AUTOLIV INC
Form 10-K
February 21, 2019

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, 2018

Commission file number: 001-12933

AUTOLIV, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 51-0378542 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

Klarabergsviadukten 70, Section B7, SE-111 64

Box 70381, SE-107 24

Stockholm, Sweden

(Address of principal executive offices)

+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: | Name of each exchange on which registered: |
|---|---|
| Common Stock, par value $1.00 per share | 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| Emerging growth company | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards 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 2018 amounted to $8,989 million.

Number of shares of Common Stock outstanding as of February 13, 2019: 87,149,242.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the annual stockholders' meeting to be held on May 7, 2019, to be dated on or around March 27, 2019 (the "2019 Proxy Statement"), are incorporated by reference into Part III of this Annual Report on Form 10- K. The 2019 Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after December 31, 2018.

AUTOLIV, INC.

Index

1

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 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 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.

2

# 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. Autoliv was created in 1997 from the merger of Autoliv AB and the automotive safety products business of Morton International, Inc. 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 automotive 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, pedestrian protection systems and child seats.

Including joint venture operations, Autoliv has approximately 64 production facilities in 25 countries and its customers include the world’s largest car manufacturers. Autoliv’s sales in 2018 were 8.7 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, 2018, Autoliv had approximately 58,000 employees worldwide, and a total headcount, including 9,000 temporary personnel, of approximately 67,000.

Additional information required by this Item 1 regarding developments in the Company’s business during 2018 is contained under Item 7 in this Annual Report.

Financial Information on Segments

Upon completion of the spin-off, Autoliv concluded at June 30, 2018 that it has one reportable segment based on the way the Company evaluates its financial performance and manages its operations. Prior to the completion of the Spin-off, the Company had two reportable segments, Electronics and Passive Safety. The Company’s single operating segment includes the Company’s airbag (including steering wheels), seatbelt products and components. For financial reporting purposes, the single operating segment is also the Company’s single reportable segment in accordance with Accounting Standards Codification (ASC) 280 Segment Reporting. The financial data relating to Autoliv’s businesses in this segment over the last three fiscal years is contained in the Consolidated Financial Statements of this Annual Report. A statement of net sales by product group and region for the last three years is contained in Note 22 to the Consolidated Financial Statements of this Annual Report.

Products, Market and Competition

Products

Saving more lives on the road is a key health priority as our world 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 people 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 the 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 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 2.6% since the incorporation of Autoliv Inc. in 1997 despite the cyclical nature of the automotive industry. LVP is expected to grow to close to 97 million in 2021 from approximately 91 million in 2018, according to IHS. Almost all of this expansion will be in the 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 5.6% compared to the market rate of around 3% which includes an LVP growth of around 2.6%. 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 around 40% in 2018.

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, front-center airbags along with improved protection for pedestrians and rear-seat occupants like bag-in-belt.

In our Growth 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 at a CAGR of 4% until 2021 to about $23 billion, 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 more than 30%, generated by the trend toward higher-value steering wheels with leather and additional features.

The Growth Markets are expected to outgrow the Developed Markets substantially for the period between 2018 and 2021, as the Growth Markets are supported by a higher LVP and increasing CPV resulting from higher penetration of airbags and more advanced seatbelt products.

In seatbelts, Autoliv has reached a global market share of around 40%, 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 40%, is expected to grow slightly slower than the total passive safety market. This is related to the dilutive effect from new low-end vehicles in the Growth Markets, with relatively low installation rates for airbags.

Our competitors

Autoliv is the clear market leader with an estimated global market share of around 40%. Our major competitors have traditionally been Takata and ZF.

During 2017, Takata, a family-controlled Japanese company whose shares were listed on the Tokyo Stock Exchange, filed for bankruptcy protection in the U.S. and Japan. The bankruptcy came after an accumulation of recall costs and liabilities related to malfunctioning airbag inflators. U.S.-based Key Safety Systems (KSS), owned by Chinese company Joyson, subsequently acquired Takata’s assets in April 2018 for approximately $1.6 billion. The new company is named Joyson Safety Systems (JSS). JSS is estimated to hold a global market share of 24%, including Joyson’s Chinese subsidiary YFK.

ZF is a global leader in driveline and chassis technology, as well as in passive safety technologies, and is one of the largest global automotive suppliers and has an estimated global market share of 17%.

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 in South America. Collectively, these competitors account for the majority of the remaining 19% global 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

Including joint venture operations, Autoliv has 64 production facilities located in 25 countries, consisting of both component factories and assembly factories. 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 2018 consisted of approximately 151 million complete seatbelt systems (of which approximately 79 million were fitted with pretensioners), approximately 99 million side airbags (including curtain airbags), approximately 56 million frontal airbag and approximately 20 million steering wheels.

Autoliv’s “just-in-time” delivery systems have been 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 a 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 both that Autoliv's products are expected to always meet performance expectations, and that Autoliv's products are expected to 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 made a significant contribution to the reduction in occurrences of non-conforming events.

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 the most rigorous global automotive quality requirements and all our facilities shipping to OEMs are regularly certified according to IAFT 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 material purchased directly from external suppliers. Autoliv mainly purchases manufactured components and raw materials for the 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.

Seasonality and Backlog

Autoliv’s business is not subject to significant seasonal fluctuations. 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 2018 our top five customers represented around 50% of sales and the ten largest customers represented around 79%. This reflects the concentration of manufacturers in the automotive industry. The five largest OEMs in 2018 accounted for 49% of global LVP and the ten largest OEMs for 74%. A delivery contract is typically for the lifetime of a vehicle model, which is normally between 4 and 6 years depending on customer platform sourcing preferences and strategies.

| Customer | % of Autoliv Sales | | % of Global LVP[1)] | |
|---|---|---|---|---|
| Renault/Nissan/Mitsubishi | 15 | % | 11 | % |
| VW | 10 | % | 12 | % |
| Hyundai/Kia | 8 | % | 8 | % |
| Ford | 8 | % | 6 | % |
| Honda | 8 | % | 6 | % |
| FCA | 8 | % | 5 | % |
| Toyota | 7 | % | 11 | % |
| Daimler | 6 | % | 3 | % |
| General Motors | 4 | % | 7 | % |
| BMW | 4 | % | 3 | % |

1) Source: IHS

CUSTOMER SALES TRENDS

Asian vehicle producers have steadily become increasingly more important to Autoliv, and now represent around 45% of global sales compared to 35% five years ago. Of the Asian OEMs, the Japanese OEMs represent 32% of our sales compared to 24% in 2013. This reflects their increasing share of the global LVP and our stronger market position based on our local presence in Japan. European OEMs accounted for 33% of sales in 2018, virtually unchanged since 2013. The Detroit-3 now account for 19% of our global sales, down from 30% in 2013 this is in part due to GM’s divestiture of Opel and the lingering effects of new business hold back in 2011 and 2012.

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 22 to the Consolidated Financial Statements.

Research, Development and Engineering

No single customer project accounts for more than 2% of Autoliv’s total R,D&E spending during 2018. To fuel Autoliv’s product portfolio, additional expertise is brought in-house via technology partnerships and licensing agreements.

Information on research, development and engineering is included under section “Risks and Risk Management” in Item 7 of this Annual Report.

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 and in all new light vehicles, which are defined as vehicles with an unloaded vehicle weight of approximately 7,700 pounds or less.

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, 2018, Autoliv and its subsidiaries had approximately 58,000 employees and approximately 9,000 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) and Confédération Française des Travailleurs Chrétiens (CFTC) and Solidaires, Unitaires, Démocratiques (SUD) in France; Union General de Trabajadores (UGT), Union Sindical Obrera (USO), Comisiones Obereras (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 NiezaleĪny Związek Zawodowy Pracowników and Zakáadowa Organizacja Związkowa NSZZ SolidarnoĞü in Poland, Union Générale des Travailleurs Tunisiens (UGTT) and Union des travailleurs Tunisiens (UTT) in Tunisia; and Türk Metal Sendikasi 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 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. The SEC maintains an internet site that contains reports, proxy statements and other information at 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 or Autoliv, Inc., c/o Autoliv Electronics America, 26545 American Drive, Southfield, MI 48034.

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 sales 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 earnings guidance and estimates and 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 grew slightly during the period 2016-2018 to 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 have 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. 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, 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. 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 2018, 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 conflict 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 2018, our top five customers represented 50% of our consolidated sales. Our largest contract accounted for around 2% of our total fiscal 2018 sales and expires in 2025. 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 materially 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 22 of the Consolidated Financial Statements.

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 significant management 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.

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

We are currently undergoing an antitrust investigation by the European Commission and have accrued an amount regarding this investigation that may not fully reflect the ultimate cost to resolve the EC's investigation

The European Commission ("EC") is engaged in a long-running investigation into possible anti-competitive behavior among certain suppliers to the automotive vehicle industry, including Autoliv. From June 7 to June 9, 2011, representatives of the EC visited two facilities of Autoliv BV & Co KG, a Company subsidiary in Germany, to gather information for such inquiry. Autoliv has been cooperating with the EC investigation. The EC previously concluded a discrete portion of its investigation in November 2017 and imposed a fine on the Company. In December 2018, we accrued $210 million based on our belief that the EC will seek to impose a fine in connection with the remaining portion of the EC's investigation. The EC investigation requires significant management time and attention and could, in addition to an unfavorable outcome, result in significant expenses. Unfavorable outcomes from the EC investigation could have a material adverse impact on our customer relationships, business prospects, reputation, operating condition, cash flows or financial results, and our insurance may not 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. Specifically, the outcome of the EC investigation could also result in 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.

We are, and have been, subject to investigations by other competition authorities and may be subject to investigations by additional competition authorities that could negatively impact our business

Competition authorities in Brazil, Canada, South Africa and South Korea have previously initiated investigations of certain suppliers to the automotive vehicle industry, including Autoliv. Competition authorities in additional countries may initiate similar investigations. These types of investigations require significant management time and attention. These investigations could also 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 available insurance may not mitigate such impact.

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 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 or retain other qualified personnel could have a material adverse effect on our business.

Restructuring 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 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 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 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 2022. 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. If external financing is unavailable to us when necessary, we may have insufficient funds to continue our operations.

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, 2018, we have outstanding debt of $2.2 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 the Company's 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 materially 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 or 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 20 of the Consolidated Financial Statements.

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 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.

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. The potential consequences of a material cybersecurity incident include reputational damage, 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, 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. 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 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 or make it harder or more difficult to obtain raw materials necessary for the manufacturing of our products.

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 2017 United States Tax Cut and Jobs Act ("Tax Act") significantly changed the taxation of U.S. based multinational corporations. The U.S. Treasury Department, the Internal Revenue Service ("IRS"), and state tax authorities have issued or will be issuing applicable guidance on how the provisions of the Tax Act will be applied or otherwise administered, and additional accounting guidance or interpretations may be issued in the future that are different from our current interpretation. The legislation could be subject to potential amendments and technical corrections, any of which could materially lessen or increase certain adverse impacts of the legislation. As regulations and guidance evolve with respect to the Tax Act, and as we gather information and perform more analysis, our results may differ from previous estimates and may materially affect our financial position

Additionally, changes in tax laws or policies by foreign jurisdictions could result in a higher effective tax rate on our worldwide earnings and 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 expected 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 terms of the United Kingdom's departure from the European Union, which is scheduled to occur on March 29, 2019, could cause political and economic uncertainty in the United Kingdom and the rest of Europe. Until agreements related to Brexit are in place, 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. If the U.K. leaves the EU without an agreement in place, there could be an adverse impact and volatility in foreign exchange markets and labor and trade practices and policy. We conduct business in the United Kingdom 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.

Although we are monitoring the ongoing potential impacts of Brexit and seek to minimize its impact on our business, 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, subject to legal review and ratification by each country. The new deal, known as The United States Mexico Canada Agreement (“USMCA”), includes changes to 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 require 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 materially 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;

18

- 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 approximately 6,050 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 2019 to 2038. 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.

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, and the manner in which these licenses may be interpreted and enforced is therefore 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 record 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 manufactures 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

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 we are currently under examination in a number of jurisdictions, which are inherently uncertain. 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 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 consideration of our cash repatriation plans. Changes in currency exchange rates, earnings mix by taxing jurisdiction or in cash repatriation plans could impact our reported effective tax rates, or cause fluctuations in the tax rate from quarter to quarter. Any anti-trust judgements 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. However, if our non-U.S. subsidiaries were to distribute cash to our U.S. parent or make a cash outlay, such transactions may result in an increase to our effective tax rate. However, based on the Tax Act, a substantial liability for U.S. federal income taxes with respect to our non-U.S. earnings has been recorded. See Note 6 to the Consolidated Financial Statements in this Annual Report.

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 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.

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 may not achieve some or all of the expected benefits of the separation

Although we believe that the separation of Veoneer has provided financial, operational, managerial and other benefits to us and our stockholders, it may not provide results on the scope or scale we anticipated, or such benefits may be delayed or not occur at all. Following the completion of the spin-off, Autoliv is a smaller, less diversified company with a narrower business focus and may be more vulnerable to changing market conditions, which could materially adversely affect our business, operating results and financial condition.

