

AUTOLIV INC  
Form 10-Q  
July 21, 2017

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 June 30, 2017

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 B, 7<sup>th</sup> Floor,  
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 July 17, 2017, there were 86,913,622 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, management’s examination of historical operating trends and data as well as estimates of future sales, operating margin, cash flow, effective tax rate or other future operating performance or financial results 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 requirements 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” in our Form 10-K and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report for the year ended December 31, 2016 filed with the SEC on February 23, 2017.

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>Recently Issued Accounting Pronouncements</u>	8
3	<u>Business Combinations</u>	11
4	<u>Fair Value Measurement</u>	12
5	<u>Income Taxes</u>	15
6	<u>Inventories</u>	15
7	<u>Equity Method Investments</u>	16
8	<u>Goodwill</u>	16
9	<u>Restructuring</u>	16
10	<u>Product-Related Liabilities</u>	17
11	<u>Retirement Plan</u>	18
12	<u>Controlling and Non-Controlling Interest</u>	19
13	<u>Contingent Liabilities</u>	20
14	<u>Stock Incentive Plan</u>	23
15	<u>Earnings per share</u>	23
16	<u>Segment Information</u>	24
17	<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>	43
--	---------------------------------------------------------------------------	----

	<u>ITEM 4. CONTROLS AND PROCEDURES</u>	43
--	----------------------------------------	----

	<u>PART II - OTHER INFORMATION</u>	44
--	------------------------------------	----

	<u>ITEM 1. LEGAL PROCEEDINGS</u>	44
--	----------------------------------	----

	<u>ITEM 1A. RISK FACTORS</u>	44
--	------------------------------	----

	<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	44
--	----------------------------------------------------------------------------	----

	<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	44
--	------------------------------------------------	----

	<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	44
--	----------------------------------------	----

	<u>ITEM 5. OTHER INFORMATION</u>	44
--	----------------------------------	----



## CONSOLIDATED STATEMENTS OF NET INCOME (UNAUDITED)

(Dollars in millions, except per share data)

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net sales	\$2,544.9	\$2,578.5	\$5,153.0	\$5,008.5
Cost of sales	(2,009.4)	(2,052.0)	(4,075.0)	(3,981.0)
Gross profit	535.5	526.5	1,078.0	1,027.5
Selling, general and administrative expenses	(124.7 )	(120.3 )	(245.0 )	(233.4 )
Research, development and engineering expenses, net	(195.5 )	(176.4 )	(388.2 )	(335.2 )
Amortization of intangibles	(7.4 )	(11.9 )	(29.2 )	(19.8 )
Other income (expense), net	8.5	(5.2 )	18.4	(21.2 )
Operating income	216.4	212.7	434.0	417.9
(Loss) income from equity method investments	(7.6 )	0.1	(7.1 )	0.7
Interest income	1.8	0.9	3.8	2.1
Interest expense	(15.1 )	(15.6 )	(31.3 )	(31.1 )
Other non-operating items, net	(5.3 )	2.3	(14.8 )	1.1
Income before income taxes	190.2	200.4	384.6	390.7
Income tax expense	(61.9 )	(52.0 )	(114.2 )	(108.8 )
Net income	\$128.3	\$148.4	\$270.4	\$281.9
Less: Net (loss) income attributable to non-controlling interest	(1.5 )	0.0	(3.3 )	0.3
Net income attributable to controlling interest	\$129.8	\$148.4	\$273.7	\$281.6
Net earnings per share – basic <sup>1)</sup>	\$1.48	\$1.68	\$3.11	\$3.19
Net earnings per share – diluted <sup>1)</sup>	\$1.47	\$1.68	\$3.10	\$3.19
Weighted average number of shares outstanding, net of				
treasury shares (in millions)	87.9	88.2	88.1	88.2
Weighted average number of shares outstanding, assuming				
dilution and net of treasury shares (in millions)	88.1	88.4	88.3	88.4
Cash dividend per share – declared	\$0.60	\$0.58	\$1.20	\$1.16
Cash dividend per share – paid	\$0.60	\$0.58	\$1.18	\$1.14

<sup>1)</sup>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 15).

See “Notes to unaudited condensed consolidated financial statements.”





## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in millions)

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2017	2016	2017	2016
Net income	\$ 128.3	\$ 148.4	\$ 270.4	\$ 281.9
Other comprehensive income (loss) before tax:				
Change in cumulative translation adjustments	85.5	(21.2 )	174.0	38.6
Net change in cash flow hedges	(3.9 )	5.0	(6.6 )	3.5
Net change in unrealized components of defined benefit plans	1.9	0.9	3.6	2.0
Other comprehensive income (loss), before tax	83.5	(15.3 )	171.0	44.1
Tax effect allocated to other comprehensive income (loss)	(0.6 )	(1.4 )	(1.1 )	(1.4 )
Other comprehensive income (loss), net of tax	82.9	(16.7 )	169.9	42.7
Comprehensive income	\$ 211.2	\$ 131.7	\$ 440.3	\$ 324.6
Less: Comprehensive (loss) income attributable to non-controlling				
interest	(0.6 )	9.5	(3.3 )	10.0
Comprehensive income attributable to controlling interest	\$ 211.8	\$ 122.2	\$ 443.6	\$ 314.6

See "Notes to unaudited condensed consolidated financial statements."

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	As of June 30, 2017	December 31, (unaudited) 2016
<b>Assets</b>		
Cash and cash equivalents	\$922.5	\$ 1,226.7
Receivables, net	2,106.1	1,960.1
Inventories, net	798.5	773.4
Other current assets	220.4	180.7
Total current assets	4,047.5	4,140.9
Property, plant and equipment, net	1,812.4	1,658.1
Investments and other non-current assets	506.7	352.2
Goodwill	1,901.1	1,870.7
Intangible assets, net	176.0	212.5
Total assets	\$8,443.7	\$ 8,234.4
<b>Liabilities and equity</b>		
Short-term debt	\$189.1	\$ 219.8
Accounts payable	1,193.4	1,196.5
Accrued expenses	951.5	921.0
Other current liabilities	288.6	260.3
Total current liabilities	2,622.6	2,597.6
Long-term debt	1,323.1	1,323.6
Pension liability	250.0	237.5
Other non-current liabilities	135.7	149.3
Total non-current liabilities	1,708.8	1,710.4
Common stock	102.8	102.8
Additional paid-in capital	1,329.3	1,329.3
Retained earnings	4,029.9	3,861.8
Accumulated other comprehensive loss	(402.3 )	(565.5 )
Treasury stock	(1,200.0)	(1,051.2 )
Total controlling interest	3,859.7	3,677.2
Non-controlling interest	252.6	249.2
Total equity	4,112.3	3,926.4
Total liabilities and equity	\$8,443.7	\$ 8,234.4

See "Notes to unaudited condensed consolidated financial statements."



## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in millions)

	Six months ended	
	June 30,	June 30,
	2017	2016
<b>Operating activities</b>		
Net income	\$270.4	\$281.9
Depreciation and amortization	214.4	181.8
Other, net	(16.4 )	3.5
Changes in operating assets and liabilities	(139.8 )	(164.1 )
Net cash provided by operating activities	328.6	303.1
<b>Investing activities</b>		
Expenditures for property, plant and equipment	(270.6 )	(223.5 )
Proceeds from sale of property, plant and equipment	10.8	2.4
Acquisitions/divestitures of businesses and interest in affiliates, net	(111.5 )	(227.8 )
Net cash used in investing activities	(371.3 )	(448.9 )
<b>Financing activities</b>		
Net increase (decrease) in short-term debt	(36.7 )	16.4
Dividends paid to non-controlling interest	—	(1.7 )
Dividends paid	(104.2 )	(100.5 )
Shares repurchased	(157.0 )	—
Common stock options exercised	2.6	4.6
Other, net	—	0.5
Net cash used in financing activities	(295.3 )	(80.7 )
Effect of exchange rate changes on cash and cash equivalents	33.8	6.1
Decrease in cash and cash equivalents	(304.2 )	(220.4 )
Cash and cash equivalents at beginning of period	1,226.7	1,333.5
Cash and cash equivalents at end of period	\$922.5	\$1,113.1

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)

June 30, 2017

## 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, 2017.

The Condensed Consolidated Balance Sheet at December 31, 2016 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, 2016, filed with the SEC on February 23, 2017.

## 2 Recently Issued Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-09, Compensation-Stock Compensation (Topic 718) – Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless (a) the fair value of the modified award is the same as the fair value of the original award, (b) the vesting conditions of the modified award are the same as the vesting conditions of the original award and (c) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in ASU 2017-09 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, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not been issued. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. The Company early adopted ASU 2017-09 in the

second quarter beginning April 1, 2017. As this standard is prospective in nature, the impact to our financial statements will depend on the nature of our future award modifications.

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires the service cost component to be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the consolidated statements of net 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 net income. At the expected adoption as of January 1, 2018, the Company estimates that approximately \$5-7 million of the net benefit cost will be reclassified from Operating Income to Other non-operating items, net in the consolidated statements of net income.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment, which simplifies how an entity is required to test goodwill for impairment by eliminating step 2 from the goodwill impairment test, which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount. Instead, entities should perform annual or interim goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the excess of carrying amount over the fair value of the respective reporting unit. The amendments in ASU 2017-04 are effective for public business entities for annual or interim goodwill impairment tests in annual periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company early adopted ASU 2017-04 effective January 1, 2017. As this standard is prospective in nature, the impact to our financial statements by not performing step 2 to measure the amount of any potential goodwill impairment will depend on various factors. However, the elimination of step 2 will reduce the complexity and cost of the subsequent measurement of goodwill.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805) – Clarifying the Definition of a Business, which provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The amendments in ASU 2017-01 are effective for public business entities for annual periods beginning after December 15, 2017, and interim periods within those periods. ASU 2017-01 should be applied prospectively. Early adoption is permitted. The Company early adopted ASU 2017-01 effective January 1, 2017 for new transactions that have not been reported in financial statements that have been issued or made available for issuance. As this standard is prospective in nature, the impact to our financial statements will depend on the nature of our future acquisitions. This new standard was applied in conjunction with the Zenuity AB joint venture as discussed in Note 7.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) – Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in ASU 2016-18 are effective for public business entities for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted, including adoption in an interim period. The amendments in ASU 2016-18 should be applied using a retrospective transition method to each period presented. The Company early adopted ASU 2016-18 effective January 1, 2017. The adoption of ASU 2016-18 did not have a material impact on our consolidated financial statements for any period presented.

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

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments, which provides guidance on reducing the diversity in practice on eight cash flow

classification issues and how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in ASU 2016-15 are effective for public business entities for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the annual period that includes that interim period. The amendments in ASU 2016-15 should be applied using a retrospective transition method to each period presented. The Company early adopted ASU 2016-15 effective January 1, 2017. The adoption of ASU 2016-15 did not have a material impact on our consolidated financial statements for any period presented.

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 our pending adoption of ASU 2016-13 on our consolidated financial statements.



In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718), which simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the amendments in ASU 2016-09 are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. The Company adopted ASU 2016-09 effective January 1, 2017 and has elected to recognize forfeitures as they occur. The adoption of ASU 2016-09 did not have a material impact on the consolidated financial statements for any period presented.

