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ct to both the driver and driving conditions, particularly with the advent of autonomous vehicles. Such trends will promote increased levels of electrical and electronic integration into the seat, accelerating the convergence of our Seating and E-Systems businesses.

Adaptive Seating Architecture (ConfigurE+™)

Our ConfigurE+™ adaptive seating solution provides enhanced flexibility and cargo management for crossover vehicles, sport utility vehicles and passenger vans, while delivering seat electrification. ConfigurE+™ is well-suited for ever-changing consumer lifestyles, including the increasing use of on-demand transportation from providers such as Uber and Lyft. Enabled by advanced interface modules integrated into the seat structure and full-length floor-mounted tracks, ConfigurE+™ allows virtually limitless configurations of seats including full removal. ConfigurE+™ also allows optional functionality, such as storage and transport of equipment for sports and other activities, executive seating and special application seating.

Manufacturing

Our seat assembly facilities use lean manufacturing techniques, and our finished products are delivered to the automotive manufacturers on a just-in-time basis, matching our customers' exact build specifications for a particular day, shift and sequence thereby reducing inventories to optimum levels. These facilities are typically located adjacent to or near our customers' manufacturing and assembly sites. Increasingly, we are utilizing component and sub-assembly designs that allow us to drive higher efficiencies in our seat assembly facilities and further integrate certain assembly activities with our core

component manufacturing operations. Our seat components, including recliner mechanisms, seat tracks and seat trim covers, leather and fabric are manufactured in batches, typically utilizing facilities in low-cost regions.

Customers

The top five customers of this segment are: General Motors, Daimler, Ford, Fiat Chrysler and Volkswagen.

Competition

Based on independent market studies and management estimates, we believe that we hold the #2 position in seat systems assembly globally on the basis of revenue with strong positions in all major markets. We estimate the global seat systems market at more than $68 billion in 2018. We are a leading supplier of various components produced for complete seat systems.

Our primary competitor in this segment globally is Adient, plc. Other competitors in this segment include Faurecia S.A., Toyota Boshoku Corporation, TS Tech Co., Ltd. and Magna International Inc., which have varying market presence depending on the region, country or automotive manufacturer. Peugeot S.A., Toyota Motor Corporation and Honda Motor Co. Ltd. hold equity ownership positions in Faurecia S.A., Toyota Boshoku Corporation and TS Tech Co., Ltd., respectively. Other automotive manufacturers maintain a presence in the seat systems market through wholly owned subsidiaries or in-house operations. In seat components, we compete with the seat systems suppliers identified above, as well as certain suppliers that specialize in particular components.

Technology

We maintain state-of-the-art testing, instrumentation and data analysis capabilities. We own industry-leading seat validation test centers featuring crashworthiness, durability and full acoustic and sound quality testing capabilities. Together with computer-controlled data acquisition and analysis capabilities, these centers provide precisely controlled laboratory conditions for sophisticated testing of parts, materials and systems. In addition, we incorporate many convenience, comfort and safety features into our designs, including advanced whiplash prevention concepts, integrated restraint seat systems and side impact airbags. We also invest in our computer-aided engineering design and computer-aided manufacturing systems.

We also are investing in seat heating and cooling capabilities and technologies. We have added expertise in this area internally and through a strategic partnership for thermoelectric seat heating and cooling technology. The addition of seat heating and cooling to our existing capabilities and technologies in seat fabric, premium leather and seat cover sewing, as well as seat foam and seat structures, allows us to offer unique seat designs and the most complete range of seat features.

We have developed products and materials to improve comfort and ease of adjustment, promote customization and styling flexibility, increase durability and reliability, enhance safety, expand the usage of environmentally friendly materials and reduce cost and weight. ProActive™ Seating uses proprietary MySeat by Lear™ technology powered by our TheraMetric™ analytical process. This process is derived from our research to provide a driver with a seating position that promotes better posture and cumulative wellness benefits. ProActive™ Seating has been endorsed by the American Chiropractic Association, International Chiropractors Association, World Federation of Chiropractic and Loomis Institute of Enzyme Nutrition. Our Lear Crafted Comfort Connect™ and Advanced Comfort Systems™ are adjustable cushions, seat backs and side bolsters which support correct posture and provide improved comfort and appearance. Our Guilford TeXstyle™ fabrics provide customizable fabric engineered to improve the vehicle experience and durability, and our TeXstyle™ Enhance offerings provide a range of secondary embellishment technologies to enhance standard fabrics, enabling unique design within an array of fabric choices. Our proprietary, anti-soiling performance leather finishing technology, Ansolé™, improves durability and protects against fading. Our head restraints provide improved comfort and safety with adjustability. Our high speed smart fold technology is a regulated high speed folding adjustment mechanism that delivers premium convenience while maintaining leading safety and comfort benefits. Our mini recliners and micro adjust tracks are seat mechanisms, which provide precision movement and facilitate interior packaging space flexibility. Our Dynamic Environmental Comfort Systems™ utilize environmentally friendly materials and offer weight reductions of 30% - 40%, as compared to current foam seat designs. Our SoyFoam™ seats, which are used by multiple global customers, are up to 24% renewable, as compared to non-renewable, petroleum-based foam seats.

For additional factors that may impact our Seating segment’s business, financial condition, operating results and/or cash flows, see Item 1A, "Risk Factors."

E-Systems Segment

The E-Systems segment consists of the design, development, engineering, manufacture, assembly and supply of electrical distribution systems, electronic modules and related components and software for light vehicles globally. We are a leader in power management and signal distribution within the vehicle for traditional vehicle architectures, as well as high power and hybrid electric systems. We have connectivity hardware and software capabilities, including cybersecurity expertise, that

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facilitate secure, wireless communication between the vehicle's electrical and electronic architecture and external networks, as well as other vehicles.

Electrical Distribution Systems

Electrical distribution systems route electrical signals and manage electrical power within the vehicle for traditional vehicle architectures, as well as high power and hybrid electric systems. Key components in the electrical distribution system include wire harnesses, terminals and connectors and junction boxes, including components for high power and hybrid electric systems.

Wire harness assemblies are a collection of wiring and terminals and connectors that link all of the various electrical and electronic devices within the vehicle to each other and/or to a power source. Wire harness assemblies are a collection of individual circuits fabricated from raw and insulated wire, which is automatically cut to length and terminated during the manufacturing process. Individual circuits are assembled together on a jig or table, inserted into connectors and wrapped or taped to form wire harness assemblies. The assembly process is labor intensive, and as a result, production is generally performed in low-cost labor sites in Mexico, Honduras, Brazil, Eastern Europe, Africa, China, the Philippines and Thailand.

Terminals and connectors include conductive metal components and connector housings that join wire harness assemblies together at their respective end points or connect devices to wire harness assemblies. Terminals and connectors can vary significantly in size and complexity depending on the amount of power or data being transferred and the number of connections being made at any particular point in the electrical distribution system. Terminals and connectors are currently manufactured in Germany, Eastern Europe, China and the United States.

Junction boxes are centrally located modules within the vehicle that contain fuses and/or relays for circuit and device protection and serve as a connection point for multiple wire harnesses. Junction boxes are manufactured in Mexico, Europe, Northern Africa, China and the Philippines with a proprietary, capital-intensive assembly process using printed circuit boards, a portion of which are purchased from third-party suppliers. Certain materials, particularly certain specialized electronic components, are available from a limited number of suppliers. Proprietary features have been developed to improve the function of these junction boxes in harsh environments, including extreme temperatures and humidity.

Advanced Efficiency Systems

Our advanced efficiency systems group is dedicated to the development of high power and hybrid electric systems and components, including wiring, terminals and connectors and power electronics. We have products and technologies that enable the varying degrees of powertrain electrification being employed by automotive manufacturers today from 48-volt mild hybrid vehicles to full electric vehicles. Our products include on-board conductive and inductive charging systems, inverters and converters, charge cord sets, high voltage electrical distribution systems and battery monitoring technology. Our global center for Advanced Efficiency Systems and high power applications is in Southfield, Michigan with full development capabilities also located in Valls, Spain. We are supplying, or will supply, high voltage components and systems for hybrid and electric vehicles produced by BMW, Daimler, Fiat Chrysler, General Motors, Jaguar Land Rover, Renault-Nissan, Volkswagen and Volvo. We believe that our expertise in high power electrical distribution systems will provide additional growth opportunities going forward and will be beneficial with the entrance of technology and emergent companies focusing on electric or other alternative powertrain designs.

Electronics

In our E-Systems segment, we also design, develop, engineer and manufacture electronics, which control various functions within the vehicle, as well as develop and integrate the associated software for these electronic modules. Our electronic modules include body control modules, smart junction boxes, gateway modules, wireless control modules, lighting control modules and audio domain controllers and amplifiers. Our engineering and development activities for electronics are in the United States (Southfield, Michigan and Northern California), Belgium, Germany, Spain, China and India. We assemble these modules using high-speed surface mount placement equipment in Mexico, Europe, Northern Africa, China and the Philippines.

Body control modules primarily control vehicle interior functions outside of the vehicle's head unit or infotainment system. Depending on the vehicle's electrical and electronic architecture, these modules can be either highly integrated,

consolidating multiple functional controls into a single module, or focus on a specific function, such as seat position and comfort controls or the door zone control module which controls features such as window lift, door lock and power mirrors. As electronic control modules became increasingly centralized and integrated, we developed "smart junction boxes," which are junction boxes augmented with integrated electronic functionality that otherwise would be contained in other body control modules. The integration of functionality in our smart junction boxes eliminates interconnections, increases overall system reliability and can consolidate the number of electronic modules within the vehicle. This can lead to reduced cost and complexity. We believe that our expertise in consolidating functional controls into integrated modules and integrating these modules into the vehicle’s electrical and electronic architecture is a competitive strength.

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We develop and produce gateway modules, which facilitate secure access to, and communication with, all of the vehicle systems at a central point and translate various signals to facilitate data exchange across various vehicle domains. This gateway becomes increasingly important as formerly distinct vehicle systems increasingly must work in concert with one another. We also offer wireless functionality in both integrated and stand-alone modules, which send and receive signals using radio frequency technology. Our wireless systems include passive entry systems, remote keyless entry and dual range/dual function remote keyless entry systems. We are building on both our core gateway and wireless capabilities as we add and develop higher levels of data and signal connectivity in and out of the vehicle. Our electronics product offerings also include lighting control modules, which provide the electronic control logic and diagnostics for increasingly advanced and complex vehicle lighting systems, including advanced driver assistance-integrated lighting solutions utilizing advanced LED matrix beam technology. We supply LED lighting control systems for vehicle interiors and exteriors. In addition, we offer audio electronics, including premium audio amplifiers and complete vehicle sound system development capabilities with advanced domain control and audio tuning.