### 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 |
|---|---|---|---|
| Brazil | | | |
| Autoliv do Brasil Ltda. | Taubaté | Seatbelts, airbags, steering wheels and seatbelt webbing | Owned |
| Canada | | | |
| Autoliv Canada, Inc. | Tilbury | Airbag cushions | Owned |
| VOA Canada, Inc. | Collingwood | Seatbelt webbing | Owned |
| China | | | |
| 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 |
| Estonia | | | |
| AS Norma | Tallinn | Seatbelts and belt components | Owned |
| France | | | |
| 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 | | Owned |

| | | | |
|---|---|---|---|
| | | Airbag initiators and seatbelt micro gas generators | |
| Germany | | | |
| Autoliv B.V. & Co. KG | Dachau | Airbags | Leased |
| | Elmshorn | Seatbelts | Owned |
| Hungary | | | |
| Autoliv Kft. | Sopronkövesd | Seatbelts | Owned |
| India | | | |
| 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 |
| Indonesia | | | |
| P.T. Autoliv Indonesia | Jakarta | Seatbelts and steering wheels | Owned |
| Japan | | | |
| Autoliv Japan Ltd. | Atsugi | Steering wheels | Owned |
| | Hiroshima | Airbags and steering wheels | Owned |
| | Taketoyo | Airbag inflators | Owned |
| | Tsukuba | Airbags and seatbelts | Owned |
| Malaysia | | | |
| Autoliv-Hirotako Sdn Bhd | Kuala Lumpur | Seatbelts, airbags and steering wheels | Owned |
| Mexico | | | |

23

| Country/ Company | Location of Facility | Items Produced at Facility | Owned/ Leased |
|---|---|---|---|
| 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 |
| Philippines | | | |
| Autoliv Cebu Safety Manufacturing, Inc. | Cebu | Steering wheels | Owned |
| Poland | | | |
| Autoliv Poland Sp. zo.o. | Olawa | Airbag cushions | Owned |
| | Jelcz-Laskowice | Airbags and seatbelts | Owned |
| Romania | | | |
| 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 |
| Russia | | | |
| OOO Autoliv | Togliatti | Airbags, seatbelts and steering wheels | Leased |
| South Africa | | | |
| Autoliv Southern Africa (Pty) Ltd. | Krügersdorp | Seatbelts and airbags | Owned |
| South Korea | | | |
| Autoliv Corporation | Hwasung | Airbags | Owned |
| | Wonju | Seatbelts | Owned |

| | | | |
|---|---|---|---|
| Spain | | | |
| Autoliv BKI S.A.U. | Valencia | Airbags | Owned |
| Sweden | | | |
| Autoliv Sverige AB | Vårgårda | Airbag inflators | Owned |
| Thailand | | | |
| Autoliv Thailand Ltd. | Chonburi | Seatbelts | Owned |
| | Chonburi | Airbags, airbag cushions, steering wheels | Leased |
| Tunisia | | | |
| SWT1 SARL | El Fahs | Leather wrapping of steering wheels | Owned & Leased |
| ASW3 SARL | Nadhour | PU Molding andLeather wrapping of steering wheels | Owned |
| Turkey | | | |
| Autoliv Cankor Otomotiv Emniyet Sistemleri Sanayi Ve Ticaret A.S. | Gebze-Kocaeli | Airbags and seatbelts | Owned |
| Autoliv Teknoloji Urunleri Sanayi ve Ticaret Ltd. Sti. | Gebze-Kocaeli | Steering wheels | Leased |
| Autoliv Metal Pres Sanayi ve Ticaret A.S. | Gebze-Kocaeli | Seatbelt components | Owned |
| United Kingdom | | | |
| Airbags International Ltd | Congleton | Airbag cushions | Owned |
| USA | | | |
| 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 |

TECHNICAL CENTERS AND CRASH TEST TRACKS

| Country / Company | Location | Product(s) Supported |
|---|---|---|
| China | | |
| Autoliv (Shanghai) Vehicle Safety System Technical Center Co., Ltd. | Shanghai | Airbags and seatbelts customer applications and platform development with full-scale test laboratory |
| France | | |
| 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 |
| Germany | | |
| Autoliv B.V. & Co. KG | Dachau | Customer applications and platform development, airbags with full-scale test laboratory |
| | Elmshorn | Seatbelts with full-scale test laboratory |
| India | | |
| Autoliv India Private Ltd. | Bangalore | Airbags and seatbelts with sled testing |
| Japan | | |
| Autoliv Japan Ltd. | Tsukuba | Airbags and seatbelts customer applications and platform development with sled test laboratory |
| Poland | | |
| Autoliv Poland Sp.z.o.o. | Olawa | Airbags applications and platform development |
| Romania | | |
| Autoliv Romania S.R.L. | Brasov | Seatbelts with sled test laboratory |
| South Korea | | |
| Autoliv Corporation | Seoul | Airbags and seatbelts customer applications and platform development with sled test laboratory |
| Sweden | | |
| Autoliv Development AB | Vårgårda | Research center |
| Autoliv Sverige AB | Vårgårda | Airbags customer applications and platform development with full-scale test laboratory |
| USA | | |
| 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 Depositary 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%.

26

Number of shares

During 2018, the number of shares outstanding increased by 0.1 million to 87.1 million (excluding dilution and treasury shares). The weighted average number of shares outstanding for the full year 2018, assuming dilution, was reduced to 87.3 from 87.7 million in 2017.

Stock options (if exercised) and granted Restricted Stock Units (RSUs) 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. On December 31, 2018, 3.0 million shares were available for repurchase under the current Board authorization from 2014. On December 31, 2018, the Company had 15.7 million treasury shares.

Number of shareholders

Autoliv estimates that there were approximately 70,000 beneficial Autoliv owners as of December 31, 2018. Close to 21% of Autoliv's securities were held by U.S.-based shareholders and around 60% by Sweden-based shareholders. Most of the remaining Autoliv securities were held in the U.K., other Nordic countries, Central Europe, Japan and Canada.

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 (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 shares (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. Autoliv has made no share repurchases since June 30, 2017. The maximum number of shares that may yet be purchased under the stock repurchase program amounted to 2,986,288 shares at December 31, 2018.

Of the total number of repurchased shares, 23.6 million shares were utilized for the equity units offering during 2009-2012. In addition, approximately 5.3 million shares have been utilized by the Stock Incentive Plan. At December 31, 2018, 15.7 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.

| (DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA) | 2018 | 2017 | 2016 | 2015 | 2014[1)] |
|---|---|---|---|---|---|
| Sales and Income | | | | | |
| Net sales | $8,678 | $8,137 | $7,922 | $7,636 | $9,240 |
| Operating income[4)] | 686 | 860 | 831 | 708 | 723 |
| Income before income taxes[4)] | 612 | 792 | 784 | 655 | 667 |
| Net income attributable to controlling interest[4)] | 376 | 586 | 558 | 443 | 468 |
| Financial Position | | | | | |
| Current assets excluding cash | 2,670 | 2,598 | 2,269 | 2,259 | 2,607 |
| Property, plant and equipment, net | 1,690 | 1,609 | 1,329 | 1,265 | 1,390 |
| Intangible assets (primarily goodwill) | 1,423 | 1,440 | 1,430 | 1,445 | 1,661 |
| Non-interest bearing liabilities | 2,595 | 2,418 | 2,154 | 2,049 | 2,400 |
| Capital employed[5)] | 3,516 | 4,538 | 4,225 | 3,670 | 3,504 |
| Net debt[6, 8)] | 1,619 | 368 | 299 | 202 | 62 |
| Total equity[5)] | 1,897 | 4,169 | 3,926 | 3,468 | 3,442 |
| Total assets | 6,722 | 6,947 | 6,565 | 6,518 | 7,443 |
| Long-term debt[6)] | 1,609 | 1,311 | 1,313 | 1,499 | 1,521 |
| Share data | | | | | |
| Earnings per share (US$) – basic[4)] | 4.32 | 6.70 | 6.33 | 5.03 | 5.08 |
| Earnings per share (US$) – assuming dilution[4)] | 4.31 | 6.68 | 6.32 | 5.02 | 5.06 |
| Total parent shareholders' equity per share (US$)[5)] | 21.63 | 46.38 | 41.69 | 39.22 | 38.64 |
| Cash dividends paid per share (US$) | 2.46 | 2.38 | 2.30 | 2.22 | 2.12 |
| Cash dividends declared per share (US$) | 2.48 | 2.40 | 2.32 | 2.24 | 2.14 |
| Share repurchases | — | 157 | — | 104 | 616 |
| Number of shares outstanding (million)[2)] | 87.1 | 87.0 | 88.2 | 88.1 | 88.7 |
| Ratios | | | | | |
| Gross margin (%) | 19.7 | 20.6 | 20.6 | 20.5 | 19.5 |
| Operating margin (%)[4)] | 7.9 | 10.6 | 10.5 | 9.3 | 7.8 |
| Pretax margin (%)[4)] | 7.1 | 9.7 | 9.9 | 8.6 | 7.2 |
| Return on capital employed (%)[7)] | 17 | n/a | n/a | n/a | 21 |
| Return on total equity (%)[4, 7)] | 13 | n/a | n/a | n/a | 12 |
| Total equity ratio (%)[5)] | 28 | 49 | 48 | 46 | 46 |
| Net debt to capitalization (%)[5, 6)] | 46 | 8 | 7 | 6 | 2 |
| Days receivables outstanding | 71 | 76 | 70 | 71 | 71 |
| Days inventory outstanding | 35 | 35 | 32 | 31 | 32 |
| Other data | | | | | |
| Airbag sales[3)] | 5,699 | 5,342 | 5,256 | 5,036 | 5,019 |
| Seatbelt sales | 2,980 | 2,794 | 2,665 | 2,599 | 2,800 |
| Capital expenditures, net | 486 | 464 | 398 | 397 | 453 |

| | | | | | |
|---|---|---|---|---|---|
| Net cash provided by operating activities[1)] | 591 | 936 | 868 | 751 | 713 |
| Net cash used in investing activities[1)] | (628 ) | (697 ) | (726 ) | (591 ) | (453 ) |
| Net cash (used in) provided by financing activities[1)] | (245 ) | (566 ) | (200 ) | (319 ) | 226 |
| Number of employees, December 31 | 57,700 | 56,700 | 55,800 | 51,300 | 50,800 |

1) Including Discontinued Operations. This period has not been restated to reflect just continuing operations because it was not practicable to do so.
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.
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 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 is focused on our continuing operations. For more information on our discontinued operations, see Note 3 to the Consolidated Financial Statements in this Annual Report.

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 three-year period ended December 31, 2018, a number of factors have influenced the Company's results of operations. The most notable factors have been:

- Growth in light vehicle production and safety content per vehicle
- Continued strong order intake
- Operational initiatives
- Continued focus on operational excellence and quality
- Changes in competitive environment

| YEARS ENDED DEC. 31 (DOLLARS IN MILLIONS, EXCEPT EPS) | 2018[1)] Reported | change | | 2017[1)] Reported | change | | 2016[1)] Reported | change | |
|---|---|---|---|---|---|---|---|---|---|
| Global light vehicle production (in thousands) | 91,344 | (1 | )% | 92,128 | 2 | % | 90,056 | 5 | % |
| Consolidated net sales | $8,678 | 7 | % | $8,137 | 3 | % | $7,922 | 4 | % |
| Operating income[3)] | 686 | (20 | )% | 860 | 3 | % | 831 | 17 | % |
| Operating margin, %[3)] | 7.9 | (2.7 | )pp | 10.6 | 0.1 | pp | 10.5 | 1.2 | pp |
| Net income attributable to controlling interest from Continuing Operations[3)] | 376 | (36 | )% | 586 | 5 | % | 558 | 26 | % |
| Earnings per share Continuing Operations[2, 3)] | 4.31 | (35 | )% | 6.68 | 6 | % | 6.32 | 26 | % |
| Net cash provided by operating activities[4)] | 591 | (37 | )% | 936 | 8 | % | 868 | 16 | % |
| Return on capital employed, %[5)] | 16.8 | n/a | pp | n/a | n/a | pp | n/a | n/a | pp |

1) Reported figures impacted by costs for capacity alignments and antitrust related matters in 2016-2018, and by separation costs in 2018. See section Items affecting comparability and Notes 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.
4) Including Discontinued Operations
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 2018 we experienced significant changes in LVP, especially in Europe impacted by the new emission testing WLTP and in China due to lower consumer demand for vehicles. As a result, full-year 2018 global LVP declined by 1%. This came after eight straight years of LVP growth. In 2017, the LVP grew by 2% and in 2016, the year-over-year growth in LVP was 5%.

Light Vehicle Production

| | | 2018 | | 2017 | | 2016 | | Change '18 vs ´16 | |
|---|---|---|---|---|---|---|---|---|---|
| | | (000´) units | % global | (000´) units | % global | (000´) units | % global | (000´) units | % |
| Americas | | 19,124 | 21 % | 19,185 | 21 % | 19,421 | 22 % | (296 ) | (2 )% |
| | North America | 15,751 | 17 % | 15,920 | 17 % | 16,678 | 19 % | (927 ) | (6 )% |
| | South America | 3,373 | 4 % | 3,265 | 4 % | 2,743 | 3 % | 630 | 23 % |
| Europe | | 21,887 | 24 % | 22,180 | 24 % | 21,458 | 24 % | 429 | 2 % |
| Asia | | 47,811 | 52 % | 48,233 | 52 % | 46,890 | 52 % | 921 | 2 % |
| | China | 25,696 | 28 % | 26,575 | 29 % | 25,952 | 29 % | (256 ) | (1 )% |
| | Japan | 9,052 | 10 % | 9,021 | 10 % | 8,517 | 9 % | 535 | 6 % |
| | South Korea | 3,951 | 4 % | 4,023 | 4 % | 4,143 | 5 % | (192 ) | (5 )% |
| | India | 4,712 | 5 % | 4,420 | 5 % | 4,136 | 5 % | 577 | 14 % |
| | Other Asia | 4,400 | 5 % | 4,194 | 5 % | 4,142 | 5 % | 258 | 6 % |
| Other | | 2,522 | 3 % | 2,530 | 3 % | 2,287 | 3 % | 235 | 10 % |
| Global Total | | 91,344 | 100 % | 92,128 | 100 % | 90,056 | 100 % | 1,288 | 1 % |

29

The main markets contributing to the global LVP growth during 2016 to 2018 were South America and India. Affected by political factors and microeconomics in the second half of 2018, Chinese LVP declined by 1% from 2016 to 2018. In Europe, which is an important market for automotive safety systems, LVP increased by 2% or by approximately 0.4 million light vehicles during the same three-year period. In North America, LVP declined by 6% or 0.9 million light vehicles. Thanks to strong domestic demand and growing export to other countries, LVP in India increased by 14% during the three-year period to 4.7 million light vehicles in 2018.

Europe's share of global LVP has remained unchanged at 24%, while North America has declined from 19% to 17% and China from 29% to 28% during the same three-year period.

Thanks 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 their vehicles. This generally happens 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 of light vehicles. This should eventually lead to a higher installation rate of airbags and more advanced seatbelts. Thanks to these positive worldwide trends, as well as currency translation effects, the average global safety content (airbags, seatbelts and steering wheels) per light vehicle (CPV) has increased from around $220 to around $225 during the period 2017-2018. This increase comes despite the fact that growth in global LVP is mostly in markets with lower average safety CPV such as South America and India, where the CPV is only approximately $170 and $80, respectively. In addition, there is a negative effect from continued pricing pressure from vehicle manufacturers.

These trends 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 32% of sales in Europe, 31% in the Americas and 37% in Asia in 2018, compared to 32%, 32% and 36%, respectively, in 2017. In Asia, our sales in the important Chinese market represents 18% of total sales in 2018, despite of the first drop in LVP in the country in decades. Regardless of the short-term weakness in the Chinese market, we remain well positioned in this 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, Japan and India was partly offset by declining sales in South Korea.

A fast-growing customer from 2016 to 2018 has been Honda. Their share of our sales has increased from close to 7% to 8% during the three-year period. The 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 2018, with Great Wall representing

2%.

Our sales to premium brand OEMs accounted for around 18% of total sales, while their share of global LVP is approximately 11%. 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. Of the European OEMs, Daimler stands out, accounting for 6% of Autoliv's total sales, representing more than two times their global LVP market share. This is a result of our strong position within advanced safety solutions in their vehicles.

The Detroit Three automobile manufacturers, Ford, Fiat Chrysler and GM, account for 8%, 8% and 4% of our total sales, respectively. Because Autoliv was on a new business hold with GM during 2011-2012 and PSA's acquisition of GM's European brand Opel, GM's share of Autoliv total sales declined from 8% in 2016 to 4% in 2018. This has affected most regions not only Europe and North America.

