here
- Ensure satisfaction

**Product**

- Delivers value
- Connects directly to the vision

**Supplier**

- Partnership for the future
- Creating value together

**Growth**

- Continuous improvement of products and processes
- Develop the right skills and abilities of our people

**Main Objectives with all products and services**

- Reduce risk for critical quality issues and "near misses". Drive toward zero customer issues and zero defects.
- Provide customers with products and services of value that is and is perceived to be higher than anyone else's
- Reduce waste and internal errors

**REDUCE DIRECT MATERIAL COSTS**

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

**REDUCE LABOR COSTS**

Direct labor costs corresponded to 10% of our sales. To reduce labor costs while offsetting the price erosion on our products, we continuously implement productivity improvement programs, expand production in best-cost countries (BCCs), invest in increased automation and implement

restructuring and capacity alignment activities. More than 80% of our workers are located in BCCs. Our Continuous improvement strategies have enabled productivity improvement above our target of 5% over the last years, except 2018 due to a sharp increase in launch activities. Excluding impact from Force Majeure situation in our plant in Mexico, we have come back to around historical performance during 2019. This is achieved despite the increased launch activities that impacted us during 2019. We foresee opportunities for further productivity gains due to the increasing use of automation in our assembly as part of our lean manufacturing processes. Additionally, automated cells typically perform the manufacturing process with reduced variability. This results in greater control and consistency of product quality.

According to WHO Global Status Report on Road Safety 2018, 28% all road fatalities occur to motorized 2 & 3 Wheelers.



#### AUTOLIV SCOOTER AIRBAGS

## How Does the Motorcycle Airbag Work?

Autoliv has developed a revolutionary new airbag system that works to protect a motorcyclist's head and torso. The system is designed to protect riders in the event of a frontal crash with car or larger object. The airbag, using crash detecting sensors will deploy in about one twentieth of a second (0.05) in tests up to 30 MPH. The scooter airbag was found to substantially reduce injuries to the rider's head and torso.





# Uniquely Positioned to Save More Lives



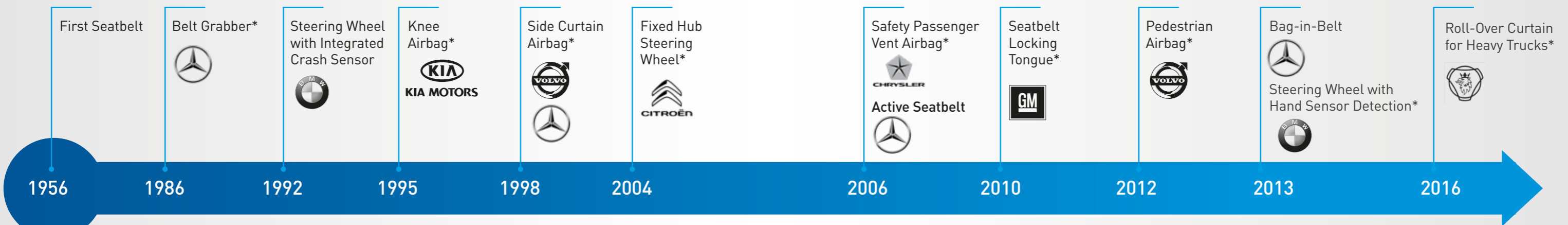
## INNOVATION

Innovation at Autoliv is about anticipating safety needs by studying global real-life accident data, human factors and biomechanics. We develop solutions to meet these needs by collaborating closely with our customers. Innovation at Autoliv is also about continuously improving our design processes and transforming our way of conducting engineering to pursue excellence in terms of quality, efficiency and time to market through the application of automation and digitalization, simplification and standardization, and by proactively building quality into our upstream value chain.

Autoliv has pioneered automotive safety for 65 years, including the introduction of several world firsts. Our product portfolio spans airbags, seatbelts, steering wheels and pedestrian protection. We also provide additional safety features, such as battery cut-off switches and integrated child booster seats. New industry trends, such as autonomous driving, electrification, connectivity and more comfortable interiors and cockpits, are generating new safety needs that call for more sophisticated and digital safety products. Our approach to real-life safety, together with our methods and processes, and our ambition and dedication to Saving More Lives, puts Autoliv in a unique position.

## Long Track Record of Commercializing Industry Firsts

Deeply Integrated R&D Dialogue with Global Customer Base

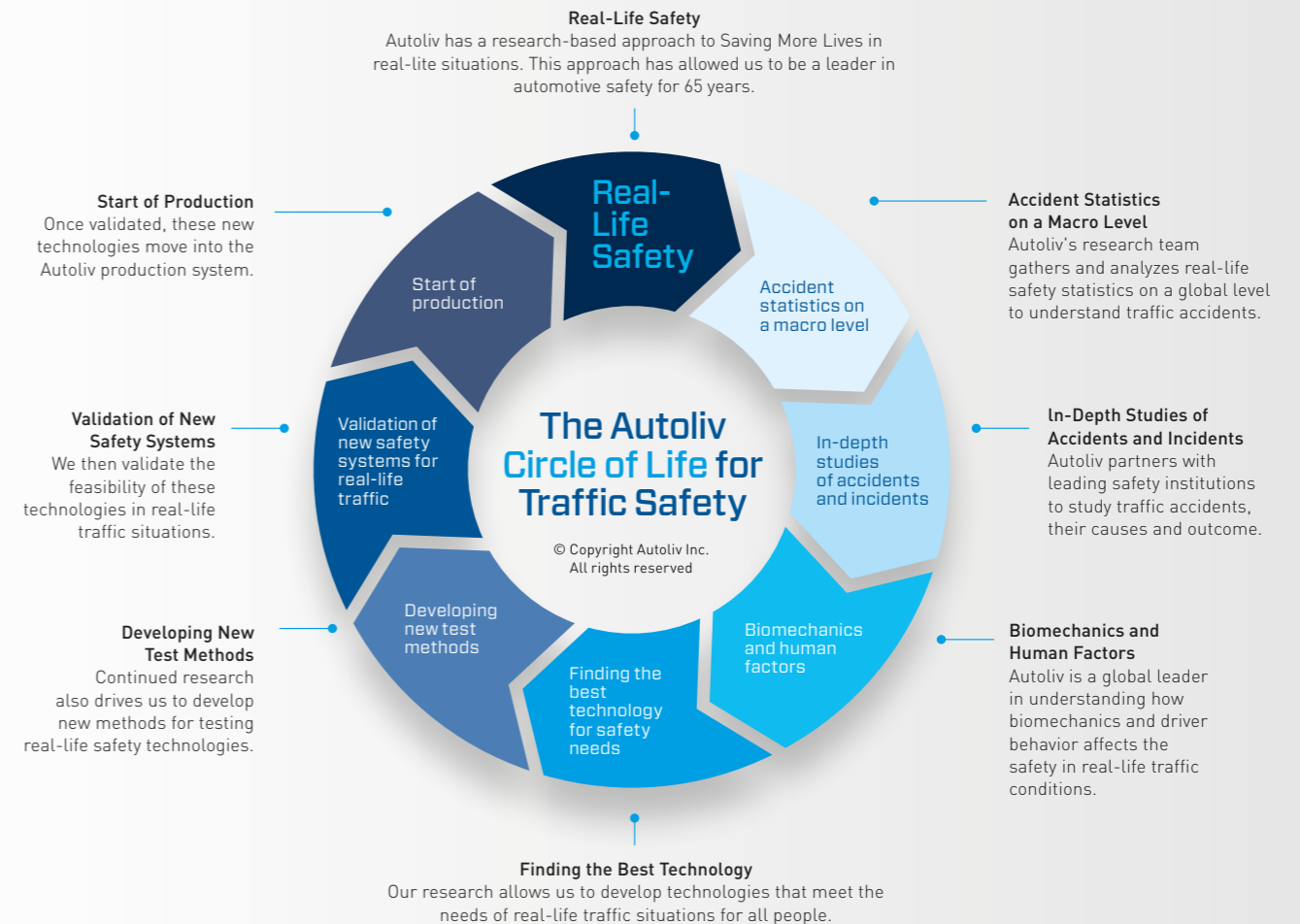


\*) Industry first

## SOLUTIONS BASED ON REAL-LIFE DATA

A key differentiating factor is that we perform research and innovate to find solutions based on real-life data. Our research and development are based on real traffic accidents and injuries as well as numerous crash

tests, user clinics, simulations, driving data collection and the vast expertise gathered by our specialists over many years. The way we innovate solutions is a key differentiator that sets us apart from our competitors.



# Innovation Through Collaboration

**W**e have customer technical centers in all our key markets and employ 5,700 people in research, development and application engineering. We support our customers through our technical centers and manufacturing facilities located close to their assembly plants in Americas, Europe and Asia. Our application engineering projects are completed at our technical centers located close to our customers and in close cooperation with manufacturing units. A big portion of the RD&E resources are focused in application engineering to support the development of new vehicles.

We not only develop and engineer technologies to enable more lives to be saved but also use research to provide guidance on how to accomplish this goal. We are engaged in research activities with universities in the fields of biomechanics, human factors and traffic safety analysis. Our research and development are based on real traffic accidents and injuries as well as numerous crash tests, user clinics,

simulations, field operational tests and the vast expertise gathered by our specialists over many years. Through our research and different collaborations, we aim to improve the safety of car occupants and we also actively engage in activities to improve the safety of vulnerable road users.

During 2019, we continued to participate in research collaborations to develop active human body models for virtual simulations. A new European funded project MEDIATOR was started, in which we together with other partners will develop guidelines, protocols and recommendations for evaluating and assessing the collaboration between a human and an automated vehicle. We joined the new Future Occupant Safety for Crashes in Cars (OSCCAR) project in China in which we are partnering with car manufacturers, research organizations and other automotive suppliers to develop the designs of future safety systems for self-driving cars. Together with various authorities, OEMs and supplier organizations, we are leading an initiative to share key learnings in



**Images above:** Autoliv's Board of Directors visited our Auburn Hills Technology Center (ATC) Michigan in November, 2019. To the left, Mikael Bratt, President and CEO. In the middle, Autoliv Board of Directors. To the right, Jordi Lombarde, Chief Technology Officer.

how to best implement a Vision Zero in India as the country plans for mobility in its new cities – an initiative known as the Road Safety Knowledge Sharing Platform. We continued to participate in Swedish industry and academia research collaborations focusing on the assessment of passenger safety and personalized occupant restraints in future cars, and we also supported PhD research in this area.

Autoliv sponsored and presented its research at numerous traffic safety-related conferences. Our outreach is not limited to sponsoring or to presenting our research at conferences, but also includes educational activities for the general public. We were also active in several working groups focusing on regulatory and standardization work in traffic safety.

## Research Areas

### TRAFFIC SAFETY ANALYSIS

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

### HUMAN FACTORS

We design solutions based on truly cross-disciplinary research. Vehicle sensing capabilities need to be systemized so that the vehicle can take driving context and driver state into account when responding to traffic events. Our research focuses on

road user behavior, development of safe and intuitive human-machine interaction as well as the usage of safety systems and comfort. All combined and utilized in the safety score to coach for safety driving.

### BIOMECHANICS

To Save More Lives in the transport system, we need tools that represent a diverse population in different transport modes, and we need to understand the implications of the change in mobility and improved sensing to develop future safety systems for mobility and society. Our advanced omnidirectional human body models simulate real human bodies containing bones, muscles and organs. We can depict the characteristics of a diverse population of various age, sex, weight and height. This allows us to study injury mechanisms on a very detailed level, which is necessary for developing new robust and sophisticated restraint systems.





AUTOLIV AIRBAGS

# Airbags and Seatbelts Together Reduce Fatalities by 61%

In frontal crashes, driver airbags reduce driver fatalities by 29%. Combined with a seatbelt it reduces fatalities in frontal crashes by 61%. Driver airbags also reduce severe injuries in frontal crashes by 32%. Autoliv also offers passenger, knee, side, curtain and front center airbags.

Source: Kahane, C. J. (2015, January). Lives saved by vehicle safety technologies and associated Federal Motor Vehicle Safety Standards, 1960 to 2012.

# Innovation Driving Safety for Mobility and Society

**W**HO estimates that there are 1.35 million road traffic fatalities per year in the world. By 2060, provided 100 percent of the vehicle fleet is highly automated, road traffic fatalities could be as low as 0.7 million according to research to be published in 2020 by Autoliv. The study shows that a majority of such accidents will involve pedestrians, cyclists and drivers of powered two-wheelers. Electrification, autonomous driving, shared mobility, digitalization and connectivity are transforming society and the automotive industry. Mobility in our changing society will take many shapes and forms, and our ambition is to meet emerging safety needs through the entire mobility chain, from in-vehicle occupants in different levels of automation (ADAS/AD) to vulnerable road users including pedestrians, cyclists and two-wheeler riders.

We are continually developing our airbag, steering-wheel and seatbelt systems to improve safety features, comfort and customization to accommodate any kind of journey in a constantly changing environment where a vehicle occupant or a road user meets a mixed fleet of vehicles. In addition, we innovate to constantly make things smaller and lighter – such as our driver front airbags – or better integrated – such as our advanced seatbelt solutions integrated into seats – as well as applying more decentralized intelligence – such as our small integrated decentralized ECUs for our future steering wheels. As we innovate to Save More Lives in society through development of our core safety solutions, we make improvements in our engineering design that will protect individuals for years to come.

Our innovation for future mobility focuses on four areas.

First, **electrification** of vehicles puts demands on us for electrical solutions – such as mechatronic or fully electric retractors for seatbelts – as well as on quieter products and battery cut-off switches.



## Electrification

### Main challenges: Weight and noise

- New materials development
- Electrical solutions
- New quieter products
- Battery cut-off switches

Second, **Autonomous driving** vehicles will put new demands on protecting occupants in new seating positions. Integration of seatbelts and airbags in seats as well as new types of airbags – such as the Life Cell airbag that provides protection regardless of how a driver or passenger is seated – or interior concepts with multiple airbag ideas to make future autonomous vehicles safe in the event of a crash. Future vehicles will also increasingly use steering wheel and seatbelt sensors to connect the driver to the vehicle's ADAS/AD systems, through the use of sophisticated human-machine interfaces (HMI).



**Life Cell airbag**  
Developed by Autoliv Research, the Life Cell airbag provides protection regardless of how a driver or passenger is seated, including the seat orientation in proximity to the steering wheel and seatback orientation.

The sensors at the steering wheel and seatbelt can also measure the driver's ability to handle the vehicle and add this into a safety score. This safety score can be used as a basis for coaching a safer driving behavior.

## ADAS and Autonomous Driving (AD)



### New seating positions

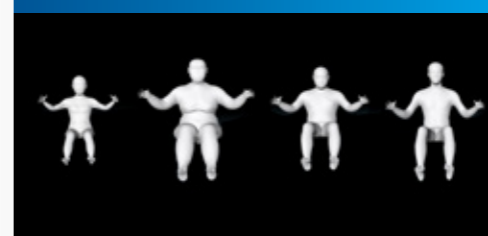
- Safety solutions more complex
- Need to adapt to new and varying seating positions
- Safety integrated into seats

### Human machine interface (HMI)

- HMI driving more technical content in seatbelts and steering wheels.

Third, **adaptivity and personalization** of restraint systems and airbags based on age, size and gender is a natural progression of our real-life approach to safety. This includes fully electric retractors with multiple load levels for seatbelts and adaptive load limiters and airbag venting providing optimal protection depending on the occupant and situation.

## Adaptability to Size and Age of Occupants



### Adaptability of restraint system

- Personalized restraint system
- Occupant diversity
- Child protection

Finally, **vulnerable road users (VRU)** – pedestrians, cyclists and riders of powered two-wheelers – account for nearly half of all road fatalities today. Solutions for VRUs include pedestrian and cyclist airbags that cover a larger area on the vehicle as well as on-bike airbags and restraint systems for powered two-wheelers such as scooters and motorcycles.

## Vulnerable Road Users (VRUs) and Others



### Protection of:

- Pedestrians, cyclists
- Drivers of powered two-wheelers

### VRUs account for -50% of all road fatalities

We are committed to creating a safer society by designing products that will one day appear in future vehicles and protect road users in the future multi-modal transport system. Autoliv is well positioned to meet future automotive safety needs as our portfolio offers a solid foundation for providing solutions for the entire mobility chain. Our solutions for advanced driver-assisted and autonomous driving vehicles and for vulnerable road users are a natural evolution of our safety products, positioning us at the forefront of innovation driving safety for mobility and society.





# Building a Winning Team

**O**ur drive for excellence is what makes us the world's leading supplier of automotive safety systems. From the earliest stages of product development to sales and design to the final delivery of the finished product we are driven by our passion to save more lives. The successful execution of our strategies relies on our ability to shape a quality and performance oriented culture, and to adapt quickly to sudden shifts in our circumstances. A turbulent external environment presents many challenges but also opportunities. As we move forward we strive to respond with agility to new possibilities to grow and improve our business whilst delivering with excellence to our customers.

We build a winning team by focusing on having the right people and the right culture, and creating a work environment that attracts, retains, and engages our employees. We take great pride in working together to provide life-saving solutions for mobility and society, and are always looking for new team members who share this passion.

### DEVELOPMENT OF OUR EMPLOYEES

We offer a collaborative and positive work environment where we tackle challenges and

achieve great things together. Supporting the development of our employees is essential in a highly competitive and rapidly changing environment. An important cornerstone of each employee's growth is the ongoing personal, transparent communication between the team member and manager, which is summarized during an annual performance and development dialogue (PDD). During 2019, 99% of targeted employees conducted a PDD with their managers. To further support the growth of our employees, we have a multitude of development channels, including technical and specialist career paths, international assignments and other such programs. We promote continuous development on the job every day, and more than 4,000 employees attended at least one training program this year.

### HEALTH AND SAFETY

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

### DIVERSITY

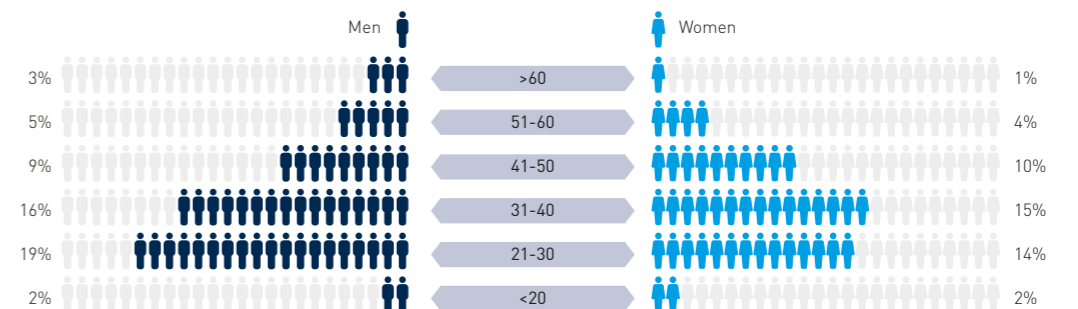
We value diversity and different backgrounds and experiences among our employees. Our workforce reflects the diversity of the countries and cultures in which we operate. At the end of 2019, 46% of our workforce and 21% of our senior management positions were filled by women. We have operations in 27 different countries, with 28% of our workforce located in Asia, 31% in the Americas and 41% in Europe (including Africa, Russia and Turkey).

### LABOR RIGHTS

We offer fair terms and conditions of employment. Our values, Code of Conduct, talent development strategies and employment policies support the principles in the United Nations Universal Declaration of Human Rights, and the International Labor Organization's Fundamental Principles and Labor Standards.

### Well-balanced workforce

By age, group, and gender in %





## Seatbelt Webbing Process at Autoliv in Brasov, Romania

Our plant in Brasov is the largest worldwide supplier of seatbelt webbing and the only supplier of spun-dyed webbing. It has a capacity of 260 million meters of webbing in 225 different color patterns.

Between 2008 and 2019 Romania has produced and supplied more than 1,684,500,000 meters of webbing for seatbelts, corresponding to approximately 443 million seatbelts or enough to circle the Earth 42 times.

# Creating Shareholder Value

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

**A**utoliv has generally had a strong cash flow and cash generation focus. Our operating cash flow has always exceeded our capital expenditures. On average, our operations have generated around \$757 million in cash per year over the last five years, while our capital expenditures, net, have averaged around \$510 million per year during the same period.

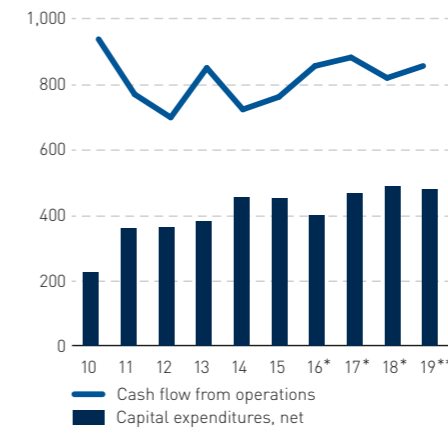
**CAPITAL EFFICIENCY IMPROVEMENTS**  
Our strong cash flow reflects both Autoliv's earnings performance and our improvements in capital efficiency. During 2019, our capital turnover rate, meaning our sales in relation to average capital employed, was 2.3 times.

**OUR CASH FLOW MODEL**  
When analyzing how best to use each year's cash flows from operations, Autoliv's Executive Management and the Board of Directors use a model for creating shareholder value that considers important variables such as the marginal cost of borrowing, the return on marginal investments and the price of Autoliv shares. When evaluating the various uses of cash, the need for flexibility is weighed against acquisitions and other potential settlements.

**INVESTING IN OPERATIONS**  
To create long-term shareholder value, cash flow from operations should only be used to finance investments in operations until the point when the return on investment no longer exceeds the cost of capital. Our historical pre-tax cost of capital has been approximately between 11% and 13%. Autoliv's pre-tax return on capital employed has generally exceeded this level, except during the financial crisis in 2008-2009. During the last five years, the return on capital employed has varied between 13% and 20%, i.e. one to two times the pre-tax cost of capital. In 2019, \$476 million was reinvested in the form of capital expenditures, net. This corresponds to 74% of the year's operating cash flow of \$641 million. Capital expenditure, net, was around 35% higher than depreciation and amortization due to our strong order intake and the need for additional manufacturing capacity.

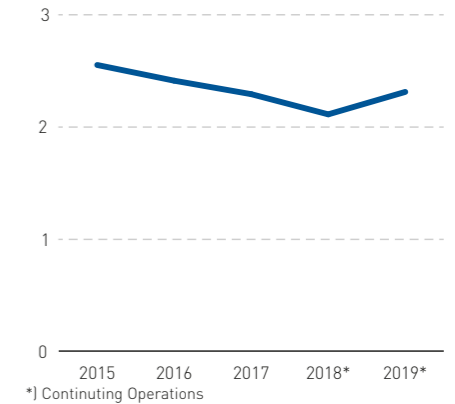
**ACQUISITIONS, DIVESTMENTS AND INVESTMENTS IN ASSETS**  
In order to accelerate company growth and create shareholder value over time, we use some of the cash flow generated for acquisitions and for investments in assets such as joint ventures and intellectual property. These investments are typically made to consolidate our position in the

**Cash flow vs. CapEx**  
US\$ (Millions)



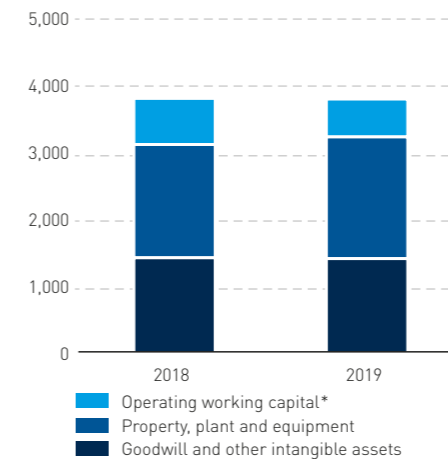
\*] Continuing Operations  
\*\*] 2019 adjusted for the EC antitrust payment

**Capital turnover rate**  
Times, sales in relation to average capital employed



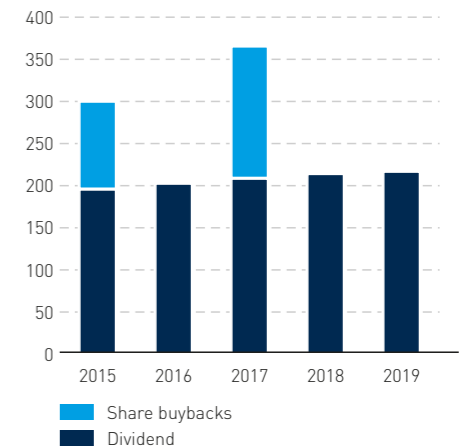
\*] Continuing Operations

**Assets by category**  
US\$ (Millions)



\*] 2018 excluding the EC antitrust accrual.

**Shareholder Returns**  
US\$ (Millions)

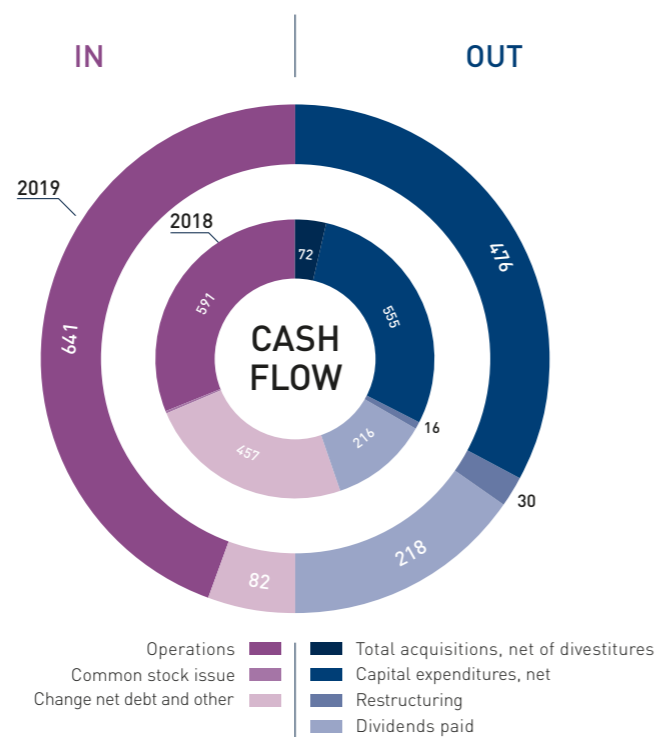


industry, increase our vertical integration or expand into new markets. Divestments could be carried out, for instance, with the objective to optimize the business culture and enhance the business focus. In 2018, we distributed our former Electronics business segment to our shareholders in the form of a dividend. The new company, Veoneer, had its first day of trading on July 2, 2018.

**SHAREHOLDER RETURNS**  
Autoliv has historically used both dividend payments and share repurchases to create shareholder value, and we do not have a set dividend policy. Instead, the Board of Directors regularly analyzes which method is most effective in each instance, in order to create shareholder value. For the full year 2019, the dividend was increased from \$2.46 to \$2.48 per

### Autoliv's Model for Creating Shareholder Value

US\$ (millions)



share. In total, \$217 million was used to pay dividends to shareholders in 2019. Historically, the dividend has represented a yield of approximately 2-3% in relation to Autoliv's average share price. In 2019, this yield was 3.3%. Repurchases of shares can create more value for shareholders than dividends, if the share price appreciates over the long term. This has been the case for Autoliv, since the Company's existing 15.6 million treasury shares has been repurchased at an average cost of \$56.13 per share, while the closing price at the end of 2019 was \$84.41. During 2019, Autoliv did not repurchase any shares. The remaining Board authorization pertains to approximately 3.0 million shares.

#### CAPITAL STRUCTURE

Our debt limitation policy is to maintain a financial leverage commensurate with a "strong investment grade credit rating". Our long-term target is to have a leverage ratio\* of around 1 time and to be within the range of 0.5 and 1.5 times. In addition to the above, the objective is to provide the Company with sufficient flexibility to manage the inherent risks and cyclicalities in Autoliv's business and allow the Company to realize strategic opportunities and fund growth initiatives while creating shareholder value. In 2019, Autoliv was above the target range due to the effect of the EC antitrust payment and weaker EBITDA impacted by a falling light vehicle market. On December 31, 2019, the leverage

ratio was 1.7 times. Autoliv holds a "BBB+ with negative outlook" credit rating from Standard & Poor's. We aim to maintain a strong investment grade rating as our current capital structure should provide flexibility to generate further shareholder returns and the funding of our capital requirements.

#### SHAREHOLDER INFORMATION

Autoliv's common stock is traded on the New York Stock Exchange ("NYSE") while Autoliv's Swedish depository receipts (SDRs) are traded on NASDAQ Stockholm's list for large market cap companies. During 2019, the number of shares outstanding increased by 0.1 million to 87.2 million (excluding dilution and

treasury shares). The weighted average number of shares outstanding for the full year 2019, assuming dilution, was 87.4 million. Stock options (if exercised) and granted restricted stock units (RSUs) performance shares could increase the number of shares outstanding by 0.4 million shares in total. Combined, this would add 0.5% to the Autoliv shares outstanding.

Autoliv estimates that there were approximately 70,000 beneficial Autoliv owners as of December 31, 2019. Around 22% of Autoliv's securities were held by US-based shareholders and close to 53% by Sweden-based shareholders. Most of the remaining Autoliv securities were held in the U.K., Switzerland, Norway, Canada and France.

#### KEY STOCK PRICE DATA 2019

NYSE	Price (\$)	Date
First trading day	70.41	Jan 2, 2019
Year high	86.79	Dec 18, 2019
Year low	61.57	May 31, 2019
Closing	84.41	Dec 31, 2019

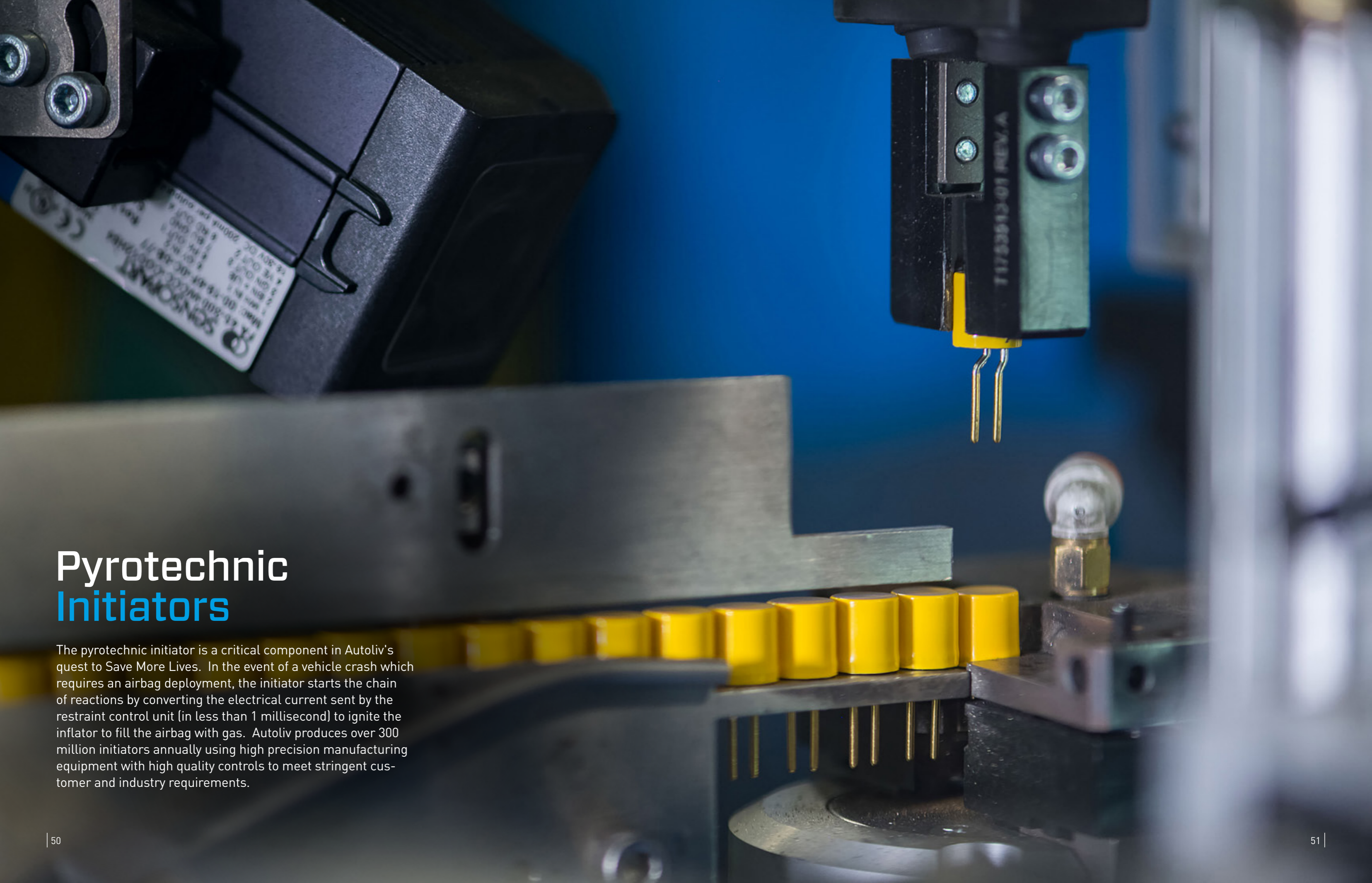
NASDAQ STOCKHOLM	Price (SEK)	Date
First trading day	630	Jan 2, 2019
Year high	834	Nov 08, 2019
Year low	588.6	May 31, 2019
Closing	791	Dec 30, 2019

#### THE LARGEST SHAREHOLDERS, December 31, 2019

Holder name <sup>1)</sup>
1. Cevian Capital AB
2. Alecta Pension Insurance Mutual
3. Swedbank Robur Fonder AB
4. AMF Pensionsförsäkring AB
5. Henderson Global Investors Ltd.

<sup>1)</sup> Known to the Company, of approximately 70,000 shareholders, as of December 31, 2019.





