**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 September 30, 2020**

**or**

|  |  |
| --- | --- |
|  |  |
| ☐ | **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**    **For the transition period from                     to** |

**Commission File No.: 001-12933**

**AUTOLIV, INC.**

**(Exact name of registrant as specified in its charter)**

|  |  |  |
| --- | --- | --- |
| **Delaware** |  | **51-0378542** |
| **(State or other jurisdiction of** |  | **(I.R.S. Employer** |
| **incorporation or organization)** |  | **Identification No.)** |
|  |  |  |
| **Klarabergsviadukten 70, Section B7** |  |  |
| **Box 70381,** |  |  |
| **Stockholm, Sweden** |  | **SE-107 24** |
| **(Address of principal executive offices)** |  | **(Zip Code)** |

**+46 8 587 20 600**

**(Registrant’s telephone number, including area code)**

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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 October 15, 2020, there were 87,337,501 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 are based upon our current expectations, various assumptions and/or data available from third parties. Our expectations and assumptions are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that such forward-looking statements will materialize or prove to be correct as forward-looking statements are inherently subject to known and unknown risks, uncertainties and other factors which may cause actual future results, performance or achievements to differ materially from the future results, performance or achievements expressed in or implied by such forward-looking statements.

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

Because these forward-looking statements involve risks and uncertainties, the outcome could differ materially from those set out in the forward-looking statements for a variety of reasons, including without limitation: general economic conditions; the impacts of the coronavirus (COVID-19) pandemic on the Company’s financial condition, business operations, operating costs, liquidity and competition; changes in light vehicle production; fluctuation in vehicle production schedules for which the Company is a supplier; changes in general industry and market conditions or regional growth or decline; changes in and the successful execution of our capacity alignment: restructuring and cost reduction and efficiency initiatives and the market reaction thereto; loss of business from increased competition; higher raw material, fuel and energy costs; changes in consumer and customer preferences for end products; customer losses; changes in regulatory conditions; customer bankruptcies, consolidations or restructuring or divestiture of customer brands; unfavorable fluctuations in currencies or interest rates among the various jurisdictions in which we operate; component shortages; market acceptance of our new products; costs or difficulties related to the integration of any new or acquired businesses and technologies; continued uncertainty in pricing negotiations with customers; successful integration of acquisitions and operations of joint ventures; successful implementation of strategic partnerships and collaborations; our ability to be awarded new business; product liability, warranty and recall claims and investigations and other litigation and customer reactions thereto (including the resolution of the Toyota Recall); higher expenses for our pension and other postretirement benefits, including higher funding needs for our pension plans; work stoppages or other labor issues; possible adverse results of pending or future litigation or infringement claims; our ability to protect our intellectual property rights; negative impacts of antitrust investigations or other governmental investigations and associated litigation relating to the conduct of our business; tax assessments by governmental authorities and changes in our effective tax rate; dependence on key personnel; legislative or regulatory changes impacting or limiting our business; political conditions; dependence on and relationships with customers and suppliers; and other risks and uncertainties identified in Item 1A “Risk Factors” of this Quarterly Report on Form 10-Q, Item 1A “Risk Factors” and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 21, 2020.

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.

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**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

**(Dollars in millions, except per share data)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three months ended September 30** | | | | | |  |  | **Nine months ended September 30** | | | | | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| **Net sales** |  | **$** | **2,037.2** |  |  | **$** | **2,027.7** |  |  | **$** | **4,930.6** |  |  | **$** | **6,356.4** |  |
| Cost of sales |  |  | (1,637.5 | ) |  |  | (1,648.6 | ) |  |  | (4,185.5 | ) |  |  | (5,198.8 | ) |
| **Gross profit** |  |  | **399.7** |  |  |  | **379.1** |  |  |  | **745.1** |  |  |  | **1,157.6** |  |
| Selling, general and administrative expenses |  |  | (91.7 | ) |  |  | (97.7 | ) |  |  | (283.7 | ) |  |  | (300.2 | ) |
| Research, development and engineering expenses, net |  |  | (101.6 | ) |  |  | (99.1 | ) |  |  | (292.2 | ) |  |  | (323.5 | ) |
| Amortization of intangibles |  |  | (2.4 | ) |  |  | (2.9 | ) |  |  | (7.5 | ) |  |  | (8.6 | ) |
| Other income (expense), net |  |  | (29.5 | ) |  |  | (25.6 | ) |  |  | (86.4 | ) |  |  | (28.8 | ) |
| **Operating income** |  |  | **174.5** |  |  |  | **153.8** |  |  |  | **75.3** |  |  |  | **496.5** |  |
| Income from equity method investment |  |  | 0.7 |  |  |  | 0.4 |  |  |  | 1.0 |  |  |  | 1.6 |  |
| Interest income |  |  | 1.1 |  |  |  | 0.7 |  |  |  | 3.7 |  |  |  | 2.7 |  |
| Interest expense |  |  | (21.2 | ) |  |  | (17.1 | ) |  |  | (53.3 | ) |  |  | (52.6 | ) |
| Other non-operating items, net |  |  | (6.6 | ) |  |  | (3.4 | ) |  |  | (13.4 | ) |  |  | (9.4 | ) |
| **Income before income taxes** |  |  | **148.5** |  |  |  | **134.4** |  |  |  | **13.3** |  |  |  | **438.8** |  |
| Income tax expense |  |  | (49.7 | ) |  |  | (48.4 | ) |  |  | (13.9 | ) |  |  | (131.9 | ) |
| **Net income (loss)** |  |  | **98.8** |  |  |  | **86.0** |  |  |  | **(0.6** | **)** |  |  | **306.9** |  |
| Less: Net income attributable to non-controlling interest |  |  | 0.5 |  |  |  | 0.6 |  |  |  | 1.0 |  |  |  | 1.0 |  |
| **Net income (loss) attributable to controlling interest** |  | **$** | **98.3** |  |  | **$** | **85.4** |  |  | **$** | **(1.6** | **)** |  | **$** | **305.9** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Net earnings (loss) per share  –  basic 1)** |  | **$** | **1.13** |  |  | **$** | **0.98** |  |  | **$** | **(0.02** | **)** |  | **$** | **3.51** |  |
| **Net earnings (loss) per share  –  diluted 1)** |  | **$** | **1.12** |  |  | **$** | **0.98** |  |  | **$** | **(0.02** | **)** |  | **$** | **3.50** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Weighted average number of shares outstanding, net of**  **treasury shares (in millions)** |  |  | **87.3** |  |  |  | **87.2** |  |  |  | **87.3** |  |  |  | **87.2** |  |
| **Weighted average number of shares outstanding,**  **assuming dilution and net of treasury**  **shares (in millions)** |  |  | **87.5** |  |  |  | **87.3** |  |  |  | **87.3** |  |  |  | **87.4** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash dividend per share – declared 2)** |  | **$** | **—** |  |  | **$** | **0.62** |  |  | **$** | **0.62** |  |  | **$** | **1.86** |  |
| **Cash dividend per share – paid** |  | **$** | **—** |  |  | **$** | **0.62** |  |  | **$** | **0.62** |  |  | **$** | **1.86** |  |

|  |  |
| --- | --- |
| 1) | Participating share awards with the right to receive dividend equivalents are (under the two-class method) excluded from the earnings per share calculation (see Note 11 to the unaudited condensed consolidated financial statements). |
| 2) | On February 20, the Company declared a dividend of $0.62 per share for the second quarter of 2020. On April 2, 2020, the Company canceled its declared dividend for the second quarter of 2020. |

See Notes to the unaudited Condensed Consolidated Financial Statements.

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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

**(Dollars in millions)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three months ended September 30** | | | | | |  |  | **Nine months ended September 30** | | | | | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| **Net income (loss)** |  | **$** | **98.8** |  |  | **$** | **86.0** |  |  | **$** | **(0.6** | **)** |  | **$** | **306.9** |  |
| *Other comprehensive income (loss) before tax:* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Change in cumulative translation adjustments |  |  | 56.1 |  |  |  | (71.6 | ) |  |  | (19.1 | ) |  |  | (44.7 | ) |
| Net change in unrealized components of defined benefit plans |  |  | 1.7 |  |  |  | 0.0 |  |  |  | 5.7 |  |  |  | 0.1 |  |
| **Other comprehensive income (loss), before tax** |  |  | **57.8** |  |  |  | **(71.6** | **)** |  |  | **(13.4** | **)** |  |  | **(44.6** | **)** |
| Tax effect allocated to other comprehensive loss |  |  | (0.6 | ) |  |  | 0.0 |  |  |  | (1.8 | ) |  |  | 0.0 |  |
| **Other comprehensive income (loss), net of tax** |  |  | **57.2** |  |  |  | **(71.6** | **)** |  |  | **(15.2** | **)** |  |  | **(44.6** | **)** |
| **Comprehensive income (loss)** |  |  | **156.0** |  |  |  | **14.4** |  |  |  | **(15.8** | **)** |  |  | **262.3** |  |
| Less: Comprehensive income attributable to     non-controlling interest |  |  | 1.0 |  |  |  | 0.1 |  |  |  | 1.3 |  |  |  | 0.6 |  |
| **Comprehensive income (loss) attributable to**  **controlling interest** |  | **$** | **155.0** |  |  | **$** | **14.3** |  |  | **$** | **(17.1** | **)** |  | **$** | **261.7** |  |

See Notes to the unaudited Condensed Consolidated Financial Statements.

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**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

**(Dollars in millions)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of** | | | | | |  |
|  |  | **September 30, 2020** | |  |  | **December 31, 2019** | |  |
| **Assets** |  |  |  |  |  |  |  |  |
| Cash and cash equivalents |  | $ | 1,476.5 |  |  | $ | 444.7 |  |
| Receivables, net |  |  | 1,615.7 |  |  |  | 1,626.7 |  |
| Inventories, net |  |  | 713.8 |  |  |  | 740.9 |  |
| Other current assets |  |  | 230.5 |  |  |  | 189.8 |  |
| **Total current assets** |  |  | **4,036.5** |  |  |  | **3,002.1** |  |
| Property, plant and equipment, net |  |  | 1,779.1 |  |  |  | 1,815.7 |  |
| Investments and other non-current assets |  |  | 475.6 |  |  |  | 386.4 |  |
| Operating lease right-of-use assets |  |  | 137.3 |  |  |  | 156.8 |  |
| Goodwill |  |  | 1,389.6 |  |  |  | 1,387.9 |  |
| Intangible assets, net |  |  | 15.3 |  |  |  | 22.3 |  |
| **Total assets** |  | **$** | **7,833.4** |  |  | **$** | **6,771.2** |  |
|  |  |  |  |  |  |  |  |  |
| **Liabilities and equity** |  |  |  |  |  |  |  |  |
| Short-term debt 1) |  | $ | 1,025.5 |  |  | $ | 368.1 |  |
| Accounts payable |  |  | 912.4 |  |  |  | 950.6 |  |
| Accrued expenses |  |  | 1,011.0 |  |  |  | 824.7 |  |
| Operating lease liabilities - current |  |  | 35.9 |  |  |  | 37.8 |  |
| Other current liabilities |  |  | 236.5 |  |  |  | 229.0 |  |
| **Total current liabilities** |  |  | **3,221.3** |  |  |  | **2,410.2** |  |
| Long-term debt 1) |  |  | 2,007.1 |  |  |  | 1,726.1 |  |
| Pension liability |  |  | 239.2 |  |  |  | 240.2 |  |
| Operating lease liabilities - non-current |  |  | 102.0 |  |  |  | 119.4 |  |
| Other non-current liabilities |  |  | 150.5 |  |  |  | 152.9 |  |
| **Total non-current liabilities** |  |  | **2,498.8** |  |  |  | **2,238.6** |  |
| Common stock |  |  | 102.8 |  |  |  | 102.8 |  |
| Additional paid-in capital |  |  | 1,329.3 |  |  |  | 1,329.3 |  |
| Retained earnings |  |  | 2,282.8 |  |  |  | 2,283.5 |  |
| Accumulated other comprehensive loss |  |  | (464.4 | ) |  |  | (448.9 | ) |
| Treasury stock |  |  | (1,150.7 | ) |  |  | (1,157.5 | ) |
| **Total controlling interest's equity** |  |  | **2,099.8** |  |  |  | **2,109.2** |  |
| Non-controlling interest |  |  | 13.5 |  |  |  | 13.2 |  |
| **Total equity** |  |  | **2,113.3** |  |  |  | **2,122.4** |  |
| **Total liabilities and equity** |  | **$** | **7,833.4** |  |  | **$** | **6,771.2** |  |

|  |  |
| --- | --- |
| 1) | As of September 30, 2020, $600 million of the revolving credit facility loan was classified as short-term debt since it was repaid on October 2, 2020. See also Note 3 – Fair value measurements. |

See Notes to the unaudited condensed consolidated financial statements.

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**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

**(Dollars in millions)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine months ended September 30** | | | | | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| **Operating activities** |  |  |  |  |  |  |  |  |
| Net (loss) income |  | $ | (0.6 | ) |  | $ | 306.9 |  |
| *Adjustments, non-cash items, to reconcile net (loss) income to cash provided by*  *operating activities:* |  |  |  |  |  |  |  |  |
| Depreciation and amortization |  |  | 268.1 |  |  |  | 260.1 |  |
| Deferred income taxes |  |  | (82.4 | ) |  |  | 2.4 |  |
| Other non-cash items, net |  |  | (1.0 | ) |  |  | 0.8 |  |
| *Increase (decrease) in operating capital:* |  |  |  |  |  |  |  |  |
| EC antitrust payment |  |  | — |  |  |  | (203.0 | ) |
| Net change in operating assets and liabilities |  |  | 163.2 |  |  |  | (37.8 | ) |
| Other, net |  |  | 32.7 |  |  |  | (1.0 | ) |
| **Net cash provided by operating activities** |  |  | **380.0** |  |  |  | **328.4** |  |
|  |  |  |  |  |  |  |  |  |
| **Investing activities** |  |  |  |  |  |  |  |  |
| Expenditures for property, plant and equipment |  |  | (231.5 | ) |  |  | (360.0 | ) |
| Proceeds from sale of property, plant and equipment |  |  | 3.0 |  |  |  | 1.9 |  |
| **Net cash used in investing activities** |  |  | **(228.5** | **)** |  |  | **(358.1** | **)** |
|  |  |  |  |  |  |  |  |  |
| **Financing activities** |  |  |  |  |  |  |  |  |
| Net decrease in short-term debt 1) |  |  | (197.7 | ) |  |  | (309.4 | ) |
| Increase of long-term debt 1) |  |  | 1,720.1 |  |  |  | 243.5 |  |
| Repayment of long-term debt |  |  | (629.5 | ) |  |  | — |  |
| Debt issuance cost |  |  | — |  |  |  | (0.3 | ) |
| Dividends paid |  |  | (54.1 | ) |  |  | (162.7 | ) |
| Dividends paid to non-controlling interest |  |  | (1.0 | ) |  |  | (1.1 | ) |
| Common stock options exercised |  |  | 0.2 |  |  |  | 0.3 |  |
| **Net cash provided by (used in) financing activities** |  |  | **838.0** |  |  |  | **(229.7** | **)** |
| Effect of exchange rate changes on cash and cash equivalents |  |  | 42.3 |  |  |  | (22.0 | ) |
| **Increase (decrease) in cash and cash equivalents** |  |  | **1,031.8** |  |  |  | **(281.4** | **)** |
| Cash and cash equivalents at beginning of period |  |  | 444.7 |  |  |  | 615.8 |  |
| **Cash and cash equivalents at end of period** |  | **$** | **1,476.5** |  |  | **$** | **334.4** |  |

|  |  |
| --- | --- |
| 1) | As of September 30, 2020, $600 million of the revolving credit facility loan was classified as short-term debt in the Balance Sheet since it was repaid on October 2, 2020. See also Note 3 – Fair value measurements. |

See Notes to unaudited condensed consolidated financial statements.