CONTINUED STRONG ORDER INTAKE

Building on a strong base, including supplying our delivering products to approximately 1,300 vehicle models and 100 car brands, Autoliv recorded its highest order intake ever during the period 2016-2018, winning around 50% of available orders. Our share of order intake in the past three years is significantly above our sales market share of around 40% in 2018. Part of the high order intake is the consequence of major recalls by another airbag manufacturer. The most substantial increase in order intake was in 2015, where it increased by 80% compared to 2014, to $11.9 billion. Since 2016, order intake has continued to increase and reached in 2018 $15.5 billion in estimated life-time sales, an increase of 26% compared to 2016.

Due to the lead time from order to start of production, 2017 was the first year the increased level of order intake began to impact our sales. The sales growth has substantially accelerated during 2018, outgrowing LVP with close to 10% in the fourth quarter. During 2018, growth was positively affected through recent launches of several new models, including e.g. Dodge Ram 1500, Tesla Model 3 and Honda Accord. 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 increase in RD&E expenses, net, between 2016 and 2018. Additionally, we have to build up production capacity, in the form of new lines and buildings, to meet future product launches.

OPERATIONAL INITIATIVES

Over the years we have seen an uneven capacity utilization in several of our plants, mainly in Europe. The costs for restructuring activities in 2018 amounted to $9 million compared to $23 million in 2017 and to $21 million in 2016

The current restructuring activities are expected to have a payback period of around 3 years, or more, after cash-out. The cash payments in 2018 were $14 million compared to $23 million in 2017 and $71 million in 2016. As of December 31, 2018, we have $33 million reserved in our balance sheet related to restructuring (see Note 12 to the Consolidated Financial Statements included herein).

Capital expenditures, net of $486 million in 2018, was $22 million and $88 million higher than in 2017 and 2016, respectively. In relation to sales Capital expenditures, net was 5.6% in 2018 and 5.7% in 2017 and 5.0% in 2016. The level of Capital expenditures, net, supports our growth strategy and reflects the high order intake for the period 2016 to 2018.

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 also depend on the business cycle. For the period 2016-2018, 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 every item in our cost structure. Additionally, during the period 2016-2018, we have experienced raw material commodity costs increase of around $30 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.

These strategies have enabled productivity improvements in Autoliv's manufacturing of over 5% for four out of the five past years. It was only in 2018 that the target was not achieved because of elevated launch related costs.

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) and institute restructuring and capacity alignment activities. The number of employees in the BCCs in relation to total headcount has increased slightly from 78% in 2016 to over 80% in 2018.

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 INCREASING

The number of vehicle recalls in the automotive industry has risen sharply over the last few years. In 2015 and 2016, 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 command a market share of 40% in passive safety. At the same time, 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 period 2016 to 2018, 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, 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 has been subject to an investigation of anti-competitive behavior among suppliers of occupant safety systems by the European Commission (EC). We now have reason to believe that the EC will seek to impose a fine of approximately 185 million Euros in connection with the remaining portion of the EC investigation. Therefore, the Company accrued $210 million in the fourth quarter of 2018. The Company believes that a fine could be issued during the first half of 2019, although this may be delayed.

CAPITAL STRUCTURE

The Company's net debt was at $1,619 million on December 31, 2018. This was an increase by $1,250 million compared to December 31, 2017. The increase was mainly driven by the $972 million capitalization of Veoneer prior to the spin-off. Total interest bearing debt at December 31, 2018 amounted to $2,230 million, an increase by $899 million compared to December 31, 2017.

Cash flow from operations, including discontinued operations, was $591 million in 2018 and $936 million in 2017. Capital expenditures, net amounted to $555 million in 2018 and $570 million in 2017. During the two-year period 2017-2018 the Company paid dividends of $423 million and repurchased shares for $157 million. After the latest declared dividend of 62 cents per share, the annualized run rate is $216 million, based on number of shares outstanding at December 31, 2018.

It is the Company's policy to maintain a financial leverage commensurate with a "strong investment grade credit rating" and our long-term target is to have a leverage ratio (see section Non-U.S. GAAP Performance Measures) of around 1.0 times and to be within the range of 0.5 times to 1.5 times. We monitor our capital structure and the financial markets closely and intend 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 2018, the Company did not repurchase any shares, during 2017, the Company repurchased 1.4 million shares for approximately $157 million, including commissions. At December 31, 2018, 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 2018 was approximately $2.4 billion or 28% of sales. Approximately three quarters of our sales are denominated in other currencies than U.S. dollars, which is leading to currency translation effects.

Outlook for 2019

Mainly based on our customer call-offs and a light vehicle production outlook that is slightly below the IHS estimate, the indication for organic sales growth for the full year 2019 is around 5%. Currency translations are expected to have a combined negative effect of around 1%, resulting in a consolidated sales increase of around 4%. The indication for adjusted operating margin for the full year 2019 is around 10.5%.

The projected tax rate, excluding unusual items, for the full year 2019, is expected to be around 28%, and is subject to change due to nonrecurring events that may occur.

The projected operating cash flow for the full year 2019, excluding any unusual items, is expected to be higher than for Continuing Operations full year 2018 of around $810 million. The projected capital expenditures as percent of sales, net, for the full year 2019 is expected to be lower than for Continuing Operations full year 2018 of around 5.6%.

The projected R,D&E, net, as percent of sales, for the full year 2019 is expected to be lower than for Continuing Operations full year 2018 of around 4.8%. The projected leverage ratio is expected to be well within our target range of 0.5x to 1.5x at the end of 2019.

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

The Company is subject to ongoing antitrust investigations by governmental authorities in several jurisdictions as well as related civil litigation. For further discussion of these antitrust matters and other legal proceedings see Item 3. Legal Proceedings and Note 18 Contingent Liabilities to the Consolidated Financial Statements in this Annual Report.

Year Ended December 31, 2018 Versus 2017

Sales by Product

| | 2018 | 2017 | Reported | Components Of Change In Net Sales | |
|---|---|---|---|---|---|
| | Sales (MUSD) | Sales (MUSD) | change | Currency effects[1] | Organic |
| Airbags products and Other[2] | $ 5,698 | $ 5,343 | 6.7 % | 1.8 % | 4.9 % |
| Seatbelt products[2] | 2,980 | 2,794 | 6.7 % | 2.2 % | 4.5 % |
| Total | $ 8,678 | $ 8,137 | 6.7 % | 1.9 % | 4.8 % |

1) Effects from currency translations.
2) Including Corporate and Other sales.

Consolidated net sales increased by 6.7% compared to full year 2017 with an organic growth (see section Non-U.S. GAAP Performance Measures) of 4.8% and positive currency translation effects of 1.9%.

Airbag sales grew organically (see section Non-U.S. GAAP Performance Measures) by 4.9%, mainly driven by steering wheels in North America, Europe and China and from inflatable curtains in North America, partly offset by organic sales decline of inflatable curtains in Europe.

Seatbelt sales grew organically (see section Non-U.S. GAAP Performance Measures) by 4.5%, mainly driven by growth in North America, India and China, partly offset by declines in Europe.

Sales by Region

| | 2018 | 2017 | Reported | Components Of Change In Net Sales | |
|---|---|---|---|---|---|
| | Sales (MUSD) | Sales (MUSD) | change | Currency effects[1] | Organic |
| Asia | $ 3,195 | $ 2,998 | 6.6 % | 1.9 % | 4.7 % |
| Whereof: China | 1,522 | 1,421 | 7.1 % | 2.2 % | 4.9 % |

| | | | | | | |
|---|---|---|---|---|---|---|
| Japan | 828 | 787 | 5.2 % | 1.6 % | 3.6 % |
| Rest of Asia | 845 | 790 | 6.9 % | 1.3 % | 5.6 % |
| Americas | 2,735 | 2,435 | 12.3 % | (1.0 )% | 13.3 % |
| Europe | 2,748 | 2,704 | 1.7 % | 4.5 % | (2.8 )% |
| Global | $ 8,678 | $ 8,137 | 6.7 % | 1.9 % | 4.8 % |

1) Effects from currency translations.

For the full year 2018, Autoliv’s sales grew organically (see section Non-U.S. GAAP Performance Measures) by 4.8% compared to full year 2017, almost 6pp more than LVP growth according to IHS. The largest contributors to the organic growth were North America, China and India, partly offset by Europe and South Korea.

The organic sales increase (see section Non-U.S. GAAP Performance Measures) from Autoliv’s companies in China of 4.9% was driven by both domestic and global OEMs. Sales growth to domestic OEMs was mainly with Geely, including Lynk & Co, and Great Wall while growth with the global OEMs was mainly with VW, Honda and Nissan.

Organic sales growth (see section Non-U.S. GAAP Performance Measures) of 3.6% from Autoliv’s companies in Japan was mainly derived from sales to Subaru and Mitsubishi as well as inflator replacement sales.

Organic sales growth (see section Non-U.S. GAAP Performance Measures) from Autoliv’s companies in the Rest of Asia of 5.6% was driven by strong sales development in India, which grew organically by 26%, mainly from sales to Suzuki, Honda, Tata and Hyundai/Kia. Sales in South Korea decreased, driven mainly by lower sales to Hyundai/Kia.

The organic growth (see section Non-U.S. GAAP Performance Measures) from Autoliv’s companies in Americas was 13.3%. North America grew organically by 13.1% mainly due to new model launches with FCA, Honda, Nissan, Tesla and VW, partly offset by lower sales to Daimler, GM and Ford. Overall growth was driven by all main product groups. Sales in South America grew organically by 18.2%, mainly due to increased sales to FCA and VW.

The 2.8% organic sales decline (see section Non-U.S. GAAP Performance Measures) from Autoliv's companies in Europe was mainly driven by Renault, FCA, BMW, JLR, PSA and Ford, partly offset by strong performance with premium brands such as Daimler and Volvo.

| (Dollars in millions, except per share data) | Years ended December 31 2018 | 2017 | Change |
|---|---|---|---|
| Net Sales | $8,678 | $8,137 | 6.7 % |
| Gross profit | 1,711 | 1,680 | 1.9 % |
| % of sales | 19.7 % | 20.6 % | (0.9 )pp |
| S,G&A | (390 ) | (407 ) | (4.0 )% |
| % of sales | (4.5 )% | (5.0 )% | (0.5 )pp |
| R,D&E net | (413 ) | (371 ) | 11.3 % |
| % of sales | (4.8 )% | (4.6 )% | 0.2 pp |
| Other income (expense), net | (211 ) | (32 ) | 565.9 % |
| % of sales | (2.4 )% | (0.4 )% | 2.0 pp |
| Operating income | 686 | 860 | (20.2 )% |
| % of sales | 7.9 % | 10.6 % | (2.7 )pp |
| Interest expense, net | (59 ) | (54 ) | 9.3 % |
| Income before taxes | 612 | 792 | (22.7 )% |
| Tax rate | 38.4 % | 25.8 % | 12.6 pp |
| Income attributable to controlling interest from Continuing Operations | 376 | 586 | (35.9 )% |
| Earnings per share Continuing Operations, diluted[1, 2)] | 4.31 | 6.68 | (35.5 )% |

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 2018 increased by $32 million, compared to the prior year, as a result of higher sales partly offset by a lower gross margin. The gross margin decreased by 0.9pp compared to full year 2017, mainly due to adverse impact from launch related costs, raw material costs and currency changes which more than offset the operating leverage on the increased sales.

OPERATING INCOME

Operating income decreased by $174 million to $686 million. The reported operating margin was 7.9% of sales, compared to 10.6% of sales in the prior year. The decrease of 2.7pp of sales was mainly due to higher costs for antitrust related matters, compared to, reported as Other income (expense), net, lower gross margin and higher R,D&E, net costs.

Selling, General and Administrative (S,G&A) expenses decreased by $16 million or 0.5pp of sales driven by transition service agreement income, lower bonus accruals and lower legal costs. Research, Development & Engineering (R,D&E) expenses, net as percent of sales was 4.8% compared to 4.6% in the same period the prior year mainly as a result of the significant increase in product launches during the first half of 2018 and continued strong order intake.

INTEREST EXPENSE, NET

Interest expense, net in full year 2018 was $59 million. The increase of $5 million compared to $54 million in full year 2017 is related to interest expenses after issuing the 500 million Eurobond in June 2018 partly offset by less USPP debt. Interest income was close to $7 million in full year 2018, $0.5 million lower compared to full year 2017 due to lower cash balances.

INCOME TAXES

The effective tax rate in 2018 was 38.4% compared to 25.8% in 2017. The tax rate for 2018 excluding discrete tax items was 29.1% compared to 24.8% in 2017. The tax rate for 2018 was impacted by several items, including additional tax cost recorded related to the U.S. transition tax and the impact of the antitrust accrual, which is not deductible for tax purposes. The tax rate for 2017 was impacted by the reversal of the valuation allowance for certain deferred tax assets and the estimate of the negative impact of the U.S. tax reform (specifically the deemed repatriation of non-U.S. earnings and the revaluation of U.S. deferred tax assets to the new lower U.S. tax rate). See Note 6 to the Consolidated Financial Statements included herein.

NET INCOME AND EARNINGS PER SHARE

Net income attributable to controlling interest from Continuing Operations decreased year on year primarily driven by the antitrust accrual as noted above. Earnings per share (EPS) from Continuing Operations assuming dilution decreased by 35.5% to $4.31 compared to $6.68 for the same period one year ago. The main items affecting EPS negatively were 208 cents from higher costs primarily relating to antitrust related matters and 42 cents from higher underlying tax rate. The main offsetting effects were 15 cents from discrete tax items.

The weighted average number of shares outstanding assuming dilution was 87.3 million compared to 87.7 million for full year of 2017.

Year Ended December 31, 2017 Versus 2016

Sales by Product

| | 2017 (Sales MUSD) | 2016 (Sales MUSD) | Reported change | Components Of Change In Net Sales Currency effects[1] | Organic |
|---|---|---|---|---|---|
| Airbags products and Other[2] | $ 5,343 | $ 5,257 | 1.6 % | 0.3 % | 1.3 % |
| Seatbelt products[2] | 2,794 | 2,665 | 4.8 % | 0.8 % | 4.0 % |
| Total | $ 8,137 | $ 7,922 | 2.7 % | 0.5 % | 2.2 % |

1) Effects from currency translations.
2) Including Corporate and Other sales.

Consolidated sales increased by 2.7% to $8,137 million. Excluding positive currency translation effects, the organic sales growth (see section Non-U.S. GAAP Performance Measures) was 2.2%, in line with global light vehicle production despite negative impact from lower inflator sales.

Airbag sales had solid organic growth (see section Non-U.S. GAAP Performance Measures) for the full year in Asia, especially in India, Japan and China. South America grew strongly while Europe and South Korea showed more modest organic growth. North American sales declined organically.

