

AUTOLIV INC
Form 10-Q
April 27, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2018

Commission File No.: 001-12933

AUTOLIV, INC.

(Exact name of registrant as specified in its charter)

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

Klarabergsviadukten 70, Section B7 Box 70381, SE-107 24 Stockholm, Sweden (Address of principal executive offices)	N/A (Zip Code)
---	-------------------

+46 8 587 20 600

(Registrant's telephone number, including area code)

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

Edgar Filing: AUTOLIV INC - Form 10-Q

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes: No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See 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
(do not check if smaller reporting company)

Emerging Growth Company

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: As of April 23, 2018, there were 87,094,365 shares of common stock of Autoliv, Inc., par value \$1.00 per share, outstanding.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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, including without limitation, statements regarding management’s examination of historical operating trends and data, estimates of future sales, operating margin, cash flow, effective tax rate or other future operating performance or financial results, the completion and timing of the proposed spin-off and the outlook for Passive Safety and Electronics as separate businesses if the spin-off is completed 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 or 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, 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 (defined below)); 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” of this Quarterly Report on Form 10-Q, Item 1A “Risk Factors” and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 22, 2018.

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.

INDEX

PART I - FINANCIAL
INFORMATION

ITEM 1. FINANCIAL
STATEMENTS

1.	<u>Basis of Presentation</u>	8
2.	<u>New Accounting Standards</u>	8
3.	<u>Revenue</u>	10
4.	<u>Business Combinations</u>	13
5.	<u>Fair Value Measurements</u>	13
6.	<u>Income Taxes</u>	16
7.	<u>Inventories</u>	17
8.	<u>Equity Method Investments</u>	17
9.	<u>Goodwill</u>	18
10.	<u>Restructuring</u>	18
11.	<u>Product-Related Liabilities</u>	18
12.	<u>Retirement Plans</u>	19
13.	<u>Equity</u>	20
14.	<u>Contingent Liabilities</u>	20
15.	<u>Stock Incentive Plan</u>	23
16.	<u>Earnings Per Share</u>	24
17.	<u>Segment Information</u>	24
18.	<u>Subsequent Events</u>	25

	<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	26
--	--	----

	<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	38
--	---	----

	<u>ITEM 4. CONTROLS AND PROCEDURES</u>	38
--	--	----

	<u>PART II - OTHER INFORMATION</u>	39
--	--	----

	<u>ITEM 1. LEGAL PROCEEDINGS</u>	39
--	----------------------------------	----

	<u>ITEM 1A. RISK FACTORS</u>	39
--	------------------------------	----

	<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES</u>	39
--	--	----

AND USE OF PROCEEDS

ITEM 3. DEFAULTS UPON
SENIOR SECURITIES 39

ITEM 4. MINE SAFETY
DISCLOSURES 39

ITEM 5. OTHER INFORMATION 39

ITEM 6. EXHIBITS 40

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in millions, except per share data)

	Three months ended	
	March	March
	31, 2018	31, 2017
Net sales	\$2,812.8	\$2,608.1
Cost of sales	(2,233.6)	(2,065.6)
Gross profit	579.2	542.5
Selling, general and administrative expenses	(126.8)	(120.3)
Research, development and engineering expenses, net	(213.7)	(192.7)
Amortization of intangibles	(8.1)	(21.8)
Other income (expense), net	(5.2)	9.9
Operating income	225.4	217.6
(Loss) income from equity method investments	(12.7)	0.5
Interest income	1.7	2.0
Interest expense	(13.7)	(16.2)
Other non-operating items, net	(3.8)	(9.5)
Income before income taxes	196.9	194.4
Income tax expense	(74.5)	(52.3)
Net income	\$122.4	\$142.1
Less: Net loss attributable to non-controlling interest	(4.3)	(1.8)
Net income attributable to controlling interest	\$126.7	\$143.9
Net earnings per share – basic ¹⁾	\$1.46	\$1.63
Net earnings per share – diluted ¹⁾	\$1.45	\$1.62
Weighted average number of shares outstanding, net of		
treasury shares (in millions)	87.0	88.3
Weighted average number of shares outstanding, assuming		
dilution and net of treasury shares (in millions)	87.3	88.5
Cash dividend per share – declared	\$0.62	\$0.60
Cash dividend per share – paid	\$0.60	\$0.58

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 16 to the unaudited condensed consolidated financial statements). See “Notes to unaudited condensed consolidated financial statements.”

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in millions)

	Three months ended	
	March	March
	31, 2018	31, 2017
Net income	\$ 122.4	\$ 142.1
Other comprehensive income before tax:		
Change in cumulative translation adjustments	91.6	88.4
Net change in cash flow hedges	0.4	(2.6)
Net change in unrealized components of defined benefit plans	0.8	1.7
Other comprehensive income, before tax	92.8	87.5
Tax effect allocated to other comprehensive income	(0.2)	(0.5)
Other comprehensive income, net of tax	92.6	87.0
Comprehensive income	\$ 215.0	\$ 229.1
Less: Comprehensive income attributable to non-controlling interest	1.5	4.0
Comprehensive income attributable to controlling interest	\$ 213.5	\$ 225.1

See "Notes to unaudited condensed consolidated financial statements."

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	As of March 31, 2018	December 31, (unaudited) 2017
Assets		
Cash and cash equivalents	\$793.9	\$ 959.5
Receivables, net	2,406.0	2,157.2
Inventories, net	865.0	859.1
Other current assets	277.0	228.9
Total current assets	4,341.9	4,204.7
Property, plant and equipment, net	2,074.5	1,973.1
Investments and other non-current assets	608.4	518.5
Goodwill	1,691.5	1,688.8
Intangible assets, net	161.8	164.8
Total assets	\$8,878.1	\$ 8,549.9
Liabilities and equity		
Short-term debt	\$84.0	\$ 19.7
Accounts payable	1,305.2	1,280.8
Accrued expenses	1,076.8	1,028.6
Other current liabilities	343.5	325.5
Total current liabilities	2,809.5	2,654.6
Long-term debt	1,325.2	1,321.7
Pension liability	231.3	225.9
Other non-current liabilities	170.1	178.3
Total non-current liabilities	1,726.6	1,725.9
Common stock	102.8	102.8
Additional paid-in capital	1,329.3	1,329.3
Retained earnings	4,165.2	4,079.2
Accumulated other comprehensive loss	(211.0)	(287.5)
Treasury stock	(1,180.1)	(1,188.7)
Total controlling interest	4,206.2	4,035.1
Non-controlling interest	135.8	134.3
Total equity	4,342.0	4,169.4
Total liabilities and equity	\$8,878.1	\$ 8,549.9

See "Notes to unaudited condensed consolidated financial statements."

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in millions)

	Three months ended March	
	31, 2018	March 31, 2017
Operating activities		
Net income	\$ 122.4	\$ 142.1
Depreciation and amortization	109.8	114.8
Other, net	6.1	(25.9)
Changes in operating assets and liabilities	(222.7)	(81.8)
Net cash provided by operating activities	15.6	149.2
Investing activities		
Expenditures for property, plant and equipment	(141.0)	(129.5)
Proceeds from sale of property, plant and equipment	1.7	8.1
Acquisitions of businesses and interest in/additional contributions to affiliates, net of cash acquired	(72.9)	—
Net cash used in investing activities	(212.2)	(121.4)
Financing activities		
Net increase in short-term debt	65.4	4.6
Dividends paid	(52.4)	(51.2)
Common stock options exercised	4.9	1.8
Net cash provided by (used in) financing activities	17.9	(44.8)
Effect of exchange rate changes on cash and cash equivalents	13.1	25.5
(Decrease) increase in cash and cash equivalents	(165.6)	8.5
Cash and cash equivalents at beginning of period	959.5	1,226.7
Cash and cash equivalents at end of period	\$ 793.9	\$ 1,235.2

See "Notes to unaudited condensed consolidated financial statements."

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise noted, all amounts are presented in millions of dollars, except for per share amounts)

March 31, 2018

1. BASIS OF PRESENTATION

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the prior year audited financial statements and all adjustments considered necessary for a fair presentation have been included in the financial statements. All such adjustments are of a normal recurring nature. The result for the interim period is not necessarily indicative of the results to be expected for any future period or for the fiscal year ending December 31, 2018.

The Condensed Consolidated Balance Sheet at December 31, 2017 has been derived from the audited financial statements at that date, but does not include all the information and footnotes required by U.S. GAAP for complete financial statements.

Statements in this report that are not of historical fact are forward-looking statements that involve risks and uncertainties that could affect the actual results of the Company. A description of the important factors that could cause Autoliv's actual results to differ materially from the forward-looking statements contained in this report may be found in this report and Autoliv's other reports filed with the Securities and Exchange Commission (the "SEC"). For further information, refer to the consolidated financial statements, footnotes and definitions thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 22, 2018.

2. NEW ACCOUNTING STANDARDS

Adoption of New Accounting Standards

In February 2018, the FASB issued 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. Consequently, the amendments in ASU 2018-02 eliminate the stranded tax effects resulting from the Tax Cuts and Jobs 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 Cuts and Jobs 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 March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 (see Note 12. Retirement Plans).

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income (“GILTI”) provisions of the Tax Cuts and Jobs Act (the “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.

Edgar Filing: AUTOLIV INC - Form 10-Q

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 at	Adjustments due	Balance at
Balance Sheet	December 31, 2017	to ASU 2014-09	January 1, 2018
(Dollars in millions)			
Assets			
Inventories, net	\$ 859.1	\$ (17.4)	\$ 841.7
Other current assets	228.9	22.0	250.9
Equity			
Retained Earnings	4,079.2	3.2	4,082.4

	Three months period ended March 31, 2018		
	Balances without		
	adoption of		
Income Statement	As		Effect of
(Dollars in millions)	Reported	ASC 606	Changes

Edgar Filing: AUTOLIV INC - Form 10-Q

Net sales	\$2,812.8	\$2,809.1	\$ 3.7
Cost of sales	(2,233.6)	(2,230.5)	(3.1)
Operating income	225.4	224.8	0.6

Balance Sheet (Dollars in millions)	As of March 31, 2018		
	As Reported	Balances without adoption of ASC 606	Effect of Changes
Assets			
Inventories, net	\$865.0	\$885.4	\$ (20.4)
Other current assets	277.0	251.3	25.7
Equity			
Retained Earnings	4,165.2	4,161.5	3.7

Accounting Standards Issued But Not Yet Adopted

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 has 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. The Company's implementation of this standard includes use of a project management framework that includes a dedicated lead project manager and a cross-functional project steering committee responsible for assessing the impact that the new standard will have on the Company's accounting, financial statement presentation and disclosure. This team has begun its process to identify leasing arrangements and to compare its accounting policies and practices to the requirements of the new standard. 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. The Company is also considering system, control and process changes to capture lease data necessary to apply ASU 2016-02.

3. REVENUE

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 certain criteria are met warranting capitalization. The Company considers

qualitative factors such as the maturity of the product and technology involved in a potential transaction as well as how current the customer relationship is, when evaluating if a payment(s) warrant capitalization. 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 two operating segments, Passive Safety and Electronics. Passive Safety includes Autoliv's airbag and seatbelt products and components, while Electronics combines all of Autoliv's electronics resources and expertise in both passive safety electronics and active safety. The principal activities are essentially the same for each of the segments. Both of the segments generate 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 F.O.B. 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 with stated payment terms averaging 30 days.

Disaggregation of revenue

In the following tables, revenue is disaggregated by primary region and products.