The higher level of complexity and processing power in these electronic control modules is driving rapid increases in software requirements associated with these modules. Accordingly, we continue to build on our knowledge and capabilities in software in order to design and develop more complex and integrated electronic control modules capable of more efficiently managing the distribution of power and data signals through the vehicle.

Connectivity

We are building connectivity capabilities that facilitate secure, wireless communication between the vehicle’s systems and external networks, as well as other vehicles. Our connectivity strategy is based on leveraging our expertise in vehicle electrical and electronic architecture design and development, electronic module functional integration, gateway module data exchange and core wireless signals. We are building capabilities organically through internal investment and through acquisition and partnership. Recent transactions added technology that directly connects on-board vehicle systems with cloud-based applications using proprietary, secure data exchange capabilities via cellular networks and V2X hardware and software solutions utilizing various wireless communications protocols, as well as vehicle positioning through GNSS satellite communications. This includes the development of differentiated GPS technology, which provides high-accuracy positioning solutions for autonomous and connected vehicle applications.

These capabilities, combined with our vehicle electrical and electronic architecture expertise and products, allow us to offer our customers embedded modules and software that facilitate direct and secure connectivity between the vehicle and external networks. Products that we can offer will include connected gateway modules with an array of features including over-the-air software update capabilities, embedded cellular communication modules, e-Call modules that automatically contact emergency services in the event of a crash and both on-board and roadside units that facilitate V2X communications. We combine these offerings with cybersecurity expertise and software solutions to permit highly secure communications and defend against cybersecurity attacks. Our expertise in both core body controls and connectivity allows us to offer "Virtual CarKey" capabilities that securely enable vehicle access via a smartphone.

Customers

The top five customers of this segment are: Ford, General Motors, Renault-Nissan, Jaguar Land Rover and Volkswagen.

Competition

We estimate the global target market for our E-Systems business to be over $95 billion. Our major competitors in electrical distribution systems include Aptiv PLC, Leoni AG, Molex Incorporated (a subsidiary of Koch Industries Inc.), Sumitomo Corporation, TE Connectivity and Yazaki Corporation. Our major competitors in electronic modules, including connectivity solutions, include Aptiv PLC, Continental AG, Denso Corporation, Harman International Industries, Incorporated (acquired by Samsung Electronics Co. Ltd. in 2017), Hella AG, Robert Bosch GmbH, Valeo S.A. and Visteon Corporation.

Technology

The E-Systems segment is technology driven and typically requires higher investment as a percentage of sales than our Seating segment. Our complete electrical distribution system design capabilities, coupled with certain market-leading component technologies, allow access to our customers' development teams, which provides an early indication of our customers' product needs and enables us to develop system design efficiencies. Our ability to design and integrate electronic modules creates a competitive advantage as we support customers with complete electrical architecture development. Our expertise is developed and delivered by approximately 2,400 engineers across eighteen countries and is led by five global technology centers of excellence in Belgium, China, Germany, Spain and the United States for each of our major product lines in this segment, which are described below.

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In electrical distribution systems, our technology includes expertise in the design and use of alternative conductor materials, such as aluminum, copper-clad steel and other hybrid alloys. Alternative conductor materials can enable the use of ultra small gauge conductors, which reduce the weight and packaging size of electrical distribution systems. We also have developed proprietary manufacturing process technologies, such as our vertical manufacturing system that features three dimensional wire harness assembly boards. Our expertise in terminals and connectors technology facilitates our ability to implement these small gauge and alternative alloy conductors. We have developed advanced capabilities in aluminum terminals and aluminum wire termination, ultra small gauge termination, and high voltage terminals and connectors. We have developed high packaging density in-line connectors and new small gauge terminals that will enable wire gauge reduction and provide our customers with smaller and lower cost solutions. Our high voltage terminals and connectors are a part of our advanced efficiency systems capabilities, and we have established a leading capability in power density (power per packaging size) that is being adopted by multiple automakers. Our advanced efficiency systems and components for high voltage vehicle applications have achieved industry leading efficiency, packaging and reliability. We continue to build on our strong technology position for high voltage applications and have developed an 11kW wireless charging system that enables electric vehicles to safely recharge at the highest power level available without plugging in the vehicle. We have 650 patents issued or applied for in the advanced efficiency systems product technology area. These technologies are supported by our proprietary Virtual Proving Grounds, which is an industry-leading suite of in-house developed tools and processes to significantly reduce the design, development, and validation testing time and expense.

In electronics, we are a market leader in smart junction box technology and began production of our Automotive News PACE Award winning Solid State Smart Junction Box™ in 2016. We continue to refine our smart junction box technology, including the development of aluminum printed circuit boards. We have developed body control modules with dual core microprocessors that allow body control and gateway functionality in a single module. We are a leader in gateway module technology and have capabilities to enable our gateway and other electronic control modules to efficiently and securely manage the increasing amount of both wired and wireless signals running throughout, as well as within and outside of, the vehicle, including being first-to-market with an ethernet-enabled gateway module. We also have developed wireless products, such as lower-cost passive entry systems with improved security using ultra wide band technology and that feature our 2-way remote keyless entry systems that enable the vehicle to provide feedback to the consumer, such as verification that the doors have locked or that the engine has started. In lighting, we have developed advanced technology electronic controls, including a Matrix LED Control System capable of individually dimming and switching on/off up to 100 LEDs. This system enables steerable light beams and other advanced lighting features and can be paired with driver assistance system sensors for functionality, such as automatic high beam management and obstacle highlighting. In audio, we have developed an ethernet audio video bridging amplifier that facilitates faster processing of digital data at a lower cost.

Software remains a critical element of our E-Systems business. Software capabilities are becoming more important in the management of complex and highly sophisticated electrical architectures. Software within the vehicle is rapidly growing as a key element of technological innovation and a cost effective way to provide new features and functions. We currently employ more than 700 software engineers globally and are pursuing expansion of specialized capabilities in vehicle networking, encryption, cybersecurity and connectivity protocols. We have expanded our software development capabilities through acquisition, internal investment and strategic hires, building on our architecture and power management capabilities with expertise in wireless communication and vehicle positioning software and cybersecurity. As part of our strategy to provide vehicle cybersecurity solutions to our customers, we have developed a firewall module, including proprietary software, which protects the vehicle from cybersecurity intrusion through one of its most vulnerable points, the on-board diagnostic port. We also have enhanced our V2X product line by adding secure, over-the-air software update capabilities to our V2X modules, allowing these units to receive regular software upgrades, which provide additional applications and functionality.

For additional factors that may impact our E-Systems segment’s business, financial condition, operating results and/or cash flows, see Item 1A, "Risk Factors."

Customers

In 2018, General Motors and Ford, two of the largest automotive and light truck manufacturers in the world, accounted for 18% and 16% of our net sales, respectively. We supply and have expertise in all vehicle segments of the automotive market. Our sales content tends to be higher on those vehicle platforms and segments which offer more features and functionality. The popularity of particular vehicle platforms and segments varies over time and by regional market. We expect to continue to win new business and grow sales at a greater rate than overall automotive industry production. For further information related to our customers and domestic and foreign sales and operations, see Note 13, "Segment Reporting," to the consolidated financial statements included in this Report.
Our customers award business to their suppliers in a number of ways, including the award of complete systems, which allows suppliers either to manufacture components internally or to purchase components from other suppliers at their discretion. Certain of our customers also elect to award certain components directly to component suppliers and independent of

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the award of the complete system. We have been selectively expanding our component capabilities and investing in manufacturing capacity in low-cost regions in order to maximize our participation in such component sourcing.
Our customers typically award contracts several years before actual production is scheduled to begin. Each year, the automotive manufacturers introduce new models, update existing models and discontinue certain models and, recently, even complete brands. In this process, we may be selected as the supplier on a new model, we may continue as the supplier on an updated model or we may lose a new or updated model to a competitor. Our sales backlog reflects estimated net sales over the next three years from formally awarded new programs, less lost and discontinued programs. This measure excludes the sales backlog at our non-consolidated joint ventures. As of January 2019, our 2019 to 2021 sales backlog is $3.35 billion, an increase of 5% as compared to our sales backlog as of January 2018. Our current sales backlog reflects $1.4 billion related to 2019 and 71% and 29% related to our Seating and E-Systems segments, respectively. In addition, our 2019 to 2021 sales backlog at our non-consolidated joint ventures is $500 million. Our current sales backlog assumes volumes based on the independent industry projections of IHS Automotive as of December 2018, a Euro exchange rate of $1.13/Euro and a Chinese RMB exchange rate of 6.95/$. This sales backlog is generally subject to a number of risks and uncertainties, including vehicle production volumes on new and replacement programs and foreign exchange rates, as well as the timing of production launches and changes in customer development plans. For additional information regarding risks that may affect our sales backlog, see Item 1A, "Risk Factors," and Part II — Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations — Forward-Looking Statements."
We receive purchase orders from our customers that generally provide for the supply of a customer’s annual requirements for a particular vehicle model and assembly plant, or in some cases, for the supply of a customer’s requirements for the life of a particular vehicle model, rather than for the purchase of a specified quantity of products. Although most purchase orders may be terminated by our customers at any time, such terminations have been minimal and have not had a material impact on our operating results. We are subject to risks that an automotive manufacturer will produce fewer units of a vehicle model than anticipated or that an automotive manufacturer will not award us a replacement program following the life of a vehicle model. To reduce our reliance on any one vehicle model, we produce automotive systems and components for a broad cross-section of both new and established models. However, larger cars and light trucks, as well as vehicle platforms that offer more features and functionality, such as luxury, sport utility and crossover vehicles, typically have more content and, therefore, tend to have a more significant impact on our operating performance. Our net sales for the year ended December 31, 2018, consisted of 40% passenger cars, 46% crossover and sport utility vehicles and 14% trucks and vans.
Our agreements with our major customers generally provide for an annual productivity price reduction. Historically, cost reductions through product design changes, increased manufacturing productivity and similar programs with our suppliers have generally offset these customer-imposed price reduction requirements. However, raw material, energy and commodity costs can be volatile. Although we have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. Certain of these strategies also may limit our opportunities in a declining commodity environment. In addition, we are exposed to increasing market risk associated with fluctuations in foreign exchange as a result of our low-cost footprint and vertical integration strategies. We use derivative financial instruments to reduce our exposure to fluctuations in foreign exchange rates. For additional information regarding our foreign exchange and commodity price risk, see Part II — Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Financial Condition — Foreign Exchange" and "— Commodity Prices."
Seasonality
Our principal operations are directly related to the automotive industry. Consequently, we may experience seasonal fluctuations to the extent automotive vehicle production slows, such as in the summer months when many customer plants close for model year changeovers, in December when many customer plants close for the holidays and during periods of high vehicle inventory. See Note 15, "Quarterly Financial Data," to the consolidated financial statements included in this Report.