Seatbelt sales grew organically (see section Non-U.S. GAAP Performance Measures) for the full year in all regions except in North America and South Korea, with Europe and Japan as the largest growth drivers.

Inflator replacement sales affected the segment's organic sales growth (see section Non-U.S. GAAP Performance Measures) for the full year negatively by around 0.4pp.

Sales by Region

| | 2017 Sales (MUSD) | 2016 Sales (MUSD) | Reported change | Components Of Change In Net Sales: Currency effects[1)] | Organic |
|---|---|---|---|---|---|
| Asia | $ 2,998 | $ 2,831 | 5.9 % | (0.9)% | 6.8 % |
| Whereof: China | 1,421 | 1,385 | 2.6 % | (1.6)% | 4.2 % |
| Japan | 787 | 719 | 9.5 % | (3.3)% | 12.8 % |
| Rest of Asia | 790 | 727 | 8.8 % | 3.0 % | 5.8 % |
| Americas | 2,435 | 2,547 | (4.4 )% | 0.1 % | (4.5 )% |
| Europe | 2,704 | 2,544 | 6.3 % | 2.5 % | 3.8 % |
| Global | $ 8,137 | $ 7,922 | 2.7 % | 0.5 % | 2.2 % |

1) Effects from currency translations.

For the full year 2017, Autoliv' sales grew organically (see section Non-U.S. GAAP Performance Measures) by 2.2% compared to full year 2016, in line with global LVP growth according to IHS. The largest contributors to the organic growth were Europe, Japan, and China, partly offset by North America and South Korea.

The organic sales increase (see section Non-U.S. GAAP Performance Measures) from Autoliv's companies in China was mainly driven by the global OEMs, primarily Renault/Nissan and Daimler, partly offset by Hyundai/Kia. Organic sales to the domestic OEMs also increased, with increases to models from Geely and Great Wall, partly offset by decreases to models from Haima. Inflator replacement sales contributed positively to organic sales growth.

Organic sales growth (see section Non-U.S. GAAP Performance Measures) from Autoliv's companies in Japan was driven by Toyota, Renault/Nissan and Mitsubishi. Offsetting effects are mainly from decreasing inflator replacement sales.

Organic sales growth (see section Non-U.S. GAAP Performance Measures) from Autoliv's companies in the Rest of Asia was driven by strong sales development in India, mainly to Suzuki and Hyundai/Kia. Sales in South Korea decreased, driven by Ssangyong and GM.

Sales from Autoliv's companies in Americas declined organically (see section Non-U.S. GAAP Performance Measures) by 4.5%. North America declined by 6.0% organically, driven primarily by GM due to unfavorable platform shifts and declining LVP. Inflator replacement sales had a 0.7pp negative impact on organic growth in North America. South America grew organically by about 45%.

The 3.8% organic sales growth (see section Non-U.S. GAAP Performance Measures) from Autoliv's companies in Europe was mainly driven by Volvo, Toyota and VW. Offsetting effects were mainly from Opel.

| (Dollars in millions, except per share data) | Years ended December 31 2017 | 2016 | Change |
|---|---|---|---|
| Net Sales | $8,137 | $7,922 | 2.7 % |
| Gross profit | 1,680 | 1,628 | 3.2 % |
| % of sales | 20.6 % | 20.6 % | 0.0 pp |
| S,G&A | (407 ) | (394 ) | 3.3 % |
| % of sales | (5.0 )% | (5.0 )% | 0.0 pp |
| R,D&E net | (371 ) | (357 ) | 3.9 % |
| % of sales | (4.6 )% | (4.5 )% | 0.1 pp |
| Other income (expense), net | (32 ) | (35 ) | (8.6 )% |
| % of sales | (0.4 )% | (0.4 )% | (0.0 )pp |
| Operating income | 860 | 831 | 3.5 % |
| % of sales | 10.6 % | 10.5 % | 0.1 % |
| Interest expense, net | (54 ) | (58 ) | (6.9 )% |
| Income before taxes | 792 | 784 | 1.0 % |
| Tax rate | 25.8 % | 28.6 % | (2.8 )pp |
| Net income attributable to controlling interest from Continuing Operations | 586 | 558 | 5.0 % |
| Earnings per share Continuing Operations, diluted[1, 2] | 6.68 | 6.32 | 5.7 % |

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 2017 increased by $52 million, compared to the prior year, as a result of higher sales. The gross margin was basically unchanged compared to 2016, as improved operational performance and higher organic sales (see section Non-U.S. GAAP Performance Measures), were offset by costs related to investments for capacity and growth, as well as negative impact from raw material prices.

OPERATING INCOME

Operating income increased by around $29 million to $860 million and the operating margin increased slightly by 0.1pp to 10.6% compared to prior year. In 2017, the operating margin was negatively affected by the ongoing capacity alignments ($22 million), settlements of antitrust related matters ($18 million), higher RD&E, net, ($14 million) to support growth.

Selling, General and Administrative (S,G&A) expenses increased by $13 million compared to the prior year, but remained flat as a percentage of net sales. Research, Development & Engineering (R,D&E) expenses, net increased by $14 million compared to the prior year to support growth from prior year's order intake.

INTEREST EXPENSE, NET

Interest expense, net decreased by $4 million to $54 million compared to 2016. The decrease relates to maturity of $105 million USPP in November 2017, and higher interest income on centrally held USD cash in 2017 compared to 2016.

INCOME TAXES

The effective tax rate in 2017 was 25.8% compared to 28.6% in 2016. The tax rate for 2017 excluding discrete tax items was 24.8% compared to 28.0% in 2016. The tax rate for 2017 was impacted by several items including, reversal of the valuation allowance for certain deferred tax assets, reasonable estimate of the negative impact of U.S. tax reform (specifically the deemed repatriation of non-US earnings and the revaluation of U.S. deferred tax assets to the new lower U.S. tax rate) compared to the 2016 tax rate.

NET INCOME AND EARNINGS PER SHARE

Net income from continuing operations attributable to controlling interest was $586 million, an increase of $28 million from 2016. Earnings per share (EPS) assuming dilution increased by 36 cents, or by 6%, to $6.68 compared to prior year. The main positive items affecting EPS were lower number of shares, lower tax and higher operating income.

The weighted average number of shares outstanding assuming dilution declined to 87.7 million compared to 88.4 million in the full year 2016, mainly due to share repurchases.

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 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)

| | China | | Japan | | RoA[1)] | | Americas | | Europe | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2018 VS. 2017 | % | $ | % | $ | % | $ | % | $ | % | $ | % | $ |
| Reported change | 7.1 | $101.0 | 5.2 | $40.9 | 6.9 | $54.9 | 12.3 | $299.9 | 1.7 | $44.7 | 6.7 | $541.4 |
| Currency effects[2)] | 2.2 | 30.9 | 1.6 | 12.8 | 1.3 | 10.9 | (1.0) | (24.2) | 4.5 | 119.9 | 1.9 | 150.3 |
| Organic change | 4.9 | 70.1 | 3.6 | 28.1 | 5.6 | 44.0 | 13.3 | 324.1 | (2.8) | (75.2) | 4.8 | 391.1 |

| | China | | Japan | | RoA[1)] | | Americas | | Europe | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 VS. 2016 | % | $ | % | $ | % | $ | % | $ | % | $ | % | $ |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Reported change | 2.6 | $35.8 | 9.5 | $68.4 | 8.8 | $63.7 | (4.4) | $(112.8) | 6.3 | $160.1 | 2.7 | $215.2 |
| Currency effects[2)] | (1.6) | (22.1) | (3.3 ) | (23.9) | 3.0 | 21.6 | 0.1 | 1.3 | 2.5 | 63.4 | 0.5 | 40.3 |
| Organic change | 4.2 | 57.9 | 12.8 | 92.3 | 5.8 | 42.1 | (4.5) | (114.1) | 3.8 | 96.7 | 2.2 | 174.9 |

1) Rest of Asia.
2) Effects from currency translations.

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

| DECEMBER 31 | 2018 | 2017 |
|---|---|---|
| Total current assets Continuing Operations | $3,285.4 | $3,557.5 |
| Total current liabilities Continuing Operations | (2,865.5) | (2,086.4) |
| Working capital | 419.9 | 1,471.1 |
| Cash and cash equivalents | (615.8 ) | (959.5 ) |
| Short-term debt | 620.7 | 19.7 |
| Derivative (asset) and liability, current | (0.8 ) | (2.1 ) |
| Dividends payable | 54.0 | 52.2 |
| Operating working capital | $478.0 | $581.4 |

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

| DECEMBER 31 | 2018 | 2017 |
|---|---|---|
| Short-term debt | $620.7 | $19.7 |
| Long-term debt | 1,609.0 | 1,310.7 |
| Total debt | 2,229.7 | 1,330.4 |
| Cash and cash equivalents | (615.8 ) | (959.5 ) |
| Debt issuance cost/Debt-related derivatives, net | 4.9 | (2.5 ) |
| Net debt | $1,618.8 | $368.4 |

37

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 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 GAAP, including operating margin and EPS.

ITEMS AFFECTING COMPARABILITY

| | 2018 | | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Reported | | Non- | Reported | | Non- | Reported | | Non- |
| | (U.S. | Adjust- | U.S. | (U.S. | Adjust- | U.S. | (U.S. | Adjust- | U.S. |
| (DOLLARS IN MILLIONS, EXCEPT EPS) | GAAP) | ments[1)] | GAAP | GAAP) | ments[1)] | GAAP | GAAP) | ments[1)] | GAAP |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Operating income | $686 | $ 222 | $908 | $860 | $ 40 | $900 | $831 | $ 35 | $866 |
| Operating margin, % | 7.9 | 2.6 | 10.5 | 10.6 | 0.5 | 11.1 | 10.5 | 0.4 | 10.9 |
| Income before taxes from Continuing Operations | $612 | $ 222 | $834 | $792 | $ 40 | $832 | $784 | $ 35 | $819 |
| Net income attributable to controlling interest from Continuing Operations | $376 | $ 220 | $596 | $586 | $ 39 | $625 | $558 | $ 27 | $585 |
| Capital employed | $3,516 | $ 220 | $3,736 | $4,538 | $ 39 | $4,577 | $4,225 | $ 27 | $4,252 |
| Return on capital employed, % [2, 6)] | 16.8 | 5.2 | 22.0 | n/a | n/a | n/a | n/a | n/a | n/a |
| Return on total equity, % [3, 6)] | 13.0 | 7.3 | 20.3 | n/a | n/a | n/a | n/a | n/a | n/a |
| Earnings per share Continuing Operations, diluted [4, 5)] | $4.31 | $ 2.52 | $6.83 | $6.68 | $ 0.44 | $7.12 | $6.32 | $ 0.31 | $6.63 |
| Total parent shareholders' equity per share | $21.63 | $ 2.52 | $24.15 | $46.38 | $ 0.44 | $46.82 | $41.69 | $ 0.31 | $42.00 |

1) Adjustments for capacity alignments and antitrust matters during 2016-2018 and separation of our business segments during 2018. 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.
6) 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.

38

Items included in Non-GAAP adjustments

| | Full Year 2018 | | Full Year 2017 | | Full Year 2016 | |
|---|---|---|---|---|---|---|
| | Adjustment Millions | Adjustment Per share | Adjustment Millions | Adjustment Per share | Adjustment Millions | Adjustment Per share |
| Capacity alignment | $5 | $ 0.05 | $22 | $ 0.24 | $21 | $ 0.24 |
| Antitrust related matters | 212 | 2.43 | 18 | 0.21 | 14 | 0.16 |
| Separation costs | 5 | 0.06 | - | - | - | - |
| Total adjustments to operating income | $222 | $ 2.54 | $40 | $ 0.45 | $35 | $ 0.40 |
| Tax on non-U.S. GAAP adjustments[1)] | (2 ) | (0.02 ) | (1 ) | (0.01 ) | (8 ) | (0.09 ) |
| Total adjustments to Income from Continuing operations | $220 | $ 2.52 | $39 | $ 0.44 | $27 | $ 0.31 |
| | | | | | | |
| Weighted average number of shares outstanding - diluted | | 87.3 | | 87.7 | | 88.4 |
| Return on capital employed[2, 3, 6)] | $222 | | n/a | | n/a | |
| Adjustment Return on Capital employed, % | 5.2 % | | n/a | | n/a | |
| | | | | | | |
| Return on total equity[4, 5, 6)] | $220 | | n/a | | n/a | |
| Adjustment Return on Total equity, % | 7.3 % | | n/a | | n/a | |

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

QUARTERLY 2018 RECONCILIATION OF ADJUSTED “OPERATING MARGIN” AND ADJUSTED “EPS”

| | First quarter 2018 | | | Second quarter 2018 | | | Third quarter 2018 | | | Fourth quarter 2018 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Reported U.S. GAAP | Adjust- ments[1)] | Non- U.S. GAAP | Reported U.S. GAAP | Adjust- ments[1)] | Non- U.S. GAAP | Reported U.S. GAAP | Adjust- ments[1)] | Non- U.S. GAAP | Reported U.S. GAAP | Adjust- ments[1)] | Non- U.S. GAAP |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating margin, % | 10.9 | 0.0 | 10.9 | 10.4 | 0.0 | 10.4 | 9.5 | 0.0 | 9.5 | 1.0 | 9.9 | 10.9 |
| EPS | | | | | | | | | | | | |
| Continuing operations, diluted[2,3] | $1.82 | $0.01 | $ 1.83 | $2.20 | $0.02 | $ 2.22 | $1.34 | $0.01 | $ 1.35 | $(1.06) | $2.48 | $ 1.42 |

1) Adjustments for capacity alignments and 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

| | Years ended December 31 | | |
|---|---|---|---|
| (DOLLARS IN MILLIONS) | 2018 | 2017 | 2016 |
| Net cash provided by operating activities | $591 | $936 | $868 |
| Net cash used in investing activities | (628) | (697 ) | (726 ) |
| Net cash used in financing activities | (245) | (566 ) | (200 ) |
| Effect of exchange rate changes on cash and cash equivalents | (62 ) | 60 | (49 ) |
| Decrease in cash and cash equivalents | (344) | (267 ) | (107 ) |
| Cash and cash equivalents at beginning of year | 960 | 1,227 | 1,334 |
| Cash and cash equivalents at end of year | $616 | $960 | $1,227 |

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 including both Continuing and Discontinued Operations.

Cash provided by operating activities was $591 million in 2018 compared to $936 million in 2017 and $868 million in 2016. The decrease compared to previous year was primarily related to costs related to the separation of our business segments and changes in operating assets and liabilities due to increased sales. We estimate that for 2018 $806 millions of the $591 million was attributable to Continuing Operations compared to $870 million of the $936 million for 2017 and $822 million of the $868 million in 2016.