# Pyrotechnic Initiators

The pyrotechnic initiator is a critical component in Autoliv's quest to Save More Lives. In the event of a vehicle crash which requires an airbag deployment, the initiator starts the chain of reactions by converting the electrical current sent by the restraint control unit (in less than 1 millisecond) to ignite the inflator to fill the airbag with gas. Autoliv produces over 300 million initiators annually using high precision manufacturing equipment with high quality controls to meet stringent customer and industry requirements.

# Board of Directors



From left:

**Min Liu**  
Director since 2019. Member of the Audit Committee and the Leadership Development and Compensation Committee.

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

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

**Mikael Bratt**  
President and CEO of Autoliv Inc. since June 2018, and Director since September 2018.

**Franz-Josef Kortüm**  
Director since 2014. Member of the Nominating and Corporate Governance Committee.

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

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

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

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

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

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

# Executive Management Team



From left:

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

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

**Dan Garceau**  
President, Autoliv Americas  
Employed 1993

**Jordi Lombarte**  
Chief Technology Officer  
Employed 1991

**Mikael Bratt**  
President and CEO  
Employed 2016

**Frithjof Oldorff**  
President, Autoliv Europe  
Employed 2019

**Jennifer Cheng**  
President, Autoliv China  
Employed 2006

**Brad Murray**  
President, Autoliv Asia  
Employed 1987

**Christian Swahn**  
Executive Vice President,  
Supply Chain Management  
Employed 2019

**Magnus Jarlegren**  
Executive Vice President, Operations  
Employed 2019

**Christian Hanke**  
Interim Chief Financial Officer<sup>1</sup>  
Employed 2016

**Svante Mogefors**  
Executive Vice President, Quality  
Employed 1996

1) New CFO, Frederik Westin, will join in March 2020.

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



AUTOLIV AIRBAGS

# An Improved Passenger Airbag

This new passenger airbag is designed to lower the probability of injury in a wide variety of crashes by securing the passenger's head like a ball in a catcher's mitt. This may be crucial in frontal-oblique collisions that causes the occupant to rotate and not to hit the center of the passenger airbag.

# Contacts and Calendar

## **AUTOLIV, INC.**

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

## **CONTACT OUR BOARD**

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

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

## **STOCK TRANSFER AGENT AND REGISTRAR**

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

## **INVESTOR REQUESTS**

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

## **ACKNOWLEDGEMENTS**

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

## **2020 PRELIMINARY FINANCIAL CALENDAR DATE EVENT**

April 24, Financial Report Q1  
May 7, Autoliv General Meeting, Detroit, MI, USA  
July 17, Financial Report Q2  
October 23, Financial Report Q3



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

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

**Autoliv**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 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: 001-12933

**AUTOLIV, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
  
**Klarabergsviadukten 70, Section B7,  
Box 70381,  
Stockholm, Sweden**  
(Address of principal executive offices)

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

**SE-107 24**  
(Zip Code)

**+46 8 587 20 600**

(Registrant's telephone number, including area code)

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

Title of each class:	Trading Symbol(s):	Name of each exchange on which registered:
Common Stock (par value \$1.00 per share)	ALV	New York Stock Exchange

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity of Autoliv, Inc. held by non-affiliates as of the last business day of the second fiscal quarter of 2019 amounted to \$6,151 million.

Number of shares of Common Stock outstanding as of February 12, 2020: 87,249,686.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for the annual stockholders' meeting to be held on May 7, 2020, to be dated on or around March 23, 2020 (the "2020 Proxy Statement"), are incorporated by reference into Part III of this Annual Report on Form 10-K. The 2020 Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after December 31, 2019.

# AUTOLIV, INC.

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## NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

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



## PART I

### Item 1. Business

#### **General**

Autoliv, Inc. ("Autoliv", the "Company" or "we") is a Delaware corporation with its principal executive offices in Stockholm, Sweden. The Company functions as a holding corporation and owns two principal subsidiaries, Autoliv AB and Autoliv ASP, Inc. Our fiscal year ends on December 31.

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

#### **Business**

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

Passive safety systems are primarily meant to improve vehicle safety. Passive safety systems include modules and components for frontal-impact airbag protection systems, side-impact airbag protection systems, seatbelts, steering wheels, inflator technologies, battery cable cutters and protection systems for vulnerable road users such as pedestrians and cyclists.

Including joint venture operations, Autoliv has around 65 production facilities in 25 countries and its customers include the world's largest car manufacturers. Autoliv's sales in 2019 were \$8.5 billion, approximately 66% of which consisted of airbag and steering wheel products and approximately 34% of which consisted of seatbelt products. Our business is conducted in the following geographical regions, Europe, the Americas, China, Japan and the Rest of Asia (ROA).

Autoliv's head office is located in Stockholm, Sweden, where we currently employ approximately 70 people. At December 31, 2019, Autoliv had approximately 59,000 employees worldwide, and a total headcount, including 6,000 temporary personnel, of approximately 65,000.

Additional information required by this Item 1 regarding developments in the Company's business during 2019 is contained under Item 7 in this Annual Report.

#### **Reportable Segment**

Upon completion of the spin-off of its former Electronics segment on June 29, 2018, Autoliv concluded that it has one reportable segment based on the way the Company evaluates its financial performance and manages its operations. Autoliv's remaining business is comprised of passive safety products - principally airbags (including steering wheels and inflators) and seatbelts. For more information regarding the Company's segment reporting, see Note 1 to the Consolidated Financial Statements in this Annual Report.

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

##### **Products**

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

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

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

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

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

## **Market and Competition**

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

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

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

The first growth driver, LVP, has increased at an average annual growth rate of around 2.2% since the start of Autoliv in 1997 despite the cyclical nature of the automotive industry. LVP is expected to grow to close to 90 million by 2022 from approximately 86 million in 2019, according to IHS. Almost all of this expansion will be in growth markets, predominantly in China, India, Southeast Asia and South America.

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

Since the start of Autoliv, Inc. in 1997, the Company's sales compound annual growth rate (CAGR) for passive safety has been 5.3% compared to the market rate of around 2.6% which includes an LVP growth of around 2.2%. Our outperformance is a result of a steady flow of new passive safety technologies, strong focus on quality and a superior global footprint both in products and engineering. This has enabled Autoliv to increase its market share from 27% in 1997 to more than 41% in 2019.

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

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

Despite a negative LVP mix effect from higher growth in low CPV markets, the passive safety market (seatbelts and airbags, including steering wheels), is expected to grow from close to \$20 billion to \$23 billion over the next 3-5 years, based on the current macro-economic outlook and our internal market intelligence and estimates. The highest growth rate is expected in steering wheels, where Autoliv has a global market share of around 38%, generated by the trend toward higher-value steering wheels with leather and additional features.

The Growth Markets are expected to outgrow the Developed Markets for the period between 2020 and 2023, as the Growth Markets are supported by a higher LVP and increasing CPV resulting from higher installation rates of airbags and more advanced seatbelt products.

In seatbelts, Autoliv has reached a global market share of around 41%, primarily due to being the technology leader with several important innovations such as pretensioners and active seatbelts. Our strong market position is also a reflection of our superior global footprint. Seatbelts are the primary life-saving safety product and are also an important requirement in low-end vehicles for the Growth Markets. This provides us with an excellent opportunity to benefit from the expected growth in this segment of the market.

The market for airbags, where Autoliv has a market share of around 42%, is expected to grow mainly as result of higher installation rates of inflatable curtains, side airbags and knee airbags. Additionally, the new front center airbag is expected to start to contribute to the market growth.

### **Our competitors**

Autoliv is the clear market leader in passive safety with an estimated global market share of more than 41%. Our major competitors are Joyson Safety Systems, the successor to Takata, and ZF.

Our largest competitor is U.S.-based Joyson Safety Systems (JSS), including its Chinese subsidiary YFK. JSS is a Chinese owned company and is the result of the merger between Key Safety Systems (KSS) and Takata Corporation after KSS acquired Takata in 2018.

Our second largest competitor is ZF, a global leader in driveline and chassis technology as well as in passive safety technologies, and is one of the largest global automotive suppliers.

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

Other competitors include Nihon Plast and Ashimori of Japan, Jinheng of China, Samsong in South Korea and Chris Cintos de Seguranca in South America. Collectively, these competitors account for the majority of the remaining market share in passive safety.

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

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

See “Item 2. Properties” for a description of Autoliv’s principal properties. The component factories manufacture inflators, propellant, initiators, textile cushions, webbing, pressed steel parts, springs and overmoulded steel parts used in seatbelt and airbag assembly and steering wheels. The assembly factories source components from a number of parties, including Autoliv’s own component factories, and assemble complete restraint systems for “just-in-time” delivery to customers. The products manufactured by Autoliv’s consolidated subsidiaries in 2019 consisted of approximately 146 million complete seatbelt systems (of which approximately 85 million were fitted with pretensioners), approximately 98 million side airbags (including curtain airbags), approximately 57 million frontal airbags, approximately 0.7 million other airbags and approximately 21 million steering wheels.

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

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

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

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

### ***Quality Management***

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

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

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

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

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

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

IATF 16949:2016 is one of the automotive industry’s most widely used international standards for quality management. All of our facilities that ship products to OEMs are regularly certified according to the International Automotive Task Force (IATF) standards.

### **Environmental and Safety Regulations**

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

### **Raw Materials**

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

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

### **Intellectual Property**

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

### **Backlog**

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

### **Dependence on Customers**

In 2019 our top five customers represented around 52% of our annual sales and our top ten customers represented around 79% of our annual sales. This reflects the concentration of manufacturers in the automotive industry. The five largest OEMs in 2019 accounted for 51% of global LVP and the ten largest OEMs accounted for 74%. A delivery contract is typically for the lifetime of a vehicle model, which is normally between four and six years depending on customer platform sourcing preferences and strategies.

<b>Customer</b>	<b>% of Autoliv Sales</b>	<b>% of Global LVP<sup>1)</sup></b>
Renault/Nissan/Mitsubishi	16%	11%
VW	10%	12%
Honda	10%	6%
FCA	8%	5%
Hyundai/Kia	8%	9%
Ford	7%	5%
Toyota	7%	12%
General Motors	5%	6%
Daimler	4%	3%
BMW	4%	3%

1) Source: IHS

## **CUSTOMER SALES TRENDS**

Asian vehicle producers have steadily become increasingly more important to Autoliv, and now represent around 46% of our global sales compared to 37% five years ago. The largest increase comes from Japanese OEMs that represented 24% five years ago, and now accounts for 34%. This is a result of our stronger market position based on our local presence in Japan. European OEMs accounted for 31% of our global sales in 2019, this is 2 percentage points less than in 2014. The U.S. based OEMs (including Tesla) account for 21% of our global sales, down from 29% in 2014. This is in part due to the sale of GM's European operations, Opel, to PSA. Tesla now accounts for more than one percent of our 2019 sales.

For information on our dependence on customers, see "Risk Factors – 'Our business could be materially and adversely affected if we lost any of our largest customers or if they were unable to pay their invoices'" in Item 1A of this Annual Report and "Dependence on Customers" under the section "Risks and Risk Management" in Item 7 of this Annual Report and Note 21 to the Consolidated Financial Statements.

### ***Research, Development and Engineering, net (R,D&E)***

No single customer project accounted for more than 4% of Autoliv's total R,D&E, net spending during 2019. To fuel Autoliv's product portfolio, additional expertise is brought in-house via technology partnerships and licensing agreements.

### ***Regulatory Costs***

The fitting of seatbelts in most types of motor vehicles is mandatory in almost all countries and many countries have strict laws regarding the use of seatbelts while in vehicles. In addition, most developed countries require that seats in intercity buses and commercial vehicles be fitted with seatbelts. In the U.S., federal legislation requires frontal airbags on the driver-side and the passenger-side of all new passenger cars since 1998 and in all sport utility vehicles, pickup trucks, and vans since 1999.

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

### ***Autoliv Personnel***

As of December 31, 2019, Autoliv and its subsidiaries had approximately 59,000 employees and approximately 6,000 temporary personnel. Autoliv considers its relationship with its personnel to be good. While there have been a small number of minor labor disputes during the year, such disputes have not had a significant or lasting impact on our relationship with our employees, customer perception of our employee practices or our business results.

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

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

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

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

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

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

### ***Joint Ventures***

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

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

### ***Available information***

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

## Item 1A. Risk Factors

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

### RISKS RELATED TO OUR INDUSTRY

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

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

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

Changes in automotive sales and LVP and/or customers' inventory levels will have an impact on our long-term targets, earnings guidance and estimates. In addition, we base our growth projections in part on business awards, or order intake, made by our customers. However, actual production orders from our customers may not approximate the awarded business or our estimated order intake. Any significant reduction in automotive sales and/or LVP by our customers, whether due to general economic conditions or any other factors relevant to sales or LVP, could have a material adverse effect on our business, results of operations and financial condition.

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

The average global content of passive safety systems per light vehicle remained unchanged in 2019 at around \$225. Vehicles produced in different markets may have various passive safety content values. For example, in developed markets such as Western Europe and North America, the premium segment has passive safety content values of more than \$300 per vehicle, whereas in growth markets such as China and India the average passive safety content per vehicle is approximately \$180 and \$80, respectively. Due to the majority of the growth in global LVP being concentrated in growth markets the operating results may be impacted if the passive safety content per vehicle remains low and if the penetration of more advanced automotive safety systems does not increase in these regions. As passive safety content per vehicle is also an indicator of our sales development, should these trends continue, the average value of passive safety systems per vehicle could decline.

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

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

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

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

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

**RISKS RELATED TO OUR BUSINESS**

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

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

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

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

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

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

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



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

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

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

Disruptions in our supply chain may result for many reasons, including closures of one of our own or one of our suppliers’ facilities or critical manufacturing lines due to strikes or other labor disputes, mechanical failures, electrical outages, fires, explosions, critical pollution levels, critical health and safety and other working conditions issues (including epidemics and pandemics, such as the coronavirus (COVID-19)), natural disasters political upheaval, as well as logistical complications due to labor disruptions, weather or natural disasters, acts of terrorism, mechanical failures and legislation or regulation regarding the transport of hazardous goods. In particular, if the current coronavirus outbreak continues and results in a prolonged period of travel, commercial and other similar restrictions, particularly to and from China, we and our customers and suppliers could experience supply chain and production disruptions. The extent to which the coronavirus impacts our results will depend on future developments, which are highly uncertain and cannot be predicted. Additionally, we may experience disruptions if there are delays in customs processing, including if we are unable to obtain government authorization to export or import certain materials, including materials that may be viewed as dangerous such as the propellant used for our inflators. As we continue to expand in growth markets, the risk of such disruptions is heightened. The unavailability of even a single small subcomponent necessary to manufacture one of our products, for whatever reason, could force us to cease production of that product, possibly for a prolonged period. Similarly, a potential quality issue could force us to halt deliveries while we validate the products. Even where products are ready to be shipped, or have been shipped, delays may arise before they reach our customer. Also, similar difficulties for other suppliers may force our customers to halt production, which may in turn impact our sales shipments to such customers.

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

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

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

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

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

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

Our business uses a broad range of raw materials and components in the manufacture of our products, nearly all of which are generally available from a number of qualified suppliers. Our industry may be affected from time to time by limited supplies or price fluctuations of certain key components and materials. Strong worldwide demand for certain raw materials has had a significant impact on prices and short-term availability in recent years. Such price increases could materially increase our operating costs and materially and adversely affect our profit margin, as direct material costs amounted to approximately 50% of our net sales in 2019, of which approximately half is the raw material cost portion.

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

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

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

We are dependent on a few large customers with strong purchasing power. This is the result of customer consolidation during the last few decades. In 2019, our top five customers represented 52% of our consolidated sales. Our largest contract accounted for around 2% of our total fiscal 2019 sales. Although business with any given customer is typically split into several contracts (either on the basis of one contract per vehicle model or on a broader platform basis), the loss of business from any of our major customers (whether by lower overall demand for vehicles, cancellation of existing contracts or the failure to award us new business) could have a material adverse effect on our business, results of operations and financial condition. Similarly, further consolidation of our customers in the future could make us more reliant upon a smaller group of customers for a significant portion of our consolidated sales and negatively impact our bargaining power when contracting with such customers.

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

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

Additional information concerning our major customers is included in Note 21 of the Consolidated Financial Statements in this Annual Report.

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

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

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

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

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

We are, from time to time, involved in litigation, regulatory proceedings and commercial or contractual disputes that may be significant. These matters may include, without limitation, disputes with our suppliers and customers, intellectual property claims, shareholder litigation, government investigations, class action lawsuits, personal injury claims, environmental issues, antitrust, customs and VAT disputes and employment and tax issues. In such matters, government agencies or private parties may seek to recover from us very large, indeterminate amounts in penalties or monetary damages (including, in some cases, treble or punitive damages) or seek to limit our operations in some way. The possibility exists that claims may be asserted against us and their magnitude may remain unknown for long periods of time. These types of lawsuits could require a significant amount of management's time and attention and a substantial legal liability or adverse regulatory outcome and the substantial expenses to defend the litigation or regulatory proceedings may have a material adverse effect on our customer relationships, business prospects, reputation, operating results, cash flows and financial condition. No assurances can be given that such proceedings and claims will not have a material adverse impact on our profitability and consolidated financial position or that our established reserves or our available insurance will mitigate such impact.

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

The Company may be subject to civil antitrust lawsuits in the future in countries that permit such civil claims, including lawsuits or other actions by our customers. The Company was previously the subject of any investigation by the European Commission ("EC") regarding possible anti-competitive behavior among certain suppliers to the automotive vehicle industry. The Company paid a fine to resolve these matters in 2019. As a result of the outcome of the EC investigation, we could be subject to subsequent civil disputes with non-governmental third parties and civil or stockholder litigation stemming from the same facts and circumstances underlying the EC investigation. These types of lawsuits require significant management time and attention and could result in significant expenses as well as unfavorable outcomes that could have a material adverse impact on our customer relationships, business prospects, reputation, operating results, cash flows or financial condition, and our insurance may not mitigate such impact.

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

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

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

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

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

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

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

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

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

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

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

Our access to debt, securitization, or derivative markets around the world at competitive rates or in sufficient amounts could be affected by credit rating downgrades, market volatility, market disruption, regulatory requirements, or other factors. Our ability to obtain unsecured funding at a reasonable cost is dependent on our credit ratings or our perceived creditworthiness. Our current credit rating could be lowered as a result of us experiencing significant negative cash flows, increasing our indebtedness and leverage, or a dire financial outlook, which may affect our ability to procure financing. We may also for the same, or other reasons, find it difficult to secure new long-term credit facilities, at reasonable terms, when our principal credit facility expires in 2023. Further, even our existing unutilized credit facilities may not be available to us as agreed, or only at additional cost, if participating banks are unable to raise the necessary funds, where, for instance, financial markets are not functioning as expected or one or more banks in our principal credit facility syndicate were to default. As a result, we cannot assure you that we will continue to have sufficient liquidity to meet our operating needs. In the event that we do not have sufficient external financing we may be required to seek additional capital, sell assets, reduce or cut back our operating activities or otherwise alter our business strategy.

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

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

As of December 31, 2019, we have outstanding debt of \$2.1 billion. We may incur additional debt for a variety of reasons. Although our significant credit facilities and debt agreements do not have any financial covenants, our level of indebtedness will have several important effects on our future operations, including, without limitation:

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

**Governmental restrictions may impact our business adversely**

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

## **Impairment charges relating to our assets, goodwill and other intangible assets could adversely affect our financial performance**

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

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

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

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

Information concerning our benefit plans is included in Note 19 of the Consolidated Financial Statements in this Annual Report.

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

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

## **Cybersecurity incidents or other damage to our technology infrastructure could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and operating results**

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

Our security measures may be breached due to human error, system malfunctions or attacks from uncoordinated individuals or sophisticated and targeted measures known as advanced persistent threats, directed at the Company, its products, its customers and/or its third-party service providers. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

Disruptions and attacks on our IT systems or the systems of third parties storing our data could result in the misappropriation, loss, destruction or corruption of our critical data and confidential or proprietary information, personal information of our employees, the leakage of our or our customers' confidential information, improper use of our systems and networks, production downtimes and both internal and external supply shortages, which could have an adverse effect on our results of operations. It may also result in the theft of intellectual property or other misappropriation of assets, or otherwise compromise our confidential or proprietary information and disrupt our operations. The potential consequences of a material cybersecurity incident include reputational damage, theft of intellectual property, litigation with third parties, diminution in the value of our investment in research, development and engineering, diversion of the attention of management away from the operation of our business and increased cybersecurity protection and remediation costs, legal claims and liability, regulatory scrutiny, sanctions, fines or penalties (which may not be covered by our insurance policies), negative publicity, release of sensitive and/or confidential information, increases in operating expenses, or lost revenues which in turn could adversely affect our competitiveness and results of operations. To the extent that any disruption or security breach results in a misappropriation, loss, destruction or corruption of our customer's information, it could affect our relationships with our customers, create significant expense for us to investigate and remediate damage, lead to claims against the Company and ultimately harm our business. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could result in additional costs. Furthermore, our technology systems are vulnerable to damage or interruption from natural disasters, power loss and telecommunication failures.

We continuously seek to maintain a robust program of information security and controls, however, any future significant compromise or breach of our data security, whether external or internal, or misuse of customer, associate, supplier or Company data, could result in significant costs, lost sales, fines, lawsuits, and damage to our reputation.

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

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

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

More regional and/or national requirements to reduce or mitigate the effects of greenhouse gas emissions may adversely impact our business. Today there is a lack of consistent climate legislation which results in economic and regulatory uncertainty. Any future regulations aimed at mitigating climate change may negatively impact the demand for certain of our customer's products which could in turn impact demand for our products and impact our results of operations. The costs of compliance and any changes to our operations mandated by new or amended laws, may be significant. We may also face unexpected delays in obtaining permits and approvals required by such laws in connection with our manufacturing facilities, which would hinder our operation of these facilities. Furthermore, any violations of these laws may result in substantial fines and penalties, remediation costs, third party damages, or a suspension or cessation of our operations.

The manifestations of climate change, such as extreme weather conditions or more frequent extreme weather events could disrupt our operations, damage our facilities, disrupt our supply chain, including our customers or suppliers, or make it harder or more difficult to obtain raw materials necessary for the manufacturing of our products. As a result, severe weather or a natural disaster that results in a prolonged disruption to our operations, or the operations of our customers or suppliers, could have a material adverse effect on our operating results, cash flows or financial condition.

### **RISKS RELATED TO INTERNATIONAL OPERATIONS**

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

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

- exposure to local economic conditions;
- unexpected changes in laws, regulations, trade, or monetary or fiscal policy, including interest rates, foreign currency exchange rates, and changes in the rate of inflation in the countries in which we do business;
- foreign tax consequences;
- inability to collect, or delays in collecting, value-added taxes and/or other receivables associated with remittances and other payments by subsidiaries;
- exposure to local political turmoil and challenging labor conditions;

- expropriation and nationalization;
- enforcing legal agreements or collecting receivables through foreign legal systems;
- wage inflation in growth markets;
- currency controls, including lack of liquidity in foreign currency due to governmental restrictions, trade protection policies and currency controls, which may create difficulty in repatriating profits or making other remittances;
- compliance with the requirements of an increasing body of applicable anti-bribery laws;
- reduced intellectual property protection in various markets;
- investment restrictions or requirements; and
- the imposition of product tariffs and the burden of complying with a wide variety of international and U.S. export laws.

The Company is subject to taxation in the U.S. and numerous foreign jurisdictions. The Organization for Economic Co-operation and Development (“OECD”) continues its base erosion and profit shifting (“BEPS”) project begun in 2015 with new proposals for a global minimum tax, further development of a coordinated set of rules for taxation and the allocation of taxing rights between jurisdictions. These proposals, if adopted by countries in which we operate, could result in changes to tax policies, including transfer pricing policies, that could ultimately impact our tax liabilities. The timing or impact of these proposals and recommendations is unclear at this point. Changes in tax laws or policies by the U.S. or foreign jurisdictions could result in a higher effective tax rate on our worldwide earnings, and any such change could have a material adverse effect on our business prospects, cash flows, operating results and financial condition.

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

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

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

The exit of the United Kingdom (“U.K.”) from the European Union (“EU”) (“Brexit”) could adversely affect European and worldwide economic and market conditions and contribute to instability in global financial and foreign exchange markets, including increased volatility in interest rates and foreign exchange rates. Uncertainty over the final terms of the U.K.’s departure from the EU could cause political and economic uncertainty in the United Kingdom and the rest of Europe. Until final agreements related to Brexit are negotiated during the transition period, it is difficult to predict the impact Brexit will have on international trade, and whether we need to renegotiate any of our contractual arrangements to accommodate a new trade regime. Failure to reach final agreements could have an adverse impact on and lead to volatility in foreign exchange markets and labor and trade practices and policy. We conduct business in the U.K. and several EU nations and the taxation policies of the U.K. and the EU nations may change as a result of Brexit, which could adversely impact our tax positions. We may be required to comply with regulatory requirements in the United Kingdom that are in addition to, or inconsistent with, the regulatory requirements of the EU.

The effects of Brexit could adversely affect our business prospects, operating results, cash flows and financial condition.

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

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

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

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

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

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

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

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

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

### **Exchange rate risks**

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

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

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



## RISKS RELATED TO ACQUISITIONS

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

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

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

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

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

## RISKS RELATED TO INTELLECTUAL PROPERTY

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

We have developed a considerable amount of proprietary technology related to automotive safety systems and rely on a number of patents to protect such technology. Our intellectual property plays an important role in maintaining our competitive position in a number of the markets we serve. At present, we hold more than 6,000 patents covering a large number of innovations and product ideas, mainly in the fields of seatbelt and airbag technologies. In addition to our in-house research and development efforts, we seek to acquire rights to new intellectual property through corporate acquisitions, asset acquisitions, licensing and joint venture arrangements. Our patents and licenses expire on various dates during the period from 2020 to 2039. We do not expect the expiration of any single patent or license to have a material adverse effect on our business, operating results and financial condition.

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

In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as the laws of the U.S. and we may encounter significant problems in protecting and defending our intellectual property rights in certain foreign jurisdictions. This could make it difficult for us to stop the infringement of our patents or misappropriation of our other intellectual property rights. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business. Accordingly, our efforts to protect our intellectual property rights in such countries may be inadequate.

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

Although we believe that our products and technology do not infringe the proprietary rights of others, third parties may assert infringement claims against us in the future. Additionally, we license from third parties proprietary technology covered by patents, and we cannot be certain that any such patents will not be challenged, invalidated or circumvented. Such licenses may also be non-exclusive, meaning our competition may also be able to access such technology. Further, we expect to continue to expand our products and services and expand into new businesses, including through acquisitions, joint ventures and joint development agreements, which could increase our exposure to patent and other intellectual property claims from competitors and other parties. If claims alleging patent, copyright or trademark infringement are brought against us and are successfully prosecuted against us, they could result in substantial costs. If a successful

claim is made against us and we fail to develop non-infringing technology, our business, operating results and financial condition could be materially adversely affected. In addition, certain of our products utilize components that are developed by third parties and licensed to us. If claims alleging patent, copyright or trademark infringement are brought against such licensors and successfully prosecuted, they could result in substantial costs, and we may not be able to replace the functions provided by these licensors. Alternate sources for the technology currently licensed to us may not be available in a timely manner, may not provide the same functions as currently provided or may be more expensive than products currently used.

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

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

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

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

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

**RISKS RELATED TO GOVERNMENT REGULATIONS AND TAXES**

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

We are subject to various federal, state, local and foreign laws and regulations, including those related to the requirements of environmental, occupational health and safety, financial and other matters. We cannot predict the substance or impact of pending or future legislation or regulations, or the application thereof. The introduction of new laws or regulations or changes in existing laws or regulations, or the interpretations thereof, could increase the costs of doing business for us or our customers or suppliers or restrict our actions and adversely affect our business prospects, operating results, cash flows or financial condition.

Our operations are subject to environmental and safety laws and regulations governing, among other things, emissions to air, discharges to waters and the generation, handling, storage, transportation, treatment and disposal of waste and other materials. The operation of automotive parts manufacturing facilities entails risks in these areas, and we cannot assure that we will not incur material costs or liabilities as a result. Additionally, environmental laws, regulations, and permits and the enforcement thereof change frequently and have tended to become increasingly stringent over time, which may necessitate substantial capital expenditures or operating costs or may require changes of production processes. Although we have no known pending material environmental issues, there is no assurance that we will not be adversely impacted by any environmental costs, liabilities or claims in the future either under present laws and regulations or those that may be adopted or imposed in the future. Our costs, liabilities, and obligations relating to environmental matters may have a material adverse effect on our business, operating results, cash flows, or financial condition.

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

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

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

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

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

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

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

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

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

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

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

The effective tax rates used for interim reporting are based on our projected full-year geographic earnings mix and take into account projected tax costs on intercompany dividends from lower tier subsidiaries. Changes in currency exchange rates, earnings mix among taxing jurisdictions, or the ability of our subsidiaries to pay dividends could impact our reported effective tax rates, or cause fluctuations in the tax rate from quarter to quarter. Certain anti-trust judgments or settlements may not be tax deductible, which could have a material negative impact to our annual tax rate. A number of other factors may also increase our effective tax rate, which could have an adverse impact on our profitability and operating results. Due to our numerous foreign operations, our tax rate may be impacted by our global mix of earnings if our pre-tax income is lower than anticipated in countries with lower statutory tax rates and/or is higher than anticipated in countries with higher statutory tax rates. Based on U.S. regulatory rules, we do not record current or deferred tax liabilities on permanent investments in our foreign subsidiaries and our foreign earnings that are indefinitely reinvested. See Note 6 to the Consolidated Financial Statements in this Annual Report.

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

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

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

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

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

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

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

## **Item 1B. Unresolved Staff Comments**

Not applicable.

## Item 2. Properties

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

### AUTOLIV MANUFACTURING FACILITIES

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

## AUTOLIV MANUFACTURING FACILITIES

Country/Company	Location of Facility	Items produced at Facility	Owned/Leased
<b>Malaysia</b>			
Autoliv-Hirotako Sdn Bhd	Kuala Lumpur	Seatbelts, airbags and steering wheels	Owned
<b>Mexico</b>			
Autoliv Mexico East S.A. de C.V.	Matamoros	Steering wheels	Owned
Autoliv Mexico S.A. de C.V.	Lerma	Seatbelts	Owned
Autoliv Safety Technology de Mexico S.A. de C.V.	Tijuana	Seatbelts	Leased
Autoliv Steering Wheels Mexico S. de R.L. de C.V.	Querétaro	Airbag cushions	Leased
	Querétaro	Airbags	Leased
<b>Philippines</b>			
Autoliv Cebu Safety Manufacturing, Inc.	Cebu	Steering wheels	Owned
<b>Poland</b>			
Autoliv Poland Sp. zo.o.	Olawa	Airbag cushions	Owned
	Jelcz-Laskowice	Airbags and seatbelts	Owned
<b>Romania</b>			
Autoliv Romania S.R.L.	Brasov	Seatbelts, seatbelt webbing, airbags, airbag inflators, springs for retractors and seatbelt components	Owned
	Lugoj	Airbag cushions	Owned
	Resita	Airbag cushions	Leased
	Sfantu Georghe	Steering wheels	Owned
	Onesti	Steering wheels	Leased
	Rovinari	Seatbelts	Owned
<b>Russia</b>			
OOO Autoliv	Togliatti	Airbags, seatbelts and steering wheels	Leased
<b>South Africa</b>			
Autoliv Southern Africa (Pty) Ltd.	Krùgersdorp	Seatbelts and airbags	Owned
<b>South Korea</b>			
Autoliv Corporation	Hwasung	Airbags	Owned
	Wonju	Seatbelts	Owned
<b>Spain</b>			
Autoliv BKI S.A.U.	Valencia	Airbags	Owned
<b>Sweden</b>			
Autoliv Sverige AB	Vårgårda	Airbag inflators	Owned
<b>Thailand</b>			
Autoliv Thailand Ltd.	Chonburi	Seatbelts	Owned
	Chonburi	Airbags, airbag cushions, steering wheels	Leased
<b>Tunisia</b>			
SWT1 SARL	El Fahs	Leather wrapping of steering wheels	Owned & Leased
ASW3 SARL	Nadhour	PU Molding and Leather wrapping of steering wheels	Owned
<b>Turkey</b>			
Autoliv Cankor Otomotiv Emniyet Sistemleri Sanayi Ve Ticaret A.S.	Gebze-Kocaeli	Seatbelts	Owned
Autoliv Cankor Otomotiv Emniyet Sistemleri Sanayi Ve Ticaret A.S. Gebze-Subesi	Gebze-Kocaeli	Airbags, Steering wheels and Seatbelt components	Leased
<b>United Kingdom</b>			
Airbags International Ltd	Congleton	Airbag cushions	Owned

## AUTOLIV MANUFACTURING FACILITIES

Country/Company	Location of Facility	Items produced at Facility	Owned/Leased
<b>USA</b>			
Autoliv ASP, Inc.	Brigham City	Airbag inflators	Owned
	Ogden	Airbags	Owned
	Ogden	Airbags and service parts	Leased
	Promontory	Propellant	Owned
	Tremonton	Airbag initiators and seatbelt micro gas generators	Owned

## AUTOLIV TECHNICAL CENTERS AND CRASH TEST TRACKS

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

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

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

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

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

Not applicable.