Raw Materials

The principal raw materials used in our seat systems, electrical distribution systems and electronics are generally available and obtained from multiple suppliers under various types of supply agreements. Components such as fabric, foam, leather, seat structures and mechanisms, terminals and connectors and certain other components are either manufactured by us internally or purchased from multiple suppliers under various types of supply agreements. The majority of the steel used in our products is comprised of fabricated components that are integrated into a seat system, such as seat frames, recliner mechanisms, seat tracks and other mechanical components. Therefore, our exposure to changes in steel prices is primarily indirect, through these purchased components. With the exception of certain terminals and connectors, the materials that we use to manufacture wire harness assemblies are substantially purchased from suppliers, including extruded and insulated wire and cable. The majority of our copper purchases are comprised of extruded wire and cable that we integrate into electrical wire harnesses. In general, our

copper purchases, as well as a significant portion of our leather purchases, are subject to price index agreements with our customers. We utilize a combination of short-term and long-term supply contracts to purchase key components. We generally retain the right to terminate these agreements if our supplier does not remain competitive in terms of cost, quality, delivery, technology or customer support.

Employees

As of December 31, 2018 and 2017, our employment levels worldwide were approximately as follows:

Region	2018	2017
United States and Canada	9,700	9,900
Mexico	51,200	51,200
Central and South America	14,600	14,900
Europe and Africa	59,800	59,200
Asia	33,700	29,800
Total	169,000	165,000

A substantial number of our employees are members of unions or national trade organizations. We have collective bargaining agreements with several North American unions, including the United Auto Workers, Unifor, International Brotherhood of Electrical Workers and Workers United. Each of our unionized facilities in the United States and Canada has a separate collective bargaining agreement with the union that represents the workers at such facility, with each such agreement having an expiration date that is independent of the other agreements. The majority of our employees in Mexico and Europe are members of industrial trade union organizations or confederations within their respective countries. Many of these organizations and confederations operate under national contracts, which are not specific to any one employer. We have occasionally experienced labor disputes at our plants. We have been able to resolve all such labor disputes and believe our relations with our employees are generally good.

See Item 1A, "Risk Factors — A significant labor dispute involving us or one or more of our customers or suppliers or that could otherwise affect our operations could adversely affect our financial performance," and Part II — Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Forward-Looking Statements."

Intellectual Property

Worldwide, we have approximately 2,200 patents and patent applications pending. While we believe that our patent portfolio is a valuable asset, no individual patent or group of patents is critical to the success of our business. We also license selected technologies to automotive manufacturers and to other automotive suppliers. We continually strive to identify and implement new technologies for use in the design and development of our products.

Advanced technology development is conducted worldwide at our six advanced technology centers and at our product engineering centers. At these centers, we engineer our products to comply with applicable safety standards, meet quality and durability standards, respond to environmental conditions and conform to customer and consumer requirements. Our global innovation and technology center located in Southfield, Michigan, develops and integrates new concepts and is our central location for consumer research, benchmarking, craftsmanship and industrial design activity.

We have numerous registered trademarks in the United States and in many foreign countries. The most important of these marks include LEAR CORPORATION® (including our stylized version thereof) and LEAR®, which are widely used in connection with our products and services. Our other principal brands include GUILFORD™ and EAGLE OTTAWA®. AVENTINO® leather, ConfigureE+™, INTU™ Seating, LEAR CONNEXUS™ signal and data communications, PROACTIVE POSTURE™ seating, ProTec® active head restraints, SMART JUNCTION BOX™ technology, STRUCSURE™ systems and TeXstyle™ fabrics are some of our other trademarks used in connection with certain of our product lines.

Environmental Matters

We are subject to local, state, federal and foreign laws, regulations and ordinances which govern activities or operations that may have adverse environmental effects. These laws, regulations and ordinances may impose liability for clean-up costs resulting from past spills, disposals or other releases of hazardous wastes. For a description of our

outstanding environmental matters and other legal proceedings, see Note 12, "Commitments and Contingencies," to the consolidated financial statements included in this Report.

In addition, our customers are subject to significant environmentally focused state, federal and foreign laws and regulations that regulate vehicle emissions, fuel economy and other matters related to the environmental impact of vehicles. To the extent that

such laws and regulations ultimately increase or decrease automotive vehicle production, such laws and regulations would likely impact our business. See Item 1A, "Risk Factors."
Furthermore, we currently offer products with environmentally friendly features, and our expertise and capabilities are allowing us to expand our product offerings in this area. We will continue to monitor emerging developments in this area.

Joint Ventures and Noncontrolling Interests

We form joint ventures in order to gain entry into new markets, expand our product offerings and broaden our customer base. In particular, we believe that certain joint ventures have provided us, and will continue to provide us, with the opportunity to expand our business relationships with Asian automotive manufacturers, particularly in emerging markets. We also partner with companies having significant local experience in commerce and customs, as well as capacity, to reduce our financial risk and enhance our potential for achieving expected financial returns. In some cases, these joint ventures may be located in North America or Europe and used to expand our customer relationships.
As of December 31, 2018, we had sixteen operating joint ventures located in five countries. Of these joint ventures, eight are consolidated, and eight are accounted for using the equity method of accounting. Twelve of the joint ventures operate in Asia, and four operate in North America (including two that are dedicated to serving Asian automotive manufacturers). Net sales of our consolidated joint ventures accounted for approximately 11% of our net sales in 2018. As of December 31, 2018, our investments in non-consolidated joint ventures totaled $108 million.
A summary of our non-consolidated operating joint ventures, including ownership percentages, is shown below. For further information related to our joint ventures, see Note 5, "Investments in Affiliates and Other Related Party Transactions," to the consolidated financial statements included in this Report.

Country	Name	Ownership Percentage
China	Beijing BHAP Lear Automotive Systems Co., Ltd.	50%
China	Jiangxi Jiangling Lear Interior Systems Co., Ltd.	50
China	Lear Dongfeng Automotive Seating Co., Ltd.	50
China	Changchun Lear FAWSN Automotive Seat Systems Co., Ltd.	49
China	Beijing Lear Dymos Automotive Systems Co., Ltd.	40
Honduras	Honduras Electrical Distribution Systems S. de R.L. de C.V.	49
India	Dymos Lear Automotive India Private Limited	35
United States	Kyungshin-Lear Sales and Engineering LLC	49

ITEM 1A – RISK FACTORS

Our business, financial condition, operating results and cash flows may be impacted by a number of factors. In addition to the factors affecting our business identified elsewhere in this Report, the most significant factors affecting our operations include the following:

- Our industry is cyclical and a decline in the production levels of our major customers, particularly with respect to models for which we are a significant supplier, could adversely affect our financial performance.

Our sales are driven by the number of vehicles produced by our automotive manufacturer customers, which is ultimately dependent on consumer demand for automotive vehicles, and our content per vehicle. The automotive industry is cyclical and sensitive to general economic conditions, including the global credit markets, interest rates, consumer credit and consumer spending and preferences. Automotive sales and production can also be affected by the age of the vehicle fleet and related scrappage rates, labor relations issues, fuel prices, regulatory requirements, government initiatives, trade agreements, tariffs and other non-tariff trade barriers, the availability and cost of credit, the availability of critical components needed to complete the production of vehicles, restructuring actions of our customers and suppliers, facility closures and increased competition, as well as consumer preferences regarding vehicle size, configuration and features, including alternative fuel vehicles, changing consumer attitudes toward vehicle ownership and usage, such as ride sharing and on-demand transportation, and other factors. An economic downturn or other adverse industry conditions that result in a decline in the production levels of our major customers,

particularly with respect to models for which we are a significant supplier, could reduce our sales and thereby adversely affect our financial condition, operating results and cash flows. Further, our ability to reduce the risks inherent in certain concentrations of business, and thereby maintain our

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financial performance in the future, will depend, in part, on our ability to continue to diversify our sales on a customer, product, platform and geographic basis to reflect the market overall. We may not be successful in such diversification.

- The loss of business with respect to, or the lack of commercial success of, a vehicle model for which we are a significant supplier could adversely affect our financial performance.

We receive purchase orders from our customers, which generally provide for the supply of a customer's annual requirements for a particular vehicle model and assembly plant or, in some cases, for the supply of a customer's requirements for the life of a particular vehicle model, rather than for the purchase of a specific quantity of products. In addition, it is possible that our customers could elect to manufacture our products internally or increase the extent to which they require us to utilize specific suppliers or materials in the manufacture of our products. The loss of business with respect to, the lack of commercial success of or an increase in directed component sourcing for a vehicle model for which we are a significant supplier could reduce our sales or margins and thereby adversely affect our financial condition, operating results and cash flows.

- Our inability to achieve product cost reductions which offset customer-imposed price reductions could adversely affect our financial performance.

Downward pricing pressure by automotive manufacturers is a characteristic of the automotive industry. Our customer contracts generally provide for annual price reductions over the production life of the vehicle, while requiring us to assume significant responsibility for the design, development and engineering of our products. Prices may also be adjusted on an ongoing basis to reflect changes in product content/costs and other commercial factors. Our financial performance is largely dependent on our ability to achieve product cost reductions through product design enhancement and supply chain management, as well as manufacturing efficiencies and restructuring actions. We also seek to enhance our financial performance by investing in product development, design capabilities and new product initiatives that respond to the needs of our customers and consumers. We continually evaluate operational and strategic alternatives to align our business with the changing needs of our customers and improve our business structure by investing in vertical integration opportunities globally. Our inability to achieve product cost reductions that offset customer-imposed price reductions could adversely affect our financial condition, operating results and cash flows.