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, 2018, operating working capital for Continuing Operations (see section Non-U.S. GAAP Performance Measures) amounted to $478 million corresponding to 5.5% of net sales compared to $581 million and 7.1%, respectively, at December 31, 2017, and compared to $488 million and 6.2%, respectively, at December 31, 2016.

Days receivables outstanding (see Glossary and Definitions for definition) were 71 at December 31, 2018, compared to 76 in 2017 and 70 in 2016. Factoring agreements did not have any material effect on days receivables outstanding for 2018, 2017 or 2016.

Days inventory outstanding (see Glossary and Definitions for definition) were 35 at December 31, 2018, compared to 35 in 2017 and 32 in 2016.

NET CASH USED IN INVESTING ACTIVITIES

In 2018, 2017 and 2016 cash used in investing activities in both Continuing and Discontinued operations amounted to $628 million, $697 million and $726 million, respectively.

For 2018 $486 million of the $628 million was attributable to Continuing Operations compared to $465 million of the $697 million in 2017 and $399 million of the $726 million in 2016. 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, gross from in Continuing Operations was $488 million in 2018, $470 million in 2017 and $404 million in 2016, corresponding to 5.6%, 5.8%, and 5.1% of net sales, respectively.

Depreciation and amortization in Continuing Operations totaled $342 million in 2018 compared to $307 million in 2017 and $280 million in 2016.

The projected capital expenditures as percent of sales, net, for the full year 2019 is expected to be lower than for full year 2018 of 5.6%.

During the years 2016 through 2018, investments in production capacity to support further growth and vertical integration continued. Major investments were mainly made in Europe, North America and China.

In 2018, 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 and buildings to increase capacity for new program launches. In addition, in China, large investments were made to increase manufacturing capacity for airbag and seatbelt products.

## NET CASH USED IN FINANCING ACTIVITIES

Cash used in financing activities amounted to $245 million, $566 million and $200 million for the years 2018, 2017 and 2016, respectively. In 2018 the net issuance of debt amounted to $938 million, in 2017 net repayment of debt amounted to $209 million, and in 2016 net repayment of debt amounted to $3 million. In 2018, the Company paid dividends of $214 million, compared with dividends paid of $209 million in 2017 and $203 million in 2016. In 2017 the Company repurchased common shares amounting to $157 million. In 2018, the Company capitalized Veoneer with $972 million prior to 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, 2018, the Company's pension liability (i.e. the actual funded status) for its U.S. and non-U.S. plans was $198 million compared to $207 million one year earlier. The plans had a net unamortized actuarial loss of $82 million recorded in Accumulated Other Comprehensive (Loss) Income in the Consolidated Statement of Equity at December 31, 2018, compared to $92 million at December 31, 2017. The decrease in the actuarial loss was mainly due to increase in the discount rate for the U.S. plans. The amortization of this loss is expected to be $2 million in 2019.

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. The liability decrease in 2017 of $12 million was mainly due to the curtailment impact of the plan freeze in the U.S., partly offset by a decrease in the discount rate for many of the plans and foreign currency translation effects of the non-U.S. plans.

Pension expense associated with the defined benefit plans was $20 million in 2018, $29 million in 2017 and $24 million in 2016 and is expected to be $26 million in 2019. 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 increase in pension expense in 2017 of $5 million was mainly due to a prior year decrease in discount rates.

The Company contributed $16 million to its defined benefit plans in 2018, $13 million in 2017 and $13 million in 2016. The Company expects to contribute $14 million to these plans in 2019 and is currently projecting a yearly funding at approximately the same level in the subsequent years.

For further information about retirement plans see Note 20 to the Consolidated Financial Statements included herein.

SHAREHOLDER RETURNS

Total cash dividends paid were $214 million in 2018, $209 million in 2017 and $203 million in 2016. The Company has raised the dividend from 54 cents per share in 2015 to 62 cents per share in 2018 (see following table). The Board of Directors has declared a dividend of 62 cents per share for the first quarter and 62 cents per share for the second quarter of 2019. The annualized dividend amount of $216 million, is based on 62 cents per share and the number of shares outstanding at December 31, 2018.

The Company did not repurchase any shares during 2018. During the second quarter of 2017, the Company repurchased 1.4 million shares for cash of $157 million, including commissions. There were no share repurchases in 2016. In total, Autoliv has repurchased 44.5 million shares between May 2000 and December 2018 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, 2018 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.

| DIVIDENDS PAID | 2015 | 2016 | 2017 | 2018 | 2019 | |
|---|---|---|---|---|---|---|
| 1st Quarter | $0.54 | $0.56 | $0.58 | $0.60 | $0.62 | 1) |
| 2nd Quarter | 0.56 | 0.58 | 0.60 | 0.62 | 0.62 | 1) |
| 3rd Quarter | 0.56 | 0.58 | 0.60 | 0.62 | | |
| 4th Quarter | 0.56 | 0.58 | 0.60 | 0.62 | | |

1) Declared.

## EQUITY

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 Venoeer, $217 million in dividends and $150 million currency translation effects. The decrease was partly offset by $184 million from net income.

During 2017, total equity increased by 6.2% or $243 million to $4,169 million. This was mainly due to a net income of $303 million, positive foreign currency translation adjustments of $272 million, $24 million due to changes in pension liabilities and a $19 million increase from stock based compensation. These effects were partly offset by $210 million for dividends and share repurchases of $157 million.

## 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 in raw material prices since 2017.

PERSONNEL

During the past three years, total headcount (permanent employees and temporary personnel) has risen by 11% from the beginning of 2016 to 66,764 at the end of 2018. This reflects the rebound in the cyclical automotive business as well as the combined effect of long-term growth of global LVP, strong demand for safer vehicles, technology development and Autoliv's market share gains, which all drive the need for additional manufacturing and R,D&E personnel.

During 2018, headcount increased by 2,214 people, compared to 1,035 people during 2017. During 2016, headcount increased by 3,507 people. No acquisitions during the periods have affected the number of employees.

At the end of 2018, 80% of total headcount was in BCC compared to 78% at the beginning of 2017. Furthermore, 71% of total headcount at December 31, 2018 was direct workers in manufacturing compared to 75% at the beginning of 2016, while 14% of total headcount at December 31, 2018 were temporary employees, compared to 15% at the beginning of 2016.

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 2019.

Treasury Activities

CREDIT ARRANGEMENTS

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 0.08%, representing 35% of the applicable margin, which is 0.225% (given the Company's rating of "A-" 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, 2018, 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 2018 and 2017 of $1,619 million and $368 million, respectively.

In 2014, the Company issued and sold $1.25 billion of 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. See Note 12 to the Consolidated Financial Statements included herein for additional information.

During 2018 and 2017, 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, 2018, the Company had received $193 million for sold receivables without recourse and discounted notes with a discount of $6 million during the year, compared to $134 million at year end 2017 with a discount of $3 million recorded in Other non-operating items, net.

Autoliv has a long-term credit rating from Standard and Poor's of A- which is in line with the Company's objective of maintaining a strong investment grade rating.

NUMBER OF SHARES

At December 31, 2018, 87.1 million shares were outstanding (net of 15.7 million treasury shares), a 0.2% increase from 87.0 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 2017 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 2018.

Contractual Obligations and Commitments

| AGGREGATE CONTRACTUAL OBLIGATIONS[1] | Payments due by Period | | | | |
|---|---|---|---|---|---|
| (DOLLARS IN MILLIONS) | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Debt obligations | $2,235 | $ 621 | $ 275 | $ 573 | $ 767 |
| Fixed-interest obligations | 285 | 50 | 87 | 72 | 75 |
| Operating lease obligations | 186 | 42 | 65 | 46 | 33 |
| Pension contribution requirements[2] | 14 | 14 | - | - | - |
| Other non-current liabilities reflected on the balance sheet | 8 | - | - | - | 8 |
| Total | $2,728 | $ 727 | $ 427 | $ 691 | $ 883 |

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, 2018, excluding fees on the revolving credit facility and interest on debts with no defined amortization plan.

Operating lease obligations: The Company leases certain offices, manufacturing and research buildings, machinery, automobiles and data processing and other equipment. Such operating leases, some of which are non-cancelable and include renewals, expire on various dates. See Note 19 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 2019, the expected contribution to all plans, including direct payments to retirees, is $14 million, of which the major contribution is $7 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 2019. 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.

Excluded from the above are expected contributions of $0.4 million due in 2019 with respect to our other post-employment benefit (OPEB) plans, which represent the expected benefit payments to participants as costs are incurred. See Note 20 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 approximately 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 2018 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 2018, 2017 and 2016, the level of temporary employees in relation to total headcount in direct production was 17%, 15% and 15% 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

Changes in component costs and raw material prices could have a major impact on our margins, since the cost of direct materials was approximately 50% of sales in 2018.

The main raw materials the Company requires for its operations are textiles, plastic, steel and non-ferrous metals. Worsening headwinds on raw materials in 2018 were primarily caused by additional import tariffs imposed by the United States on steel and aluminum products, other tariffs and escalating trade conflicts impacting raw material markets and creating uncertainty.

We take several actions to mitigate higher raw material prices, such as competitive sourcing and looking for alternative materials. However, should these actions not be sufficient to offset component price increases, our earnings could be materially impacted.

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.

The Company is currently subject to an ongoing antitrust investigation by the European Commission, as well as civil litigation alleging anti-competitive conduct related to antitrust investigations concluded in various other jurisdictions. Regulatory actions and government investigations, such as these antitrust matters, may seek to impose significant fines and or limit the Company's operations. It is difficult for the Company to predict the possibility that such proceedings are initiated, and their ultimate outcome and duration. The EC previously concluded a discrete portion of its investigation in November 2017 and imposed a fine on the Company. In December 2018, we accrued $210 million based on our belief that the EC will seek to impose a fine in connection with the remaining portion of the EC's investigation.

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 will 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).

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

45

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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 already initiated the next upgrade, which will be fully implemented by 2025. Japan and South Korea are continuously upgrading their respective vehicle rating programs, JCAP and KNCAP respectively. There are also other plans for improved automotive safety, both in these countries and many 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 2018, the five largest vehicle manufacturers accounted for 49% 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 2018, the Company's five largest customers accounted for 50% of revenues and the ten largest customers for 79% of revenues. For a list of the largest customers, see Note 22 to the Consolidated Financial Statements included herein.

Our largest customer contract accounted for around 2% of sales in 2018. 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, at each stage of production, relies on internal or external suppliers in order to meet its delivery commitments. In some cases, suppliers are dictated by the customers based on very specific qualification requirements. In other situations, the Company is dependent on a single supplier for a specific component. Supply chain management works to review and mitigate these risks in the supply base.

There is a natural risk that disruptions in the supply chain could lead to the Company not being able to meet its delivery commitments and, as a consequence, could lead to additional costs. The Company’s strategy is to reduce these supplier risks by seeking to maintain an optimal number of suppliers in all significant component technologies, by standardization and by developing alternative suppliers around the world. However, for various reasons including costs involved in maintaining alternative suppliers, this is not always possible.

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 2018, the Company held close to 6,050 patents. These patents expire on various dates during the period from 2019 to 2038. 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. See Note 2 to the Consolidated Financial Statements included herein for additional information.

## 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 product liabilities, 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 or annual price adjustments) and estimated at contract inception. 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, Autoliv 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 and 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 2018 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 typically include the cost of the product being replaced as well as the customer's cost of the recall, including labor to remove and replace the defective part. 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 60% of the Company's total pension benefit obligation. See Note 20 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 2018 pension expense were a discount rate of 3.55%, expected rate of increase in compensation levels of 2.65%, and an expected long-term rate of return on plan assets of 7.08%.

The assumptions used in calculating the U.S. benefit obligations disclosed as of December 31, 2018 were a discount rate of 4.35% 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, 2018, 38% 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.

| Assumption (in millions) | Change | 2018 net periodic benefit cost increase (decrease) | 2018 projected benefit obligation increase (decrease) |
|---|---|---|---|
| Discount rate | 1pp increase | $ (3) | $ (51) |
| Discount rate | 1pp decrease | $ 7 | $ 65 |
| Compensation levels | 1pp increase | $ 0 | $ 3 |
| 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. The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017. The Tax Act makes broad and complex changes to the U.S. tax code, including reducing the U.S. federal corporate income tax rate from 35% to 21% for years beginning after December 31, 2017, requiring

companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously deferred and created new taxes on certain foreign sourced earnings. See also the discussion of the Tax Act 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 2018 was approximately $2.9 billion. A part of the currency flows had counter-flows in the same currency pair, which reduced the net exposure to approximately $2.4 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, Turkish Lira (buy) against the Euro. Together these currencies accounted for approximately 39% 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 more than of $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 29% of the Company’s net sales will be denominated in Euro or other European currencies during 2018, 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 2019 by $27 million or by 0.3% while operating income for 2019 will decline by approximately 0.3% or by about $3 million, assuming reported corporate average margin.

The Company’s policy is not to hedge this type of translation exposure since there is no cash flow effect to hedge.

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, 2018, the average interest rate fixing period for the Company's outstanding debt was 4.0 years.

Given the Company's current capital structure, we estimate that a one-percentage point interest rate increase would reduce net interest expense by approximately $3 million, both in 2019 and 2020. This is based on the capital structure at the end of 2018 when the gross fixed-rate debt was $1,883 million while the Company had a net debt position of $1,619 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, 2018, the Company had $616 million in cash and cash equivalents of which the majority were subject to a floating interest rate. Taking the cash and cash equivalents of $616 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 interest income and thereby reduce net interest expense by approximately $3 million, both in 2019 and 2020.

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 EUR 500 million of 5-year notes in the Eurobond market, 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 papers 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. Per December 31, 2018, 28% corresponding to $621 million of the Autoliv Group’s total debt 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 cyclicality 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, 2018 the Company had a long-term credit rating from S&P Global Ratings (“S&P”) of A-.

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, 2018, the leverage ratio (non-U.S. GAAP measure, see calculation table below) was 1.5x. For details and calculation of leverage ratio, refer to the table below.

## CALCULATION OF LEVERAGE RATIO (DOLLARS IN MILLIONS)

| | December 31 2018 | December 31 2017 |
|---|---|---|
| Net debt[1)] | $ 1,618.8 | $ 368.4 |
| Pension liabilities | 198.2 | 206.8 |

| | | |
|---|---|---|
| Debt per the Policy | 1,817.0 | 575.2 |
| | | |
| Net income[2)] | 183.7 | 303.0 |
| Less; Net Loss, Discontinued Operations[2)] | 193.8 | 285.0 |
| Net income, Continuing Operations[2)] | 377.5 | 588.0 |
| Income taxes[2)] | 234.9 | 204.4 |
| Interest expense, net[2, 3)] | 59.2 | 53.7 |
| Depreciation and amortization of intangibles[2)] | 342.0 | 307.0 |
| Antitrust related matters[2)] | 212.0 | 18.0 |
| EBITDA per the Policy | $ 1,225.6 | $ 1,171.1 |
| Leverage ratio | 1.5 | 0.5 |

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.