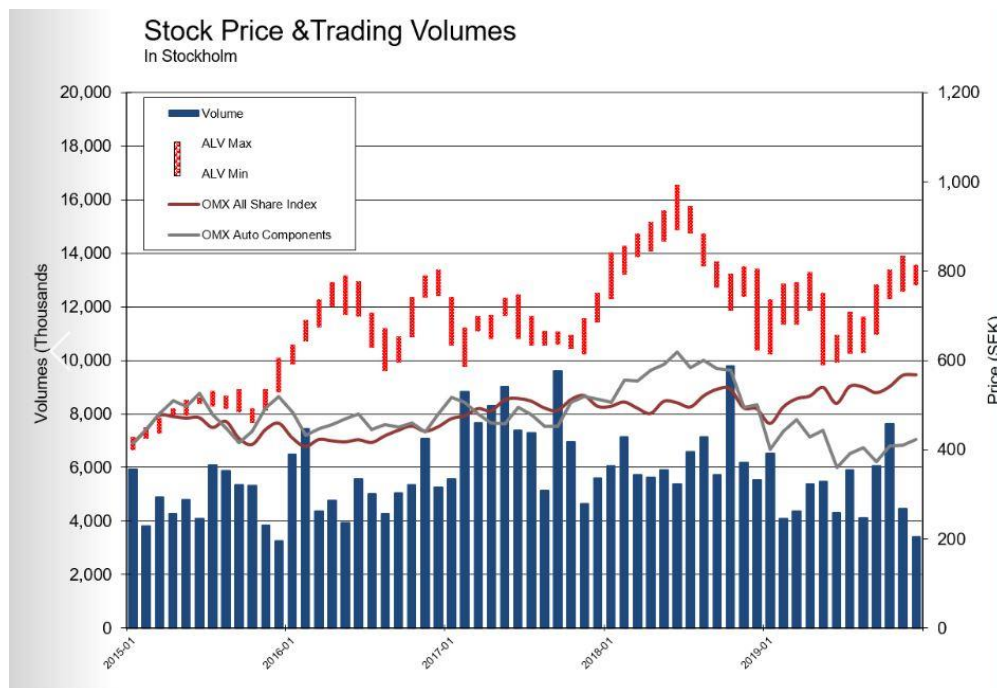
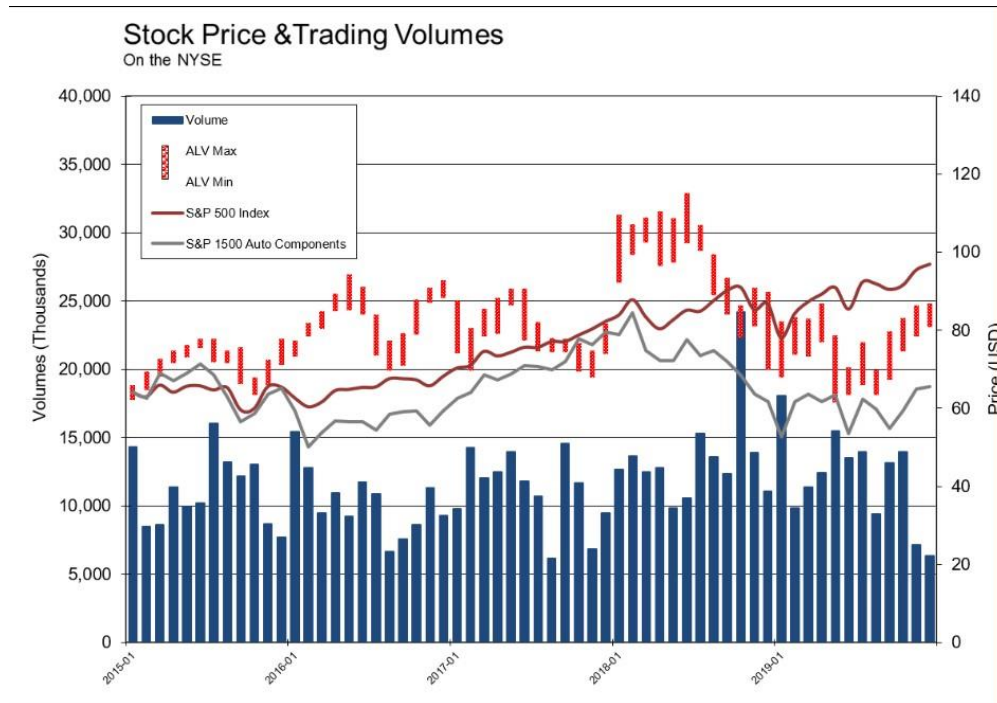
PART II

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

Shareholder Information

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

Share price performance\*



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

## Number of shares

During 2019, the average number of shares outstanding remained at 87.3 million (excluding dilution and treasury shares). The weighted average number of shares outstanding for the full year 2019, assuming dilution, increased to 87.4 from 87.3 million in 2018.

Stock options (if exercised) and granted Restricted Stock Units (RSUs) and Performance Shares (PSs) could increase the number of shares outstanding by 0.4 million shares in the aggregate. Combined, this would add 0.5% to the number of shares outstanding. On December 31, 2019, 3.0 million shares were available for repurchase pursuant to the stock repurchase program authorized by the Board of Directors in 2014. On December 31, 2019, the Company had 15.6 million treasury shares.

## Shareholders

As of the end of 2019 around 22% of Autoliv's securities were held by U.S.-based shareholders and close to 53% by Sweden-based shareholders. Most of the remaining Autoliv securities were held in the U.K., Switzerland, Norway, Canada and France.

## **Dividends**

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

## **Stock incentive plan**

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

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

## **Stock repurchase program**

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

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

In total, Autoliv repurchased 44.5 million shares between May 2000 and December 31, 2017 for cash of \$2,498 million, including commissions. No repurchases were made during 2018 or 2019. Autoliv has made no share repurchases since June 30, 2017. The maximum number of shares that may still be purchased under the stock repurchase program amounted to 2,986,288 shares at December 31, 2019.

Of the total number of repurchased shares, 23.6 million shares were utilized for the equity units offering during 2009-2012. In addition, approximately 5.4 million shares have been utilized by the Stock Incentive Plan. At December 31, 2019, 15.6 million of the repurchased shares remain in treasury stock.

## Item 6. Selected Financial Data

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

<b>(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Sales and Income</b>					
Net sales	\$ 8,548	\$ 8,678	\$ 8,137	\$ 7,922	\$ 7,636
Operating income <sup>4)</sup>	726	686	860	831	708
Income before income taxes <sup>4)</sup>	648	612	792	784	655
Net income attributable to controlling interest <sup>4)</sup>	462	376	586	558	443
<b>Financial Position</b>					
Current assets excluding cash	2,557	2,670	2,598	2,269	2,259
Property, plant and equipment, net	1,816	1,690	1,609	1,329	1,265
Intangible assets (primarily goodwill)	1,410	1,423	1,440	1,430	1,445
Non-interest bearing liabilities	2,397	2,595	2,418	2,154	2,049
Capital employed <sup>5)</sup>	3,772	3,516	4,538	4,225	3,670
Net debt <sup>6, 8)</sup>	1,650	1,619	368	299	202
Total equity <sup>5)</sup>	2,122	1,897	4,169	3,926	3,468
Total assets	6,771	6,722	6,947	6,565	6,518
Long-term debt <sup>6)</sup>	1,726	1,609	1,311	1,313	1,499
<b>Share data</b>					
Earnings per share (US\$) – basic <sup>4)</sup>	5.29	4.32	6.70	6.33	5.03
Earnings per share (US\$) – assuming dilution <sup>4)</sup>	5.29	4.31	6.68	6.32	5.02
Total parent shareholders' equity per share (US\$) <sup>5)</sup>	24.19	21.63	46.38	41.69	39.22
Cash dividends paid per share (US\$)	2.48	2.46	2.38	2.30	2.22
Cash dividends declared per share (US\$)	2.48	2.48	2.40	2.32	2.24
Share repurchases	—	—	157	—	104
Number of shares outstanding (million) <sup>2)</sup>	87.2	87.1	87.0	88.2	88.1
<b>Ratios</b>					
Gross margin (%)	18.5	19.7	20.6	20.6	20.5
Operating margin (%) <sup>4)</sup>	8.5	7.9	10.6	10.5	9.3
Pretax margin (%) <sup>4)</sup>	7.6	7.1	9.7	9.9	8.6
Return on capital employed (%) <sup>7)</sup>	20	17	n/a	n/a	n/a
Return on total equity (%) <sup>4, 7)</sup>	23	13	n/a	n/a	n/a
Total equity ratio (%) <sup>5)</sup>	31	28	49	48	46
Days receivables outstanding	70	71	76	70	71
Days inventory outstanding	35	35	35	32	31
<b>Other data</b>					
Airbag sales <sup>3)</sup>	5,676	5,699	5,342	5,256	5,036
Seatbelt sales	2,872	2,980	2,794	2,665	2,599
Capital expenditures, net	476	486	464	398	397
Net cash provided by operating activities <sup>1)</sup>	641	591	936	868	751
Net cash used in investing activities <sup>1)</sup>	(476)	(628)	(697)	(726)	(591)
Net cash used in financing activities <sup>1)</sup>	(338)	(245)	(566)	(200)	(319)
Number of employees, December 31	58,900	57,700	56,700	55,800	51,300

1) Including Discontinued Operations for all comparable years.

2) At year end, excluding dilution and net of treasury shares.

3) Including steering wheels, inflators and initiators.

4) Including antitrust provision expense of \$210 million in 2018.

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

6) The increase in debt in 2018 is primarily driven by our capitalization of Veoneer of approximately \$1 billion prior to the distribution to the shareholders.

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

8) See section Non-U.S. GAAP Performance Measures in Item 7.

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

### Important Trends

The discussions and analysis in this section are focused on our continuing operations. For more information on our discontinued operations, see Note 3 to the Consolidated Financial Statements in this Annual Report. Discussions of our results of operations for the year ended December 31, 2018 compared to the year ended December 31, 2017 that have been omitted under this item can be found in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2018, which was filed with the United States Securities and Exchange Commission on February 21, 2019.

Autoliv, Inc. (the "Company") provides automotive safety systems to the automotive industry with a broad range of product offerings, primarily passive safety systems. In the two-year period ended December 31, 2019, a number of factors have influenced the Company's results of operations. The most notable factors have been:

- Substantial decline in global light vehicle production
- Growth of safety content per vehicle
- High order intake share maintained
- Operational initiatives
- Continued focus on operational excellence and quality
- Changes in competitive environment

YEARS ENDED DEC. 31 (DOLLARS IN MILLIONS, EXCEPT EPS)	2019 <sup>1)</sup>		2018 <sup>1)</sup>	
	Reported	change	Reported	change
Global light vehicle production (in thousands)	85,862	(6) %	91,344	(1) %
Consolidated net sales	\$ 8,548	(1) %	\$ 8,678	7 %
Operating income <sup>3)</sup>	726	6 %	686	(20) %
Operating margin, % <sup>3)</sup>	8.5	0.6 pp	7.9	(2.7) pp
Net income attributable to controlling interest from Continuing Operations <sup>3)</sup>	462	23 %	376	(36) %
Earnings per share Continuing Operations <sup>2, 3)</sup>	5.29	23 %	4.31	(35) %
Net cash provided by operating activities <sup>4)</sup>	641	8 %	591	(37) %
Return on capital employed, % <sup>5)</sup>	19.7	2.9 pp	16.8	n/a pp

- 1) Reported figures impacted by costs for capacity alignments, antitrust related matters and by separation costs. See section Items affecting comparability and Notes 3, 12 and 18 to the Consolidated Financial Statements included herein.
- 2) Assuming dilution and net of treasury shares.
- 3) Including antitrust provision expense of \$210 million in 2018.
- 4) Including Discontinued Operations in 2018. Including EC antitrust payment of \$203 million in 2019.
- 5) The Company has decided not to recalculate prior periods since the distribution of Veoneer had a significant impact on capital employed making the comparison less meaningful.

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

The most important driver for Autoliv's sales is the light vehicle production (LVP). During the past ten years LVP has shown year-over-year growth with the exception of 2019 and 2018. During 2019 we experienced deterioration of market conditions resulting in declines of LVP in all regions. The most significant decline in LVP, came in China due to lower consumer demand for vehicles and new emission regulations, and in Europe from uncertainty around drivetrain choices, public policy changes and declining consumer sentiments. As a result, full-year 2019 global LVP declined by 6%. This came after a 1% decline in 2018.

#### Light Vehicle Production

	2019		2018		Change '19 vs '18	
	(000') units	% global	(000') units	% global	(000') units	%
Americas	18,343	21 %	19,124	21 %	(781)	(4)%
<i>North America</i>	15,085	18 %	15,751	17 %	(666)	(4)%
<i>South America</i>	3,258	4 %	3,373	4 %	(115)	(3)%
Europe	20,994	24 %	21,887	24 %	(893)	(4)%
Asia	44,550	52 %	47,811	52 %	(3,261)	(7)%
<i>China</i>	23,292	27 %	25,696	28 %	(2,404)	(9)%
<i>Japan</i>	9,024	11 %	9,052	10 %	(28)	(0)%
<i>South Korea</i>	3,879	5 %	3,951	4 %	(72)	(2)%
<i>India</i>	4,168	5 %	4,712	5 %	(544)	(12)%
<i>Other Asia</i>	4,187	5 %	4,400	5 %	(213)	(5)%
Other	1,975	2 %	2,522	3 %	(547)	(22)%
<b>Global Total</b>	<b>85,862</b>		<b>91,344</b>		<b>(5,482)</b>	<b>(6)%</b>

Chinese LVP, the world's largest automotive market, declined by 2.4 million units or by 9% from 2018 to 2019. In Europe, an important market for automotive safety systems, LVP decreased by 4% or by approximately 0.9 million light vehicles during the same period. In North America, LVP declined by 4% or 0.7 million light vehicles. Affected by political and macro-economic factors, LVP in India decreased by 12%, to 4.2 million light vehicles in 2019.

Europe's and the Americas share of global LVP has remained unchanged at 24% and 21%, respectively, while China's share declined from 28% to 27%. Japan's share increased from 10% to 11% as LVP remained steady.

Due to more stringent crash ratings, by institutes such as EuroNCAP; and increasing consumer demand for more safety in emerging markets, we see vehicle manufacturers installing more airbags and more advanced seatbelt systems in vehicles. This generally takes place when new models are introduced. The safety standards of vehicles are increasing in China, India and other growth markets such as Brazil, partially due to new regulations and crash test rating programs. For example, the Indian government has decided on a new traffic regulation that mandates more rigid crash test standards for light vehicles. This should eventually lead to a higher installation rate of airbags and more advanced seatbelts. In 2019, the decline in LVP was pronounced in markets with lower average safety content per vehicle (CPV) such as China, India and Other Asia, where the CPV is approximately \$180, \$80 and \$160, respectively. These positive trends were in 2019 offset by negative currency translation effects. The average global safety CPV (airbags, seatbelts and steering wheels) was therefore unchanged at around \$225. In addition, there is a negative effect from continued pricing pressure from vehicle manufacturers.

The more stringent crash ratings and consumer demand for more safety should enable the global automotive safety market to grow faster than the global LVP during the next three years.

### **WELL BALANCED GLOBAL FOOTPRINT**

Autoliv's regional sales mix continues to be balanced with 29% of sales in Europe, 34% in the Americas and 37% in Asia in 2019, compared to 32%, 31% and 37%, respectively, in 2018. In Asia, our sales in the important Chinese market remained at 18% of total sales in 2019. Regardless of the weakness in the Chinese market, we remain well positioned in that market, which is the world's largest automotive producing market.

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

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

The fastest growing customer from 2018 to 2019 was Honda. Its share of our sales has increased from 8% to 10%. The second largest customer based in Asia is Hyundai/Kia, accounting for 8% of Autoliv sales. The local Chinese OEMs as a group accounted for around 4% of our sales in 2019, with Great Wall representing 2%.

Our sales to premium brand OEMs accounted for around 17% of total sales in 2019, while their share of global LVP is approximately 12%. Our strong position with premium OEMs reflects the higher safety content in their vehicles along with our position as a technology leader in the automotive safety market.

The U.S. based OEMs (including Tesla) account for 21% of our global sales, down from 29% in 2014. This is in part due to the sale of GM's European operations, Opel, to PSA. Tesla now accounts for more than 1% of our 2019 sales.

### **CONTINUED STRONG ORDER INTAKE SHARE**

Building on a strong base, including supplying products to nearly 1,300 vehicle models and 100 car brands, Autoliv recorded its highest order intake share ever during the past five-year period, winning around 50% of available orders. Our share of order intake in prior years is significantly above our current sales market share of more than 41% in 2019. The order intake is broad based and we have improved our market position in three dimensions – regional, customer and product category. The lead time from order intake to start of production is typically 18-36 months. During this period the products are engineered into the vehicle to provide the expected protection for occupants in case of a crash and to meet legal and regulatory requirements, as well as other requirements from the vehicle manufacturer. This investment in new products is the main reason for the high level of RD&E expenses, net. Additionally, we have to build up production capacity, in the form of new lines, to meet future product launches.

Our order intake share for 2019 continued on the same high level as in 2018, supporting our growth opportunities also beyond 2020. We estimate that we booked about 50% of available order value in 2019, making 2019 the fifth consecutive year of booking around or more than 50% of available order value. The estimated life-time sales for all orders booked in 2019 is \$11.0 billion, compared to \$15.1 billion in 2018. 2018 was an exceptional year with sourcing of several large vehicle platforms with a life-time longer than the typical 4 to 6 years. New order intake is defined as the sales value of awards for future business, received within that year. The life time value is calculated using detailed assumptions of price and volumes over the years of production and the exchange rates prevailing at the time of receiving the order.

Due to the lead time from order to start of production, 2017 was the first year that the increased level of order intake began to impact our sales. Over the last two years, sales have substantially outperformed the change in global LVP. In 2019 and 2018 the outperformance was around 7 pp and 6 pp, respectively. During 2019, growth was positively affected through recent launches of several new models, including Honda CR-V, Tesla Model 3, Audi Q3, Ram Trucks and Volkswagen T-Cross.

## **OPERATIONAL INITIATIVES**

As market weakness has continued in 2019, we have stepped up the cost improvement actions, launching a Structural Efficiency Program, including targeting a reduction of our indirect workforce by approximately 800. The cost for the program is estimated to be approximately \$52 million and it is expected to be fully implemented by mid-2020. Annualized savings is estimated to be around \$60 million which is equal to about 5% of indirect labor costs.

The costs for restructuring activities in 2019 amounted to \$54 million compared to \$9 million in 2018.

The current restructuring activities are expected to have a payback period of around 1 year, after cash-out. The cash payments in 2019 were \$30 million compared to \$14 million in 2018. As of December 31, 2019, we have \$56 million reserved in our balance sheet related to restructuring (see Note 12 to the Consolidated Financial Statements included herein).

We continue to actively manage the business cycle downturn as we reduced the total direct workforce by 1,500 in 2019, despite growing our sales organically (see section Non-U.S. GAAP Performance Measures) by 1.2% compared to 2018.

With more than 100 improvement projects being evaluated, we have set a high pace in the planning and implementation of strategic initiatives and structural improvements. These initiatives are key drivers to our medium-term target and building the foundation to continue to create shareholder value.

## **IMPROVED EFFICIENCIES THROUGH OPERATIONAL EXCELLENCE**

Pricing pressure is an inherent part of the automotive supplier business. Price reductions are generally higher on newer products with strong volume growth compared to older products, where both the possibilities to re-design the product to reduce costs and market growth are less. Price reductions can also depend on the business cycle. For the period 2018-2019, we estimate the average reduction of our market prices to have been in the range of 2-4% annually. As described below, to meet these price reductions, we have implemented several programs and taken actions to address our cost structure. Additionally, during the period 2018-2019, we have experienced accumulated raw material commodity costs increase of more than \$80 million.

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

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

Our Continuous improvement strategies have enabled productivity improvement above our target of 5% over the last years, except 2018 due to a sharp increase in launch activities. Excluding impact from Force Majeure situation in our plant in Mexico, we have come back to around historical performance during 2019. This is achieved despite the increased launch activities also impacted us during 2019.

Reducing labor costs to offset the price erosion on our products is achieved through continuously implementing productivity improvement programs, expanding production in Best Cost Countries (BCCs) and instituting restructuring and capacity alignment activities. The number of employees in the BCCs in relation to total number of associates remains over 80% in 2019.

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

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

## **FOCUS ON QUALITY**

The number of vehicle recalls in the automotive industry has risen sharply in recent years. From 2015 to 2019, Takata's airbag inflators recall generated a record number of recalls in the automotive industry. We expect overall recall numbers to remain high for years to come and, although we strive for the highest quality in our processes, it cannot be ruled out that we may also be adversely impacted by a future recall.

Quality has been and always will be our number one priority, and we continue to sharpen our focus in this area. We now hold a market share of more than 41% in passive safety while we have been involved in less than 2% of passive safety recalls in the industry in the past ten years; an important indicator that we are delivering on our quality strategy. For more information see product warranty and recalls in Note 13 to the Consolidated Financial Statements in this Annual Report.

## **CHANGES IN COMPETITIVE LANDSCAPE**

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

## **EUROPEAN COMMISSION ANTITRUST INVESTIGATION**

Since 2011, Autoliv was subject to an investigation of anti-competitive behavior among suppliers of occupant safety systems by the European Commission (EC). On March 5, 2019, the EC completed the remaining portion of the investigation and imposed a fine on the Company of €179 million (approximately \$203 million). In the fourth quarter of 2018, the Company had previously accrued €184 million (approximately \$210 million) with respect to the remaining portion of the investigation. The difference between the actual fine and the accrual is reported in Other income (expense), net in the Consolidated statements of net income. The final payment of the actual fine was made in June 2019.

## **CAPITAL STRUCTURE**

The Company's net debt stood at \$1,650 million on December 31, 2019. This was an increase of \$31 million compared to December 31, 2018. Total interest bearing debt at December 31, 2019 amounted to \$2,094 million, a decrease of \$136 million compared to December 31, 2018.

Cash flow from operations was \$641 million in 2019 and \$591 million in 2018, including discontinued operations. Capital expenditures, net amounted to \$476 million in 2019 and \$555 million in 2018. During the two-year period 2018-2019, the Company paid dividends of \$431 million. After the latest declared dividend of 62 cents per share, the annualized run rate is \$216 million, based on the number of shares outstanding at December 31, 2019.

It is the Company's policy to maintain a financial leverage commensurate with a "strong investment grade credit rating". The long-term target is to have a leverage ratio (see section Non-U.S. GAAP Performance Measures) of around 1.0 and to be within the range of 0.5 to 1.5. At December 31, 2019, the current leverage ratio is 1.7. The Company monitors its capital structure and the financial markets closely and intends to maintain a high level of financial flexibility while being shareholder friendly.

As part of the adjustment of the capital structure, the Company historically has repurchased shares of its common stock. During 2019 and 2018, the Company did not repurchase any shares. At December 31, 2019, the remaining number of shares authorized by the board of directors for repurchase is approximately 3.0 million shares.

## **CURRENCY IMPACTS**

The Company is exposed to around 50 currency pairs, with exposures in excess of \$1 million each. We are monitoring our currency exposure but do not hedge currency flows. Rather we strive to have sales and costs in the same currency to reduce the transaction exposure risk. The total net transaction exposure in 2019 was approximately \$2.1 billion or 25% of sales. Approximately three quarters of our sales are denominated in currencies other than U.S. dollars, which is leading to currency translation effects.

## Outlook for 2020

Our organic sales growth and adjusted operating margin outlook indications for 2020 reflect the continuing high level of uncertainty in the automotive markets and assume that global light vehicle production declines by 2-3% in full year 2020 compared to full year 2019.

Financial measure	Full year indication
Net sales growth	3-4%
Organic sales growth	3-4%
Adjusted operating margin <sup>1)</sup>	At least 9.5%
R,D&E, net % of sales	Below 2019 level
Tax rate <sup>2)</sup>	Around 28%
Operating cash flow <sup>2)</sup>	Above 2019 level
Capital expenditures, net % of sales	Below 2019 level
Leverage ratio at year end	Within target range

1) Excluding costs for capacity alignments and anti-trust related matters.

2) Excluding unusual items.

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

## Significant Legal Matters

See Item 3. Legal Proceedings and Note 18 Contingent Liabilities to the Consolidated Financial Statements in this Annual Report.

## Year Ended December 31, 2019 Versus 2018

### Sales by Product

	2019 (MUSD)	2018 (MUSD)	Reported change	Components of Change in Net Sales	
				Currency effects <sup>1)</sup>	Organic
Airbags products and Other <sup>2)</sup>	\$ 5,676	\$ 5,698	(0.4)%	(2.4)%	2.0%
Seatbelt products <sup>2)</sup>	2,872	2,980	(3.6)%	(3.4)%	(0.2)%
<b>Total</b>	<b>\$ 8,548</b>	<b>\$ 8,678</b>	<b>(1.5)%</b>	<b>(2.7)%</b>	<b>1.2%</b>

1) Effects from currency translations.

2) Including Corporate and Other sales.

Consolidated net sales decreased by 1.5% compared to full year 2018. Excluding negative currency translation effects of 2.7% the organic growth (see section Non-U.S. GAAP Performance Measures) was 1.2%.

Airbag sales grew organically (see section Non-U.S. GAAP Performance Measures) by 2.0%, mainly driven by strong performance for steering wheels, particularly in Americas, with slight net growth contribution coming from airbags, as a result of growth in Americas and China and a decline in Europe. Inflator sales declined in North America, Japan and China.

Seatbelt sales declined organically (see section Non-U.S. GAAP Performance Measures) by 0.2%, with main growth contributors being China and to a lesser degree Americas, offset by a decline in Europe. The trend of higher sales of more advanced and higher value-added seatbelt systems continued.

### Sales by Region

	2019 (MUSD)	2018 (MUSD)	Reported change	Components of Change in Net Sales	
				Currency effects <sup>1)</sup>	Organic
Asia	\$ 3,177	\$ 3,195	(0.6)%	(2.3)%	1.7%
Whereof: China	1,525	1,522	0.2%	(4.3)%	4.5%
Japan	811	828	(2.1)%	1.3%	(3.4)%
Rest of Asia	841	845	(0.4)%	(2.3)%	1.9%
Americas	2,907	2,735	6.3%	(0.5)%	6.8%
Europe	2,464	2,748	(10.3)%	(5.5)%	(4.8)%
<b>Global</b>	<b>\$ 8,548</b>	<b>\$ 8,678</b>	<b>(1.5)%</b>	<b>(2.7)%</b>	<b>1.2%</b>

1) Effects from currency translations.



For the full year 2019, Autoliv's sales grew organically (see section Non-U.S. GAAP Performance Measures) by 1.2% compared to full year 2018, more than 7pp higher than LVP growth according to IHS. The largest contributor to overall growth was North America, followed by China and South America. The largest organic sales decline was in Europe followed by Japan.

Our organic sales growth outperformed LVP by more than 13pp in China and by around 10pp in North America, while we grew organically slower than LVP by around 3pp in Japan and by 0.7pp in Europe. In South America, we grew organically around 30pp more than LVP, while we outgrew LVP organically by around 8pp in Rest of Asia.

<b>2019 Organic growth<sup>1)</sup></b>	<b>Americas</b>	<b>Europe</b>	<b>China</b>	<b>Japan</b>	<b>Rest of Asia</b>	<b>Global</b>
Autoliv	6.8%	(4.8)%	4.5%	(3.4)%	1.9%	1.2%
Main growth drivers	Honda, Nissan, FCA, Tesla	VW, PSA	Honda, VW, GM	Subaru, Mazda, Honda	Suzuki, Renault, Mitsubishi	Honda, VW, Nissan
Main decline drivers	Daimler, Inflatos	Daimler, JLR, BMW	Ford, PSA, Great Wall	Mitsubishi, Toyota, Inflatos	Ford, Isuzu, GM	Daimler, Ford, Mitsubishi

<sup>1)</sup> Non-U.S. GAAP measure

<b>(Dollars in millions, except per share data)</b>	<b>Years ended December 31</b>		<b>Change</b>
	<b>2019</b>	<b>2018</b>	
Net Sales	\$ 8,548	\$ 8,678	(1.5)%
Gross profit	1,584	1,711	(7.4)%
% of sales	18.5%	19.7%	(1.2)pp
S,G&A	(399)	(390)	2.3%
% of sales	(4.7)%	(4.5)%	0.2pp
R,D&E net	(406)	(413)	(1.7)%
% of sales	(4.7)%	(4.8)%	(0.1)pp
Other income (expense), net	(43)	(211)	(79.6)%
Operating income	726	686	5.8%
% of sales	8.5%	7.9%	0.6pp
Adjusted operating income <sup>1)</sup>	774	908	(14.8)%
% of sales	9.1%	10.5%	(1.4)pp
Financial and non-operating items, net	(77)	(74)	4.1%
Income before taxes	648	612	5.9%
Tax rate	28.6%	38.4%	(9.8)pp
Net income from continuing operations	463	378	22.5%
Earnings per share Continuing Operations, diluted <sup>2)</sup>	5.29	4.31	22.7%
Adjusted earnings per share, diluted <sup>1, 2)</sup>	5.72	6.83	(16.3)%

1) Assuming dilution and net of treasury shares.

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

## GROSS PROFIT

The gross profit for the full year 2019 declined by \$127 million and the gross margin declined by 1.2pp compared to 2018. The gross margin was adversely impacted by the decline in global light vehicle production, resulting in a lower utilization of our production assets, raw material headwinds and the social unrest in Matamoros, Mexico. This was offset to some degree by organic growth (see section Non-U.S. GAAP Performance Measures) from launches of new products, which have a lower contribution margin in the early phase of the ramp-up.

## OPERATING INCOME

Operating income increased by around \$40 million to \$726 million. The reported operating margin was 8.5% of sales, compared to 7.9% of sales in the prior year. The increase of 0.6pp of sales was mainly due to lower costs for antitrust related matters, reported as Other income (expense), net, partly offset by the lower gross profit.

Selling, General and Administrative (S,G&A) expenses increased by \$9 million or 0.2pp of sales driven mainly by investments in digitalization and slightly higher legal fees, partly offset by slightly lower personnel costs. Research, Development & Engineering (R,D&E) expenses, net declined by \$7 million, mainly due to higher engineering income. In relation to sales, it improved to 4.7% in 2019 from 4.8% in 2018.

## FINANCIAL AND NON-OPERATING ITEMS, NET

Financial and non-operating items, net in full year 2019 was \$77 million. The increase of \$3 million compared to \$74 million in full year 2018 was mainly due to higher net interest costs due to higher average net interest bearing debt in 2019.

## INCOME TAXES

The effective tax rate of 28.6% was 9.8pp lower than last year primarily due to the 2018 unfavorable tax impact from the antitrust accrual in 2018.

## NET INCOME AND EARNINGS PER SHARE

Net income attributable to controlling interest from Continuing Operations increased by \$85 million compared to 2018 primarily driven by lower cost for antitrust accrual as noted above.

Earnings per share (EPS), diluted increased by 98 cents where the main drivers were 209 cents from lower costs for capacity alignment, the separation of our business segments and antitrust matters, 108 cents from lower tax partially offset by 213 cents from lower adjusted operating income (see section Non-U.S. GAAP Performance Measures).

The weighted average number of shares outstanding assuming dilution in 2019 was 87.4 million compared to 87.3 million in 2018.

## Non-U.S. GAAP Performance Measures

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

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

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

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

## ORGANIC SALES

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

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

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

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

2019 VS. 2018	China		Japan		RoA <sup>1)</sup>		Americas		Europe		Total	
	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
<b>Reported change</b>	<b>0.2</b>	<b>\$ 3.1</b>	<b>(2.1)</b>	<b>\$(17.6)</b>	<b>(0.4)</b>	<b>\$( 3.8)</b>	<b>6.3</b>	<b>\$172.1</b>	<b>(10.3)</b>	<b>\$(284.4)</b>	<b>(1.5)</b>	<b>\$(130.6)</b>
Currency effects <sup>2)</sup>	(4.3)	(65.0)	1.3	10.8	(2.3)	(19.9)	(0.5)	(12.9)	(5.5)	(151.7)	(2.7)	(238.7)
Organic change	4.5	68.1	(3.4)	(28.4)	1.9	16.1	6.8	185.0	(4.8)	(132.7)	1.2	108.1

1) Rest of Asia.

2) Effects from currency translations.

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

DECEMBER 31	2019	2018
Total current assets Continuing Operations	\$ 3,002.1	\$ 3,285.4
Total current liabilities Continuing Operations	(2,410.2)	(2,865.5)
<b>Working capital</b>	<b>591.9</b>	<b>419.9</b>
Cash and cash equivalents	(444.7)	(615.8)
Short-term debt	368.1	620.7
Derivative (asset) and liability, current	(4.2)	(0.8)
Dividends payable	54.1	54.0
<b>Operating working capital</b>	<b>\$ 565.2</b>	<b>\$ 478.0</b>

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

DECEMBER 31	2019	2018	2017	2016	2015
Short-term debt	\$ 368.1	\$ 620.7	\$ 19.7	\$ 216.3	\$ 39.6
Long-term debt	1,726.1	1,609.0	1,310.7	1,312.5	1,499.4
<b>Total debt</b>	<b>2,094.2</b>	<b>2,229.7</b>	<b>1,330.4</b>	<b>1,528.8</b>	<b>1,539.0</b>
Cash and cash equivalents	(444.7)	(615.8)	(959.5)	(1,226.7)	(1,333.5)
Debt issuance cost/Debt-related derivatives, net	0.3	4.9	(2.5)	(3.4)	(3.9)
<b>Net debt</b>	<b>\$ 1,649.8</b>	<b>\$ 1,618.8</b>	<b>\$ 368.4</b>	<b>\$ 298.7</b>	<b>\$ 201.6</b>

## OPERATING WORKING CAPITAL

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

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

## NET DEBT

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

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

## ADJUSTED OPERATING INCOME AND OPERATING MARGIN AND ADJUSTED EPS

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

## ITEMS AFFECTING COMPARABILITY

(DOLLARS IN MILLIONS, EXCEPT EPS)	2019			2018		
	Reported	Adjustments <sup>1)</sup>	Non-U.S. GAAP	Reported	Adjustments <sup>1)</sup>	Non-U.S. GAAP
Operating income	\$ 726	\$ 49	\$ 775	\$ 686	\$ 222	\$ 908
Operating margin, %	8.5	0.6	9.1	7.9	2.6	10.5
Income before taxes from Continuing Operations	\$ 648	\$ 49	\$ 697	\$ 612	\$ 222	\$ 834
Net income attributable to controlling interest from Continuing Operations	\$ 462	\$ 38	\$ 500	\$ 376	\$ 220	\$ 596
Capital employed	\$ 3,772	\$ 38	\$ 3,810	\$ 3,516	\$ 220	\$ 3,736
Return on capital employed, % <sup>2)</sup>	19.7	1.2	20.9	16.8	5.2	22.0
Return on total equity, % <sup>3)</sup>	23.1	1.7	24.8	13.0	7.3	20.3
Earnings per share Continuing Operations, diluted <sup>4, 5)</sup>	\$ 5.29	\$ 0.43	\$ 5.72	\$ 4.31	\$ 2.52	\$ 6.83
Total parent shareholders' equity per share	\$ 24.19	\$ 0.43	\$ 24.62	\$ 21.63	\$ 2.52	\$ 24.15

- 1) Adjustments for capacity alignments, antitrust matters and separation of our business segments. See table below for a disaggregation of these costs.
- 2) Operating income and income from equity method investments Continuing Operations, relative to average capital employed.
- 3) Income from Continuing Operations relative to average total equity.
- 4) Assuming dilution and net of treasury shares.
- 5) Participating share awards with right to receive dividend equivalents are (under the two-class method) excluded from the EPS calculation.