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 is currently evaluating the impact of adopting ASU 2016-02 on its consolidated financial statements, which will require right of use assets and lease liabilities to be recorded in the consolidated balance sheet for finance and operating leases.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330), which requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. For public business entities, ASU 2015-11 is effective for interim and annual periods beginning after December 15, 2016 and should be applied prospectively. The adoption of ASU 2015-11 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 on identifying performance obligations, licenses and determining if a company is a principal or an agent. 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 intends to adopt ASU 2014-09 in the annual period beginning January 1, 2018. The standard permits the use of either the retrospective or modified retrospective (cumulative effect) transition method. The Company intends to apply the modified retrospective transition method. The Company is currently evaluating the impact of this standard on its operations, consolidated financial statements and footnote disclosures and is finalizing the overall assessment of the impact of the standard to the Company. The Company's implementation of this standard includes 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 for contracts with customers. The assessment phase of the project has included the identification of the key revenue streams and the comparison of historical accounting policies and practices to the requirements of the new standard by revenue stream. The assessment has resulted in the identification of potential accounting differences that may arise from the application of the new standard. The implementation team has also made substantial progress in the contract review phase of the project which includes identifying the population of contracts for a deeper analysis of the potential accounting impacts due to the new standard for individual contracts. During the second quarter, the team continued to identify changes to business processes, systems and controls to support recognition, presentation and disclosure under the new standard. A detailed implementation plan for the second half of 2017 has been developed and includes tasks around data gathering, identification of the new journal entries, training, design of new processes and controls as well as testing of the controls. The Company anticipates that the adoption of ASU 2014-09 will primarily impact the timing of revenue recognition for certain production parts contracts and will result in some changes to revenue related disclosures and financial statement presentation. For certain contracts, the production parts are highly customized products with no alternative use and the Company has an enforceable right to payment (with a reasonable margin) for performance completed to date. As a result, for these contracts, the Company will recognize revenue over time as the parts are being produced against firm orders received from the customer. Consistent with current treatment, shipping and handling costs associated with outbound shipments, after control of the product has transferred to a customer, will be accounted for as a fulfillment cost and included in cost of sales. In addition, certain payments made to customers in connection with future contracts may be deferred and amortized over future periods. While the Company has made substantial progress in identifying the likely impacts of the new standard, it has not yet determined a range of the potential quantitative impact.

### 3 Business Combinations

#### Autoliv-Nissin Brake Systems

On March 31, 2016, the Company acquired a 51% interest in the entities that formed Autoliv-Nissin Brake Systems (ANBS) for \$262.5 million in cash. ANBS designs, manufactures and sells products in the brake control and actuation systems business. Nissin Kogyo retained a 49% interest in the entities that formed ANBS. The Company has management and operational control of ANBS and has consolidated the results of operations and balance sheet from ANBS from the date of the acquisition forward. The transaction was accounted for as a business combination (for further information, see the Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 23, 2017).

Total ANBS acquisition related costs were approximately \$0.1 million for the first six months ended June 30, 2017 and approximately \$2.0 million for the year ended December 31, 2016. These costs were reflected in Selling, general and administrative expenses in the Consolidated Statements of Net Income.

The acquisition date fair value of the consideration transferred for the Company's 51% interest in the entities that formed ANBS was \$262.5 million in a cash transaction.

The following table summarizes the finalized fair values of identifiable assets acquired and liabilities assumed as of March 31, 2016:

Amounts recognized as of acquisition date of March 31, 2016 (in millions)

<b>Assets:</b>	
Cash and cash equivalents	\$37.7
Receivables	1.5
Inventories	33.0
Other current assets	7.9
Property, plant and equipment	138.5
Other non-current assets	0.3
Intangibles	112.1
Goodwill	234.7
Total assets	\$565.7
<b>Liabilities:</b>	
Accounts payable	\$6.0
Other current liabilities	23.1
Pension liabilities	9.1
Other non-current liabilities	12.7
Total liabilities	\$50.9
Net assets acquired	\$514.8
Less: Non-controlling interest	\$(252.3)
Controlling interest	\$262.5

Acquired Intangibles primarily consist of the fair value of customer contracts of \$50.7 million and certain technology of \$61.4 million. The customer contracts will be amortized straight-line over 7 years and the technology will be amortized straight-line over 10 years.

The recognized goodwill of \$234.7 million reflects expected synergies from combining Autoliv's global reach and customer base with Nissin Kogyo's world leading expertise (including workforce) and technology in brake control and actuation systems. A significant portion of the goodwill is deductible for tax purposes.

The allocation of the purchase price consideration to the assets acquired and the liabilities assumed as of the acquisition date was finalized in the first quarter of 2017.

#### 4 Fair Value Measurement

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 is re-measured on a recurring basis (for further information, see the Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 23, 2017). 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. An income of \$13 million was recognized within Other income (expense), net in the Consolidated Statements of Net Income in the first quarter of 2017 due to the decrease in the contingent consideration liability. The reduced earn-out liability was largely offset by the impairment charge for a customer contract related to the M/A-COM acquisition as discussed below. The fair value of the earn-out liability remains unchanged at \$14 million as of June 30, 2017.

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 risk policy. The derivatives outstanding at June 30, 2017 were foreign exchange swaps and forward contracts. All swaps principally match the terms and maturity of the underlying debt and no swaps have a maturity beyond six months. The forward contracts are designated as cash flow hedges of certain external purchases. 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.

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

The Company’s derivatives are all classified as Level 2 of the fair value hierarchy and there have been no transfers between the levels during this or comparable periods (for further information, see Annual Report on Form 10-K for the year ended December 31, 2016).

Edgar Filing: AUTOLIV INC - Form 10-Q

The tables below present information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016. 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 June 30, 2017 and in the Consolidated Balance Sheet at December 31, 2016, 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.

Description	June 30, 2017			Balance sheet location
	Fair Value			
	Nominal volume	Derivative asset	Derivative liability	
<b>Derivatives designated as hedging instruments <sup>1)</sup></b>				
Foreign exchange forward contracts, less than 1 year (cash flow hedge)	\$ 43.7	\$ 2.1	\$ 1.0	Other current assets/ Other current liabilities
Foreign exchange forward contracts, less than 2 years (cash flow hedge)	0.0	0.0	0.0	Other non-current assets/ Other non-current liabilities
<b>Total derivatives designated as hedging instruments</b>	<b>\$ 43.7</b>	<b>\$ 2.1</b>	<b>\$ 1.0</b>	
<b>Derivatives not designated as hedging instruments</b>				
Foreign exchange swaps, less than 6 months	<sup>2)</sup> \$ 397.4	<sup>3)</sup> \$ 2.9	<sup>4)</sup> \$ 1.5	Other current assets/ Other current liabilities
<b>Total derivatives not designated as hedging instruments</b>	<b>\$ 397.4</b>	<b>\$ 2.9</b>	<b>\$ 1.5</b>	

<sup>1)</sup>There is no netting since there are no offsetting contracts.

<sup>2)</sup>Net nominal amount after deducting for offsetting swaps under ISDA agreements is \$397.4 million.

<sup>3)</sup>Net amount after deducting for offsetting swaps under ISDA agreements is \$2.9 million.

<sup>4)</sup>Net amount after deducting for offsetting swaps under ISDA agreements is \$1.5 million.

December 31, 2016

Edgar Filing: AUTOLIV INC - Form 10-Q

Description	Fair Value			Balance sheet location
	Nominal	Measurements Derivative	Derivative	
	volume	asset	liability	
<b>Derivatives designated as hedging instruments <sup>1)</sup></b>				
Foreign exchange forward contracts, less than				Other current assets/ Other
1 year (cash flow hedge)	\$ 74.0	\$ 7.6	\$ 0.3	current liabilities
Foreign exchange forward contracts, less than				Other non-current assets/ Other
2 years (cash flow hedge)	10.8	0.0	0.2	non-current liabilities
<b>Total derivatives designated as hedging instruments</b>	<b>\$ 84.8</b>	<b>\$ 7.6</b>	<b>\$ 0.5</b>	
<b>Derivatives not designated as hedging instruments</b>				
Foreign exchange swaps, less than				Other current assets/ Other
6 months		<sup>2)</sup>	<sup>3)</sup>	<sup>4)</sup>
	\$ 251.8	\$ 1.1	\$ 0.1	current liabilities
<b>Total derivatives not designated as hedging instruments</b>	<b>\$ 251.8</b>	<b>\$ 1.1</b>	<b>\$ 0.1</b>	

<sup>1)</sup>There is no netting since there are no offsetting contracts.

<sup>2)</sup>Net nominal amount after deducting for offsetting swaps under ISDA agreements is \$226.5 million.

<sup>3)</sup>Net amount after deducting for offsetting swaps under ISDA agreements is \$1.1 million.

<sup>4)</sup>Net amount after deducting for offsetting swaps under ISDA agreements is \$0.0 million.

## Derivatives designated as hedging instruments

The derivatives designated as hedging instruments outstanding at June 30, 2017 and at December 31, 2016 were foreign exchange forward contracts, classified as cash flow hedges.

For the three and six months ended June 30, 2017, the cumulative gains and losses recognized in OCI on the cash flow hedges were a loss of \$2.0 million (net of taxes) and a loss of \$3.0 million (net of taxes), respectively. For the three and six months ended June 30, 2016, the cumulative gains and losses recognized in OCI on the cash flow hedges were a gain of \$3.8 million (net of taxes) and a gain of \$2.8 million (net of taxes), respectively.

For the three and six months ended June 30, 2017, the gains and losses reclassified from OCI and recognized in the Consolidated Statements of Net Income were a gain of \$1.8 million (net of taxes) and a gain of \$3.2 million (net of taxes), respectively. For the three and six months ended June 30, 2016, the gains and losses reclassified from OCI and recognized in the Consolidated Statements of Net Income were a loss of \$0.1 million (net of taxes) and a gain of \$0.2 million (net of taxes), respectively. Any ineffectiveness in the first six months of 2017 and 2016 were not material.

The estimated net amount of the existing gains or losses at June 30, 2017 that is expected to be reclassified from OCI and recognized in the Consolidated Statements of Net Income within the next twelve months is a gain of \$1.9 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 Net Income. The derivatives not designated as hedging instruments outstanding at June 30, 2017 and December 31, 2016 were foreign exchange swaps.

For the three and six months ended June 30, 2017, the gains and losses recognized in other non-operating items, net were a gain of \$1.8 million and a gain of \$0.3 million, respectively, for derivative instruments not designated as hedging instruments. For the three and six months ended June 30, 2016, the gains and losses recognized in other non-operating items, net were a gain of \$0.4 million and a gain of \$1.2 million, respectively, for derivative instruments not designated as hedging instruments.

For the three and six months ended June 30, 2017 and June 30, 2016, 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.

	June 30, 2017	June 30, 2017	December 31, 2016	December 31, 2016
	Carrying value <sup>1)</sup>	Fair value	Carrying value <sup>1)</sup>	Fair value
Long-term debt				
U.S. Private placement	\$1,311.4	\$1,386.0	\$ 1,312.4	\$ 1,360.0
Other long-term debt	11.7	11.7	11.2	11.2



Edgar Filing: AUTOLIV INC - Form 10-Q

Total	\$1,323.1	\$1,397.7	\$ 1,323.6	\$ 1,371.2
Short-term debt				
Overdrafts and other short-term debt	\$39.1	\$39.1	\$ 39.7	\$ 39.7
Short-term portion of long-term debt	150.0	152.9	180.1	185.6
Total	\$189.1	\$192.0	\$ 219.8	\$ 225.3

<sup>1)</sup>Debt as reported in balance sheet.

Assets and liabilities measured at fair value on a non-recurring basis

In addition to assets and liabilities that are measured at fair value on a recurring basis, the Company also has assets and liabilities in its balance sheet that are measured at fair value on a non-recurring basis. Assets and liabilities that are measured at fair value on a non-recurring basis include long-lived assets, including equity method investments.

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.

At the end of the first quarter of 2017 the Company received information related to a contract with an OEM customer of M/A-COM products that resulted in an impairment trigger of the customer intangible asset as well as a renewed assessment of the earn-out liability. In the first quarter of 2017, the Company recognized an impairment charge to amortization of intangibles in the Consolidated Statements of Net Income for a customer contract of \$12 million related to the M/A-COM acquisition (for further information, see the Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 23, 2017). As of June 30, 2017, the remaining fair value of \$2 million related to this customer contract will be amortized straight-line over the remaining 6 months in 2017. The impairment charge was largely offset by the reduced earn-out liability discussed above and the net impact was a gain of \$1 million in the first quarter of 2017.