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, this 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 2018, the Company held $1 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, 2018. This risk is assessed, at least, annually in the fourth quarter each year when the Company performs its impairment testing.

In 2018, 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, 2018 and 2017 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, 2018, 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 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, 2018 and 2017, and 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, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, 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, 2018, 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, 2019 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.

/ s / Ernst & Young AB

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

Stockholm, Sweden
February 21, 2019

Report of Independent Registered Public Accounting Firm

To the Shareholders and 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, 2018, 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, 2018, 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 Autoliv, Inc. as of December 31, 2018 and 2017, 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, 2018, and the related notes and our report dated February 21, 2019 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, 2019

Consolidated Statements of Net Income

| (DOLLARS AND SHARES IN MILLIONS, EXCEPT PER SHARE DATA) | | Years ended December 31 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Net sales | Note 22 | $8,678.2 | $8,136.8 | $7,921.6 |
| Cost of sales | | (6,966.9) | (6,457.1) | (6,293.6) |
| Gross profit | | 1,711.3 | 1,679.7 | 1,628.0 |
| Selling, general and administrative expenses | | (390.3) | (406.6) | (394.4) |
| Research, development and engineering expenses, net | | (412.6) | (370.6) | (357.3) |
| Amortization of intangibles | Note 11 | (11.3) | (11.2) | (10.5) |
| Other income (expense), net | Notes 12, 18 | (211.1) | (31.7) | (34.8) |
| Operating income | | 686.0 | 859.6 | 831.0 |
| Income from equity method investments | Note 9 | 3.6 | 1.7 | 2.6 |
| Interest income | | 6.9 | 7.4 | 4.5 |
| Interest expense | Note 14 | (66.1) | (61.1) | (62.2) |
| Other non-operating items, net | | (18.0) | (15.2) | 8.3 |
| Income from continuing operations before income taxes | | 612.4 | 792.4 | 784.2 |
| Income tax expense | Note 6 | (234.9) | (204.4) | (224.3) |
| Income from continuing operations | | 377.5 | 588.0 | 559.9 |
| (Loss) income from discontinued operations, net of income taxes | Note 3 | (193.8) | (285.0) | 1.7 |
| Net income | | 183.7 | 303.0 | 561.6 |
| Less: Net income from continuing operations attributable to non-controlling interest | | 1.6 | 2.0 | 1.5 |
| Less: Net loss from discontinued operations attributable to non-controlling interest | | (8.3) | (126.1) | (7.0) |
| Net income attributable to controlling interest | | $190.4 | $427.1 | $567.1 |
| | | | | |
| Amounts attributable to controlling interest: | | | | |
| Net income from continuing operations | | $375.9 | $586.0 | $558.4 |
| Net (Loss) income from discontinued operations | | (185.5) | (158.9) | 8.7 |
| Net income attributable to controlling interest | | $190.4 | $427.1 | $567.1 |
| | | | | |
| Earnings per share continuing operations - basic[1)] | | $4.32 | $6.70 | $6.33 |
| (Loss) earnings per share discontinuing operations - basic[1)] | | (2.13) | (1.82) | 0.10 |
| Basic earnings per share | | $2.19 | $4.88 | $6.43 |
| | | | | |
| Earnings per share continuing operations - diluted [1)] | | $4.31 | $6.68 | $6.32 |
| (Loss) earnings per share discontinuing operations - diluted [1)] | | $(2.13) | $(1.81) | $0.10 |
| Diluted earnings per share | | $2.18 | $4.87 | $6.42 |

| | | | |
|---|---|---|---|
| Weighted average number of shares outstanding, net of treasury shares (in millions) | 87.1 | 87.5 | 88.2 |
| Weighted average number of shares outstanding, assuming dilution and net of treasury shares (in millions) | 87.3 | 87.7 | 88.4 |
| | | | |
| Cash dividend per share - declared | $2.48 | $2.40 | $2.32 |
| Cash dividend per share - paid | $2.46 | $2.38 | $2.30 |

See Notes to 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 23 in this Annual Report).

55

Consolidated Statements of Comprehensive Income

| | Years ended December 31 | | |
|---|---|---|---|
| (DOLLARS IN MILLIONS) | 2018 | 2017 | 2016 |
| Net income | $183.7 | $303.0 | $561.6 |
| Other comprehensive (loss) income before tax: | | | |
| Change in cumulative translation adjustments | (150.2) | 272.1 | (156.3) |
| Net change in cash flow hedges | 0.9 | (8.9) | 7.9 |
| Net change in unrealized components of defined benefit plans | 14.2 | 31.9 | (24.6) |
| Other comprehensive (loss) income, before tax | (135.1) | 295.1 | (173.0) |
| Tax effect allocated to other comprehensive (loss) income | (4.1) | (7.8) | 7.6 |
| Other comprehensive (loss) income, net of tax | (139.2) | 287.3 | (165.4) |
| Comprehensive income | 44.5 | 590.3 | 396.2 |
| Less: Comprehensive loss attributable to non-controlling interest | (7.4) | (114.8) | (13.9) |
| Comprehensive income attributable to controlling interest | $51.9 | $705.1 | $410.1 |

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

| (DOLLARS AND SHARES IN MILLIONS) | | At December 31 2018 | 2017 |
|---|---|---|---|
| Assets | | | |
| Cash and cash equivalents | | $615.8 | $959.5 |
| Receivables, net | Note 7 | 1,652.1 | 1,696.7 |
| Inventories, net | Note 8 | 757.9 | 704.3 |
| Income tax receivables | | 34.1 | 41.2 |
| Prepaid expenses | | 208.6 | 153.0 |
| Other current assets | | 1.9 | 2.8 |
| Related party receivables | Note 21 | 15.0 | — |
| Current assets, discontinued operations | Note 3 | — | 647.2 |
| Total current assets | | 3,285.4 | 4,204.7 |
| Property, plant and equipment, net | Note 10 | 1,690.1 | 1,608.9 |
| Investments and other non-current assets | Note 9 | 323.5 | 341.0 |
| Goodwill | Note 11 | 1,389.9 | 1,397.0 |
| Intangible assets, net | Note 11 | 32.7 | 42.6 |
| Non-current assets, discontinued operations | Note 3 | — | 955.7 |
| Total assets | | $6,721.6 | $8,549.9 |
| Liabilities and equity | | | |
| Short-term debt | Note 14 | $620.7 | $19.7 |
| Accounts payable | | 978.3 | 957.3 |
| Accrued expenses | Notes 12, 13 | 935.4 | 829.5 |
| Income tax payable | | 64.9 | 81.9 |
| Other current liabilities | | 202.5 | 198.0 |
| Related party liabilities | Note 21 | 63.7 | — |
| Current liabilities, discontinued operations | Note 3 | — | 568.2 |
| Total current liabilities | | 2,865.5 | 2,654.6 |
| Long-term debt | Note 14 | 1,609.0 | 1,310.7 |
| Pension liability | Note 20 | 198.2 | 206.8 |
| Other non-current liabilities | | 152.1 | 144.3 |
| Non-current liabilities, discontinued operations | Note 3 | — | 64.1 |
| Total non-current liabilities | | 1,959.3 | 1,725.9 |
| Commitments and contingencies | Notes 18, 19 | | |
| Common stock[1)] | | 102.8 | 102.8 |
| Additional paid-in capital | | 1,329.3 | 1,329.3 |
| Retained earnings | | 2,041.8 | 4,079.2 |
| Accumulated other comprehensive loss | Note 15 | (423.2 ) | (287.5 ) |
| Treasury stock (15.7 and 15.8 shares, respectively) | | (1,167.0) | (1,188.7) |
| Total controlling interest's equity | | 1,883.7 | 4,035.1 |
| Non-controlling interest | | 13.1 | 134.3 |
| Total equity | | 1,896.8 | 4,169.4 |

| | | |
|---|---|---|
| Total liabilities and equity | $6,721.6 | $8,549.9 |

1) Number of shares: 350 million authorized, 102.8 million issued for both years, and 87.1 and 87.0 million outstanding, net of treasury shares, for 2018 and 2017, respectively.

See Notes to Consolidated Financial Statements.

57

Consolidated Statements of Cash Flows

| | | Years ended December 31 | | |
|---|---|---|---|---|
| (DOLLARS IN MILLIONS) | | 2018 | 2017 | 2016 |
| Operating activities | | | | |
| Net income continuing operations | | $377.5 | $588.0 | $559.9 |
| Net income discontinued operations | | (193.8) | (285.0) | 1.7 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | | 397.1 | 425.8 | 383.0 |
| Legal provision | | 210.0 | — | — |
| Goodwill, impairment charge | | — | 234.2 | — |
| Deferred income taxes | | 3.0 | (47.2) | (24.8) |
| Loss from equity method investments, net of dividends | | 31.9 | 38.1 | 1.0 |
| Net change in: | | | | |
| Receivables and other assets, gross | | (48.4) | (102.2) | (292.3) |
| Inventories, gross | | (123.9) | (21.0) | (72.6) |
| Accounts payable and accrued expenses | | (37.8) | 112.3 | 271.2 |
| Income taxes | | (19.2) | 10.6 | 15.9 |
| Other, net | | (5.8) | (17.7) | 25.4 |
| Net cash provided by operating activities | | 590.6 | 935.9 | 868.4 |
| Investing activities | | | | |
| Expenditures for property, plant and equipment | | (560.0) | (580.1) | (506.8) |
| Proceeds from sale of property, plant and equipment | | 5.2 | 10.5 | 8.2 |
| Acquisition of intangible assets | | — | — | (1.1) |
| Acquisition of businesses and interest in affiliates, net of cash acquired | | (72.0) | (125.3) | (226.3) |
| Net proceeds from divestitures | | — | 1.4 | — |
| Other | | (0.9) | (3.8) | — |
| Net cash used in investing activities | | (627.7) | (697.3) | (726.0) |
| Financing activities | | | | |
| Net decrease in short-term debt | | 355.4 | (208.6) | (2.7) |
| Issuance of long-term debt, net of discount | | 582.2 | — | — |
| Debt issuance costs | | (2.6) | — | — |
| Dividends paid to non-controlling interest | | (2.1) | (0.1) | (1.7) |
| Dividends paid | | (214.3) | (208.7) | (202.8) |
| Shares repurchased | | — | (157.0) | — |
| Common stock options exercised | Note 17 | 8.2 | 7.9 | 5.9 |
| Capital contribution to Veoneer | | (971.8) | — | — |
| Other, net | | — | 0.3 | 1.1 |
| Net cash used in financing activities | | (245.0) | (566.2) | (200.2) |
| Effect of exchange rate changes on cash and cash equivalents | | (61.6) | 60.4 | (49.0) |
| Decrease in cash and cash equivalents | | (343.7) | (267.2) | (106.8) |
| Cash and cash equivalents at beginning of year | | 959.5 | 1,226.7 | 1,333.5 |

| | | | |
|---|---|---|---|
| Cash and cash equivalents at end of year | $615.8 | $959.5 | $1,226.7 |

See Notes to 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 comprehensive (loss) income | Treasury stock | Total parent shareholders' equity | Non-controlling interest | Total equity[1)] |
|---|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2015 | 102.8 | $ 102.8 | $ 1,329.3 | $ 3,499.4 | $ (408.5) | $ (1,067.4) | $ 3,455.6 | $ 12.5 | $ 3,468.1 |
| Comprehensive Income: | | | | | | | | | |
| Comprehensive Income | | | | | | | | | |
| Net income | | | | 567.1 | | | 567.1 | (5.5) | 561.6 |
| Net change in cash flow hedges | | | | | 7.9 | | 7.9 | | 7.9 |
| Foreign currency translation | | | | | (147.7) | | (147.7) | (8.6) | (156.3) |
| Pension liability | | | | | (17.2) | | (17.2) | 0.2 | (17.0) |
| Total Comprehensive Income | | | | | | | 410.1 | (13.9) | 396.2 |
| Stock-based compensation | | | | | | 16.2 | 16.2 | | 16.2 |
| Cash dividends declared | | | | (204.7) | | | (204.7) | | (204.7) |
| Dividends paid to non-controlling interest on subsidiary shares | | | | | | | | (1.7) | (1.7) |
| Investment in subsidiary by non-controlling interest | | | | | | | | 252.3 | 252.3 |
| Balance at December 31, 2016 | 102.8 | $ 102.8 | $ 1,329.3 | $ 3,861.8 | $ (565.5) | $ (1,051.2) | $ 3,677.2 | $ 249.2 | $ 3,926.4 |
| 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 |
| Total Comprehensive Income | | | | | | | 705.1 | (114.8) | 590.3 |
| 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) |
| Balance at December 31, 2017 | 102.8 | $ 102.8 | $ 1,329.3 | $ 4,079.2 | $ (287.5) | $ (1,188.7) | $ 4,035.1 | $ 134.3 | $ 4,169.4 |
| 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 |
| Total Comprehensive Income | | | | | | | 51.9 | (7.4) | 44.5 |
| 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 |
| | | | | (2,024.3) | 13.0 | | (2,011.3) | (111.6) | (2,122.9) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Distribution of Veoneer | | | | | | | | | |
| Other | | | | (0.3) | | | (0.3) | | (0.3) |
| Balance at December 31, 2018 | 102.8 | $ 102.8 | $ 1,329.3 | $ 2,041.8 | $ (423.2) | $ (1,167.0) | $ 1,883.7 | $ 13.1 | $ 1,896.8 |

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

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

## 1. Basis of Presentation

### NATURE OF OPERATIONS

Through its operating subsidiaries, Autoliv is a supplier of automotive safety systems with a broad range of product offerings, including modules and components for passenger and driver airbags, side airbags, curtain airbags, seatbelts and steering wheels. Autoliv is also a supplier of anti-whiplash systems, pedestrian protection systems and child seats.

### 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 and 50 percent 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. On July 2, 2018, Veoneer’s common stock began regular-way trading on the New York Stock Exchange under the symbol “VNE” and its SDRs began trading on Nasdaq Stockholm under the symbol “VNE SDB.” 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 Condensed Consolidated Statements of Cash Flows and Comprehensive Income, respectively, for all 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

Upon completion of the spin-off at June 30, 2018, Autoliv concluded that it has one reportable segment, based on the way the Company currently evaluates its financial performance and manages its operations. The Company will re-evaluate the one reportable segment as the operating model evolves, including the management structure. Prior to the completion of the spin-off, the Company had two reportable segments, Electronics and Passive Safety. The Company’s Passive Safety reportable segment includes the Company’s airbag and seatbelt products and components. For more information on our segment, see Note 22.

## 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (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. It is classified as a liability based on appropriate GAAP.

### EQUITY METHOD INVESTMENTS

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 investments.

### USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with 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 product liabilities, 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 or annual price adjustments) and estimated at contract inception. 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, Autoliv 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. 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, that are collected by the Company from a customer, are excluded from revenue.