## Items included in Non-GAAP adjustments

	Full Year 2019		Full Year 2018	
	Adjustment Millions	Adjustment Per share	Adjustment Millions	Adjustment Per share
Capacity alignment	\$ 54	\$ 0.61	\$ 5	\$ 0.05
Antitrust related matters	(6)	(0.07)	212	2.43
Separation costs	1	0.01	5	0.06
<b>Total adjustments to operating income</b>	<b>\$ 49</b>	<b>\$ 0.55</b>	<b>\$ 222</b>	<b>\$ 2.54</b>
Tax on non-U.S. GAAP adjustments <sup>1)</sup>	(11)	(0.12)	(2)	(0.02)
<b>Total adjustments to Income from Continuing operations</b>	<b>\$ 38</b>	<b>\$ 0.43</b>	<b>\$ 220</b>	<b>\$ 2.52</b>
Weighted average number of shares outstanding - diluted		87.4		87.3
Return on capital employed <sup>2, 3)</sup>	\$ 49		\$ 222	
Adjustment Return on Capital employed, %	1.2%		5.2%	
Return on total equity <sup>4, 5)</sup>	\$ 38		\$ 220	
Adjustment Return on Total equity, %	1.7%		7.3%	

- 1) The tax is calculated based on the tax laws in the respective jurisdiction(s) of the adjustment(s).
- 2) After adjustment for annualized non-U.S. GAAP EBIT adjustment.
- 3) Operating income and income from equity method investments Continuing Operations, relative to average capital employed.
- 4) Income from Continuing Operations relative to average total equity.
- 5) After adjustment for annualized non-U.S. GAAP Net income adjustment.

## QUARTERLY 2019 RECONCILIATION OF ADJUSTED "OPERATING MARGIN" AND ADJUSTED "EPS"

	First quarter 2019		Second quarter 2019		Third quarter 2019		Fourth quarter 2019					
	Adjust- Reported ments <sup>1)</sup>	Non- U.S. GAAP	Adjust- Reported ments <sup>1)</sup>	Non- U.S. GAAP	Adjust- Reported ments <sup>1)</sup>	Non- U.S. GAAP	Adjust- Reported ments <sup>1)</sup>	Non- U.S. GAAP				
Operating margin, %	8.0	(0.3)	7.7	7.9	0.6	8.5	7.6	1.4	9.0	10.5	0.6	11.1
EPS Continuing operations, diluted <sup>2,3)</sup>	\$ 1.27	\$ (0.07)	\$ 1.20	\$ 1.25	\$ 0.13	\$ 1.38	\$ 0.98	\$ 0.32	\$ 1.30	\$ 1.78	\$ 0.06	\$ 1.84

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

## Liquidity, Capital Resources and Financial Position

(DOLLARS IN MILLIONS)	Years ended December 31	
	2019	2018
Net cash provided by operating activities	\$ 641	\$ 591
Net cash used in investing activities	(476)	(628)
Net cash used in financing activities	(338)	(245)
Effect of exchange rate changes on cash and cash equivalents	2	(62)
<b>Decrease in cash and cash equivalents</b>	<b>(171)</b>	<b>(344)</b>
Cash and cash equivalents at beginning of year	616	960
<b>Cash and cash equivalents at end of year</b>	<b>\$ 445</b>	<b>\$ 616</b>

## NET CASH PROVIDED BY OPERATING ACTIVITIES

Cash flow from operations, together with available financial resources and credit facilities, are expected to be sufficient to fund Autoliv's anticipated working capital requirements, capital expenditures and future dividend payments. Cash flow items are presented on a consolidated basis, for 2018 including both Continuing and Discontinued Operations.

Cash provided by operating activities was \$641 million in 2019 compared to \$591 million in 2018. The net increase compared to previous year was primarily due to higher contribution from changes in operating assets and liabilities offset by the \$203 million EU antitrust payment in 2019.

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

At December 31, 2019, operating working capital for Continuing Operations (see section Non-U.S. GAAP Performance Measures) amounted to \$565 million corresponding to 6.6% of net sales compared to \$478 million and 5.5%, respectively, at December 31, 2018. Operating working capital excluding the EC antitrust provision, at December 31, 2018, amounted to \$688 million, corresponding to 7.9% of net sales.

Days receivables outstanding (see Glossary and Definitions for definition) were 70 at December 31, 2019, compared to 71 in 2018. Factoring agreements did not have any material effect on days receivables outstanding for 2019 or 2018.

Days inventory outstanding (see Glossary and Definitions for definition) were 35 at December 31, 2019, compared to 35 in 2018.

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

In 2019 and 2018 cash used in investing activities amounted to \$476 million and \$628 million, respectively. In 2019 all cash used for investing activities was attributable to Continuing Operations compared to \$486 million of the \$628 million in 2018. Our investing activities primarily consists of investments in property, plant and equipment and acquisition of businesses, net of cash. For further information, see Note 3 to the Consolidated Financial Statements included herein.

#### **CAPITAL EXPENDITURES**

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

Capital expenditures, net for Continuing Operations was \$476 million in 2019 and \$486 million in 2018, corresponding to 5.6% of net sales for both years.

Depreciation and amortization in Continuing Operations totaled \$351 million in 2019 compared to \$342 million in 2018.

During the years 2018 and 2019, a majority of our investments were for production capacity to support the high level of new product launches. Major investments were mainly made in Europe, North America, China and Japan.

In 2019, expansion of facilities in Europe was commenced for manufacturing of seatbelts and airbags to meet increased demand. In North America, the higher investments were mainly related to production equipment to increase capacity for new program launches and a new technical center. In addition, Asia made large investments to increase manufacturing capacity to support new product launches.

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

Cash used in financing activities amounted to \$338 million and \$245 million for the years 2019 and 2018, respectively. In 2019, the net issuance of debt amounted to \$31 million; whereas, in 2018 the net issuance of debt amounted to \$938 million. In 2019, the Company paid dividends of \$217 million, compared to dividends paid of \$214 million in 2018. In 2019, the Company made a \$203 million payment relating to the EC antitrust investigation. In 2018, the Company capitalized Veoneer with \$972 million prior to the spin-off.

#### **INCOME TAXES**

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

#### **PENSION ARRANGEMENTS**

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

At December 31, 2019, the Company's pension liability (i.e. the actual funded status) for its U.S. and non-U.S. plans was \$240 million compared to \$198 million one year earlier. The plans had a net unamortized actuarial loss of \$115 million recorded in Accumulated Other Comprehensive (Loss) Income in the Consolidated Statement of Equity at December 31, 2019, compared to \$82 million at December 31, 2018. The increase in the actuarial loss was mainly due to a decrease in the discount rate for the U.S. plans. The amortization of this loss is expected to be \$5 million in 2020.

The liability increase in 2019 of \$42 million was mainly due to the decrease in discount rates. The liability decrease in 2018 of \$9 million was mainly due to the increase in discount rates, partly offset by lower than expected plan assets return.

Pension expense associated with the defined benefit plans was \$27 million in 2019, \$20 million in 2018 and \$29 million in 2017 and is expected to be \$27 million in 2020. The increase in pension expense in 2019 of \$7 million was mainly due to a prior year decrease in discount rates. The decrease in pension expense in 2018 of \$9 million was mainly due to lower amortization of the unrecognized losses resulting from the amendment of the U.S. defined benefit plan.

The Company contributed \$17 million to its defined benefit plans in 2019, \$16 million in 2018 and \$13 million in 2017. The Company expects to contribute \$19 million to these plans in 2020 and is currently projecting a yearly funding at approximately the same level in the subsequent years.

For further information about retirement plans see Note 19 to the Consolidated Financial Statements included herein.

## SHAREHOLDER RETURNS

Total cash dividends paid were \$217 million in 2019 and \$214 million in 2018. The Company has raised the dividend from 60 cents per share for the first quarter of 2018 to 62 cents per share in 2019 (see following table). The Board of Directors has declared a dividend of 62 cents per share for both the first and second quarter of 2020. The annualized dividend amount of \$217 million, is based on 62 cents per share and the number of shares outstanding at December 31, 2019.

The Company did not repurchase any shares during 2019 and 2018. During the second quarter of 2017, the Company repurchased 1.4 million shares for cash of \$157 million, including commissions. In total, Autoliv has repurchased 44.5 million shares between May 2000 and December 2019 for cash of \$2,498 million, including commissions. The maximum number of shares that are available to be purchased under the stock repurchase program at December 31, 2019 is 3.0 million. There is no expiration date for the share repurchase authorization in order to provide management flexibility in the Company's share repurchases. For further information see Note 15 to the Consolidated Financial Statements included herein.

<b>DIVIDENDS PAID</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
1 <sup>st</sup> Quarter	\$ 0.56	\$ 0.58	\$ 0.60	\$ 0.62	\$ 0.62 <sup>1)</sup>
2 <sup>nd</sup> Quarter	0.58	0.60	0.62	0.62	0.62 <sup>1)</sup>
3 <sup>rd</sup> Quarter	0.58	0.60	0.62	0.62	
4 <sup>th</sup> Quarter	0.58	0.60	0.62	0.62	

1) Declared.

## EQUITY

During 2019, total equity increased by 11.9% or \$226 million to \$2,122 million. This was mainly due to a net income of \$463 million, partly offset by \$217 million for dividends to shareholders.

During 2018, total equity decreased by 54.5% or \$2,273 million to \$1,897 million. This was mainly due to \$2,123 million related to the spin-off of Veoneer, \$214 million in dividends to shareholders and \$150 million currency translation effects. The decrease was partly offset by \$184 million from net income.

## IMPACT OF INFLATION AND RAW MATERIAL PRICES

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

The Company has experienced headwind from raw material prices in both 2018 and 2019. During 2018, the headwinds were mainly from high cost for steel. The headwinds in 2019 were mainly coming from higher cost for steel and Nylon 66, used in airbag cushions.

## PERSONNEL

During the past two years, total headcount (permanent employees and temporary personnel) has risen by 1.0% from the beginning of 2018 to 65,200 at the end of 2019. This reflects the strong order intake we have recognized in past quarters, which drive the need for additional manufacturing and R,D&E personnel.

During 2019, headcount decreased by 1,500 people, compared to the 2,200 people increase during 2018.

At the end of 2019, 81% of total headcount was in BCC compared to 80% at the beginning of 2018. Furthermore, 71% of total headcount at December 31, 2019 was direct workers in manufacturing compared to 71% at the beginning of 2018, while 10% of total headcount at December 31, 2019 were temporary employees, compared to 12% at the beginning of 2018.

Compensation to directors and executive officers is reported, as is customary for U.S. public companies, in Autoliv's proxy statement, which will be available to shareholders in March 2020.

## Treasury Activities

### CREDIT ARRANGEMENTS

In June 2019, the Company issued and sold €100 million of 18-month floating rate notes under its EMTN program. The floating rate notes carry a coupon of 3M Euribor +0.50%.

In June 2019, the Company also utilized a 3-year loan facility of SEK 1,200 million with a floating interest rate of 3M STIBOR +0.54%.

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

In July 2016, the Company refinanced its existing revolving credit facility (RCF) of \$1,100 million. The facility, syndicated among 14 banks, originally maturing in July 2021 with two extension options, each for an additional year. The extension options have been used by the Company and the maturity date for the facility has been extended to July 2023. The Company pays a commitment fee on the undrawn amount of 0.1%, representing 35% of the applicable margin, which is 0.275% (given the Company's rating of "BBB+" from S&P Global Ratings at December 31, 2018). Borrowings under the facility are unsecured and bear interest based on the relevant LIBOR or IBOR rate.

At December 31, 2019, the Company's unutilized long-term credit facilities were \$1.1 billion, represented by the RCF. This facility is not subject to any financial covenants nor is any other substantial financing of Autoliv. The Company had a net debt position (see section Non-U.S. GAAP Performance Measures) at year end 2019 and 2018 of \$1,650 million and \$1,619 million, respectively.

In 2014, the Company issued and sold long-term debt securities in a U.S. Private Placement pursuant to a Note Purchase and Guaranty Agreement dated April 23, 2014, by and among Autoliv ASP Inc., the Company and the purchasers listed therein. As of December 31, 2019, \$1,042 million remains outstanding from the 2014 issuance. See Note 12 to the Consolidated Financial Statements included herein for additional information.

During 2019 and 2018, the Company sold receivables and discounted notes related to selected customers. These factoring arrangements increase cash while reducing accounts receivable and customer risks. At December 31, 2019, the Company had received \$163 million for sold receivables without recourse and discounted notes with a discount cost of \$3 million during the year, compared to \$193 million at year-end 2018 with a discount cost of \$6 million recorded in Other non-operating items, net.

In September 2019, Autoliv's long-term credit rating was downgraded from A- to BBB+ by S&P Global Ratings while maintaining negative outlook on the rating. The company aims to maintain a strong investment grade credit rating.

### NUMBER OF SHARES

At December 31, 2019, 87.2 million shares were outstanding (net of 15.6 million treasury shares), a 0.12% increase from 87.1 million one year earlier.

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

In total, Autoliv has repurchased 44.5 million shares under its stock repurchase program between May 2000 and December 2019 for cash of \$2,498 million, including commissions. The average cost per share for all repurchased shares to date is \$56.13. Purchases can be made from time to time as market and business conditions warrant in open market, negotiated or block transactions. There is no expiration date for the repurchase program in order to provide management flexibility in the Company's share repurchases. No stock repurchases were made in 2019.

## Contractual Obligations and Commitments

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

(DOLLARS IN MILLIONS)

	Payments due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt obligations	\$ 2,099	\$ 368	\$ 404	\$ 857	\$ 470
Fixed-interest obligations	234	47	77	59	51
Operating lease obligations	172	41	51	33	47
Pension contribution requirements <sup>2)</sup>	19	19	—	—	—
Other non-current liabilities reflected on the balance sheet	8	—	—	—	8
<b>Total</b>	<b>\$ 2,532</b>	<b>\$ 475</b>	<b>\$ 532</b>	<b>\$ 949</b>	<b>\$ 576</b>

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

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

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

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

**Fixed-interest obligations:** These obligations include interest on debt and credit agreements relating to periods after December 31, 2019, excluding fees on the revolving credit facility and interest on debts with no defined amortization plan.

**Operating lease obligations:** These obligations represent the payment obligations (undiscounted cash flows) under leases classified as operating leases. The Company leases certain offices, manufacturing and research buildings, machinery, automobiles, data processing and other equipment. Such operating leases, some of which are non-cancelable and include renewals, expire on various dates. Capital lease obligations are not material. See Note 4 to the Consolidated Financial Statements included herein.

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

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

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

In 2020, the expected contribution to all plans, including direct payments to retirees, is \$19 million, of which the major contribution is \$13 million for our U.S. pension plans. Due to volatility associated with future changes in interest rates and plan asset returns, the Company cannot predict with reasonable reliability the timing and amounts of future funding requirements, and therefore the above excludes payments beyond 2020. We may elect to make contributions in excess of the minimum funding requirements for the U.S. plans in response to investment performance and changes in interest rates, or when we believe that it is financially advantageous to do so and based on other capital requirements. See Note 19 to the Consolidated Financial Statements included herein.

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

## **OFF-BALANCE SHEET ARRANGEMENTS**

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

## **Risks and Risk Management**

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

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

## **Operational Risks**

### **LIGHT VEHICLE PRODUCTION**

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

Global LVP is an indicator of the Company's sales development. Ultimately, however, sales are determined by the production levels for the individual vehicle models for which Autoliv is a supplier (see Dependence on Customers). The Company's sales are split over several hundred contracts covering almost 1,300 vehicle models. This moderates the effect of changes in vehicle demand of individual countries and regions as well as production issues. The risk of fluctuating sales has also been mitigated by Autoliv's rapid expansion in Asia and other growth markets, which has reduced the Company's former high dependence on sales in Europe to a diversified mix with Europe, the Americas and Asia each accounting for roughly 30% to 40% of our 2019 total sales.

It is the Company's strategy to reduce the risk of fluctuating LVP by using a high number of temporary employees instead of permanent employees in direct production. During 2019 and 2018, the level of temporary employees in relation to total headcount in direct production was 11% and 17%, respectively. To reduce the potential impact of unusual fluctuations in the production of vehicle models supplied by the Company – such as during the financial crisis of 2008 and 2009 – it is also necessary for the Company to be prepared to quickly adapt the level of permanent employees as well as fixed cost production capacity.



## **PRICING PRESSURE**

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

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

## **COMPONENT COSTS**

The cost of direct materials was approximately 50% of sales in 2019.

The main raw materials being used as input material for Autoliv operations are textiles, plastic, steel and non-ferrous metals. Increased headwinds on raw materials in 2019 were primarily caused by a global shortage of Nylon 66 and the effects coming from the import tariffs imposed by the United States on steel and aluminum products, impacting the raw material market and creating uncertainty.

We take several actions to mitigate raw material price increases, such as competitive sourcing and exploring alternative materials.

## **LEGAL**

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

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

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

## **PRODUCT WARRANTY AND RECALLS**

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

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

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

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

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

## **ENVIRONMENTAL**

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

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

## **TRADE**

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

## **Strategic Risks**

### **REGULATIONS**

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

The most important regulations are the seatbelt installation laws that exist in all vehicle-producing countries. Many countries also have strict enforcement laws on the wearing of seatbelts. Another significant vehicle safety regulation is the U.S. federal law that, since 1997, requires frontal airbags for both the driver and the front-seat passenger in all new vehicles sold in the U.S. In 2007, the U.S. adopted new regulations for side-impact protection which now have been fully phased-in. China introduced a vehicle rating program in 2006, and Latin America introduced a similar program in 2010 followed by ASEAN NCAP in Southeast Asia in 2011. The United States upgraded its vehicle rating program in 2010 and Europe upgraded the Euro NCAP rating system during 2018. Euro NCAP has initiated the next upgrade, which will be fully implemented by 2025. Japan and South Korea are continuously upgrading their respective vehicle rating programs, JNCAP and KNCAP respectively. India requires frontal airbags for the driver for all new passenger vehicles (M1) from July 2019. There are also other plans for improved automotive safety, both in these countries and other countries that could affect the Company's market.

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

### **DEPENDENCE ON CUSTOMERS**

In 2019, the five largest vehicle manufacturers accounted for 51% of global LVP and the ten largest manufacturers for 74%.

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

In 2019, the Company's five largest customers accounted for 52% of revenues and the ten largest customers for 79% of revenues. For a list of the largest customers, see Note 21 to the Consolidated Financial Statements included herein.

Our largest customer contract accounted for around 2% of sales in 2019. Although business with every major customer is split into at least several contracts (usually one contract per vehicle platform) and although the customer base has become more balanced and diversified as a result of Autoliv's significant expansion in China and other rapidly-growing markets, the loss of all business from a major customer (whether by a cancellation of existing contracts or not awarding Autoliv new business), the consolidation of one or more major customers or a bankruptcy of a major customer could have a material adverse effect on the Company. In addition, a quality issue, shortcomings in our service to a customer or uncompetitive prices or products could result in the customer not awarding us new business, which will gradually have a negative impact on our sales when current contracts start to expire.

### **CUSTOMER PAYMENT RISK**

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

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

### **DEPENDENCE ON SUPPLIERS**

Autoliv relies on internal and/or external suppliers in order to meet its delivery commitments to the customers. In some cases, suppliers are dictated by the customers based on very specific qualification requirements. In other areas, Autoliv is dependent on a single supplier for a specific component. Autoliv supply chain organization is reviewing sourcing risks and actively working on mitigating related supply chain risks.

Autoliv's ambition is to maintain an optimal number of suppliers in all significant component technologies.

### **NEW COMPETITION**

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

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

### **PATENTS AND PROPRIETARY TECHNOLOGY**

The Company's strategy is to protect its innovations with patents, and to vigorously protect and defend its patents, trademarks and know-how against infringement and unauthorized use. At the end of 2019, the Company held more than 6,000 patents. These patents expire on various dates during the period from 2020 to 2039. The expiration of any single patent is not expected to have a material adverse effect on the Company's financial results.

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

### **Financial Risks**

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

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

## Significant Accounting Policies and Critical Accounting Estimates

### NEW ACCOUNTING STANDARDS

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

The Company adopted the new standard for Leases (ASU 842), which resulted in recording operating lease assets and lease liabilities of \$155 million in the Consolidated Balance Sheet as of January 1, 2019.

### APPLICATION OF CRITICAL ACCOUNTING POLICIES

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

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

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

### REVENUE RECOGNITION

In accordance with ASC 606, *Revenue from Contracts with Customers*, revenue is measured based on consideration specified in a contract with a customer, adjusted for any variable consideration (i.e. price concessions) and estimated at contract inception. The estimated amount of variable consideration that will be received by the Company are based on historical experience and trends, management's understanding of the status of negotiations with customers and anticipated future pricing strategies. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product to a customer.

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

### INVENTORY RESERVES

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

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

### GOODWILL

The Company performs an annual impairment review of goodwill in the fourth quarter of each year following the Company's annual forecasting process. Management used a qualitative assessment approach for 2019 goodwill impairment testing purposes. When evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity shall assess relevant events and circumstances. Examples of such events and circumstances include macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, etc. Management has used the following approach:

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

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

## RECALL PROVISIONS AND WARRANTY OBLIGATIONS

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

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

## RESTRUCTURING PROVISIONS

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

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

## DEFINED BENEFIT PENSION PLANS

The Company has defined benefit pension plans in eleven countries. The most significant plans exist in the U.S. These plans represent approximately 61% of the Company's total pension benefit obligation. See Note 19 to the Consolidated Financial Statements included herein.

The Company, in consultation with its actuarial advisors, determines certain key assumptions to be used in calculating the projected benefit obligation and annual pension expense. For the U.S. plans, the assumptions used for calculating the 2019 pension expense were a discount rate of 4.35%, expected rate of increase in compensation levels of 2.65%, and an expected long-term rate of return on plan assets of 5.05%.

The assumptions used in calculating the U.S. benefit obligations disclosed as of December 31, 2019 were a discount rate of 3.25% and an expected age-based rate of increase in compensation levels of 2.65%. The discount rate for the U.S. plans has been set based on the rates of return of high-quality fixed-income investments currently available at the measurement date and are expected to be available during the period the benefits will be paid. The expected rate of increase in compensation levels and long-term return on plan assets are determined based on a number of factors and must take into account long-term expectations and reflect the financial environment in the respective local markets. At December 31, 2019, 40% of the U.S. plan assets were invested in equities, which is in-line with the target of 40%.

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

<u>Assumption</u> <u>(in millions)</u>	<u>Change</u>	<u>2019 net</u> <u>periodic</u> <u>benefit</u> <u>cost increase</u> <u>(decrease)</u>	<u>2019 projected</u> <u>benefit</u> <u>obligation</u> <u>increase</u> <u>(decrease)</u>
Discount rate	1pp increase	\$ (2)	\$ (63)
Discount rate	1pp decrease	6	81
Compensation levels	1pp increase	0	2
Return on plan assets	1pp decrease	3	n/a

## **INCOME TAXES**

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

Although the Company believes that its tax return positions are supportable, no assurance can be given that the final outcome of these matters will not be materially different than that which is reflected in the historical income tax provisions and accruals. Such differences could have a material effect on the income tax provisions or benefits in the periods in which such determinations are made. See also the discussion of reserves for uncertain tax positions, and the determinations of valuation allowances on our deferred tax assets in Note 6, Income Taxes.

## **CONTINGENT LIABILITIES**

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

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

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

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

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

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

### **CURRENCY RISKS**

#### **1. Transaction Exposure and Revaluation effects**

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

The Company's gross transaction exposure for 2019 was approximately \$2.3 billion. A part of the currency flows had counter-flows in the same currency pair, which reduced the net exposure to approximately \$2.1 billion. The four largest net exposures are U.S. dollars (sell) against the Mexican Peso, Romanian Lei (buy) against the Euro, U.S. dollars (buy) against Korean Won, Euro (buy) against Chinese Renminbi. Together these currencies accounted for approximately 40% of the Company's net currency transaction exposure.

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

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

Another effect of exchange rate fluctuations arises when the income statements of non-U.S. subsidiaries are translated into U.S. dollars. Outside the U.S., the Company's most significant currency is the Euro. We estimate that 28% of the Company's net sales will be denominated in Euro or other European currencies during 2020, while approximately a quarter of net sales is estimated to be denominated in U.S. dollars.

The Company estimates that a 1% increase in the value of the U.S. dollar versus European currencies will decrease reported U.S. dollar annual net sales in 2020 by \$26 million or by 0.3% while operating income for 2020 will decline by approximately 0.3% or by about \$2 million, assuming reported corporate average margin.

The Company's policy is not to hedge this type of translation exposure.

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

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

## **INTEREST RATE RISK**

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

At December 31, 2019, the average interest rate fixing period for the Company's outstanding debt was 3.4 years.

Given the Company's current capital structure, we estimate that a one-percentage point interest rate increase would increase net interest expense by approximately \$0.5 million, both in 2020 and 2021. This is based on the capital structure at the end of 2019 when the gross fixed-rate debt was \$1,598 million while the Company had a net debt position of \$1,650 million (see section Non-U.S. GAAP Performance Measures). Thus, a change in the interest rate environment would not have a notable impact on the Company's interest expense. As of December 31, 2019, the Company had \$445 million in cash and cash equivalents of which the majority were subject to a floating interest rate. Taking the cash and cash equivalents of \$445 million (which is primarily subject to floating interest rates) minus the portion of debt carrying floating interest rates, we estimated that a one-percentage point interest rate increase would increase net interest expense by approximately \$0.5 million, both in 2020 and 2021.

Fixed interest rate debt is achieved both by issuing fixed rate notes and through interest rate swaps. The most notable debt carrying fixed interest rates is the \$1.3 billion U.S. private placement notes issued in 2014 and in June 2018, the Company issued €500 million of 5-year notes in the Eurobond market, see Note 14 to the Consolidated Financial Statements included herein. The most notable debt carrying floating interest rates is \$231 million of commercial paper, EUR 100 million of 18-month floating rate notes issued in June 2019 and a 3-year loan facility of SEK 1,200 million utilized in June 2019, see Note 14 to the Consolidated Financial Statements included herein.

## **FINANCING RISK**

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

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

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

To ensure diversification of debt maturities, no more than 20% of the Autoliv Group's total debt may mature the next 12 months, unless such maturities (in excess of 20%) are covered by unutilized committed credit facilities with maturity in excess of 12 months. As of December 31, 2019, 18% of Autoliv Group's total debt, or \$368 million, had maturity less than 12 months. This amount was fully covered by unutilized committed credit facilities with maturity in excess of 12 months.

## **CAPITAL STRUCTURE AND CREDIT RATING**

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

Autoliv is committed to maintain a "strong investment grade credit rating". As of December 31, 2019, the Company had a long-term credit rating from S&P Global Ratings ("S&P") of BBB+.

The amount of interest-bearing debt held impacts the future financial flexibility as well as the credit rating. Management uses the non-U.S. GAAP measure "Leverage Ratio" to analyze the amount of debt the Company can incur under its debt policy. Management believes that this policy also provides guidance to credit and equity investors regarding the extent to which the Company would be prepared to leverage its operations. Autoliv's long-term target for the leverage ratio (sum of net debt plus pension liabilities divided by EBITDA) is 1.0x with the aim to operate within the range of 0.5x to 1.5x. At December 31, 2019, the leverage ratio (non-U.S. GAAP measure, see calculation table below) was 1.7. For details and calculation of leverage ratio, refer to the table below.

## CALCULATION OF LEVERAGE RATIO (DOLLARS IN MILLIONS)

	December 31, 2019	December 31, 2018
Net debt <sup>1)</sup>	\$ 1,649.8	\$ 1,618.8
Pension liabilities	240.2	198.2
<b>Debt per the Policy</b>	<b>1,890.0</b>	<b>1,817.0</b>
Net income <sup>2)</sup>	462.8	183.7
Less; Net Loss, Discontinued Operations <sup>2)</sup>	—	193.8
<b>Net income, Continuing Operations<sup>2)</sup></b>	<b>462.8</b>	<b>377.5</b>
Income taxes <sup>2)</sup>	185.6	234.9
Interest expense, net <sup>2, 3)</sup>	65.9	59.2
Depreciation and amortization of intangibles <sup>2)</sup>	350.6	342.0
Antitrust related matters and capacity alignments costs <sup>2, 4)</sup>	48.6	216.5
<b>EBITDA per the Policy (Adjusted EBITDA)</b>	<b>\$ 1,113.5</b>	<b>\$ 1,230.1</b>
<b>Leverage ratio</b>	<b>1.7</b>	<b>1.5</b>

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

2) Latest 12 months.

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

4) For 2019 including separation costs.

## CREDIT RISK IN FINANCIAL MARKETS

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

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

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

To further reduce credit risk, deposits and financial instruments can only be entered into with core banks up to a calculated risk amount of \$150 million per bank for banks rated A- or above and up to \$50 million for banks rated BBB+. In addition, deposits can be made in U.S. and Swedish government short-term notes and certain AAA rated money market funds, as approved by the Company's Board of Directors. At year-end 2019, the Company held \$24 million in AAA rated money market funds.

## IMPAIRMENT RISK

Impairment risk refers to the risk that the Company will write down a material amount of its goodwill of close to \$1.4 billion as of December 31, 2019. This risk is assessed at least annually in the fourth quarter each year when the Company performs its impairment testing.

In 2019, a qualitative method has been used for determining whether there is any impairment risk. Both historical data and forecasts have been used to assess the impairment risk.

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

## Item 8. Financial Statements and Supplementary Data

The Consolidated Balance Sheets of Autoliv as of December 31, 2019 and 2018 and the Consolidated Statements of Net Income, Comprehensive Income, Cash Flows and Total Equity for each of the three years in the period ended December 31, 2019, the Notes to the Consolidated Financial Statements, and the Reports of the Independent Registered Public Accounting Firm are included below.

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



# Report of Independent Registered Public Accounting Firm

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

## Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Autoliv, Inc. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of net income, comprehensive income, total equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 21, 2020 expressed an unqualified opinion thereon.

## Basis for Opinion

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

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

## Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved 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 matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### **Revenue recognition – Variable consideration**

#### *Description of the Matter*

As discussed in Note 2 to the consolidated financial statements, the Company measures revenue based on consideration specified in a contract with a customer, adjusted for any variable consideration. Variability in consideration typically results from price concessions. The estimated amount of variable consideration that will be received by the Company is based on historical experience and trends, management's understanding of the status of negotiations with customers, and anticipated future pricing strategies. This estimate includes significant judgment by management and affects the amount of revenue recorded in the financial statements.

Auditing the amount of variable consideration expected to be received was complex because of the uncertainty inherent in the assumptions and estimates management uses in its calculations. These assumptions and estimates are affected by ongoing negotiations with customers and other factors including economic and industry conditions and historical trends.

#### *How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls related to variable consideration, including controls related to management's review of ongoing negotiations with customers.

To test the estimated amount of variable consideration that will be received, our audit procedures included, among others, evaluating the Company's estimation methodology and testing significant assumptions and estimates used in the calculations. We obtained information from management and sales department representatives who were responsible for negotiations with customers to assess the reasonableness of assumptions used in the calculations. We evaluated the Company's ability to estimate by comparing actual results to previous estimates and judgments made by management. We also performed journal entry testing focused on unusual and manual entries affecting revenue and on entries that could be indicative of price concessions that may not have been considered in the Company's assumptions and calculations.

### **Product recalls**

*Description of the Matter*

As discussed in Notes 2 and 13 to the consolidated financial statements, the Company is exposed to product liability claims in the event that the Company's products fail to perform as represented and such failure results, or is alleged to result, in bodily injury, and/or property damage or other loss. The Company records liabilities for product recalls when probable claims are identified and when it is possible to reasonably estimate costs. Actual costs incurred could differ from the amounts estimated, requiring adjustments to these reserves in future periods. Provisions for product recalls are estimated based on the expected cost of replacing the product and the customer's cost of carrying out the recall, which is affected by the number of vehicles subject to recall and the cost of labor and materials to remove and replace the defective product. The balance for product recall liabilities was included in accrued expenses on the consolidated balance sheet.

Auditing the product recall liabilities was complex due to the uncertainty inherent in the assumptions and estimates management uses to calculate these liability balances. These assumptions and estimates include the nature, likelihood, timing, and anticipated cost of known and potential claims.

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls over the Company's product recall process, including controls related to management's review of the estimation calculations and significant assumptions discussed above.

To test product recall liabilities, our audit procedures included, among others, evaluating the Company's estimation methodology and testing significant assumptions discussed above used in the estimation calculations. We obtained information from Company personnel who are responsible for monitoring the status of product recalls with customers to assess the reasonableness of assumptions used in the calculations. We evaluated the Company's ability to estimate by comparing actual results to previous estimates and judgments made by management. We also obtained letters from the Company's external legal counsel addressing material claims against the Company, if any, and examined relevant third-party automotive safety regulatory information to identify potential unrecorded product recall liabilities related to the Company.