- Increases in the costs and restrictions on the availability of raw materials, energy, commodities and product components could adversely affect our financial performance.

Raw material, energy and commodity costs can be volatile. Although we have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. Certain of these strategies also may limit our opportunities in a declining commodity environment. In addition, the availability of raw materials, commodities and product components fluctuates from time to time due to factors outside of our control, including trade laws and tariffs. If the costs of raw materials, energy, commodities and product components increase or the availability thereof is restricted, it could adversely affect our financial condition, operating results and cash flows.

- Adverse developments affecting or the financial distress of one or more of our suppliers could adversely affect our financial performance.

We obtain components and other products and services from numerous Tier 2 automotive suppliers and other vendors throughout the world. We are responsible for managing our supply chain, including suppliers that may be the sole sources of products that we require, that our customers direct us to use or that have unique capabilities that would make it difficult and/or expensive to re-source. In certain instances, entire industries may experience short-term capacity constraints. Additionally, our production capacity, and that of our customers and suppliers, may be adversely affected by natural disasters. Any such significant disruption could adversely affect our financial performance. Furthermore, unfavorable economic or industry conditions could result in financial distress within our supply base, thereby increasing the risk of supply disruption. Although market conditions generally have improved in recent years, uncertainty remains and another economic downturn or other unfavorable industry conditions in one or more of the

regions in which we operate could cause a supply disruption and thereby adversely affect our financial condition, operating results and cash flows.

- Our substantial international operations make us vulnerable to risks associated with doing business in foreign countries.

As a result of our global presence, a significant portion of our revenues and expenses are denominated in currencies other than the U.S. dollar. We have substantial manufacturing and distribution facilities in many foreign countries, including

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Mexico and countries in Africa, Asia, Central and South America and Europe. International operations are subject to certain risks inherent in doing business abroad, including:

- exposure to local economic conditions;
- political, economic and civil instability and uncertainty (including acts of terrorism, civil unrest, drug-cartel related and other forms of violence and outbreaks of war);
- labor unrest;
- expropriation and nationalization;
- currency exchange rate fluctuations, currency controls and the ability to economically hedge currencies;
- withholding and other taxes on remittances and other payments by subsidiaries;
- investment restrictions or requirements;
- repatriation restrictions or requirements;
- export and import restrictions and increases in duties and tariffs;
- increases in working capital requirements related to long supply chains; and
- global sovereign fiscal matters and creditworthiness, including potential defaults and the related impacts on economic activity, including the possible effects on credit markets, currency values, monetary unions, international treaties and fiscal policies.

Expanding our sales and operations in Asia and our manufacturing operations in lower-cost regions are important elements of our strategy. As a result, our exposure to the risks described above is substantial. The likelihood of such occurrences and their potential effect on us vary from country to country and are unpredictable. However, any such occurrences could adversely affect our financial condition, operating results and cash flows.

- Certain of our operations are conducted through joint ventures which have unique risks.

Certain of our operations, particularly in emerging markets, are conducted through joint ventures. With respect to our joint ventures, we may share ownership and management responsibilities with one or more partners that may not share our goals and objectives. Operating a joint venture requires us to operate the business pursuant to the terms of the agreement that we entered into with our partners, including additional organizational formalities, as well as to share information and decision making. Additional risks associated with joint ventures include one or more partners failing to satisfy contractual obligations, conflicts arising between us and any of our partners, a change in the ownership of any of our partners and less of an ability to control compliance with applicable rules and regulations, including the Foreign Corrupt Practices Act and related rules and regulations. Additionally, our ability to sell our interest in a joint venture may be subject to contractual and other limitations. Accordingly, any such occurrences could adversely affect our financial condition, operating results and cash flows.

- We operate in a highly competitive industry and efforts by our competitors, as well as new non-traditional entrants to the industry, to gain market share could adversely affect our financial performance.

We operate in a highly competitive industry. We and most of our competitors are seeking to expand market share with new and existing customers, including in Asia and other potential high growth regions. Our customers award business based on, among other things, price, quality, service and technology. Our competitors' efforts to grow market share could exert downward pressure on our product pricing and margins. In addition, the automotive industry has attracted, and will continue to attract, non-traditional entrants as a result of the evolving nature of the automotive vehicle market, including autonomous vehicles, ride sharing and on-demand transportation. Further, the global automotive industry is experiencing a period of significant technological change. As a result, the success of portions of our business requires us to develop, acquire and/or incorporate leading technologies. Such technologies are subject to rapid obsolescence. Our inability to maintain access to these technologies (through development, acquisition or licensing) may adversely affect our ability to compete. If we are unable to differentiate our products, maintain a low-cost footprint or compete effectively with technology-focused new market entrants, we may lose market share or be forced to reduce prices, thereby lowering our margins. Any such occurrences could adversely affect our financial condition, operating results and cash flows.

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

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In connection with the award of new business, we obligate ourselves to deliver new products and services that are subject to our customers' timing, performance and quality standards. Additionally, as a Tier 1 supplier, we must effectively coordinate the activities of numerous suppliers in order for the program launches of our products to be successful. Given the complexity of new program launches, we may experience difficulties managing product quality, timeliness and associated costs. In addition, new program launches require a significant ramp up of costs; however, our sales related to these new programs generally are dependent upon the timing and success of our customers' introduction of new vehicles. Our inability to effectively manage the timing, quality and costs of these new program launches could adversely affect our financial condition, operating results and cash flows.

- A significant labor dispute involving us or one or more of our customers or suppliers or that could otherwise affect our operations could adversely affect our financial performance.

A substantial number of our employees and the employees of our largest customers and suppliers are members of industrial trade unions and are employed under the terms of various labor agreements. We have labor agreements covering approximately 81,400 employees globally. In the United States and Canada, each of our unionized facilities has a separate collective bargaining agreement with the union that represents the workers at such facility, with each such agreement having an expiration date that is independent of the other agreements. Labor agreements covering approximately 72% of our global unionized work force, including less than 1% of our unionized workforce in the United States and Canada, are scheduled to expire during 2019. There can be no assurances that future negotiations with the unions will be resolved favorably or that we will not experience a work stoppage or disruption that could adversely affect our financial condition, operating results and cash flows. A labor dispute involving us, any of our customers or suppliers or any other suppliers to our customers or that otherwise affects our operations, or the inability by us, any of our customers or suppliers or any other suppliers to our customers to negotiate, upon the expiration of a labor agreement, an extension of such agreement or a new agreement on satisfactory terms could adversely affect our financial condition, operating results and cash flows. In addition, if any of our significant customers experience a material work stoppage, the customer may halt or limit the purchase of our products. This could require us to shut down or significantly reduce production at facilities relating to such products, which could adversely affect our business and harm our profitability.

- Our existing indebtedness and the inability to access capital markets could restrict our business activities or our ability to execute our strategic objectives or adversely affect our financial performance.

As of December 31, 2018, we had approximately $2.0 billion of outstanding indebtedness, as well as $1.75 billion available for borrowing under our revolving credit facility. As of December 31, 2018, there were no amounts outstanding under our revolving credit facility. The debt instruments governing our indebtedness contain covenants that may restrict our business activities or our ability to execute our strategic objectives, and our failure to comply with these covenants could result in a default under our indebtedness. We also lease certain buildings and equipment under non-cancelable lease agreements with terms exceeding one year, which are accounted for as operating leases. Additionally, any downgrade in the ratings that rating agencies assign to us and our debt may ultimately impact our access to capital markets. Our inability to generate sufficient cash flow to satisfy our debt and lease obligations, to refinance our debt obligations or to access capital markets on commercially reasonable terms could adversely affect our financial condition, operating results and cash flows.

In addition, advances under our revolving credit facility and our term loan facility generally bear interest based on (i) the Eurocurrency Rate (as defined in our credit agreement and calculated using the London Inter-bank Offered Rate ("LIBOR")) or (ii) the ABR (as defined in our credit agreement). On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021, and it is unclear whether new methods of calculating LIBOR will be established. If LIBOR ceases to exist after 2021, the interest rates under our revolving credit facility and our term loan facility will be based on the ABR, which may result in higher interest rates. To the extent that these interest rates increase, our interest expense will increase, which could adversely affect our financial condition, operating results and cash flows.

- Significant changes in discount rates, the actual return on pension assets and other factors could adversely affect our financial performance.

Our earnings may be positively or negatively impacted by the amount of income or expense recorded related to our global defined benefit plans. Accounting principles generally accepted in the United States require that income or expense related to the defined benefit plans be calculated at the annual measurement date using actuarial calculations, which reflect certain assumptions. The most significant of these assumptions relate to interest rates, the capital markets and other economic conditions. These assumptions, as well as the actual value of pension assets at the measurement date, will impact the calculation of pension and other postretirement benefit expense for the year. Although pension expense and pension contributions are not directly related, the key economic indicators that affect pension expense also affect the

amount of cash that we will contribute to our pension plans. Because interest rates and the values of these pension assets have fluctuated and will continue to fluctuate in response to changing market conditions, pension and other postretirement benefit expense in subsequent periods, the funded status of our pension plans and the future minimum required pension contributions, if any, could adversely affect our financial condition, operating results and cash flows.

- Impairment charges relating to our goodwill and long-lived assets could adversely affect our financial performance.

We regularly monitor our goodwill and long-lived assets for impairment indicators. In conducting our goodwill impairment testing, we may first perform a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount. If not, no further goodwill impairment testing is required. If it is more likely than not that a reporting unit's fair value is less than its carrying amount, or if we elect not to perform a qualitative assessment of a reporting unit, we then compare the fair value of the reporting unit to the related net book value. If the net book value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. In conducting our impairment analysis of long-lived assets, we compare the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. Changes in economic or operating conditions impacting our estimates and assumptions could result in the impairment of our goodwill or long-lived assets. In the event that we determine that our goodwill or long-lived assets are impaired, we may be required to record a significant charge to earnings that could adversely affect our financial condition and operating results.