Net Sales by Region			
(Dollars in millions)	Three months ended March 31,		
	2018		
	Passive Safety Segment	Electronics Segment	Total
Asia	\$793.0	\$ 211.1	\$1,004.1
Whereof: China	366.7	101.1	467.8
Japan	214.8	69.6	284.4
Rest of Asia	211.5	40.4	251.9
Americas	668.1	192.7	860.8
Europe	779.6	168.3	947.9
Total	\$2,240.7	\$ 572.1	\$2,812.8

Edgar Filing: AUTOLIV INC - Form 10-Q

Net Sales by Region

Three months ended March 31,
2017
(Dollars in millions)

	Passive		
	Safety	Electronics	
	Segment	Segment	Total
Asia	\$708.8	\$ 207.2	\$916.0
Whereof: China	322.9	100.5	423.4
Japan	200.0	61.6	261.6
Rest of Asia	185.9	45.1	231.0
Americas	648.1	215.5	863.6
Europe	684.5	144.0	828.5
Total	\$2,041.4	\$ 566.7	\$2,608.1

Net Sales by Products

(Dollars in millions)	Three months ended March 31, 2018		
	Passive Safety Segment ²⁾	Electronics Segment ²⁾	Total
Airbag Products ¹⁾	\$1,443.1	n/a	\$1,443.1
Seatbelt Products ¹⁾	797.6	n/a	797.6
Restraint Control Systems	n/a	\$ 245.5	245.5
Active Safety ¹⁾	n/a	213.0	213.0
Brake Systems	n/a	113.6	113.6
Total net sales	\$2,240.7	\$ 572.1	\$2,812.8

¹⁾ Including corporate and other sales.

²⁾ Excluding intersegment sales.

Net Sales by Products

(Dollars in millions)	Three months ended March 31, 2017		
	Passive Safety Segment ²⁾	Electronics Segment ²⁾	Total
Airbag Products ¹⁾	\$1,354.3	n/a	\$1,354.3
Seatbelt Products ¹⁾	687.1	n/a	687.1
Restraint Control Systems	n/a	\$ 254.7	254.7
Active Safety ¹⁾	n/a	191.5	191.5
Brake Systems	n/a	120.5	120.5
Total net sales	\$2,041.4	\$ 566.7	\$2,608.1

¹⁾ Including corporate and other sales.

²⁾ Excluding intersegment sales.

Contract balances

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

The contract assets related 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.

Contract Balances with Customers
(Dollars in millions)

As of

Edgar Filing: AUTOLIV INC - Form 10-Q

	March 31, 2018	December 31, 2017
Receivables, net	\$2,406.0	\$ 2,157.2
Contract assets ¹⁾	25.7	—
Contract liabilities ²⁾	33.6	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)	As of	
	March 31, 2018	December 31, 2017
Receivables	\$2,413.6	\$ 2,165.7
Allowance at beginning of period	(8.5)	(7.8)
Net decrease/(increase) of allowance	1.0	0.0
Translation difference	(0.1)	(0.7)
Allowance at end of period	(7.6)	(8.5)
Receivables, net of allowance	\$2,406.0	\$ 2,157.2

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)

	Three months ended March 31, 2018	
	Contract assets	Contract liabilities
Beginning balance	\$—	\$ 33.0
Increases/(decreases) due to cumulative catch up adjustment	22.0	—
Increases/(decreases) due to revenue recognized	25.7	(0.4)
Increases/(decreases) due to cash received	—	—
Increases/(decreases) due to transfer to receivables	(22.0)	—
Translation difference	0.0	1.0
Ending balance	\$25.7	\$ 33.6

Contract costs

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of sales. The amount of fulfillment costs was not material for any period presented.

4. BUSINESS COMBINATIONS

Fotonic i Norden dp AB

On November 1, 2017, Autoliv completed the acquisition of all the shares of Fotonic i Norden dp AB (Fotonic), a company headquartered in Stockholm and Skellefteå in Sweden. The final acquisition date fair value of the total consideration transferred was \$16.9 million, consisting of a \$14.5 million cash payment and \$2.4 million of deferred purchase consideration, payable at the 18 month anniversary of the closing date. The deferred purchase consideration reflects the holdback amount as stipulated in the share purchase agreement. The transaction has been accounted for as a business combination. The balance of the deferred purchase consideration remains unchanged at \$2.4 million as of March 31, 2018.

Fotonic provides Lidar and Time of Flight camera expertise and the acquisition included 35 Lidar and time of flight engineering experts, in addition to defined intangible assets. The strength of the acquired competence is on the Lidar and time of flight camera hardware side which form a complement to Autoliv's skillset in the Lidar software and algorithms area. Lidar technology is an enabling technology for Highly Automated Driving and considered the primary sensor by all system developers. Fotonic is being reported in the Electronics segment.

The net assets acquired as of the acquisition date amounted to \$16.9 million. The estimated fair values of identifiable assets acquired consisted of Intangible assets of \$3.8 million and Goodwill of \$13.4 million, and the estimated fair value of liabilities assumed consisted of Other current liabilities of \$0.3 million. Acquired Intangibles consisted of the fair value of background IP (patent & technical know-how). The useful life of the IP is 5 years and will be amortized on a straight-line basis. The recognized goodwill reflects the valuation of the acquired workforce of specialist

engineers.

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 fair value of the contingent consideration relating to the M/A-COM acquisition on August 17, 2015 is re-measured on a recurring basis. The Company has determined that this contingent consideration resides within Level 3 of the fair value hierarchy. The Company adjusted the fair value of the earn-out liability to \$14 million in the first quarter of 2017 based on actual revenue levels as well as changes in the estimated probability of different revenue scenarios for the remaining contractual earn-out period. Income of \$13 million was recognized within Other income (expense), net in the Consolidated Statements of Income in the first quarter of 2017 due to the decrease in the contingent consideration liability. The remaining fair value of the earn-out liability of \$14 million as of December 31, 2017 was fully released and recognized within Other income (expense) in the first quarter of 2018, driven by changes in the estimated probability of different revenue scenarios for the remaining contractual earn-out period such that management no longer believes that there are any scenarios under which the earn-out criteria could be met.

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. The derivatives outstanding at March 31, 2018 were foreign exchange swaps. All swaps principally match the terms and maturity of the underlying debt and no swaps have a maturity beyond six months. 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. During the quarter, forward contracts designated as cash flow hedges of certain external purchasing were terminated. The loss associated with such termination was not material.

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 derivative financial assets and liabilities measured at fair value on a recurring basis. 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 Condensed Consolidated Balance Sheet at March 31, 2018 and in the Consolidated Balance Sheet at December 31, 2017, have been presented on a gross basis. The amounts subject to netting agreements that the Company chose not to offset are presented below. 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.

March 31, 2018
Fair Value

Edgar Filing: AUTOLIV INC - Form 10-Q

Description	Measurements			Balance sheet location
	Nominal	Derivative	Derivative	
	volume	asset	liability	
Derivatives designated as hedging instruments				
Foreign exchange forward contracts, less than 1 year (cash flow hedge)	\$—	\$—	\$—	Other current assets/ Other current liabilities
Total derivatives designated as hedging instruments				
	\$—	\$—	\$—	
Derivatives not designated as hedging instruments				
Foreign exchange swaps, less than 6 months		1)	2)	3) Other current liabilities
	\$671.7	\$ 4.4	\$ 3.5	
Total derivatives not designated as hedging instruments				
	\$671.7	\$ 4.4	\$ 3.5	

¹⁾ Net nominal amount after deducting for offsetting swaps under ISDA agreements is \$655.4 million.

²⁾ Net amount after deducting for offsetting swaps under ISDA agreements is \$4.3 million.

³⁾ Net amount after deducting for offsetting swaps under ISDA agreements is \$3.4 million.

Description	December 31, 2017			Balance sheet location
	Fair Value			
	Nominal	Measurements Derivative	Derivative	
volume	asset	liability		
Derivatives designated as hedging instruments ¹⁾				
Foreign exchange forward contracts, less than				Other current assets/ Other
1 year (cash flow hedge)	\$ 66.6	\$ 0.4	\$ 1.3	current liabilities
Foreign exchange forward contracts, less than				Other non-current assets/ Other
2 years (cash flow hedge)	—	—	—	non-current liabilities
Total derivatives designated as hedging instruments	\$ 66.6	\$ 0.4	\$ 1.3	
Derivatives not designated as hedging instruments				
Foreign exchange swaps, less than				Other current assets/ Other
6 months		²⁾	³⁾	⁴⁾
	\$ 468.2	\$ 2.4	\$ 0.3	current liabilities
Total derivatives not designated as hedging instruments	\$ 468.2	\$ 2.4	\$ 0.3	

¹⁾There is no netting since there are no offsetting contracts.

²⁾Net nominal amount after deducting for offsetting swaps under ISDA agreements is \$468.2 million.

³⁾Net amount after deducting for offsetting swaps under ISDA agreements is \$2.4 million.

⁴⁾Net amount after deducting for offsetting swaps under ISDA agreements is \$0.3 million.

Derivatives designated as hedging instruments

The forward contracts designated as cash flow hedges were terminated during the first quarter of 2018. The derivatives designated as hedging instruments outstanding at December 31, 2017 were foreign exchange forward contracts, classified as cash flow hedges.

For the three months ended March 31, 2018 and March 31, 2017, the cumulative gains and losses recognized in OCI on the cash flow hedges were a loss of \$0.0 million (net of taxes) and a loss of \$1.0 million (net of taxes), respectively.

For the three months ended March 31, 2018 and March 31, 2017, the gains and losses reclassified from OCI and recognized in the Consolidated Statements of Income were a loss of \$0.5 million (net of taxes) and a gain of \$1.5

million (net of taxes), respectively. Any ineffectiveness in the first three months of 2018 and 2017 was not material.

The estimated net amount of the existing gains or losses at March 31, 2018 that is expected to be reclassified from OCI and recognized in the Consolidated Statements of Income within the next twelve months is a loss of \$0.4 million (net of taxes).

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 Income. The derivatives not designated as hedging instruments outstanding at March 31, 2018 and December 31, 2017 were foreign exchange swaps.

For the three months ended March 31, 2018 and March 31, 2017, the gains and losses recognized in other non-operating items, net were a loss of \$1.5 million and a loss of \$1.4 million, respectively, for derivative instruments not designated as hedging instruments.

For the three months ended March 31, 2018 and March 31, 2017, the gains and losses recognized as interest expense were immaterial.

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.

	March 31, 2018	March 31, 2018	December 31, 2017	December 31, 2017
	Carrying value ¹⁾	Fair value	Carrying value ¹⁾	Fair value
Long-term debt				
U.S. Private placement	\$1,310.1	\$1,365.1	\$ 1,310.5	\$ 1,379.9
Other long-term debt	15.1	15.1	11.2	11.2
Total	\$1,325.2	\$1,380.2	\$ 1,321.7	\$ 1,391.1
Short-term debt				
Overdrafts and other short-term debt	\$58.7	\$58.7	\$ 19.5	\$ 19.5
Short-term portion of long-term debt	25.3	25.3	0.2	0.2
Total	\$84.0	\$84.0	\$ 19.7	\$ 19.7

¹⁾Debt as reported in balance sheet.

Assets and liabilities measured at fair value on a nonrecurring 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.

The tables below present information about certain of the Company's long-lived assets measured at fair value (level 3) on a nonrecurring basis.

	March 31, 2018		December 31, 2017	
	Fair value	Impairment	Fair value	Impairment
(Dollars in millions)	Level 3	losses	Level 3	losses
Goodwill ¹⁾	\$ 1,691.5	\$ —	\$1,688.8	\$ (234.2)
Intangible assets, net ²⁾	161.8	—	164.8	(12.0)

1) In the fourth quarter of 2017, the Company recognized an impairment charge of the full goodwill related to ANBS, resulting in an impairment loss of \$234.2 million, which was included in earnings for the period. The primary driver of the goodwill impairment was due to the lower expected long-term operating cash flow performance of the business unit as of the measurement date. The remaining goodwill balance as of March 31, 2018 and December 31, 2017 was not measured at fair value on a nonrecurring basis as impairment indicators did not exist.