## 5 Income Taxes

The effective tax rate in the second quarter of 2017 was 32.6% compared to 25.9% in the same quarter of 2016. Discrete tax items, net in the second quarter of 2017 had an unfavorable impact of 7.8%. These discrete items are primarily valuation allowances on specific deferred tax assets. In the second quarter of 2016, discrete tax items, net had a favorable impact of 1.2%.

The effective tax rate in the first six months of 2017 was 29.7% compared to 27.8% for the first six months of 2016. In the first six months of 2017, the net impact of discrete tax items caused a 3.7% increase to the effective tax rate. These discrete items are primarily valuation allowances on specific deferred tax assets. The net impact of discrete tax items in the first six months of 2016 caused a 0.2% increase to the effective tax rate.

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 June 30, 2017, 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 second quarter of 2017, the Company recorded a net increase of \$3.6 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. During the second quarter of 2017, the Company recorded a \$1.4 million adjustment to income tax reserves for unrecognized tax benefits of prior years due to the settlement of several tax audits. Of the total unrecognized tax benefits of \$33.1 million recorded at June 30, 2017, \$7.2 million is classified as current tax payable and \$25.9 million is classified as non-current tax payable on the Condensed Consolidated Balance Sheet.

## 6 Inventories

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

	As of	
	June	December 31,
	30,	2016
	2017	
Raw materials	\$409.4	\$ 378.2
Work in progress	271.1	256.7
Finished products	226.1	240.0
Inventories	\$906.6	\$ 874.9
Inventory valuation reserve	(108.1)	(101.5 )
Total inventories, net of reserve	\$798.5	\$ 773.4

## 7 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. Both 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 is shown in the line item Investments and other non-current assets in the Condensed Consolidated Balance Sheet. 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 enterprise 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 enterprise value, approximately \$125 million, represents its investment in Zenuity. The Company recorded an immaterial gain based on the difference between Autoliv's share of Zenuity's enterprise 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 enterprise 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. 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 second quarter of 2017 is approximately \$8 million.

## 8 Goodwill

	Passive Safety		Electronics
	Segment	Segment	Total
Carrying amount December 31, 2016	\$ 1,380.6	\$ 490.1	\$1,870.7
Acquisition	—	16.9	16.9
Effect of currency translation	9.8	3.7	13.5
Carrying amount June 30, 2017	\$ 1,390.4	\$ 510.7	\$1,901.1

The goodwill amount change in the first quarter of 2017 was a result of the finalization of the purchase price allocation for the ANBS acquisition (see Note 3).

## 9 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 majority of restructuring activities relate to the Passive Safety segment. The changes in the employee-related reserves have been charged against Other income (expense), net in the Consolidated Statements of Net Income.

The majority of the reserve balance as of June 30, 2017 pertains to restructuring activities initiated in Western Europe in 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 June 30, 2017, will continue through dates ranging from 2017 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 \$82 million and the remaining restructuring liability as of June 30, 2017 is approximately \$18 million out of the \$24.7 million total reserve balance.

Edgar Filing: AUTOLIV INC - Form 10-Q

Three months ended June 30, 2017

The employee-related restructuring provisions and cash payments for the three months ended June 30, 2017 mainly related to headcount reductions in high-cost countries in Europe and Asia. The table below summarizes the change in the balance sheet position of the restructuring reserves from March 31, 2017 to June 30, 2017.

	March 31, 2017	Provision/ Charge	Provision/ Reversal	Cash payments	Translation difference	June 30, 2017
Restructuring employee-related	\$ 30.6	\$ 1.3	\$ (3.7 )	\$ (5.4 )	\$ 1.7	\$ 24.5
Other	0.2	0.0	0.0	0.0	0.0	0.2
Total reserve	\$ 30.8	\$ 1.3	\$ (3.7 )	\$ (5.4 )	\$ 1.7	\$ 24.7

Six months ended June 30, 2017

The employee-related restructuring provisions and cash payments for the six months ended June 30, 2017 mainly related to headcount reductions in high-cost countries in Europe and Asia. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2016 to June 30, 2017.

	December 31, 2016	Provision/ Charge	Provision/ Reversal	Cash payments	Translation difference	June 30, 2017
Restructuring employee-related	\$ 37.1	\$ 3.6	\$ (3.8 )	\$ (14.7 )	\$ 2.3	\$ 24.5
Other	0.4	0.2	(0.4 )	0.0	0.0	0.2
Total reserve	\$ 37.5	\$ 3.8	\$ (4.2 )	\$ (14.7 )	\$ 2.3	\$ 24.7

Three months ended June 30, 2016

The employee-related restructuring provisions and cash payments for the three months ended June 30, 2016 mainly related to headcount reductions in high-cost countries in Europe and Asia. The table below summarizes the change in the balance sheet position of the restructuring reserves from March 31, 2016 to June 30, 2016.

	March 31, 2016	Provision/ Charge	Provision/ Reversal	Cash payments	Translation difference	June 30, 2016
Restructuring employee-related	\$ 86.8	\$ 3.7	\$ (0.3 )	\$ (21.5 )	\$ (2.2 )	\$ 66.5
Other	0.2	—	—	—	(0.1 )	0.1
Total reserve	\$ 87.0	\$ 3.7	\$ (0.3 )	\$ (21.5 )	\$ (2.3 )	\$ 66.6

Six months ended June 30, 2016

The employee-related restructuring provisions and cash payments for the six months ended June 30, 2016 mainly related to headcount reductions in high-cost countries in Europe and Asia. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2015 to June 30, 2016.

	December 31, 2015	Provision/ Charge	Provision/ Reversal	Cash payments	Translation difference	June 30, 2016
Restructuring employee-related	\$ 87.7	\$ 17.3	\$ (0.7 )	\$ (39.1 )	\$ 1.3	\$ 66.5
Other	0.2	—	—	—	(0.1 )	0.1
Total reserve	\$ 87.9	\$ 17.3	\$ (0.7 )	\$ (39.1 )	\$ 1.2	\$ 66.6

#### 10 Product-Related Liabilities

The Company has reserves for product risks. Such reserves are related to product performance issues including recall, product liability and warranty issues. For further explanation, see Note 13 Contingent Liabilities below.

The table below summarizes the change in the balance sheet position of the product-related liabilities. The provisions for the three and six months ended June 30, 2017 mainly related to warranty related issues and the cash paid for the three and six months ended June 30, 2017 mainly related to recall related issues. The provisions and cash paid for the three and six months ended June 30, 2016 mainly related to warranty related issues. The increase in the reserve balance as of June 30, 2017 compared to prior year is mainly due to recall related issues in the fourth quarter of 2016, a majority of which is covered by insurance. Insurance receivables are included within Other current assets in the Condensed Consolidated Balance Sheet.

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Reserve at beginning of the period	\$ 117.7	\$ 61.8	\$ 120.1	\$ 60.8
Change in reserve	3.6	13.3	10.7	17.3
Cash payments	(9.7 )	(6.9 )	(20.3 )	(10.5)
Translation difference	0.8	0.1	1.9	0.7
Reserve at end of the period	\$ 112.4	\$ 68.3	\$ 112.4	\$ 68.3

## 11 Retirement Plans

The Company has contributory and non-contributory defined benefit pension plans covering employees at most operations in the U.S. and in certain other countries. The main plan is the U.S. plan for which the benefits are based on an average of the employee's earnings in the years preceding retirement and on credited service. Certain supplemental funded and unfunded plan arrangements also provide retirement benefits to specified groups of participants.

The Company has frozen participation in the U.S. pension plans to include only those employees hired as of December 31, 2003. The U.K. defined benefit plan is the most significant individual non-U.S. pension plan and the Company has frozen participation to include only those employees hired as of April 30, 2003.

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 and six month periods ended June 30, 2017 and June 30, 2016 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		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Service cost	\$ 6.1	\$ 5.4	\$ 12.1	\$ 10.7



Edgar Filing: AUTOLIV INC - Form 10-Q

Interest cost	5.4	5.4	10.7	10.7
Expected return on plan assets	(5.4)	(5.2)	(10.7)	(10.3)
Amortization prior service credit	0.1	(0.1)	0.2	(0.3)
Amortization of actuarial loss	1.9	1.5	3.9	3.0
Net Periodic Benefit Cost	\$8.1	\$7.0	\$16.2	\$13.8

## 12 Controlling and Non-Controlling Interest

	Three Months ended June 30, 2017			June 30, 2016		
	Equity attributable to		Total	Equity attributable to		Total
	Controlling	Non-controlling		Controlling	Non-controlling	
	interest	interest		interest	interest	
Balance at beginning of period	\$3,853.7	\$ 253.2	\$4,106.9	\$3,600.2	\$ 265.0	\$3,865.2
Total Comprehensive Income:						
Net income (loss)	129.8	(1.5 )	128.3	148.4	0.0	148.4
Foreign currency translation	84.6	0.9	85.5	(30.7 )	9.5	(21.2 )
Net change in cash flow hedges	(3.9 )	—	(3.9 )	3.9	—	3.9
Defined benefit pension plan	1.3	—	1.3	0.6	—	0.6
Total Comprehensive Income (loss)	211.8	(0.6 )	211.2	122.2	9.5	131.7
Common Stock incentives	3.8	—	3.8	5.6	—	5.6
Cash dividends declared	(52.6 )	—	(52.6 )	(51.2 )	—	(51.2 )
Repurchased shares	(157.0 )	—	(157.0 )	—	—	—
Dividends paid to non-controlling interest on subsidiary shares	—	—	—	—	—	—
Investment in subsidiary by non-controlling interest	—	—	—	—	1.1	1.1
Balance at end of period	\$3,859.7	\$ 252.6	\$4,112.3	\$3,676.8	\$ 275.6	\$3,952.4

	Six Months ended June 30, 2017			June 30, 2016		
	Equity attributable to		Total	Equity attributable to		Total
	Controlling	Non-controlling		Controlling	Non-controlling	
	interest	interest		interest	interest	
Balance at beginning of period	\$3,677.2	\$ 249.2	\$3,926.4	\$3,455.6	\$ 12.5	\$3,468.1
Total Comprehensive Income:						
Net income (loss)	273.7	(3.3 )	270.4	281.6	0.3	281.9
Foreign currency translation	167.3	6.7	174.0	28.9	9.7	38.6
Net change in cash flow hedges	(6.6 )	—	(6.6 )	2.7	—	2.7
Defined benefit pension plan	2.5	—	2.5	1.4	—	1.4
Total Comprehensive Income	436.9	3.4	440.3	314.6	10.0	324.6
Common Stock incentives	8.2	—	8.2	8.9	—	8.9
Cash dividends declared	(105.6 )	—	(105.6 )	(102.3 )	—	(102.3 )
Repurchased shares	(157.0 )	—	(157.0 )	—	—	—
Dividends paid to non-controlling interest on subsidiary shares	—	—	—	—	(1.7 )	(1.7 )
Investment in subsidiary by non-controlling interest	—	—	—	—	254.8	254.8

interest						
Balance at end of period	\$3,859.7	\$ 252.6	\$4,112.3	\$3,676.8	\$ 275.6	\$3,952.4

### Stock Repurchase Program

In the second quarter of 2017, the Company repurchased 1.4 million common shares for cash at an aggregate amount of \$157 million. The Company is authorized to repurchase an additional 2,986,288 shares under the program at June 30, 2017. The stock repurchases made in the second quarter of 2017 are the first stock repurchases made under the program since March 2015.