- Our failure to execute our strategic objectives could adversely affect our financial performance.

Our financial performance depends, in part, on our ability to successfully execute our strategic objectives. Our objectives are to deliver superior long-term stockholder value by investing in our business to grow and improve our competitive position, while maintaining a strong and flexible balance sheet and returning cash to our stockholders. Various factors, including the industry environment and the other matters described herein and in Part II — Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," including "— Forward-Looking Statements," could adversely affect our ability to execute our strategic objectives. These risk factors include our failure to identify suitable opportunities for organic investment and/or acquisitions, our inability to successfully develop such opportunities or complete such acquisitions or our inability to successfully utilize or integrate the investments in our operations. Our failure to execute our strategic objectives could adversely affect our financial condition, operating results and cash flows. Moreover, there can be no assurances that, even if implemented, our strategic objectives will be successful.

- A disruption in our information technology, including a disruption related to cybersecurity, could adversely affect our financial performance.

We rely on the accuracy, capacity and security of our information technology. Despite the security measures that we have implemented, including those measures related to cybersecurity, our operational systems (including business, financial, accounting, human resources, product development and manufacturing processes), as well as those of our customers, suppliers and other service providers, and certain of our connected vehicle systems and components could be breached or damaged by computer viruses, malware, phishing attacks, denial-of-service attacks, natural or man-made incidents or disasters or unauthorized physical or electronic access. These types of incidents have become more prevalent and pervasive across industries, including our industry, and are expected to continue in the future. A breach could result in business disruption, including the vehicle systems and components that we supply to our customers or our plant operations, theft of our intellectual property, trade secrets or customer information or unauthorized access to personnel information, such as that of our employees or end consumers of vehicles that contain certain of our connected vehicle systems or components. Although cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our operational systems and products from attack, damage or unauthorized access are a high priority for us, our actions and investments may not be deployed quickly enough or successfully protect our systems against all vulnerabilities, including technologies developed to bypass our security measures. In addition, outside parties may attempt to fraudulently induce employees or customers to disclose access credentials or other sensitive information in order to gain access to our secure systems and networks. There are no assurances that our actions and investments to improve the maturity of our systems, processes and risk management framework or remediate vulnerabilities will be sufficient or deployed quickly enough to prevent

or limit the impact of any cyber intrusion. Moreover, because the techniques used to gain access to or sabotage systems often are not recognized until launched against a target, we may be unable to anticipate the methods necessary to defend against these types of attacks, and we cannot predict the extent, frequency or impact these attacks may have on us. To the extent that our business is interrupted, including the vehicle systems and components that we supply to our customers or our plant operations, or data is lost, destroyed or inappropriately used or disclosed, such disruptions could adversely affect our competitive position, relationships with our customers, financial condition, operating results and cash flows and/or subject us to regulatory actions, including those contemplated by data privacy laws and regulations like the European Union General Data Privacy

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Regulation, or litigation. In addition, we may be required to incur significant costs to protect against the damage caused by these disruptions or security breaches in the future.

We are also dependent on security measures that some of our customers, suppliers and other third-party service providers take to protect their own systems and infrastructures. Any security breach of any of these third-parties' systems could result in unauthorized access to our information technology systems, cause us to be non-compliant with applicable laws or regulations, subject us to legal claims or proceedings, disrupt our operations, damage our reputation or cause a loss of confidence in our products or services, any of which could adversely affect our financial performance.

- A significant product liability lawsuit, warranty claim or product recall involving us or one of our major customers could adversely affect our financial performance.

In the event that our products fail to perform as expected, regardless of fault, and such failure results in, or is alleged to result in, bodily injury and/or property damage or other losses, we may be subject to product liability lawsuits and other claims or we may be required or requested by our customers to participate in a recall or other corrective action involving such products. We also are a party to agreements with certain of our customers, whereby these customers may pursue claims against us for contribution of all or a portion of the amounts sought in connection with product liability and warranty claims. We carry insurance for certain product liability claims, but such coverage may be limited. We do not maintain insurance for product warranty or recall matters. In addition, we may not be successful in recovering amounts from third parties, including sub-suppliers, in connection with these claims. These types of claims could adversely affect our financial condition, operating results and cash flows.

- We are involved from time to time in various legal and regulatory proceedings and claims, which could adversely affect our financial performance.

We are involved in various legal and regulatory proceedings and claims that, from time to time, are significant. These are typically claims that arise in the normal course of business including, without limitation, commercial or contractual disputes, including disputes with our customers, suppliers or competitors, intellectual property matters, personal injury claims, environmental matters, tax matters, employment matters and antitrust matters. No assurances can be given that such proceedings and claims will not adversely affect our financial condition, operating results and cash flows.

- New laws or regulations or changes in existing laws or regulations could adversely affect our financial performance.

We and the automotive industry are subject to a variety of federal, state, local and foreign laws and regulations, including those related to health, safety and environmental matters. Governmental regulations also affect taxes and levies, capital markets, healthcare costs, energy usage, international trade and immigration and other labor issues, all of which may have a direct or indirect effect on our business and the businesses of our customers and suppliers. We cannot predict the substance or impact of pending or future legislation or regulations, or the application thereof. The introduction of new laws or regulations or changes in existing laws or regulations, or the interpretation thereof, could increase the costs of doing business for us or our customers or suppliers or restrict our actions and adversely affect our financial condition, operating results and cash flows.

- We are subject to regulation of our international operations that could adversely affect our financial performance.

We are subject to many laws governing our international operations, including those that prohibit improper payments to government officials and restrict where we can do business and what information or products we can supply to certain countries, including but not limited to the Foreign Corrupt Practices Act and the U.S. Export Administration Act. Violations of these laws, which are complex and often difficult to interpret and apply, could result in significant criminal penalties or sanctions that could adversely affect our business, financial condition, operating results and cash flows.

- We are required to comply with environmental laws and regulations that could cause us to incur significant costs.

Our manufacturing facilities are subject to numerous laws and regulations designed to protect the environment, and we expect that additional requirements with respect to environmental matters will be imposed on us in the future. Material future expenditures may be necessary if compliance standards change or material unknown conditions that require remediation are discovered. Environmental laws could also restrict our ability to expand our facilities or could

require us to acquire costly equipment or to incur other significant expenses in connection with our business. If we fail to comply with present and future environmental laws and regulations, we could be subject to future liabilities, which could adversely affect our financial condition, operating results and cash flows.

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- Developments or assertions by or against us relating to intellectual property rights could adversely affect our financial performance.

We own significant intellectual property, including a large number of patents, trademarks, copyrights and trade secrets, and we are involved in numerous licensing arrangements. Our intellectual property plays an important role in maintaining our competitive position in a number of the markets that we serve. Developments or assertions by or against us relating to intellectual property rights could adversely affect our financial condition, operating results and cash flows.

- The comprehensive U.S. tax reform bill that was enacted in 2017 could adversely affect our financial performance.

In December 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law and significantly revised the Internal Revenue Code of 1986, as amended (the "IRC"). This legislation, among other things, contains significant changes to corporate taxation, including the reduction of the corporate income tax rate from 35% to 21% beginning in 2018, a one-time transition tax on offshore earnings at reduced tax rates regardless of whether the earnings are repatriated, the elimination of U.S. tax on foreign dividends (subject to certain important exceptions), new taxes on certain foreign earnings, a new minimum tax related to payments to foreign subsidiaries and affiliates, a deduction for foreign-derived intangible income ("FDII"), a significantly modified foreign tax credit regime, immediate deductions for certain new investments and the modification or repeal of many business deductions and credits. Notwithstanding the reduction in the corporate income tax rate, we are continuing to examine the long-term impact of the new federal tax law. During 2018, the Department of the Treasury issued certain guidance in the form of notices and proposed regulations with respect to several provisions of the Act. It is anticipated that final regulations or other guidance may be issued with respect to the Act in 2019 and subsequent years. We can provide no assurances that the final regulations will not adversely affect our financial performance. In addition, it is uncertain if, and to what extent, various states will conform to the new tax law and foreign countries will react to the new tax law by adopting tax legislation or taking other actions that could adversely affect our business.

- Changes in U.S. administrative policy, including changes to existing trade agreements and any resulting changes in international relations, could adversely affect our financial performance.

As a result of changes to U.S. administrative policy, among other possible changes, there may be (i) changes to existing trade agreements; (ii) greater restrictions on free trade generally; and (iii) significant increases in tariffs on goods imported into the United States, particularly those manufactured in China, Mexico and Canada. In November 2018, the United States, Mexico and Canada signed the United States-Mexico-Canada Agreement ("USMCA"), the successor agreement to the North American Free Trade Agreement ("NAFTA"). The USMCA has been ratified by the Mexico Congress. The U.S. Congress is not expected to vote on the agreement until the third quarter of 2019, and approval by the Candaian Parliament is expected to follow U.S. approval. It remains unclear what the U.S. administration or foreign governments, including China, will or will not do with respect to tariffs, NAFTA, USMCA or other international trade agreements and policies. A trade war, other governmental action related to tariffs or international trade agreements, changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently manufacture and sell products or any resulting negative sentiments towards the United States could adversely affect our business, financial condition, operating results and cash flows.

- Changes in the United Kingdom's economic and other relationships with the European Union could adversely affect us.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum ("Brexit"). In March 2017, the United Kingdom formally notified the European Union of its intention to withdraw, and withdrawal negotiations began in June 2017. European Union rules provide for a two-year negotiation period, ending on March 29, 2019, unless an extension is agreed to by the parties. There remains significant uncertainty about the future relationship between the United Kingdom and the European Union, including the possibility of the United Kingdom leaving the European Union without a negotiated and bilaterally approved withdrawal plan. We have significant operations in both the United Kingdom and the European Union. In 2018, our United Kingdom and European Union (excluding the United Kingdom) sales totaled $1.3 billion and $6.1 billion,

respectively. Our supply chain and that of our customers are highly integrated across the United Kingdom and the European Union, and we are highly dependent on the free flow of goods in those regions. The ongoing uncertainty and potential re-imposition of border controls and customs duties on trade between the United Kingdom and European Union nations could negatively impact our competitive position, supplier and customer relationships and financial performance. The ultimate effects of Brexit on us will depend on the specific terms of any agreement the United Kingdom and the European Union reach to provide access to each other's respective markets.