2) In the first quarter of 2017, the Company recognized an impairment charge to amortization of intangibles of \$12 million related to a contract with an OEM customer of M/A-COM products, which was included in earnings for the period. At December 31, 2017 the intangible value related to this customer contract was fully amortized. The remaining intangibles balance as of March 31, 2018 and December 31, 2017 was not measured at fair value on a nonrecurring basis as impairment indicators did not exist.

6. INCOME TAXES

The effective tax rate in the first quarter of 2018 was 37.8% compared to 26.9% in the same quarter of 2017. Discrete tax items, net in the first quarter of 2018 had an unfavorable impact of 3.8%. In the first quarter of 2017, discrete tax items, net had a favorable impact of 0.3%. The tax rate in the first quarter of 2018 was negatively impacted by the non-deductible portion of the pre-spin advisor costs, two new international provisions provided in the new U.S. tax law (i.e., GILTI and BEAT) and losses with no tax benefit.

In December 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued to address the application of U.S. GAAP in situations when a registrant does 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 Act. For the three months ended March 31, 2018, the Company did not obtain additional information affecting the provisional amount initially recorded for the transition tax for the year ended December 31, 2017. As a result, the Company did not make any adjustment to the transition tax. Additional work is still necessary for a more detailed analysis of the Company's deferred tax assets and liabilities and its historical foreign earnings as well as potential correlative adjustments. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of 2018 when the analysis is complete.

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 income tax authorities for years prior to 2014. 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 2009.

As of March 31, 2018, the Company is not aware of any proposed income tax adjustments resulting from tax examinations that would have a material impact on the Company’s condensed consolidated financial statements. The conclusion of such audits could result in additional increases or decreases to unrecognized tax benefits in some future period or periods.

During the first quarter of 2018, the Company recorded a net increase of \$2.0 million to income tax reserves for unrecognized tax benefits based on tax positions related to the current year, including accruing additional interest related to unrecognized tax benefits of prior years. In addition, during the first quarter of 2018, the Company recorded a decrease of \$1.9 million to income tax reserves for unrecognized tax benefits of prior years due to the release of a tax reserve. Of the total unrecognized tax benefits of \$34.7 million recorded at March 31, 2018, \$7.4 million is classified as current tax payable and \$27.3 million is classified as non-current tax payable on the Condensed Consolidated Balance Sheet.

7. INVENTORIES

Inventories are stated at the lower of cost (principally FIFO) and net realizable value. The components of inventories were as follows:

	As of March 31, 2018	December 31, 2017
Raw materials	\$445.6	\$ 423.0
Work in progress	293.3	285.2
Finished products	232.8	258.0
Inventories	\$971.7	\$ 966.2
Inventory valuation reserve	(106.7)	(107.1)

Total inventories, net of reserve \$865.0 \$ 859.1

8. EQUITY METHOD INVESTMENTS

On April 18, 2017, Autoliv and Volvo Cars completed the formation of their joint venture, Zenuity AB. Autoliv made a cash contribution of SEK 1 billion and also contributed intellectual property, lab equipment and an assembled workforce. Autoliv and Volvo Cars each have a 50% ownership of Zenuity and neither entity has the ability to exert control over the joint venture, in form or in substance. Autoliv has accounted for its investment in Zenuity under the equity method and the investment is shown in the line item Investments and other non-current assets in the Condensed Consolidated Balance Sheets. The contributed intellectual property, lab equipment, and an assembled workforce have been assessed to constitute a business as defined by ASU 2017-01, Business Combinations (Topic 805) – Clarifying the Definition of a Business. FASB ASC Topic 810, Consolidation states that when a group of assets that constitutes a business is derecognized, the carrying amounts of the assets and liabilities are removed from the consolidated balance sheet. The investor would recognize a gain or loss based on the difference between the sum of the fair value of any consideration received less the carrying amount of the group of assets and liabilities contributed at the date of the transaction. The equity value of Zenuity on the date of the closing of the transaction of approximately \$250 million has been calculated using the discounted cash flow method of the income approach. Autoliv's 50% share of the equity value, approximately \$125 million, represents its investment in Zenuity, including its cash contribution at inception. The Company recorded an immaterial gain based on

the difference between Autoliv's share of Zenuity's equity value less the carrying value of the group of assets and liabilities derecognized. Autoliv believes that the calculated fair value represents its best estimate of the equity value of Zenuity considering the expected synergies to be achieved with the joint venture from the contributed assets including synergies of future combined Research & Development leading to the next generation of autonomous driving software.

At the end of the first quarter of 2018, Autoliv contributed 600 MSEK (approximately \$71 million) in cash (representing 50% of the total contribution, with the remainder made by Volvo Cars) into Zenuity to support its future operating cash flow needs.

The profit and loss attributed to the investment is shown in the line item (Loss) income from equity method investments in the Consolidated Statements of Net Income. Autoliv's share of Zenuity's loss for the three months ended March 31, 2018 was approximately \$14 million. As of March 31, 2018, the Company's equity investment in Zenuity amounted to approximately \$159 million.

9. GOODWILL

	Passive Safety	Electronics	
	Segment	Segment	Total
Carrying amount December 31, 2017	\$ 1,397.1	\$ 291.7	\$1,688.8
Effect of currency translation	2.9	(0.2)	2.7
Carrying amount March 31, 2018	\$ 1,400.0	\$ 291.5	\$1,691.5

10. RESTRUCTURING

Restructuring provisions are made on a case-by-case basis and primarily include severance costs incurred in connection with headcount reductions and plant consolidations. The Company expects to finance restructuring programs over the next several years through cash generated from its ongoing operations or through cash available under existing credit facilities. The Company does not expect that the execution of these activities will have a material adverse impact on its liquidity position. The changes in the employee-related reserves have been charged against Other income (expense), net in the Consolidated Statements of Income.

The majority of the reserve balance as of March 31, 2018 pertains to restructuring activities initiated in Western Europe over the past few years. The Company anticipates that its restructuring initiatives in Western Europe for a number of plants, none of which are individually or in the aggregate material as of March 31, 2018, will continue through dates ranging from 2018 through 2021. The total amount of costs expected to be incurred in connection with these restructuring activities ranges from approximately \$10 million to \$28 million for each individual activity. In the aggregate, the cost for these Western European restructuring initiatives is approximately \$101 million and the remaining restructuring liability as of March 31, 2018 is approximately \$36.7 million out of the \$41.1 million total reserve balance, of which a majority relate to the Passive Safety segment.

The table below summarizes the change in the balance sheet position of the restructuring reserves.

Edgar Filing: AUTOLIV INC - Form 10-Q

	Three months ended March 31, 2018			Three months ended March 31, 2017		
	Restructuring	Other employee-related	Total	Restructuring	Other employee-related	Total
Reserve at beginning of the period	\$41.4	\$ 0.3	\$41.7	\$37.1	\$ 0.4	\$37.5
Provision/charge	3.3	—	3.3	2.3	0.2	2.5
Provision/reversal	—	—	—	(0.1)	(0.4)	(0.5)
Cash payments	(4.9)	—	(4.9)	(9.3)	—	(9.3)
Translation difference	1.0	—	1.0	0.6	—	0.6
Reserve at end of the period	\$40.8	\$ 0.3	\$41.1	\$30.6	\$ 0.2	\$30.8

11. PRODUCT-RELATED LIABILITIES

The Company has reserves for product risks. Such reserves are related to product performance issues including recalls, product liability and warranty issues. For further explanation, see Note 14. Contingent Liabilities below.

The table below summarizes the change in the balance sheet position of the product-related liabilities. For the three months ended March 31, 2018, provisions mainly related to warranty related issues and the cash paid mainly related to recall related issues. The provisions and cash paid for the three months ended March 31, 2017 mainly related to recall related issues. The decrease in the reserve balance as of March 31, 2018 compared to the prior year was mainly due to cash payments. Insurance receivables are included within Other current assets in the Condensed Consolidated Balance Sheets.

	Three months ended	
	March 31, 2018	March 31, 2017
Reserve at beginning of the period	\$ 117.7	\$ 120.1
Change in reserve	5.4	7.1
Cash payments	(20.4)	(10.5)
Translation difference	0.8	1.0
Reserve at end of the period	\$ 103.5	\$ 117.7

12. RETIREMENT PLANS

The Company's most significant retirement plan is the U.S. plan for which the benefits are based on an average of the employee's earnings in the years preceding retirement and on credited service. In a prior year, the Company closed participation in the Autoliv ASP, Inc. Pension Plan to exclude those employees hired after December 31, 2003. Within the U.S. there is also a non-qualified restoration plan that provides benefits to employees whose benefits in the primary U.S. plan are restricted by limitations on the compensation that can be considered in calculating their benefits. In December 2017 the Company decided to amend the U.S. defined pension plan, communicating a benefits freeze that will begin on December 31, 2021.

For the Company's non-U.S. defined benefit plans the most significant individual plan resides in the U.K. The Company has closed participation in the U.K. defined benefit plan to exclude all employees hired after April 30, 2003 with few members accruing benefits.

The Net Periodic Benefit Costs related to Other Post-retirement Benefits were not significant to the condensed consolidated financial statements of the Company for the three month periods ended March 31, 2018 and March 31, 2017 and are not included in the table below.

The components of total Net Periodic Benefit Cost associated with the Company's defined benefit retirement plans are as follows:

	Three months ended	
	March 31, 2018	March 31, 2017
Service cost	\$ 6.4	\$ 6.0
Interest cost	5.1	5.3

Edgar Filing: AUTOLIV INC - Form 10-Q

Expected return on plan assets	(6.2)	(5.3)
Amortization prior service cost	0.1	0.1
Amortization of actuarial loss	0.9	2.0
Net Periodic Benefit Cost	\$6.3	\$ 8.1

The Service cost and Amortization of prior service cost components are reported among other employee compensation costs in the Consolidated Statements of Income. The remaining components Interest cost, Expected return on plan assets and Amortization of actuarial loss are reported as Other non-operating items, net in the Consolidated Statements of Income.

13. EQUITY

	Three Months ended March 31, 2018			March 31, 2017		
	Equity attributable to		Total	Equity attributable to		Total
	Controlling	Non-controlling		Controlling	Non-controlling	
	interest	interest		interest	interest	
Balance at beginning of period	\$4,035.1	\$ 134.3	\$4,169.4	\$3,677.2	\$ 249.2	\$3,926.4
Total Comprehensive Income:						
Net income (loss)	126.7	(4.3)	122.4	143.9	(1.8)	142.1
Foreign currency translation	85.8	5.8	91.6	82.6	5.8	88.4
Net change in cash flow hedges	0.4	—	0.4	(2.6)	—	(2.6)
Defined benefit pension plan	0.6	—	0.6	1.2	—	1.2
Total Comprehensive Income (loss)	213.5	1.5	215.0	225.1	4.0	229.1
Common Stock incentives	8.6	—	8.6	4.4	—	4.4
Cash dividends declared	(54.2)	—	(54.2)	(53.0)	—	(53.0)
Adjustment due to adoption of ASC 606	3.2	—	3.2	—	—	—
Balance at end of period	\$4,206.2	\$ 135.8	\$4,342.0	\$3,853.7	\$ 253.2	\$4,106.9

Stock Repurchase Program

The Company did not repurchase any shares in the first quarter of 2018 or in the first quarter of 2017. The Company is authorized to repurchase an additional 2,986,288 shares under the program at March 31, 2018.

14. CONTINGENT LIABILITIES

Legal Proceedings

Various claims, lawsuits and proceedings are pending or threatened against the Company or its subsidiaries, covering a range of matters that arise in the ordinary course of its business activities with respect to commercial, product liability and other matters. Litigation is subject to many uncertainties, and the outcome of any litigation cannot be assured. After discussions with counsel, and with the exception of losses resulting from the antitrust proceedings described below, it is the opinion of management that the various legal proceedings and investigations to which the Company currently is a party will not have a material adverse impact on the consolidated financial position of Autoliv, but the Company cannot provide assurance that Autoliv will not experience material litigation, product liability or other losses in the future.