## 13 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\$74.5 million (approximately \$22.6 million), inclusive of fines, penalties and interest. The Company believes the full amount assessed is baseless and that it has reasonable legal and factual defenses to the assessment and, consequently, plans to defend its interests vigorously. However, the Company believes that a loss is probable with respect to at least a portion of the assessed amount and accrued an amount in 2015, which amount remains accrued as of June 30, 2017, that was not material to the Company's results of operations. The Company cannot predict or estimate the duration or ultimate outcome of this matter.

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 for any expenses as of June 30, 2017 with respect to this investigation.

### ANTITRUST MATTERS

Authorities in several jurisdictions are currently conducting broad, and in some cases, long-running investigations of suspected anti-competitive behavior among parts suppliers in the global automotive vehicle industry. These investigations include, but are not limited to, 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. The investigation is still pending and the Company remains unable to estimate the financial impact such investigation will have or predict the reporting periods in which such financial impact may be recorded and has consequently not recorded a provision for loss as of June 30, 2017. However, management has concluded that it is probable that the Company's operating results and cash flows will be materially adversely impacted for the reporting periods in which the EC 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. The Company is cooperating with the CCSA. The Company believes that a loss with respect to this investigation is probable and has accrued amounts in 2016 that were not material to the Company's results of operations to resolve this matter. The Company cannot predict or estimate the duration or ultimate outcome of the CCSA investigation.



On July 6, 2015, the Company learned that the General Superintendence of the Administrative Council for Economic Defense (“CADE”) in Brazil had initiated 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. In November 2016, the Company and the CADE entered into a settlement agreement with respect to this matter 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 payment of the accrued amounts was made during the period ended March 31, 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, as of the filing of the last class action in June 2015, truck and equipment dealers - who purchased occupant safety systems or components directly from a defendant, indirectly through purchases or leases of new vehicles containing such systems, or through purchases of replacement parts.

In May 2014, the Company, without admitting any liability, entered into separate settlement agreements with representatives of the three classes of plaintiffs then pending in the MDL. Pursuant to the settlement agreements, the Company agreed to pay \$40 million to the direct purchaser settlement class, \$6 million to the auto dealer settlement class, and \$19 million to the end-payor settlement class, for a total of \$65 million. This amount was expensed during the second quarter of 2014. In January 2015, the MDL court granted final approval of the direct purchaser class settlement, which had been reduced to approximately \$35.5 million because of opt-outs; in December 2015, the MDL court granted final approval of the auto dealer class settlement; and in June 2016, the MDL court granted final approval of the end-payor class settlement, over the objections of several individual class members, some of whom have appealed the MDL court’s approval of the Company’s end-payor settlement and several other defendants’ settlements that were approved at the same time. This appeal will delay the finality of the Company’s settlement with the end-payor class. In addition, several individuals and one insurer (and its affiliated entities) have opted-out of the pending end-payor class settlements, including the Company’s settlement. 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.

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 settlement. 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 described above. 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.

In April 2016, the Company entered into a settlement agreement with the truck and equipment dealers class for an amount that is not material to the Company’s results of operations. In November 2016, the MDL court granted final approval of the settlement and on February 3, 2017, the MDL court entered a final judgment dismissing the case against the Company.

The remaining four antitrust class action lawsuits are pending 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). The Canadian cases assert claims on behalf of putative classes of both direct and indirect purchasers of occupant safety systems. In February 2017, the Company entered into 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. The settlement is subject to court approvals following notice to the class members. Once approved, this national settlement will include the claims of the putative members of the fourth class action. The Company accrued amounts for the period ended December 31, 2016 in connection with these claims.

## PRODUCT WARRANTY, RECALLS AND INTELLECTUAL PROPERTY

Autoliv is exposed to various claims for damages and compensation if 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 faces 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 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 reported 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, 2016, 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 10 Product-Related Liabilities above summarizes the change in the balance sheet position of the product related liabilities for the three and six month periods ended June 30, 2017 and June 30, 2016.

#### 14 Stock Incentive Plan

Commencing with grants in February 2016, employees receive 50% of their long-term incentive (LTI) grant value in the form of performance shares (PSs) and 50% in the form of restricted stock units (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 for: 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, subject to 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 subject to the same vesting conditions as the underlying RSUs and PSs, respectively.

The fair value of the RSUs and PSs granted under the LTI program are calculated as the grant date fair value of the shares expected to be issued. For the grants made during 2017, the fair value of a PS and a RSU is calculated by using the closing stock price at grant date. For the grants made during 2016 and earlier, the fair value of a RSU and a PS was estimated using the Black Scholes valuation model. The grant date fair value for the RSUs at 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 \$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 June 30, 2017, the Company believes it is probable that the performance conditions will be met 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 at 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 at May 09, 2017 was \$1.0 million.

## 15 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 and six months ended June 30, 2017, approximately 0.1 million shares and 0.1 million shares of common stock, respectively, were not included in the computation of the diluted EPS, however these could potentially impact EPS in the future. For the three and six months ended June 30, 2016, approximately 6 thousand 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 June 30, 2017 and June 30, 2016, approximately 14 thousand and 29 thousand shares of common stock, respectively, from the treasury stock have been utilized by the Company's Stock Incentive Plan. During the six months ended June 30, 2017 and June 30, 2016, approximately 0.1 million and 0.1 million shares of common stock, respectively, from the treasury stock have been utilized by the Company's Stock Incentive Plan.

Edgar Filing: AUTOLIV INC - Form 10-Q

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

(In millions, except per share amounts)	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Numerator:				
Basic and diluted:				
Net income attributable to controlling interest	\$129.8	\$148.4	\$273.7	\$281.6
Participating share awards with dividend equivalent rights	0.0	—	0.0	—
Net income available to common shareholders	129.8	148.4	273.7	281.6
Earnings allocated to participating share awards <sup>1)</sup>	0.0	—	0.0	—
Net income attributable to common shareholders	\$129.8	\$148.4	\$273.7	\$281.6
Denominator: <sup>1)</sup>				
Basic: Weighted average common stock	87.9	88.2	88.1	88.2
Add: Weighted average stock options/share awards	0.2	0.2	0.2	0.2
Diluted:	88.1	88.4	88.3	88.4
Basic EPS	\$1.48	\$1.68	\$3.11	\$3.19
Diluted EPS	\$1.47	\$1.68	\$3.10	\$3.19

<sup>1)</sup>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.

## 16 Segment Information

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

Net sales, including Intersegment Sales	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
(Dollars in millions)				
Passive Safety	\$1,983.4	\$1,996.1	\$4,023.6	\$3,984.8
Electronics	578.9	597.8	1,162.2	1,054.2
Total segment sales	\$2,562.3	\$2,593.9	\$5,185.8	\$5,039.0

Edgar Filing: AUTOLIV INC - Form 10-Q

Corporate and other	0.6	1.6	1.9	1.9
Intersegment sales	(18.0 )	(17.0 )	(34.7 )	(32.4 )
Total net sales	\$2,544.9	\$2,578.5	\$5,153.0	\$5,008.5

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Income before Income Taxes				
(Dollars in millions)				
Passive Safety	\$208.1	\$206.8	\$413.0	\$398.4
Electronics	10.9	14.9	24.5	26.7
Segment operating income	\$219.0	\$221.7	\$437.5	\$425.1
Corporate and other	(2.6 )	(9.0 )	(3.5 )	(7.2 )
Interest and other non-operating expenses, net	(18.6 )	(12.4 )	(42.3 )	(27.9 )
(Loss) income from equity method investments	(7.6 )	0.1	(7.1 )	0.7
Income before income taxes	\$190.2	\$200.4	\$384.6	\$390.7

24

---

Capital Expenditures	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
(Dollars in millions)				
Passive Safety	\$117.7	\$100.5	\$218.8	\$173.3
Electronics	22.7	27.7	50.0	43.9
Corporate and other	0.7	3.5	1.8	6.3
Total capital expenditures	\$141.1	\$131.7	\$270.6	\$223.5

Depreciation and Amortization	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
(Dollars in millions)				
Passive Safety	\$74.7	\$69.4	\$147.8	\$137.6
Electronics	22.5	25.1	61.3	39.8
Corporate and other	2.4	2.2	5.3	4.4
Total depreciation and amortization	\$99.6	\$96.7	\$214.4	\$181.8

Segment Assets	As of	
	June 30, 2017	December 31, 2016
(Dollars in millions)		
Passive Safety	\$5,993.5	\$5,637.0
Electronics	1,770.4	1,715.5
Segment assets	\$7,763.9	\$7,352.5
Corporate and other <sup>1)</sup>	679.8	881.9
Total assets	\$8,443.7	\$8,234.4

<sup>1)</sup>Corporate and other assets mainly consist of cash and cash equivalents, income taxes and equity method investments.

## 17 Subsequent Events

There were no reportable events subsequent to June 30, 2017.

## 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, 2016 filed with the United States Securities and Exchange Commission (the "SEC") on February 23, 2017. 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 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'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](http://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 Company continued to execute well in Passive Safety and proactive adjustments to a weaker market in China and North America helped the segment generate another quarter of double digit operating margin, despite continued elevated investments for growth. Autoliv managed another quarter with good operating efficiency, and the Company's strong gross margin performance enabled it to meet its adjusted operating margin (non-U.S. GAAP measure) expectation although the organic sales growth (non-U.S. GAAP measure) was slightly below the Company's expectation due to lower light vehicle production in China and North America. Order intake continued on a high level in Passive Safety in the quarter.

During Q2 2017, Autoliv accelerated its efforts to strengthen its foundation in Electronics to capture growth opportunities through the strategic agreements announced in June and July. The agreements with NVIDIA and Velodyne further improve the Company's capabilities in developing next generation self-driving technologies by accessing NVIDIA's AI car computing platform and Velodyne's LiDAR sensing technology while the Company investment in Autotech provides effective scouting of new technologies in autonomous driving. Electronics booked a handful of smaller orders in Active Safety in the quarter, including one new customer and one vision order.

To meet the strong momentum in Passive Safety and Electronics, the Company continues to invest in competence and capacity, and in the ongoing competition for engineering talent, it has been able to exceed its target of recruiting 1,000

engineers between July 2016 and June 2017. Combined with the formation of the Zenuity joint venture in April and the strategic agreements announced since then, Autoliv is continuously strengthening its ability to win new business.

The Company continues to carefully monitor the readiness level for the upcoming increase in new vehicle launches and believes that the launches are on track. There appear to still be high light vehicle inventories, slow sales momentum and continued uncertainty in China and North America and the Company expects organic sales growth in the range of 0-2% for the third quarter.

The Company's continued focus on quality, innovation and product robustness is more important than ever as it executes on accelerating business volumes and new opportunities.



## 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		Six months ended	
	or as of June 30		or as of June 30	
	2017	2016	2017	2016
Total parent shareholders' equity per share	\$44.42	\$41.69	\$44.42	\$41.69
Operating working capital <sup>1)</sup>	\$742	\$685	\$742	\$685
Capital employed <sup>6)</sup>	\$4,699	\$4,390	\$4,699	\$4,390
Net debt <sup>1)</sup>	\$587	\$438	\$587	\$438
Net debt to capitalization, % <sup>11)</sup>	13	10	13	10
Gross margin, % <sup>2)</sup>	21.0	20.4	20.9	20.5
Operating margin, % <sup>3)</sup>	8.5	8.2	8.4	8.3
Return on total equity, % <sup>7)</sup>	12.5	15.2	13.4	15.0
Return on capital employed, % <sup>8)</sup>	18.3	19.8	19.2	20.4
No. of employees at period-end <sup>9)</sup>	61,359	59,748	61,359	59,748
Headcount at period-end <sup>10)</sup>	70,225	67,465	70,225	67,465
Days receivables outstanding <sup>4)</sup>	75	75	73	76

Days inventory outstanding <sup>5)</sup>	32	30	31	31
------------------------------------------	----	----	----	----

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

<sup>2)</sup> Gross profit relative to sales

<sup>3)</sup> Operating income relative to sales

<sup>4)</sup> Outstanding receivables relative to average daily sales

<sup>5)</sup> Outstanding inventory relative to average daily sales

<sup>6)</sup> Total equity and net debt

<sup>7)</sup> Net income relative to average total equity

<sup>8)</sup> Operating income and income from equity method investments, relative to average capital employed

<sup>9)</sup> Employees with a continuous employment agreement, recalculated to full time equivalent heads

<sup>10)</sup> Employees plus temporary, hourly workers

<sup>11)</sup> Net debt in relation to capital employed

27

---

THREE MONTHS ENDED JUNE 30, 2017 COMPARED WITH THREE MONTHS ENDED JUNE 30, 2016

Market overview

Light Vehicle Production Development

Change vs. same quarter last year

	China	Japan	RoA	Americas	Europe	Total
LVP <sup>1)</sup>	(1.2 )%	10.6 %	0.6 %	(0.4 )%	(3.0 )%	0.0 %

<sup>1)</sup>Source: IHS July 17, 2017.