/s/ Ernst & Young AB

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

Stockholm, Sweden  
February 21, 2020

## Report of Independent Registered Public Accounting Firm

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

### Opinion on Internal Control over Financial Reporting

We have audited Autoliv, Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Autoliv, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of net income, comprehensive income, total equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated February 21, 2020 expressed an unqualified opinion thereon.

### Basis for Opinion

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

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

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

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

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

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

/s/ Ernst & Young AB

Stockholm, Sweden  
February 21, 2020

## Consolidated Statements of Net Income

(DOLLARS AND SHARES IN MILLIONS, EXCEPT PER SHARE DATA)		Years ended December 31		
		2019	2018	2017
<b>Net sales</b>	<b>Note 21</b>	<b>\$ 8,547.6</b>	<b>\$ 8,678.2</b>	<b>\$ 8,136.8</b>
Cost of sales		(6,963.2)	(6,966.9)	(6,457.1)
<b>Gross profit</b>		<b>1,584.4</b>	<b>1,711.3</b>	<b>1,679.7</b>
Selling, general and administrative expenses		(398.9)	(390.3)	(406.6)
Research, development and engineering expenses, net		(405.5)	(412.6)	(370.6)
Amortization of intangibles	Note 11	(11.5)	(11.3)	(11.2)
Other income (expense), net	Notes 12, 18	(42.7)	(211.1)	(31.7)
<b>Operating income</b>		<b>725.8</b>	<b>686.0</b>	<b>859.6</b>
Income from equity method investment	Note 9	2.0	3.6	1.7
Interest income		3.6	6.9	7.4
Interest expense	Note 14	(69.5)	(66.1)	(61.1)
Other non-operating items, net		(13.5)	(18.0)	(15.2)
<b>Income from continuing operations before income taxes</b>		<b>648.4</b>	<b>612.4</b>	<b>792.4</b>
Income tax expense	Note 6	(185.6)	(234.9)	(204.4)
<b>Income from continuing operations</b>		<b>462.8</b>	<b>377.5</b>	<b>588.0</b>
Loss from discontinued operations, net of income taxes	Note 3	—	(193.8)	(285.0)
<b>Net income</b>		<b>462.8</b>	<b>183.7</b>	<b>303.0</b>
Less: Net income from continuing operations attributable to non-controlling interest		1.3	1.6	2.0
Less: Net loss from discontinued operations attributable to non-controlling interest		—	(8.3)	(126.1)
<b>Net income attributable to controlling interest</b>		<b>\$ 461.5</b>	<b>\$ 190.4</b>	<b>\$ 427.1</b>
<b>Amounts attributable to controlling interest:</b>				
Net income from continuing operations		\$ 461.5	\$ 375.9	\$ 586.0
Net loss from discontinued operations		—	(185.5)	(158.9)
<b>Net income attributable to controlling interest</b>		<b>\$ 461.5</b>	<b>\$ 190.4</b>	<b>\$ 427.1</b>
Earnings per share continuing operations - basic <sup>1)</sup>		\$ 5.29	\$ 4.32	\$ 6.70
Loss per share discontinuing operations - basic <sup>1)</sup>		—	(2.13)	(1.82)
<b>Basic earnings per share</b>		<b>\$ 5.29</b>	<b>\$ 2.19</b>	<b>\$ 4.88</b>
Earnings per share continuing operations - diluted <sup>1)</sup>		\$ 5.29	\$ 4.31	\$ 6.68
Loss per share discontinuing operations - diluted <sup>1)</sup>		—	(2.13)	(1.81)
<b>Diluted earnings per share</b>		<b>\$ 5.29</b>	<b>\$ 2.18</b>	<b>\$ 4.87</b>
<b>Weighted average number of shares outstanding, net of treasury shares (in millions)</b>		<b>87.2</b>	<b>87.1</b>	<b>87.5</b>
<b>Weighted average number of shares outstanding, assuming dilution and net of treasury shares (in millions)</b>		<b>87.4</b>	<b>87.3</b>	<b>87.7</b>
<b>Cash dividend per share - declared</b>		<b>\$ 2.48</b>	<b>\$ 2.48</b>	<b>\$ 2.40</b>
<b>Cash dividend per share - paid</b>		<b>\$ 2.48</b>	<b>\$ 2.46</b>	<b>\$ 2.38</b>

See Notes to the Consolidated Financial Statements.

- 1) Participating share awards with the right to receive dividend equivalents are (under the two class method) excluded from the earnings per share calculation (see Note 22 in this Annual Report).

## Consolidated Statements of Comprehensive Income

<b>(DOLLARS IN MILLIONS)</b>	<b>Years ended December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Net income</b>	<b>\$ 462.8</b>	<b>\$ 183.7</b>	<b>\$ 303.0</b>
<i>Other comprehensive (loss) income before tax:</i>			
Change in cumulative translation adjustments	2.0	(150.2)	272.1
Net change in cash flow hedges	—	0.9	(8.9)
Net change in unrealized components of defined benefit plans	(34.6)	14.2	31.9
<b>Other comprehensive (loss) income, before tax</b>	<b>(32.6)</b>	<b>(135.1)</b>	<b>295.1</b>
Tax effect allocated to other comprehensive (loss) income	6.8	(4.1)	(7.8)
<b>Other comprehensive (loss) income, net of tax</b>	<b>(25.8)</b>	<b>(139.2)</b>	<b>287.3</b>
<b>Comprehensive income</b>	<b>437.0</b>	<b>44.5</b>	<b>590.3</b>
Less: Comprehensive income (loss) attributable to non-controlling interest	1.2	(7.4)	(114.8)
<b>Comprehensive income attributable to controlling interest</b>	<b>\$ 435.8</b>	<b>\$ 51.9</b>	<b>\$ 705.1</b>

See Notes to the Consolidated Financial Statements.

## Consolidated Balance Sheets

(DOLLARS AND SHARES IN MILLIONS)	At December 31	
	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 444.7	\$ 615.8
Receivables, net	Note 7 1,623.9	1,652.1
Inventories, net	Note 8 740.9	757.9
Income tax receivable	26.8	34.1
Prepaid expenses	157.0	208.6
Related party receivable	Note 20 2.8	15.0
Other current assets	6.0	1.9
<b>Total current assets</b>	<b>3,002.1</b>	<b>3,285.4</b>
Property, plant and equipment, net	Note 10 1,815.7	1,690.1
Investments and other non-current assets	Note 9 386.4	323.5
Operating lease right-of-use assets	Note 4 156.8	—
Goodwill	Note 11 1,387.9	1,389.9
Intangible assets, net	Note 11 22.3	32.7
<b>Total assets</b>	<b>\$ 6,771.2</b>	<b>\$ 6,721.6</b>
<b>Liabilities and equity</b>		
Short-term debt	Note 14 \$ 368.1	\$ 620.7
Accounts payable	941.0	978.3
Accrued expenses	Notes 12, 13 816.9	935.4
Related party liabilities	Note 20 17.4	63.7
Income tax payable	38.8	64.9
Operating lease liabilities, current	Note 4 37.8	—
Other current liabilities	190.2	202.5
<b>Total current liabilities</b>	<b>2,410.2</b>	<b>2,865.5</b>
Long-term debt	Note 14 1,726.1	1,609.0
Pension liability	Note 19 240.2	198.2
Operating lease liabilities, non-current	Note 4 119.4	—
Other non-current liabilities	152.9	152.1
<b>Total non-current liabilities</b>	<b>2,238.6</b>	<b>1,959.3</b>
Commitments and contingencies	Note 18	
Common stock <sup>1)</sup>	102.8	102.8
Additional paid-in capital	1,329.3	1,329.3
Retained earnings	2,283.5	2,041.8
Accumulated other comprehensive loss	Note 15 (448.9)	(423.2)
Treasury stock (15.6 and 15.7 shares, respectively)	(1,157.5)	(1,167.0)
<b>Total controlling interest's equity</b>	<b>2,109.2</b>	<b>1,883.7</b>
Non-controlling interest	13.2	13.1
<b>Total equity</b>	<b>2,122.4</b>	<b>1,896.8</b>
<b>Total liabilities and equity</b>	<b>\$ 6,771.2</b>	<b>\$ 6,721.6</b>

1) Number of shares: 350 million authorized, 102.8 million issued for both years, and 87.2 and 87.1 million outstanding, net of treasury shares, for 2019 and 2018, respectively.

See Notes to the Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

(DOLLARS IN MILLIONS)	Years ended December 31		
	2019	2018	2017
<b>Operating activities</b>			
Net income continuing operations	\$ 462.8	\$ 377.5	\$ 588.0
Net income discontinued operations	—	(193.8)	(285.0)
<i>Adjustments (non-cash items) to reconcile net income to cash provided by operating activities:</i>			
Depreciation and amortization	350.6	397.1	425.8
EC antitrust non-cash provision	—	210.0	—
Goodwill, impairment charge	—	—	234.2
Deferred income taxes	(16.0)	3.0	(47.2)
Loss from equity method investments, net of dividends	4.0	31.9	38.1
<i>Net change in:</i>			
EC antitrust payment	(203.0)	—	—
Receivables and other assets, gross	25.4	(48.4)	(102.2)
Inventories, gross	15.4	(123.9)	(21.0)
Accounts payable and accrued expenses	35.7	(37.8)	112.3
Income taxes	(29.3)	(19.2)	10.6
Other, net	(4.9)	(5.8)	(17.7)
<b>Net cash provided by operating activities</b>	<b>640.7</b>	<b>590.6</b>	<b>935.9</b>
<b>Investing activities</b>			
Expenditures for property, plant and equipment	(483.4)	(560.0)	(580.1)
Proceeds from sale of property, plant and equipment	7.3	5.2	10.5
Acquisition of businesses and interest in affiliates, net of cash acquired	—	(72.0)	(125.3)
Net proceeds from divestitures	—	—	1.4
Other	—	(0.9)	(3.8)
<b>Net cash used in investing activities</b>	<b>(476.1)</b>	<b>(627.7)</b>	<b>(697.3)</b>
<b>Financing activities</b>			
Net (decrease) increase in short-term debt	(364.1)	355.4	(208.6)
Issuance of long-term debt, net of discount	243.5	582.2	—
Debt issuance costs	(0.3)	(2.6)	—
Dividends paid to non-controlling interest	(1.1)	(2.1)	(0.1)
Dividends paid	(217.0)	(214.3)	(208.7)
Shares repurchased	—	—	(157.0)
Common stock options exercised	0.9	8.2	7.9
Capital contribution to Veoneer	—	(971.8)	—
Other, net	—	—	0.3
<b>Net cash used in financing activities</b>	<b>(338.1)</b>	<b>(245.0)</b>	<b>(566.2)</b>
Effect of exchange rate changes on cash and cash equivalents	2.4	(61.6)	60.4
<b>Decrease in cash and cash equivalents</b>	<b>(171.1)</b>	<b>(343.7)</b>	<b>(267.2)</b>
Cash and cash equivalents at beginning of year	615.8	959.5	1,226.7
<b>Cash and cash equivalents at end of year</b>	<b>\$ 444.7</b>	<b>\$ 615.8</b>	<b>\$ 959.5</b>

See Notes to the Consolidated Financial Statements.

## Consolidated Statements of Total Equity

(DOLLARS AND SHARES IN MILLIONS)	Number of shares	Common stock	Additional paid in capital	Retained earnings	Accumulated other com- prehensive (loss) income	Treasury stock	Total parent shareholders' equity	Non- controlling interest	Total equity <sup>1)</sup>
<b>Balance at December 31, 2016</b>	<b>102.8</b>	<b>\$ 102.8</b>	<b>\$ 1,329.3</b>	<b>\$ 3,861.8</b>	<b>\$ (565.5)</b>	<b>\$(1,051.2)</b>	<b>\$ 3,677.2</b>	<b>\$ 249.2</b>	<b>\$ 3,926.4</b>
Comprehensive Income:									
Net income				427.1			427.1	(124.1)	303.0
Net change in cash flow hedges					(8.9)		(8.9)		(8.9)
Foreign currency translation					263.0		263.0	9.1	272.1
Pension liability					23.9		23.9	0.2	24.1
<b>Total Comprehensive Income</b>							<b>705.1</b>	<b>(114.8)</b>	<b>590.3</b>
Stock-based compensation						19.5	19.5		19.5
Cash dividends declared				(209.7)			(209.7)		(209.7)
Dividends paid to non-controlling interest on subsidiary shares								(0.1)	(0.1)
Repurchased shares						(157.0)	(157.0)		(157.0)
<b>Balance at December 31, 2017</b>	<b>102.8</b>	<b>\$ 102.8</b>	<b>\$ 1,329.3</b>	<b>\$ 4,079.2</b>	<b>\$ (287.5)</b>	<b>\$(1,188.7)</b>	<b>\$ 4,035.1</b>	<b>\$ 134.3</b>	<b>\$ 4,169.4</b>
Comprehensive Income:									
Net income				190.4			190.4	(6.7)	183.7
Net change in cash flow hedges					0.9		0.9		0.9
Foreign currency translation					(149.5)		(149.5)	(0.7)	(150.2)
Pension liability					10.1		10.1		10.1
Adjustment due to adoption of ASU 2018-02				10.2	(10.2)		0.0		0.0
<b>Total Comprehensive Income</b>							<b>51.9</b>	<b>(7.4)</b>	<b>44.5</b>
Stock-based compensation						21.7	21.7		21.7
Cash dividends declared				(216.7)			(216.7)		(216.7)
Dividends paid to non-controlling interest on subsidiary shares								(2.2)	(2.2)
Adjustment due to adoption of ASU 2014-09				3.3			3.3		3.3
Distribution of Veoneer				(2,024.3)	13.0		(2,011.3)	(111.6)	(2,122.9)
Other				(0.3)			(0.3)		(0.3)
<b>Balance at December 31, 2018</b>	<b>102.8</b>	<b>\$ 102.8</b>	<b>\$ 1,329.3</b>	<b>\$ 2,041.8</b>	<b>\$ (423.2)</b>	<b>\$(1,167.0)</b>	<b>\$ 1,883.7</b>	<b>\$ 13.1</b>	<b>\$ 1,896.8</b>
Comprehensive Income:									
Net income				461.5			461.5	1.3	462.8
Foreign currency translation					2.1		2.1	(0.1)	2.0
Pension liability					(27.8)		(27.8)		(27.8)
<b>Total Comprehensive Income</b>							<b>435.8</b>	<b>1.2</b>	<b>437.0</b>
Stock-based compensation						9.5	9.5		9.5
Cash dividends declared				(217.1)			(217.1)		(217.1)
Dividends paid to non-controlling interest on subsidiary shares							0.0	(1.1)	(1.1)
Distribution of Veoneer				(2.7)			(2.7)		(2.7)
<b>Balance at December 31, 2019</b>	<b>102.8</b>	<b>\$ 102.8</b>	<b>\$ 1,329.3</b>	<b>\$ 2,283.5</b>	<b>\$ (448.9)</b>	<b>\$(1,157.5)</b>	<b>\$ 2,109.2</b>	<b>\$ 13.2</b>	<b>\$ 2,122.4</b>

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

See Notes to the Consolidated Financial Statements.



# Notes to the Consolidated Financial Statements

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

## 1. Basis of Presentation

### NATURE OF OPERATIONS

Through its operating subsidiaries, Autoliv is a leading developer, manufacturer and supplier of safety systems to the automotive industry. The Company has a broad range of product offerings, primarily passive safety systems, including modules and components for passenger and driver airbags, side airbags, curtain airbags, seatbelts and steering wheels. The Company is also a supplier of anti-whiplash systems and pedestrian protection systems.

### PRINCIPLES OF CONSOLIDATION

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

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

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

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

### DISCONTINUED OPERATIONS

On June 29, 2018 (the "Distribution Date"), Autoliv completed the spin-off of its former Electronics segment (the "spin-off") through the distribution of all of the issued and outstanding stock of Veoneer, Inc. ("Veoneer"). To effect the spin-off, Autoliv distributed to each Autoliv stockholder one share of Veoneer common stock, par value \$1.00 per share, for every one share of Autoliv common stock, par value \$1.00 per share, held by such person on the common stock record date, and each Autoliv Swedish Depository Receipt (SDR) holder received one Veoneer SDR for each Autoliv SDR held by such person on the applicable SDR record date. The Company did not retain any equity interest in Veoneer.

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

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

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

### SEGMENT REPORTING

Prior to the spin-off, Autoliv had two reportable operating segments: Passive Safety and Electronics. After completion of the spin-off, Autoliv's remaining business is comprised of passive safety products - principally airbags (including steering wheels and inflators) and seatbelts. In addition, as of August 1, 2019, Autoliv implemented a new organizational structure which has been considered when evaluating the operating and reportable segments in the Company after the spin-off.

In accordance with ASC 280, *Segment Reporting*, the operating segments are determined based on the information provided to the Chief Operating Decision Maker (CODM) on a regular basis and used for the purpose of assessing performance and allocating resources within the Company. The CEO is deemed to be the CODM of Autoliv since he is the person who makes all major decisions on how to allocate the resources and assess the performance of the Company for both strategic and operational initiatives.

ASC 280 indicates that a component is an operating segment if it meets the following criteria:

- It engages in business activities from which it may earn revenues and incur expenses.
- Its operating results are regularly reviewed by the CODM to make decisions about resources to be allocated to the segment and assess its performance.
- Its discrete financial information is available.

The Company as a whole has met the definition of an operating segment as it engages in business activities from which it may earn revenues and incur expenses, the consolidated operating results are regularly reviewed by the CEO/CODM to allocate resources and assess performance, and discrete financial information is available. Additionally, as Autoliv supplies customers on a global basis it also manages the business on a global basis. Therefore, based on the above analysis, we have concluded that the Company is the single operating and reportable segment under ASC 280, *Segment Reporting*.

For more information on our segment, see Note 21.

## 2. Summary of Significant Accounting Policies

### BUSINESS COMBINATIONS

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

### EQUITY METHOD INVESTMENT

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

### USE OF ESTIMATES

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

### REVENUE RECOGNITION

In accordance with ASC 606, *Revenue from Contracts with Customers*, revenue is measured based on consideration specified in a contract with a customer, adjusted for any variable consideration (i.e. price concessions) and estimated at contract inception. The estimated amount of variable consideration that will be received by the Company is based on historical experience and trends, management's understanding of the status of negotiations with customers and anticipated future pricing strategies. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product to a customer.

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

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

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

#### Nature of goods and services

The Company generates revenue from the sale of parts, which includes airbag and seatbelt products and components, to original equipment manufacturers ("OEMs").

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

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

For parts with revenue recognized at a point in time, the Company recognizes revenue upon shipment to the customers and transfer of title and risk of loss under standard commercial terms (typically FOB shipping point). There are certain contracts where the criteria to recognize revenue over time have been met (e.g., there is no alternative use to the Company and the Company has an enforceable right to payment). In such cases, at period end, the Company recognizes revenue and a related asset and associated cost of goods sold and inventory. However, the financial impact of these contracts is immaterial considering the very short production cycles and limited inventory days on hand. The contract balances with customers, included in other current assets, amounted to \$19.5 million as of December 31, 2019.

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

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

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

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

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

#### **STOCK BASED COMPENSATION**

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

#### **INCOME TAXES**

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

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

#### **EARNINGS PER SHARE**

The Company calculates basic earnings per share (EPS) by dividing net income attributable to controlling interest by the weighted-average number of shares of common stock outstanding for the period (net of treasury shares). The Company's unvested RSUs and PSs, of which some include the right to receive non-forfeitable dividend equivalents, are considered participating securities. The diluted EPS reflects the potential dilution that could occur if common stock was issued for awards under the Stock Incentive Plan and is calculated using the more dilutive method of either the two-class method or the treasury stock method. The treasury stock method assumes that the Company uses the proceeds from the exercise of stock option awards to repurchase ordinary shares at the average market price during

the period. For unvested restricted stock, assumed proceeds under the treasury stock method will include unamortized compensation cost and windfall tax benefits or shortfalls. Post spin-off assumed proceeds under the treasury stock method related to RSUs will only include unamortized compensation cost related to Autoliv employees holding Autoliv RSUs. Calculations of EPS under the two-class method exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities. The related participating securities are similarly excluded from the denominator. For further details, see Notes 17 and 22.

## **CASH EQUIVALENTS**

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

## **RECEIVABLES**

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

## **DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

All derivatives are recognized at fair value.

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

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

## **INVENTORIES**

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

## **PROPERTY, PLANT AND EQUIPMENT**

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

## **LEASES**

In accordance with ASC 842, *Leases*, the Company recognizes contracts that is, or contains, a lease when the contract conveys the right to control the use of a physically identified asset for a period of time in exchange for consideration in the balance sheet as a right-of-use asset and lease liability. The Company recognizes a right-of-use asset and a lease liability at lease commencement. The lease liability for both finance and operating leases is measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate (if the implicit interest rate in the lease contract is not readily determinable). The right-of-use asset (ROU) for finance and operating leases is initially measured at the sum of the Initial lease liability plus initial direct costs plus prepaid lease payments minus lease incentives received. Lease payments include undiscounted fixed payments plus optional payments that are reasonably certain to be owed. Lease payments do not include variable lease payments other than those that depend on an index or rate. Variable lease payments that depend on an index or a rate are included in the calculation of lease payments and in the measurement of the lease liability.

If the rate implicit in the lease is not readily determinable, the Company uses its incremental borrowing rate as the discount rate. The Company uses its best judgement when determining the incremental borrowing rate, which is the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term to the lease payments in a similar currency.

The Company has elected the practical expedient of not separating lease components from non-lease components for all its classes of underlying assets. The Company has also elected to recognize the lease payments for short-term leases in its consolidated statement of income on a straight-line basis over the lease term and recognize the variable lease payments in the period in which the obligation for those payments is incurred.

For further details on the Company's leases, see Note 4.

### **LONG-LIVED ASSET IMPAIRMENT**

The Company evaluates the carrying value and useful lives of long-lived assets, other than goodwill and intangible assets, when indications of impairment are evident or it is likely that the useful lives have decreased, in which case the Company depreciates the assets over the remaining useful lives. Impairment testing is primarily done by using the cash flow method based on undiscounted future cash flows. Estimated undiscounted cash flows for a long-lived asset being evaluated for recoverability are compared with the respective carrying amount of that asset. If the estimated undiscounted cash flows exceed the carrying amount of the assets, the carrying amounts of the long-lived asset are considered recoverable and an impairment cannot be recorded. However, if the carrying amount of a group of assets exceeds the undiscounted cash flows, an entity must then measure the long-lived assets' fair value to determine whether an impairment loss should be recognized, generally using a discounted cash flow model. Generally, the lowest level of cash flows for impairment assessment is customer platform level.

### **GOODWILL AND INTANGIBLE ASSETS**

Goodwill represents the excess of the fair value of consideration transferred over the fair value of net assets of businesses acquired. Goodwill is not amortized but subject to at least an annual review for impairment. Other intangible assets, principally related to acquired technology, are amortized over their useful lives which range from 3 to 25 years.

The Company performs its annual impairment testing in the fourth quarter of each year. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment, or decline in value, may have occurred. Since 2018, the Company has opted to use a qualitative assessment for impairment testing. The qualitative assessment permits the Company to assess whether it is more than likely than not (i.e. a likelihood of greater than 50%) that goodwill or an indefinite-lived intangible asset is impaired. If the Company concludes based on the qualitative assessment that it is not more likely than not that the fair value of goodwill or an indefinite-lived intangible asset is less than its carrying amount, it would not have to quantitatively determine the asset's fair value.

In conducting its qualitative impairment testing, the Company has used the most recent fair value calculation performed in 2017 for its goodwill as the starting point for the qualitative assessment. The Company has also considered external factors that could affect the significant inputs used to determine fair value.

There were no impairments of goodwill related to the Company's continuing operations from 2017 through 2019.

### **WARRANTIES AND RECALLS**

The Company records liabilities for product recalls when probable claims are identified and when it is possible to reasonably estimate costs. Recall costs are costs incurred when the customer decides to formally recall a product due to a known or suspected safety concern. Product recall costs are estimated based on the expected cost of replacing the product and the customer's cost of carrying out the recall, which is affected by the number of vehicles subject to recall and the cost of labor and materials to remove and replace the defective product. Insurance receivables, related to recall issues covered by the insurance, are included within other current and non-current assets in the Consolidated Balance Sheets.

Provisions for warranty claims are estimated based on prior experience, likely changes in performance of newer products and the mix and volume of products sold. The provisions are recorded on an accrual basis.

### **RESTRUCTURING PROVISIONS**

The Company defines restructuring expense to include costs directly associated with rightsizing, exit or disposal activities.

Estimates of restructuring charges are based on information available at the time such charges are recorded. In general, management anticipates that restructuring activities will be completed within a timeframe such that significant changes to the exit plan are not likely. Due to inherent uncertainty involved in estimating restructuring expenses, actual amounts paid for such activities may differ from amounts initially estimated.

### **PENSION OBLIGATIONS**

The Company provides for both defined contribution plans and defined benefit plans. A defined contribution plan generally specifies the periodic amount that the employer must contribute to the plan and how that amount will be allocated to the eligible employees who perform services during the same period. A defined benefit pension plan is one that contains pension benefit formulas, which generally determine the amount of pension benefits that each employee will receive for services performed during a specified period of employment.

The amount recognized as a defined benefit liability is the net total of projected benefit obligation (PBO) minus the fair value of plan assets (if any) (see Note 19).

## CONTINGENT LIABILITIES

Various claims, lawsuits and proceedings are pending or threatened against the Company or its subsidiaries, covering a range of matters that arise in the ordinary course of its business activities with respect to commercial, product liability or other matters (see Note 18).

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

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

The Company believes, based on currently available information, that the resolution of outstanding matters, other than any antitrust related matters described in Note 18, after taking into account recorded liabilities and available insurance coverage, should not have a material effect on the Company's financial position or results of operations.

However, due to the inherent uncertainty associated with such matters, there can be no assurance that the final outcomes of these matters will not be materially different than currently estimated.

## TRANSLATION OF NON-U.S. SUBSIDIARIES

The balance sheets of subsidiaries with functional currency other than U.S. dollars are translated into U.S. dollars using year-end exchange rates.

The Statements of Net Income of these subsidiaries is translated into U.S. dollars using the average exchange rates for the year. Translation differences are reflected in equity as a component of OCI.

## RECEIVABLES AND LIABILITIES IN NON-FUNCTIONAL CURRENCIES

Receivables and liabilities not denominated in functional currencies are converted at year-end exchange rates. Net transaction losses, reflected in the Consolidated Statements of Net Income amounted to \$(15.3) million in 2019, \$(22.1) million in 2018 and \$(27.0) million in 2017, and are recorded in operating income if they relate to operational receivables and liabilities or are recorded in other non-operating items, net if they relate to financial receivables and liabilities.

## NEW ACCOUNTING STANDARDS

### Adoption of New Accounting Standards

In August 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-12, *Derivative and Hedging (Topic 815), Targeted improvements to accounting for hedging activities*. The amendments in ASU 2017-12 better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in ASU 2017-12 also include certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The amendments in ASU 2017-12 modify disclosures required in current U.S. GAAP. Those modifications include a tabular disclosure related to the effect on the income statement of fair value and cash flow hedges and eliminate the requirement to disclose the ineffective portion of the change in fair value of hedging instruments. The amendments also require new tabular disclosures related to cumulative basis adjustments for fair value hedges. The amendments in ASU 2017-12 were effective for public business entities for annual periods beginning after December 15, 2018, and interim periods within those annual years, with early adoption permitted. For cash flow and net investment hedges existing at the date of adoption, an entity should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the annual period that an entity adopts the amendments in ASU 2017-12. The Company adopted ASU 2017-12 in the annual period beginning January 1, 2019. The adoption of ASU 2017-12 did not have a material impact on the consolidated financial statements since the Company had no cash flow hedges at the date of adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 affects any entity that enters into a lease, with some specified scope exceptions. For public business entities, the amendments in ASU 2016-02 were effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted. The Company adopted ASU 2016-02 in the annual period beginning January 1, 2019. The Company applied the modified retrospective transition method and elected the transition option to use the effective date January 1, 2019 as the date of initial application. The Company did not adjust its comparative period financial statements for effects of ASU 2016-02, nor has it made the new lease disclosures for periods before the effective date. The Company has recognized its cumulative effect transition adjustment as of the effective date. In addition, the Company has elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows the Company to carry forward the historical lease classification. The adoption of the new standard resulted in recording operating lease assets and lease liabilities of \$155.4 million as of January 1, 2019, which is shown in the table below. No material finance leases were identified as of January 1, 2019. In addition, there was no material impact on the consolidated financial statements where the Company is deemed to be the lessor in an "embedded lease" arrangement.

Balance Sheet (Dollars in millions)	Balance at December 31, 2018	Adjustments due to ASU 2016-02	Balance at January 1, 2019
<b>Assets</b>			
Right-of-use asset, operating leases	\$ —	\$ 155.4	\$ 155.4
<b>Current liabilities</b>			
Operating lease liabilities, current	—	38.7	38.7
<b>Non-current liabilities</b>			
Operating lease liabilities, non-current	—	116.7	116.7

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements in Topic 820. The amendments in ASU 2018-13 are effective for all entities for annual periods beginning after December 15, 2019, including interim periods within these annual periods. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial annual year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. An entity is permitted to early adopt either the entire standard or only the provisions that eliminate or modify disclosures upon issuance of ASU 2018-13. The Company early adopted ASU 2018-13 as of December 31, 2019 as there were no financial or disclosure impact.

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20), Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments in ASU 2018-14 remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The amendments in ASU 2018-14 are effective for public business entities for annual periods ending after December 15, 2020. Early adoption is permitted. An entity should apply the amendments in ASU 2018-14 on a retrospective basis to all periods presented. The Company early adopted ASU 2018-14 as of December 31, 2019 and removed a few disclosures to the consolidated financial statements that were considered not cost beneficial.

#### Accounting Standards Issued But Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, which requires measurement and recognition of expected credit losses for financial assets held and requires enhanced disclosures regarding significant estimates and judgments used in estimating credit losses. ASU 2016-13 is effective for public business entities for annual periods beginning after December 15, 2019, and early adoption is permitted for annual periods beginning after December 15, 2018. The Company has finalized its evaluation of the impact of its pending adoption of ASU 2016-13 on the consolidated financial statements. The Company has concluded that the pending adoption of ASU 2016-13 will not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40), Customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract*, which align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in ASU 2018-15. The amendments in ASU 2018-15 are effective for public business entities for annual periods beginning after December 15, 2019, and interim periods within those annual years. Early adoption of the amendments in ASU 2018-15 is permitted, including adoption in any interim period. The amendments in ASU 2018-15 should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company will adopt ASU 2018-15 as of January 1, 2020. As the Company will apply ASU 2018-15 prospectively, the impact to our financial statements will depend on the nature of our future cloud computing arrangements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes*, which simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and also improve consistent application of and simplify U.S. GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 is effective for public business entities for annual periods beginning after December 15, 2020, and early adoption is permitted, including adoption in any interim period. An entity that elects to early adopt the amendments in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. Additionally, an entity that elects early adoption must adopt all the amendments in the same period. The amendments in ASU 2019-12 related to separate financial statements of legal entities that are not subject to tax should be applied on a retrospective basis for all periods presented. The amendments related to changes in ownership of foreign equity method investments or foreign subsidiaries should be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The amendments related to franchise taxes that are partially based on income should be applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. All other amendments should be applied on a prospective basis. The Company is currently evaluating the impact of our pending adoption of ASU 2019-12 on the consolidated financial statements.

## RECLASSIFICATIONS

Certain prior-year amounts have been reclassified to conform to current year presentation (see Note 1 and Note 3 regarding discontinued operations).

### 3. Discontinued Operations

As discussed in Note 1, Basis of Presentation, on June 29, 2018, the Company completed the spin-off of Veoneer and the requirements for the presentation of Veoneer as a discontinued operation were met on that date. Accordingly, Veoneer's historical financial results are reflected in the Company's Consolidated Financial Statements as discontinued operations. The Company did not allocate any general corporate overhead or interest expense to discontinued operations.

The financial results of Veoneer are presented as loss from discontinued operations, net of income taxes in the Consolidated Statements of Income. The following table presents the financial results of Veoneer for the years 2018 and 2017 (dollars in millions).

	Years ended December 31	
	2018	2017
<b>Net sales</b>	<b>\$ 1,122.9</b>	<b>\$ 2,245.8</b>
Cost of sales	(896.4)	(1,776.5)
<b>Gross profit</b>	<b>226.5</b>	<b>469.3</b>
Selling, general and administrative expenses	(59.7)	(83.1)
Research, development and engineering expenses, net	(224.0)	(370.3)
Goodwill, Impairment charge	—	(234.2)
Amortization of intangibles	(10.5)	(35.8)
Other income (expense), net	(53.4)	(0.2)
<b>Operating loss</b>	<b>(121.1)</b>	<b>(254.3)</b>
Loss from equity method investments	(29.9)	(30.7)
Interest income	0.7	—
Interest expense	(0.4)	(0.1)
Other non-operating items, net	0.5	(0.8)
<b>Loss before income taxes</b>	<b>(150.2)</b>	<b>(285.9)</b>
Income tax (expense) benefit	(43.6)	0.9
<b>Loss from discontinued operations, net of income taxes</b>	<b>(193.8)</b>	<b>(285.0)</b>
Less: Net loss attributable to non-controlling interest	(8.3)	(126.1)
<b>Net loss from discontinued operations</b>	<b>\$ (185.5)</b>	<b>\$ (158.9)</b>

The Company incurred \$76.3 million in separation costs related to the spin-off of Veoneer for 2018 and was reported in Other income (expense), net. These costs are primarily related to professional fees associated with planning the spin-off, as well as spin-off activities within finance, tax, legal and information system functions and certain investment banking fees incurred upon the completion of the spin-off.