In October 2014, one of the Company's Brazilian subsidiaries received a notice of deficiency from the state tax authorities from the state of São Paulo, Brazil which, primarily, alleged violations of ICMS (VAT) payments and improper warehousing documentation. The aggregate assessment for all alleged violations was R\$81 million (approximately \$24 million), inclusive of fines, penalties and interest. The Company believed that a loss was probable with respect to at least a portion of the assessed amount and accrued an amount in 2015, which amount remains accrued as of March 31, 2018, that was not material to the Company's results of operations. During the first quarter of 2018, the Brazilian authorities offered an amnesty period which would allow taxpayers to reduce the penalties

associated with eligible tax matters by up to 85%. During the second quarter of 2018 the Company applied to participate in the amnesty protocol which, if accepted by the Brazilian authorities, would result in the Company paying an amount to resolve this matter that is immaterial to the Company's consolidated financial statements.

In March 2015, the Company was informed of an investigation being conducted in Turkey by the Directorate of Kocaeli Customs Custody, Smuggling and Enquiry into the Company's import and customs payment structure and the associated import taxes and fees for the period of 2006–2012. The Company cannot predict the duration, scope or ultimate outcome of this investigation and is unable to estimate the financial impact it may have, or predict the reporting periods in which any such financial impacts may be recorded. Consequently, the Company has made no provision as of March 31, 2018 with respect to this investigation.

ANTITRUST MATTERS

Authorities in several jurisdictions are currently conducting or have conducted broad, and in some cases, long-running investigations of suspected anti-competitive behavior among parts suppliers in the global automotive vehicle industry. These investigations include, but are not limited to, segments in which the Company operates. In addition to concluded and pending matters, authorities of other countries with significant light vehicle manufacturing or sales may initiate similar investigations. It is the Company's policy to cooperate with governmental investigations.

On June 7-9, 2011, representatives of the European Commission ("EC"), the European antitrust authority, visited two facilities of a Company subsidiary in Germany to gather information for an investigation of anti-competitive behavior among suppliers of occupant safety systems.

On November 22, 2017, the EC concluded a discrete portion of its investigation and imposed a fine on the Company of EUR 8.1 million (approximately \$9.7 million) with respect to this portion of the EC's overall investigation while it continues the more significant portion of its investigation. The Company paid this amount during the first quarter of 2018, and had previously accrued EUR 8.3 million (approximately \$9.9 million) in 2017 with respect to this discrete portion of the investigation.

Management does not believe the outcome of this discrete portion of the EC's investigation provides an indication of the total probable loss associated with the EC investigation as a whole. The Company remains unable to estimate the financial impact of what the Company believes to be the substantially more significant, continuing portion of the investigation or predict the reporting periods in which such financial impact may be recorded. Consequently, the Company has not recorded a provision for loss as of March 31, 2018 other than as noted above for the discrete portion of the investigation. However, management believes it is probable that the Company's operating results and cash flows will be materially adversely impacted for the reporting periods in which the continuing portion of the investigation is resolved or becomes estimable.

In August 2014, the Competition Commission of South Africa (the "CCSA") contacted the Company regarding an investigation into the Company's sales of occupant safety systems in South Africa. In September 2017, the Company entered into a settlement agreement with the CCSA in which the Company agreed to pay an administrative penalty of R150 million (approximately \$11 million), which the Competition Tribunal in South Africa confirmed on November 22, 2017. The Company had previously accrued a total of approximately \$6 million in 2016 for this matter, and accrued an additional amount of approximately \$5 million in 2017 with respect to the proposed settlement, and final payment of the settlement amount was made in February 2018.

In November 2016, the Company entered into a settlement agreement with the General Superintendence of the Administrative Council for Economic Defense in Brazil with respect to an investigation of an alleged cartel involving sales in Brazil of seatbelts, airbags and steering wheels by the Company's Brazilian subsidiary and the Brazilian subsidiary of a competitor for an amount that is not material to the Company's results of operations. Settlement amounts were accrued for this matter during the periods ended December 31, 2015 and December 31, 2016, and final payment of the accrued amounts was made in 2017.

The Company is also subject to civil litigation alleging anti-competitive conduct in the U.S. and Canada. Specifically, the Company, several of its subsidiaries and its competitors were named as defendants in a total of nineteen purported antitrust class action lawsuits filed between June 2012 and June 2015. Fifteen of these lawsuits were filed in the U.S. and were consolidated in the Occupant Safety Systems (OSS) segment of the Automobile Parts Antitrust Litigation, a Multi-District Litigation (MDL) proceeding in the United States District Court for the Eastern District of Michigan. Plaintiffs in the U.S. cases sought to represent four purported classes - direct purchasers, auto dealers, end-payors, and truck and equipment dealers who purchased in the U.S. occupant safety systems or components directly from a defendant, indirectly through purchases or leases of new vehicles containing such systems, or through purchases of replacement parts.

In May 2014, the Company, without admitting any liability, entered into separate settlement agreements with the direct purchasers, auto dealers, end-payors plaintiff classes, which were granted final approval by the MDL court in 2015 and 2016. The total settlement amount of \$65 million (later reduced to approximately \$60.5 million as a result of opt outs from the direct purchaser settlement) was expensed in 2014. In April 2016, the Company entered into a settlement agreement with the truck and equipment dealers' class, which was granted final approval by the MDL court in 2016, for an amount that is not material to the Company's results of operations. The class settlements do not resolve any claims of settlement class members who opt-out of the settlements or the unasserted claims of any purchasers of occupant safety systems who are not otherwise included in a settlement class, such as states and municipalities. Two direct purchasers opted out of the Company's direct purchaser class settlement and several individuals and one insurer (and its affiliated entities) opted-out of the end-payor class settlements, including the Company's settlement.

In September 2016, the insurer (and its affiliated entities) that opted out of the end-payor class settlement filed an antitrust lawsuit in the United States District Court for the Eastern District of Michigan, the venue for the MDL, against the Company and the other settling defendants in the end-payor class settlements. The defendants' motion to dismiss the complaint on various grounds is pending. The Company cannot predict or estimate the duration or ultimate outcome of this matter.

In March 2015, the Company, without admitting any liability, reached agreements regarding additional settlements to resolve certain direct purchasers' global (including U.S.) or non-U.S. antitrust claims that were not covered by the direct purchaser class settlement. The total amount of these additional settlements was \$81 million. Autoliv expensed during the first quarter of 2015 approximately \$77 million as a result of these additional settlements, net of existing amounts that had been accrued in 2014.

The remaining four antitrust class action lawsuits were filed in Canada (Sheridan Chevrolet Cadillac Ltd. et al. v. Autoliv, Inc. et al., filed in the Ontario Superior Court of Justice on January 18, 2013; M. Serge Asselin v. Autoliv, Inc. et al., filed in the Superior Court of Quebec on March 14, 2013; Ewert v. Autoliv, Inc. et al., filed in the Supreme Court of British Columbia on July 18, 2013; and Cindy Retallick and Jagjeet Singh Rajput v. Autoliv ASP, Inc. et al., filed in the Queen's Bench of the Judicial Center of Regina in the province of Saskatchewan on May 14, 2014) asserting claims on behalf of putative classes of both direct and indirect purchasers of occupant safety systems. In February 2017, the Company entered into, and the courts subsequently approved, a settlement agreement

with plaintiffs in three of the four class actions to settle on a nationwide class basis for an amount that is not material to the Company's results of operations. Settlement amounts were accrued for this matter during the period ended December 31, 2016 and final payment of the accrued amounts was made in 2017. This national settlement includes the claims of the putative members of the fourth class action.

PRODUCT WARRANTY, RECALLS AND INTELLECTUAL PROPERTY

Autoliv is exposed to various claims for damages and compensation if its products fail to perform as expected. Such claims can be made, and result in costs and other losses to the Company, even where the product is eventually found to have functioned properly. Where a product (actually or allegedly) fails to perform as expected, the Company may face warranty and recall claims. Where such (actual or alleged) failure results, or is alleged to result, in bodily injury and/or property damage, the Company may also face product liability and other claims. There can be no assurance that the Company will not experience material warranty, recall or product (or other) liability claims or losses in the future, or that the Company will not incur significant costs to defend against such claims. The Company may be required to participate in a recall involving its products. Each vehicle manufacturer has its own practices regarding product recalls and other product liability actions relating to its suppliers. As suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, vehicle manufacturers are increasingly looking to their suppliers for contribution when faced with recalls and product liability claims. Government safety regulators may also play a role in warranty and recall practices. A warranty, recall or product-liability claim brought against the Company in excess of its insurance may have a material adverse effect on the Company's business. Vehicle manufacturers are also increasingly requiring their outside suppliers to guarantee or warrant their products and bear the costs of repair and replacement of such products under new vehicle warranties. A vehicle manufacturer may attempt to hold the Company responsible for some, or all, of the repair or replacement costs of products when the product supplied did not perform as represented by us or expected by the customer. Accordingly, the future costs of warranty claims by the customers may be material. However, the Company believes its established reserves are adequate. Autoliv's warranty reserves are based upon the Company's best estimates of amounts necessary to settle future and existing claims. The Company regularly evaluates the adequacy of these reserves, and adjusts them when appropriate. However, the final amounts actually due related to these matters could differ materially from the Company's recorded estimates.

In addition, as vehicle manufacturers increasingly use global platforms and procedures, quality performance evaluations are also conducted on a global basis. Any one or more quality, warranty or other recall issue(s) (including those affecting few units and/or having a small financial impact) may cause a vehicle manufacturer to implement measures such as a temporary or prolonged suspension of new orders, which may have a material impact on the Company's results of operations.

The Company carries insurance for potential recall and product liability claims at coverage levels based on our prior claims experience. Autoliv cannot assure that the level of coverage will be sufficient to cover every possible claim that can arise in our businesses, now or in the future, or that such coverage always will be available should we, now or in the future, wish to extend, increase or otherwise adjust our insurance.

On June 29, 2016, the Company announced that it is cooperating with Toyota Motor Corp. in its recall of approximately 1.4 million vehicles equipped with a certain model of the Company's side curtain airbag (the "Toyota Recall"). Toyota has informed the Company that there have been eight reported incidents where a side curtain airbag has partially inflated without a deployment signal from the airbag control unit. The incidents have all occurred in parked, unoccupied vehicles and no personal injuries have been reported. The root cause analysis of the issue is ongoing. However, at this point in time the Company believes that a compromised manufacturing process at a sub-supplier may be a contributing factor and, as no incidents have been confirmed in vehicles produced by other OEMs with the same inflator produced during the same period as those recalled by Toyota, that vehicle-specific characteristics may also contribute to the issue. The sub-supplier's manufacturing process was changed in January 2012, and the vehicles now recalled by Toyota represent more than half of all inflators of the relevant type

manufactured before the sub-supplier process was changed.

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, the Company determined pursuant to ASC 450 that a loss with respect to this issue is reasonably possible. If the Company is obligated to indemnify Toyota for the costs associated with the Toyota Recall, the Company expects that its insurance will generally cover such costs and liabilities and estimates that the Company's loss, net of expected insurance recoveries, would be less than \$20 million. However, the ultimate costs of the Toyota Recall could be materially different. The main variables affecting the ultimate cost for the Company are: the determination of proportionate responsibility (if any) among Toyota, the Company, and any relevant sub-suppliers; the ultimate number of vehicles repaired; the cost of repair per vehicle; and the actual recoveries from sub-suppliers and insurers. The Company's insurance policies generally include coverage of the costs of a recall, although costs related to replacement parts are generally not covered.