## 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 second quarter 2017 and 2016, respectively:

Net sales, including Intersegment Sales (Dollars in millions)	Quarter April-June	
	2017	2016
Passive Safety	\$1,983.4	\$1,996.1
Electronics	578.9	597.8
Total segment sales	\$2,562.3	\$2,593.9
Corporate and other	0.6	1.6
Intersegment sales	(18.0 )	(17.0 )
Total net sales	\$2,544.9	\$2,578.5

Consolidated net sales decreased by 1.3% compared to the same quarter of 2016 with an organic growth (non-U.S. GAAP measure, see reconciliation table below) of 0.2% and negative currency translation of 1.5%. All regions except Americas grew organically, with Japan and India as key drivers while North America’s sales declined 6.3% organically.

## Passive Safety Sales

Change vs. same quarter last year (Dollars in millions)	Q2 2017	Q2 2016	Reported		Currency		Organic	
			(U.S. GAAP)		effects <sup>1)</sup>		change <sup>3)</sup>	
Airbag <sup>2)</sup>	\$1,316.5	\$1,314.6	0.1	%	(1.3	)%	1.4	%
Seatbelt <sup>2)</sup>	667.3	681.8	(2.1	)%	(1.7	)%	(0.4	)%
Intersegment sales	(0.4	)	(0.3	)	—		—	
Total Passive Safety Sales	\$1,983.4	\$1,996.1	(0.6	)%	(1.4	)%	0.8	%

<sup>1)</sup>Effects from currency translations.

<sup>2)</sup>Including Corporate and other sales.

<sup>3)</sup>Non-U.S. GAAP measure, see reconciliation tables below.

Consolidated Passive Safety segment sales decreased by 0.6% to \$1,983 million. Excluding negative currency translation effects, the organic sales growth (non-U.S. GAAP measure, see reconciliation table below) was 0.8%, which can be compared to an unchanged LVP according to IHS.

Airbag sales had solid organic growth (non-U.S. GAAP measure, see reconciliation table below) from inflatable curtains in China, passenger airbags in Japan and steering wheels in Japan and China. Sales declined organically for inflatable curtains and chest airbags in Americas, passenger airbags in China and Europe, and steering wheels in Americas.

Seatbelt sales declined organically (non-U.S. GAAP measure, see reconciliation table below) in Americas, China and Europe, while it grew organically in Japan and Rest of Asia.

Inflator replacement sales affected the segment's organic sales growth (non-U.S. GAAP measure, see reconciliation table below) positively by around 0.7pp.

#### Electronics Sales

Change vs. same quarter last year (Dollars in millions)	Change vs. same quarter last year		Reported (U.S. GAAP)	Currency effects <sup>1)</sup>	Organic Change <sup>2)</sup>
	Q2 2017	Q2 2016			
Restraint Control and Sensing <sup>3)</sup>	\$247.7	\$262.8	(5.8 )%	(1.1 )%	(4.7 )%
Active Safety	191.2	185.9	2.8 %	(3.2 )%	6.0 %
Brake Systems	122.2	133.4	(8.3 )%	(1.8 )%	(6.5 )%
Intersegment sales	17.8	15.7	—	—	—
<b>Total Electronic Sales</b>	<b>\$578.9</b>	<b>\$597.8</b>	<b>(3.2 )%</b>	<b>(2.0 )%</b>	<b>(1.2 )%</b>

<sup>1)</sup>Effects from currency translations.

<sup>2)</sup>Non-U.S. GAAP measure, see reconciliation tables below.

<sup>3)</sup>Including Corporate and other sales.

Consolidated Electronics segment sales decreased by 3.2% to \$579 million compared to the same quarter 2016. Excluding negative currency translation effects, the organic sales decline (non-U.S. GAAP measure, see reconciliation table below) was 1.2%.

Restraint Control and Sensing sales (mainly airbag control modules and remote sensing units) declined organically (non-U.S. GAAP measure, see reconciliation table below) largely due to Mazda in Japan, Ford and Hyundai in Americas and Opel and Land Rover in Europe, partly offset by increases for Nissan and Geely in China.

The organic sales increase (non-U.S. GAAP measure, see reconciliation table below) for Active Safety (mainly automotive radars, night vision systems, cameras with driver assist systems and positioning systems) was positively impacted by double-digit organic sales growth of radar and camera systems (especially due to models from Honda, Mercedes and FCA) and negatively impacted by sales declines for positioning systems in North America as well as the ramp-down of our internally developed brake control system in China.

Brake Systems organic sales (non-U.S. GAAP measure, see reconciliation table below) was adversely affected by model changes, notably Honda CR-V, and a reclassification of certain revenues from gross to net basis, as outlined in Autoliv's Financial Report for October – December 2016.

## 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 June 30, 2017

(Dollars in millions)

The following tables show the organic change for the three months ended June 30, 2017 compared to the same period last year:

	Passive Safety		Electronics		Other and eliminations		Total	
	%	\$	%	\$	\$		%	\$
Reported change	(0.6)	\$(12.7)	(3.2)	\$(18.9)	\$ (2.0 )		(1.3)	\$(33.6)
Currency effects <sup>1)</sup>	(1.4)	(28.4)	(2.0)	(11.6)	0.4		(1.5)	(39.6)
Organic change	0.8	\$15.7	(1.2)	\$(7.3 )	\$ (2.4 )		0.2	\$6.0

<sup>1)</sup>Effects from currency translations.

	Airbag Products <sup>2)</sup>		Seatbelt Products <sup>2)</sup>		Restraint Control and Sensing <sup>2)</sup>		Active Safety		Brake Systems		Total	
	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
Reported change	0.1	\$1.9	(2.1)	\$(14.5)	(5.8)	\$(15.1)	2.8	\$5.3	(8.3)	\$(11.2)	(1.3)	\$(33.6)
Currency effects <sup>1)</sup>	(1.3)	(16.4)	(1.7)	(12.0)	(1.1)	(2.8 )	(3.2)	(5.9)	(1.8)	(2.5 )	(1.5)	(39.6)
Organic change	1.4	\$18.3	(0.4)	\$(2.5 )	(4.7)	\$(12.3)	6.0	\$11.2	(6.5)	\$(8.7 )	0.2	\$6.0

<sup>1)</sup>Effects from currency translations.

<sup>2)</sup>Including Corporate and other sales.

## Sales by Region

The tables below reconciles the reported change by geographic region to organic change for the three months ended June 30, 2017 compared to the same period last year:

	Sales (MUSD)	Reported (U.S. GAAP)		Currency effects <sup>1)</sup>		Organic change <sup>2)</sup>	
		%		%		%	
Asia	\$898.0	3.4	%	(2.2 )	%	5.6	%
Whereof: China	\$399.2	(2.8 )	%	(4.6 )	%	1.8	%
Japan	\$247.8	7.8	%	(3.0 )	%	10.8	%
Rest of Asia	\$251.0	10.1	%	2.9	%	7.2	%
Americas	\$826.5	(5.6 )	%	(0.3 )	%	(5.3 )	%

Edgar Filing: AUTOLIV INC - Form 10-Q

Europe	\$820.4	(1.7 )%	(2.2 )%	0.5	%
Global	\$2,544.9	(1.3 )%	(1.5 )%	0.2	%

<sup>1)</sup>Effects from currency translations.

<sup>2)</sup>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 June 30, 2017

(Dollars in millions)

	China		Japan		Rest of Asia		Americas		Europe		Total	
	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
Reported change	(2.8)	\$(11.6)	7.8	\$18.0	10.1	\$23.1	(5.6)	\$(48.9)	(1.7)	\$(14.2)	(1.3)	\$(33.6)
Currency effects <sup>1)</sup>	(4.6)	(18.9)	(3.0)	(6.9)	2.9	6.8	(0.3)	(2.1 )	(2.2)	(18.5)	(1.5)	(39.6)
Organic change	1.8	\$7.3	10.8	\$24.9	7.2	\$16.3	(5.3)	\$(46.8)	0.5	\$4.3	0.2	\$6.0

<sup>1)</sup>Effects from currency translations.

30

Edgar Filing: AUTOLIV INC - Form 10-Q

The organic sales growth (non-U.S. GAAP measure, see reconciliation table above) of 0.2% in the quarter was mainly driven by the organic growth in Japan, India, South America and China. The inflator replacement sales impacted organic growth positively by about 0.6pp. Light vehicle production was flat, according to IHS.

The organic sales increase (non-U.S. GAAP measure, see reconciliation table above) from Autoliv's companies in China was mainly driven by the global OEMs, primarily Mercedes and Nissan as well as inflator replacement sales, partly offset by lower sales to Hyundai/Kia and PSA. Organic sales to the domestic OEMs was flat, with higher sales to Geely and GAC, offset mainly by declines with Great Wall, Haima and FAW.

Organic sales growth (non-U.S. GAAP measure, see reconciliation table above) from Autoliv's companies in Japan was driven by the Japanese OEMs, in particular Toyota and Nissan.

Organic sales growth (non-U.S. GAAP measure, see reconciliation table above) from Autoliv's companies in the Rest of Asia was driven by strong sales development in India, mainly to Hyundai, Suzuki and Tata. Sales in South Korea grew with Hyundai and Renault.

Sales from Autoliv's companies in Americas declined organically (non-U.S. GAAP measure, see reconciliation table above) by 5.3%. North America declined by more than 6% organically, driven primarily by unfavorable platform shifts with GM and decreased demand from FCA. South America grew organically by 40%, primarily with Fiat, Renault, Chevrolet and Ford.

Despite the adverse effect from fewer working days due to the Easter holiday, Autoliv's companies in Europe grew organically (non-U.S. GAAP measure, see reconciliation table above) by 0.5%. This was mainly driven by Mercedes and Volvo, partly offset by lower sales to Opel and BMW.

Earnings

	Three months ended		Three months ended		Change	
(Dollars in millions, except per share data)	June 30, 2017		June 30, 2016			
Net Sales	\$ 2,544.9		\$ 2,578.5		(1.3 )%	
Gross profit	\$ 535.5		\$ 526.5		1.7 %	
% of sales	21.0	%	20.4	%	0.6 pp	
S,G&A	\$ (124.7 )		\$ (120.3 )		3.7 %	
% of sales	(4.9 )%		(4.7 )%		(0.2 )pp	
R,D&E net	\$ (195.5 )		\$ (176.4 )		10.8 %	
% of sales	(7.7 )%		(6.8 )%		(0.9 )pp	
Amortization of intangibles	\$ (7.4 )		\$ (11.9 )		(37.8 )%	
% of sales	(0.3 )%		(0.5 )%		0.2 pp	
Other income (expense), net	\$ 8.5		\$ (5.2 )		n.m.	
% of sales	0.3 %		(0.2 )%		0.5 pp	
Operating income	\$ 216.4		\$ 212.7		1.7 %	
% of sales	8.5 %		8.2 %		0.3 pp	
Income before taxes	\$ 190.2		\$ 200.4		(5.1 )%	
Tax rate	32.6 %		25.9 %		6.7 pp	
Net income	\$ 128.3		\$ 148.4		(13.5 )%	
Net income attributable to controlling interest	\$ 129.8		\$ 148.4		(12.5 )%	
Earnings per share, diluted <sup>1)</sup>	\$ 1.47		\$ 1.68		(12.5 )%	



<sup>1)</sup> 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 second quarter of 2017 was \$9 million higher than in the same quarter of 2016. The gross margin improved by 0.6pp to 21.0%, from 20.4% in the same quarter of 2016, mainly as a result of improved operational performance and favorable currency effects. This was partly offset by costs related to the investments for capacity and growth as well as negative impact from raw material prices.