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**CONSOLIDATED STATEMENTS OF TOTAL EQUITY (UNAUDITED)**

**(Dollars in millions)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | **Common**  **stock** | |  |  | **Additional**  **paid-in**  **capital** | |  |  | **Retained**  **earnings** | |  |  | **Accumulated**  **other**  **comprehensive**  **loss** | |  |  | **Treasury**  **stock** | |  |  | **Total**  **controlling**  **interest's**  **equity** | |  |  | **Non-**  **controlling**  **interest** | |  |  | **Total**  **equity** | |  |
| **Balances at December 31, 2019** | | **$** | **102.8** |  |  | **$** | **1,329.3** |  |  | **$** | **2,283.5** |  |  | **$** | **(448.9** | **)** |  | **$** | **(1,157.5** | **)** |  | **$** | **2,109.2** |  |  | **$** | **13.2** |  |  | **$** | **2,122.4** |  |
| *Comprehensive Income (loss):* | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income | |  |  |  |  |  |  |  |  |  | 74.8 |  |  |  | — |  |  |  |  |  |  |  | 74.8 |  |  |  | 0.1 |  |  |  | 74.9 |  |
| Foreign currency translation     adjustment | |  |  |  |  |  |  |  |  |  | — |  |  |  | (101.6 | ) |  |  |  |  |  |  | (101.6 | ) |  |  | (0.2 | ) |  |  | (101.8 | ) |
| Pension liability | |  |  |  |  |  |  |  |  |  | — |  |  |  | 0.6 |  |  |  |  |  |  |  | 0.6 |  |  |  | — |  |  |  | 0.6 |  |
| *Total Comprehensive Income (loss)* | |  | *—* |  |  |  | *—* |  |  | *74.8* | |  |  |  | *(101.0* | *)* |  |  | *—* |  |  |  | *(26.2* | *)* |  |  | *(0.1* | *)* |  |  | *(26.3* | *)* |
| Stock-based compensation | |  |  |  |  |  |  |  |  |  | — |  |  |  | — |  |  |  | 1.6 |  |  |  | 1.6 |  |  |  | — |  |  |  | 1.6 |  |
| Cash dividends declared | |  |  |  |  |  |  |  |  |  | (53.6 | ) |  |  | — |  |  |  |  |  |  |  | (53.6 | ) |  |  | — |  |  |  | (53.6 | ) |
| **Balances at March 31, 2020** | |  | **102.8** |  |  |  | **1,329.3** |  |  |  | **2,304.7** |  |  |  | **(549.9** | **)** |  |  | **(1,155.9** | **)** |  |  | **2,031.0** |  |  |  | **13.1** |  |  |  | **2,044.1** |  |
| *Comprehensive Income (loss):* | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net loss | |  |  |  |  |  |  |  |  |  | (174.7 | ) |  |  | — |  |  |  |  |  |  |  | (174.7 | ) |  |  | 0.4 |  |  |  | (174.3 | ) |
| Foreign currency translation     adjustment | |  |  |  |  |  |  |  |  |  | — |  |  |  | 26.6 |  |  |  |  |  |  |  | 26.6 |  |  |  | 0.0 |  |  |  | 26.6 |  |
| Pension liability | |  |  |  |  |  |  |  |  |  | — |  |  |  | 2.2 |  |  |  |  |  |  |  | 2.2 |  |  |  | — |  |  |  | 2.2 |  |
| *Total Comprehensive Income (loss)* | |  | *—* |  |  |  | *—* |  |  |  | *(174.7* | *)* |  |  | *28.8* |  |  |  | *—* |  |  |  | *(145.9* | *)* |  |  | *0.4* |  |  |  | *(145.5* | *)* |
| Stock-based compensation | |  |  |  |  |  |  |  |  |  | — |  |  |  | — |  |  |  | 2.2 |  |  |  | 2.2 |  |  |  | — |  |  |  | 2.2 |  |
| Cash dividends declared1) | |  |  |  |  |  |  |  |  |  | 54.2 |  |  |  | — |  |  |  |  |  |  |  | 54.2 |  |  |  | — |  |  |  | 54.2 |  |
| **Balances at June 30, 2020** | |  | **102.8** |  |  |  | **1,329.3** |  |  |  | **2,184.2** |  |  |  | **(521.1** | **)** |  |  | **(1,153.7** | **)** |  |  | **1,941.5** |  |  |  | **13.5** |  |  |  | **1,955.0** |  |
| *Comprehensive Income:* | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income | |  |  |  |  |  |  |  |  |  | 98.3 |  |  |  | — |  |  |  |  |  |  |  | 98.3 |  |  |  | 0.5 |  |  |  | 98.8 |  |
| Foreign currency translation     adjustment | |  |  |  |  |  |  |  |  |  | — |  |  |  | 55.6 |  |  |  |  |  |  |  | 55.6 |  |  |  | 0.5 |  |  |  | 56.1 |  |
| Pension liability | |  |  |  |  |  |  |  |  |  | — |  |  |  | 1.1 |  |  |  |  |  |  |  | 1.1 |  |  |  |  |  |  |  | 1.1 |  |
| *Total Comprehensive Income* | |  | *—* |  |  |  | *—* |  |  |  | *98.3* |  |  |  | *56.7* |  |  |  | *—* |  |  |  | *155.0* |  |  |  | *1.0* |  |  |  | *156.0* |  |
| Stock-based compensation | |  |  |  |  |  |  |  |  |  | — |  |  |  | — |  |  |  | 3.0 |  |  |  | 3.0 |  |  |  | — |  |  |  | 3.0 |  |
| Dividends paid to non-controlling interest     on subsidiary shares | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (1.0 | ) |  |  | (1.0 | ) |
| Cash dividends declared | |  |  |  |  |  |  |  |  |  | 0.1 |  |  |  |  |  |  |  |  |  |  |  | 0.1 |  |  |  |  |  |  |  | 0.1 |  |
| Other | |  |  |  |  |  |  |  |  |  | 0.2 |  |  |  |  |  |  |  |  |  |  |  | 0.2 |  |  |  |  |  |  |  | 0.2 |  |
| **Balances at September 30, 2020** | | **$** | **102.8** |  |  | **$** | **1,329.3** |  |  | **$** | **2,282.8** |  |  | **$** | **(464.4** | **)** |  | **$** | **(1,150.7** | **)** |  | **$** | **2,099.8** |  |  | **$** | **13.5** |  |  | **$** | **2,113.3** |  |
| 1) | Reversal of canceled dividend declared for the second quarter of 2020 which was announced by the Company on April 2, 2020. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Common**  **stock** | |  |  | **Additional**  **paid-in**  **capital** | |  |  | **Retained**  **earnings** | |  |  | **Accumulated**  **other**  **comprehensive**  **loss** | |  |  | **Treasury**  **stock** | |  |  | **Total**  **controlling**  **interest's**  **equity** | |  |  | **Non-**  **controlling**  **interest** | |  |  | **Total**  **equity** | |  |
| **Balances at December 31, 2018** | **$** | **102.8** |  |  | **$** | **1,329.3** |  |  | **$** | **2,041.8** |  |  | **$** | **(423.2** | **)** |  | **$** | **(1,167.0** | **)** |  | **$** | **1,883.7** |  |  | **$** | **13.1** |  |  | **$** | **1,896.8** |  |
| *Comprehensive Income:* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income |  |  |  |  |  |  |  |  |  | 111.4 |  |  |  | — |  |  |  |  |  |  |  | 111.4 |  |  |  | 0.1 |  |  |  | 111.5 |  |
| Foreign currency translation     adjustment |  |  |  |  |  |  |  |  |  | — |  |  |  | 20.5 |  |  |  |  |  |  |  | 20.5 |  |  |  | 0.3 |  |  |  | 20.8 |  |
| Pension liability |  |  |  |  |  |  |  |  |  | — |  |  |  | 0.1 |  |  |  |  |  |  |  | 0.1 |  |  |  | — |  |  |  | 0.1 |  |
| *Total Comprehensive Income* |  | *—* |  |  |  | *—* |  |  | *111.4* | |  |  | *20.6* | |  |  |  | *—* |  |  |  | *132.0* |  |  |  | *0.4* |  |  |  | *132.4* |  |
| Stock-based compensation |  |  |  |  |  |  |  |  |  | — |  |  |  | — |  |  |  | 1.6 |  |  |  | 1.6 |  |  |  | — |  |  |  | 1.6 |  |
| Cash dividends declared |  |  |  |  |  |  |  |  |  | (54.3 | ) |  |  | — |  |  |  |  |  |  |  | (54.3 | ) |  |  | — |  |  |  | (54.3 | ) |
| Distribution to Veoneer |  |  |  |  |  |  |  |  |  | (2.5 | ) |  |  | — |  |  |  |  |  |  |  | (2.5 | ) |  |  | — |  |  |  | (2.5 | ) |
| **Balances at March 31, 2019** |  | **102.8** |  |  |  | **1,329.3** |  |  |  | **2,096.4** |  |  |  | **(402.6** | **)** |  |  | **(1,165.4** | **)** |  |  | **1,960.5** |  |  |  | **13.5** |  |  |  | **1,974.0** |  |
| *Comprehensive Income:* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income |  |  |  |  |  |  |  |  |  | 109.1 |  |  |  | — |  |  |  |  |  |  |  | 109.1 |  |  |  | 0.3 |  |  |  | 109.4 |  |
| Foreign currency translation adjustment |  |  |  |  |  |  |  |  |  | — |  |  |  | 6.3 |  |  |  |  |  |  |  | 6.3 |  |  |  | (0.2 | ) |  |  | 6.1 |  |
| Pension liability |  |  |  |  |  |  |  |  |  | — |  |  |  | 0.0 |  |  |  |  |  |  |  | 0.0 |  |  |  | — |  |  |  | 0.0 |  |
| *Total Comprehensive Income* |  | *—* |  |  |  | *—* |  |  |  | *109.1* |  |  |  | *6.3* |  |  |  | *—* |  |  |  | *115.4* |  |  |  | *0.1* |  |  |  | *115.5* |  |
| Stock-based compensation |  |  |  |  |  |  |  |  |  | — |  |  |  | — |  |  |  | 2.6 |  |  |  | 2.6 |  |  |  | — |  |  |  | 2.6 |  |
| Cash dividends declared |  |  |  |  |  |  |  |  |  | (54.2 | ) |  |  | — |  |  |  |  |  |  |  | (54.2 | ) |  |  | — |  |  |  | (54.2 | ) |
| Distribution to Veoneer |  |  |  |  |  |  |  |  |  | (0.2 | ) |  |  | — |  |  |  |  |  |  |  | (0.2 | ) |  |  | — |  |  |  | (0.2 | ) |
| **Balances at June 30, 2019** |  | **102.8** |  |  |  | **1,329.3** |  |  |  | **2,151.1** |  |  |  | **(396.3** | **)** |  |  | **(1,162.8** | **)** |  |  | **2,024.1** |  |  |  | **13.6** |  |  |  | **2,037.7** |  |
| *Comprehensive Income:* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income |  |  |  |  |  |  |  |  |  | 85.4 |  |  |  | — |  |  |  |  |  |  |  | 85.4 |  |  |  | 0.6 |  |  |  | 86.0 |  |
| Foreign currency translation     adjustment |  |  |  |  |  |  |  |  |  | — |  |  |  | (71.1 | ) |  |  |  |  |  |  | (71.1 | ) |  |  | (0.5 | ) |  |  | (71.6 | ) |
| Pension liability |  |  |  |  |  |  |  |  |  | — |  |  |  | 0.0 |  |  |  |  |  |  |  | 0.0 |  |  |  | — |  |  |  | 0.0 |  |
| *Total Comprehensive Income (loss)* |  | *—* |  |  |  | *—* |  |  |  | *85.4* |  |  |  | *(71.1* | *)* |  |  | *—* |  |  |  | *14.3* |  |  |  | *0.1* |  |  |  | *14.4* |  |
| Stock-based compensation |  |  |  |  |  |  |  |  |  | — |  |  |  | — |  |  |  | 2.5 |  |  |  | 2.5 |  |  |  | — |  |  |  | 2.5 |  |
| Cash dividends declared |  |  |  |  |  |  |  |  |  | (54.2 | ) |  |  | — |  |  |  |  |  |  |  | (54.2 | ) |  |  | — |  |  |  | (54.2 | ) |
| Dividends paid to non-controlling interest     on subsidiary shares |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | (1.1 | ) |  |  | (1.1 | ) |
| **Balances at September 30, 2019** | **$** | **102.8** |  |  | **$** | **1,329.3** |  |  | **$** | **2,182.3** |  |  | **$** | **(467.4** | **)** |  | **$** | **(1,160.3** | **)** |  | **$** | **1,986.7** |  |  | **$** | **12.6** |  |  | **$** | **1,999.3** |  |

See Notes to the unaudited Condensed Consolidated Financial Statements.

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**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**September 30, 2020**

**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 consolidated financial statements. The unaudited condensed consolidated financial statements have been prepared on the same basis as the prior year audited consolidated financial statements and all adjustments considered necessary for a fair presentation have been included in the consolidated financial statements. All such adjustments are of a normal recurring nature. The results for the interim period are not necessarily indicative of the results to be expected for any future period or for the fiscal year ending December 31, 2020.

The Condensed Consolidated Balance Sheet at December 31, 2019 has been derived from the audited consolidated financial statements at that date, but does not include all the information and footnotes required by U.S. GAAP for complete consolidated financial statements.

The Company has one reportable segment, which includes Autoliv’s airbag and seatbelt products and components. The operating results of the operating segment are regularly reviewed by the Company’s chief operating decision maker to assess the performance of the individual operating segment and make decisions about resources to be allocated to the operating segment.

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, 2019, filed with the SEC on February 21, 2020.

**2. NEW ACCOUNTING STANDARDS**

Changes to U.S. GAAP are established by the Financial Accounting Standards Board (“FASB”) in the form of accounting standards updates (“ASUs”) to the FASB’s Accounting Standards Codification.

The Company considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have an immaterial impact on the Company’s consolidated financial statements.

**Adoption of New Accounting Standards**

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments,* which requires the measurement and recognition of expected credit losses for financial assets held and enhanced disclosures. The Company’s financial assets in the scope of ASU 2016-13 mainly consists of short-term trade receivables. Historically, the Company’s actual credit losses have not been material. In addition to continuing to individually assess overdue customer balances for expected credit losses, the Company has implemented a new methodology that reflects the expected credit losses on receivables considering both historical experience as well as forward looking assumptions. The method calculates the expected credit loss for a group of customers by using the customer groups’ average short-term default rates based on officially published credit ratings and the Company’s historical experience. These default rates are considered the Company’s best estimate of the customer’s ability to pay. The Company will regularly reassess the customer group’s and the applied customer group’s default rates by using its best judgement when considering changes in customer’s credit ratings, customer’s historical payments and loss experience, current market and economic conditions and the Company’s expectations of future market and economic conditions. ASU 2016-13 was adopted prospectively by the Company on January 1, 2020. The adoption of ASU 2016-13 did not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40), Customer’s accounting for implementation costs incurred in a cloud computing arrangement that is a service contract*, which align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in ASU 2018-15. The amendments in ASU 2018-15 are effective for public business entities for annual periods beginning after December 15, 2019, and interim periods within those annual years. The Company adopted ASU 2018-15 prospectively as of January 1, 2020 and the impact on the consolidated financial statements has not been material through September 30, 2020. The future impact of ASU 2018-15 will depend on the nature of the Company’s future cloud computing arrangements.

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In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848) – Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the reference rate reform if certain criteria are met. The amendments in ASU 2020-04 apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in ASU 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2022. The adoption of ASU 2020-04 did not have a material impact on the Company’s consolidated financial statements.

**Accounting Standards Issued But Not Yet Adopted**

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes. ASU 2019-12 is effective for public business entities for annual periods beginning after December 15, 2020, and early adoption is permitted. The amendments related to changes in ownership of foreign equity method investments or foreign subsidiaries should be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The Company plans to adopt ASU 2019-12 as of January 1, 2021. The Company has concluded that the pending adoption of ASU 2019-12 will not have a material impact on the Company’s consolidated financial statements.

**3. FAIR VALUE MEASUREMENTS**

**Assets and liabilities measured at fair value on a recurring basis**

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, short-term debt and other current financial assets and liabilities approximate their fair value because of the short-term maturity of these instruments.