In its products, the Company utilizes technologies which may be subject to intellectual property rights of third parties. While the Company does seek to procure the necessary rights to utilize intellectual property rights associated with its products, it may fail to do so. Where the Company so fails, the Company may be exposed to material claims from the owners of such rights. Where the Company has sold products which infringe upon such rights, its customers may be entitled to be indemnified by the Company for the claims they suffer as a result thereof. Such claims could be material.

The table in Note 11. Product-Related Liabilities above summarizes the change in the balance sheet position of the product related liabilities.

15. STOCK INCENTIVE PLAN

In February 2018, under the Company's long-term incentive (LTI) program, certain employees received restricted stock units (RSUs) with dividend equivalent rights. The RSUs were granted on February 13, 2018 and will vest on the third anniversary of the grant date, subject to the grantee's continued employment with the Company on the vesting date and acceleration of vesting in certain circumstances. The fair value of RSUs granted in 2018 is calculated by using the closing stock price on the grant date. The grant date fair value for the RSUs granted on February 13, 2018 was \$16.6 million.

In February 2017 and 2016, certain employees received 50% of their LTI grant value in the form of performance shares (PSs) and 50% in the form of RSUs.

The grantee may earn 0%-200% of the target number of PSs based on the Company's achievement of specified targets. The performance targets are: 1) the Company's compound annual growth rate (CAGR) for sales and 2) the Company's CAGR in earnings per share relative to an established benchmark growth rate. Each performance target is weighted 50% and results are measured at the end of the three-year performance period. Each PS represents a promise to transfer a share of the Company's common stock to the employee following completion of the performance period, provided that the performance goals mentioned above are met and provided, further, that the grantee remains employed through the performance period, subject to certain limited exceptions.

The RSUs granted on February 15, 2016 and May 9, 2016 vest in three approximately equal annual installments beginning on the first anniversary of the grant date, and the RSUs granted on February 19, 2017 will vest in one installment on the third anniversary of the grant date, in each case subject to the grantee's continued employment with the Company on each vesting date and acceleration of vesting in certain circumstances. The RSUs and PSs granted in 2017 entitle the grantee to receive dividend equivalents in the form of additional RSUs and PSs, respectively, subject to the same vesting conditions as the underlying RSUs and PSs, respectively.

The fair value of PSs and RSUs granted in 2017 is calculated by using the closing stock price on the grant date. For the RSUs and PSs granted in 2016 and earlier, the fair value of a RSU and a PS was estimated using the Black Scholes valuation model. The grant date fair value for the RSUs granted on February 19, 2017 was \$7.9 million. This cost will be amortized straight line over the vesting period. The grant date fair value of the PSs at February 19, 2017 was also \$7.9 million. For PSs, the grant date fair value of the number of awards expected to vest is based on the Company's best estimate of ultimate performance against the respective targets and is recognized as compensation cost on a straight-line basis over the requisite vesting period of the awards. The Company assesses the expected achievement levels at the end of each quarter. As of March 31, 2018, the Company believes it is probable that the performance conditions for the two grants will be met, although at a different level, and has accrued for the compensation expense accordingly. The cumulative effect of the change in estimate is recognized in the period of change as an adjustment to compensation expense.

The Company's non-employee directors historically received grants of fully-vested shares of the Company's common stock as payment of 50% of their annual base retainer, which shares were granted in arrears following a year of

service. The Company's non-employee directors received their last grant of fully-vested shares of the Company's common stock pursuant to the prior program on the date of the 2017 annual general meeting of stockholders (AGM). The grant date fair value for the fully-vested shares of the Company's common stock granted to the Company's non-employee directors on May 9, 2017 was \$1.2 million. Pursuant to the Company's new director compensation policy, commencing May 2017, the Company's non-employee directors receive RSUs as payment of 50% of their annual base retainer, which RSUs vest in one installment on the earlier of the date of the next AGM or the first anniversary of the grant date, in each case subject to the grantee's continued service as a non-employee director on the vesting date. The RSUs granted to the Company's non-employee directors entitle the grantee to receive dividend equivalents in the form of additional RSUs subject to the same vesting conditions as the underlying RSUs. The grant date fair value for the RSUs granted to the Company's non-employee directors on May 9, 2017 was \$1.0 million.

16. 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 diluted EPS reflects the potential dilution that could occur if common stock were issued for awards under the Company's Stock Incentive Plan.

For the three months ended March 31, 2018 and March 31, 2017, 0 shares and approximately 0.2 million shares of common stock, respectively, were not included in the computation of the diluted EPS, which could potentially dilute basic EPS in the future.

During the three months ended March 31, 2018 and March 31, 2017, approximately 118 thousand and 95 thousand shares of common stock, respectively, from the treasury stock have been utilized by the Company's Stock Incentive Plan.

The computation of basic and diluted EPS under the two-class method were as follows:

(In millions, except per share amounts)	Three months ended	
	March 31, 2018	March 31, 2017
Numerator:		
Basic and diluted:		
Net income attributable to controlling interest	\$ 126.7	\$ 143.9
Participating share awards with dividend equivalent rights	—	—
Net income available to common shareholders	126.7	143.9
Earnings allocated to participating share awards ¹⁾	—	(0.1)
Net income attributable to common shareholders	\$ 126.7	\$ 143.8
Denominator: ¹⁾		
Basic: Weighted average common stock	87.0	88.3
Add: Weighted average stock options/share awards	0.3	0.2
Diluted:	87.3	88.5
Basic EPS	\$ 1.46	\$ 1.63
Diluted EPS	\$ 1.45	\$ 1.62

¹⁾The Company's unvested RSUs and PSs, of which some include the right to receive non-forfeitable dividend equivalents, are considered participating securities. Calculations of EPS under the two-class method exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities. The related participating securities are similarly excluded from the denominator.

17. SEGMENT INFORMATION

The Company has two segments, Passive Safety and Electronics. Passive Safety includes the Company's airbag and seatbelt products and related expertise, and Electronics combines all of the Company's electronics resources and expertise in restraint control and sensing, brake systems and active safety.

Edgar Filing: AUTOLIV INC - Form 10-Q

Net sales, including Intersegment Sales	Three months ended	
	March 31, 2018	March 31, 2017
(Dollars in millions)		
Passive Safety	\$2,237.9	\$2,040.2
Electronics	593.6	583.3
Total segment sales	\$2,831.5	\$2,623.5
Corporate and other	4.0	1.4
Intersegment sales	(22.7)	(16.8)
Total net sales	\$2,812.8	\$2,608.1

Edgar Filing: AUTOLIV INC - Form 10-Q

	Three months ended	
	March 31, 2018	March 31, 2017
Income before Income Taxes		
(Dollars in millions)		
Passive Safety	\$225.3	\$204.9
Electronics	30.2	13.6
Segment operating income	\$255.5	\$218.5
Corporate and other	(30.1)	(0.9)
Interest and other non-operating expenses, net	(15.8)	(23.7)
(Loss) income from equity method investments	(12.7)	0.5
Income before income taxes	\$196.9	\$194.4

	Three months ended	
	March 31, 2018	March 31, 2017
Capital Expenditures		
(Dollars in millions)		
Passive Safety	\$109.4	\$101.1
Electronics	30.9	27.3
Corporate and other	0.7	1.1
Total capital expenditures	\$141.0	\$129.5

	Three months ended	
	March 31, 2018	March 31, 2017
Depreciation and Amortization		
(Dollars in millions)		
Passive Safety	\$82.6	\$73.1
Electronics	26.3	38.8
Corporate and other	0.9	2.9
Total depreciation and amortization	\$109.8	\$114.8

	As of	
	March 31, 2018	December 31, 2017
Segment Assets		
(Dollars in millions)		
Passive Safety	\$6,479.3	\$ 6,114.2
Electronics	1,803.7	1,588.4
Segment assets	\$8,283.0	\$ 7,702.6
Corporate and other ¹⁾	595.1	847.3
Total assets	\$8,878.1	\$ 8,549.9

¹⁾Corporate and other assets mainly consist of cash and cash equivalents, income tax and deferred tax assets and equity method investments.

18. SUBSEQUENT EVENTS

There were no reportable events subsequent to March 31, 2018.

25

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and accompanying Notes thereto included elsewhere herein and with our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the United States Securities and Exchange Commission (the "SEC") on February 22, 2018. Unless otherwise noted, all dollar amounts are in millions.

Autoliv, Inc. ("Autoliv" or the "Company") is a Delaware corporation with its principal executive offices in Stockholm, Sweden. It was created in 1997 from the merger of Autoliv AB ("AAB") and the automotive safety products business of Morton International, Inc. The Company functions as a holding corporation and owns two principal operating subsidiaries, AAB and Autoliv ASP, Inc.

Autoliv is a leading developer, manufacturer and supplier of automotive safety systems to the automotive industry with a broad range of product offerings, including passive safety systems and active safety systems. Passive safety systems are primarily meant to improve vehicle safety. Passive safety products include modules and components for passenger and driver-side airbags, side-impact airbag protection systems, seatbelts, steering wheels, whiplash protection systems and child seats, and components for such systems. Active safety systems are designed to assist the driver and ultimately to avoid any crashes by intervening before a collision can occur. Active safety products include automotive radars, night vision systems, cameras with driver assist systems, positioning systems, passive safety electronics, active seatbelts and brake control systems. Autoliv has combined all of Autoliv's electronics resources and expertise in both passive safety electronics and active safety systems into its Electronics segment while its Passive Safety segment includes all of its other passive safety systems.

Autoliv's filings with the SEC, including this Quarterly Report on Form 10-Q, annual reports on Form 10-K, current reports on Form 8-K, proxy statements and all of our other reports and statements, and amendments thereto, are available free of charge on our corporate website at www.autoliv.com as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC (i.e. generally the same day as the filing).

Shares of Autoliv common stock trade on the New York Stock Exchange under the symbol "ALV". Swedish Depository Receipts representing shares of Autoliv common stock ("SDRs") trade on NASDAQ Stockholm under the symbol "ALIV SDB", and options in SDRs trade on the same exchange under the name "Autoliv SDB". Options in Autoliv shares trade on NASDAQ OMX PHLX and NYSE Amex Options under the symbol "ALV". Our fiscal year ends on December 31.

EXECUTIVE OVERVIEW

The first quarter of 2018 was a solid quarter for Autoliv with record sales and record gross profit. Adjusted operating margin (non-U.S. GAAP measure) was in line with guidance and improved year-over-year for the second consecutive quarter. Operating cash flow is seasonally lower in the first quarter but the quarter was also effected by unfavorable timing effects. On a full year basis, excluding separation effects, operating cash flow is expected to be on the same level as last year.

Autoliv's planned spin-off of its Electronics segment is on track with trading in Veoneer, Inc. stock expected to begin early in the third quarter of 2018. Veoneer's leadership positions were announced on March 22, the internal operational separation of Autoliv and Veoneer was achieved on April 1, and Veoneer publicly filed its Form 10 registration statement with the SEC on April 26, 2018. Autoliv also announced Investor Days to be held in Stockholm and New York in late May and early June, respectively.

As Autoliv executes on its plans for the spin-off, the Company remains focused on its business development. The Company has good momentum in Active Safety, with both stronger than expected core Active Safety sales growth and a milestone ADAS order from Geely, which includes Zenuity software. Recent events in the ADAS and AD environment are a reminder of the importance of system validations and to always focus on having safety first in mind.

The product launches in Passive Safety are generally on track and its order intake continued to be on a high level in the quarter. These product launches and the Company's expectation of double digit sales growth in 2018 for Passive Safety supports the journey towards the 2020 targets. With quality as Autoliv's first priority, as always, the Company continues to execute on our spin-off plan while staying focused on saving more lives and creating value for its stakeholders.