Research, Development & Engineering (R,D&E) expenses net, in support of our growth strategy, increased by \$19 million compared to the same quarter in the prior year as we continued to invest in technology competence and capacity. The decrease in amortization expense is driven by the M/A-COM impairment reported in our first quarter 2017 report, which reduced the ongoing amortization, and the finalization of the ANBS purchase price allocation, which resulted in more of the value being allocated to non-amortizable goodwill.

Other income (expense), net, includes mainly positive impacts from provision reserve reversals, compared to the same period prior year, which consisted primarily of costs for capacity alignments and antitrust related matters.

Operating income increased by \$4 million to \$216 million, corresponding to a reported operating margin of 8.5% of sales, compared to 8.2% of sales in the same quarter of 2016. Operating margin increased by 30bps to 8.5%, compared to the same quarter of 2016, driven primarily by improved operating performance and favorable currency effects as well as lower capacity alignments and antitrust related matters offset by the planned higher investments for growth, primarily in R,D&E, net.

Income before taxes decreased by \$10 million compared to the same quarter of the previous year, driven primarily by our share of the equity method loss in Zenuity of about negative \$8 million as well as unfavorable other non-operating currency effects offset by higher operating income. Net income attributable to controlling interest was \$130 million, a decrease of \$19 million from the second quarter of 2016.

The effective tax rate in the second quarter of 2017 was 32.6% compared to 25.9% in the same quarter of 2016. Discrete tax items, net had an unfavorable impact of 7.8pp whereas in the same quarter of 2016 discrete tax items, net had a favorable impact of 1.2pp. The tax rate in the second quarter of 2017 was negatively impacted by recording valuation allowances on specific deferred tax assets compared to the second quarter of 2016.

Earnings per share (EPS) assuming dilution decreased by 13% to \$1.47 compared to \$1.68 for the same period one year ago. The main negative items affecting EPS were 19 cents from discrete tax items, net, 6 cents from equity method investments, 5 cents from currency translation partly offset by 11 cents from capacity alignment and antitrust related matters.

The weighted average number of shares outstanding assuming dilution was 88.1 million compared to 88.4 million in the second quarter of 2016.

### 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 16 Segment Information to our unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

#### Passive Safety

	Three months ended	Three months ended		Organic
(Dollars in millions)	June 30, 2017	June 30, 2016	Change	change <sup>1)</sup>
Segment sales	\$ 1,983.4	\$ 1,996.1	(0.6 )%	0.8 %
Segment operating income	\$ 208.1	\$ 206.8	0.6 %	
Segment operating margin	10.5	10.4	0.1 pp	
Headcount	62,722	60,767	3.2 %	

<sup>1)</sup>Non-U.S. GAAP measure, see reconciliation table above.

Compared to the same period last year, the operating income improved slightly despite higher investments in R,D&E, net, as well as other costs supporting the near term growth, and increased raw material costs. These cost increases were more than offset by less net impact from capacity alignments and antitrust related matters as well as from improved operational efficiencies.

Passive Safety has successfully focused on improving operational performance, with increased efficiency in several areas, including production, engineering and logistics. This focus continues and includes our work with the wave of new launches that begins towards the end of this year.

Passive Safety managed to record another quarter with double digit margins, despite continued high costs for growth. We still expect the costs for growth relative to sales to be close to its peak.

We have made proactive adjustments to adapt to softer markets with lower LVP in China and North America, and further changes may be made, if necessary.

More resources are being applied to prepare for the increase in launches that are scheduled towards the end of the year and into 2018. We are making every effort to ensure that these projects remain on track to be launched on time and within targeted cost and quality parameters aiming at delivering a cost effective sales growth that outpaces the light vehicle production.

## Electronics

	Three months ended	Three months ended		Organic
(Dollars in millions)	June 30, 2017	June 30, 2016	Change	change <sup>1)</sup>
Segment sales	\$ 578.9	\$ 597.8	(3.2 )%	(1.2 )%
Segment operating income	\$ 10.9	\$ 14.9	(26.8 )%	
Segment operating margin	1.9	2.5	(0.6 )pp	
Headcount	7,102	6,335	12.1	%

<sup>1)</sup>Non-U.S. GAAP measure, see reconciliation table above.

The operating margin declined primarily due to significantly higher investments in R,D&E, net, supporting long term growth. Headcount increased by 767.

Following the launch of the Zenuity joint venture in April, Electronics has further strengthened its position. Under the agreement with Velodyne, Autoliv will develop and market a scalable and auto-grade LiDAR sensor using Velodyne's core 3D software technology and proprietary LiDAR ASIC engine. We see material business opportunities in LiDAR, including Robo-Taxis.

As part of the co-operation with NVIDIA, Autoliv, Volvo Cars and Zenuity will use NVIDIA's AI computing platform as the foundation for advanced software development for next generation self-driving car technologies.

Complementing our innovation strategy, we made an investment commitment in Autotech Ventures as one way of staying at the forefront of emerging trends and provide opportunities to capitalize on external innovations, including autonomous driving. In the quarter, Electronics booked a handful of small orders in Active Safety with Asian and Western OEMs, including one new customer and one vision order. The larger active safety orders we target in 2017 are towards the end of the year, most likely in the fourth quarter and we are therefore so far in 2017 on a lower order intake level than what we recorded in 2016.

Adapting to fast changing technologies and customer demands, we continue to invest in technology competence, and capacity and our R,D&E headcount have increased by more than 700 the past year. We are thereby well prepared to support our customers in the ongoing race towards the world's first autonomous driving car.

## SIX MONTHS ENDED JUNE 30, 2017 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2016

### Market overview

### Light Vehicle Production Development

### Change vs. same period last year

Edgar Filing: AUTOLIV INC - Form 10-Q

	China	Japan	RoA	Americas	Europe	Total
LVP <sup>1)</sup>	3.0 %	8.6 %	1.6 %	1.3 %	1.3 %	2.8 %

<sup>1)</sup>Source: IHS July 17, 2017.

#### 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 six months ended June 30, 2017 and June 30, 2016, respectively:

Net sales, including Intersegment Sales (Dollars in millions)	Six months ended	
	June 30, 2017	June 30, 2016
Passive Safety	\$4,023.6	\$3,984.8
Electronics	1,162.2	1,054.2
Total segment sales	\$5,185.8	\$5,039.0
Corporate and other	1.9	1.9
Intersegment sales	(34.7 )	(32.4 )
Total net sales	\$5,153.0	\$5,008.5

Consolidated net sales increased by 2.9% compared to the same period of 2016 with an organic growth (non-U.S. GAAP measure, see reconciliation table below) of 2.3%, positive acquisition effects of 2.4% and negative currency translation of around 1.8%. All regions except Americas grew organically, with Europe, Japan and India as key drivers while North America's sales declined 2.8% organically.

#### Passive Safety Sales

Change vs. same period last year (Dollars in millions)	Six months ended June 30, 2017	Six months ended June 30, 2016	Reported		Currency effects <sup>1)</sup>	Organic change <sup>3)</sup>
			(U.S. GAAP)			
Airbag <sup>2)</sup>	\$ 2,670.8	\$ 2,639.4	1.2	%	(1.5 )%	2.7 %
Seatbelt <sup>2)</sup>	1,354.4	1,345.9	0.6	%	(2.2 )%	2.8 %
Intersegment sales	(1.6 )	(0.5 )	—		—	—
Total Passive Safety Sales	\$ 4,023.6	\$ 3,984.8	1.0	%	(1.7 )%	2.7 %

<sup>1)</sup>Effects from currency translations.

<sup>2)</sup>Including Corporate and other sales.

<sup>3)</sup>Non-U.S. GAAP measure, see reconciliation tables below.

Consolidated Passive Safety segment sales increased by 1.0% to \$4,024 million. Excluding negative currency translation effects, the organic sales growth (non-U.S. GAAP measure, see reconciliation table above) was 2.7%.

Airbag sales had solid organic growth (non-U.S. GAAP measure, see reconciliation table above) in the first six months in Asia, especially in Japan, China and India. Also Europe and South America showed organic growth, while North American sales declined organically.

Seatbelt sales organic growth (non-U.S. GAAP measure, see reconciliation table above) in the first six months came mainly from Europe and Japan while organic sales in North America, South Korea and China declined slightly.

Inflator replacement sales affected the segment's organic sales growth (non-U.S. GAAP measure, see reconciliation table above) for the first six months positively by around 0.2pp.

#### Electronics Sales

Change vs. same period last year (Dollars in millions)	Six months ended	Six months ended	Reported (U.S. GAAP)	Acquisitions/ Divestitures	Currency effects <sup>1)</sup>	Organic Change <sup>2)</sup>
	June 30, 2017	June 30, 2016				
Restraint Control and Sensing <sup>3)</sup>	\$502.4	\$513.4	(2.1)	% —	(1.0 )%	(1.1) %
Active Safety	382.7	376.4	1.7	% —	(3.0 )%	4.7 %
Brake Systems	242.7	133.4	82.0	% 90.3	(1.8 )%	(6.5 )%
Intersegment sales	34.4	31.0	—	—	—	—
Total Electronic Sales	\$1,162.2	\$1,054.2	10.2	% 11.6	(2.0 )%	0.6 %

<sup>1)</sup>Effects from currency translations.

<sup>2)</sup>Non-U.S. GAAP measure, see reconciliation tables below.

<sup>3)</sup>Including Corporate and other sales.

34

---

Edgar Filing: AUTOLIV INC - Form 10-Q

Consolidated Electronics segment sales increased for the first six months of 2017 by 10.2% to \$1,162 million compared to the same period 2016. Excluding acquisition effects and negative currency translation effects, the organic sales growth (non-U.S. GAAP measure, see reconciliation table above) was 0.6%.

Restraint Control and Sensing organic sales (non-U.S. GAAP measure, see reconciliation table above) (mainly airbag control modules and remote sensing units) declined in Japan and North America but increased in China, South Korea and India.

The organic sales increase (non-U.S. GAAP measure, see reconciliation table above) for Active Safety (mainly automotive radars, night vision systems, cameras with driver assist systems and positioning systems) was positively impacted by double-digit organic sales growth of radar and camera systems, and negatively impacted by sales declines for positioning systems in North America as well as the ramp-down of our internally developed brake control system in China.

Brake Systems organic sales (non-U.S. GAAP measure, see reconciliation table above) was adversely affected by model changes, notably Honda CR-V, and a reclassification of certain revenues from gross to net basis, as outlined in Autoliv's Financial Report for October – December 2016.

Sales by Segment/Product

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

Components of net sales increase (decrease)

Six months ended June 30, 2017

(Dollars in millions)

The following tables show the organic change for the six months ended June 30, 2017 compared to the same period last year:

	Passive Safety		Electronics		Other and eliminations		Total	
	%	\$	%	\$	\$	%	\$	
Reported change	1.0	\$38.9	10.2	\$108.0	\$ (2.4 )	2.9	\$144.5	
Currency effects <sup>1)</sup>	(1.7)	(69.9 )	(2.0 )	(20.0 )	0.8	(1.8)	(89.1 )	
Acquisitions/divestitures	—	—	11.6	121.9	(1.4 )	2.4	120.5	
Organic change	2.7	\$108.8	0.6	\$6.1	\$ (1.8)	2.3	\$113.1	

<sup>1)</sup>Effects from currency translations.