The Company uses derivative financial instruments (“derivatives”) as part of its debt management to mitigate the market risk that occurs from its exposure to changes in interest rates and foreign exchange rates. The Company does not enter into derivatives for trading or other speculative purposes. The Company’s use of derivatives is in accordance with the strategies contained in the Company’s overall financial policy. All derivatives are recognized in the consolidated financial statements at fair value. For certain 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 rates and foreign exchange rates.

The degree of judgment utilized in measuring the fair value of the instruments generally correlates to the level of pricing observability. Pricing observability is impacted by several factors, including the type of asset or liability, whether the asset or liability has an established market and the characteristics specific to the transaction. Instruments with readily active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, assets rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment utilized in measuring fair value.

All the Company’s derivatives are classified as Level 2 financial instruments in the fair value hierarchy. Level 2 pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

The tables below present information about the Company’s derivative financial assets and liabilities measured at fair value on a recurring basis (dollars in millions). 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 Sheets at September 30, 2020 and December 31, 2019 have been presented on a gross basis. According to the close-out netting agreements, transaction amounts payable to a counterparty on the same date and in the same currency can be netted. The amounts subject to netting agreements that the Company chose not to offset are presented below.

**Derivatives designated as hedging instruments**

There were no derivatives designated as hedging instruments as of September 30, 2020 and December 31, 2019 related to the operations.

**Derivatives not designated as hedging instruments**

Derivatives not designated as hedging instruments relate to economic hedges and are marked to market with all amounts recognized in the Consolidated Statements of Income. The derivatives not designated as hedging instruments outstanding at September 30, 2020 and December 31, 2019 were foreign exchange swaps.

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For the three month periods ended September 30, 2020 and September 30, 2019, the gains and losses recognized in other non-operating items, net were a loss of $17.7 million and a loss of $9.5 million, respectively, for derivative instruments not designated as hedging instruments. For the nine month periods ended September 30, 2020 and September 30, 2019, the gains and losses recognized in other non-operating items, net were a loss of $19.4 million and a loss of $6.9 million, respectively, for derivative instruments not designated as hedging instruments.

For the three and nine month periods ended September 30, 2020 and September 30, 2019, the gains and losses recognized as interest expense were immaterial.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2020** | | | | | | | | | |  |  |  | **December 31, 2019** | | | | | | | | | |  |  |
|  |  |  |  |  |  | **Fair Value Measurements** | | | | | |  |  |  |  |  |  |  | **Fair Value Measurements** | | | | | |  |  |
| **Description** |  | **Nominal**  **volume** | |  |  | **Derivative**  **asset**  **(Other**  **current assets)** | |  |  | **Derivative**  **liability**  **(Other**  **current**  **liabilities)** | |  |  |  | **Nominal**  **volume** | |  |  | **Derivative**  **asset**  **(Other**  **current assets)** | |  |  | **Derivative**  **liability**  **(Other**  **current**  **liabilities)** | |  |  |
| **Derivatives not designated as hedging**  **instruments** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Foreign exchange swaps, less     than 6 months |  | $ | 840.2 |  | 1) | $ | 5.7 |  | 2) | $ | 20.9 |  | 3) |  | $ | 934.2 |  | 4) | $ | 6.0 |  | 5) | $ | 1.8 |  | 6) |
| **Total derivatives not designated**  **as hedging instruments** |  | **$** | **840.2** |  |  | **$** | **5.7** |  |  | **$** | **20.9** |  |  |  | **$** | **934.2** |  |  | **$** | **6.0** |  |  | **$** | **1.8** |  |  |

|  |  |
| --- | --- |
| 1) | Net nominal amount after deducting for offsetting swaps under ISDA agreements is $834.4 million. |
| 2) | Net amount after deducting for offsetting swaps under ISDA agreements is $5.6 million. |
| 3) | Net amount after deducting for offsetting swaps under ISDA agreements is $20.8 million. |
| 4) | Net nominal amount after deducting for offsetting swaps under ISDA agreements is $860.6 million. |
| 5) | Net amount after deducting for offsetting swaps under ISDA agreements is $5.8 million. |
| 6) | Net amount after deducting for offsetting swaps under ISDA agreements is $1.6 million. |

**Fair Value of Debt**

The fair value of long-term debt is determined either from quoted market prices as provided by participants in the secondary market or for long-term debt without quoted market prices, estimated using a discounted cash flow method based on the Company’s current borrowing rates for similar types of financing. The Company has determined that each of these fair value measurements of debt reside within Level 2 of the fair value hierarchy.

The fair value and carrying value of debt is summarized in the table below (dollars in millions).

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2020** | | | | | |  |  | **December 31, 2019** | | | | | |  |
|  |  | **Carrying**  **value1)** | |  |  | **Fair**  **value** | |  |  | **Carrying**  **value1)** | |  |  | **Fair**  **value** | |  |
| **Long-term debt** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Bonds |  | $ | 1,347.4 |  |  | $ | 1,443.5 |  |  | $ | 1,597.5 |  |  | $ | 1,671.1 |  |
| Loans |  |  | 659.7 |  |  |  | 675.8 |  |  |  | 128.6 |  |  |  | 128.6 |  |
| **Total** |  | **$** | **2,007.1** |  |  | **$** | **2,119.3** |  |  | **$** | **1,726.1** |  |  | **$** | **1,799.7** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Short-term debt** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Commercial paper |  | $ | 0.0 |  |  | $ | 0.0 |  |  | $ | 230.7 |  |  | $ | 230.7 |  |
| Short-term portion of long-term debt 2) |  |  | 991.8 |  |  |  | 998.2 |  |  |  | 112.0 |  |  |  | 112.1 |  |
| Overdrafts and other short-term debt |  |  | 33.7 |  |  |  | 33.7 |  |  |  | 25.4 |  |  |  | 25.3 |  |
| **Total** |  | **$** | **1,025.5** |  |  | **$** | **1,031.9** |  |  | **$** | **368.1** |  |  | **$** | **368.1** |  |

|  |  |
| --- | --- |
| 1) | Debt as reported in balance sheet. |
| 2) | Including $600 million revolving credit facility loan that was repaid on October 2, 2020. |

**Assets and liabilities measured at fair value on a nonrecurring basis**

In addition to assets and liabilities that are measured at fair value on a recurring basis, the Company also has assets and liabilities in its balance sheet that are measured at fair value on a nonrecurring basis including certain long-lived assets, including equity method investments, goodwill and other intangible assets, typically as it relates to impairment.

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The Company has determined that the fair value measurements included in each of these assets and liabilities rely primarily on Company-specific inputs and the Company’s assumptions about the use of the assets and settlements of liabilities, as observable inputs are not available. The Company has determined that each of these fair value measurements reside within Level 3 of the fair value hierarchy. To determine the fair value of long-lived assets, the Company utilizes the projected cash flows expected to be generated by the long-lived assets, then discounts the future cash flows over the expected life of the long-lived assets.

For the three and nine month periods ended September 30, 2020 and September 30, 2019, the Company did not record any material impairment charges on its long-lived assets for its operations.

**4. INCOME TAXES**

The effective tax rate in the third quarter of 2020 was 33.5% compared to 36.0% in the same quarter of 2019. Discrete tax items, net in the third quarter of 2020 had a favorable impact of 9.9%. In the third quarter of 2019, discrete tax items, net had an unfavorable impact of 0.2%. The effective tax rate for the first nine months of 2020 was 104.4% compared to 30.1% in the same period of 2019. The year to date 2020 tax rate was negatively impacted by unfavorable country mix and capacity alignment costs giving rise to losses with no tax benefit against a low level of reported pre-tax income. Discrete tax items, net for the first nine months of 2020 had a favorable impact of 187.5%, principally from one-time tax benefits recorded as a result of final U.S. tax regulations issued in the third quarter of 2020 against a low level of reported pre-tax income. In the same period of 2019, discrete tax items, net had a favorable impact of 0.2%.

The Company files income tax returns in the U.S. 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 2015. With few exceptions, the Company is no longer subject to income tax examination by U.S. state or local tax authorities or by non-U.S. tax authorities for years before 2010.

As of September 30, 2020, the Company is not aware of any proposed income tax adjustments resulting from tax examinations that would have a material impact on the Company’s condensed consolidated financial statements. The conclusion of such audits could result in additional increases or decreases to unrecognized tax benefits in some future period or periods.

During the first nine months of 2020, the Company recorded a net increase of $1.1 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 from prior years. Of the total unrecognized tax benefits of $69.4 million recorded at September 30, 2020, $1.8 million is classified as current tax payable within Other current liabilities and $67.6 million is classified as non-current tax payable within Other non-current liabilities on the Condensed Consolidated Balance Sheet.

**5. INVENTORIES**

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of** | | | | | |  |
|  |  | **September 30,**  **2020** | |  |  | **December 31,**  **2019** | |  |
| Raw materials |  | $ | 354.3 |  |  | $ | 366.3 |  |
| Work in progress |  |  | 266.0 |  |  |  | 257.4 |  |
| Finished products |  |  | 182.9 |  |  |  | 200.4 |  |
| **Inventories** |  |  | **803.2** |  |  |  | **824.1** |  |
| Inventory valuation reserve |  |  | (89.4 | ) |  |  | (83.2 | ) |
| **Total inventories, net of reserve** |  | **$** | **713.8** |  |  | **$** | **740.9** |  |

**6. RESTRUCTURING**

The Company recorded restructuring charges in the three month period ended September 30, 2020, mainly related to footprint optimization activities in Europe. The Company recorded restructuring charges in the nine month period ended September 30, 2020, mainly related to the structural efficiency program initiated in the second quarter of 2020 in the Americas and Europe and footprint optimization activities in Europe in the third quarter of 2020. For the three and nine month periods ended September 30, 2020, cash payments mainly relate to the structural efficiency program initiated in 2019.

As of September 30, 2020, approximately $60 million out of the $122.9 million in total reserve balance can be attributed to the structural efficiency program initiated in the second quarter of 2020. This program is expected to be concluded in 2021. Approximately $29 million of the balance can be attributed to footprint optimization activities in Europe in the third quarter of 2020. This program is expected to be concluded in 2023. The remaining balance mainly relates to the structural efficiency program initiated in 2019, whereof the main part is expected to be concluded in 2020.

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The table below summarizes the change in the balance sheet position of the employee related restructuring reserves (dollars in millions). The changes in the employee-related reserves have been charged against Other income (expense), net in the Consolidated Statements of Income. Restructuring costs other than employee related costs are immaterial for all periods presented.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three months ended September 30** | | | | | |  |  | **Nine months ended September 30** | | | | | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| **Reserve at beginning of the period** |  | **$** | **99.6** |  |  | **$** | **40.3** |  |  | **$** | **56.1** |  |  | **$** | **33.4** |  |
| Provision - charge |  |  | 32.8 |  |  |  | 27.7 |  |  |  | 103.7 |  |  |  | 41.4 |  |
| Provision - reversal |  |  | (2.0 | ) |  |  | (0.2 | ) |  |  | (9.4 | ) |  |  | (0.3 | ) |
| Cash payments |  |  | (11.6 | ) |  |  | (15.2 | ) |  |  | (32.0 | ) |  |  | (21.7 | ) |
| Translation difference |  |  | 4.1 |  |  |  | (1.8 | ) |  |  | 4.5 |  |  |  | (2.0 | ) |
| **Reserve at end of the period** |  | **$** | **122.9** |  |  | **$** | **50.8** |  |  | **$** | **122.9** |  |  | **$** | **50.8** |  |

**7. PRODUCT-RELATED LIABILITIES**

The Company is exposed to product liability and warranty claims in the event that the Company’s products fail to perform as represented and such failure results, or is alleged to result, in bodily injury, and/or property damage or other loss. The Company has reserves for product risks. Such reserves are related to product performance issues, including recalls, product liability and warranty issues. For further explanation, see Note 9. Contingent Liabilities below.

For the three and nine month periods ended September 30, 2020 and September 30, 2019, provisions and cash paid primarily relate to recall and warranty related issues. The decrease in the reserve balance as of September 30, 2020 compared to the beginning of the year was mainly due to cash payments.

Pursuant to the agreements entered into in connection with the spin-off of Veoneer, Inc. on June 29, 2018 (collectively, the “Spin-off Agreements”), Autoliv is required to indemnify Veoneer for recalls related to certain qualified Electronics products. At September 30, 2020, the indemnification liabilities are approximately $5 million included within Accrued expenses on the Condensed Consolidated Balance Sheets.

The table below summarizes the change in the balance sheet position of the product-related liabilities (dollars in millions). Insurance receivables are included within Other current assets and Investments and other non-current assets on the Condensed Consolidated Balance Sheets.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three months ended September 30** | | | | | |  |  | **Nine months ended September 30** | | | | | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| **Reserve at beginning of the period** |  | **$** | **57.9** |  |  | **$** | **55.9** |  |  | **$** | **72.1** |  |  | **$** | **62.2** |  |
| Change in reserve |  |  | 5.3 |  |  |  | 9.4 |  |  |  | 16.0 |  |  |  | 17.5 |  |
| Cash payments |  |  | (6.3 | ) |  |  | (10.5 | ) |  |  | (30.8 | ) |  |  | (24.8 | ) |
| Translation difference |  |  | 0.7 |  |  |  | (0.6 | ) |  |  | 0.3 |  |  |  | (0.7 | ) |
| **Reserve at end of the period** |  | **$** | **57.6** |  |  | **$** | **54.2** |  |  | **$** | **57.6** |  |  | **$** | **54.2** |  |

**8. RETIREMENT PLANS**

The components of total Net Periodic Benefit Cost associated with the Company’s defined benefit retirement plans are as follows (dollars in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three months ended September 30** | | | | | |  |  | **Nine months ended September 30** | | | | | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| Service cost |  | $ | 4.3 |  |  | $ | 4.5 |  |  | $ | 14.8 |  |  | $ | 13.5 |  |
| Interest cost |  |  | 4.4 |  |  |  | 5.1 |  |  |  | 13.9 |  |  |  | 15.4 |  |
| Expected return on plan assets |  |  | (4.6 | ) |  |  | (3.9 | ) |  |  | (13.5 | ) |  |  | (11.6 | ) |
| Amortization of prior service (credit) cost |  |  | (0.4 | ) |  |  | 0.1 |  |  |  | (1.3 | ) |  |  | 0.3 |  |
| Amortization of actuarial loss |  |  | 1.4 |  |  |  | 0.6 |  |  |  | 3.7 |  |  |  | 1.8 |  |
| Settlement loss |  |  | 4.2 |  |  |  | — |  |  |  | 4.2 |  |  |  | — |  |
| **Net Periodic Benefit Cost** |  | **$** | **9.3** |  |  | **$** | **6.4** |  |  | **$** | **21.8** |  |  | **$** | **19.4** |  |

The settlement loss in the third quarter of 2020 relates to the US qualified pension plan and was triggered by lump-sum payments for the nine month period ended September 30, 2020 in excess of the total of annual service costs and interest costs. The Service cost and Amortization of prior service cost components in the table above are reported in Operating Income in the Consolidated Statements of Income. The remaining components - Interest cost, Expected return on plan assets, Amortization of actuarial loss and Settlement loss - are reported as Other non-operating items, net in the Consolidated Statements of Income.

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**9. CONTINGENT LIABILITIES**

**Legal Proceedings**

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

**ANTITRUST MATTERS**

Authorities in several jurisdictions have conducted broad, and in some cases, long-running investigations of suspected anti-competitive behavior among parts suppliers in the global automotive vehicle industry. These investigations included, but are not limited to, the products that the Company sells. In addition to concluded matters, authorities of other countries with significant light vehicle manufacturing or sales may initiate similar investigations.

European Commission Investigations:

In June 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.

In November 2017, the EC concluded a discrete portion of its investigation, and in 2018 the Company paid a fine of €8.1 million (approximately $9.7 million) with respect to this portion of the EC’s overall investigation. while it continued the more significant portion of its investigation.

In March 2019, the EC completed the remaining portion of the investigation, and in 2019 the Company paid a fine of €179 million (approximately $203 million).