Non-U.S. GAAP financial measures

Some of the following discussions refer to non-U.S. GAAP financial measures: see reconciliations for "Organic sales", "Operating working capital", "Net debt" and "Leverage ratio" provided below. Management believes that these non-U.S. GAAP financial measures provide supplemental information to investors regarding the performance of the Company's business and assist investors in analyzing trends in the Company's business. Additional descriptions regarding management's use of these financial measures are

included below. Investors should consider these non-U.S. GAAP financial measures in addition to, rather than as substitutes for, financial reporting measures prepared in accordance with U.S. GAAP. These historical non-U.S. GAAP financial measures have been identified as applicable in each section of this report with a tabular presentation reconciling them to the most directly comparable U.S. GAAP financial measures. It should be noted that these measures, as defined, may not be comparable to similarly titled measures used by other companies.

RESULTS OF OPERATIONS

Overview

The following table shows some of the key ratios management uses internally to analyze the Company's current and future financial performance and core operations as well as to identify trends in the Company's financial conditions and results of operations. We have provided this information to investors to assist in meaningful comparisons of past and present operating results and to assist in highlighting the results of ongoing core operations. These ratios are more fully explained below and should be read in conjunction with the consolidated financial statements in our Annual Report on Form 10-K and the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

KEY RATIOS

(Dollars in millions, except per share data)

	Three months ended or as of March 31	
	2018	2017
Total parent shareholders' equity per share	\$48.29	\$43.64
Operating working capital ¹⁾	876	666
Capital employed ⁶⁾	4,956	4,419
Net debt ¹⁾	614	312
Net debt to capitalization, % ¹¹⁾	12	7
Gross margin, % ²⁾	20.6	20.8
Operating margin, % ³⁾	8.0	8.3
Return on total equity, % ⁷⁾	11.5	14.2
Return on capital employed, % ⁸⁾	17.9	20.2
No. of employees at period-end ⁹⁾	63,756	61,663
Headcount at period-end ¹⁰⁾	73,568	70,580
Days receivables outstanding ⁴⁾	78	75
Days inventory outstanding ⁵⁾	31	30

¹⁾See tabular presentation reconciling this non-U.S. GAAP measure to U.S. GAAP below under the heading "Liquidity and Sources of Capital"

²⁾Gross profit relative to sales

³⁾Operating income relative to sales

⁴⁾Outstanding receivables relative to average daily sales

- 5) Outstanding inventory relative to average daily sales
- 6) Total equity and net debt
- 7) Net income relative to average total equity
- 8) Operating income and income from equity method investments, relative to average capital employed
- 9) Employees with a continuous employment agreement, recalculated to full time equivalent heads
- 10) Employees plus temporary, hourly personnel
- 11) Net debt in relation to capital employed

27

THREE MONTHS ENDED MARCH 31, 2018 COMPARED WITH THREE MONTHS ENDED MARCH 31, 2017

Market overview

Light Vehicle Production Development

Change vs. same quarter last year

	China	Japan	RoA	Americas	Europe	Total
LVP ¹⁾	(2.4)%	(0.1)%	1.1 %	(0.5)%	(0.1)%	(0.6)%

¹⁾Source: IHS April 17, 2018.

Consolidated Sales

The Company has substantial operations outside the U.S. and at the present time approximately 75% of its sales are denominated in currencies other than the U.S. dollar. This makes the Company and its performance in regions outside the U.S. sensitive to changes in U.S. dollar exchange rates when translated. The measure “Organic sales” presents the increase or decrease in the Company’s overall U.S. dollar net sales on a comparative basis, allowing separate discussion of the impacts by segment, of acquisitions/divestitures and exchange rate fluctuations and our ongoing core operations and results. The tabular reconciliations below presents the change in “Organic sales” reconciled to the change in the total net sales as can be derived from our unaudited condensed consolidated financial statements.

The following table shows the Company’s consolidated net sales by segment and other for the first quarter of 2018 and 2017, respectively:

Net sales, including Intersegment Sales (Dollars in millions)	Three months ended	
	March 31, 2018	March 31, 2017
Passive Safety	\$2,237.9	\$2,040.2
Electronics	593.6	583.3
Total segment sales	\$2,831.5	\$2,623.5
Corporate and other	4.0	1.4
Intersegment sales	(22.7)	(16.8)
Total net sales	\$2,812.8	\$2,608.1

Consolidated net sales increased by 7.8% compared to the same quarter of 2017 with an organic growth (non-U.S. GAAP measure) of 0.1%, and positive currency translation of 7.7%. The main organic growth drivers were India, Thailand, South America and Japan, which was almost offset by declines in North America and South Korea. Sales outperformed LVP (according to IHS) in South America and all regions in Asia except South Korea but underperformed marginally in Europe and North America.

Passive Safety Sales

Edgar Filing: AUTOLIV INC - Form 10-Q

Change vs. same quarter last year (Dollars in millions)	Q1 2018	Q1 2017	Reported (U.S. GAAP)	Currency effects ¹⁾	Organic change ³⁾
Airbag ²⁾	\$1,443.1	\$1,354.3	6.6 %	7.6 %	(1.0)%
Seatbelt ²⁾	797.6	687.1	16.1 %	9.7 %	6.4 %
Intersegment sales	(2.8)	(1.2)	—	—	—
Total Passive Safety Sales	\$2,237.9	\$2,040.2	9.7 %	8.3 %	1.4 %

¹⁾Effects from currency translations.

²⁾Including Corporate and other sales.

³⁾Non-U.S. GAAP measure, see reconciliation tables below.

Consolidated Passive Safety segment sales increased by 9.7% to \$2,238 million. Excluding positive currency translation effects, the organic sales growth (non-U.S. GAAP measure) was 1.4%, which can be compared to an LVP decline of 0.6% according to IHS.

Airbag sales declined organically (non-U.S. GAAP measures) by 1%. The main negative contributors to the organic sales decline were side airbags in Europe and Americas, while the main positive impact on organic sales growth was steering wheels in China.

Seatbelt sales grew organically (non-U.S. GAAP measure) in all regions, with the main growth drivers being Americas, Europe and India. The trend of higher sales for more advanced and higher value-added seatbelt systems continued globally.

Electronics Sales

Change vs. same quarter last year (Dollars in millions)	Q1 2018	Q1 2017	Reported (U.S. GAAP)		Currency effects ¹⁾		Organic Change ³⁾	
Restraint Control Systems ²⁾	\$245.5	\$254.7	(3.6	)%	6.3	%	(9.9)%
Active Safety	213.0	191.5	11.2	%	5.4	%	5.8	%
Brake Systems	113.6	120.5	(5.7	)%	4.6	%	(10.3)%
Intersegment sales	21.5	16.6	—		—		—	
Total Electronic Sales	\$593.6	\$583.3	1.8	%	5.9	%	(4.1)%

¹⁾Effects from currency translations.

²⁾Including Corporate and other sales.

³⁾Non-U.S. GAAP measure, see reconciliation tables below.

Consolidated Electronics segment sales increased by 1.8% to \$594 million compared to the same quarter 2017. Excluding positive currency translation effects, organic sales declined (non-U.S. GAAP measure) by 4.1% primarily driven by the phase out effect of certain models with Restraint Control Systems and Brake Systems, which more than offset the growth in Active Safety.

Restraint Control Systems sales (mainly airbag control modules and remote sensing units) declined organically (non-U.S. GAAP measure) largely due to Hyundai/Kia in South Korea and China, GM and Nissan in North America and Mazda in Japan.

The organic sales increase (non-U.S. GAAP measure) of close to 6% for Active Safety was positively impacted by almost 10% organic sales growth for core active safety products (radar and camera systems and ADAS ECUs), especially with models from Mercedes, Honda, FCA and PSA, partly offset by declines in positioning systems in North America as well as the ramp-down of the internally developed brake control system in China.

Brake Systems sales in the first quarter declined organically (non-U.S. GAAP measure), mainly to Honda in North America.

Sales by Segment/Product

Reconciliation of the change in “Organic sales” to U.S. GAAP financial measure

Components of net sales increase (decrease)

Three months ended March 31, 2018

(Dollars in millions)

Edgar Filing: AUTOLIV INC - Form 10-Q

The following tables show the organic change for the three months ended March 31, 2018 compared to the same period last year:

	Passive Safety		Electronics		Other and eliminations		Total	
	\$	%	\$	%	\$		\$	%
Reported change	\$197.7	9.7	\$10.3	1.8	\$ (3.3)	)	\$204.7	7.8
Currency effects ¹⁾	168.9	8.3	34.3	5.9	(2.4)	)	200.8	7.7
Organic change	\$28.8	1.4	\$(24.0)	(4.1)	\$ (0.9)	)	\$3.9	0.1

¹⁾Effects from currency translations.

	Airbag Products ²⁾		Seatbelt Products ²⁾		Restraint Control Systems		Active Safety ²⁾		Brake Systems		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Reported change	\$88.8	6.6	\$110.5	16.1	\$(9.2)	(3.6)	\$21.5	11.2	\$(6.9)	(5.7)	\$204.7	7.8
Currency effects ¹⁾	102.2	7.6	66.9	9.7	15.9	6.3	10.4	5.4	5.4	4.6	200.8	7.7
Organic change	\$(13.4)	(1.0)	\$43.6	6.4	\$(25.1)	(9.9)	\$11.1	5.8	\$(12.3)	(10.3)	\$3.9	0.1

¹⁾Effects from currency translations.

²⁾Including Corporate and other sales.

Sales by Region

The tables below reconcile the reported change by geographic region to organic change for the three months ended March 31, 2018 compared to the same period last year:

	Sales (MUSD)	Reported change (U.S. GAAP)		Currency effects ¹⁾		Organic change ²⁾	
Asia	\$1,004.1	9.6	%	7.1	%	2.5	%
Whereof: China	\$467.8	10.5	%	8.4	%	2.1	%
Japan	\$284.4	8.7	%	5.1	%	3.6	%
Rest of Asia	\$251.9	9.1	%	7.2	%	1.9	%
Americas	\$860.8	(0.3)	)%	1.5	%	(1.8))%
Europe	\$947.9	14.4	%	14.8	%	(0.4))%
Total	\$2,812.8	7.8	%	7.7	%	0.1	%

¹⁾Effects from currency translations.

²⁾Non-U.S. GAAP measure, see reconciliation table below.

Reconciliation of the change in “Organic sales” to U.S. GAAP financial measure

Components of net sales increase (decrease)

Three months ended March 31, 2018

(Dollars in millions)

	China		Japan		Rest of Asia		Americas		Europe		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Reported change	\$44.3	10.5	\$22.8	8.7	\$21.0	9.1	\$(2.9)	(0.3)	\$119.5	14.4	\$204.7	7.8
Currency effects ¹⁾	35.6	8.4	13.3	5.1	16.6	7.2	12.3	1.5	123.0	14.8	200.8	7.7
Organic change	\$8.7	2.1	\$9.5	3.6	\$4.4	1.9	\$(15.2)	(1.8)	\$(3.5)	(0.4)	\$3.9	0.1

¹⁾Effects from currency translations.

The organic sales growth (non-U.S. GAAP measure) of 0.1% in the quarter was mainly impacted by the organic growth in India, Thailand, South America and Japan, which was almost offset by declines in North America and South

Korea. The inflator replacement sales impacted organic growth positively by about 0.2pp. LVP declined by 0.6%, according to IHS.

The organic sales increase (non-U.S. GAAP measure) from Autoliv's companies in China was mainly driven by the domestic OEMs, primarily with Great Wall and Geely.

Organic sales growth (non-U.S. GAAP measure) from Autoliv's companies in Japan was primarily driven by Honda with favorable model transitions and additional Brake System sales.

Organic sales growth (non-U.S. GAAP measure) from Autoliv's companies in the Rest of Asia was driven by strong sales development in India, mainly to Suzuki, and in Thailand, mainly to Japanese OEMs, specifically with side airbags to Mitsubishi and seatbelts to Nissan. This was partly offset by organic sales decline (non-U.S. GAAP measure) in South Korea, mainly to Hyundai/Kia.