	Airbag Products <sup>2)</sup>		Seatbelt Products <sup>2)</sup>		Restraint Control and Sensing <sup>2)</sup>		Active Safety		Brake Systems		Total	
	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
Reported change	1.2	\$31.4	0.6	\$8.5	(2.1)	\$(11.0)	1.7	\$6.3	82.0	\$109.3	2.9	\$144.5
Currency effects <sup>1)</sup>	(1.5)	(41.0)	(2.2)	(28.9)	(1.0 )	(5.3 )	(3.0)	(11.4)	(1.8)	(2.5)	(1.8)	(89.1)



Edgar Filing: AUTOLIV INC - Form 10-Q

Acquisitions/divestitures	—	—	—	—	—	—	—	—	90.3	120.5	2.4	120.5
Organic change	2.7	\$72.4	2.8	\$37.4	(1.1)	\$(5.7)	4.7	\$17.7	(6.5)	\$(8.7)	2.3	\$113.1

<sup>1)</sup>Effects from currency translations.

<sup>2)</sup>Including Corporate and other sales.

35

---

## Sales by Region

The tables below reconciles the reported change by geographic region to organic change for the six months ended June 30, 2017 compared to the same period last year:

	Sales (MUSD)	Reported (U.S. GAAP)		Acquisitions/ Divestitures	Currency effects <sup>1)</sup>	Organic change <sup>2)</sup>	
Asia	\$1,814.0	8.0	%	5.0	(1.7)	4.7	%
Whereof: China	\$822.7	1.9	%	4.5	(4.8)	2.2	%
Japan	\$509.4	19.0	%	11.2	(1.2)	9.0	%
Rest of Asia	\$481.9	8.3	%	—	3.1	5.2	%
Americas	\$1,690.1	(0.7)	%	2.1	(0.8)	(2.0)	%
Europe	\$1,648.9	1.4	%	—	(2.8)	4.2	%
Global	\$5,153.0	2.9	%	2.4	(1.8)	2.3	%

<sup>1)</sup>Effects from currency translations.

<sup>2)</sup>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)

Six months ended June 30, 2017

(Dollars in millions)

	China		Japan		Rest of Asia		Americas		Europe		Total	
	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
Reported change	1.9	\$15.6	19.0	\$81.3	8.3	\$36.8	(0.7)	\$(12.3)	1.4	\$23.1	2.9	\$144.5
Currency effects <sup>1)</sup>	(4.8)	(38.9)	(1.2)	(4.8)	3.1	13.5	(0.8)	(14.3)	(2.8)	(44.6)	(1.8)	(89.1)
Acquisitions/divestitures	4.5	36.6	11.2	47.8	—	—	2.1	36.1	—	—	2.4	120.5
Organic change	2.2	\$17.9	9.0	\$38.3	5.2	\$23.3	(2.0)	\$(34.1)	4.2	\$67.7	2.3	\$113.1

<sup>1)</sup>Effects from currency translations.

The organic sales growth (non-U.S. GAAP measure, see reconciliation table above) of 2.3% in the first six months of 2017 was mainly driven by the organic growth in Europe, Japan and India. The inflator replacement sales impacted organic growth positively by less than 0.2pp. Light vehicle production grew by 2.8%, according to IHS.

The organic sales increase (non-U.S. GAAP measure, see reconciliation table above) from Autoliv’s companies in China was mainly driven by the global OEMs, primarily Mercedes and Renault/Nissan, partly offset by Hyundai/Kia. Organic sales to the domestic OEMs declined slightly, primarily caused by lower sales to Baojun which was partly offset by strong sales to models from Geely and GAC.

Organic sales (non-U.S. GAAP measure, see reconciliation table above) growth from Autoliv's companies in Japan was driven by the Japanese OEMs, in particular Toyota, Mitsubishi and Nissan. Offsetting effects are seen with decreasing inflator replacement sales.

Organic sales (non-U.S. GAAP measure, see reconciliation table above) growth from Autoliv's companies in the Rest of Asia was driven by strong sales development in India, mainly to Hyundai and Suzuki. Sales in South Korea increased slightly, driven by Hyundai and Renault.

Sales from Autoliv's companies in Americas declined organically (non-U.S. GAAP measure, see reconciliation table above) by 2.0%. North America declined close to 3% organically, driven primarily by D-3, especially GM and Ford. South America grew organically by 38%, primarily with Fiat, Chevrolet and Renault. Inflator replacement sales contributed positively by 0.6pp to organic growth.

The 4.2% organic sales growth (non-U.S. GAAP measure, see reconciliation table above) in the period from Autoliv's companies in Europe was mainly driven by Mercedes, Volvo and Active Safety products. Offsetting effects were mainly seen with Opel, PSA and BMW.

## Earnings

	Six months ended		Six months ended	
(Dollars in millions, except per share data)	June 30, 2017	June 30, 2016	Change	
Net Sales	\$ 5,153.0	\$ 5,008.5	2.9	%
Gross profit	\$ 1,078.0	\$ 1,027.5	4.9	%
% of sales	20.9	% 20.5	% 0.4	pp
S,G&A	\$ (245.0 )	\$ (233.4 )	5.0	%
% of sales	(4.8 )%	(4.7 )%	(0.1 )	pp
R,D&E net	\$ (388.2 )	\$ (335.2 )	15.8	%
% of sales	(7.5 )%	(6.7 )%	(0.8 )	pp
Amortization of intangibles	\$ (29.2 )	\$ (19.8 )	47.5	%
% of sales	(0.6 )%	(0.4 )%	(0.2 )	pp
Other income (expense), net	\$ 18.4	\$ (21.2 )	n.m.	
% of sales	0.4	% (0.4 )%	0.8	pp
Operating income	\$ 434.0	\$ 417.9	3.9	%
% of sales	8.4	% 8.3	% 0.1	pp
Income before taxes	\$ 384.6	\$ 390.7	(1.6 )	%
Tax rate	29.7	% 27.8	% 1.9	pp
Net income	\$ 270.4	\$ 281.9	(4.1 )	%
Net income attributable to controlling interest	\$ 273.7	\$ 281.6	(2.8 )	%
Earnings per share, diluted <sup>1)</sup>	\$ 3.10	\$ 3.19	(2.8 )	%

<sup>1)</sup> 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 six months of 2017 increased by \$51 million, mainly a result of higher sales. The gross margin increased by 0.4pp compared to the same period in 2016, mainly as a result of higher organic sales (non-U.S. GAAP measure, see reconciliation table above), improved operational performance and favorable currency effects. These positive effects were partly offset by costs related to the investments for capacity and growth as well as negative impact from raw material prices.

Selling, General and Administrative (S,G&A) expenses increased approximately in line with sales. Because we continued to invest in technology competence and capacity, Research, Development & Engineering (R,D&E) expenses, net increased by \$53 million, or 16%, compared to the same period prior year, amounting to 7.5% of sales compared to 6.7% of sales in the same period in 2016. The increase in amortization expense is driven by the M/A-COM impairment.

Other income (expense), net in 2017 was positively impacted by a reduced earn-out liability and provision reserve reversals, compared to the same period prior year consisting primarily of capacity alignment charges and antitrust related matters.

Operating income increased by \$16 million to \$434 million, or 8.4% of sales, for the first half of the year, an increase of 0.1pp compared to the same period in the prior year. The positive effect from the improved gross margin was more than offset by the planned higher investments, mainly related to R,D&E, net, and capacity to support the future growth.

Operating margin remained essentially flat compared to the same period in 2016, as the effects of planned higher investments for growth, primarily in R,D&E, net, was offset by higher sales, improved operational performance, provision reserve true-ups, a reduced earn-out liability recorded in the first quarter of 2017 and favorable currency effects.

Income before taxes decreased by \$6 million compared to the same period the previous year, primarily due to our share of the equity method loss in Zenuity and unfavorable non-operating currency effects partly offset by higher operating income. Net income attributable to controlling interest was \$274 million, a decrease of \$8 million from the same period 2016.

The effective tax rate in the first six months of 2017 was 29.7% compared to 27.8% in the same period in 2016. Discrete tax items, net had an unfavorable impact of 3.7pp whereas in the same period of 2016 discrete tax items, net had an unfavorable impact of 0.2pp. The tax rate in the first six months 2017 was negatively impacted by recording valuation allowances on specific deferred tax assets compared to the same period of 2016.

Earnings per share (EPS) assuming dilution decreased by 3% to \$3.10 compared to \$3.19 for the same period one year ago. The main negative items affecting EPS were 15 cents from discrete tax items, net, 10 cents from currency translation, and 6 cents from equity method investments. This was partly offset by 24 cents from capacity alignment and antitrust related matters.

## Edgar Filing: AUTOLIV INC - Form 10-Q

The weighted average number of shares outstanding assuming dilution was 88.3 million compared to 88.4 million in the first six months 2016.

### 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 16 Segment Information to our unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

#### Passive Safety

	Six months ended		Six months ended		Organic	
(Dollars in millions)	June 30, 2017	June 30, 2016	Change		change <sup>1)</sup>	
Segment sales	\$ 4,023.6	\$ 3,984.8	1.0	%	2.7	%
Segment operating income	\$ 413.0	\$ 398.4	3.7	%		
Segment operating margin	10.3	10.0	0.3	pp		
Headcount	62,722	60,767	3.2	%		

<sup>1)</sup>Non-U.S. GAAP measure, see reconciliation table above.

Compared to the same period last year, the operating income was positively impacted by higher sales and lower costs for capacity alignments while higher investments in R,D&E, net, as well as other costs supporting near term growth, and increased raw material costs had a negative effect. Despite this, the operating margin reached 10.3%.

#### Electronics

	Six months ended		Six months ended		Organic	
(Dollars in millions)	June 30, 2017	June 30, 2016	Change		change <sup>1)</sup>	
Segment sales	\$ 1,162.2	\$ 1,054.2	10.2	%	0.6	%
Segment operating income	\$ 24.5	\$ 26.7	(8.2)	)%		
Segment operating margin	2.1	2.5	(0.4)	)pp		
Headcount	7,102	6,335	12.1	%		

<sup>1)</sup>Non-U.S. GAAP measure, see reconciliation table above.

The operating margin declined primarily due to higher investments in R,D&E, net, and the consolidation of the ANBS joint venture, which was included for the full six months of 2017 versus only three months of 2016 first half year. Headcount increased by 767 compared to the same period last year, of which virtually all were within R,D&E.

### LIQUIDITY AND SOURCES OF CAPITAL

Cash flow from operations amounted to \$179 million in the second quarter of 2017 compared to \$103 million in the same quarter of 2016. The increase was primarily related to the decrease in working capital due to favorable timing effects. Cash flow from operations amounted to \$329 million for the first six months of 2017 compared to \$303 million in the first six months 2016. The increase was primarily related to the decrease in working capital.

In the second quarter of 2017, net cash provided by operating activities less net cash used in investing activities was negative \$71 million, primarily driven by our investment in Zenuity, compared to negative \$28 million during the same quarter of 2016. Capital expenditures, net, of \$138 million were \$39 million more than depreciation and amortization expense during the second quarter 2017 and \$9 million more than capital expenditures, net during the second quarter of 2016. For the first six months of 2017, net cash provided by operating activities less net cash used in investing activities was negative \$43 million compared to negative \$146 million during the same period 2016, mainly due to the ANBS acquisition in 2016. Capital expenditures, net, of \$260 million were \$45 million more than depreciation and amortization expense during the first six months 2017 and \$39 million more than capital expenditures, net during the first six months 2016.