**PRODUCT WARRANTY, RECALLS AND INTELLECTUAL PROPERTY**

Autoliv is exposed to various claims for damages and compensation if its products fail to perform as expected. Such claims can be made, and result in costs and other losses to the Company, even where the product is eventually found to have functioned properly. Where a product (actually or allegedly) fails to perform as expected or is defective, the Company may face warranty and recall claims. Where such (actual or alleged) failure or defect results, or is alleged to result, in bodily injury and/or property damage, the Company may also face product liability and other claims. There can be no assurance that the Company will not experience material warranty, recall or product (or other) liability claims or losses in the future, or that the Company will not incur significant costs to defend against such claims. The Company may be required to participate in a recall involving its products. Each vehicle manufacturer has its own practices regarding product recalls and other product liability actions relating to its suppliers. As suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, vehicle manufacturers are increasingly looking to their suppliers for contribution when faced with recalls and product liability claims. Government safety regulators may also play a role in warranty and recall practices. 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. In addition, a number of the agreements entered into by the Company, including the Spin-off Agreements, require Autoliv to indemnify the other parties for certain claims. Autoliv cannot assure that the level of coverage will be sufficient to cover every possible claim that can arise in our businesses or with respect to other obligations, now or in the future, or that such coverage always will be available should we, now or in the future, wish to extend, increase or otherwise adjust our insurance.

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Toyota Recall: On June 29, 2016, the Company announced that it is cooperating with Toyota Motor Corp. in its recall of approximately 1.4 million vehicles equipped with a certain model of the Company’s side curtain airbag (the “Toyota Recall”). The Company continues to cooperate with Toyota regarding the analysis of the root cause of the issue and potential liability and indemnification obligations of the parties. If the Company is obligated to indemnify Toyota for any of the costs associated with the Toyota Recall, the Company expects that its insurance will generally cover such costs and liabilities. The Company’s insurance policies generally include coverage of the costs of a recall, although costs related to replacement parts are generally not covered.

The Company has determined pursuant to ASC 450 that a loss with respect to this issue is probable and therefore has accrued an immaterial amount related to potential costs for replacement parts. The ultimate costs to the Company of the Toyota Recall could be materially different from the amount the Company has accrued. However, the Company continues to believe that the Company’s loss, net of expected insurance recoveries, will be less than $20 million. The main variables affecting the ultimate cost for the Company include: the determination of proportionate responsibility (if any) among Toyota, the Company, and any relevant sub-suppliers; the ultimate number of vehicles repaired; the cost of repair per vehicle; and the actual recoveries from sub-suppliers and insurers.

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

The table in Note 7. Product-Related Liabilities above summarizes the change in the balance sheet position of the product related liabilities.

**10. STOCK INCENTIVE PLAN**

Eligible employees and non-employee directors of the Company participate in the Autoliv, Inc.1997 Stock Incentive Plan, as amended and received Autoliv stock-based awards which include stock options (SOs), restricted stock units (RSUs) and performance shares (PSs).

For the three and nine month periods ended September 30, 2020, the Company recorded approximately $3.0 million and $7.1 million, respectively, in stock-based compensation expense related to RSUs and PSs. During the three and nine month periods ended September 30, 2019, the Company recorded $2.0 million and $5.6 million, respectively, of stock-based compensation expense related to RSUs and PSs.

During the three month periods ended September 30, 2020 and September 30, 2019, approximately 6 thousand and 2 thousand shares of common stock from the treasury stock, respectively, were utilized by the Plan. During the nine month periods ended September 30, 2020 and September 30, 2019, approximately 92 thousand and 90 thousand shares of common stock from the treasury stock were utilized by the Plan.

**11. EARNINGS PER SHARE**

For the three month periods ended September 30, 2020 and September 30, 2019, approximately 0.0 million and 0.1 million awards, respectively, were excluded from the computation of the diluted EPS, since the inclusion of these awards would be antidilutive. For the nine month period ended September 30, 2020, shares in the diluted loss per share calculation represent basic shares due to the net loss. For the nine month period ended September 30, 2019, approximately 0.1 million awards were excluded from the computation of the diluted EPS, since the inclusion of these awards would be antidilutive.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three months ended September 30** | | | | | |  |  | **Nine months ended September 30** | | | | | |  |
| ***(In millions, except per share amounts)*** |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| **Numerator:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic and diluted: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income attributable to controlling interest |  | $ | 98.3 |  |  | $ | 85.4 |  |  | $ | (1.6 | ) |  | $ | 305.9 |  |
| Participating share awards with dividend     equivalent rights |  | - | |  |  | - | |  |  | - | |  |  | - | |  |
| Net income applicable to common     shareholders |  |  | **98.3** |  |  |  | **85.4** |  |  |  | **(1.6** | **)** |  |  | **305.9** |  |
| Earnings allocated to participating     share awards1) |  |  | 0.0 |  |  |  | 0.0 |  |  |  | 0.0 |  |  |  | 0.0 |  |
| Net income attributable to common     shareholders |  | **$** | **98.3** |  |  | **$** | **85.4** |  |  | **$** | **(1.6** | **)** |  | **$** | **305.9** |  |
| **Denominator: 1)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic: Weighted average common stock |  |  | **87.3** |  |  |  | **87.2** |  |  |  | **87.3** |  |  |  | **87.2** |  |
| Add: Weighted average stock options/     share awards |  |  | 0.2 |  |  |  | 0.1 |  |  |  | 0.0 |  |  |  | 0.2 |  |
| **Diluted: 2)** |  |  | **87.5** |  |  |  | **87.3** |  |  |  | **87.3** |  |  |  | **87.4** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Net earnings (loss) per share - basic** |  | **$** | **1.13** |  |  | **$** | **0.98** |  |  | **$** | **(0.02** | **)** |  | **$** | **3.51** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Net earnings (loss) per share - diluted2)** |  | **$** | **1.12** |  |  | **$** | **0.98** |  |  | **$** | **(0.02** | **)** |  | **$** | **3.50** |  |

|  |  |
| --- | --- |
| 1) | The Company’s unvested RSUs and PSUs, of which some included the right to receive non-forfeitable dividend equivalents, are considered participating securities. Calculations of EPS under the two-class method exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities. The related participating securities are similarly excluded from the denominator. |
| 2) | The number of shares in the diluted loss per share calculation for the nine month period ended September 30, 2020 is the same as the number of shares used in the basic loss per share calculation due to the net loss. |

**12. RELATED PARTY TRANSACTIONS**

The Company purchases finished goods from Veoneer. For the three month periods ended September 30, 2020 and September 30, 2019, related party purchases from Veoneer amounted to $19 million and $17 million, respectively. For the nine month periods ended September 30, 2020 and September 30, 2019 related party purchases from Veoneer amounted to $48 million and $54 million, respectively.

Amounts due to and due from related party as of September 30, 2020 and December 31, 2019, were as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **As of** | | | | | |  |
| *(Dollars in millions)* |  | **September 30, 2020** | |  |  | **December 31, 2019** | |  |
| Related party receivables1) |  | $ | 1.1 |  |  | $ | 2.8 |  |
| Related party payables2) |  |  | 23.9 |  |  |  | 9.7 |  |
| Related party accrued expenses3) |  |  | 5.6 |  |  |  | 7.7 |  |

|  |  |
| --- | --- |
| 1) | Included in Receivables, net in the Condensed Consolidated Balance Sheet. |
| 2) | Included in Accounts payable in the Condensed Consolidated Balance Sheet. |
| 3) | Included in Accrued expenses in the Condensed Consolidated Balance Sheet. |

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**13. REVENUE DISAGGREGATION**

The Company’s disaggregated revenue for the three and nine month periods ended September 30, 2020 and September 30, 2019, were as follows.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Net Sales by Products** |  | **Three months ended September 30** | | | | | |  |  | **Nine months ended September 30** | | | | | |  |
| *(Dollars in millions)* |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| Airbag Products and Other1) |  | $ | 1,331.6 |  |  | $ | 1,349.3 |  |  | $ | 3,187.5 |  |  | $ | 4,232.7 |  |
| Seatbelt Products1) |  |  | 705.6 |  |  |  | 678.4 |  |  |  | 1,743.1 |  |  |  | 2,123.7 |  |
| **Total net sales** |  | **$** | **2,037.2** |  |  | **$** | **2,027.7** |  |  | **$** | **4,930.6** |  |  | **$** | **6,356.4** |  |
| 1) Including Corporate and other sales. |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Net Sales by Region** |  | **Three months ended September 30** | | | | | |  |  | **Nine months ended September 30** | | | | | |  |
| *(Dollars in millions)* |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| China |  | $ | 425.2 |  |  | $ | 381.7 |  |  | $ | 989.1 |  |  | $ | 1,061.7 |  |
| Japan |  |  | 180.3 |  |  |  | 202.4 |  |  |  | 487.9 |  |  |  | 601.6 |  |
| Rest of Asia |  |  | 200.7 |  |  |  | 193.6 |  |  |  | 514.2 |  |  |  | 622.8 |  |
| Americas |  |  | 693.3 |  |  |  | 713.1 |  |  |  | 1,578.9 |  |  |  | 2,214.2 |  |
| Europe |  |  | 537.7 |  |  |  | 536.9 |  |  |  | 1,360.5 |  |  |  | 1,856.1 |  |
| **Total net sales** |  | **$** | **2,037.2** |  |  | **$** | **2,027.7** |  |  | **$** | **4,930.6** |  |  | **$** | **6,356.4** |  |

Contract balances

Contract assets relate to the Company's rights to consideration for work completed but not billed (generally in conjunction with contracts for which revenue is recognized over time) at the reporting date on production parts and is included in Other current assets in the Condensed Consolidated Balance Sheet. The contract assets are reclassified into the receivables balance when the rights to receive payments become unconditional. The net change in the contract assets balance, reflecting the adjustments needed to align revenue recognition for work completed but not billed, for the three and nine month periods ended September 30, 2020 and September 30, 2019 were not material.

**14. SUBSEQUENT EVENTS**

There were no reportable events subsequent to September 30, 2020.

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**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 Condensed 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, 2019 filed with the United States Securities and Exchange Commission (the “SEC”) on February 21, 2020. 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. The Company functions as a holding corporation and owns two principal operating subsidiaries, Autoliv AB and Autoliv ASP, Inc.

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

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

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

Autoliv’s fiscal year ends on December 31.

**EXECUTIVE OVERVIEW**

The Company is proud of the way it handled the COVID-19 crisis. The worst demand decline on record in the second quarter was followed by a faster than expected recovery in the third quarter, with its challenges of managing the supply chain in a safe and efficient way. The quarter started weak and volatile but gradually grew stronger and more stable and the Company managed to record higher sales, higher profits and higher cash flow compared to the third quarter 2019. The third quarter outcome reflects the Company’s efforts to come out of the crisis as a stronger company. The adjusted operating margin was the second highest for a third quarter in the past 10 years, the operating cash flow and free cash flow are the highest the Company has recorded in a third quarter and the Company’s net debt is the lowest since the spin-off of Veoneer. The strong performance was a result of good operational execution, effects of the Company’s Structural Efficiency Programs and crisis management in the second quarter leading to cost reductions which, although of a more temporary nature, still supported the Company’s third quarter performance.

The Company’s sales outperformed organically (non-U.S. GAAP measure) the global light vehicle production by almost 5%, with outperformance in all major regions. Backed by recent product launches, the Company expects a further pick up of outperformance in the fourth quarter, supporting a full year outperformance of around 6pp. As expected, order intake activity was slow in the third quarter, but the Company expects a very busy fourth quarter.

Although it is important to realize that the COVID-19 crisis is not behind us, and global uncertainty persists, business stability and visibility have nevertheless improved, which allows the Company to provide a full year guidance.

The Company’s Structural Efficiency Programs are on track and delivering savings. As part of the Company’s footprint optimization ambitions, the Company decided to close one plant in Germany and the Company will continue with further footprint optimization. With the health and safety of Autoliv employees as the Company’s first priority, the Company continues with more activities to further improve efficiency, optimizing the Company’s footprint and implementing the strategic initiatives outlined last year to support next year being a solid stepping stone on the journey to the Company’s 2022-24 targets.

**Financial highlights in the third quarter of 2020**

**$2,037 million** net sales

**0.4%** organic sales growth (Non-U.S. GAAP measure, see reconciliation table below)

**8.6%** operating margin

**10.1%** adjusted operating margin (Non-U.S. GAAP measure)

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**$1.12** EPS - an increase of $0.14

**$1.48** adjusted EPS (Non-U.S. GAAP measure) - an increase of $0.18

**Key business developments in the third quarter of 2020**

|  |  |
| --- | --- |
| • | **Organic sales (Non-U.S. GAAP measure) increased by 0.4% which was 4.7pp higher than the change in global light vehicle production.** Organically, all major regions developed better than LVP. Sales in China grew by 10.4% compared to 8.7% growth in LVP. Sales in Americas grew by 1.2% compared to the LVP decline of 4.3%. In Europe, LVP declined by 7.6% while our sales declined by 4.8%. Customer sourcing activity was, as expected, low in the quarter, with more than half of planned sourcing for the year expected in the fourth quarter. First nine months order intake supports a prolonged period of outgrowth. |

|  |  |
| --- | --- |
| • | **Profitability improved as demand recovered and our cost reduction activities progressed according to plan.** Adjusted operating margin (Non-U.S. GAAP measure) improved both vs. Q2 2020 and Q3 2019. The gross margin improved by 0.9pp compared to Q3 2019. Indirect workforce was reduced by around 4% vs. Q3 2019 and by around 2% vs. Q2 2020. |

|  |  |
| --- | --- |
| • | **Strong cash flow and strengthened balance sheet.** Operating cash flow of $352 million and free cash flow (Non-U.S. GAAP measure) of $276 million was significantly above Q3 2019 levels. Net debt (Non-U.S. GAAP measure) declined vs. a year earlier and the debt leverage ratio (Non-U.S. GAAP measure) of 2.4x improved vs. 2.9x in Q2 2020, although still higher than the 1.8x in Q3 2019. As of October 2, 2020, our Revolving Credit Facility is repaid and available for us to draw on as needed. |

**COVID-19 Pandemic Related Business Update**

**First nine months of 2020**

The COVID-19 pandemic had a substantial impact on the Company’s operations in the first quarter, particularly in China, where most of its customers’ plants were closed for several weeks in February and operated at low levels in March. In Europe and North America, sales declined substantially in the second half of March as the pandemic led to customer plant closures. A large number of customer plants were closed in April and parts of May, followed by a ramp-up in June. According to IHS, global light vehicle production (LVP) declined by 24% in the first nine months of 2020 vs. the same period the prior year. The decline in global LVP and the slow and volatile restart and ramp-up had a significant impact on the Company’s sales and profitability in the first six months of 2020 while it managed to achieve improvements in sales, profitability and cash flow in the third quarter as its cost reduction initiatives and positive sales development more than offset the 4% global LVP decline in the third quarter.

**Liquidity and management actions undertaken to manage this challenging period**

During the first six months of 2020, Autoliv undertook a number of actions to support employee health and safety, corporate liquidity, cash flow and profitability. Actions included introducing a Smart Start Playbook for safe re-start and ramp-up, investing in employee safety equipment and re-designing production lines and work places as necessary. Other initiatives included drawing on the Revolving Credit Facility (which is now fully repaid), withdrawing full year guidance (now provided again), extensive use of furloughing (very limited use today), reducing headcount, sharply reducing capital expenditures, close monitoring of working capital, reducing or suspending discretionary spending and accelerated cost savings initiatives, cancelling the dividend and suspending future dividends, although the Board of Directors will review such suspension on a quarterly basis. Direct COVID-19 related costs, such as personal protective equipment, temporary supplier support and premium freight, were around $10 million in the second quarter and around $5 million in the third quarter. Support from governments in connection with furloughing, short-term work weeks and similar activities was around $25 million in the second quarter and around $10 million in the third quarter.

**Current situation**

In all regions, the automotive industry, including Autoliv, are in different stages of ramp-up of operations. Visibility and predictability of customer demand has improved but is still limited, particularly regarding the sustainability of current demand levels, including the effects on LVP of inventory build-ups, government vehicle subsidies and the risks of another wave of COVID-19 infections in one or more of the regions where the Company operates or has customers or suppliers.

While we continue to focus on health and safety and cost optimization, we are ramping up production in coordination with our customers and suppliers. Below is a summary of our current view of our three most important regions.