Shipping and handling costs associated with outbound freight after 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 following is a description of principal activities from which the Company generates its revenue. The Company has after the spin-off of its Electronics business currently one operating segment, Passive safety systems, which includes airbag and seatbelt products and components. The Company generates revenue from the sale of production parts 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, including any price concessions or annual price adjustments, is based on their stand-alone selling prices for each of the products. The stand-alone selling prices are determined based on the cost-plus margin approach.

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

For production 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, which is typical for the automotive industry.

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

RESEARCH, DEVELOPMENT AND ENGINEERING (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 refundable. 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 and measured in the financial statements 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 and measured 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, 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 were issued for awards under the Company's 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 23.

CASH EQUIVALENTS

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

RECEIVABLES

The Company has guidelines for calculating the allowance for bad debts. 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 experience of other enterprises in the same industry, 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

The Company uses derivative financial instruments, primarily forwards, options and swaps to reduce the effects of fluctuations in foreign exchange rates, interest rates and the resulting variability of the Company's operating results. On the date that a derivative contract is entered into, the Company designates the derivative as either (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment (a fair value hedge), (2) a hedge of the exposure of a forecasted transaction or of the variability in the cash flows of a recognized asset or liability (a cash flow hedge) or (3) an economic hedge not applying special hedge accounting pursuant to ASC 815.

When a hedge is classified as a fair value hedge, the change in the fair value of the hedge is recognized in the Consolidated Statements of Net Income along with the offsetting change in the fair value of the hedged item. When a hedge is classified as a cash flow hedge, any change in the fair value of the hedge is initially recorded in equity as a component of Other Comprehensive Income (OCI) and reclassified into the Consolidated Statements of Net Income when the hedge transaction affects net earnings. The Company uses the forward rate with respect to the measurement of changes in fair value of cash flow hedges when revaluing foreign exchange forward contracts. All derivatives are recognized in the consolidated financial statements at fair value.

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.

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 and 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.

PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment are 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.

LONG-LIVED ASSET IMPAIRMENT

The Company evaluates the carrying value and useful lives of long-lived assets other than goodwill 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 is 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. For 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 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 an indefinite-lived intangible assets 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 for its indefinite-lived intangible assets 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 2016 through 2018.

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 typically include the cost of the product being replaced as well as the customer's cost of the recall, including labor to remove and replace the defective part. Insurance receivables, related to recall issues covered by the insurance, are included within other 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 20). The plan assets are measured at fair value. The inputs to the fair value measurement of the plan assets are mainly level 2 inputs (see Note 5).

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 the antitrust 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 operations 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 gains/(losses), reflected in the Consolidated Statements of Net Income amounted to $(22.1) million in 2018, $(27.0) million in 2017 and $(4.3) million in 2016, 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 February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220) – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (AOCI), which allows a reclassification from AOCI to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the “Tax Act”). Consequently, the amendments in ASU 2018-02 eliminate the stranded tax effects resulting from the Tax Act. The amendments in ASU 2018-02 are effective for all entities for annual periods beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The amendments in ASU 2018-02 should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company early adopted ASU 2018-02 as of January 1, 2018 and made a reclassification from AOCI to Retained earnings of approximately $10 million.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income (“GILTI”) provisions of the Tax Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. In the first quarter of 2018, the Company elected to treat any potential GILTI inclusions as a period cost.

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires the service cost component to be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the consolidated statements of income separately from the service cost component and outside operating income. The amendments in ASU 2017-07 are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The amendments in ASU 2017-07 should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the consolidated statements of income. The Company adopted ASU 2017-07 in the first quarter of 2018. Prior comparative periods have not been adjusted since the impact of ASU 2017-07 is not material for any consolidated financial statements periods presented.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) – Intra-Entity Transfers of Assets Other Than Inventory, which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. Consequently, the amendments in this ASU 2016-16 eliminate the exception for an intra-entity transfer of an asset other than inventory. Two common examples of assets included in the scope of ASU 2016-16 are intellectual property and property, plant, and equipment. The amendments in ASU 2016-16 are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. The amendments in ASU 2016-16 should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The adoption of ASU 2016-16 effective January 1, 2018 did not have a material impact on the consolidated financial statements for any periods presented.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance issued by the FASB, including industry specific guidance. In 2016, the FASB issued accounting standard updates to address implementation issues and to clarify guidance in certain areas. The core principle of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to receive in exchange for those goods or services. In addition, ASU 2014-09 requires certain additional disclosure around the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted ASU 2014-09 effective January 1, 2018 and utilized the modified retrospective (cumulative effect) transition method to all contracts not completed at the date of initial application. The Company applied the modified retrospective transition method through a cumulative adjustment to retained earnings. The adoption of the new revenue standard did not have a material impact on net sales, net income, or balance sheet.

| Balance Sheet (Dollars in millions) | Balance at December 31, 2017 | Adjustments due to ASU 2014-09 | Balance at January 1, 2018 |
|---|---|---|---|
| Assets | | | |
| Inventories, net[1)] | $ 859.1 | $ (17.3) | $ 841.8 |
| Other current assets[1)] | 228.9 | 22.0 | 250.9 |
| | | | |
| Equity | | | |
| Retained Earnings[1)] | 4,079.2 | 3.3 | 4,082.5 |

1) Impact at adoption which included both continuing and discontinued operations.

| Income Statement (Dollars in millions) | Year ended December 31, 2018 As Reported | Balances without adoption of ASU 2014-09 | Effect of Changes |
|---|---|---|---|
| Net sales | $ 8,678.2 | $ 8,673.7 | $ 4.5 |
| Cost of sales | (6,966.9) | (6,963.1) | (3.8) |
| Operating income | 686.0 | 685.3 | 0.7 |

As of December 31, 2018

Balance Sheet

| (Dollars in millions) | As Reported | Balances without adoption of ASU 2014-09 | Effect of Changes |
|---|---|---|---|
| Assets | | | |
| Inventories, net | $757.9 | $773.6 | $ (15.7 ) |
| Other current assets | 244.6 | 225.1 | 19.5 |
| | | | |
| Equity | | | |
| Retained Earnings | 2,041.8 | 2,039.1 | 2.7 |

Accounting Standards Issued But Not Yet Adopted

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 is currently evaluating the impact of its pending adoption of ASU 2018-14 on the consolidated financial statements.

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 believes that the pending adoption of ASU 2018-13 will not have a material impact on the consolidated financial statements.

In August 2017, the FASB issued 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 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 are effective for public business entities for annual period beginning after December 15, 2018, and interim periods within those fiscal 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 believes that the pending adoption of ASU 2017-12 will not have a material impact on the consolidated financial statements since the Company terminated its existing cash flow hedges in the first quarter of 2018.

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 is currently evaluating the impact of its pending adoption of ASU 2016-13 on the consolidated financial statements.

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 are effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted. The Company intends to adopt ASU 2016-02 in the annual period beginning January 1, 2019. The Company intends to apply the modified retrospective transition method and elect the transition option to use the effective date January 1, 2019, as the date of initial application. The Company will not adjust its comparative period financial statements for effects of the ASU 2016-02, or make the new required lease disclosures for periods before the effective date. The Company will recognize its cumulative effect transition adjustment as of the effective date. In addition, the Company intends to elect the package of practical expedients permitted under the transition guidance within the new standard, which among other things, will allow the Company to carry forward the historical lease classification.

During the fourth quarter, the Company continued its process to identify leasing arrangements and to compare its accounting policies and practices to the requirements of the new standard. Specifically, the Company is continuing to assess whether there are any “embedded leases” in arrangements with its suppliers and customers that may result in right to use assets or in the Company being a lessor for tools they own that are dedicated to a specific customer. In addition, the Company has implemented a new system to assist with lease accounting. The Company regularly enters into operating leases, for which current GAAP does not require recognition on the balance sheet. The Company anticipates that the adoption of ASU 2016-02 will primarily result in the recognition of most operating leases on its balance sheet resulting in an increase in reported right-of-use assets and leasing liabilities. The Company will continue to assess the impact from the new standard, including consideration of control and process changes to capture lease data necessary to apply ASU 2016-02. The Company anticipates that the adoption of the new standard will result in recording lease assets and lease liabilities in the range of $165 million and $180 million as of January 1, 2019. In addition, the Company does not anticipate a material impact to the financial statements where they are deemed to be the lessor in an “embedded lease” arrangement.

RECLASSIFICATIONS

Certain prior-year amounts have been reclassified to conform to current year presentation (see Note 1 regarding discontinued operations).

## 3. Discontinued Operations

As discussed in Note 1. Basis of Presentation above, 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 (dollars in millions). 2018 includes six months of discontinued operations.

| | Years ended December 31 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Net sales | $1,122.9 | $2,245.8 | $2,152.0 |
| Cost of sales | (896.4) | (1,776.5) | (1,723.0) |
| Gross profit | 226.5 | 469.3 | 429.0 |
| Selling, general and administrative expenses | (59.7) | (83.1) | (81.7) |
| Research, development and engineering expenses, net | (224.0) | (370.3) | (293.7) |
| Goodwill, Impairment charge | — | (234.2) | — |
| Amortization of intangibles | (10.5) | (35.8) | (33.2) |
| Other income (expense), net | (53.4) | (0.2) | (3.7) |
| Operating loss | (121.1) | (254.3) | 16.7 |
| Loss from equity method investments | (29.9) | (30.7) | — |
| Interest income | 0.7 | — | — |
| Interest expense | (0.4) | (0.1) | (0.2) |
| Other non-operating items, net | 0.5 | (0.8) | 3.1 |
| Loss before income taxes | (150.2) | (285.9) | 19.6 |
| Income tax (expense) benefit | (43.6) | 0.9 | (17.9) |
| Loss from discontinued operations, net of income taxes | (193.8) | (285.0) | 1.7 |
| Less: Net loss attributable to non-controlling interest | (8.3) | (126.1) | (7.0) |
| Net loss from discontinued operations | $(185.5) | $(158.9) | $8.7 |

The Company has incurred $84.8 million in separation costs related to the spin-off of Veoneer, of which $76.3 million has been incurred 2018 year to date and is 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.

The following table summarizes the carrying value of major classes of assets and liabilities of Veoneer, reclassified as assets and liabilities of discontinued operations at December 31, 2017 (dollars in millions).

| | At December 31, 2017 |
|---|---|
| ASSETS | |
| Receivables, net | $ 460.5 |
| Inventories, net | 154.8 |
| Other current assets | 31.9 |
| Total current assets, discontinued operations | 647.2 |
| | |
| Property, plant and equipment, net | 364.2 |
| Investments and other non-current assets | 177.5 |
| Goodwill | 291.8 |
| Intangible assets, net | 122.2 |
| Total non-current assets, discontinued operations | $ 955.7 |
| | |
| LIABILITIES | |
| Accounts payable | $ 323.5 |
| Accrued expenses | 199.1 |
| Other current liabilities | 45.6 |
| Total current liabilities, discontinued operations | 568.2 |
| | |
| Long-term debt | 11.0 |
| Pension liability | 19.1 |
| Other non-current liabilities | 34.0 |
| Total non-current liabilities, discontinued operations | $ 64.1 |

In connection with the spin-off, Autoliv entered into definitive agreements with Veoneer that, among other matters, set forth the terms and conditions of the spin-off and provide a framework for Autoliv's relationship with Veoneer after the spin-off, including the following (collectively, the "Spin-off Agreements"):

Distribution Agreement

The Distribution Agreement sets forth the principal transactions taken by Veoneer and by Autoliv in connection with the spin-off and the terms to govern certain aspects of the parties' relationship following the spin-off. The Distribution Agreement also provides for cross-indemnities that, except as otherwise provided in the Distribution Agreement, are principally designed to place financial responsibility for the obligations and liabilities of Veoneer's business with Veoneer and financial responsibility for the obligations and liabilities of Autoliv's business with Autoliv. However, Autoliv has agreed to indemnify Veoneer for certain warranty, recall and product liabilities for Electronics products manufactured prior to April 1, 2018, and has retained an indemnification liability.

Amended and Restated Transition Services Agreement

Pursuant to the Amended and Restated Transition Services Agreement, Autoliv or one of its subsidiaries will provide various services to Veoneer and its subsidiaries and Veoneer or one of its subsidiaries agreed to provide various services to Autoliv and subsidiaries of Autoliv for a limited time to help ensure an orderly transition following the spin-off. The services will terminate no later than March 31, 2020.

Employee Matters Agreement

The Employee Matters Agreement governs Autoliv's and Veoneer's compensation and employee benefit obligations with respect to the employees and non-employee directors of each company.

Pursuant to the Agreement, the Company transferred to Veoneer pension benefits and postretirement benefits other than pension related to Veoneer employees. The transfer of assets and obligations to Veoneer resulted in a net decrease in the underfunded status of the sponsored pension and postretirement benefits other than pension of $22.8 million and the transfer of unrecognized losses in accumulated other comprehensive income of $6.3 million on the Distribution Date.

Tax Matters Agreement

Pursuant to the Tax Matters Agreement, Autoliv and Veoneer allocated the liability for taxes and certain tax assets between the two companies. The Tax Matters Agreement also governs the parties' respective rights, responsibilities, and obligations with respect to U.S. federal, state, local and foreign taxes (including taxes arising in the ordinary course of business and taxes, if any, incurred as a result of any failure of the spin-off and certain related transactions to qualify as tax-free for U.S. federal income tax purposes), tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings, and assistance and cooperation in respect of tax matters.

Pursuant to the Tax Matters Agreement, Autoliv is the primary obligor on all taxes which relate to any period prior to April 1, 2018. Consequently, the Company is liable for any transition taxes under the Tax Cuts and Jobs Act of 2017.

Reseller Agreements

Reseller agreements are primarily comprised of arrangements between Veoneer and Autoliv business units in Japan, the U. S., India and Sweden to address situations in which customers have not yet been able to update their systems to reflect Veoneer as the supplier. Under the terms of these agreements and based on the substance of the relationships with the customers, Veoneer has the responsibility to provide the products to the customers although orders may be placed with Autoliv and Autoliv may collect the cash for the associated invoices which is then remitted to Veoneer.

Veoneer Capital Contribution

In connection with the spin-off, Autoliv capitalized Veoneer with approximately $1 billion of cash. Net assets of $2,129 million, including approximately $1 billion of cash, 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.

The following table presents depreciation, amortization, capital expenditures, acquisition of businesses and significant non-cash items of the discontinued operations related to Veoneer (dollars in millions). 2018 includes six months of discontinued operations.

| | Years ended December 31 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Depreciation | $44.8 | $82.9 | $69.7 |
| Amortization of intangible assets | 10.5 | 35.8 | 33.2 |
| Capital expenditures | 71.1 | 109.6 | 100.9 |
| Acquisition in affiliate, net | 71.0 | 123.9 | 227.4 |
| M/A-COM earn-out adjustment | (14.0) | (12.7) | — |
| Undistributed loss from equity method investment | 29.9 | 30.7 | — |

4. Revenue

Disaggregation of revenue

In the following tables, revenue from the Company’s continuing operations is disaggregated by primary regions and products.