#### *Veoneer Capital Contribution*

In connection with the spin-off, Autoliv capitalized Veoneer with approximately \$1 billion of cash. Net assets of \$2,129 million were transferred to Veoneer on or prior to the Distribution Date, including \$13 million of accumulated other comprehensive loss (primarily related to pension and cumulative translation adjustment) and the non-controlling interest of \$112 million. This resulted in a \$2,030 million reduction to retained earnings. In the second half of 2018, an adjustment to the cash contribution amount of \$5 million was made reducing the net assets contributed to Veoneer to \$2,123 million. In the second quarter of 2019, an adjustment of \$0.2 million was made to true-up the \$2.5 million contribution made to Veoneer as an adjustment of deferred tax assets related to Veoneer.

The following table presents depreciation, amortization, capital expenditures, acquisition of businesses and significant non-cash items of the discontinued operations related to Veoneer for the years 2018 and 2017 (dollars in millions).

	Years ended December 31	
	2018	2017
Depreciation	\$ 44.8	\$ 82.9
Amortization of intangible assets	10.5	35.8
Capital expenditures	71.1	109.6
Acquisition in affiliate, net	71.0	123.9
M/A-COM earn-out adjustment	(14.0)	(12.7)
Undistributed loss from equity method investment	29.9	30.7



## 4. Leases

The Company has operating leases for offices, manufacturing and research buildings, machinery, automobiles, data processing and other equipment. The Company's leases have remaining lease terms of 1-47 years, some of which include options to extend the leases for up to 25 years, and some of which include options to terminate the leases within 1 year.

Finance lease right-of-use assets are presented together with other property, plant and equipment assets and finance lease liabilities are presented together with other short-term and long-term liabilities in the Consolidated Balance Sheets. The Company has not identified any material finance leases as of December 31, 2019.

As of December 31, 2019, the Company has no additional material operating leases that have not yet commenced.

The following tables provide information about the Company's leases. Since finance leases are not material the finance lease cost components have not been disclosed in the tables below.

### Lease cost (in millions)

	Year ended December 31 2019
Operating lease cost	\$ 48.5
Short-term lease cost	6.8
Variable lease cost	3.6
Sublease income	(2.4)
<b>Total lease cost</b>	<b>\$ 56.5</b>

### Other information (in millions)

	Year ended or as of December 31, 2019
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 47.6
Right-of-use assets obtained in exchange for new operating lease liabilities	55.9
Weighted-average remaining lease term - operating leases	7 years
Weighted-average discount rate - operating leases	2.3%

### Maturities of operating lease liabilities (undiscounted cash flows) are as follows:

(in millions)

	Maturities
2020	\$ 40.8
2021	28.4
2022	22.2
2023	18.7
2024	14.6
Thereafter	47.3
<b>Total operating lease payments</b>	<b>172.0</b>
Less imputed interest	(14.8)
<b>Total operating lease liabilities</b>	<b>\$ 157.2</b>

## 5. Fair Value Measurements

### ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, other current liabilities and short-term debt approximate their fair value because of the short-term maturity of these instruments.

The Company uses derivative financial instruments, "derivatives", as part of its debt management to mitigate the market risk that occurs from its exposure to changes in interest and foreign exchange rates. The Company does not enter into derivatives for trading or other speculative purposes. The Company's use of derivatives is in accordance with the strategies contained in the Company's overall financial policy. All derivatives are recognized in the consolidated financial statements at fair value. Certain derivatives are from time to time designated either as fair value hedges or cash flow hedges in line with the hedge accounting criteria. For certain other derivatives hedge accounting is not applied either because non-hedge accounting treatment creates the same accounting result or the hedge does not meet the hedge accounting requirements, although entered into applying the same rationale concerning mitigating market risk that occurs from changes in interest and foreign exchange rates.

The degree of judgment utilized in measuring the fair value of the instruments generally correlates to the level of pricing observability. Pricing observability is impacted by several factors, including the type of asset or liability, whether the asset or liability has an established market and the characteristics specific to the transaction. Instruments with readily active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, assets rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment utilized in measuring fair value.

Under U.S. GAAP, there is a disclosure framework hierarchy associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by the hierarchy are as follows:

**Level 1** - Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

**Level 2** - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

**Level 3** - Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The Company's derivatives are all classified as Level 2 of the fair value hierarchy.

The tables below present information about the Company's financial assets and liabilities measured at fair value on a recurring basis for the continuing operations as of December 31, 2019 and December 31, 2018. The carrying value is the same as the fair value as these instruments are recognized in the consolidated financial statements at fair value. Although the Company is party to close-out netting agreements (ISDA agreements) with all derivative counterparties, the fair values in the tables below and in the Consolidated Balance Sheets at December 31, 2019 and December 31, 2018 have been presented on a gross basis. According to the close-out netting agreements, transaction amounts payable to a counterparty on the same date and in the same currency can be netted. The amounts subject to netting agreements that the Company choose not to offset are presented below.

#### DERIVATIVES DESIGNATED AS HEDGING INSTRUMENTS

There were no derivatives designated as hedging instruments as of December 31, 2019 and December 31, 2018 related to the continuing operations.

#### DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

Derivatives not designated as hedging instruments, relate to economic hedges and are marked to market with all amounts recognized in the Consolidated Statements of Net Income. The derivatives not designated as hedging instruments outstanding at December 31, 2019 and December 31, 2018 were foreign exchange swaps.

For 2019, the gains and losses recognized in other non-operating items, net are a gain of \$3.5 million for derivative instruments not designated as hedging instruments. For 2018, the Company recognized a loss of \$1.5 million in other non-operating items, net for derivative instruments not designated as hedging instruments. For 2017, the Company recognized a gain of \$1.2 million in other non-operating items, net for derivative instruments not designated as hedging instruments. For 2019, 2018 and 2017, the gains and losses recognized as interest expense were immaterial.

Description	DECEMBER 31, 2019			DECEMBER 31, 2018		
	Nominal volume	Fair Value Measurements Derivative asset (Other current assets)	Fair Value Measurements Derivative liability (Other current liabilities)	Nominal volume	Fair Value Measurements Derivative asset (Other current assets)	Fair Value Measurements Derivative liability (Other current liabilities)
<b>DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS</b>						
Foreign exchange swaps, less than 6 months	934.2 <sup>1)</sup>	6.0 <sup>2)</sup>	1.8 <sup>3)</sup>	659.1 <sup>4)</sup>	1.9 <sup>5)</sup>	1.1 <sup>6)</sup>
<b>TOTAL DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS</b>	<b>\$ 934.2</b>	<b>\$ 6.0</b>	<b>\$ 1.8</b>	<b>\$ 659.1</b>	<b>\$ 1.9</b>	<b>\$ 1.1</b>

- 1) Net nominal amount after deducting for offsetting swaps under ISDA agreements is \$860.6 million.
- 2) Net amount after deducting for offsetting swaps under ISDA agreements is \$5.8 million.
- 3) Net amount after deducting for offsetting swaps under ISDA agreements is \$1.6 million.
- 4) Net nominal amount after deducting for offsetting swaps under ISDA agreements is \$659.1 million.
- 5) Net amount after deducting for offsetting swaps under ISDA agreements is \$1.9 million.
- 6) Net amount after deducting for offsetting swaps under ISDA agreements is \$1.1 million.

## FAIR VALUE OF DEBT

The fair value of long-term debt is determined either from quoted market prices as provided by participants in the secondary market or for long-term debt without quoted market prices, estimated using a discounted cash flow method based on the Company's current borrowing rates for similar types of financing. The fair value and carrying value of debt is summarized in the table below. The Company has determined that each of these fair value measurements of debt reside within Level 2 of the fair value hierarchy.

In the table below, "Bonds" relates to multiple USPP bonds and Euro denominated bonds. "Loans" relates to utilized long-term loan facilities. In June 2019, the Company issued a €100 million bond and utilized a SEK 1,200 million long-term loan facility.

The fair value and carrying value of debt for the continuing operations are summarized in the table below (dollars in millions).

	DECEMBER 31, 2019 CARRYING VALUE <sup>1)</sup>	DECEMBER 31, 2019 FAIR VALUE	DECEMBER 31, 2018 CARRYING VALUE <sup>1)</sup>	DECEMBER 31, 2018 FAIR VALUE
<b>LONG-TERM DEBT</b>				
Bonds	\$ 1,597.5	\$ 1,671.1	\$ 1,609.0	\$ 1,628.9
Loans	128.6	128.6	—	—
<b>TOTAL</b>	<b>\$ 1,726.1</b>	<b>\$ 1,799.7</b>	<b>\$ 1,609.0</b>	<b>\$ 1,628.9</b>
<b>SHORT-TERM DEBT</b>				
Commercial paper	\$ 230.7	\$ 230.7	\$ 342.6	\$ 342.6
Short-term portion of long-term debt	112.0	112.1	268.1	270.4
Overdrafts and other short-term debt	25.4	25.3	10.0	10.0
<b>TOTAL</b>	<b>\$ 368.1</b>	<b>\$ 368.1</b>	<b>\$ 620.7</b>	<b>\$ 623.0</b>

1) Debt as reported in balance sheet.

## ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS

In addition to assets and liabilities that are measured at fair value on a recurring basis, the Company also has assets and liabilities in its balance sheet that are measured at fair value on a nonrecurring basis including certain long-lived assets, including equity method investments, goodwill and other intangible assets, typically as it relates to impairment.

The Company has determined that the fair value measurements included in each of these assets and liabilities rely primarily on Company-specific inputs and the Company's assumptions about the use of the assets and settlements of liabilities, as observable inputs are not available. The Company has determined that each of these fair value measurements reside within Level 3 of the fair value hierarchy. To determine the fair value of long-lived assets as of the reporting date, the Company utilizes the projected cash flows expected to be generated by the long-lived assets, then discounts the future cash flows over the expected life of the long-lived assets.

For the period 2017-2019, the Company did not record any material impairment charges on its long-lived assets for its continuing operations.

## 6. Income Taxes

INCOME BEFORE INCOME TAXES	2019	2018	2017
U.S.	\$ 66.5	\$ 47.0	\$ 89.0
Non-U.S.	581.9	565.4	703.4
<b>Total</b>	<b>\$ 648.4</b>	<b>\$ 612.4</b>	<b>\$ 792.4</b>
PROVISION FOR INCOME TAXES	2019	2018	2017
<b>Current</b>			
U.S. federal	\$ 18.6	\$ 31.6	\$ 53.4
Non-U.S.	178.2	192.7	162.8
U.S. state and local	4.8	10.1	9.9
<b>Deferred</b>			
U.S. federal	(2.8)	0.8	21.8
Non-U.S.	(12.6)	(0.2)	(44.4)
U.S. state and local	(0.6)	(0.1)	0.9
<b>Total income tax expense</b>	<b>\$ 185.6</b>	<b>\$ 234.9</b>	<b>\$ 204.4</b>

<b>EFFECTIVE INCOME TAX RATE</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
U.S. federal income tax rate	21.0 %	21.0 %	35.0 %
Foreign tax rate variances	4.1	5.5	(7.4)
Tax credits	(1.7)	(3.9)	(3.3)
Change in Valuation Allowances	0.0	(3.2)	(4.8)
Current year losses with no benefit	0.2	0.5	0.3
Net operating loss carry-forwards	(0.1)	(0.1)	(3.7)
Changes in tax reserves	1.7	3.4	0.8
U.S. Expense Allocation	0.0	0.0	2.0
Earnings of equity investments	(0.1)	(0.1)	(0.1)
Withholding taxes	2.4	3.5	2.1
State taxes, net of federal benefit	0.4	1.1	0.3
Antitrust settlement	0.0	9.9	—
U.S. FDII Deduction	(0.5)	—	—
U.S. GILTI Tax	1.8	1.7	—
Change in U.S. tax rate	—	—	3.0
Deemed mandatory repatriation	—	—	3.1
Other, net	(0.6)	(0.9)	(1.5)
<b>Effective income tax rate</b>	<b>28.6 %</b>	<b>38.4 %</b>	<b>25.8 %</b>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. On December 31, 2019, the Company had net operating loss carryforwards (NOL's) of approximately \$252 million, of which approximately \$242 million have no expiration date. The remaining losses expire on various dates through 2029. The Company also has \$7 million of U.S. Foreign Tax Credit carry forwards, which begin to expire in 2026.

Valuation allowances have been established which partially offset the related deferred assets. Such allowances are primarily provided against NOL's of companies that have perennially incurred losses, as well as the NOL's of companies that are start-up operations and have not established a pattern of profitability. The Company assesses all available evidence, both positive and negative, to determine the amount of any required valuation allowance.

The foreign tax rate variance reflects the fact that approximately two-thirds of the Company's non-U.S. pre-tax income is generated by business operations located in tax jurisdictions where the tax rate is between 20-30%. The tax rate from quarter to quarter and from year to year is also impacted by the mix of earnings and tax rates in various jurisdictions compared to the same periods or prior years.

The Company has reserves for income taxes that may become payable in future periods as a result of tax audits. These reserves represent the Company's best estimate of the potential liability for tax exposures. Inherent uncertainties exist in estimates of tax exposures due to changes in tax law, both legislated and concluded through the various jurisdictions' court systems. The Company files income tax returns in the United States federal jurisdiction, and various states and non-U.S. jurisdictions.

At any given time, the Company is undergoing tax audits in several tax jurisdictions, covering multiple years. The Company is no longer subject to income tax examination by the U.S. Federal tax authorities for years prior to 2015. With few exceptions, the Company is no longer subject to income tax examination by U.S. state or local tax authorities or by non-U.S. tax authorities for years before 2010. The Company is undergoing tax audits in several non-U.S. jurisdictions and several U.S. state jurisdictions, covering multiple years. As of December 31, 2019, as a result of those tax examinations, the Company is not aware of any proposed income tax adjustments that would have a material impact on the Company's financial statements, however, other audits could result in additional increases or decreases to the unrecognized tax benefits in some future period or periods.

The Company recognizes interest and potential penalties accrued related to unrecognized tax benefits in tax expense. As of December 31, 2018, the Company had recorded \$54.4 million for unrecognized tax benefits related to prior years, including \$6.6 million of accrued interest and penalties. During 2019, the Company recorded a net increase of \$4.8 million to income tax reserves for unrecognized tax benefits related to tax positions taken in prior years. Also during 2019, the Company recorded a net increase of \$6.1 million to income tax reserves for unrecognized tax benefits based on tax positions taken in the current year. The Company had \$8.2 million accrued for the payment of interest and penalties as of December 31, 2019. Of the total unrecognized tax benefits of \$65.3 million recorded at December 31, 2019, \$1.8 million is classified as current income tax payable, and \$63.5 million is classified as non-current tax payable included in Other Non-Current Liabilities on the Consolidated Balance Sheets. Substantially all of these reserves would impact the effective tax rate if released into income. The following table summarizes the activity related to the Company's unrecognized tax benefits:

<b>UNRECOGNIZED TAX BENEFITS</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Unrecognized tax benefits at beginning of year</b>	<b>\$ 49.6</b>	<b>\$ 29.6</b>	<b>\$ 27.2</b>
Increases as a result of tax positions taken during a prior period	3.8	24.0	2.0
Increases as a result of tax positions taken during the current period	6.1	4.7	6.8
Decreases as a result of tax positions taken during the current period	—	(3.1)	—
Decreases relating to settlements with taxing authorities	—	(3.2)	(7.1)
Decreases resulting from the lapse of the applicable statute of limitations	(0.6)	(1.5)	(0.3)
Translation Difference	0.1	(0.9)	1.0
<b>Total unrecognized tax benefits at end of year</b>	<b>\$ 59.0</b>	<b>\$ 49.6</b>	<b>\$ 29.6</b>

The tax effect of temporary differences and carryforwards that comprise significant portions of deferred tax assets and liabilities were as follows.

<b>DEFERRED TAXES</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>DECEMBER 31</b>			
<b>Assets</b>			
Provisions	\$ 105.2	\$ 104.9	\$ 107.3
Costs capitalized for tax	25.5	18.2	18.6
Property, plant and equipment	9.8	13.0	14.2
Retirement Plans	60.6	50.1	50.0
Tax receivables, principally NOL's	93.8	113.9	150.2
<b>Deferred tax assets before allowances</b>	<b>\$ 294.9</b>	<b>\$ 300.1</b>	<b>\$ 340.3</b>
Valuation allowances	(60.7)	(71.0)	(110.6)
<b>Total</b>	<b>\$ 234.2</b>	<b>\$ 229.1</b>	<b>\$ 229.7</b>
<b>Liabilities</b>			
Acquired intangibles	\$ (3.8)	\$ (6.1)	\$ (6.6)
Statutory tax allowances	(0.2)	(0.5)	—
Distribution taxes	(15.4)	(22.9)	(22.8)
Other	(6.5)	(10.1)	(3.9)
<b>Total</b>	<b>\$ (25.9)</b>	<b>\$ (39.6)</b>	<b>\$ (33.3)</b>
<b>Net deferred tax asset</b>	<b>\$ 208.3</b>	<b>\$ 189.5</b>	<b>\$ 196.4</b>

The following table summarizes the activity related to the Company's valuation allowances:

<b>VALUATION ALLOWANCES AGAINST DEFERRED TAX ASSETS</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>DECEMBER 31</b>			
<b>Allowances at beginning of year</b>	<b>\$ 71.0</b>	<b>\$ 110.6</b>	<b>\$ 199.6</b>
Benefits reserved current year	3.9	6.4	22.9
Benefits recognized current year	(10.5)	(36.9)	(117.0)
Write-offs and other changes	—	—	(0.1)
Translation difference	(3.7)	(9.1)	5.2
<b>Allowances at end of year</b>	<b>\$ 60.7</b>	<b>\$ 71.0</b>	<b>\$ 110.6</b>

## 7. Receivables

<b>DECEMBER 31</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Receivables</b>	<b>\$ 1,632.4</b>	<b>\$ 1,659.4</b>	<b>\$ 1,703.0</b>
<b>Allowance at beginning of year</b>	<b>\$ (7.3)</b>	<b>\$ (6.3)</b>	<b>\$ (4.2)</b>
Reversal of allowance	1.6	0.9	0.9
Addition to allowance	(5.1)	(3.8)	(3.9)
Write-off against allowance	2.3	1.6	1.2
Translation difference	0.0	0.3	(0.3)
<b>Allowance at end of year</b>	<b>\$ (8.5)</b>	<b>\$ (7.3)</b>	<b>\$ (6.3)</b>
<b>Total receivables, net of allowance</b>	<b>\$ 1,623.9</b>	<b>\$ 1,652.1</b>	<b>\$ 1,696.7</b>

## 8. Inventories

<b>DECEMBER 31</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Raw material	\$ 366.3	\$ 370.9	\$ 333.2
Work in progress	257.4	277.4	263.8
Finished products	200.4	194.7	187.9
<b>Inventories</b>	<b>\$ 824.1</b>	<b>\$ 843.0</b>	<b>\$ 784.9</b>
<b>Inventory reserve at beginning of year</b>	<b>\$ (85.1)</b>	<b>\$ (80.6)</b>	<b>\$ (76.7)</b>
Reversal of reserve	11.3	1.4	4.8
Addition to reserve	(13.2)	(13.9)	(7.3)
Write-off against reserve	8.3	5.3	5.2
Translation difference	(4.5)	2.7	(6.6)
<b>Inventory reserve at end of year</b>	<b>\$ (83.2)</b>	<b>\$ (85.1)</b>	<b>\$ (80.6)</b>
<b>Total inventories, net of reserve</b>	<b>\$ 740.9</b>	<b>\$ 757.9</b>	<b>\$ 704.3</b>

## 9. Investments and Other Non-Current Assets

<b>DECEMBER 31</b>	<b>2019</b>	<b>2018</b>
Equity method investments	\$ 8.6	\$ 12.5
Deferred tax assets	244.6	235.6
Income tax receivables	25.2	33.6
Other non-current assets	108.0	41.8
<b>Investments and other non-current assets</b>	<b>\$ 386.4</b>	<b>\$ 323.5</b>

As of December 31, 2019 and 2018, the Company had one equity method investment. The Company has ownership of 49% in Autoliv-Hiroto Safety Sdn, Bhd (parent and subsidiaries) in Malaysia which it currently does not control, but in which it exercises significant influence over operations and financial position.

## 10. Property, Plant and Equipment

<b>DECEMBER 31</b>	<b>2019</b>	<b>2018</b>	<b>Estimated life</b>
Land and land improvements	\$ 114.3	\$ 114.7	n/a to 15
Buildings	888.2	822.9	20-40
Machinery and equipment	3,810.5	3,496.8	3-12
Construction in progress	329.0	374.3	n/a
<b>Property, plant and equipment</b>	<b>\$ 5,142.0</b>	<b>\$ 4,808.7</b>	
<b>Less accumulated depreciation</b>	<b>(3,326.3)</b>	<b>(3,118.6)</b>	
<b>Net of depreciation</b>	<b>\$ 1,815.7</b>	<b>\$ 1,690.1</b>	

<b>DEPRECIATION INCLUDED IN</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Cost of sales	\$ 307.0	\$ 300.9	\$ 268.9
Selling, general and administrative expenses	13.4	13.9	12.5
Research, development and engineering expenses, net	18.7	15.9	14.5
<b>Total</b>	<b>\$ 339.1</b>	<b>\$ 330.7</b>	<b>\$ 295.9</b>

No significant fixed asset impairments related to the Company's continuing operations were recognized during 2019, 2018 or 2017.

The net book value of machinery and equipment and buildings and land under finance lease contracts recorded at December 31, 2019 and December 31, 2018 were immaterial. The amortization expense related to finance leases is included with depreciation expenses disclosed in the table above.

## 11. Goodwill and Intangible Assets

<b>GOODWILL</b>	<b>2019</b>	<b>2018</b>
<b>Carrying amount at beginning of year</b>	<b>\$ 1,389.9</b>	<b>\$ 1,397.0</b>
Translation differences	(2.0)	(7.1)
<b>Carrying amount at end of year</b>	<b>\$ 1,387.9</b>	<b>\$ 1,389.9</b>

Approximately \$1.2 billion of the Company's goodwill is associated with the 1997 merger of Autoliv AB and the Automotive Safety Products Division of Morton International, Inc. No goodwill impairment charges were recognized in continuing operations during 2019, 2018 or 2017.

<b>AMORTIZABLE INTANGIBLES</b>	<b>2019</b>	<b>2018</b>
Gross carrying amount	\$ 398.9	\$ 391.6
Accumulated amortization	(376.6)	(358.9)
<b>Carrying value</b>	<b>\$ 22.3</b>	<b>\$ 32.7</b>

At December 31, 2019, intangible assets subject to amortization mainly relate to acquired technology. No significant impairments of intangible assets were recognized during 2019, 2018 or 2017.

Amortization expense related to intangible assets was \$11.5 million, \$11.3 million and \$11.2 million in 2019, 2018 and 2017, respectively. Estimated future amortization expense is (in millions): 2020: \$10.5; 2021: \$10.0; 2022: \$7.6; 2023: \$7.5 and 2024: \$7.5.

## 12. Restructuring

Restructuring provisions are made on a case-by-case basis and primarily include severance costs incurred in connection with headcount reductions and plant consolidations. The Company expects to finance restructuring programs over the next several years through cash generated from its ongoing operations or through cash available under its existing credit facilities. The Company does not expect that the execution of these programs will have an adverse impact on its liquidity position. The changes in the employee-related reserves have been charged against Other income (expense), net in the Consolidated Statements of Net Income.

### 2019

The provision recorded in 2019 of \$56.9 million mainly relates to the Structural efficiency program initiated in the second quarter of 2019 and is expected to be concluded in the second quarter of 2020. The total cost of the Structural efficiency program is expected to be \$52.0 million, and as of December 31, 2019, approximately \$23 million out of the \$56.1 million total reserve balance can be attributed to these activities. The remaining balance relates to older restructuring programs, primarily in Western Europe, which is expected to be settled in 2021. Cash payments in 2019 mainly relates to the Structural efficiency program initiated in 2019. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2018 to December 31, 2019 (dollars in millions).

	<b>December 31 2018</b>	<b>Provision/ Charge</b>	<b>Provision/ Reversal</b>	<b>Cash payments</b>	<b>Translation difference</b>	<b>December 31 2019</b>
Restructuring employee-related	\$ 33.2	\$ 56.9	\$ (3.0)	\$ (30.3)	\$ (0.9)	\$ 55.9
Other	0.2	—	—	—	0.0	0.2
<b>Total reserve</b>	<b>\$ 33.4</b>	<b>\$ 56.9</b>	<b>\$ (3.0)</b>	<b>\$ (30.3)</b>	<b>\$ (0.9)</b>	<b>\$ 56.1</b>

### 2018

In 2018, the employee-related restructuring provisions, made on a case-by-case basis, and cash payments related mainly to headcount reductions in high-cost countries in Western Europe. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2017 to December 31, 2018 (dollars in millions).

	<b>December 31 2017</b>	<b>Provision/ Charge</b>	<b>Provision/ Reversal</b>	<b>Cash payments</b>	<b>Translation difference</b>	<b>December 31 2018</b>
Restructuring employee-related	\$ 39.4	\$ 9.0	\$ (0.1)	\$ (13.6)	\$ (1.5)	\$ 33.2
Other	0.2	0.2	—	—	(0.2)	0.2
<b>Total reserve</b>	<b>\$ 39.6</b>	<b>\$ 9.2</b>	<b>\$ (0.1)</b>	<b>\$ (13.6)</b>	<b>\$ (1.7)</b>	<b>\$ 33.4</b>

### 2017

In 2017, the employee-related restructuring provisions, made on a case-by-case basis, and cash payments related mainly to headcount reductions in high-cost countries in Western Europe and Japan. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2016 to December 31, 2017 (dollars in millions).

	<b>December 31 2016</b>	<b>Provision/ Charge</b>	<b>Provision/ Reversal</b>	<b>Cash payments</b>	<b>Translation difference</b>	<b>December 31 2017</b>
Restructuring employee-related	\$ 35.7	\$ 29.3	\$ (6.9)	\$ (23.3)	\$ 4.6	\$ 39.4
Other	0.1	0.2	—	—	(0.1)	0.2
<b>Total reserve</b>	<b>\$ 35.8</b>	<b>\$ 29.5</b>	<b>\$ (6.9)</b>	<b>\$ (23.3)</b>	<b>\$ 4.5</b>	<b>\$ 39.6</b>

## 13. Product Related Liabilities

Autoliv is exposed to product liability and warranty claims in the event that the Company's products fail to perform as represented and such failure results, or is alleged to result, in bodily injury, and/or property damage or other loss. The Company has reserves for product risks. Such reserves are related to product performance issues including recall, product liability and warranty issues. For further information, see Note 18.

The Company records liabilities for product related risks when probable claims are identified and when it is possible to reasonably estimate costs. Provisions for warranty claims are estimated based on prior experience, likely changes in performance of newer products, and the mix and volume of the products sold. The provisions are recorded on an accrual basis.

Pursuant to the Spin-off Agreements, Autoliv is also required to indemnify Veoneer for recalls related to certain qualified Electronics products. At December 31, 2019, the indemnification liabilities are approximately \$8 million within accrued expenses on the Consolidated Balance Sheet.

In 2017-2019 provisions and cash payments primarily relate to recall and warranty related issues. A majority of the Company's recall related issues as of December 31, 2019 are covered by insurance. Insurance receivables are included within other current and non-current assets in the Consolidated Balance Sheet.

The table below summarizes the change in the balance sheet position of the product related liabilities (dollars in millions).

	2019	2018	2017
<b>Reserve at beginning of the year</b>	<b>\$ 62.2</b>	<b>\$ 95.6</b>	<b>\$ 90.6</b>
Change in reserve	39.3	20.6	32.2
Cash payments	(29.1)	(54.3)	(29.4)
Translation difference	(0.3)	0.3	2.2
<b>Reserve at end of the year</b>	<b>\$ 72.1</b>	<b>\$ 62.2</b>	<b>\$ 95.6</b>

## 14. Debt and Credit Agreements

### SHORT-TERM DEBT

As of December 31, 2019, total short-term debt was \$368 million (2018: \$621 million). Short-term debt consisted mainly of \$231 million commercial paper loans with maturities in January 2020 and \$112 million bond with maturity in December 2020.

The Company's subsidiaries have credit agreements, principally in the form of overdraft facilities with several local banks. Total available short-term facilities as of December 31, 2019, excluding commercial paper facilities as described below, amounted to \$387 million, of which approximately \$25 million was utilized. The weighted average interest rate on total short-term debt outstanding at December 31, 2019 and 2018, excluding the short-term portion of long-term debt, was 1.0% and 1.4%, respectively.

### LONG-TERM DEBT

As of December 31, 2019, total long-term debt was \$1,726 million.

In June 2019, the Company issued a €100 million bond and utilized a SEK 1,200 million long term loan facility. In June 2018, the Company also issued €500 million of 5-year notes in the Eurobond market. The notes carry a coupon of 0.75%.

In 2014, the Company issued long-term debt securities in a U.S. Private Placement. The current long-term debt outstanding from the 2014 issuance consist of: \$275 million aggregate principal amount of 7-year senior notes with an interest rate of 3.51%; \$297 million aggregate principal amount of 10-year senior notes with an interest rate of 4.09%; \$285 million aggregate principal amount of 12-year senior notes with an interest rate of 4.24%; and \$185 million aggregate principal amount of 15-year senior notes with an interest rate of 4.44%.

### CREDIT FACILITIES

In July 2016, the Company signed a \$1,100 million senior unsecured revolving credit facility with 14 banks. The term of the facility was 5 years with two one-year extension options. The Company has utilized these extension options and extended the maturity to July 2023. The Company pays a commitment fee on the undrawn amount. The commitment fee is 35% of the applicable margin. The applicable margin is related to the Company's credit rating. Given the Company's current credit rating of BBB+ from S&P Global Ratings, the applicable margin is 0.275%. As of December 31, 2019, and December 31, 2018, the facility was not utilized.

The Company has two commercial paper programs: one SEK 7 billion (approx. \$751 million) Swedish program and a \$1.0 billion U.S. program. At December 31, 2019 a total of \$231 million had been issued under these programs.

The Company is not subject to any financial covenants, i.e. performance related restrictions, in any of its significant long-term borrowings or commitments.

### CREDIT RISK

In the Company's financial operations, credit risk arises in connection with cash deposits with banks and when entering into forward exchange agreements, swap contracts or other financial instruments. In order to reduce this risk, deposits and financial instruments are only entered with a limited number of banks up to a calculated risk amount of \$150 million per bank for banks rated A- or above and up to \$50 million for banks rated BBB+. The policy of the Company is to work with banks that have a strong credit rating and that participate in the Company's financing. In addition to this, deposits of up to an aggregate amount of \$2 billion can be placed in U.S. and Swedish government paper and in certain AAA rated money market funds. As of December 31, 2019, the Company had placed \$24 million in money market funds.



The table below shows debt maturity as cash flow. For a description of hedging instruments used as part of debt management, see the Financial Instruments section of Note 2 and Note 5.

## DEBT PROFILE

<b>PRINCIPAL AMOUNT BY EXPECTED MATURITY</b> (dollars in millions)	2020	2021	2022	2023	2024	Thereafter	Total long-term	Total
Bonds	\$ 112	\$ 275	\$ —	\$ 560	\$ 297	\$ 470	\$ 1,602	\$ 1,714
Loans	—	—	129	—	—	—	129	129
Commercial papers	231	—	—	—	—	—	—	231
Other short-term debt	25	—	—	—	—	—	—	25
<b>Total principal amount</b>	<b>\$ 368</b>	<b>\$ 275</b>	<b>\$ 129</b>	<b>\$ 560</b>	<b>\$ 297</b>	<b>\$ 470</b>	<b>\$ 1,731</b>	<b>\$ 2,099</b> <sup>1)</sup>

1) The difference between reported total debt and total principal amount is mainly related to capitalized debt issuance costs.

## 15. Shareholders' Equity

The number of shares outstanding as of December 31, 2019 was 87,245,675.

<b>DIVIDENDS</b>	2019	2018	2017
Cash dividend paid per share	\$ 2.48	\$ 2.46	\$ 2.38
Cash dividend declared per share	\$ 2.48	\$ 2.48	\$ 2.40

<b>OTHER COMPREHENSIVE LOSS / ENDING BALANCE<sup>1)</sup></b>	2019	2018	2017
Cumulative translation adjustments	\$ (364.9)	\$ (381.2)	\$ (230.5)
Net loss of cash flow hedge derivatives	—	—	(0.8)
Net pension liability	(84.0)	(55.0)	(56.2)
Distribution to Veoneer	—	13.0	—
<b>Total (ending balance)</b>	<b>\$ (448.9)</b>	<b>\$ (423.2)</b>	<b>\$ (287.5)</b>
Deferred taxes on the pension liability	\$ 24.6	\$ 15.4	\$ 16.5

1) The components of Other Comprehensive Loss are net of any related income tax effects.

## SHARE REPURCHASE PROGRAM

The Company's Board of Directors approved a share repurchase program in 2000 authorizing the repurchase of 10 million shares and subsequently expanded the authorization four times between 2000 and 2014 to 47.5 million shares. There were no share repurchases made during 2019 and 2018. The Company made repurchases during the second quarter of 2017. There is no expiration date for the share repurchase program. The Company is authorized to repurchase an additional 2,986,288 shares under the program at December 31, 2019.

<b>SHARES</b>	2019	2018	2017
Shares repurchased (shares in millions)	—	—	1.4
Cash paid for shares	\$ —	\$ —	\$ 157.0

## 16. Supplemental Cash Flow Information

Payments for interest and income taxes were as follows:

	2019	2018	2017
Interest	\$ 72	\$ 66	\$ 64
Income taxes	192	214	204

## 17. Stock Incentive Plan

Eligible employees and non-employee directors of Autoliv participate in the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and received Autoliv stock-based awards which include stock options (SOs), restricted stock units (RSUs) and performance shares (PSs). In connection with the Veoneer spin-off, each outstanding Autoliv stock-based award as of June 29, 2018 (the Distribution Date) was converted to a stock award that has underlying shares of both Autoliv and Veoneer common shares.