Sales from Autoliv's companies in Americas declined organically (non-U.S. GAAP measure) by 1.8%. North America declined by 2.9% organically (non-U.S. GAAP measure) (compared to an LVP decline of 2.7%, according to IHS), driven primarily by unfavorable platform shifts with GM and lower Brake Systems sales to Honda. Higher inflator replacement sales added about 0.7pp to organic growth. South America grew organically (non-U.S. GAAP measure) by 38.7%.

Sales from Autoliv's companies in Europe declined organically (non-U.S. GAAP measure) by 0.4%. This was mainly driven by JLR, PSA, Renault/Nissan/Mitsubishi and FCA. The decline was partly offset by Daimler, VW and Volvo.

Earnings

(Dollars in millions, except per share data)	Three months ended		Change	
	March 31, 2018	March 31, 2017		
Net Sales	\$2,812.8	\$2,608.1	7.8	%
Gross profit	579.2	542.5	6.8	%
% of sales	20.6 %	20.8 %	(0.2)	)pp
S,G&A	(126.8)	(120.3)	5.4	%
% of sales	(4.5)%	(4.6)%	0.1	pp
R,D&E net	(213.7)	(192.7)	10.9	%
% of sales	(7.6)%	(7.4)%	(0.2)	)pp
Amortization of intangibles	(8.1)	(21.8)	(62.8))%
% of sales	(0.3)%	(0.8)%	0.5	pp
Other income (expense), net	(5.2)	9.9	(152.5))%
% of sales	(0.2)%	0.4 %	(0.6)	)pp
Operating income	225.4	217.6	3.6	%
% of sales	8.0 %	8.3 %	(0.3)	)pp
Income before taxes	196.9	194.4	1.3	%
Tax rate	37.8 %	26.9 %	10.9	pp
Net income	122.4	142.1	(13.9))%
Net income attributable to controlling interest	126.7	143.9	(12.0))%
Earnings per share, diluted ¹⁾	1.45	1.62	(10.5))%

¹⁾ Assuming dilution and net of treasury shares. Participating share awards with right to receive dividend equivalents are under the two class method excluded from the EPS calculation.

The gross profit for the first quarter of 2018 was \$37 million higher than in the same quarter of 2017. The gross margin decreased by 0.2pp to 20.6% compared to the same quarter in 2017, mainly as a result of unfavorable currency effects, costs supporting the near-term growth and negative impact from raw material prices, which more than offset an improved operational performance.

Selling, General and Administrative (S,G&A) expenses increased by \$7 million compared to the same quarter of the previous year, but remained virtually unchanged in relation to sales.

Compared to the same quarter of the previous year, Research, Development & Engineering (R,D&E) expenses, net, increased by \$21 million, or by 11%, amounting to 7.6% of sales compared to 7.4% of sales in the first quarter of 2017 as we continue to invest in technology, competence and capacity.

Amortization of intangibles decreased by \$14 million compared to the same quarter of the prior year as the amortization in the first quarter of 2017 included an impairment charge for a customer contract.

Other income (expense), net declined by \$15 million compared to the same quarter of the previous year, primarily due to costs related to separation of our business segments.

Operating income increased by \$8 million to \$225 million, or 8.0% of sales, corresponding to a reported operating margin of 8.0% of sales, compared to 8.3% of sales in the same quarter of 2017.

Income before taxes increased by \$3 million compared to the same quarter of the previous year, as the higher operating income, lower interest expense and lower non-operating items, net, were almost offset by our share of the equity method loss in Zenuity of about \$14 million (for more details, see Consolidated Statements of Net Income above). Net income attributable to controlling interest was about \$127 million, a decrease of \$17 million as compared to the first quarter of 2017.

The effective tax rate, including discrete tax items was 37.8% compared to 26.9% in the same quarter of 2017. The tax rate in the first quarter of 2018, excluding discrete tax items was 34.0%, compared to 27.2% in the same quarter in 2017. Compared to the first quarter of 2017, the tax rate in the first quarter of 2018 was negatively impacted by the non-deductible portion of the pre-spin-off advisor costs, two new international provisions provided in the new U.S. tax law (i.e., GILTI and BEAT) and losses with no tax benefit.

Earnings per share (EPS) assuming dilution decreased by around 11% to \$1.45 compared to \$1.62 for the same period one year ago. The main negative items affecting EPS were 20 cents from higher tax rate, 16 cents from our share of the equity method loss in Zenuity offset by 11 cents from currency translation effects and 5 cents from other non-operating items.

The weighted average number of shares outstanding assuming dilution was 87.3 million compared to 88.5 million in the first quarter of 2017.

Segment Performance

The Company reports its results in two segments, Passive Safety and Electronics. Corporate sales and income, capital expenditures and depreciation and amortization for the reportable segments can be found in Note 17. Segment Information in this Form 10-Q.

Passive Safety

(Dollars in millions)	Three months ended		Change		Organic change ¹⁾	
	March 31, 2018	March 31, 2017				
Passive Safety sales	\$2,237.9	\$2,040.2	9.7	%	1.4	%
Passive Safety operating income	225.3	204.9	10.0	%		
Passive Safety operating margin	10.1	% 10.0	0.1	%	pp	
Passive Safety Headcount	65,554	63,262	3.6	%		

¹⁾Non-U.S. GAAP measure, see reconciliation table above.

Compared to the same period last year, operating income increased by 10%, in line with the mainly currency related sales increase. The operating margin was positively impacted by higher sales and improved operational performance, while costs supporting the near term growth, unfavorable currency effects and increased raw material costs had a negative effect. 82% of the increase in headcount was within direct production.

The first quarter Passive Safety organic sales growth (non-U.S. GAAP measure) of 1.4% was 2pp stronger than the LVP decline of 0.6% (all LVP are according to IHS), and was positively impacted by new product launches, in part offset by unfavorable model mix.

The Company's Passive Safety sales in Europe declined organically (non-U.S. GAAP measure) by 1.6% in a virtually unchanged LVP market. In North America, the Company's Passive Safety sales declined by 0.4% organically, compared to the LVP decline of 2.7%. This outperformance was driven by the new product launches, which on a Passive Safety group level added around 4pp to the Company's Passive Safety organic sales growth. The Company's Passive Safety sales in China increased by 5% organically, despite LVP declining by 2.4%.

The Company expects the contribution to its Passive Safety organic growth in the second quarter 2018 to increase and for the full year of 2018, the Company expects around 7% contribution to its organic growth from these launches, supporting its indication for the full year 2018 of more than 10% organic sales growth.

Order intake in the first quarter continued to be at a high level. Despite the continued strong order intake, R,D&E expenses, net, in relation to sales was slightly lower than a year earlier.

The Company remains focused on managing the launches within the targeted cost and quality parameters, while preparing for a stand-alone future where it will focus even more on developing its business towards the 2020 targets and beyond.

Electronics

(Dollars in millions)	Three months ended		Change	Organic change ¹⁾
	March 31, 2018	March 31, 2017		
Electronics sales	\$ 593.6	\$ 583.3	1.8 %	(4.1)%
Electronics operating income	30.2	13.6	122.1 %	
Electronics operating margin	5.1 %	2.3 %	2.8 pp	
Electronics Headcount	7,567	6,933	9.1 %	

¹⁾Non-U.S. GAAP measure, see reconciliation table above.

The operating income increased by \$17 million and the operating margin increased by 2.8pp. The increase was mainly due to lower amortization of intangibles, as the amortizations in the first quarter of 2017 included an impairment charge for a customer contract. Operating income in first quarter 2018 was positively impacted by the release of an earn-out liability. Headcount increased by 634, including an increase in R,D&E of 747.

We are pleased that we generated almost double-digit growth in our core active safety sales in the quarter. We had a strong development of sales of ADAS ECUs and radar products to Mercedes E-class, of radar products to Mercedes C-class and Honda Accord and Odyssey and of vision products to Mercedes S-class.

Furthermore, we are proud of the milestone ADAS system order from Geely we announced in March 2018. Autoliv together with our software joint venture Zenuity was selected to develop and produce the first advanced driver assistance system for Geely, which includes ADAS ECUs and software, radar systems as well as mono vision and stereo vision camera systems. We continued to have a strong order intake also in RCS in the quarter.

We continue to invest in our competitiveness in Active Safety by building a stronger position in the ADAS environment through deeper cooperation with our partners. Our focus is on winning new customers, developing the strong order book built in the past two years and preparing for a future as a stand-alone company.

LIQUIDITY AND SOURCES OF CAPITAL

Cash flow from operations amounted to \$16 million compared to \$149 million in the same quarter of 2017. The decrease was primarily related to unfavorable timing and geographical effects in operating working capital.

Capital expenditures, net, of \$139 million were \$30 million more than depreciation and amortization expense during the quarter and \$18 million more than capital expenditures, net during the first quarter of 2017. Acquisitions of businesses and other, net, amounted to around \$73 million mainly due to our contribution of SEK 600 million (\$71 million) into our joint venture Zenuity, supporting its future development.

Net cash provided by (used in) financing activities amounted to \$18 million and (\$45) million for the first quarter ended 2018 and 2017, respectively. The increase in net cash provided by financing activities can be attributed to short-debt funding.

The Company uses the non-U.S. GAAP measure "Operating working capital," as defined in the table below, in its communications with investors and for management's review of the development of the working capital cash generation from operations. The reconciling items used to derive this measure are, by contrast, managed as part of the Company's overall cash and debt management, but they are not part of the responsibilities of day-to-day operations' management.

Reconciliation of "Operating working capital" to U.S. GAAP financial measure

(Dollars in millions)

	March 31, 2018	December 31, 2017
Total current assets	\$4,341.9	\$ 4,204.7
Total current liabilities	(2,809.5)	(2,654.6)
Working capital	1,532.4	1,550.1
Cash and cash equivalents	(793.9)	(959.5)
Short-term debt	84.0	19.7
Derivative liability and (asset), current	(0.9)	(1.1)
Dividends payable	53.9	52.2
Operating working capital	\$875.5	\$ 661.4

Working capital decreased to 14% of sales compared to 16% on March 31, 2017 while operating working capital (non-U.S. GAAP measure) as a percentage of sales was 8.3%, up from 6.5% on March 31, 2017. The increase was mainly due to currency fluctuations, inventory build-up for product launches as well as unfavorable timing and geographical effects. The Company targets that operating working capital in relation to the last 12-month sales should not exceed 10%.

Accounts receivable in relation to sales was 78 days outstanding, compared to 72 days outstanding on December 31, 2017 and 75 days on March 31, 2017. Days inventory outstanding was 31 days, compared to 32 days on December 31, 2017, and 30 days on March 31, 2017.

As part of efficiently managing the Company's overall cost of funds, the Company routinely enters into "debt-related derivatives" (DRD) as part of its debt management. Creditors and credit rating agencies use net debt adjusted for DRD in their analyses of the Company's debt. DRD are fair value adjustments to the carrying value of the underlying debt. Included in the DRD is also the unamortized fair value adjustment related to a discontinued fair value hedge 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.

Reconciliation of "Net debt" to U.S. GAAP financial measure

(Dollars in millions)

	March 31, 2018	December 31, 2017
Short-term debt	\$84.0	\$ 19.7
Long-term debt	1,325.2	1,321.7
Total debt	1,409.2	1,341.4
Cash and cash equivalents	(793.9)	(959.5)
Debt-related equivalents	(0.9)	(2.5)
Net debt	\$614.4	\$ 379.4

The Company's net debt position (non-U.S. GAAP measure) increased by \$235 million during the quarter to \$614 million at March 31, 2018, mainly due to the \$139 million in capital expenditures, net, \$73 million in acquisitions of businesses and other, net and \$52 million in dividends paid not being offset by cash flow from operations of \$16 million. Gross interest-bearing debt increased by \$68 million to \$1,409 million.