**China**: LVP was above pre-crisis production levels in the second and third quarter. IHS forecasting 5% year-over-year decline in LVP in the fourth quarter, the decrease mainly a result of high LVP in Q4 2019.

**Europe**: LVP development has improved gradually from second quarter’s year-over-year decline of 60% to a 8% decline in the third quarter according to IHS, which forecasts around 1% year-over-year decline in LVP in the fourth quarter.

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**North America**: LVP development has improved gradually from second quarter’syear-over-yeardecline of 68% to unchanged in the third quarter according to IHS, which forecasts around 1%year-over-yeardecline in LVP in the fourth quarter. Inventory levels are still low in North America.

**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", “Leverage ratio”, “Adjusted operating income”, “Adjusted operating margin” and “Adjusted EPS” 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** | | | | | |  |  | **Nine months ended** | | | | | |  |
|  |  | **or as of September 30** | | | | | |  |  | **or as of September 30** | | | | | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| Total parent shareholders’ equity per share |  | $ | 24.05 |  |  | $ | 22.78 |  |  | $ | 24.05 |  |  | $ | 22.78 |  |
| Capital employed 1) |  |  | 3,686 |  |  |  | 3,781 |  |  |  | 3,686 |  |  |  | 3,781 |  |
| Net debt 2) |  |  | 1,573 |  |  |  | 1,781 |  |  |  | 1,573 |  |  |  | 1,781 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Operating working capital 2) |  |  | 379 |  |  |  | 620 |  |  |  | 379 |  |  |  | 620 |  |
| Operating working capital relative to sales, % 10) |  |  | 5.3 |  |  |  | 7.2 |  |  |  | 5.3 |  |  |  | 7.2 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross margin, % 3) |  |  | 19.6 |  |  |  | 18.7 |  |  |  | 15.1 |  |  |  | 18.2 |  |
| Operating margin, % 4) |  |  | 8.6 |  |  |  | 7.6 |  |  |  | 1.5 |  |  |  | 7.8 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Return on total equity, % 5) |  |  | 19.4 |  |  |  | 17.1 |  |  |  | 0.0 |  |  |  | 20.7 |  |
| Return on capital employed, % 6) |  |  | 18.7 |  |  |  | 16.2 |  |  |  | 2.7 |  |  |  | 18.0 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Headcount at period-end 7) |  |  | 65,300 |  |  |  | 64,900 |  |  |  | 65,300 |  |  |  | 64,900 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Days receivables outstanding 8) |  |  | 73 |  |  |  | 75 |  |  |  | 90 |  |  |  | 72 |  |
| Days inventory outstanding 9) |  |  | 36 |  |  |  | 37 |  |  |  | 45 |  |  |  | 35 |  |

|  |  |
| --- | --- |
| 1) | Total equity and net debt. |
| 2) | See tabular presentation reconciling this non-U.S. GAAP measure to U.S. GAAP below under the heading “Liquidity and Sources of Capital”. |
| 3) | Gross profit relative to sales. |
| 4) | Operating income relative to sales. |
| 5) | Net income (loss) relative to average total equity. |
| 6) | Operating income and income from equity method investments, relative to average capital employed. |
| 7) | Employees plus temporary, hourly personnel. |
| 8) | Outstanding receivables relative to average daily sales. |
| 9) | Outstanding inventory relative to average daily sales. |
| 10) | Latest 12 months of net sales. For 2019 excluding EC antitrust non-cash provision. |

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**THREE MONTHS ENDED SEPTEMBER 30, 2020 COMPARED WITH THREE MONTHS ENDED SEPEMBER 30, 2019**

**Consolidated Sales**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three months ended**  **September 30** | | | | | |  |  |  |  |  |  | **Components of change in**  **net sales** | | | | | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **Reported**  **change** | |  |  | **Currency**  **effects 1)** | |  |  | **Organic** 3) | |  |
| Airbags and other 2) |  | $ | 1,331.6 |  |  | $ | 1,349.3 |  |  |  | (1.3 | )% |  |  | (0.1 | )% |  |  | (1.2 | )% |
| Seatbelts 2) |  |  | 705.6 |  |  |  | 678.4 |  |  |  | 4.0 | % |  |  | 0.3 | % |  |  | 3.7 | % |
| **Total** |  | **$** | **2,037.2** |  |  | **$** | **2,027.7** |  |  |  | **0.5** | **%** |  |  | **0.1** | **%** |  |  | **0.4** | **%** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Asia |  | $ | 806.2 |  |  | $ | 777.7 |  |  |  | 3.7 | % |  |  | 0.4 | % |  |  | 3.3 | % |
| *Whereof:     China* |  |  | *425.2* |  |  |  | *381.7* |  |  |  | *11.4* | *%* |  |  | *1.0* | *%* |  |  | *10.4* | *%* |
| *Japan* |  |  | *180.3* |  |  |  | *202.4* |  |  |  | *(10.9* | *)%* |  |  | *0.9* | *%* |  |  | *(11.8* | *)%* |
| *Rest of Asia* |  |  | *200.7* |  |  |  | *193.6* |  |  |  | *3.7* | *%* |  |  | *(1.4* | *)%* |  |  | *5.1* | *%* |
| Americas |  |  | 693.3 |  |  |  | 713.1 |  |  |  | (2.8 | )% |  |  | (4.0 | )% |  |  | 1.2 | % |
| Europe |  |  | 537.7 |  |  |  | 536.9 |  |  |  | 0.1 | % |  |  | 4.9 | % |  |  | (4.8 | )% |
| **Total** |  | **$** | **2,037.2** |  |  | **$** | **2,027.7** |  |  |  | **0.5** | **%** |  |  | **0.1** | **%** |  |  | **0.4** | **%** |

|  |  |
| --- | --- |
| 1) | Effects from currency translations. |
| 2) | Including Corporate and Other sales. |
| 3) | Non-U.S. GAAP measure. |

**Sales by product - Airbags**

Sales of side airbags increased slightly, mainly from most types of side airbags in South Korea and inflatable curtains and chest airbags in China. Sales of frontal airbags decreased slightly, due to weak sales of passenger airbags in Japan and ASEAN. Sales of inflators, including inflator replacements, decreased by around $20 million.

**Sales by product - Seatbelts**

Seatbelt sales organic growth (Non-U.S. GAAP measure) mainly reflects positive development with pretensioner seatbelts, especially in North America, China and Japan. Europe was the only large region with organic seatbelt sales decline.

**Sales by Region**

Our global organic sales (Non-U.S. GAAP measure) increased by 0.4% compared to the LVP decline of 4.3% (according to IHS). Sales increased organically in China, Rest of Asia and Americas and decreased in Europe and Japan. Our organic sales development outperformed LVP in all major regions - by almost 6pp in Americas, by almost 3pp in Europe and by almost 2pp in China.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Q3 2020 Organic growth**1) |  | **Americas** | |  |  | **Europe** | |  |  | **China** | |  |  | **Japan** | |  |  | **Rest of**  **Asia** | |  |  | **Global** | |  |
| Autoliv |  |  | 1.2 | % |  |  | (4.8 | )% |  |  | 10.4 | % |  |  | (11.8 | )% |  |  | 5.1 | % |  |  | 0.4 | % |
| Main growth drivers |  | Tesla, Toyota, VW | |  |  | PSA, Toyota | |  |  | GM, VW, Honda | |  |  | Suzuki, Toyota, Honda | |  |  | Hyundai/Kia, GM, Tata | |  |  | Toyota, Tesla, GM, VW | |  |
| Main decline drivers |  | Inflators, Nissan, FCA | |  |  | Daimler, Renault, BMW | |  |  | Daimler, Nissan, Mitsubishi | |  |  | Mitsubishi, Nissan, Mazda | |  |  | Mitsubishi, Toyota | |  |  | Mitsubishi, Nissan, Daimler, Inflators | |  |

|  |  |
| --- | --- |
| 1) | Non-U.S. GAAP measure. |

**Light Vehicle Production Development**

*Change vs. same quarter last year*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Americas** | |  |  | **Europe** | |  |  | **China** | |  |  | **Japan** | |  |  | **Rest of**  **Asia** | |  |  | **Global** | |  |
| LVP1) |  |  | (4.3 | )% |  |  | (7.6 | )% |  |  | 8.7 | % |  |  | (11.8 | )% |  |  | (16.8 | )% |  |  | (4.3 | )% |
| 1) Source: IHS October 2020. |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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**Earnings**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three months ended September 30** | | | | | |  |  |  |  |  |
| (Dollars in millions, except per share data) |  | **2020** | |  |  | **2019** | |  |  | **Change** | |  |
| Net Sales |  | $ | 2,037.2 |  |  | $ | 2,027.7 |  |  |  | 0.5 | % |
| Gross profit |  |  | 399.7 |  |  |  | 379.1 |  |  |  | 5.4 | % |
| *% of sales* |  |  | *19.6* | *%* |  |  | *18.7* | *%* |  |  | *0.9* | *pp* |
| S, G&A |  |  | (91.7 | ) |  |  | (97.7 | ) |  |  | (6.1 | )% |
| *% of sales* |  |  | *(4.5* | *)%* |  |  | *(4.8* | *)%* |  |  | *(0.3* | *)pp* |
| R, D&E, net |  |  | (101.6 | ) |  |  | (99.1 | ) |  |  | 2.5 | % |
| *% of sales* |  |  | *(5.0* | *)%* |  |  | *(4.9* | *)%* |  |  | *0.1* | *pp* |
| Amortization of Intangibles |  |  | (2.4 | ) |  |  | (2.9 | ) |  |  | (17.2 | )% |
| Other income (expense), net |  |  | (29.5 | ) |  |  | (25.6 | ) |  |  | 15.2 | % |
| Operating income |  |  | 174.5 |  |  |  | 153.8 |  |  |  | 13.5 | % |
| *% of sales* |  |  | *8.6* | *%* |  |  | *7.6* | *%* |  |  | *1.0* | *pp* |
| Adjusted operating income1) |  |  | 205.6 |  |  |  | 182.5 |  |  |  | 12.7 | % |
| *% of sales* |  |  | *10.1* | *%* |  |  | *9.0* | *%* |  |  | *1.1* | *pp* |
| Financial and non-operating items, net |  |  | (26.0 | ) |  |  | (19.4 | ) |  |  | 34.0 | % |
| Income before taxes |  |  | 148.5 |  |  |  | 134.4 |  |  |  | 10.5 | % |
| Tax rate |  |  | 33.5 | % |  |  | 36.0 | % |  |  | *(2.5* | *)pp* |
| Net income |  |  | 98.8 |  |  |  | 86.0 |  |  |  | 14.9 | % |
| Earnings per share, diluted2) |  |  | 1.12 |  |  |  | 0.98 |  |  |  | 14.3 | % |
| Adjusted earnings per share, diluted1),2) |  |  | 1.48 |  |  |  | 1.30 |  |  |  | 13.8 | % |

|  |  |
| --- | --- |
| 1) | Non-U.S. GAAP measure, excluding costs for capacity alignment and antitrust related matters and in 2019 separation of our business segments. |
| 2) | Assuming dilution, when applicable, 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. |

**Third quarter 2020 development**

**Gross profit** increased by $21 million and the gross margin increased by 0.9pp compared to the same quarter 2019. The gross margin increase was primarily driven by labor and direct materiel productivity.

**S,G&A** declined by $6 million, or 6%, compared to the prior year, mainly due to lower costs for personnel, including consultants.

**R,D&E, net** costs increased by $3 million compared to the prior year, as reduced personnel costs was more than offset by negative effect from lower engineering income and miscellaneous items.

**Other income (expense), net** was negative $30 million, mainly relating to restructuring activities in Europe.

**Operating income** increased by $21 million compared to the same period in 2019, as a consequence of the higher gross profit and lower costs for S,G&A being partly offset by higher costs in Other income (expense), net and R,D&E, net.

**Adjusted operating income (Non-U.S. GAAP measure)** increased by $23 million compared to the prior year, mainly due to the higher gross profit and lower costs for S,G&A being partly offset by higher costs for R,D&E, net.

**Financial and non-operating items, net** costswere$7 million higher vs. Q3 2019, mainly as a result of higher interest expense due to higher debt and higher pension related expenses.

**Income before taxes** increased by $14 million compared to the prior year, mainly due to the higher operating income.

**Tax rate** was 33.5%, compared to 36.0% in the same quarter last year, impacted by losses without tax benefit and an unfavorable country mix.

**Earnings per share, diluted** increased by $0.14 compared to a year earlier, where the main drivers were $0.17 from higher adjusted operating income (Non-U.S. GAAP measure) and $0.06 from lower tax partly offset by $0.04 in higher capacity alignment accruals and $0.05 from higher costs for financial items.

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**NINE MONTHS ENDED SEPTEMBER 30, 2020 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2019**

**Consolidated Sales**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine months ended**  **September 30** | | | | | |  |  |  |  |  |  | **Components of change in**  **net sales** | | | | | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **Reported**  **change** | |  |  | **Currency**  **effects 1)** | |  |  | **Organic** 3) | |  |
| Airbags and other 2) |  | $ | 3,187.5 |  |  | $ | 4,232.7 |  |  |  | (24.7 | )% |  |  | (1.8 | )% |  |  | (22.9 | )% |
| Seatbelts 2) |  |  | 1,743.1 |  |  |  | 2,123.7 |  |  |  | (17.9 | )% |  |  | (2.1 | )% |  |  | (15.8 | )% |
| **Total** |  | **$** | **4,930.6** |  |  | **$** | **6,356.4** |  |  |  | **(22.4** | **)%** |  |  | **(1.9** | **)%** |  |  | **(20.5** | **)%** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Asia |  | $ | 1,991.2 |  |  | $ | 2,286.1 |  |  |  | (12.9 | )% |  |  | (1.3 | )% |  |  | (11.6 | )% |
| *Whereof:     China* |  |  | *989.1* |  |  |  | *1,061.7* |  |  |  | *(6.8* | *)%* |  |  | *(1.8* | *)%* |  |  | *(5.0* | *)%* |
| *Japan* |  |  | *487.9* |  |  |  | *601.6* |  |  |  | *(18.9* | *)%* |  |  | *1.4* | *%* |  |  | *(20.3* | *)%* |
| *Rest of Asia* |  |  | *514.2* |  |  |  | *622.8* |  |  |  | *(17.4* | *)%* |  |  | *(2.9* | *)%* |  |  | *(14.5* | *)%* |
| Americas |  |  | 1,578.9 |  |  |  | 2,214.2 |  |  |  | (28.7 | )% |  |  | (3.5 | )% |  |  | (25.2 | )% |
| Europe |  |  | 1,360.5 |  |  |  | 1,856.1 |  |  |  | (26.7 | )% |  |  | (0.8 | )% |  |  | (25.9 | )% |
| **Total** |  | **$** | **4,930.6** |  |  | **$** | **6,356.4** |  |  |  | **(22.4** | **)%** |  |  | **(1.9** | **)%** |  |  | **(20.5** | **)%** |

|  |  |
| --- | --- |
| 1) | Effects from currency translations. |
| 2) | Including Corporate and Other sales. |
| 3) | Non-U.S. GAAP measure. |

**Sales by Product - Airbags**

Sales of all our airbag products except textiles declined organically (Non-U.S. GAAP measure) by between 17% and 58% in the first nine months of the year, reflecting the 23.9% decline in LVP. Textiles increased by 51%, reflecting new sales of textiles for manufacturing of personal protection equipment. Inflator sales declined organically (Non-U.S. GAAP measure) by around 58%.

**Sales by Product - Seatbelts**

Japan showed a slight organic seatbelt sales growth (Non-U.S. GAAP measure), while all other regions showed organic sales declines between 5% and 31%.