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ITEM 1B – UNRESOLVED STAFF COMMENTS

None.

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ITEM 2 – PROPERTIES

As of December 31, 2018, our operations were conducted through 261 facilities, some of which are used for multiple purposes, including 85 just-in-time manufacturing facilities, 126 dedicated component manufacturing facilities, 6 sequencing and distribution sites, 36 administrative/technical support facilities and 8 advanced technology centers, in 39 countries. Our corporate headquarters is located in Southfield, Michigan.

Seating

Argentina
Escobar, BA
Ferreyra, CBA
Belgium
Brussels
Brazil
Betim
Caçapava
Joinville
Pernambuco
São Paulo
Canada
Ajax, ON
Whitby, ON
China
Beijing
Changshu
Chongqing
Guangzhou
Hangzhou
Liuzhou
Nanjing
Rui'an
Shanghai
Shenyang
Wuhan
Wuhu
Yangzhou
Czech Republic
Hranice
Kolin
Stribro
Dominican Republic
Santo Domingo
France
Feignies
Herblay
Jarney
Roche La Moliere
Germany
Besigheim
Bremen
Eisenach
Ginsheim-Gustavsburg
Rietberg
Wackersdorf
Hungary
Györ
Szolnok
India
Chennai
Halol
Haridwar
Nasik
India (continued)
Pune
Tijara
Indonesia
Cikarang
Italy
Caivano, NA
Cassino, FR
Grugliasco, TO
Melfi, PZ
Pozzo d'Adda, MI
Macedonia
Tetovo
Malaysia
Behrang Stesen
Klang
Mexico
Arteaga, CA
Ascension, CH
Cuautlancingo, PU
Fresnillo, ZA
Hermosillo, SO
Huamantla, TL
Juarez, CH
Leon, GT
Mexico City, DF
Monclova, CO
Mexico (continued)
Nuevo Casas Grandes, CH
Panzacola, TL
Piedras Negras, CO
Ramos Arizpe, CO
Saltillo, CO
San Felipe, GU
San Luis Potosi, SL
Silao, GO
Toluca, MX
Villa Ahumada, CH
Moldova
Ungheni
Morocco
Kenitra
Tangier
Poland
Bierun
Jaroslaw
Legnica
Tychy
Portugal
Mangualde
Valenca
Romania
Iasi
Russia
Kaluga
Nizhny Novgorod
Slovak Republic
Presov
Voderady
South Africa
East London
Port Elizabeth
South Korea
Gyeongju
Spain
Barcelona
Burgos
Epila
Martorell
O Porrino
Valencia
Vigo
Vitoria
Thailand
Mueang Nakhon Ratchasima
Rayong
United Kingdom
Alfreton
Coventry
United Kingdom (continued)
Redditch
Sunderland
United States
Arlington, TX
Columbia City, IN
Detroit, MI
Duncan, SC
Farwell, MI
Flint, MI
Hammond, IN
Hebron, OH
Highland Park, MI
Kenansville, NC
Louisville, KY
Montgomery, AL
Morristown, TN
Pine Grove, PA
Portage, IN
Rochester Hills, MI
Roscommon, MI
Selma, AL
Tuscaloosa, AL
Wentzville, MO
Vietnam
Hai Phong City

E-Systems

Argentina
Pacheco, BA
San Francisco, CBA
Brazil
Camanducaia
Navegantes
China
Changchun
Chongqing
China (continued)
KunShan HuaQiao
Shanghai
SuiNing
TianJin
Wuhan
Yangzhou
Czech Republic
Vyskov
Germany
Bersenbrueck
Kronach
Puttlingen
Wismar
Honduras
Naco
Hungary
Gödöllö
Gyöngyös
India
Pune
Mexico
Apodaca, NL
Chihuahua, CH
Juarez, CH
Torreon, CA
Morocco
Kenitra
Salé Al-Jadida
Tangier
Philippines
LapuLapu City
Poland
Mielec
Romania
Campulung
Pitesti
Russia
Volokolamsk
Serbia
Novi Sad
South Africa
Port Elizabeth
Spain
Almussafes
Valls
Thailand
Kabin Buri
United States
Plymouth, IN
Taylor, MI
Traverse City, MI

Administrative/Technical

Australia
Essendon Fields
Belgium
Leuven
Brazil
São Paulo
China
Shanghai
Czech Republic
Brno
Pilsen

France
Vélizy-Villacoublay
Germany
Cologne
Korntal-Münchingen
Remscheid
Schwaig-Oberding
Sindelfingen
Wolfsburg

India
Bengaluru
Gurgaon
Pune
Israel
Tel Aviv
Italy
Grugliasco, TO
Japan
Hiroshima
Kariya

Japan (continued)
Nagoya
Tokyo
Yokohama
Mexico
Juarez, CH
Netherlands
Hilversum
Philippines
LapuLapu City
Singapore

South Korea
Seoul
Spain
Valls
Sweden
Gothenburg
Thailand
Bangkok
United Kingdom
Coventry

United States
Ann Arbor, MI
Detroit, MI
El Paso, TX
Rochester Hills, MI
San Mateo, CA
Santa Rosa, CA
Southfield, MI
Sparta, MI
Wilmington, NC

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ITEM 3 – LEGAL PROCEEDINGS

Legal and Environmental Matters

We are involved from time to time in various legal proceedings and claims, including, without limitation, commercial or contractual disputes, product liability claims and environmental and other matters. For a description of risks related to various legal proceedings and claims, see Item 1A, "Risk Factors." For a description of our outstanding material legal proceedings, see Note 12, "Commitments and Contingencies," to the consolidated financial statements included in this Report.

ITEM 4 – MINE SAFETY DISCLOSURES

None.

SUPPLEMENTARY ITEM – EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth the names, ages and positions of our executive officers. Executive officers are appointed annually by our Board of Directors and serve at the pleasure of our Board.

Name	Age	Position
Shari L. Burgess	60	Vice President and Treasurer
Thomas A. DiDonato	60	Senior Vice President and Chief Administrative Officer
Amy A. Doyle	51	Vice President and Chief Accounting Officer
Terrence B. Larkin	64	Executive Vice President, Business Development, General Counsel and Corporate Secretary
Frank C. Orsini	46	Executive Vice President and President, Seating
Raymond E. Scott	53	President and Chief Executive Officer
Jeffrey H. Vanneste	59	Senior Vice President and Chief Financial Officer

Set forth below is a description of the business experience of each of our executive officers.

Shari L. Burgess	Ms. Burgess is the Company’s Vice President and Treasurer, a position she has held since August 2002. Ms. Burgess previously served as the Company’s Vice President, Treasurer and Chief Diversity Officer from January 2014 to May 2018 and in various financial roles since joining the Company in 1992. Prior to joining the Company, Ms. Burgess served as the corporate controller for Victor International Corporation and as an audit manager for Ernst & Young LLP.
Thomas A. DiDonato	Mr. DiDonato is the Company’s Senior Vice President and Chief Administrative Officer, a position he has held since January 2019. Mr. DiDonato most recently served as the Company's Senior Vice President, Human Resources since April 2012. Prior to joining the Company, Mr. DiDonato served as Executive Vice President, Human Resources for American Eagle Outfitters, Inc. since 2005, Chief People Officer for H.J. Heinz since 2004 and Senior Vice President, Human Resources for Heinz North America since 2001. Earlier experiences include directing human resources for a $14 billion division of Merck & Co. and heading worldwide staffing for Pepsico. Mr. DiDonato began his career at General Foods Corporation and moved up to manage the personnel at its largest manufacturing facility.
Amy A. Doyle	Ms. Doyle is the Company’s Vice President and Chief Accounting Officer, a position she has held since May 2017. Ms. Doyle most recently served as the Company’s Assistant Corporate Controller since September 2006. Previously, she served in positions of increasing responsibility at the Company, including Director, Financial Reporting since 2003 and Manager, Financial Reporting since 1999. Prior to joining the Company, Ms. Doyle served as an audit manager for Arthur Andersen LLP.

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Terrence B. Larkin	Mr. Larkin is the Company's Executive Vice President, Business Development, General Counsel and Corporate Secretary, a position he has held since November 2011. Mr. Larkin previously served as the Company's Senior Vice President, General Counsel and Corporate Secretary since January 2008. Prior to joining the Company, Mr. Larkin was a partner since 1986 of Bodman PLC, a Detroit-based law firm. Mr. Larkin served on the executive committee of Bodman PLC and was the chairman of its business law practice group. Mr. Larkin's practice was focused on general corporate, commercial transactions and mergers and acquisitions.
Frank C. Orsini	Mr. Orsini is the Company's Executive Vice President and President, Seating, a position he has held since March 2018. Mr. Orsini most recently served as the Company's Senior Vice President and President, E-Systems since September 2012. Prior to that, he served as the Company's Vice President and Interim President, E-Systems since October 2011. Previously, he served as the Company's Vice President, Operations, E-Systems since 2009, Vice President, Sales, Program Management & Manufacturing, E-Systems since 2008, Vice President, North America Seating Operations since 2005 and in various other management positions for the Company since joining the Company in 1994.
Raymond E. Scott	Mr. Scott is the Company's President and Chief Executive Officer, a position he has held since March 2018. Mr. Scott most recently served as the Company's Executive Vice President and President, Seating since November 2011. Prior to that, he served as the Company's Senior Vice President and President, E-Systems since February 2008. Previously, he served as the Company's Senior Vice President and President, North American Seat Systems Group since August 2006, Senior Vice President and President, North American Customer Group since June 2005, President, European Customer Focused Division since June 2004 and President, General Motors Division since November 2000.
Jeffrey H. Vanneste	Mr. Vanneste is the Company's Senior Vice President and Chief Financial Officer, a position he has held since March 2012. Prior to joining the Company, Mr. Vanneste served as Executive Vice President and Chief Financial Officer for International Automotive Components Group ("IAC") since January 2011 and as Chief Financial Officer for IAC North America since March 2007. Prior to joining IAC, Mr. Vanneste worked with the Company in positions of increasing responsibility over 15 plus years including: Vice President of Finance, European Operations, Vice President of Corporate Business Planning and Analysis, Vice President of Finance, Seating and Vice President of Finance for the Ford and GM Divisions. Prior to joining the Company in October 1991, he served as the assistant controller for Champagne-Webber, Inc. and as an audit senior for Coopers & Lybrand.