The conversion that occurred on the Distribution Date was based on the following:

- SOs - A number of SOs comprising 50% of the value of the outstanding SOs calculated immediately prior to the spin-off continued to be applicable to Autoliv common stock. A number of SOs comprising the remaining 50% percent of the pre-spin-off value were replaced with options to acquire shares of Veoneer common stock.
- RSUs - A number of RSUs comprising 50% of the value of the outstanding RSUs calculated immediately prior to the spin-off continued to be applicable to Autoliv common stock. A number of RSUs comprising the remaining 50% of the pre-spin-off value were replaced with RSUs with underlying Veoneer common stock.
- PSs - Outstanding PSs pre-spin-off were converted to time-based RSUs and were divided between Autoliv and Veoneer common stock in the same manner as other outstanding RSUs (as described above) on the Distribution Date. The number of outstanding PSs pre-spin-off to be converted was determined based on pro-ration of the performance period such as:
  - 1) The level of actual achievement of performance goals for each outstanding PS for the period between the first day of the performance period and December 31, 2017 (the "Performance Measurement Date"), referred to as "Level of Performance-to-Date"; and
  - 2) The greater of the Level of Performance-to-Date and the target performance level for the period between the Performance Measurement Date and the last day of the performance period.

In each case above, the conversion was intended to generally preserve the intrinsic value of the original award determined as of the Distribution Date. The number of converted RSUs and SOs for Autoliv and Veoneer was based on the average of Autoliv closing stock prices for the last 5 trading days prior to the spin-off and the average of closing stock prices of Autoliv and Veoneer, respectively, for the first 5 trading days after the spin-off. Accordingly, 50% of the outstanding awards as of the Distribution Date, and the related exercise price, were converted to Adjusted Autoliv Awards using a conversion factor of 1.41.

As a result of the spin-off and the related conversion, it was determined that the stock based awards were modified in accordance with ASC 718, Compensation – *Stock Compensation*. The fair value of the RSUs and SOs immediately before and after the modification was assessed in order to determine if the modification resulted in any incremental compensation cost related to the awards, including consideration of the impact of conversion using the 5 trading day average. Based on the valuation performed, it was determined that the conversion did not result in any incremental compensation cost for any of the outstanding awards. The post spin-off stock-based compensation expense will be based on the original grant date fair value related to only Autoliv employees.

With certain limited exceptions, including the freezing of the Performance Measurement Date to December 31, 2017 as noted above, the adjusted SOs and RSUs outstanding after the spin-off are subject to the same terms and conditions (including with respect to vesting and expiration) that were applicable to such Autoliv stock-based awards immediately prior to the conversion and as described below.

The fair value of the RSUs and PSs is calculated as the grant date fair value of the shares expected to be issued. The RSUs granted in 2019, 2018 and 2017 entitle the grantee to receive dividend equivalents in the form of additional RSUs subject to the same vesting conditions as the underlying RSUs. The RSUs granted prior to 2017 do not have dividend equivalent rights. For the grants made during 2019, 2018 and 2017, the fair value of a PS and a RSU was calculated by using the closing stock price on the grant date. For the grants made during 2016 and earlier, the fair value of a RSU and a PS was estimated using the Black Scholes valuation model to account for the difference in the value of the awards resulting from such awards not having dividend equivalent rights. The grant date fair value during 2019 was \$6.6 million for the RSUs and \$5.0 million for the PSs.

Pursuant to the Company's director compensation policy, the Company's non-employee directors receive RSUs as payment of 50% of their annual base retainer, which RSUs vest in one installment on the earlier of the date of the next AGM or the first anniversary of the grant date, in each case subject to the grantee's continued service as a non-employee director on the vesting date with certain exceptions. The RSUs granted to the Company's non-employee directors entitle the grantee to receive dividend equivalents in the form of additional RSUs subject to the same vesting conditions as the underlying RSUs. The grant date fair value for the RSUs granted in 2019 to the Company's non-employee directors was \$1.2 million.

The source of the shares issued upon vesting of awards is generally from treasury shares. The Stock Incentive Plan provides for the issuance of up to 9,585,055 common shares for awards. At December 31, 2019, 6,532,856 of these shares have been issued for awards which includes 52,629 shares of common stock issued to non-employee directors in satisfaction of all or a portion of his or her annual base retainer for service on the Board. Included within the RSUs granted in 2019 are 15,785 RSUs issued to non-employee directors in satisfaction of all or a portion of his or her annual base retainer for service on the Board.

In 2015 and earlier, stock awards were granted in the form of SOs and RSUs. All SOs were granted for 10-year terms, had an exercise price equal to the fair value of the share at the date of grant, and became exercisable after one year of continued employment following the grant date. The average grant date fair values of SOs were calculated using the Black-Scholes valuation model. The Company used historical exercise data for determining the expected life assumption. Expected volatility was based on historical and implied volatility.

The Company recorded \$8.4 million, \$9.1 million and \$6.1 million stock-based compensation expense in continuing operations related to RSUs and PSs for 2019, 2018 and 2017, respectively. The total compensation cost related to non-vested awards not yet recognized is \$12.0 million for RSUs and the weighted average period over which this cost is expected to be recognized is approximately 1.5 years. There are no remaining unrecognized compensation costs associated with SOs.

Information on the number of RSUs, PSs and SOs related to the Stock Incentive Plan during the period of 2017 to 2019 is as follows.

<b>RSUs</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Weighted average fair value at grant date <sup>1)</sup></b>	<b>\$ 76.85</b>	<b>\$ 131.51</b>	<b>\$ 105.64</b>
<b>Outstanding at beginning of year</b>	<b>262,074</b>	<b>188,410</b>	<b>188,494</b>
Granted	109,653	131,246	84,771
Shares issued	(86,086)	(84,425)	(70,795)
Cancelled/Forfeited/Expired	(30,446)	(6,485)	(14,060)
Spin conversion <sup>2)</sup>	—	33,328	—
<b>Outstanding at end of year<sup>3)</sup></b>	<b>255,195</b>	<b>262,074</b>	<b>188,410</b>

<sup>1)</sup> Weighted average fair value at grant date pre spin-off in 2018 and 2017.

<sup>2)</sup> Reflects the impact of the cancellation of PS awards outstanding as of the Distribution Date, and the conversion to RSUs in accordance with the conversion factor described above.

<sup>3)</sup> Outstanding at the end of 2018 reflects the RSUs held by employees of Autoliv and Veoneer, in accordance with the conversion factor described above. Outstanding at the end of 2017 reflects RSUs held by employees of Autoliv. The corresponding weighted average grant date fair value after applying the conversion factor is \$100.74 as of December 31, 2018.

The aggregate intrinsic value for RSUs outstanding at December 31, 2019 was \$21.5 million.

<b>PSs</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Weighted average fair value at grant date <sup>1)</sup></b>	<b>\$ 77.00</b>	<b>\$ 105.87</b>	<b>\$ 105.87</b>
<b>Outstanding at beginning of year</b>	<b>—</b>	<b>139,891</b>	<b>138,548</b>
Change in performance conditions	12,530	—	(69,274)
Granted <sup>2)</sup>	66,542	588	75,379
Cancelled/Forfeited/Expired	(2,751)	(3,076)	(4,762)
Spin conversion <sup>3)</sup>	—	(137,403)	—
<b>Outstanding at end of year <sup>4)</sup></b>	<b>76,321</b>	<b>—</b>	<b>139,891</b>

<sup>1)</sup> Weighted average fair value at grant date pre spin-off in 2018 and 2017.

<sup>2)</sup> 2018 grants reflect awards issued pre-spin-off as a result of dividend equivalent rights.

<sup>3)</sup> Reflects the replacement of awards due to the spin-off. Outstanding PS awards were converted to RSU awards in accordance with the conversion factor described above.

<sup>4)</sup> Outstanding at the end of 2017 reflects PSs held by employees of Autoliv.

The PSs granted include assumptions regarding the ultimate number of shares that will be issued based on the probability of achievement of the performance conditions. Changes in those assumptions result in changes in the estimated shares to be issued which is reflected in the "Change in performance conditions" line above.

<b>SOs</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>
<b>Outstanding at Dec 31, 2016</b>	<b>411,109</b>	<b>\$ 87.47</b>
Exercised	(100,184)	79.58
Cancelled/Forfeited/Expired	(10,976)	112.20
<b>Outstanding at Dec 31, 2017</b>	<b>299,949</b>	<b>89.20</b>
Exercised	(92,485)	86.59
Spin conversion <sup>1)</sup>	(65,390)	88.75
<b>Outstanding at Dec 31, 2018 <sup>2)</sup></b>	<b>142,074</b>	<b>63.43</b>
Exercised	(20,928)	42.11
Cancelled/Forfeited/Expired	(5,271)	80.40
<b>Outstanding at Dec 31, 2019 <sup>2)</sup></b>	<b>115,875</b>	<b>\$ 66.70</b>

#### **OPTIONS EXERCISABLE**

At December 31, 2017	299,949	\$ 89.20
At December 31, 2018	142,074	63.43
At December 31, 2019	115,875	66.70

<sup>1)</sup> Reflects the cancellation of SOs outstanding as of the Distribution Date, and the conversion to new awards in accordance with the conversion factor described above. The weighted average exercise price reflects the exercise price of the shares cancelled due to the spin-off.

<sup>2)</sup> Reflects outstanding SOs held by employees of Autoliv and Veoneer at the end of the year and the weighted average exercise price after applying the conversion factor described above.

The following summarizes information about SOs outstanding and exercisable at December 31, 2019:

<b>RANGE OF EXERCISE PRICES</b>	<b>Number outstanding &amp; exercisable</b>	<b>Remaining contract life (in years)</b>	<b>Weighted average exercise price</b>
\$31.71	3,805	0.13	\$ 31.71
\$47.52	7,521	2.15	47.52
\$49.07	15,306	3.14	49.07
\$51.74	7,759	1.15	51.74
\$67.29	34,567	4.14	67.29
\$80.40	46,917	5.13	80.40
	<b>115,875</b>	<b>7.90</b>	<b>66.70</b>

The total aggregate intrinsic value, which is the difference between the exercise price and \$84.41 (closing price per share at December 31, 2019), for all “in the money” SOs, both outstanding and exercisable as of December 31, 2019, was \$2.1 million.

## 18. Contingent Liabilities

### LEGAL PROCEEDINGS

Various claims, lawsuits and proceedings are pending or threatened against the Company or its subsidiaries, covering a range of matters that arise in the ordinary course of its business activities with respect to commercial, product liability and other matters. Litigation is subject to many uncertainties, and the outcome of any litigation cannot be assured. After discussions with counsel, and with the exception of losses resulting from the antitrust proceedings described below, it is the opinion of management that the various legal proceedings and investigations to which the Company currently is a party will not have a material adverse impact on the consolidated financial position of Autoliv, but the Company cannot provide assurance that Autoliv will not experience material litigation, product liability or other losses in the future.

### ANTITRUST MATTERS

Authorities in several jurisdictions are currently or have been conducting broad, and in some cases, long-running investigations of suspected anti-competitive behavior among parts suppliers in the global automotive vehicle industry. These investigations include, but are not limited to, the products that the Company sells. In addition to concluded and pending matters, authorities of other countries with significant light vehicle manufacturing or sales may initiate similar investigations. It is the Company’s policy to cooperate with governmental investigations.

#### European Commission (“EC”) Investigations:

On June 7-9, 2011, representatives of the European Commission (“EC”), the European antitrust authority, visited two facilities of a Company subsidiary in Germany to gather information for an investigation of anti-competitive behavior among suppliers of occupant safety systems.

On November 22, 2017, the EC concluded a discrete portion of its investigation and imposed a fine on the Company of €8.1 million (approximately \$9.7 million) with respect to this portion of the EC’s overall investigation while it continued the more significant portion of its investigation. The Company paid this amount during the first quarter of 2018, and had previously accrued €8.3 million (approximately \$9.9 million) in 2017 with respect to this discrete portion of the investigation.

On March 5, 2019, the EC completed the remaining portion of the investigation and imposed a fine on the Company of €179 million (approximately \$203 million). In the fourth quarter of 2018, the Company had previously accrued €184 million (approximately \$210 million) with respect to the remaining portion of the investigation. The difference between the actual fine and the accrual is reported in Other income (expense), net in the Consolidated Statements of Net Income. The final payment of the actual fine was made in June 2019.

#### Civil Litigation:

The Company is subject to civil litigation alleging anti-competitive conduct in the U.S. and Canada. Specifically, the Company, several of its subsidiaries and its competitors were named as defendants in a total of nineteen purported antitrust class action lawsuits filed between June 2012 and June 2015. Fifteen of these lawsuits were filed in the U.S. and were consolidated in the Occupant Safety Systems (OSS) segment of the Automobile Parts Antitrust Litigation, a Multi-District Litigation (MDL) proceeding in the United States District Court for the Eastern District of Michigan. Plaintiffs in the U.S. cases sought to represent four purported classes - direct purchasers, auto dealers, end-payers, and, as of the filing of the last class action in June 2015, truck and equipment dealers - who purchased occupant safety systems or components directly from a defendant, indirectly through purchases or leases of new vehicles containing such systems, or through purchases of replacement parts.

In May 2014, the Company, without admitting any liability, entered into separate settlement agreements with the direct purchasers, auto dealers and end-payers plaintiff classes, which were granted final approval by the MDL court in 2015 and 2016. In April 2016, the Company entered into a settlement agreement with the truck and equipment dealers’ class, which was granted final approval by the MDL court in 2016. The class settlements do not resolve any claims of settlement class members who opt-out of the settlements or the unasserted claims of any purchasers of occupant safety systems who are not otherwise included in a settlement class, such as states and municipalities.

## PRODUCT WARRANTY, RECALLS AND INTELLECTUAL PROPERTY

Autoliv is exposed to various claims for damages and compensation if its products fail to perform as expected. Such claims can be made, and result in costs and other losses to the Company, even where the product is eventually found to have functioned properly. Where a product (actually or allegedly) fails to perform as expected or is defective, the Company may face warranty and recall claims. Where such (actual or alleged) failure or defect results, or is alleged to result, in bodily injury and/or property damage, the Company may also face product liability and other claims. There can be no assurance that the Company will not experience material warranty, recall or product (or other) liability claims or losses in the future, or that the Company will not incur significant costs to defend against such claims. The Company may be required to participate in a recall involving its products. Each vehicle manufacturer has its own practices regarding product recalls and other product liability actions relating to its suppliers. As suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, vehicle manufacturers are increasingly looking to their suppliers for contribution when faced with recalls and product liability claims. Government safety regulators may also play a role in warranty and recall practices. Recall decisions regarding the Company's products may require a significant amount of judgment by us, our customers and safety regulators and are influenced by a variety of factors. Once a recall has been made, the cost of a recall is also subject to a significant amount of judgment and discussions between the Company and its customers. A warranty, recall or product-liability claim brought against the Company in excess of its insurance may have a material adverse effect on the Company's business. Vehicle manufacturers are also increasingly requiring their outside suppliers to guarantee or warrant their products and bear the costs of repair and replacement of such products under new vehicle warranties. A vehicle manufacturer may attempt to hold the Company responsible for some, or all, of the repair or replacement costs of products when the product supplied did not perform as represented by us or expected by the customer in either a warranty or a recall situation. Accordingly, the future costs of warranty or recall claims by the customers may be material. However, the Company believes its established reserves are adequate. Autoliv's warranty reserves are based upon the Company's best estimates of amounts necessary to settle future and existing claims. The Company regularly evaluates the adequacy of these reserves, and adjusts them when appropriate. However, the final amounts actually due related to these matters could differ materially from the Company's recorded estimates.

In addition, as vehicle manufacturers increasingly use global platforms and procedures, quality performance evaluations are also conducted on a global basis. Any one or more quality, warranty or other recall issue(s) (including those affecting few units and/or having a small financial impact) may cause a vehicle manufacturer to implement measures such as a temporary or prolonged suspension of new orders, which may have a material impact on the Company's results of operations.

The Company carries insurance for potential recall and product liability claims at coverage levels based on our prior claims experience. In addition, a number of the agreements entered into by the Company, including the Spin-off Agreements, require Autoliv to indemnify the other parties for certain claims. Autoliv cannot assure that the level of coverage will be sufficient to cover every possible claim that can arise in our businesses or with respect to other obligations, now or in the future, or that such coverage always will be available should we, now or in the future, wish to extend, increase or otherwise adjust our insurance.

### Toyota Recall:

On June 29, 2016, the Company announced that it is cooperating with Toyota Motor Corp. in its recall of approximately 1.4 million vehicles equipped with a certain model of the Company's side curtain airbag (the "Toyota Recall"). The Company continues to cooperate with Toyota regarding the analysis of the root cause of the issue and potential liability and indemnification obligations of the parties. If the Company is obligated to indemnify Toyota for any of the costs associated with the Toyota Recall, the Company expects that its insurance will generally cover such costs and liabilities. The Company's insurance policies generally include coverage of the costs of a recall, although costs related to replacement parts are generally not covered.

The Company has determined pursuant to ASC 450 that a loss with respect to this issue is probable and therefore has accrued an immaterial amount related to potential costs for replacement parts. The ultimate costs to the Company of the Toyota Recall could be materially different from the amount the Company has accrued. However, the Company continues to believe that the Company's loss, net of expected insurance recoveries, will be less than \$20 million. The main variables affecting the ultimate cost for the Company include: the determination of proportionate responsibility (if any) among Toyota, the Company, and any relevant sub-suppliers; the ultimate number of vehicles repaired; the cost of repair per vehicle; and the actual recoveries from sub-suppliers and insurers.

### Intellectual property

In its products, the Company utilizes technologies which may be subject to intellectual property rights of third parties. While the Company does seek to procure the necessary rights to utilize intellectual property rights associated with its products, it may fail to do so. Where the Company so fails, the Company may be exposed to material claims from the owners of such rights. Where the Company has sold products which infringe upon such rights, its customers may be entitled to be indemnified by the Company for the claims they suffer as a result thereof. Such claims could be material.

The table in Note 13 Product Related Liabilities above summarizes the change in the balance sheet position of the product related liabilities for the fiscal year ended December 31, 2019.

## 19. Retirement Plans

### DEFINED CONTRIBUTION PLANS

Many of the Company's employees are covered by government sponsored pension and welfare programs. Under the terms of these programs, the Company makes periodic payments to various government agencies. In addition, in some countries the Company sponsors or participates in certain non-governmental defined contribution plans. Contributions to defined contribution plans for the years ended December 31, 2019, 2018 and 2017 were \$15.7 million, \$19.2 million and \$21.7 million, respectively.

### MULTIEMPLOYER PLANS

The Company participates in a multiemployer plan in Sweden. This ITP-2 plan is funded through Alecta and covers employees born before 1979, for whom it provides a final pay pension benefit based on all service with participating employers. The Company must pay for wage increases in excess of inflation on service earned with previous employers. The plan also provides disability and family benefits and is more than 100% funded. The Company's contributions to this multiemployer plan for the years ended December 31, 2019, 2018 and 2017 were \$3.9 million, \$6.1 million and \$9.7 million, respectively.

### DEFINED BENEFIT PLANS

The Company has a number of defined benefit pension plans, both contributory and non-contributory, in the U.S., France, Germany, India, Japan, Mexico, Philippines, Sweden, South Korea, Thailand, Turkey and the United Kingdom. There are funded as well as unfunded plan arrangements which provide retirement benefits to both U.S. and non-U.S. participants.

The main plan is the U.S. plan for which the benefits are based on an average of the employee's earnings in the years preceding retirement and on credited service. In a prior year, the Company closed participation in the Autoliv ASP, Inc. Pension Plan to exclude those employees hired after December 31, 2003. Within the U.S. there is also a non-qualified restoration plan that provides benefits to employees whose benefits in the primary U.S. plan are restricted by limitations on the compensation that can be considered in calculating their benefits. During December 2017 the Company amended the U.S. defined benefit pension plan, communicating a benefits freeze that will begin on December 31, 2021.

For the Company's non-U.S. defined benefit plans the most significant individual plan is in the U.K. The Company has closed participation in the U.K. defined benefit plan to exclude all employees hired after April 30, 2003 with few members currently accruing benefits.

### CHANGES IN BENEFIT OBLIGATIONS AND PLAN ASSETS FOR THE PERIODS ENDED DECEMBER 31

(Dollars in millions)	U.S.		Non-U.S.	
	2019	2018	2019	2018
<b>Benefit obligation at beginning of year</b>	<b>\$ 332.1</b>	<b>\$ 368.6</b>	<b>\$ 216.9</b>	<b>\$ 220.9</b>
Service cost	6.9	8.7	10.7	10.8
Interest cost	14.2	12.8	6.4	5.7
Actuarial (gain) loss due to:				
Change in discount rate	67.8	(44.6)	27.7	(12.1)
Experience	(0.4)	0.8	(1.0)	4.7
Other assumption changes	3.0	3.5	(1.2)	4.8
Plan amendments	—	—	1.6	(0.1)
Benefits paid	(23.5)	(17.7)	(8.4)	(7.9)
Plan settlements	—	—	(1.2)	(0.8)
Curtailments	—	—	—	—
Special termination benefits	—	—	0.5	0.5
Translation difference	—	—	0.6	(9.6)
<b>Benefit obligation at end of year</b>	<b>\$ 400.1</b>	<b>\$ 332.1</b>	<b>\$ 252.6</b>	<b>\$ 216.9</b>
<b>Fair value of plan assets at beginning of year</b>	<b>\$ 273.0</b>	<b>\$ 297.9</b>	<b>\$ 77.8</b>	<b>\$ 84.8</b>
Actual return on plan assets	67.0	(13.9)	8.9	(1.9)
Company contributions	7.3	6.7	9.5	9.0
Benefits paid	(23.5)	(17.7)	(8.4)	(7.9)
Plan settlements	—	—	(1.2)	(0.8)
Translation difference	—	—	2.1	(5.4)
<b>Fair value of plan assets at end of year</b>	<b>\$ 323.8</b>	<b>\$ 273.0</b>	<b>\$ 88.7</b>	<b>\$ 77.8</b>
<b>Funded status recognized in the balance sheet</b>	<b>\$ (76.3)</b>	<b>\$ (59.1)</b>	<b>\$ (163.9)</b>	<b>\$ (139.1)</b>

The U.S. plan provides that benefits may be paid in the form of a lump sum if so elected by the participant. In order to more accurately reflect a market-derived pension obligation, Autoliv adjusts the assumed lump sum interest rate to reflect market conditions as of each December 31. This methodology is consistent with the approach required under the Pension Protection Act of 2006, which provides the rules for determining minimum funding requirements in the U.S.

## COMPONENTS OF NET PERIODIC BENEFIT COST ASSOCIATED WITH THE DEFINED BENEFIT RETIREMENT PLANS

(Dollars in millions)	U.S.		
	2019	2018	2017
Service cost	\$ 6.9	\$ 8.7	\$ 9.0
Interest cost	14.2	12.8	14.8
Expected return on plan assets	(13.5)	(20.4)	(17.6)
Amortization of prior service credit	0.0	0.1	0.0
Amortization of actuarial loss	1.9	2.2	6.0
Curtailment loss	—	—	0.2
<b>Net periodic benefit cost</b>	<b>\$ 9.5</b>	<b>\$ 3.4</b>	<b>\$ 12.4</b>

(Dollars in millions)	Non-U.S.		
	2019	2018	2017
Service cost	\$ 10.7	\$ 10.8	\$ 10.4
Interest cost	6.4	5.7	5.5
Expected return on plan assets	(1.9)	(2.0)	(1.9)
Amortization of prior service costs	0.3	0.3	0.2
Amortization of actuarial loss	0.9	1.4	1.9
Settlement loss	0.6	0.2	0.1
Special termination benefits	0.5	0.5	0.3
<b>Net periodic benefit cost</b>	<b>\$ 17.5</b>	<b>\$ 16.9</b>	<b>\$ 16.5</b>

The service cost and amortization of prior service cost components are reported among other employee compensation costs in the Consolidated Statements of Income. The remaining components, interest cost, expected returns on plan assets and amortization of actuarial loss, are reported as Other non-operating items, net in the Consolidated Statements of Income.

Amortization of the net actuarial loss from accumulated other comprehensive income is made over the estimated remaining service lives of the plan participants, 9 years for U.S. and from 7 to 32 years for non-U.S. participants, varying between the different countries depending on the age of the work force.

## COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME BEFORE TAX AS OF DECEMBER 31

(Dollars in millions)	U.S.		Non-U.S.	
	2019	2018	2019	2018
Net actuarial loss	\$ 63.1	\$ 48.0	\$ 47.6	\$ 30.8
Prior service cost	0.1	0.1	3.7	3.1
<b>Total accumulated other comprehensive income recognized in the balance sheet</b>	<b>\$ 63.2</b>	<b>\$ 48.1</b>	<b>\$ 51.3</b>	<b>\$ 33.9</b>

## CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME BEFORE TAX FOR THE PERIODS ENDED DECEMBER 31

(Dollars in millions)	U.S.		Non-U.S.	
	2019	2018	2019	2018
<b>Total retirement benefit recognized in accumulated other comprehensive income at beginning of year</b>	<b>\$ 48.1</b>	<b>\$ 56.3</b>	<b>\$ 33.9</b>	<b>\$ 35.5</b>
Net actuarial (gain) loss	16.9	(6.0)	19.1	1.6
Amortization of prior service credit (cost)	0.0	0.0	(0.3)	(0.3)
Amortization of actuarial loss	(1.8)	(2.2)	(1.5)	(1.5)
Translation difference	—	—	0.1	(1.4)
<b>Total retirement benefit recognized in accumulated other comprehensive income at end of year</b>	<b>\$ 63.2</b>	<b>\$ 48.1</b>	<b>\$ 51.3</b>	<b>\$ 33.9</b>

The accumulated benefit obligation for the U.S. non-contributory defined benefit pension plans was \$384.4 million and \$314.8 million at December 31, 2019 and 2018, respectively. The accumulated benefit obligation for the non-U.S. defined benefit pension plans was \$194.5 million and \$167.8 million at December 31, 2019 and 2018, respectively.

Pension plans for which the accumulated benefit obligation (ABO) is notably in excess of the plan assets reside in the following countries: U.S., Mexico, France, Germany, Japan, South Korea and Sweden.

## PENSION PLANS FOR WHICH ABO EXCEEDS THE FAIR VALUE OF PLAN ASSETS AS OF DECEMBER 31

(Dollars in millions)	U.S.		Non-U.S.	
	2019	2018	2019	2018
Projected Benefit Obligation (PBO)	\$ 400.1	\$ 332.1	\$ 169.3	\$ 143.3
Accumulated Benefit Obligation (ABO)	384.3	314.8	127.2	110.8
Fair value of plan assets	323.8	272.9	3.8	3.9

The Company, in consultation with its actuarial advisors, determines certain key assumptions to be used in calculating the projected benefit obligation and annual net periodic benefit cost.

## ASSUMPTIONS USED TO DETERMINE THE BENEFIT OBLIGATIONS AS OF DECEMBER 31

% WEIGHTED AVERAGE	U.S.		Non-U.S. <sup>1)</sup>	
	2019	2018	2019	2018
Discount rate	3.25	4.35	0.25-2.70	0.50-3.25
Rate of increases in compensation level	2.65	2.65	2.00-5.00	2.00-5.00

## ASSUMPTIONS USED TO DETERMINE THE NET PERIODIC BENEFIT COST FOR YEARS ENDED DECEMBER 31

% WEIGHTED AVERAGE	U.S.		
	2019	2018	2017
Discount rate	4.35	3.55	4.15
Rate of increases in compensation level	2.65	2.65	2.65
Expected long-term rate of return on assets	5.05	7.08	7.08

% WEIGHTED AVERAGE	Non-U.S. <sup>1)</sup>		
	2019	2018	2017
Discount rate	0.50-3.25	0.25-3.25	0.50-3.25
Rate of increases in compensation level	2.00-5.00	2.00-5.00	2.00-5.00
Expected long-term rate of return on assets	2.25-2.50	2.25-2.50	1.50-2.50

- 1) The Non-U.S. weighted average plan ranges in the tables above have been prepared using significant plans only, which in total represent around 81% of the total Non-U.S. projected benefit obligation.

The discount rate for the U.S. plans has been set based on the rates of return on high-quality fixed-income investments currently available at the measurement date and expected to be available during the period the benefits will be paid. The expected timing of cash flows from the plan has also been considered in selecting the discount rate. In particular, the yields on bonds rated AA or better on the measurement date have been used to set the discount rate. The discount rate for the U.K. plan has been set based on the weighted average yields on long-term high-grade corporate bonds and is determined by reference to financial markets on the measurement date.

The expected rate of increase in compensation levels and long-term rate of return on plan assets are determined based on a number of factors and must take into account long-term expectations and reflect the financial environment in the respective local market. The expected return on assets for the U.S. and U.K. plans are based on the fair value of the assets as of December 31.

The level of equity exposure is currently targeted at approximately 40% for the primary U.S. plan. The investment objective is to provide an attractive risk-adjusted return that will ensure the payment of benefits while protecting against the risk of substantial investment losses. Correlations among the asset classes are used to identify an asset mix that Autoliv believes will provide the most attractive returns. Long-term return forecasts for each asset class using historical data and other qualitative considerations to adjust for projected economic forecasts are used to set the expected rate of return for the entire portfolio. The Company has assumed a long-term rate of return on the U.S. plan assets of 5.05% for calculating the 2019 expense and 5.05% for calculating the 2020 expense.

The Company has assumed a long-term rate of return on the non-U.S. plan assets in a range of 2.25-2.50% for 2019. The closed U.K. plan which has a targeted and actual allocation of almost 100% debt instruments accounts for approximately 80% of the total non-U.S. plan assets.

Autoliv made contributions to the U.S. plan during 2019 and 2018 amounting to \$7.3 million and \$6.7 million, respectively. Contributions to the U.K. plan during 2019 and 2018 amounted to \$1.2 million and \$1.3 million, respectively. The Company expects to contribute \$12.5 million to its U.S. pension plan in 2020 and is currently projecting a yearly funding at approximately the same level in the years thereafter. For the UK pension plan, which is the most significant non-U.S. pension plan, the Company expects to contribute \$1.2 million in 2020 and in the years thereafter.



## FAIR VALUE OF TOTAL PLAN ASSETS FOR YEARS ENDED DECEMBER 31

ASSETS CATEGORY IN % WEIGHTED AVERAGE	U.S.	U.S.		Non-U.S.	
	Target allocation	2019	2018	2019	2018
Equity securities	40	40	38	0	0
Debt instruments	60	60	62	79	79
Other assets	—	0	0	21	21
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

The following table summarizes the fair value of the Company's U.S. and non-U.S. defined benefit pension plan assets (dollars in millions):

(Dollars in millions)	Fair value measurement at December 31, 2019	Fair value measurement at December 31, 2018
<b>Assets</b>		
<b>Non-U.S. Bonds</b>		
Corporate	\$ 70.4	\$ 61.4
Insurance Contracts	14.7	12.6
Other Investments	6.2	4.5
<b>Assets at fair value Level 2</b>	<b>91.3</b>	<b>78.5</b>
<b>Investments measured at net asset value (NAV):</b>		
Common collective trusts	321.2	272.3
<b>Total</b>	<b>\$ 412.5</b>	<b>\$ 350.8</b>

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Certain assets that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. Plan assets not measured using the NAV are classified as Level 2 in the table above. Plan assets measured using the NAV mainly relate to the U.S. defined benefit pension plans and are separately disclosed as Common collective trusts below the Level 2 assets in the table above.

The estimated future benefit payments for the pension benefits reflect expected future service, as appropriate. The amount of benefit payments in a given year may vary from the projected amount, especially for the U.S. plan since historically this plan pays the majority of benefits as a lump sum, where the lump sum amounts vary with market interest rates.

PENSION BENEFITS EXPECTED PAYMENTS (dollars in millions)	U.S.	Non-U.S.
2020	\$ 17	\$ 8
2021	20	9
2022	22	9
2023	23	11
2024	26	12
Years 2025-2029	146	74

## POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company currently provides postretirement health care and life insurance benefits to most of its U.S. retirees.

In general, the terms of the plans provide that U.S. employees who retire after attaining age 55, with 15 years of service (5 years before December 31, 2006), are reimbursed for qualified medical expenses up to a maximum annual amount. Spouses for certain retirees are also eligible for reimbursement under the plan. Life insurance coverage is available for those who elect coverage under the retiree health plan. During 2014, the plan was amended to move from a self-insured model where employees were charged an estimated premium based on anticipated plan expenses for continued coverage, to a plan where retirees are provided a fixed contribution to a Health Retirement Account (HRA). Retirees can use the HRA funds to purchase insurance through a private exchange. Employees hired on or after January 1, 2004 are not eligible to participate in the plan.

## CHANGES IN BENEFIT OBLIGATION FOR POSTRETIREMENT BENEFIT PLANS OTHER THAN PENSIONS AS OF DECEMBER 31

(Dollars in millions)	2019	2018
<b>Benefit obligation at beginning of year</b>	<b>\$ 15.5</b>	<b>\$ 17.8</b>
Service cost	0.2	0.3
Interest cost	0.6	0.6
Actuarial loss (gain)	2.2	(1.2)
Benefits paid	(0.3)	(0.3)
Other	0.2	(1.7)
<b>Benefit obligation at end of year</b>	<b>\$ 18.4</b>	<b>\$ 15.5</b>

The liability for postretirement benefits other than pensions is classified as other non-current liabilities in the balance sheet.

## COMPONENTS OF NET PERIODIC BENEFIT COST ASSOCIATED WITH THE POST RETIREMENT BENEFIT PLANS OTHER THAN PENSIONS

PERIOD ENDED DECEMBER 31 (Dollars in millions)	2019	2018	2017
Service cost	\$ 0.2	\$ 0.3	\$ 0.3
Interest cost	0.6	0.6	0.6
Amortization of prior service cost	(2.2)	(2.2)	(2.2)
Amortization of actuarial loss	(0.3)	(0.3)	(0.5)
<b>Net periodic benefit (credit)</b>	<b>\$ (1.7)</b>	<b>\$ (1.6)</b>	<b>\$ (1.8)</b>

## COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME BEFORE TAX ASSOCIATED WITH POSTRETIREMENT BENEFIT PLANS OTHER THAN PENSIONS AS OF DECEMBER 31

(Dollars in millions)	U.S.	
	2019	2018
Net actuarial loss (gain)	\$ 2.0	\$ (4.6)
Prior service cost (credit)	6.1	(8.2)
<b>Total accumulated other comprehensive loss (income) recognized in the balance sheet</b>	<b>\$ 8.1</b>	<b>\$ (12.8)</b>

The weighted average discount rate used to determine the U.S. postretirement benefit obligation was 3.5% in 2019 and 4.45% in 2018. The average discount rate used in determining the postretirement benefit cost was 4.45% in 2019, 3.75% in 2018 and 4.40% in 2017.