**Sales by Region**

The global organic sales (Non-U.S. GAAP measure) decline of 20.5% was 3.4pp better than LVP (according to IHS). Sales declined organically in all regions. The largest organic sales decline drivers were Americas and Europe, followed by Japan, Rest of Asia and China. Our organic sales (Non-U.S. GAAP measure) development outperformed LVP in all regions - by 5.5pp in China, by 4.3pp in Americas and by 3.6pp in Europe.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **First nine months 2020 Organic growth1)** |  | **Americas** | |  |  | **Europe** | |  |  | **China** | |  |  | **Japan** | |  |  | **Rest of**  **Asia** | |  |  | **Global** | |  |
| Autoliv |  |  | (25.2 | )% |  |  | (25.9 | )% |  |  | (5.0 | )% |  |  | (20.3 | )% |  |  | (14.5 | )% |  |  | (20.5 | )% |
| Main growth drivers |  | Tesla, Mazda | |  |  | Inflators | |  |  | GM, Ford, Toyota | |  |  | Suzuki, Honda | |  |  | GM, Renault | |  |  | Tesla | |  |
| Main decline drivers |  | FCA, Honda, Nissan, Inflators | |  |  | Daimler, VW, Renault, BMW | |  |  | Nissan, Great Wall, Inflators | |  |  | Mitsubishi, Nissan, Mazda | |  |  | Mitsubishi, Suzuki, Toyota | |  |  | FCA, Nissan, Daimler, Honda, Inflators | |  |

**Light Vehicle Production Development**

*Change vs. same period last year*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Americas** | |  |  | **Europe** | |  |  | **China** | |  |  | **Japan** | |  |  | **Rest of**  **Asia** | |  |  | **Global** | |  |
| LVP1) |  |  | (29.5 | )% |  |  | (29.5 | )% |  |  | (10.5 | )% |  |  | (21.9 | )% |  |  | (31.3 | )% |  |  | (23.9 | )% |
| 1) Source: IHS October 2020. |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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**Earnings**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine months ended September 30** | | | | | |  |  |  |  |  |
| (Dollars in millions, except per share data) |  | **2020** | |  |  | **2019** | |  |  | **Change** | |  |
| Net Sales |  | $ | 4,930.6 |  |  | $ | 6,356.4 |  |  |  | (22.4 | )% |
| Gross profit |  |  | 745.1 |  |  |  | 1,157.6 |  |  |  | (35.6 | )% |
| *% of sales* |  |  | *15.1* | *%* |  |  | *18.2* | *%* |  |  | *(3.1* | *)pp* |
| S, G&A |  |  | (283.7 | ) |  |  | (300.2 | ) |  |  | (5.5 | )% |
| *% of sales* |  |  | *(5.8* | *)%* |  |  | *(4.7* | *)%* |  |  | *1.1* | *pp* |
| R, D&E, net |  |  | (292.2 | ) |  |  | (323.5 | ) |  |  | (9.7 | )% |
| *% of sales* |  |  | *(5.9* | *)%* |  |  | *(5.1* | *)%* |  |  | *0.8* | *pp* |
| Amortization of Intangibles |  |  | (7.5 | ) |  |  | (8.6 | ) |  |  | (12.8 | )% |
| Other income (expense), net |  |  | (86.4 | ) |  |  | (28.8 | ) |  |  | 200.0 | % |
| Operating income |  |  | 75.3 |  |  |  | 496.5 |  |  |  | (84.8 | )% |
| *% of sales* |  |  | *1.5* | *%* |  |  | *7.8* | *%* |  |  | *(6.3* | *)pp* |
| Adjusted operating income1) |  |  | 170.2 |  |  |  | 532.1 |  |  |  | (68.0 | )% |
| *% of sales* |  |  | *3.5* | *%* |  |  | *8.4* | *%* |  |  | *(4.9* | *)pp* |
| Financial and non-operating items, net |  |  | (62.0 | ) |  |  | (57.7 | ) |  |  | 7.5 | % |
| Income before taxes |  |  | 13.3 |  |  |  | 438.8 |  |  |  | (97.0 | )% |
| Tax rate |  |  | 104.4 | % |  |  | 30.1 | % |  |  | *74.3* | *pp* |
| Net (loss) income |  |  | (0.6 | ) |  |  | 306.9 |  |  |  | (100.2 | )% |
| (Loss) earnings per share, diluted2) |  |  | (0.02 | ) |  |  | 3.50 |  |  |  | (100.6 | )% |
| Adjusted earnings per share, diluted1),2) |  |  | 0.95 |  |  |  | 3.87 |  |  |  | (75.5 | )% |

|  |  |
| --- | --- |
| 1) | Non-U.S. GAAP measure, excluding costs for capacity alignment and antitrust related matters and in 2019 separation of our business segments. |
| 2) | Assuming dilution, when applicable, 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. |

**First nine months 2020 development**

**Gross profit** declined by $413 million and the gross margin declined by 3.1pp compared to the same period 2019. The gross margin decline was primarily driven by lower sales and lower utilization of our assets from the decline in LVP. The sharp sales decline followed by a volatile restart and ramp-up with limited visibility and predictability had a significant effect on our gross margin, despite significant reductions in costs for material and labor.

**S,G&A** decreased by $17 million, or by 6%, mainly due to lower personnel costs.

**R,D&E, net** declined by $31 million, or by 10%, mainly due to positive year-over-year effects from lower personnel costs due to reduced headcount and furloughing.

**Other income (expense), net** costs increased by $58 million compared to a year earlier, mainly due to higher accruals for restructuring activities in the first nine months of 2020 compared to a year earlier. The accruals are mainly related to future reductions of our indirect workforce.

**Operating income** decreased by $421 million, mainly as a consequence of the declines in gross profit and other income (expense), net, partly offset by lower costs for S,G&A and R,D&E, net.

**Adjusted operating income (Non-U.S. GAAP measure)** decreased by $362 million, mainly due to the lower gross profit, partly offset by lower costs for S,G&A and R,D&E, net.

**Financial and non-operating items, net** costswere $4 million higher than a year earlier, mainly due to unfavorable effects of exchange rate changes and higher pension related expenses.

**Income before taxes** decreased by $426 million, as a consequence of lower operating income.

**Tax rate** was 104.4%, compared to 30.1% last year, impacted by unfavorable country mix and losses without tax benefit.

**Earnings per share, diluted** decreased by $3.52 where the main drivers were $2.89 from lower adjusted operating income and $0.60 from higher capacity alignment accruals.

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**LIQUIDITY AND SOURCES OF CAPITAL**

**Third quarter 2020 development**

**Operating working capital (Non-U.S. GAAP measure)** was 5.3% of sales compared to 7.2% of sales a year earlier, mainly as a consequence of more positive effects from accounts receivables, inventories and various accruals vs. the prior year. The Company targets that operating working capital in relation to the last 12-month sales should not exceed 10%.

**Operating cash flow** was $352 million, compared to $195 million a year earlier. The improvement was mainly due to more positive effects from changes in accounts payable and accrued expenses, inventories and income taxes partly offset by more negative effect from receivables and other assets vs. the prior year.

**Capital expenditure, net** was 38% lower than a year earlier, reflecting our efforts to reduce capital expenditure to support cash flow. Capital expenditure, net in relation to sales was 3.8% vs. 6.0% a year earlier.

**Free cash flow (Non-U.S. GAAP measure)** amounted to $276 million, compared to $73 million a year earlier. The increase was due to the higher operating cash flow and lower capital expenditure, net.

**Cash conversion (Non-U.S. GAAP measure)** defined as free cash flow (Non-U.S. GAAP measure) in relation to net income, was 279%, driven by the high level of free cash flow.

**Net debt (Non-U.S. GAAP measure)** was $1,573 million as of September 30, 2020, which was $208 million lower than a year earlier and $265 million lower compared to June 30, 2020.

**Liquidity position** At September 30, 2020, the cash balance was $1.5 billion, and including committed, unused loan facilities, our liquidity position was $2.0 billion. On October 2, 2020, the Revolving Credit Facility was fully repaid through a $600 million payment. Remaining debt maturing in 2020 is $117 million, with another $275 million maturing in 2021.

**Leverage ratio (Non-U.S. GAAP measure)** Autoliv’s policy is to maintain a leverage ratio commensurate with a strong investment grade credit rating. The Company measures its leverage ratio as net debt (Non-U.S. GAAP measure) adjusted for pension liabilities in relation to adjusted EBITDA (Non-U.S. GAAP measure). The long-term target is to maintain a leverage ratio of around 1x within a range of 0.5x to 1.5x. As of September 30, 2020, the Company had a leverage ratio of 2.4x, compared to 1.8x at September 30, 2019 as a lower net debt was more than offset by a lower adjusted 12 month trailing EBITDA vs. a year earlier. At June 30, 2020, the leverage ratio was 2.9x.

**Total equity** increased by $114 million compared to September 30, 2019 mainly due to $155 million in net income and $28 million from positive foreign exchange effects, partly offset by $55 million in dividends.

**First nine months 2020 development**

**Operating cash flow** was $380 million compared to $328 million a year earlier. The improvement was primarily a result of more positive effects from changes in working capital in 2020 and the EC antitrust payment of $203 million in Q2 2019, partly offset by a lower net income in 2020.

**Capital expenditure, net** of $229 million was 36% lower than a year earlier, reflecting efforts to reduce capital expenditure to support cash flow. Capital expenditure, net in relation to sales was 4.6% compared to 5.6% in the same period 2019.

**Free cash flow (Non-U.S. GAAP measure)** amounted to $152 million compared to $30 million negative a year earlier, where the improvement was due to the higher operating cash flow and lower capital expenditure, net.

**Cash conversion (Non-U.S. GAAP measure)** defined as free cash flow (Non-U.S. GAAP measure) in relation to net income, was not meaningful in the first half year as net income was close to zero.

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**Non-U.S. GAAP measures**

**Reconciliation of U.S. GAAP financial measures to “Adjusted operating income”, “Adjusted operating margin” and “Adjusted EPS”**

**(Dollars in millions, except per share data)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three months ended September 30, 2020** | | | | | | | | | |  |  | **Three months ended September 30, 2019** | | | | | | | | | |  |
|  |  | **Reported**  **U.S.**  **GAAP** | |  |  | **Adjustments1)** | |  |  | **Non-U.S.**  **GAAP** | |  |  | **Reported**  **U.S.**  **GAAP** | |  |  | **Adjustments1)** | |  |  | **Non-U.S.**  **GAAP** | |  |
| Operating income |  | $ | 174.5 |  |  | $ | 31.1 |  |  | $ | 205.6 |  |  | $ | 153.8 |  |  | $ | 28.7 |  |  | $ | 182.5 |  |
| Operating margin, % |  |  | 8.6 |  |  |  | 1.5 |  |  |  | 10.1 |  |  |  | 7.6 |  |  |  | 1.4 |  |  |  | 9.0 |  |
| Earnings per share, diluted |  |  | 1.12 |  |  |  | 0.36 |  |  |  | 1.48 |  |  |  | 0.98 |  |  |  | 0.32 |  |  |  | 1.30 |  |

|  |  |
| --- | --- |
| 1) | Including costs for capacity alignment and antitrust related matters and in 2019 separation of our business segments. |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine months ended September 30, 2020** | | | | | | | | | |  |  | **Nine months ended September 30, 2019** | | | | | | | | | |  |
|  |  | **Reported**  **U.S.**  **GAAP** | |  |  | **Adjustments1)** | |  |  | **Non-U.S.**  **GAAP** | |  |  | **Reported**  **U.S.**  **GAAP** | |  |  | **Adjustments1)** | |  |  | **Non-U.S.**  **GAAP** | |  |
| Operating income |  | $ | 75.3 |  |  | $ | 94.9 |  |  | $ | 170.2 |  |  | $ | 496.5 |  |  | $ | 35.6 |  |  | $ | 532.1 |  |
| Operating margin, % |  |  | 1.5 |  |  |  | 2.0 |  |  |  | 3.5 |  |  |  | 7.8 |  |  |  | 0.6 |  |  |  | 8.4 |  |
| (Loss) earnings per share, diluted |  |  | (0.02 | ) |  |  | 0.97 |  |  |  | 0.95 |  |  |  | 3.50 |  |  |  | 0.37 |  |  |  | 3.87 |  |

|  |  |
| --- | --- |
| 1) | Including costs for capacity alignment and antitrust related matters and in 2019 separation of our business segments. |

**Items included in Non-U.S. GAAP adjustments**

**(Dollars in millions, except per share data)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three months ended**  **September 30, 2020** | | | | | |  |  | **Three months ended**  **September 30, 2019** | | | | | |  |
|  |  | **Millions** | |  |  | **Per share** | |  |  | **Millions** | |  |  | **Per share** | |  |
| Capacity alignment |  | $ | 30.9 |  |  | $ | 0.36 |  |  | $ | 27.4 |  |  | $ | 0.31 |  |
| Antitrust related matters |  |  | 0.2 |  |  |  | 0.00 |  |  |  | 0.1 |  |  |  | 0.00 |  |
| Separation costs |  |  | – |  |  |  | – |  |  |  | 1.2 |  |  |  | 0.01 |  |
| **Total adjustments to operating income** |  | $ | 31.1 |  |  | $ | 0.36 |  |  | $ | 28.7 |  |  | $ | 0.32 |  |
| Tax on non-U.S. GAAP adjustments1) |  |  | 0.0 |  |  |  | 0.00 |  |  |  | (0.4 | ) |  |  | 0.00 |  |
| **Total adjustments to net income** |  |  | **31.1** |  |  |  | **0.36** |  |  |  | **28.3** |  |  |  | **0.32** |  |

|  |  |
| --- | --- |
| 1) | The tax is calculated based on the tax laws in the respective jurisdiction(s) of the adjustment(s). |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine months ended**  **September 30, 2020** | | | | | |  |  | **Nine months ended**  **September 30, 2019** | | | | | |  |
|  |  | **Millions** | |  |  | **Per share** | |  |  | **Millions** | |  |  | **Per share** | |  |
| Capacity alignment |  | $ | 94.4 |  |  | $ | 1.08 |  |  | $ | 40.5 |  |  | $ | 0.46 |  |
| Antitrust related matters |  |  | 0.5 |  |  |  | 0.01 |  |  |  | (6.1 | ) |  |  | (0.07 | ) |
| Separation Costs |  |  | – |  |  |  | – |  |  |  | 1.2 |  |  |  | 0.01 |  |
| **Total adjustments to operating income** |  |  | **94.9** |  |  |  | **1.09** |  |  |  | **35.6** |  |  |  | **0.40** |  |
| Tax on non-U.S. GAAP adjustments1) |  |  | (9.9 | ) |  |  | (0.12 | ) |  |  | (3.0 | ) |  |  | (0.03 | ) |
| **Total adjustments to net income** |  | **$** | **85.0** |  |  | **$** | **0.97** |  |  | **$** | **32.6** |  |  | **$** | **0.37** |  |

|  |  |
| --- | --- |
| 1) | The tax is calculated based on the tax laws in the respective jurisdiction(s) of the adjustment(s). |

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. The historical periods in the table have been restated to only reflect continuing operations.