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PART II
ITEM 5 – MARKET FOR THE COMPANY'S COMMON EQUITY,
RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the New York Stock Exchange under the symbol "LEA."

Dividends

We currently expect to pay quarterly cash dividends in the future, although such payments are at the discretion of our Board of Directors and will depend upon our financial condition, results of operations, capital requirements, alternative uses of capital and other factors that our Board of Directors may consider at its discretion. See Part II — Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Forward-Looking Statements," and Note 10, "Capital Stock, Accumulated Other Comprehensive Loss and Equity," to the consolidated financial statements included in this Report.

Holders of Common Stock

The Transfer Agent and Registrar for our common stock is Computershare Trust Company, N.A., located in Canton, Massachusetts. On February 1, 2019, there were 184 registered holders of record of our common stock.

For certain information regarding our equity compensation plans, see Part III — Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters — Equity Compensation Plan Information."

Common Stock Share Repurchase Program

Since the first quarter of 2011, our Board of Directors has authorized $5.0 billion in share repurchases under our common stock share repurchase program. As of December 31, 2018, we have a remaining repurchase authorization of $799.8 million, which will expire on December 31, 2020.

We may implement our share repurchases through a variety of methods, including open market purchases, accelerated stock repurchase programs and structured repurchase transactions. The extent to which we will repurchase our outstanding common stock and the timing of such repurchases will depend upon our financial condition, prevailing market conditions, alternative uses of capital and other factors. See Part II — Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Forward-Looking Statements," and Note 10, "Capital Stock, Accumulated Other Comprehensive Loss and Equity," to the consolidated financial statements included in this Report.

As of December 31, 2018, we have paid $4.2 billion in aggregate for repurchases of our outstanding common stock, at an average price of $87.20 per share, excluding commissions and related fees, since the first quarter of 2011. A summary of the shares of our common stock repurchased during the fiscal quarter ended December 31, 2018, is shown below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in millions)	
September 30, 2018 through October 27, 2018	474,636	$ 138.63	474,636	$ 948.6	
October 28, 2017 through November 24, 2018	478,498	136.46	478,498	883.3	
November 25, 2018 through December 31, 2018	658,096	126.81	658,096	799.8	
Total	1,611,230	$ 133.15	1,611,230	$ 799.8	(1)

(1) Remaining authorization as of December 31, 2018.

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Performance Graph

The following graph compares the cumulative total stockholder return from December 31, 2013 through December 31, 2018, for our common stock, the S&P 500 Index and a peer group(1) of companies that we have selected for purposes of this comparison. We have assumed that dividends have been reinvested, and the returns of each company in the S&P 500 Index and the peer group have been weighted to reflect relative stock market capitalization. The graph below assumes that $100 was invested on December 31, 2013, in each of our common stock, the stocks comprising the S&P 500 Index and the stocks comprising the peer group.

	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018
Lear Corporation	$ 100.00	$ 122.19	$ 154.39	$ 168.10	$ 227.29	$ 160.72
S&P 500	$ 100.00	$ 113.68	$ 115.24	$ 129.02	$ 157.17	$ 150.27
Peer Group (1)	$ 100.00	$ 119.01	$ 109.23	$ 109.57	$ 148.16	$ 100.27

(1) We do not believe that there is a single published industry or line of business index that is appropriate for comparing stockholder returns. As a result, we have selected a peer group comprised of representative independent automotive suppliers whose common stock is publicly traded. Our peer group, referenced in the graph above, consists of Adient plc, American Axle & Manufacturing Holdings Inc., Aptiv PLC, BorgWarner Inc., Dana Holding Corporation, Gentex Corp., Magna International, Inc., Superior Industries International, Inc., Tenneco Inc. and Visteon Corporation.

ITEM 6 – SELECTED FINANCIAL DATA

The following statement of operations, statement of cash flows and balance sheet data were derived from our consolidated financial statements. Our consolidated financial statements for the years ended December 31, 2018, 2017, 2016, 2015 and 2014, have been audited by Ernst & Young LLP. The selected financial data below should be read in conjunction with Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and the notes thereto included in this Report.

For the year ended December 31,	2018 [1]	2017 [2]	2016 [3]	2015 [4]	2014 [5]
Income Statement: (in millions) [6]					
Net sales	$21,148.5	$20,467.0	$18,557.6	$18,211.4	$17,727.3
Gross profit	2,318.3	2,291.1	2,122.6	1,819.8	1,492.8
Selling, general and administrative expenses	612.8	635.2	608.2	580.5	529.9
Amortization of intangible assets	51.4	47.6	53.0	52.5	33.7
Interest expense	84.1	85.7	82.5	86.7	67.5
Other (income) expense, net [7]	31.6	(4.1)	40.6	68.6	74.3
Consolidated income before provision for income taxes and equity in net income of affiliates	1,538.4	1,526.7	1,338.3	1,031.5	787.4
Provision for income taxes	311.9	197.5	370.2	285.5	121.4
Equity in net income of affiliates	(20.2)	(51.7)	(72.4)	(49.8)	(36.3)
Consolidated net income	1,246.7	1,380.9	1,040.5	795.8	702.3
Net income attributable to noncontrolling interests	96.9	67.5	65.4	50.3	29.9
Net income attributable to Lear	$1,149.8	$1,313.4	$975.1	$745.5	$672.4

For the year ended December 31,	2018 [1]	2017 [2]	2016 [3]	2015 [4]	2014 [5]
Income Statement Data:					
Basic net income per share available to Lear common stockholders	$17.35	$18.79	$13.48	$9.71	$8.39
Diluted net income per share available to Lear common stockholders	$17.22	$18.59	$13.33	$9.59	$8.23
Weighted average shares outstanding – basic	65,672,164	68,542,363	72,345,436	76,754,270	80,187,516
Weighted average shares outstanding – diluted	66,161,816	69,277,981	73,124,949	77,767,017	81,728,479
Dividends per share	$2.80	$2.00	$1.20	$1.00	$0.80
Statement of Cash Flows Data: (in millions) [8]					
Cash flows from operating activities	$1,779.8	$1,783.1	$1,619.3	$1,271.1	$927.8
Cash flows from investing activities	(693.5)	(868.6)	(637.1)	(1,315.3)	(430.6)
Cash flows from financing activities	(1,030.5)	(742.0)	(872.9)	(406.3)	89.2
Capital expenditures	677.0	594.5	528.3	485.8	424.7
Other Data (unaudited):					
Ratio of earnings to fixed charges [9]	12.4x	12.6x	12.0x	9.4x	8.4x

As of or for the year ended December 31,	2018	2017	2016	2015	2014
Balance Sheet Data: (in millions) [10]					
Current assets	$6,280.5	$6,613.0	$5,649.3	$5,286.6	$5,165.6
Total assets	11,600.7	11,945.9	9,900.6	9,405.8	9,113.1
Current liabilities	4,500.6	4,854.3	4,182.3	3,839.6	3,945.1
Long-term debt	1,941.0	1,951.5	1,898.0	1,931.7	1,454.0
Equity	4,360.6	4,292.6	3,192.9	3,017.7	3,029.3
Other Data (unaudited):					
Employees at year end	169,000	165,000	148,400	136,200	125,200
North American content per vehicle [11]	$452	$456	$422	$443	$398
North American vehicle production (in millions) [12]	17.0	17.1	17.8	17.5	17.0
European content per vehicle [13]	$385	$354	$316	$314	$341
European vehicle production (in millions) [14]	22.6	23.0	22.3	21.5	20.6

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(1) 2018 results include $104.3 million of restructuring and related manufacturing inefficiency charges (including $4.7 million of fixed asset impairment charges), $0.5 million of transaction costs, $5.4 million pension settlement charge, $17.1 gain related to litigation, $10.0 million gain related to obtaining control of an affiliate, $8.9 million loss related to affiliates, $15.8 million related to a favorable indirect tax ruling in a foreign jurisdiction, $49.1 million of net tax benefits related to the reversal of valuation allowances on the deferred tax assets of certain foreign subsidiaries, share-based compensation, a tax rate change in a foreign subsidiary, an adjustment to the 2017 provisional income tax expense, restructuring charges and various other items partially offset by an increase in foreign withholding tax on certain undistributed foreign earnings and the establishment of valuation allowances on the deferred tax assets of certain foreign subsidiaries and various other items.

(2) 2017 results include $74.5 million of restructuring and related manufacturing inefficiency charges (including $1.3 million of fixed asset impairment charges), $3.8 million of transaction costs, $5.0 million charge due to an acquisition-related inventory fair value adjustment, $15.4 million litigation charge, $21.2 million loss on the extinguishment of debt, $54.2 million gain related to obtaining control of an affiliate and $214.8 million of net tax benefits related to U.S. corporate tax reform and its associated transition tax, foreign tax credits on repatriated earnings, the reversal of valuation allowances on the deferred tax assets of certain foreign subsidiaries, share-based compensation, an incentive tax credit in a foreign subsidiary, the redemption of senior notes due 2023, restructuring charges and various other items.

(3) 2016 results include $69.6 million of restructuring and related manufacturing inefficiency charges (including $4.7 million of fixed asset impairment charges), $34.2 million non-cash pension settlement charge, $1.3 million of transaction costs, $30.3 million gain related to obtaining control of an affiliate and $23.6 million of net tax benefits related to restructuring charges, a non-cash pension settlement charge and various other items.

(4) 2015 results include $97.2 million of restructuring and related manufacturing inefficiency charges (including $3.9 million of fixed asset impairment charges), $10.9 million of transaction and other related costs, $15.8 million charge due to an acquisition-related inventory fair value adjustment, $14.3 million loss on the extinguishment of debt, $1.8 million loss related to an affiliate and $43.1 million of net tax benefits related to restructuring charges, debt redemption costs, acquisition costs and various other items.

(5) 2014 results include $115.3 million of restructuring and related manufacturing inefficiency charges (including $0.5 million of fixed asset impairment charges), $5.3 million of transaction costs, $17.9 million loss on the extinguishment of debt, $0.8 million of losses related to affiliates and $149.1 million of net tax benefits related to net reductions in valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries, reductions in tax reserves due to audit settlements, debt redemption costs, restructuring charges and various other items.