Cash used in financing activities for the first six months of 2017 amounted to \$295 million compared to \$81 million for the same period last year. The increase in cash used in financing activities was primarily driven by share repurchases of \$157 million.

Edgar Filing: AUTOLIV INC - Form 10-Q

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)

	June 30, 2017	March 31, 2017	December 31, 2016
Total current assets	\$4,047.5	\$4,329.0	\$ 4,140.9
Total current liabilities	(2,622.6)	(2,701.3)	(2,597.6 )
Working capital	1,424.9	1,627.7	1,543.3
Cash and cash equivalents	(922.5 )	(1,235.2)	(1,226.7 )
Short-term debt	189.1	225.2	219.8
Derivative (asset) and liability, current	(2.5 )	(4.5 )	(8.4 )
Dividends payable	52.6	53.0	51.2
Operating working capital	\$741.6	\$666.2	\$ 579.2

Working capital decreased to 14% of sales from 17% of sales on June 30, 2016 and operating working capital (non-U.S. GAAP measure, see reconciliation table above) as a percentage of sales was 7.3%, up from 7.1% on June 30, 2016. 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 75 days outstanding, compared to 70 days outstanding on December 31, 2016 and 75 days outstanding on June 30, 2016. Days inventory outstanding was 32 days, compared to 31 days on December 31, 2016 and 30 days on June 30, 2016.

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)

	June 30, 2017	March 31, 2017	December 31, 2016
Short-term debt	\$189.1	\$225.2	\$ 219.8
Long-term debt	1,323.1	1,323.7	1,323.6
Total debt	1,512.2	1,548.9	1,543.4



Edgar Filing: AUTOLIV INC - Form 10-Q

Cash and cash equivalents	(922.5 )	(1,235.2)	(1,226.7 )
Debt-related derivatives	(3.0 )	(1.6 )	(3.4 )
Net debt	\$586.7	\$312.1	\$ 313.3

The Company's net debt position (non-U.S. GAAP measure, see reconciliation table above) increased by \$275 million during the second quarter, and by \$273 million during the first six months, to \$587 million at June 30, 2017, mainly due to share repurchases and our investment in Zenuity. Gross interest-bearing debt decreased during the second quarter by \$37 million, and during the first six months by \$31 million, to \$1,512 million as of June 30, 2017.

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)

	June 30, 2017	December 31, 2016	June 30, 2016
Net debt <sup>1)</sup>	\$586.7	\$ 313.3	\$437.8
Pension liabilities	250.0	237.5	216.4
Debt per the Policy	\$836.7	\$ 550.8	\$654.2
Income before income taxes <sup>2)</sup>	\$797.7	\$ 803.8	\$807.4
Plus: Interest expense, net <sup>2,3)</sup>	56.4	57.9	58.4
Depreciation and amortization of intangibles <sup>2,4)</sup>	415.6	383.0	351.4
EBITDA per the Policy	\$1,269.7	\$ 1,244.7	\$1,217.2
Leverage ratio	0.7	0.4	0.5

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

<sup>2)</sup>Latest 12-months.

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

<sup>4)</sup>Including impairment write-offs, if any.

Autoliv’s policy is to maintain a leverage ratio (non-U.S. GAAP measure, see calculation table above) commensurate with a strong investment grade credit rating. The Company measures its leverage ratio as net debt (non-U.S. GAAP measure, see reconciliation table above) 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 1x within a range of 0.5x to 1.5x. As of June 30, 2017, the Company had a leverage ratio of 0.7x.

During the second quarter, total equity increased by \$5 million to \$4,112 million as of June 30, 2017, mainly due to \$128 million from net income and positive currency translations of \$86 million. The increase was partly offset by \$157 million from share repurchases and \$53 million in dividends. Total parent shareholders’ equity was \$3,860 million corresponding to \$44.42 per share. For the first six months, total equity increased by \$186 million to \$4,112 million as of June 30, 2017, mainly due to \$270 million from net income and positive currency translations of \$174 million. The increase was partly offset by share repurchases of \$157 million and \$106 million in dividends. As of June 30, 2017, total parent shareholders’ equity was \$3,860 million corresponding to \$44.42 per share.

## Headcount

	June 30, 2017	March 31, 2017	June 30, 2016
Headcount	70,225	70,580	67,465
Whereof: Direct workers in manufacturing	67 %	67 %	69 %
Best Cost Countries	74 %	75 %	74 %
Temporary personnel	13 %	13 %	11 %

Compared to March 31, 2017, total headcount (permanent employees and temporary personnel) decreased by 355, despite increasing by 343 in R,D&E. Compared to a year ago, headcount increased by 2,760, about half of the increase in R,D&E.

#### Outlook

Mainly based on our customer call-offs, we expect organic sales for the third quarter of 2017 to increase in the range of 0-2% compared to the same quarter of 2016. Effects from currency translations are expected to be negligible, resulting in a consolidated sales growth in the range of 0-2%. The adjusted operating margin, excluding costs for capacity alignments and antitrust related matters, is expected to be in the 7.5-8.0% range.

The expectation for the full year 2017 adjusted operating margin remains around 8.5%, excluding costs for capacity alignments and antitrust related matters. The indication for the full year organic sales growth is now around 2%, which is lower than the previous indication of around 4%. Currency translations and M&A activities are expected to have a combined positive effect of around 1%, resulting in a consolidated sales increase of around 3%.

The projected tax rate, excluding any discrete items, for the full year 2017, is expected to be around 30% and is subject to change due to any discrete or nonrecurring events that may occur.

We expect the operational cash flow for the full year 2017 to remain strong and to be more than \$0.8 billion, excluding antitrust related matters and any other discrete items. Supporting our growth strategy, capital expenditures are expected to be in the range of 5-6% of sales for the full year, while R,D&E investments, net are expected to be above 7.0 % of sales for the full year, an increase from our previous indication of “high end of 6.5-7.0% range.”

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.

#### 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

Other than as noted below, as of March 31, 2017, 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, 2016 filed with the SEC on February 23, 2017.

On June 30, 2017, Autoliv committed to make a \$15 million investment in Autotech Fund I, L.P. pursuant to a limited partnership agreement. This fund is focuses broadly on the automotive industry and complements the Company’s innovation strategy, particularly in the areas of active safety and autonomous driving.

#### OTHER RECENT EVENTS

##### Launches in the Second Quarter of 2017

##### Honda Odyssey

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

##### WEY VV7C / VV7S

Driver airbag with steering wheel, passenger airbag, side airbag, inflatable curtain, seatbelt with pretensioner and safety electronics.

##### Tesla Model 3

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

##### Kia Stinger

Driver airbag, passenger airbag, knee airbag, side airbag, inflatable curtain and safety electronics.

##### Fiat Argo

Driver airbag with steering wheel, passenger airbag and seatbelt with pretensioner.

Ford Fiesta

Side airbag and safety electronics.

Subaru XV / Crosstrek

Side airbag and seatbelt with pretensioner.

41

---

Mercedes S-Class

Radar system, mono & stereo camera system, night vision camera, ADAS ECU, active seatbelt with pretensioner, belt-bag and cable cutter.

Volvo XC60

Driver airbag with steering wheel, active seatbelt with pretensioner, cable cutters, child seats and safety electronics.

Other Events

On May 5, 2017, Autoliv announced it was honored with a 2016 FCA US LLC (Fiat-Chrysler) Supplier of the Year award in the Electrical category. The Supplier of the Year awards recognize companies that have shown an extraordinary commitment to innovation, quality, cost, delivery and the FCA Foundational Principles.

On June 5, 2017, Autoliv announced that Ola Boström, VP Research, was honored with the US Government's Award for Safety Engineering Excellence. Ola Boström receives the award in recognition of and appreciation for his exceptional scientific research, which started with neck injuries. His finding has become an important criterion to be used in research, development, and validation work, and is also used in the Euro NCAP rating program.

- On June 27, 2017, Autoliv and Volvo Cars announced that they, with Zenuity, are teaming up with NVIDIA to develop advanced systems and software for self-driving cars. The target is to bring level 4 autonomous driving to the market by 2021. As part of the agreement, Autoliv, Volvo and Zenuity will use NVIDIA's AI car computing platform as the foundation for their own advanced software development.

On June 30, 2017, to complement its innovation strategy, Autoliv announced a \$15 million investment commitment in Autotech Ventures, the digital ground transport venture capital fund. This investment is one way Autoliv intends to stay in the forefront of emerging trends and provide opportunities to capitalize on external innovations. The Autotech Ventures fund is a way to review a high number of innovative startup companies, particularly in the areas of automation and autonomous driving.

On July 3, 2017, Autoliv announced the signing of an agreement with Velodyne LiDAR, Inc., the leading supplier of LiDAR technology, to commercialize LiDAR, a critical sensor for autonomous cars. Velodyne will support Autoliv in the development of an automotive grade LiDAR. The first applications will be in the Robo-Taxi segment.

In the second quarter 2017, Autoliv repurchased 1,438,472 shares at an average price of \$109.1 per share, totaling \$157 million. This was the first time since March 2015 that Autoliv repurchased shares under its buyback program. On June 30, 2017, approximately 3.0 million shares remained of the buyback mandate.

Autoliv extended the maturity date of its \$1.1 billion revolving credit facility (RCF) from July 2021 to July 2022 with unchanged terms and conditions. This was the first extension option included in the RCF agreement signed in July 2016.

Dividend

On May 9, 2017, the Company declared a quarterly dividend to shareholders of 60 cents per share for the third quarter of 2017, with the following payment schedule:

Ex-date (common stock)	August 21, 2017
Ex-date (SDRs)	August 22, 2017
Record Date	August 23, 2017
Payment Date	September 7, 2017

Next Report

Autoliv intends to publish the quarterly earnings report for the third quarter of 2017 on Thursday, October 26, 2017.



ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of June 30, 2017, 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, 2016 filed with the SEC on February 23, 2017.

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 13 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 June 30, 2017, 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, 2016 filed with the SEC on February 23, 2017.

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

## Stock repurchase program

The following table provides information with respect to purchases of Autoliv's common stock by the Company during the fiscal second quarter of 2017.

Period	Nasdaq Stockholm		New York Stock Exchange ("NYSE")		Combined Nasdaq Stockholm and NYSE Total			Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
	Total Number of Shares Purchased	Average Price Paid per Share (USD)	Total Number of Shares Purchased	Average Price Paid per Share (USD)	Publicly Announced Plans or Programs (1)	Average Price Paid per Share (USD)		
April 1-30, 2017	—	—	—	—	—	—	4,424,760	
May 1-31, 2017	419,972	106.1271	451,000	105.9364	870,972	106.0283	3,553,788	
June 1-30, 2017	292,500	113.5685	275,000	113.9603	567,500	113.7584	2,986,288	
Total	712,472	109.1821	726,000	108.9757	1,438,472	109.0780	2,986,288	

(1)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. The stock repurchases made in the second quarter of 2017 are the first stock repurchases made under the program since May 2015. 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.

44

---

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).
- 10.1+ Amendment No. 3 to the Autoliv, Inc. 1997 Stock Incentive Plan as amended and restated on May 6, 2009, dated April 24, 2017, incorporated herein by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 28, 2017).
- 10.2+ Form of Non-Employee Director restricted stock unit award agreement to be used under the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated, incorporated herein by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 28, 2017).
- 10.3+ Form of Employee restricted stock unit award agreement (2017) to be used under the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated, incorporated herein by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 28, 2017).
- 10.4+ Form of performance share award agreement (2017) to be used under the Autoliv, Inc. 1997 Stock Incentive Plan, as amended and restated, incorporated herein by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 28, 2017).
- 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 June 30, 2017, formatted in XBRL (Extensible Business Reporting Language) and filed electronically herewith: (i) the Consolidated Statements of Net Income; (ii) the Condensed 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.

+Management Contract or Compensatory Plan.

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: July 21, 2017

AUTOLIV, INC.

(Registrant)

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