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**Reconciliation of U.S. GAAP financial measure to “Operating working capital”**

**(Dollars in millions)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2020** | |  |  | **September 30, 2019** | |  |  | **December 31, 2019** | |  |
| Total current assets |  | $ | 4,036.5 |  |  | $ | 2,908.8 |  |  | $ | 3,002.1 |  |
| Total current liabilities |  |  | (3,221.3 | ) |  |  | (2,304.8 | ) |  |  | (2,410.2 | ) |
| **Working capital** |  |  | **815.2** |  |  |  | **604.0** |  |  |  | **591.9** |  |
| Cash and cash equivalents |  |  | (1,476.5 | ) |  |  | (334.4 | ) |  |  | (444.7 | ) |
| Short-term debt |  |  | 1,025.5 |  |  |  | 289.9 |  |  |  | 368.1 |  |
| Derivative (asset) and liability, current |  |  | 15.1 |  |  |  | 5.9 |  |  |  | (4.2 | ) |
| Dividends payable 1) |  |  | – |  |  |  | 54.1 |  |  |  | 54.1 |  |
| **Operating working capital** |  | **$** | **379.3** |  |  | **$** | **619.5** |  |  | **$** | **565.2** |  |

|  |  |
| --- | --- |
| 1) | On April 2, 2020, the Company canceled its declared dividend for the second quarter of 2020 and no additional dividends have been declared in 2020. |

**Reconciliation of U.S. GAAP financial measure to “Net debt”**

**(Dollars in millions)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2020** | |  |  | **September 30, 2019** | |  |  | **December 31, 2019** | |  |
| Short-term debt |  | $ | 1,025.5 |  |  | $ | 289.9 |  |  | $ | 368.1 |  |
| Long-term debt |  |  | 2,007.1 |  |  |  | 1,815.1 |  |  |  | 1,726.1 |  |
| **Total debt** |  |  | **3,032.6** |  |  |  | **2,105.0** |  |  |  | **2,094.2** |  |
| Cash and cash equivalents |  |  | (1,476.5 | ) |  |  | (334.4 | ) |  |  | (444.7 | ) |
| Debt issuance cost/Debt-related derivatives, net |  |  | 17.0 |  |  |  | 10.7 |  |  |  | 0.3 |  |
| **Net debt** |  | **$** | **1,573.1** |  |  | **$** | **1,781.3** |  |  | **$** | **1,649.8** |  |

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)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2020** | |  |  | **September 30, 2019** | |  |  | **December 31, 2019** | |  |
| Net debt1) |  | $ | 1,573.1 |  |  | $ | 1,781.3 |  |  | $ | 1,649.8 |  |
| Pension liabilities |  |  | 239.2 |  |  |  | 199.9 |  |  |  | 240.2 |  |
| **Debt per the Policy** |  |  | **1,812.3** |  |  |  | **1,981.2** |  |  |  | **1,890.0** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income2) |  |  | 155.3 |  |  |  | 216.1 |  |  |  | 462.8 |  |
| Less; Net loss from discontinued operations2) |  |  | – |  |  |  | (2.0 | ) |  |  | – |  |
| **Net income continuing operations2)** |  |  | **155.3** |  |  |  | **214.1** |  |  |  | **462.8** |  |
| Income taxes 2) |  |  | 67.6 |  |  |  | 226.8 |  |  |  | 185.6 |  |
| Interest expense, net2,3) |  |  | 65.6 |  |  |  | 67.0 |  |  |  | 65.9 |  |
| Depreciation and amortization of intangibles2) |  |  | 358.6 |  |  |  | 348.8 |  |  |  | 350.6 |  |
| Antitrust related matters, capacity alignment and     separation costs2 |  |  | 107.8 |  |  |  | 254.5 |  |  |  | 48.6 |  |
| **EBITDA per the Policy** |  | **$** | **754.9** |  |  | **$** | **1,111.2** |  |  | **$** | **1,113.5** |  |
| **Leverage ratio** |  |  | **2.4** |  |  |  | **1.8** |  |  |  | **1.7** |  |

|  |  |
| --- | --- |
| 1) | Net debt (non-U.S. GAAP measure) is short- and long-term debt and debt-related derivatives, less cash and cash equivalents. |
| 2) | Latest 12-months. |
| 3) | Interest expense, net is interest expense including cost for extinguishment of debt, if any, less interest income. |

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**Headcount**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30, 2020** | |  |  | **June 30, 2020** | |  |  | **September 30, 2019** | |  |
| Headcount |  |  | 65,300 |  |  |  | 61,800 |  |  |  | 64,900 |  |
| Whereof: |  |  |  |  |  |  |  |  |  |  |  |  |
| Direct workers in manufacturing |  |  | 72 | % |  |  | 70 | % |  |  | 71 | % |
| Best cost countries |  |  | 81 | % |  |  | 81 | % |  |  | 80 | % |
| Temporary personnel |  |  | 9 | % |  |  | 6 | % |  |  | 9 | % |

Compared to June 30, 2020, total headcount (permanent employees and temporary personnel) increased by 3,522. The increase in the quarter was driven by an increase of around 9% of the direct workforce reflecting a sharp increase in light vehicle production compared to second quarter 2020. The indirect workforce decreased by around 2%, reflecting our Structural Efficiency Programs. Compared to a year ago, total headcount increased by 0.6%, driven by an increase of around 3% of the direct workforce and a reduction of 4% of the indirect workforce.

**Full year 2020 indications**

The Company’s organic sales growth and adjusted operating margin outlook indications for 2020 reflect continuing uncertainty in the automotive markets and are mainly based on our customer call-offs and light vehicle production according to IHS.

|  |  |  |
| --- | --- | --- |
| **Financial measure** |  | **Full year indication** |
| Net sales growth |  | Around (14.5)% |
| Organic sales growth |  | Around (13)% |
| Adjusted operating margin 1) |  | Around 6.0% |
| R,D&E, net % of sales |  | Above 2019 level |
| Tax rate 2) |  | Around 40% |
| Operating cash flow 2) |  | Below 2019 level |
| Capex, net % of sales |  | Below 2019 level |
| Leverage ratio at year-end |  | Above target range |
| 1) Excluding costs for capacity alignments and antitrust related matters. | | |
| 2)Excluding unusual items.    The forward-looking non-U.S. GAAP financial measures above are provided on a non-U.S. GAAP basis. The Company 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**

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, 2019 filed with the SEC on February 21, 2020.

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**OTHER RECENT EVENTS**

**Key launches in the Third Quarter of 2020**

|  |  |
| --- | --- |
| • | **Cadillac Escalade:** Steering Wheel and Driver/Passenger Airbags. |
| • | **Mercedes S-Class:** Steering Wheel, Driver/Passenger Airbags, Bag In Belt and Pyrotechnical Safety Switch. |
| • | **VW ID.3**: Steering Wheel, Driver/Passenger Airbags and Seatbelts. |
| • | **Citroen C4:** Steering Wheel, Driver/Passenger Airbags, Side Airbags, Head/Inflatable Curtain Airbags and Seatbelts. |
| • | **Hyundai Tucson:** Driver/Passenger Airbags, Head/Inflatable Curtain Airbags and Seatbelts. |
| • | **Nissan Rogue/X-Trail:** Driver/Passenger Airbags, Knee Airbag and Front Center Airbag. |
| • | **Ford F-150:** Driver/Passenger Airbags, Side Airbags and Head/Inflatable Curtain Airbags. |
| • | **Ford Bronco:** Driver/Passenger Airbags, Knee Airbag, Side Airbags and Seatbelts. |
| • | **Ford Mustang Mach-E:** Driver/Passenger Airbags, Knee Airbag, Side Airbags and Seatbelts. |

**Other Items**

|  |  |
| --- | --- |
| • | On August 3, 2020, Autoliv announced the appointment of Laurie Brlas as an independent member to its Board of Directors. Ms Brlas is a certified public accountant that has held CFO positions in Newmont Mining Corporation and Cliffs Natural Resources and currently serves on the board of directors of Albemarle Corporation, Exelon Corporation and Graphic Packaging Holding Company. |

|  |  |
| --- | --- |
| • | On October 1, 2020, Autoliv announced the promotion of Colin Naughton to the position of President, Asia and a member of Autoliv’s Executive Management Team. The promotion is expected to be effective on November 1, 2020 as Brad Murray, current President of Autoliv Asia, has chosen to return to the United States after a multi-decade career in Japan. Colin has extensive experience leading large-scale operations and driving positive results for nearly two decades. He began his career at Autoliv in 1995, progressing into various Sales, Engineering and Operations leadership roles in several of Autoliv's locations in Asia. Colin will relocate from Thailand to Japan, where the Autoliv Asia Division is headquartered. |

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of September 30, 2020, 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, 2019, filed with the SEC on February 21, 2020.

**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.

The Company’s ability to maintain an effective internal control environment has not been impacted by the COVID-19 pandemic. The Company is continually monitoring and assessing the COVID-19 pandemic on the its internal controls to minimize the impact on their design and operating effectiveness.

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**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

See Part I, Item 1, "Financial Statements, Note 9 Contingent Liabilities" of this Quarterly Report on Form 10-Q for a summary of certain ongoing legal proceedings. Such information is incorporated into this Part II, Item 1—"Legal Proceedings" by reference.

**ITEM 1A. RISK FACTORS**

Except as set forth below, as of September 30, 2020, 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, 2019 filed with the SEC on February 21, 2020.

**We face risks related to the novel coronavirus (COVID-19) pandemic that have, and are expected to continue to have, an adverse impact on our business and financial performance**

The COVID-19 pandemic has created significant volatility in the global economy and led to significant reduced economic activity and employment and has disrupted, and may continue to disrupt, the global automotive industry and customer sales, production volumes and purchases of light vehicles by end-consumers. The spread of COVID-19 has also caused disruptions in the manufacturing, delivery and overall supply chains of automobile manufacturers and suppliers. Global light vehicle production has decreased significantly and some vehicle manufacturers have slowed down, completely shutdown manufacturing operations for a period of time and/or restarted production in some countries and regions. As a result, we have modified our production schedules and have experienced, and may continue to experience, delays in the production and distribution of our products and a decline in sales to our customers. As production resumes by us and our customers, production volumes have been and may continue to be volatile. We have also taken protective measures to modify our production environment to ensure the health and safety of our workers which has had an impact on our productivity. Additionally, if the global economic effects caused by the pandemic continue or increase, overall customer demand may continue to decrease, which could have a material and adverse effect on our business, results of operations and financial condition. In addition, if a significant portion of our workforce or our customers’ workforce is affected by COVID-19 either directly or due to government closures or otherwise, associated work stoppages or facility closures would halt or delay production.

The full extent of the effect of the pandemic on us, our customers, our supply chain and our business will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration and severity of the outbreak or subsequent outbreaks. We may continue to experience the effects of the pandemic even after it has waned, and our business, results of operations and financial condition could continue to be affected. In particular, if COVID-19 continues to spread or re-emerges, particularly in the United States, Europe and China, where our operations are most concentrated, resulting in a prolonged period of travel, commercial, social and other similar restrictions, we could experience, among other things:

|  |  |  |
| --- | --- | --- |
|  | • | Adverse impacts on our operations and financial results caused by government and regulatory measures to contain or mitigate the spread of the virus, temporary closures of our facilities or the facilities of our customers or suppliers, which could impact our ability to timely meet our customers’ orders or negatively impact our supply chain; |
|  | • | The failure of third parties on which we rely, including our suppliers, customers, contractors, commercial banks and external business partners, to meet their respective obligations to the Company, or significant disruptions in their ability to do so, which may be caused by their own financial or operational difficulties including bankruptcy or default; |
|  | • | Disruptions or restrictions on our employees’ ability to work effectively, due to illness, quarantines, travel bans, shelter-in-place orders or other limitations; |
|  | • | Interruptions to the operations of our business if the health of our executives, management personnel and other employees are affected, particularly if a significant number of individuals are impacted; |
|  | • | Any accident, COVID-19 illness, or injury to our employees could result in litigation, manufacturing delays and harm to our reputation, which could negatively affect our business, results of operations and financial condition; |
|  | • | Changes in prices of tooling and services may be impacted by worldwide demand and by the ongoing COVID-19 pandemic. Such price increases could materially increase our operating costs and adversely affect our profit margin; |
|  | • | Governments and regulators may choose to delay new automobile safety regulations which could impact the average global content of passive safety systems per light vehicle in the near term; |
|  | • | Some of our competitors are (or may be) owned by a governmental entity and/or receive various forms of governmental aid or support, which we may not be eligible for, and which may put us at a competitive disadvantage; |

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|  |  |  |
| --- | --- | --- |
|  | • | Increased cybersecurity and privacy risks and risks related to the reliability of technology to support remote operations; |
|  | • | Sudden and/or severe declines in the market price of our common stock; and |
|  | • | Costs incurred and revenues lost during and from the effects of the COVID-19 pandemic likely will not be recoverable. |

In addition to the risks specifically described above, the impact of COVID-19 is likely to implicate and exacerbate other risks disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2019.

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

Our dividend policy is subject to the discretion of our Board of Directors and depends upon a number of factors, including our earnings, financial condition, cash and capital needs, indebtedness and leverage, and general economic or business conditions. On April 2, 2020 our Board of Directors suspended our quarterly dividend after determining that a suspension was necessary in light of the evolving global COVID-19 pandemic, decline in global LVP, the uncertainty surrounding the recession at that time and the inherent risk of customer defaults. There can be no assurance that our Board of Directors will declare dividends in the future.

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

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

|  |  |  |
| --- | --- | --- |
|  | • | exposure to local economic conditions; |
|  | • | unexpected changes in laws, regulations, trade, or monetary or fiscal policy, including interest rates, foreign currency exchange rates, and changes in the rate of inflation in the emerging markets and countries in which we do business; |
|  | • | foreign tax consequences; |
|  | • | inability to collect, or delays in collecting, value-added taxes and/or other receivables associated with remittances and other payments by subsidiaries; |
|  | • | exposure to local political turmoil and challenging labor conditions; |
|  | • | changes in general economic and political conditions in countries where we operate, particularly in emerging markets; |
|  | • | expropriation and nationalization; |
|  | • | enforcing legal agreements or collecting receivables through foreign legal systems; |
|  | • | wage inflation in growth markets; |
|  | • | currency controls, including lack of liquidity in foreign currency due to governmental restrictions, trade protection policies and currency controls, which may create difficulty in repatriating profits or making other remittances; |
|  | • | compliance with the requirements of an increasing body of applicable anti-bribery laws; |
|  | • | reduced intellectual property protection in various markets; |
|  | • | investment restrictions or requirements; and |
|  | • | the imposition of product tariffs and the burden of complying with a wide variety of international and U.S. export laws. |

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

Our international operations also depend upon favorable trade relations between the U.S. and those foreign countries in which our customers and suppliers have operations. The current U.S. presidential administration has created uncertainty about the future relationship between the U.S. and certain of its trading partners, including with respect to the trade policies and agreements, treaties, government regulations and tariffs that could apply to trade between the U.S. and other nations. These developments may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade between these nations and the U.S. It could also impact importing certain foreign-produced vehicles into the U.S. Similarly, the political situations in certain countries, specifically Brazil, China, France, Russia,

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Turkey, and the United Kingdom, make it difficult to predict the near-term stability of trade costs with these nations. Meanwhile, the U.S. presidential election in November 2020 could result in a shift in U.S. trade policy that is impossible to predict at this time. Changes in national policy or continued uncertainty could depress economic activity and restrict our access to suppliers or customers and have a material adverse effect on our cash flows, operating results and financial condition.

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

**Significant changes to international trade policy, including the recently enacted USMCA could adversely affect our financial performance**

In October 2018, the U.S., Mexico and Canada agreed to a trade deal that would replace NAFTA known as The United States Mexico Canada Agreement (“USMCA”). The USMCA has been ratified by Mexico, the U.S. and Canada. The USMCA was entered into on July 1, 2020. As adopted, the USMCA changes the automotive rules of origin that dictate what percentage of an automobile must be built from parts that originated from countries in the North American region. Reflective of the automotive industry, our vehicle parts manufacturing facilities in the U.S., Mexico and Canada are highly dependent on duty-free trade within the USMCA free trade region. As a result of these policy changes and other proposals of the Trump Administration, there may be greater restrictions and economic disincentives on international trade. New tariffs and other changes in U.S. trade policy could trigger retaliatory actions by affected countries. Such changes have the potential to adversely impact the U.S. economy or certain sectors thereof, including our industry and the global demand for our products and, as a result, could negatively impact our financial performance.