Net Sales by Region

| (Dollars in millions) | Years ended December 31 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| China | $1,522.2 | $1,421.2 | $1,385.4 |
| Japan | 827.9 | 787.0 | 718.6 |
| Rest of Asia | 844.8 | 789.9 | 726.2 |
| Americas | 2,735.1 | 2,435.2 | 2,548.0 |
| Europe | 2,748.2 | 2,703.5 | 2,543.4 |
| Total net sales | $8,678.2 | $8,136.8 | $7,921.6 |

Net Sales by Products

| (Dollars in millions) | Years ended December 31 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Airbag Products and Other[1)] | $5,698.6 | $5,343.2 | $5,256.4 |
| Seatbelt Products[1)] | 2,979.6 | 2,793.6 | 2,665.2 |
| Total net sales | $8,678.2 | $8,136.8 | $7,921.6 |

[1)] Including Corporate and other sales.

Contract balances

The contract assets relate to the Company's rights to consideration for work completed but not billed (generally in conjunction with contracts for which revenue is recognized over time) at the reporting date on production parts. The contract assets are reclassified into the receivables balance when the rights to receive payments become unconditional. There have been no impairment losses recognized related to contract assets arising from the Company’s contracts with customers. Certain contracts have resulted in consideration in advance of fulfilling the performance obligations and the amounts received have been classified as contract liabilities.

70

The following tables provides information about receivables, contract assets, and contract liabilities from contracts with customers.

Contract Balances with Customers

| (Dollars in millions) | At December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Receivables, net | $1,652.1 | $1,696.7 |
| Contract assets [1)] | 19.5 | — |
| Contract liabilities [2)] | 29.4 | 33.0 |

[1)] Included in other current assets.

[2)] Included in other current and other non-current liabilities.

Receivables, net of allowance

| (Dollars in millions) | At December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Receivables | $1,659.4 | $1,703.0 |
| Allowance at beginning of period | (6.3) | (4.2) |
| Net decrease/(increase) of allowance | (1.3) | (1.8) |
| Translation difference | 0.3 | (0.3) |
| Allowance at end of period | (7.3) | (6.3) |
| Receivables, net of allowance | $1,652.1 | $1,696.7 |

Changes in the contract assets and the contract liabilities balances during the period are as follows:

Change in Contract Balances with Customers

| (Dollars in millions) | At December 31, 2018 | |
|---|---|---|
| | Contract assets | Contract liabilities |
| Beginning balance | $— | $ 33.0 |
| Increases/(decreases) due to cumulative catch up adjustment | 15.0 | — |
| Increases/(decreases) due to revenue recognized | 75.6 | (7.4) |
| Increases/(decreases) due to cash received | — | — |
| Increases/(decreases) due to transfer to receivables | (71.1) | — |
| Translation difference | — | 3.8 |
| Ending balance | $19.5 | $ 29.4 |

The increases/(decreases) in the table above related to contracts assets reflect the total adjustments needed to align revenue recognition for work completed but not billed at year end.

## 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 a number of 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 existing 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 and there were no transfers between the levels during this or comparable periods.

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, 2018 and December 31, 2017. 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, 2018 and December 31, 2017 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, 2018 and December 31, 2017 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, 2018 and December 31, 2017 were foreign exchange swaps. For 2018, the gains and losses recognized in other non-operating items, net are a loss of $1.5 million 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 2016, the Company recognized a gain of $1.3 million in other non-operating items, net for derivative instruments not designated as hedging instruments. For 2018, 2017 and 2016, the gains and losses recognized as interest expense were immaterial.

| | DECEMBER 31, 2018 | DECEMBER 31, 2017 |
|---|---|---|

| Description | 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) |
|---|---|---|---|---|---|---|
| DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS | | | | | | |
| Foreign exchange swaps, less than 6 months | 659.1 1) | 1.9 2) | 1.1 3) | 468.2 4) | 2.4 5) | 0.3 6) |
| TOTAL DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS | $659.1 | $ 1.9 | $ 1.1 | $468.2 | $ 2.4 | $ 0.3 |

1) Net nominal amount after deducting for offsetting swaps under ISDA agreements is $659.1 million.
2) Net amount after deducting for offsetting swaps under ISDA agreements is $1.9 million.
3) Net amount after deducting for offsetting swaps under ISDA agreements is $1.1 million.
4) Net nominal amount after deducting for offsetting swaps under ISDA agreements is $468.2 million.
5) Net amount after deducting for offsetting swaps under ISDA agreements is $2.4 million.
6) Net amount after deducting for offsetting swaps under ISDA agreements is $0.3 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.

On June 18, 2018, Autoliv announced that it priced a 5-year bond offering of EUR 500 million in the Eurobond market (the “Notes”). The Notes were issued on June 26, 2018, at an issue price of 99.527%, and carry a coupon of 0.75% (paid annually in arrears), which implies a per annum yield of 0.847%.

The fair value and carrying value of debt for the continuing operations are summarized in the table below (dollars in millions).

| | DECEMBER 31, 2018 CARRYING VALUE[1)] | DECEMBER 31, 2018 FAIR VALUE | DECEMBER 31, 2017 CARRYING VALUE[1)] | DECEMBER 31, 2017 FAIR VALUE |
|---|---|---|---|---|
| LONG-TERM DEBT | | | | |
| U.S. Private placement | $ 1,041.0 | $ 1,061.1 | $ 1,310.5 | $ 1,379.9 |
| Eurobond | 568.0 | 567.8 | — | — |
| Other long-term debt | — | — | 0.2 | 0.2 |
| TOTAL | $ 1,609.0 | $ 1,628.9 | $ 1,310.7 | $ 1,380.1 |
| | | | | |
| SHORT-TERM DEBT | | | | |
| Commercial paper | $ 342.6 | $ 342.6 | $ — | $ — |
| Short-term portion of long-term debt | 268.1 | 270.4 | 0.2 | 0.2 |
| Overdrafts and other short-term debt | 10.0 | 10.0 | 19.5 | 19.5 |
| TOTAL | $ 620.7 | $ 623.0 | $ 19.7 | $ 19.7 |

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, 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 2018-2016, 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 | 2018 | 2017 | 2016 |
|---|---|---|---|
| U.S. | $47.0 | $89.0 | $172.0 |
| Non-U.S. | 565.4 | 703.4 | 612.2 |
| Total | $612.4 | $792.4 | $784.2 |

| PROVISION FOR INCOME TAXES | 2018 | 2017 | 2016 |
|---|---|---|---|
| Current | | | |
| U.S. federal | $31.6 | $53.4 | $79.2 |
| Non-U.S. | 192.7 | 162.8 | 167.6 |
| U.S. state and local | 10.1 | 9.9 | 3.5 |
| | | | |
| Deferred | | | |
| U.S. federal | 0.8 | 21.8 | (15.8 ) |
| Non-U.S. | (0.2 ) | (44.4 ) | (9.7 ) |
| U.S. state and local | (0.1 ) | 0.9 | (0.5 ) |
| Total income tax expense | $234.9 | $204.4 | $224.3 |

| EFFECTIVE INCOME TAX RATE | 2018 | 2017 | 2016 |
|---|---|---|---|
| U.S. federal income tax rate | 21.0 % | 35.0 % | 35.0 % |
| Foreign tax rate variances | 5.5 | (7.4 ) | (6.4 ) |
| Tax credits | (3.9 ) | (3.3 ) | (2.8 ) |
| Change in Valuation Allowances | (3.2 ) | (4.8 ) | 1.3 |
| Current year losses with no benefit | 0.5 | 0.3 | 1.2 |
| Net operating loss carry-forwards | (0.1 ) | (3.7 ) | (3.4 ) |
| Changes in tax reserves | 3.4 | 0.8 | 0.5 |
| U.S. Expense Allocation | 0.0 | 2.0 | 2.0 |
| Earnings of equity investments | (0.1 ) | (0.1 ) | (0.1 ) |
| Withholding taxes | 3.5 | 2.1 | 2.5 |
| State taxes, net of federal benefit | 1.1 | 0.3 | 0.2 |
| Antitrust settlement | 9.9 | — | — |
| U.S. GILTI Tax | 1.7 | — | — |
| Change in U.S. tax rate | — | 3.0 | — |
| Deemed mandatory repatriation | — | 3.1 | — |
| Other, net | (0.9 ) | (1.5 ) | (1.4 ) |
| Effective income tax rate | 38.4 % | 25.8 % | 28.6 % |

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017. The Tax Act makes broad and complex changes to the U.S. tax code, including reducing the U.S. federal corporate income tax rate from 35% to 21% for years beginning after December 31, 2017, requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously deferred and created new taxes on certain foreign sourced earnings. The SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”) on December 22, 2017. SAB 118 was issued to address the application of U.S. GAAP in situations when a registrant did not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. In 2017, we made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax and recorded provisional amounts. In the fourth quarter of 2018, the Company filed its 2017 Federal and State tax returns and finalized calculations related to transition tax and deferred tax assets and liabilities previously recorded in the year ended December 31, 2017.

Final Impacts from the Tax Act

Deferred tax assets and liabilities: In December 2017, we remeasured certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future, which is generally 21%. There was not a material difference between the provisional amounts recorded for deferred tax assets and liabilities in December 2017 and the final amounts updated in the fourth quarter 2018 after the completion of the 2017 tax returns.

Foreign tax effects: The one-time transition tax is based on our total post-1986 earnings and profits (E&P) that we previously deferred from U.S. income taxes. In December 2017, we recorded a provisional amount of income tax expense for the one-time transition tax. The final amount reported on the 2017 tax returns was not materially different from the amount previously recorded. However, due to the uncertainties inherent in the calculations of the transition tax and the determination of more than twenty years of E&P history, in the fourth quarter of 2018, we have recorded a tax reserve of $24 million related to the transition tax. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax, or any additional outside basis difference inherent in these entities, as these amounts continue to be indefinitely reinvested in foreign operations. Determining the amount of unrecognized deferred tax liability relating to any remaining outside basis difference in these entities (i.e., basis difference in excess of that subject to the one-time transition tax) is not practical.

Global Intangible Low Taxed Income (“GILTI”): The Tax Act created a new requirement that certain income (i.e., GILTI) earned by foreign subsidiaries must be included currently in the gross income of the U.S. shareholder. Under U.S. GAAP, we are permitted to make an accounting policy election to either treat taxes due on future inclusions in U.S. taxable income related to GILTI as a current-period expense when incurred or to factor such amounts into our measurement of our deferred taxes. We have elected to treat the impact of GILTI as a current-period expense when incurred. In 2018, the negative impact of GILTI on our effective tax rate is approximately 1.7% due to the cost of expenses allocated against GILTI that limit the foreign tax credits available for offset against the U.S. tax cost on the GILTI inclusion.

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, 2018, the Company had net operating loss carryforwards (NOL’s) of approximately $283 million, of which approximately $266 million have no expiration date. The remaining losses expire on various dates through 2029. The Company also has $9 million of U.S. Foreign Tax Credit carry forwards, which begin to expire in 2026 and $7 million of U.S. capital loss carryforwards which begin to expire in 2022.

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. In 2018, the Company recognized a tax benefit of $37 million due to the reversal of valuation allowances. This consisted primarily of the reversal of valuation allowances on deferred tax assets, net operating loss carryforwards, and foreign tax credits in Sweden and the reversal of valuation allowances against foreign tax credit carryforwards in the U.S. that were utilized in the final calculation of the transition tax.

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, 2018, 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, 2017, the Company had recorded $34.6 million for unrecognized tax benefits related to prior years, including $6.3 million of accrued interest and penalties. During 2018, the Company recorded a net increase of $24.0 million to income tax reserves for unrecognized tax benefits related to the transition tax reported on the 2017 tax return due to uncertainty surrounding the calculations. Also during 2018, the Company recorded a net decrease of $4.2 million to income tax reserves for other unrecognized tax benefits based on tax positions related to the current and prior years. The Company had $6.6 million accrued for the payment of interest and penalties as of December 31, 2018. Of the total unrecognized tax benefits of $54.4 million recorded at December 31, 2018, $4.0 million is classified as current income tax payable, and $50.4 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:

| UNRECOGNIZED TAX BENEFITS | 2018 | 2017 | 2016 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Unrecognized tax benefits at beginning of year | $29.6 | $27.2 | $25.2 |
| Increases as a result of tax positions taken during a prior period | 24.0 | 2.0 | 4.5 |
| Decreases as a result of tax positions taken during a prior period | — | — | (0.2 ) |
| Increases as a result of tax positions taken during the current period | 4.7 | 6.8 | 5.8 |
| Decreases as a result of tax positions taken during the current period | (3.1 ) | — | (1.7 ) |
| Decreases relating to settlements with taxing authorities | (3.2 ) | (7.1 ) | (1.3 ) |
| Decreases resulting from the lapse of the applicable statute of limitations | (1.5 ) | (0.3 ) | (3.5 ) |
| Translation Difference | (0.9 ) | 1.0 | (1.6 ) |
| Total unrecognized tax benefits at end of year | $49.6 | $29.6 | $27.2 |

The tax effect of temporary differences and carryforwards that comprise significant portions of deferred tax assets and liabilities were as follows.

| DEFERRED TAXES<br>DECEMBER 31 | 2018 | 2017 | 2016 |
|---|---|---|---|
| Assets | | | |
| Provisions | $104.9 | $107.3 | $101.5 |
| Costs capitalized for tax | 18.2 | 18.6 | 16.8 |
| Property, plant and equipment | 13.0 | 14.2 | 18.2 |
| Retirement Plans | 50.1 | 50.0 | 65.5 |
| Tax receivables, principally NOL’s | 113.9 | 150.2 | 211.7 |
| Deferred tax assets before allowances | $300.1 | $340.3 | $413.7 |
| Valuation allowances | (71.0 ) | (110.6) | (199.6) |
| Total | $229.1 | $229.7 | $214.1 |
| | | | |
| Liabilities | | | |
| Acquired intangibles | $(6.1 ) | $(6.6 ) | $(12.3 ) |
| Statutory tax allowances | (0.5 ) | — | — |
| Distribution taxes | (22.9 ) | (22.8 ) | (16.0 ) |
| Other | (10.1 ) | (3.9 ) | (4.9 ) |
| Total | $(39.6 ) | $(33.3 ) | $(33.2 ) |
| Net deferred tax asset | $189.5 | $196.4 | $180.9 |

The following table summarizes the activity related to the Company’s valuation allowances:

| VALUATION ALLOWANCES AGAINST DEFERRED<br>TAX ASSETS DECEMBER 31 | 2018 | 2017 |
|---|---|---|