The non-U.S. GAAP measure net debt is also used in the non-U.S. GAAP measure "Leverage ratio". Management uses this measure 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. For details on leverage ratio refer to the table.

Calculation of “Leverage ratio”

(Dollars in millions)

	March 31, 2018	December 31, 2017
Net debt ¹⁾	\$614.4	\$ 379.4
Pension liabilities	231.3	225.9
Debt per the Policy	\$845.7	\$ 605.3
Net income ²⁾	\$283.3	\$ 303.0
Income taxes ²⁾	225.7	203.5
Interest expense, net ^{2,3)}	51.6	53.8
Depreciation and amortization of intangibles ^{2,4)}	655.0	660.0
EBITDA per the Policy	\$1,215.6	\$ 1,220.3
Leverage ratio	0.7	0.5

¹⁾Net debt is short- and long-term debt less cash and cash equivalents and debt-related derivatives.

²⁾Latest 12-months.

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

⁴⁾Including impairment write-offs, if any.

Autoliv’s policy is to maintain a leverage ratio (non-U.S. GAAP measure) commensurate with a strong investment grade credit rating. The Company measures its leverage ratio as net debt (non-U.S. GAAP measure) adjusted for pension liabilities in relation to EBITDA (earnings before interest, taxes, depreciation and amortization). The long-term target is to maintain a leverage ratio of around 1 within a range of 0.5 to 1.5. As of March 31, 2018, the Company had a leverage ratio of 0.7.

During the quarter, total equity increased by \$173 million to \$4,342 million, mainly due to \$122 million net income and positive currency translation of \$91 million. This was partly offset by \$54 million in dividends. Total parent shareholders’ equity was \$4,206 million corresponding to \$48.29 per share.

Headcount

	March 31, 2018	December 31, 2017	March 31, 2017
Headcount	73,568	72,034	70,580
Whereof:			
Direct workers in manufacturing	67	% 67	% 67
Best cost countries	75	% 75	% 75
Temporary personnel	13	% 13	% 13

Compared to December 31, 2017, total headcount (permanent employees and temporary personnel) increased by 1,534, with 86% of the increase in direct production. Compared to a year ago, headcount increased by 2,988, with 61% of the increase in direct production and 34% of the increase in R,D&E.

Outlook

The planned spin-off of the Electronics business with trading in Veoneer stock expected to begin early in the third quarter of 2018 will lead to changes in guidance and indication principles. After completion of the spin-off, both Veoneer and Autoliv will communicate their respective updated guidance and indication principles. For now, we repeat the full year indications by segments from our fourth quarter 2017 report, but do not provide any guidance for the second quarter nor any indication on Autoliv group level for the full year.

For the Passive Safety segment, mainly based on our customer call-offs and light vehicle production outlook according to IHS, the indication for organic sales growth for the full year is more than 10%. Currency translations are expected to have a combined positive effect of around 4%, resulting in a consolidated sales increase of around 14%. The indication for the underlying profitability for the segment is an increase compared to full year 2017.

For the Electronics segment (within Autoliv), the indication is for organic sales growth for the full year to be around negative 3% as growth in Active Safety is more than offset by declines in Restraint Control Systems (RCS) and Brake Systems. Currency translations are expected to have a positive effect of around 3%, resulting in virtually unchanged consolidated sales. The indication for the underlying profitability for the segment is a decrease compared to full year 2017.

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.

Spin-Off Update

On December 12, 2017, Autoliv announced that its Board of Directors had concluded its strategic review and decided to prepare for a spin-off of its Electronics business segment, creating a new, independent publicly traded company. Through the spin-off, additional value for shareholders and other stakeholders will be created by the ability to better address two distinct, growing markets with leading product offerings. The spin-off is expected to occur in time for trading in Veoneer to begin early in the third quarter of 2018.

The spin-off will be effected by a payment of a dividend of the common stock of Veoneer on a pro rata basis to the stockholders of Autoliv. The intent is for the spin-off to be tax free to Autoliv and to stockholders in the U.S. and Sweden.

On March 22, 2018, Autoliv announced the leaders for Veoneer and Autoliv following the completion of the spin-off. Jan Carlson will be the Chief Executive Officer of Veoneer following the completion of the spin-off. Mr. Carlson assumed this role within the Veoneer business segment on April 1, 2018 while continuing to serve in his role of Chairman, President and CEO of Autoliv until the spin-off. After completion of the spin-off, Mikael Bratt will assume the role of Chief Executive Officer of Autoliv, which will consist of Autoliv's Passive Safety business segment. Mats Backman will continue in his role as Chief Financial Officer of Autoliv while Mathias Hermanson will be Chief Financial Officer of Veoneer. Johan Löfvenholm will be Chief Operating Officer of Veoneer, following the completion of the spin-off.

Thomas Jönsson will be Head of Communications & Investor Relations for Veoneer and Ray Pekar will be Vice President Investor Relations while Anders Trapp will continue as Head of Investor Relations for Autoliv.

The spin-off is progressing according to plan and on April 26 Veoneer publicly filed a registration on Form 10 with the SEC in the US, containing business descriptions and historical financial data for Veoneer. In connection with the spin-off of Veoneer, the initial capitalization of Veoneer is expected to be provided through a capital injection from Autoliv and will provide up to \$1.2 billion of cash liquidity (including existing cash). Autoliv intends to raise the majority of the needed capital through debt financing, while the remaining amount of the capital injection will be through cash on hand. Further information can be found at autoliv.com.

On April 27, 2018, S&P Global affirmed its A- rating on Autoliv's long term debt, changing the outlook from stable to negative.

New Revenue Recognition Standard

The Company adopted ASU 2014-09 - Revenue from Contracts with Customers, effective January 1, 2018. The adoption of the new revenue standard did not have a material impact on the Company's net sales, net income, or balance sheet. For further information see Note 2. New Accounting Standards and Note 3. Revenue to our condensed consolidated financial statements.

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.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of March 31, 2018, the Company's future contractual obligations have not changed materially from the amounts reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 22, 2018.

OTHER RECENT EVENTS

Launches in the First Quarter of 2018

Ram Truck 1500

Driver airbag with steering wheel, passenger airbag and side airbag.

Acura RDX

Passenger airbag, knee airbag, side airbag, inflatable curtain and seatbelt with pretensioner.

Peugeot 508

Night vision system, inflatable curtain, side airbag, seatbelt with pretensioner and pedestrian safety.

Mercedes Sprinter

Driver airbag with steering wheel, passenger airbag, side airbag, inflatable curtain, seatbelt with pretensioner and mono vision system.

Nissan Terra

Knee airbag, inflatable curtain, side airbag, seatbelt with pretensioner.

Hyundai Santa Fe

Inflatable curtain, side airbag and restraint control system.

VW Touareg

Night vision system, driver airbag with steering wheel, seatbelt and cable cutters.

Mercedes A-Class

Radar, mono vision system, ADAS ECU, stereo vision system, pyro safety switch.

Great Wall Haval H4

Driver airbag with steering wheel, passenger airbag, side airbag, inflatable curtain, seatbelt with pretensioner and restraint control system.

Other Events

On February 26, 2018, Autoliv announced that it was honored with the prestigious Global Contribution Award, Toyota's highest award for suppliers. The award is given in recognition of companies that have outstanding performance in the past year in terms of superior quality, delivery, technology, innovation and cost improvement performance.

On March 2, 2018, Autoliv announced that it has added two new independent directors to its Board of Directors: Mr. Hasse Johansson and Mr. Thaddeus "Ted" Senko. Mr. Johansson currently serves on the boards of Swedish public companies Electrolux AB and DevPort AB. Between 2001 and 2009, Mr. Johansson served as the Executive Vice President of Research and Development at Scania, a major manufacturer of commercial vehicles. Mr. Senko has an extensive career at KPMG LLP providing enterprise risk management, compliance and audit services to various public companies.

Dividend

On February 14, 2018, the Company declared a quarterly dividend to shareholders of 62 cents per share for the second quarter of 2018, with the following payment schedule:

Ex-date (common stock)	May 22, 2018
Ex-date (SDRs)	May 22, 2018
Record Date	May 23, 2018
Payment Date	June 7, 2018

Next Report

Autoliv intends to publish the quarterly earnings report for the second quarter of 2018 on Friday, July 27, 2018.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2018, there have been no material changes to the information related to quantitative and qualitative disclosures about market risk that was provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 22, 2018. The following provides additional clarification regarding why a one percentage point interest rate increase would reduce net interest expense, considering the Company's debt and cash and cash equivalent balances as of December 31, 2017. The Company's capital structure as of December 31, 2017 included gross fixed-rate debt of \$1,321 million out of total debt of \$1,341 million. Thus, a change in the interest rate environment (i.e., an increase in baseline rates) would not have a notable impact on the Company's interest expense. As of December 31, 2017, the Company had \$960 million in cash and cash equivalents that were subject to a floating interest rate. The Company calculated approximately \$900 million of the \$960 million would be affected if interest rates increased and therefore concluded that an interest rate increase would have a positive impact on our interest income. Taking the cash and cash equivalents level of \$900 million (which is primarily subject to floating interest rates) minus the portion of local debt carrying floating interest rates, the Company estimated that a one-percentage point interest rate increase would increase interest income and thereby reduce net interest expense by approximately \$9 million, both in 2018 and 2019.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

An evaluation has been carried out, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

(b) Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

For a description of our material legal proceedings, see Note 14. Contingent Liabilities – Legal Proceedings to our unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

As of March 31, 2018, there have been no material changes to the risk factors that were previously disclosed in Item 1A in the Company's Form 10-K for the year ended December 31, 2017 filed with the SEC on February 22, 2018.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Stock repurchase program

During the quarter ended March 31, 2018, Autoliv made no stock repurchases. The Company is authorized to purchase up to 47.5 million shares of common stock under its stock repurchase program, which was first approved by the board of directors of the Company on May 9, 2000. Under the existing authorization, another 2,986,288 shares may be repurchased. The stock repurchase program does not have an expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit

No. Description

- 3.1 Autoliv's Restated Certificate of Incorporation, as amended, incorporated herein by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 22, 2015).
- 3.2 Autoliv's Third Restated By-Laws incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K (File No. 001-12933, filing date December 18, 2015).
- 4.1 Indenture, dated March 30, 2009, between Autoliv, Inc. and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 to Autoliv's Registration Statement on Form 8-A (File No. 001-12933, filing date March 30, 2009).
- 4.2 Second Supplemental Indenture (including Form of Global Note), dated March 15, 2012, between Autoliv, Inc. and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 to the Current Report on Form 8-K (File No. 001-12933, filing date March 15, 2012).
- 4.3 Form of Note Purchase and Guaranty Agreement dated April 23, 2014, among Autoliv ASP, Inc., Autoliv, Inc. and the purchasers named therein, incorporated herein by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 25, 2014).
- 4.4 General Terms and Conditions for Swedish Depository Receipts in Autoliv, Inc. representing common shares in Autoliv, Inc., effective as of March 23, 2016, with Skandinaviska Enskilda Banken AB (publ) serving as custodian, incorporated herein by reference to Exhibit 4.4 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 29, 2016).
- 31.1 * Certification of the Chief Executive Officer of Autoliv, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 * Certification of the Chief Financial Officer of Autoliv, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1* Certification of the Chief Executive Officer of Autoliv, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification of the Chief Financial Officer of Autoliv, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101* The following financial information from the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2018, formatted in XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Statements of Income; (ii) the Consolidated Statements of Comprehensive Income; (iii) the Condensed Consolidated Balance Sheets; (iv) the Condensed Consolidated Statements of Cash Flows; and (v) the Notes to the Condensed Consolidated Financial Statements.

* Filed herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: April 27, 2018

AUTOLIV, INC.

(Registrant)

By: /s/ Mats Backman
Mats Backman
Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)