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

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

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

**Stock repurchase program**

During the quarter ended September 30, 2020, the Company made no stock repurchases. The Company is authorized to purchase up to 47.5 million shares of common stock under its stock repurchase program, which was first approved by the board of directors of the Company on May 9, 2000. Under the existing authorization, 2,986,288 shares may be repurchased. The stock repurchase program does not have an expiration date.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

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**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).](https://content.edgar-online.com/ExternalLink/EDGAR/0001193125-15-141900.html?hash=ebacd3660aaccd0a9648f38caf3db3d462f54618669d76c84f987a7fbe3aadae&dest=D896012DEX31_HTM) |
|  |  |  |
| 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).](https://content.edgar-online.com/ExternalLink/EDGAR/0001193125-15-407851.html?hash=5f2b0eef8c3d9ba9f6092247e58a2b95b2cea455a2f91545263a0a3a45dc884a&dest=D32830DEX31_HTM) |
|  |  |  |
| 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).](https://content.edgar-online.com/ExternalLink/EDGAR/0001193125-09-067376.html?hash=d91a455f4843471b53257740e8ddbbaa8fc92ac69c148aeff63029bce97dea6b&dest=DEX41_HTM) |
|  |  |  |
| 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).](https://content.edgar-online.com/ExternalLink/EDGAR/0001193125-12-117495.html?hash=19e1a3eee5e6b21b919d6d1c2173125fc12e3e5b7f1077e16b3443fd7d0f8e2b&dest=D316612DEX41_HTM)‌ |
|  |  |  |
| 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).](https://content.edgar-online.com/ExternalLink/EDGAR/0001193125-14-158776.html?hash=56650ce4ee2d4acb325844e56bfe381b0c46f7c198cbc32ee8e100a95d0ac765&dest=D694785DEX46_HTM) |
|  |  |  |
| 4.4 |  | [Amendment and Waiver 2014 Note Purchase and Guaranty Agreement, dated May 24, 2018, among Autoliv, Inc., Autoliv ASP, Inc. and the noteholders named therein, incorporated herein by reference to Exhibit 4.4 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).](https://content.edgar-online.com/ExternalLink/EDGAR/0001564590-18-017723.html?hash=9a183ecb9208e003d3a8e92171667dc675ffe5d95ef0b917d5631654b4690ecd&dest=ALV-EX44_502_HTM) |
|  |  |  |
| 4.5 |  | [General Terms and Conditions for Swedish Depository Receipts in Autoliv, Inc. representing common shares in Autoliv, Inc., effective as of May 30, 2018, with Skandinaviska Enskilda Banken AB (publ) serving as a custodian, incorporated herein by reference to Exhibit 4.5 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).](https://content.edgar-online.com/ExternalLink/EDGAR/0001564590-18-017723.html?hash=9a183ecb9208e003d3a8e92171667dc675ffe5d95ef0b917d5631654b4690ecd&dest=ALV-EX45_318_HTM) |
|  |  |  |
| 4.6 |  | [Agency Agreement dated June 26, 2018 among Autoliv, Inc., Autoliv ASP, Inc. and HSBC Bank PLC, incorporated herein by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 27, 2018).](https://content.edgar-online.com/ExternalLink/EDGAR/0001564590-18-017723.html?hash=9a183ecb9208e003d3a8e92171667dc675ffe5d95ef0b917d5631654b4690ecd&dest=ALV-EX46_329_HTM) |
|  |  |  |
| 4.7 |  | [Base listing particulars Agreement, dated April 11, 2019, among Autoliv, Inc., Autoliv ASP, Inc. and the dealers named therein., incorporated herein by reference to Exhibit 4.7 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 26, 2019).](https://content.edgar-online.com/ExternalLink/EDGAR/0001564590-19-013244.html?hash=ee9207804422598ddb3678cb89ca1c6dd6b30fbd11742ad0643d5cbea9a284db&dest=ALV-EX47_609_HTM) |
|  |  |  |
| 4.8 |  | [Programme Agreement, dated April 11, 2019, among Autoliv, Inc., Autoliv ASP, Inc. and the dealers named therein, incorporated herein by reference to Exhibit 4.8 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 26, 2019).](https://content.edgar-online.com/ExternalLink/EDGAR/0001564590-19-013244.html?hash=ee9207804422598ddb3678cb89ca1c6dd6b30fbd11742ad0643d5cbea9a284db&dest=ALV-EX48_335_HTM) |
|  |  |  |
| 4.9 |  | [Agency Agreement, dated April 11, 2019, among Autoliv, Inc., Autoliv ASP, Inc. and the dealers named therein, incorporated herein by reference to Exhibit 4.9 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 26, 2019).](https://content.edgar-online.com/ExternalLink/EDGAR/0001564590-19-013244.html?hash=ee9207804422598ddb3678cb89ca1c6dd6b30fbd11742ad0643d5cbea9a284db&dest=ALV-EX49_336_HTM) |
|  |  |  |
| 4.10 |  | [Base Listing Particulars Agreement, dated February 21, 2020, among Autoliv, Inc., Autoliv ASP, Inc. and the dealers named therein, incorporated herein by reference to Exhibit 4.10 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 24, 2020).](https://content.edgar-online.com/ExternalLink/EDGAR/0001564590-20-018358.html?hash=f3ef27b304ce883b05b1cabe8d7d739471e4ba836366704226a08ccee0b18285&dest=ALV-EX410_441_HTM) |
|  |  |  |
| 4.11 |  | [Amended and Restated Programme Agreement, dated February 21, 2020, among Autoliv, Inc., Autoliv ASP, Inc. and the dealers named therein, incorporated herein by reference to Exhibit 4.11 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 24, 2020).](https://content.edgar-online.com/ExternalLink/EDGAR/0001564590-20-018358.html?hash=f3ef27b304ce883b05b1cabe8d7d739471e4ba836366704226a08ccee0b18285&dest=ALV-EX411_439_HTM) |
|  |  |  |
| 4.12 |  | [Amended and Restated Agency Agreement, dated February 21, 2020, among Autoliv, Inc., Autoliv ASP, Inc. and the dealers named therein, incorporated herein by reference to Exhibit 4.12 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date April 24, 2020).](https://content.edgar-online.com/ExternalLink/EDGAR/0001564590-20-018358.html?hash=f3ef27b304ce883b05b1cabe8d7d739471e4ba836366704226a08ccee0b18285&dest=ALV-EX412_440_HTM)‌ |
|  |  |  |
| 10.1\*+ |  | [Amendment, effective November 1, 2020, to Employment Agreement, effective as of June 29, 2018, by and between Autoliv, Inc. and Bradley J. Murray.](#BKMK_117) |
|  |  |  |
| 10.2\*+ |  | [Employment Agreement, effective as of August 17, 2020, by and between Autoliv AB and Mikael Hagström.](#BKMK_118) |
|  |  |  |
| 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.](#BKMK_119) |
|  |  |  |
| 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.](#BKMK_120) |
|  |  |  |
| 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.](#BKMK_121) |
|  |  |  |
| 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.](#BKMK_122) |

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|  |  |  |
| --- | --- | --- |
| **Exhibit No.** |  | **Description** |
|  |  |  |
| 101.INS\* |  | Inline XBRL Instance Document – The instance document does not appear in the Interactive Date File because its XBRL tags are embedded within the inline XBRL document. |
|  |  |  |
| 101.SCH\* |  | Inline XBRL Taxonomy Extension Schema Document. |
|  |  |  |
| 101.CAL\* |  | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
|  |  |  |
| 101.DEF\* |  | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
|  |  |  |
| 101.LAB\* |  | Inline XBRL Taxonomy Extension Label Linkbase Document. |
|  |  |  |
| 101.PRE\* |  | Inline XBRL Taxonomy Extension Presentation Linkbase Document. |
|  |  |  |
| 104\* |  | Cover Page Interactive Data File (embedded within the inline XBRL document). |

|  |  |
| --- | --- |
| \* | Filed herewith. |
| + | Management contract or compensatory plan. |

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**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: October 23, 2020

AUTOLIV, INC.

(Registrant)

|  |  |  |
| --- | --- | --- |
| By: |  | /s/ Fredrik Westin |
|  |  | Fredrik Westin |
|  |  | Chief Financial Officer |
|  |  | (Duly Authorized Officer and Principal Financial Officer) |

36

Exhibit 10.1

**Amendment No. 1 to International Assignment Employment Agreement**

October 1, 2020

Brad Murray (the “Executive”) and Autoliv, Inc., a Delaware corporation, (the “Company”), together referred to as the “Parties”, have entered into an International Assignment Employment Agreement (the “Agreement”) on January 23, 2020.

This amendment (“Amendment”) to the Agreement is made between the Parties.

|  |  |
| --- | --- |
| **1.** | **Employment and Term** |
| 1.1 | Effective November 1, 2020, Mr. Murray’s role as “President, Asia” and as a member of the Executive Management Team will end and his new role shall be “Senior Advisor to the Chief Executive Officer and President of the Company” with such duties, responsibilities, and authority as shall be assigned to him by the Chief Executive Officer. |
| 1.2 | The principal workplace for the Executive shall be the United States of America (“Host Country”). |
| 1.3 | The Executive shall continue to be deemed a senior executive officer of the Company, a Section 16 officer, PDMR, and Rule 144 Affiliate until his final date of employment. |
| 1.4 | The Executive’s employment income will continue to be tax equalized to the USA in accordance with the Company’s tax equalization policy. A tax equalization settlement will be made for each calendar year where such employment income is earned or paid. The annual reconciliation will be performed by a third party tax provider appointed by the Company. In the equalization settlement, the tax provider will calculate the Executive’s final hypothetical USA tax and social security liability which would have been due if the Executive would have worked in the USA. This final hypothetical tax liability will be compared with the taxes paid by the Executive during the year (both hypothetical and actual final tax). Assignment specific benefits such as housing and home leave travel are excluded from the equalization reconciliation as the Company covers the tax on such benefits. The Company will pay the associated costs for the equalization reconciliation. The settlement payment from the equalization calculation must be made within 60 days from receiving the calculation. The Company reserves the rights to deduct any amount due to the Company from any other payments due from the Company to the Executive. |
| **2.** | **Other Conditions** |

All other terms and conditions linked to the Agreement remain unchanged.

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| --- | --- | --- |
| **On behalf of Autoliv, Inc.** |  | **The Executive** |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
| Mikael Bratt |  | Brad Murray |
|  |  |  |
| President and CEO |  |  |

Exhibit 10.2

**Employment Agreement**

The following employment agreement has been entered into by and between Autoliv AB (organizational number 556036-1981), hereinafter referred to as the "Company", and Mikael Hagström hereinafter referred to as the "Employee".

**1. General Provisions**

**Employment**

The Employee shall be employed for an undetermined period of time by Autoliv AB as VP Financial Control commencing on August 17, 2020. The parties may agree on an earlier start date.

The position is full-time and governed by the Swedish Employment Protection Act.

The Employee's place of work is Stockholm where all duties will be carried out, except for ordinary business trips.

In the event of a transfer to any other assignment within the Company or significant change of position, the employment conditions will be reviewed.

**Duties and Area of Responsibility**

The Employee undertakes to carry out such duties as the Company from time to time may impose on the Employee and as are naturally related to the Employee's position.

**General Obligations**

The employment relationship shall be based on mutual loyalty and the promotion of the interests of the Company and, the Employee shall, during the term of employment and thereafter hold in complete confidence information concerning the Company's products, business relationships, and other matters, which are not intended for any third party.

The employee shall perform his duties acknowledging the Company's Code of Conduct.

**Prohibition of misuse of insider information**

The employee has received the Company's insider dealing rules and has acquainted himself with them, and he undertakes to follow these rules.

**Intellectual property rights**

All intellectual property rights (including future rights, the right to assign and the right to modify) to the results of the Employee's work shall be assigned by this contract to the Company within the limits of applicable law without separate compensation, unless agreed in writing.

**2. Side-line Occupation**

**Competing Activities**

The Employee may not, during the term of employment, be employed by, or have an assignment for, or in any other way, directly or indirectly, conduct any business within the field of activities of the Company or in any other manner be active within an area relating to such field.

**Other Activities**

The Employee may not, without the written consent of his direct manager accept any other position or assignment for which he receives compensation.

1(3)

**3. Compensation and Benefits**

**Base Salary**

The Employee shall receive a fixed annual salary of SEK 1 896 000 in 2020 year's salary level.

Compensation for travelling time and overtime shall be included in the fixed salary. A review of the fixed salary shall be made annually, the first time in 2021.

**Bonus**

Bonus is paid according to each time applicable rules and principles within the company for employees at equivalent level. Until otherwise changed the target bonus shall be 25% with a max cap of 2.0 of the employees' base salary.

**Equity Incentive program**

The employee will be eligible to participate in Autoliv's Stock Incentive Plan 2021, provided that the plan has been approved by the Board of Directors and that the employee has started his employment no later than the vesting date in February, 2021.

**Company car**

According to the company car policy from time to time you are eligible for a company car in this current role.

**Health care**

The company will provide the employee with a yearly health examination according to the company's policy for health care applicable from time to time.

**4. Other Employment Terms**

**Holiday**

The Employee shall be entitled to 30 days holiday per calendar year.

**Pension**

The employee is covered by an occupational pension plan (Industrins Tilläggspension, ITPl) according to applicable collective agreement.

**5. Termination**

**Notice of termination**

The period of notice of termination is three (3) months when given by the Employee and three (3) when given by the Company.

**Conditions during the notice period**

During the notice period or any part thereof, the Company shall be entitled, with immediate effect, to release the Employee from his duties concerning Company affairs. If the Employee is released from his duties during the notice period the Employee is entitled, by written consent by his direct manager to take up employment with another Employer or start his own business.

**6. Miscellaneous**

In relation to those aspects which are not governed by this contract, the terms and conditions for the Employee's employment correspond to the terms and conditions set forth in the collective agreements and regulations applicable to the Company.

The contents of this employment agreement, or any part thereof, may not be disclosed to any third party unless otherwise required by law or where the parties agree thereto.

2(3)

All material, including copies, in possession of the Employee as a consequence of his employment with the Company shall be returned to the Company upon termination of the employment, or when the Employee resigns from his position during the period of notice of termination.

Benefits pursuant to this employment agreement may be deemed to be taxable benefits pursuant to tax legislation applicable from time to time. The Company shall not pay compensation in respect of any amendment to the tax legislation.

This employment agreement has been executed in two originals, identical counterparts of whom each party has received one.

|  |  |
| --- | --- |
| Stockholm, July 6, 2020 | Stockholm, July,6 2020 |
|  |  |
|  |  |
| Autoliv AB |  |
| Veronica Eriksson | Mikael Hagström |
| VP HR Sales, ROE & Corporate Functions |  |

3(3)

**Exhibit 31.1**

**CERTIFICATION of**

**the Chief Executive Officer**

**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Mikael Bratt, certify that:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 1. | | I have reviewed this quarterly report on Form 10-Q of AUTOLIV, INC.; | |
|  | 2. | | Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; | |
|  | 3. | | Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; | |
|  | 4. | | The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a -15(f) and 15d-15(f)) for the registrant and have: | |
|  | | a. | | Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; |
|  | | b. | | Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; |
|  | | c. | | Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and |
|  | | d. | | Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and |
|  | 5. | | The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions): | |
|  | | a. | | All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and |
|  | | b. | | Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting. |

|  |
| --- |
| October 23, 2020 |
|  |
| /s/ Mikael Bratt |
| Mikael Bratt |
| President and Chief Executive Officer |

**Exhibit 31.2**

**CERTIFICATION of**

**the Chief Financial Officer**

**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Fredrik Westin, certify that:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 1. | | I have reviewed this quarterly report on Form 10-Q of AUTOLIV, INC.; | |
|  | 2. | | Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; | |
|  | 3. | | Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; | |
|  | 4. | | The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a -15(f) and 15d-15(f)) for the registrant and have: | |
|  | | a. | | Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; |
|  | | b. | | Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; |
|  | | c. | | Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and |
|  | | d. | | Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and |
|  | 5. | | The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions): | |
|  | | a. | | All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and |
|  | | b. | | Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting. |

|  |
| --- |
| October 23, 2020 |
|  |
| /s/ Fredrik Westin |
| Fredrik Westin |
| Chief Financial Officer |

**Exhibit 32.1**

**Certification of Chief Executive Officer**

**Pursuant to 18 U.S.C. Section 1350,**

**as Adopted Pursuant to**

**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report on Form 10-Q of Autoliv, Inc. (the “Company”) for the period ended September 30, 2020, filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mikael Bratt, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

|  |  |  |
| --- | --- | --- |
|  | 1. | The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and |
|  | 2. | The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. |

October 23, 2020

|  |
| --- |
| /s/ Mikael Bratt |
| Mikael Bratt |
| President and Chief Executive Officer |

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32.2**

**Certification of Interim Chief Financial Officer**

**Pursuant to 18 U.S.C. Section 1350,**

**as Adopted Pursuant to**

**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report on Form 10-Q of Autoliv, Inc. (the “Company”) for the period ended September 30, 2020, filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Fredrik Westin, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

|  |  |  |
| --- | --- | --- |
|  | 1. | The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and |
|  | 2. | The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. |

October 23, 2020

|  |
| --- |
| /s/ Fredrik Westin |
| Fredrik Westin |
| Chief Financial Officer |

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.