The estimated future benefit payments for the postretirement benefits set forth below reflect expected future service as appropriate (dollars in millions).

POSTRETIREMENT BENEFITS (Dollars in millions)	EXPECTED PAYMENTS
2020	\$ 0.4
2021	0.4
2022	0.5
2023	0.6
2024	0.6
Years 2025–2029	3.7

## 20. Related Party Transactions

Throughout the periods covered by consolidated financial statements, Autoliv purchased finished goods from Veoneer. Related party purchases from Veoneer amounted to approximately \$73 million and \$78 million for the full year 2019 and 2018, respectively.

Autoliv also subleases certain office space to Veoneer. However, related party sublease income from Veoneer is not material for 2019 and 2018.

Amounts due to and due from related parties as of December 31, 2019 and December 31, 2018 are summarized in the below table:

(Dollars in millions)	As of	
	December 31, 2019	December 31, 2018
Related party receivables	\$ 2.8	\$ 15.0
Related party payables <sup>1)</sup>	9.7	50.7
Related party accrued expenses <sup>1)</sup>	7.7	13.0

1) Included in Related party liabilities in the Consolidated Balance Sheet.

Related party receivables primarily relate to an agreement between Autoliv and Veoneer.

The related party payables are mainly driven by Reseller Agreements entered into in connection with the spin-off. The Reseller Agreements are between Autoliv and Veoneer to facilitate the temporary arrangement of the sale of Veoneer products in the interim period post spin-off. For further information, see Note 3. Discontinued Operations above.

## 21. Segment Information

The Company has one operating segment, formerly its Passive Safety segment, which includes Autoliv's airbag and seatbelt products and components. The operating results of the operating segment are regularly reviewed by the Company's chief operating decision maker to assess the performance of the individual operating segment and make decisions about resources to be allocated to the operating segment.

The Company's customers consist of all major European, U.S. and Asian automobile manufacturers. Sales to individual customers representing 10% or more of net sales were:

In 2019: Renault 16% (including Nissan and Mitsubishi), VW 10% and Honda 10%.

In 2018: Renault 15% (including Nissan and Mitsubishi) and VW 10%.

In 2017: Renault 15% (including Nissan and Mitsubishi) and Ford 10%.

<b>NET SALES BY REGION</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Asia	\$ 3,176.6	\$ 3,194.9	\$ 2,998.1
<i>Whereof: China</i>	<i>1,525.3</i>	<i>1,522.2</i>	<i>1,421.2</i>
<i>Japan</i>	<i>810.3</i>	<i>827.9</i>	<i>787.0</i>
<i>Rest of Asia</i>	<i>841.0</i>	<i>844.8</i>	<i>789.9</i>
Americas	2,907.2	2,735.1	2,435.2
Europe	2,463.8	2,748.2	2,703.5
<b>Total</b>	<b>\$ 8,547.6</b>	<b>\$ 8,678.2</b>	<b>\$ 8,136.8</b>

The Company has attributed net sales to the geographic area based on the location of the entity selling the final product.

External sales in the U.S. amounted to \$2,090 million, \$1,943 million and \$1,689 million in 2019, 2018 and 2017, respectively. Of the external sales, exports from the U.S. to other regions amounted to approximately \$463 million, \$384 million and \$362 million in 2019, 2018 and 2017, respectively.

<b>NET SALES BY PRODUCT</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Airbag Products <sup>1)</sup>	\$ 5,676.3	\$ 5,698.6	\$ 5,343.2
Seatbelt Products <sup>1)</sup>	2,871.3	2,979.6	2,793.6
<b>Total net sales</b>	<b>\$ 8,547.6</b>	<b>\$ 8,678.2</b>	<b>\$ 8,136.8</b>

1) Including Corporate and other sales.

<b>LONG-LIVED ASSETS</b>	<b>2019</b>	<b>2018</b>
Asia	\$ 948	\$ 881
<i>Whereof: China</i>	<i>\$ 495</i>	<i>\$ 500</i>
<i>Japan</i>	<i>\$ 170</i>	<i>\$ 135</i>
<i>Rest of Asia</i>	<i>\$ 283</i>	<i>\$ 246</i>
Americas	\$ 1,862	\$ 1,708
Europe	\$ 959	\$ 847
<b>Total</b>	<b>\$ 3,769</b>	<b>\$ 3,436</b>

Long-lived assets in the U.S. amounted to \$1,633 million and \$1,527 million for 2019 and 2018, respectively. For 2019, \$1,242 million (2018, \$1,250 million) of the long-lived assets in the U.S. refers to intangible assets, principally from acquisition goodwill.

## 22. Earnings Per Share

The computation of basic and diluted EPS under the two-class method were as follows (dollars and shares in millions):

	2019	2018	2017
<b>Numerator:</b>			
Basic and diluted:			
Net income from continuing operations	\$ 461.5	\$ 375.9	\$ 586.0
Net loss from discontinued operations	—	(185.5)	(158.9)
<b>Net income attributable to controlling interest</b>	<b>461.5</b>	<b>190.4</b>	<b>427.1</b>
Participating share awards with dividend equivalent rights	0.0	0.0	0.0
Net income available to common shareholders	<b>461.5</b>	<b>190.4</b>	<b>427.1</b>
Earnings allocated to participating share awards <sup>1)</sup>	0.0	0.0	0.0
Net income attributable to common shareholders	<b>\$ 461.5</b>	<b>\$ 190.4</b>	<b>\$ 427.1</b>
<b>Denominator: <sup>1)</sup></b>			
Basic: Weighted average common stock	87.2	87.1	87.5
Add: Weighted average stock options/share awards	0.2	0.2	0.2
<b>Diluted:</b>	<b>87.4</b>	<b>87.3</b>	<b>87.7</b>
<b>Basic EPS:</b>			
Continuing operations	\$ 5.29	\$ 4.32	\$ 6.70
Discontinued operations	—	(2.13)	(1.82)
<b>Basic EPS</b>	<b>\$ 5.29</b>	<b>\$ 2.19</b>	<b>\$ 4.88</b>
<b>Diluted EPS:</b>			
Continuing operations	\$ 5.29	\$ 4.31	\$ 6.68
Discontinued operations	—	(2.13)	(1.81)
<b>Diluted EPS</b>	<b>\$ 5.29</b>	<b>\$ 2.18</b>	<b>\$ 4.87</b>

- 1) The Company's unvested RSUs and PSs, of which some included the right to receive non-forfeitable dividend equivalents, are considered participating securities. Calculations of EPS under the two-class method exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities. The related participating securities are similarly excluded from the denominator.

Antidilutive shares outstanding for the year ended December 31, 2019 and December 31, 2018 were immaterial. Approximately 0.1 million antidilutive shares were outstanding for the year ended December 31, 2017.

## 23. Subsequent Events

There were no reportable events subsequent to December 31, 2019.

## 24. Quarterly Financial Data (unaudited)

2019	Q1	Q2	Q3	Q4
Net sales	\$ 2,174.0	\$ 2,154.7	\$ 2,027.7	\$ 2,191.2
Gross profit	378.8	399.7	379.1	426.8
Income from Continuing Operations before income taxes	153.6	150.8	134.4	209.7
Income from Continuing Operations	111.5	109.4	86.0	155.9
Net income attributable to controlling interest from Continuing Operations	111.4	109.1	85.4	155.6
Earnings per share Continuing Operations				
– basic	1.28	1.25	0.98	1.78
– diluted	1.27	1.25	0.98	1.78
Dividends paid	0.62	0.62	0.62	0.62

<b>2018</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Net sales	\$ 2,240.9	\$ 2,211.5	\$ 2,033.0	\$ 2,192.8
Gross profit	460.3	439.7	386.1	425.2
Income from Continuing Operations before income taxes	228.9	210.1	171.3	2.1
Income from Continuing Operations	159.1	193.2	118.0	(92.8)
Net income attributable to controlling interest from Continuing Operations	158.7	192.7	117.5	(93.0)
Earnings per share Continuing Operations				
– basic	1.82	2.21	1.35	(1.07)
– diluted	1.82	2.20	1.34	(1.06)
Dividends paid	0.60	0.62	0.62	0.62

#### Quarterly movements

In the fourth quarter of 2018, income from Continuing Operations before taxes was negatively impacted by the Company recognizing an accrual of \$210 million in connection with the remaining portion of the European Commission's investigation of anti-competitive behavior among suppliers of occupant safety systems in the European Union.

#### EXCHANGE RATES FOR KEY CURRENCIES VS. U.S.

	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
	<u>Average</u>	<u>Year end</u>	<u>Average</u>	<u>Year end</u>	<u>Average</u>	<u>Year end</u>	<u>Average</u>	<u>Year end</u>	<u>Average</u>	<u>Year end</u>
EUR	1.119	1.120	1.182	1.145	1.129	1.196	1.106	1.052	1.110	1.094
CNY	0.145	0.143	0.151	0.146	0.148	0.154	0.150	0.144	0.159	0.154
JPY/1000	9.178	9.157	9.061	9.051	8.916	8.878	9.222	8.544	8.261	8.303
KRW/1000	0.857	0.870	0.909	0.896	0.885	0.937	0.863	0.832	0.885	0.854
MXN	0.052	0.053	0.052	0.051	0.053	0.051	0.053	0.048	0.063	0.058
SEK	0.106	0.107	0.115	0.111	0.117	0.121	0.117	0.110	0.119	0.120
BRL	0.253	0.247	0.276	0.258	0.313	0.302	0.289	0.307	0.306	0.259

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

There have been no changes to and no disagreements with our independent auditors regarding accounting or financial disclosure matters in our two most recent fiscal years.

### **Item 9A. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

An evaluation has been carried out by the Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Interim Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Interim Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

#### **Internal Control over Financial Reporting**

##### **(a) Management's Annual Report on Internal Control Over Financial Reporting**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting.

Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of Autoliv's internal control over financial reporting as of December 31, 2019. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013 framework).

Based on our assessment, we believe that, as of December 31, 2019, the Company's internal control over financial reporting is effective.

##### **(b) Attestation Report of the Registered Public Accounting Firm**

Ernst & Young AB has issued an attestation report on the Company's internal control over financial reporting, which is included herein as the Report of Independent Registered Public Accounting Firm under Item 8. Financial Statements and Supplementary Data for the year ended December 31, 2019.

##### **(c) Changes in Internal Control over Financial Reporting**

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Item 9B. Other Information**

None.

## Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10. regarding executive officers, directors and nominees for election as directors of Autoliv, Autoliv's Audit Committee, Autoliv's code of ethics, and compliance with Section 16(A) of the Securities Exchange Act is incorporated herein by reference from the information under the captions "Executive Officers of the Company" and "Proposal 1: Election of Directors", "Committees of the Board" and "Audit Committee Report", "Corporate Governance Guidelines and Codes of Conduct and Ethics", and "Section 16(a) Beneficial Ownership Reporting Compliance", respectively, in the Company's 2020 Proxy Statement. Information on Board meeting attendance is provided under the caption "Board Meetings" in the 2020 Proxy Statement and incorporated herein by reference.

## Item 11. Executive Compensation

The information required by Item 11. regarding executive compensation for the year ended December 31, 2019 is included under the caption "Compensation Discussion and Analysis" in the 2020 Proxy Statement and is incorporated herein by reference. The information required by the same item regarding Leadership Development and Compensation Committee is included in the sections "Leadership Development and Compensation Committee Interlocks and Insider Participation" and "Leadership Development and Compensation Committee Report" in the 2020 Proxy Statement and is incorporated herein by reference.

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

The information required by Item 12. regarding beneficial ownership of Autoliv's common stock is included under the caption "Security Ownership of Certain Beneficial Owners and Management" in the 2020 Proxy Statement and is incorporated herein by reference.

### Shares Previously Authorized for Issuance Under the 1997 Stock Incentive Plan

The following table provides information as of December 31, 2019, about the common stock that may be issued under the Autoliv, Inc. Stock Incentive Plan. The Company does not have any equity compensation plans that have not been approved by its stockholders.

<u>Plan Category</u>	<u>(a) Number of Securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>(b) Weighted-average exercise price of outstanding options, warrants and rights(2)</u>	<u>(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(3)</u>
Equity compensation plans approved by security holders (1)	434,860	\$ 66.70	3,052,199
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>434,860</b>	<b>\$ 66.70</b>	<b>3,052,199</b>

(1) Autoliv, Inc. Stock Incentive Plan, as amended and restated on May 6, 2009, as amended by Amendment No. 1 dated December 17, 2010 and Amendment No. 2 dated May 8, 2012.

(2) Excludes restricted stock units and performance shares which convert to shares of common stock for no consideration.

(3) All such shares are available for issuance pursuant to grants of full-value stock awards.

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

Information regarding the Company's policy and procedures concerning related party transactions is included under the caption "Related Person Transactions" in the 2020 Proxy Statement and is incorporated herein by reference. Information regarding director independence can be found under the caption "Board Independence" in the 2020 Proxy Statement and is incorporated herein by reference.

## Item 14. Principal Accounting Fees and Services

The information required by Item 9(e) of Schedule 14A regarding principal accounting fees and the information required by Item 14 regarding the pre-approval process of accounting services provided to Autoliv is included under the caption "Proposal 3. Ratification of Appointment of Independent Registered Public Accounting Firm Appointment" in the 2020 Proxy Statement and is incorporated herein by reference.

## Item 15. Exhibits and Financial Statement Schedules

### (a) Documents Filed as Part of this Report

#### (1) Financial Statements

- (i) Consolidated Statements of Net Income – Years ended December 31, 2019, 2018 and 2017;
- (ii) Consolidated Statements of Comprehensive Income – Years ended December 31, 2019, 2018 and 2017;
- (iii) Consolidated Balance Sheets – as of December 31, 2019 and 2018;
- (iv) Consolidated Statements of Cash Flows – Years ended December 31, 2019, 2018 and 2017;
- (v) Consolidated Statements of Total Equity – as of December 31, 2019, 2018 and 2017;
- (vi) Notes to Consolidated Financial Statements; and
- (vii) Reports of Independent Registered Public Accounting Firm.

#### (2) Financial Statement Schedules

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

#### (3) Exhibits

Exhibit No.	Description
2.1	<a href="#">Distribution Agreement, dated June 28, 2018, between Veoneer, Inc. and Autoliv, Inc., incorporated herein by reference to Exhibit 2.1 to the Current Report on Form 8-K (File No. 001-12933, filing date July 2, 2018).</a>
3.1	<a href="#">Autoliv's Restated Certificate of Incorporation, as amended, incorporated herein by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 22, 2015).</a>
3.2	<a href="#">Autoliv's Third Restated By-Laws, incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 001-12933, filing date December 18, 2015).</a>
4.1	<a href="#">Indenture, dated March 30, 2009, between Autoliv, Inc. and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 to Autoliv's Registration Statement on Form 8-A (File No. 001-12933, filing date March 30, 2009).</a>
4.2	<a href="#">Second Supplemental Indenture (including Form of Global Note), dated March 15, 2012, between Autoliv, Inc. and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 to the Current Report on Form 8-K (File No. 001-12933, filing date March 15, 2012).</a>
4.3	<a href="#">Form of Note Purchase and Guaranty Agreement dated April 23, 2014, among Autoliv ASP, Inc., Autoliv, Inc. and the purchasers named therein, incorporated herein by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 25, 2014).</a>
4.4	<a href="#">Amendment and Waiver 2014 Note Purchase and Guaranty Agreement, dated May 24, 2018 among Autoliv, Inc., Autoliv ASP, Inc. and the noteholders named therein, incorporated herein by reference to Exhibit 4.4 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>
4.5	<a href="#">General Terms and Conditions for Swedish Depository Receipts in Autoliv, Inc., representing common shares in Autoliv, Inc., effective as of May 30, 2018 with Skandinaviska Enskilda Banken AB (publ) serving as a custodian, incorporated herein by reference to Exhibit 4.5 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>
4.6	<a href="#">Agency Agreement dated June 26, 2018 among Autoliv, Inc., Autoliv ASP Inc. and HSBC Bank PLC, incorporated herein by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>
4.7	<a href="#">Base listing particulars Agreement, dated April 11, 2019, among Autoliv, Inc., Autoliv ASP, Inc. and the dealers named therein, incorporated herein by reference to Exhibit 4.7 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 26, 2019).</a>
4.8	<a href="#">Programme Agreement, dated April 11, 2019, among Autoliv, Inc., Autoliv ASP, Inc. and the dealers named therein, incorporated herein by reference to Exhibit 4.8 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 26, 2019).</a>
4.9	<a href="#">Agency Agreement, dated April 11, 2019, among Autoliv, Inc., Autoliv ASP, Inc. and the dealers named therein, incorporated herein by reference to Exhibit 4.9 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 26, 2019).</a>
4.10*	<a href="#">Description of Registrant's Securities.</a>
10.1+	<a href="#">Form of Employment Agreement between Autoliv, Inc. and certain of its executive officers, incorporated herein by reference to Exhibit 10.4 to the Annual Report on Form 10-K/A (File No. 001-12933, filing date July 2, 2002).</a>



Exhibit No.	Description
10.2 <sup>+</sup>	<a href="#"><u>Form of Supplementary Agreement to the Employment Agreement between Autoliv, Inc. and certain of its executive officers, incorporated herein by reference to Exhibit 10.5 to the Annual Report on Form 10-K/A (File No. 001-12933, filing date July 2, 2002).</u></a>
10.3 <sup>+</sup>	<a href="#"><u>Form of Severance Agreement between Autoliv, Inc. and certain of its executive officers, incorporated herein by reference to Exhibit 10.7 to the Annual Report on Form 10-K/A (File No. 001-12933, filing date July 2, 2002).</u></a>
10.4 <sup>+</sup>	<a href="#"><u>Form of Amendment to Employment Agreement between Autoliv, Inc. and certain of its executive officers – notice, incorporated herein by reference to Exhibit 10.9 to the Annual Report on Form 10-K (File No. 001-12933, filing date March 14, 2003).</u></a>
10.5 <sup>+</sup>	<a href="#"><u>Form of Supplementary Agreement to Employment Agreement between Autoliv, Inc. and certain of its executive officers – pension, incorporated herein by reference to Exhibit 10.10 to the Annual Report on Form 10-K (File No. 001-12933, filing date March 14, 2003).</u></a>
10.6 <sup>+</sup>	<a href="#"><u>Form of Pension Agreement between Autoliv, Inc. and certain of its executive officers – additional pension, incorporated herein by reference to Exhibit 10.11 to the Annual Report on Form 10-K (File No. 001-12933, filing date March 14, 2003).</u></a>
10.7 <sup>+</sup>	<a href="#"><u>Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated on May 6, 2009, incorporated herein by reference to Appendix A of the Definitive Proxy Statement of Autoliv, Inc. on Schedule 14A (filing date March 23, 2009).</u></a>
10.8	<a href="#"><u>Revolving Credit Facility Agreement, dated June 21, 2010, between Autoliv AB, Autoliv, Inc., and Nordea Bank AB (publ), incorporated herein by reference to Exhibit 10.21 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 23, 2010).</u></a>
10.9	<a href="#"><u>Facility Agreement, dated June 21, 2010, among Autoliv, Inc., Autoliv AB, Swedish Export Credit Corporation, National Export Credits Guarantee Board and Skandinaviska Enskilda Banken AB (publ), incorporated herein by reference to Exhibit 10.22 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 23, 2010).</u></a>
10.10 <sup>+</sup>	<a href="#"><u>Amendment No. 1 to the Autoliv, Inc. 1997 Stock Incentive Plan as amended and restated on May 6, 2009, dated December 17, 2010, incorporated herein by reference to Exhibit 10.24 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 23, 2011).</u></a>
10.11 <sup>+</sup>	<a href="#"><u>Form of Amendment to Employment Agreement between Autoliv, Inc. and certain of its executive officers – pension, incorporated herein by reference to Exhibit 10.26 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 23, 2012).</u></a>
10.12 <sup>+</sup>	<a href="#"><u>Form of Amendment to Employment Agreement between Autoliv, Inc. and certain of its executive officers – non-equity incentive award, incorporated herein by reference to Exhibit 10.27 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 23, 2012).</u></a>
10.13	<a href="#"><u>Remarketing Agreement, dated as of February 9, 2012, incorporated herein by reference to Exhibit 1.1 to the Current Report on Form 8-K (File No. 001-12933, filing date March 15, 2012).</u></a>
10.14 <sup>+</sup>	<a href="#"><u>Amendment No. 2 to the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated on May 6, 2009, dated May 8, 2012, incorporated herein by reference to Exhibit 10.29 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 20, 2012).</u></a>
10.15 <sup>+</sup>	<a href="#"><u>Form of Employment Agreement between Autoliv, Inc. and certain of its executive officers (with Change-in-Control Severance Agreement), incorporated herein by reference to Exhibit 10.34 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 22, 2013).</u></a>
10.16 <sup>+</sup>	<a href="#"><u>Form of Employment Agreement between Autoliv, Inc. and certain of its executive officers (without Change-in-Control Severance Agreement), incorporated herein by reference to Exhibit 10.35 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 22, 2013).</u></a>
10.17 <sup>+</sup>	<a href="#"><u>Form of Change-in-Control Severance Agreement between Autoliv, Inc. and certain of its executive officers, incorporated herein by reference to Exhibit 10.36 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 22, 2013).</u></a>
10.18	<a href="#"><u>Form of Indemnification Agreement between Autoliv, Inc. and its directors and certain of its executive officers, incorporated herein by reference to Exhibit 99.i to the Annual Report on Form 10-K (File No. 001-12933, filing date February 24, 2009).</u></a>
10.19 <sup>†</sup>	<a href="#"><u>Finance Contract, dated July 16, 2013, among European Investment Bank, Autoliv AB (publ) and Autoliv, Inc., incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 24, 2013).</u></a>
10.20	<a href="#"><u>Guarantee Agreement, dated July 16, 2013, between European Investment Bank and Autoliv, Inc., incorporated herein by reference to Exhibit 10.12 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 24, 2013).</u></a>
10.21	<a href="#"><u>Form of Note Purchase and Guaranty Agreement, dated April 23, 2014, among Autoliv ASP, Inc., Autoliv, Inc. and the purchasers named therein, incorporated herein by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 25, 2014).</u></a>

Exhibit No.	Description
10.22+	<a href="#"><u>Form of Supplement to Employment Agreement between Autoliv, Inc. and certain of its executive officers, dated August 13, 2014 and effective as of September 1, 2014, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 23, 2014).</u></a>
10.23	<a href="#"><u>Amendment, dated January 27, 2015, to the Finance Contract, dated July 16, 2013, among European Investment Bank, Autoliv AB (publ) and Autoliv, Inc., incorporated herein by reference to Exhibit 10.36 to the Annual Report on Form 10-K (File No. 001-12933, filing date February 19, 2015).</u></a>
10.24	<a href="#"><u>General Terms and Conditions for Swedish Depository Receipts in Autoliv, Inc. representing common shares in Autoliv, Inc., effective as of May 30, 2018, with Skandinaviska Enskilda Banken AB (publ) serving as custodian, incorporated herein by reference to Exhibit 4.5 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</u></a>
10.25	<a href="#"><u>Facilities Agreement of \$1,100,000,000, dated July 14, 2016, among Autoliv, Inc., Autoliv ASP, Inc., Autoliv AB, HSBC Bank PLC, Mizuho Bank, Ltd. and Investment Banking, Skandinaviska Enskilda Banken AB (publ), and the other parties and lenders named therein, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 27, 2016).</u></a>
10.26+	<a href="#"><u>Autoliv, Inc. Non-employee Director Compensation Policy, effective January 1, 2017, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 28, 2017).</u></a>
10.27+	<a href="#"><u>Amendment No. 3 to the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated, dated April 24, 2017, incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 28, 2017).</u></a>
10.28+	<a href="#"><u>Form of Non-Employee Director restricted stock unit award agreement to be used under the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated, incorporated herein by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 28, 2017).</u></a>
10.29+	<a href="#"><u>Form of Employee restricted stock unit award agreement (2017) to be used under the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated, incorporated herein by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 28, 2017).</u></a>
10.30+	<a href="#"><u>Form of performance share award agreement (2017) to be used under the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated, incorporated herein by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 28, 2017).</u></a>
10.31	<a href="#"><u>Employee Matters Agreement, dated June 28, 2018, between Veoneer, Inc. and Autoliv, Inc., incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-12933, filing date July 2, 2018).</u></a>
10.32	<a href="#"><u>Tax Matters Agreement, dated June 28, 2018, between Veoneer, Inc. and Autoliv, Inc., incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K (File No. 001-12933, filing date July 2, 2018).</u></a>
10.33	<a href="#"><u>Amended and Restated Transition Services Agreement, dated June 28, 2018, between Veoneer, Inc. and Autoliv, Inc., incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K (File No. 001-12933, filing date July 2, 2018).</u></a>
10.34	<a href="#"><u>Facilities Agreement, dated May 24, 2018, among Autoliv, Inc., Autoliv ASP, J.P. Morgan Securities PLC and Skandinaviska Enskilda Banken AB (publ), incorporated herein by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</u></a>
10.35	<a href="#"><u>Employment Agreement, dated November 20, 2015, between Autoliv, Inc. and Mats Backman, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 22, 2016).</u></a>
10.36	<a href="#"><u>Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Mikael Bratt, incorporated herein by reference to Exhibit 10.8 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</u></a>
10.37	<a href="#"><u>Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Jennifer Cheng, incorporated herein by reference to Exhibit 10.9 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</u></a>
10.38	<a href="#"><u>Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Daniel Garceau, incorporated herein by reference to Exhibit 10.10 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</u></a>
10.39	<a href="#"><u>Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Michael A. Hague, incorporated herein by reference to Exhibit 10.11 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</u></a>
10.40	<a href="#"><u>Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Jordi Lombarte incorporated herein by reference to Exhibit 10.12 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</u></a>
10.41	<a href="#"><u>Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Bradley J. Murray, incorporated herein by reference to Exhibit 10.13 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</u></a>
10.42	<a href="#"><u>Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Anthony J. Nellis, incorporated herein by reference to Exhibit 10.14 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</u></a>

Exhibit No.	Description
10.43	<a href="#">Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Sherry Vasa, incorporated herein by reference to Exhibit 10.15 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).</a>
10.44	<a href="#">Cooperation Agreement, dated March 1, 2019, between Autoliv, Inc. and Cevian Capital II GP Limited, incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-12933, filing date March 1, 2019).</a>
10.45+	<a href="#">Form of Employee restricted stock unit grant agreement (2019) to be used under the Autoliv, Inc 1997 Stock Incentive Plan, as amended and restated, incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 26, 2019).</a>
10.46+	<a href="#">Form of Employee performance share grant agreement (2019) to be used under the Autoliv, Inc 1997 Stock Incentive Plan, as amended and restated, incorporated herein by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 26, 2019).</a>
10.47+	<a href="#">Addendum, dated April 24, 2019, to the International Assignment Agreement, dated March 21, 2018, between Autoliv, Inc. and Brad Murray, incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 19, 2019).</a>
10.48	<a href="#">SEK Facility Agreement dated June 24, 2019 between Autoliv, Inc., Autoliv ASP, Inc. and AB Svensk Exportkredit (Publ), incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 19, 2019).</a>
10.49+	<a href="#">Supplement to Employment Agreement, dated June 20, 2019, between Autoliv, Inc. and Daniel Garceau, incorporated herein by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 19, 2019).</a>
10.50+	<a href="#">Mutual Separation Agreement, dated July 1, 2019, between Autoliv, Inc. and Mike Hague, incorporated herein by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 19, 2019).</a>
10.51+	<a href="#">Employment Agreement, dated July 14, 2016, between Autoliv, Inc. and Christian Hanke, incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 25, 2019).</a>
10.52+	<a href="#">Employment Agreement, dated April 23, 2019, between Autoliv, Inc. and Frithjof Oldorff, incorporated herein by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 25, 2019).</a>
10.53+	<a href="#">Employment Agreement, dated March 18, 2019, between Autoliv, Inc. and Christian Swahn, incorporated herein by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 25, 2019).</a>
10.54+	<a href="#">Employment Agreement, dated February 15, 2019, between Autoliv, Inc. and Magnus Jarlegren, incorporated herein by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 25, 2019).</a>
10.55	<a href="#">Form of Indemnification Agreement between Autoliv, Inc. and its directors and certain of its executive officers, incorporated herein by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date October 25, 2019).</a>
10.56**	<a href="#">Employment Agreement, dated November 26, 2019, between Autoliv, Inc. and Fredrik Westin.</a>
10.57**	<a href="#">Employment Agreement, dated January 23, 2020, between Autoliv, Inc. and Bradley Murray.</a>
10.58**	<a href="#">Employment Agreement, dated January 23, 2020, between Autoliv, Inc. and Svante Mogefors.</a>
21*	<a href="#">Autoliv's List of Subsidiaries.</a>
23*	<a href="#">Consent of Independent Registered Public Accounting Firm.</a>
31.1*	<a href="#">Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.</a>
31.2*	<a href="#">Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.</a>
32.1*	<a href="#">Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2*	<a href="#">Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	Inline XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.

Exhibit No.	Description
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (embedded within the inline XBRL document).
*	Filed herewith.
+	Management contract or compensatory plan.
†	Confidential treatment requested as to portions of the exhibit. Confidential materials omitted and filed separately with the Securities and Exchange Commission.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, as of February 21, 2020.

AUTOLIV, INC.  
(Registrant)

By /s/ Christian Hanke  
Christian Hanke  
Interim Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, as of February 21, 2020.

<u>Title</u>	<u>Name</u>
Chairman of the Board of Directors	<u>/s/ Jan Carlson</u> Jan Carlson
Chief Executive Officer and President (Principal Executive Officer) and Director	<u>/s/ Mikael Bratt</u> Mikael Bratt
Interim Chief Financial Officer (Principal Financial and Principal Accounting Officer)	<u>/s/ Christian Hanke</u> Christian Hanke
Director	<u>/s/ Hasse Johansson</u> Hasse Johansson
Director	<u>/s/ Leif Johansson</u> Leif Johansson
Director	<u>/s/ David E. Kepler</u> David E. Kepler
Director	<u>/s/ Franz-Josef Kortüm</u> Franz-Josef Kortüm
Director	<u>/s/ Min Liu</u> Min Liu
Director	<u>/s/ Xiaozhi Liu</u> Xiaozhi Liu
Director	<u>/s/ James M. Ringler</u> James M. Ringler
Director	<u>/s/ Thaddeus Senko</u> Thaddeus Senko

## **Glossary and Definitions**

In this report, the following company or industry specific terms and abbreviations are used:

### **BCC**

Best Cost Country

### **CAPITAL EMPLOYED**

Total equity and net debt (net cash).

### **CAPITAL EXPENDITURES**

Investments in property, plant and equipment.

### **CAPITAL TURN-OVER RATE**

Annual sales in relation to average capital employed.

### **CPV**

Content Per Vehicle, i.e. value of the safety products in a vehicle.

### **DAYS INVENTORY OUTSTANDING**

Outstanding inventory relative to average daily sales.

### **DAYS RECEIVABLES OUTSTANDING**

Outstanding receivables relative to average daily sales.

### **DEVELOPED MARKETS**

Includes North America, Western Europe, Japan and South Korea

### **EARNINGS PER SHARE**

Net income attributable to controlling interest relative to weighted average number of shares (net of treasury shares) assuming dilution and basic, respectively.

### **EBIT**

Earnings before interest and taxes.

### **FREE CASH FLOW, NET**

Cash flows from operating activities less capital expenditures, net.

### **GROSS MARGIN**

Gross profit relative to sales.

### **GROWTH MARKETS**

Includes all markets except North America, Western Europe, Japan and South Korea

### **HCC**

High Cost Country

### **HEADCOUNT**

Employees plus temporary personnel.

**LEVERAGE RATIO**

Debt per the Policy in relation to EBITDA per the Policy (Earnings Before Interest, Taxes, Depreciation and Amortization), see Non-U.S. GAAP Performance Measures in Item 7 for calculation of this non-U.S. GAAP measure.

**LMPU**

Labor minutes per produced unit.

**LVP**

Light vehicle production of light motor vehicles with a gross weight of up to 3.5 metric tons.

**NET DEBT (CASH)**

Short and long-term debt including debt-related derivatives less cash and cash equivalents, see Non-U.S. GAAP Performance Measures in Item 7 for reconciliation of this non-U.S. GAAP measure.

**NET DEBT TO CAPITALIZATION**

Net debt in relation to total equity (including non-controlling interest) and net debt.

**NUMBER OF EMPLOYEES**

Employees with a continuous employment agreement, recalculated to full time equivalent heads.

**OEM**

Original Equipment Manufacturer referring to customers assembling new vehicles.

**OPERATING MARGIN**

Operating income relative to sales.

**OPERATING WORKING CAPITAL**

Current assets excluding cash and cash equivalents less current liabilities excluding short-term debt. Any current derivatives reported in current assets and current liabilities related to net debt are excluded from operating working capital. See Non-U.S. GAAP Performance Measures in Item 7 for reconciliation of this non-U.S. GAAP measure.

**OUR MARKET**

Our products include seatbelts, airbags and steering wheels.

**PRETAX MARGIN**

Income before taxes relative to sales.

**RETURN ON CAPITAL EMPLOYED**

Operating income and equity in earnings of affiliates, relative to average capital employed.

**RETURN ON TOTAL EQUITY**

Net income relative to average total equity.

**ROA**

Rest of Asia includes all Asian countries except China and Japan.

**TOTAL EQUITY RATIO**

Total equity relative to total assets.