(6) The income statement for 2016 has been restated to reflect a non-cash pension settlement charge as other (income) expense, net in conjunction with the 2018 adoption of Accounting Standards Update ("ASU") 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." As a result, gross profit increased $20.5 million, selling, general and administrative expenses decreased $13.7 million, and other (income) expense, net increased $34.2 million.

(7) Includes non-income related taxes, foreign exchange gains and losses, gains and losses related to certain derivative instruments and hedging activities, losses on the extinguishment of debt, gains and losses on the disposal of fixed assets, the non-service cost components of net periodic benefit cost and other miscellaneous income and expense.

(8) The statement of cash flows data for 2015 and 2014 has been restated to reflect changes in restricted cash with changes in cash and cash equivalents in conjunction with the 2018 adoption of ASU 2016-18, "Restricted Cash." As a result, cash flows from investing activities decreased in 2015 and increased in 2014 by $350.0 million, and cash flows from financing activities decreased in 2015 and increased in 2014 by $250.0 million.

(9) "Fixed charges" consist of interest on debt, amortization of deferred financing fees and that portion of rental expenses representative of interest. "Earnings" consist of consolidated income before provision (benefit) for income taxes and equity in the undistributed net income of affiliates and fixed charges.

(10)

The balance sheet data for 2014 has been restated to reflect the presentation of debt issuance costs as a reduction of current portion of long-term debt and long-term debt in conjunction with the 2015 adoption of ASU 2015-03, "Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," and ASU 2015-15, "Interest — Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements — Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting." As of result, current assets and current liabilities decreased $3.2 million, total assets decreased $24.2 million, and long-term debt decreased $21.0 million. In addition, the balance sheet data for 2014 has been restated to reflect the presentation of all deferred tax assets and liabilities, as well as related valuation allowances, as non-current in conjunction with the 2015 adoption of ASU 2015-17, "Balance Sheet Classification of Deferred Taxes." As

a result, current assets decreased $210.8 million, total assets decreased $12.9 million, and current liabilities decreased $9.5 million.

(11) "North American content per vehicle" is our net sales in North America divided by total North American vehicle production. Content per vehicle data excludes business conducted through non-consolidated joint ventures. Content per vehicle data for 2017 has been updated to reflect actual production levels.

(12) "North American vehicle production" includes car and light truck production in the United States, Canada and Mexico based on IHS Automotive. Production data for 2017 has been updated to reflect actual production levels.

(13) "European content per vehicle" is our net sales in Europe and Africa divided by total European and African vehicle production. Content per vehicle data excludes business conducted through non-consolidated joint ventures. Content per vehicle data for 2017 has been updated to reflect actual production levels.

(14) "European vehicle production" includes car and light truck production in Austria, Belarus, Belgium, Bosnia, Bulgaria, Czech Republic, Finland, France, Germany, Hungary, Italy, Morocco, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Slovakia, Slovenia, South Africa, Spain, Sweden, Turkey, Ukraine and the United Kingdom based on IHS Automotive. Production data for 2017 has been updated to reflect actual production levels.

ITEM 7 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

We are a leading Tier 1 supplier to the global automotive industry. We supply seating, electrical distribution systems and electronic modules, as well as related sub-systems, components and software, to all of the world's major automotive manufacturers.

We use our product, design and technological expertise, global reach and competitive manufacturing footprint to achieve our financial goals and objectives of continuing to deliver profitable growth (balancing risks and returns), maintaining a strong balance sheet with investment grade credit metrics and consistently returning excess cash to our stockholders.

Our Seating business consists of the design, development, engineering, just-in-time assembly and delivery of complete seat systems, as well as the design, development, engineering and manufacture of all major seat components, including seat covers and surface materials such as leather and fabric, seat structures and mechanisms, seat foam and headrests. Further, we have capabilities in active sensing and comfort for seats, utilizing electronically controlled sensor and adjustment systems and internally developed algorithms.

Our E-Systems business consists of the design, development, engineering and manufacture of complete electrical distribution systems, as well as sophisticated electronic control modules, electrification products and connectivity products. Electrical distribution systems route networks and electrical signals and manage electrical power within the vehicle for all types of power trains - traditional internal combustion engine ("ICE") architectures to the full range of hybrid, plug-in hybrid and battery electric architectures. Key components in our electrical distribution portfolio include wire harnesses, terminals and connectors and junction boxes for both ICE and electrification architectures that require management of higher voltage and power. Electronic control modules facilitate signal, data and power management within the vehicle and include the associated software required to facilitate these functions. Key components in our electronic control module portfolio include body control modules, wireless receiver and transmitter technology and lighting and audio control modules, as well as portfolios specific to electrification and connectivity trends. Electrification products include charging systems (onboard charging modules, cord set charging equipment and wireless charging systems), battery electronics (battery disconnect units, cell monitoring supervisory systems and integrated total battery control modules) and other power management modules, including converter and inverter systems which may be integrated into other modules or sold separately. Connectivity products include gateway modules, connected gateways and independent communication modules to manage both wired and wireless networks and data in vehicles. In addition to fully functional electronic modules, we offer software that includes cybersecurity, advanced vehicle positioning for automated and autonomous driving applications, roadside modules that communicate real-time traffic information and full capabilities in both dedicated short-range communication ("DSRC") and cellular protocols for vehicle connectivity.

We serve all of the world's major automotive manufacturers across both our Seating and E-Systems businesses, and we have automotive content on more than 400 vehicle nameplates worldwide. It is common to have both seating and electrical content on the same and multiple vehicle platforms with a single customer. Our businesses benefit globally from leveraging common operating standards and disciplines, including world-class product development and manufacturing processes, as well as common customer support and regional infrastructures. Our core capabilities are shared across component categories and include high-precision manufacturing and assembly with short lead times, management of complex supply chains, global engineering and program management skills, the agility to establish and/or move facilities quickly and a unique customer-focused culture. Our businesses utilize proprietary, industry-specific processes and standards, leverage common low-cost engineering centers and share centralized operating support functions, such as logistics, supply chain management, quality and health and safety, as well as all major administrative functions. Further, the seat is becoming a more dynamic and integrated system requiring increased levels of electrical and electronic integration and accelerating the convergence of our Seating and E-Systems businesses. We are the only global automotive supplier with complete capabilities in both of these critical business segments.

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Industry Overview

Our sales are driven by the number of vehicles produced by the automotive manufacturers, which is ultimately dependent on consumer demand for automotive vehicles, and our content per vehicle. Global automotive industry production volumes in 2018, as compared to 2017, are shown below (in millions of units):

	2018 (1)	2017 (1) (2)	% Change
North America	17.0	17.1	(1)%
Europe and Africa	22.6	23.0	(1)%
Asia	47.8	48.3	(1)%
South America	3.2	3.1	3 %
Other	1.9	1.9	(1)%
Global light vehicle production	92.5	93.4	(1)%

(1) Production data based on IHS Automotive.

(2) Production data for 2017 has been updated to reflect actual production levels.

Automotive sales and production can be affected by the age of the vehicle fleet and related scrappage rates, labor relations issues, fuel prices, regulatory requirements, government initiatives, trade agreements, the availability and cost of credit, the availability of critical components needed to complete the production of vehicles, restructuring actions of our customers and suppliers, facility closures, changing consumer attitudes toward vehicle ownership and usage and other factors. Our operating results are also significantly impacted by the overall commercial success of the vehicle platforms for which we supply particular products, as well as the profitability of the products that we supply for these platforms. The loss of business with respect to any vehicle model for which we are a significant supplier, or a decrease in the production levels of any such models, could adversely affect our operating results. In addition, larger cars and light trucks, as well as vehicle platforms that offer more features and functionality, such as luxury, sport utility and crossover vehicles, typically have more content and, therefore, tend to have a more significant impact on our operating results.

Our percentage of consolidated net sales by region in 2018 and 2017 is shown below:

	2018	2017
North America	36 %	38 %
Europe and Africa	41 %	40 %
Asia	19 %	19 %
South America	4 %	3 %
Total	100 %	100 %

Our ability to reduce the risks inherent in certain concentrations of business, and thereby maintain our financial performance in the future, will depend, in part, on our ability to continue to diversify our sales on a customer, product, platform and geographic basis to reflect the market overall.

Key trends that specifically affect our business include automotive manufacturers’ utilization of global vehicle platforms, increasing demand for luxury and performance features, including increasing levels of electrical and electronic content, and China’s emergence as the single largest major automotive market in the world, as well as the shift toward crossover and sport utility vehicles, where our content can be significantly higher than our average content per vehicle. In addition, we believe that demand for efficiency, connectivity and safety are driving the technology trends of autonomy, connectivity and electrification. These trends, along with the trend toward shared mobility, are likely to be at the forefront of our industry for the foreseeable future with each converging long-term toward fully autonomous, connected, electric or hybrid electric vehicles.

Our sales and marketing approach is based on addressing these trends, while our strategy focuses on the major imperatives for success as an automotive supplier: quality, service, cost and efficiency and innovation and technology. We have expanded key component and software capabilities through organic investment and acquisitions to ensure a full complement of the highest quality solutions for our customers. We have restructured, and continue to align, our

manufacturing and engineering footprint to attain a leading competitive position globally. We have established or expanded our capabilities in new and growing markets, especially China, in support of our customers' growth and global platform initiatives. These initiatives have helped us achieve our financial goals overall, as well as a more balanced regional, customer and vehicle segment diversification in our business. For further information related to these trends and our strategy, see Part 1 — Item 1, "Business — Industry and Strategy."

Our customers typically require us to reduce our prices over the life of a vehicle model and, at the same time, assume significant responsibility for the design, development and engineering of our products. Our financial performance is largely

dependent on our ability to achieve product cost reductions through product design enhancement and supply chain management, as well as manufacturing efficiencies and restructuring actions. We also seek to enhance our financial performance by investing in product development, design capabilities and new product initiatives that respond to the needs of our customers and consumers. We continually evaluate operational and strategic alternatives to improve our business structure and align our business with the changing needs of our customers and major industry trends affecting our business.

Our material cost as a percentage of net sales was 64.4% in 2018, as compared to 64.5% in 2017 and 64.8% in 2016. Raw material, energy and commodity costs can be volatile, reflecting changes in supply and demand and global trade and tariff policies. We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. However, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. Certain of these strategies also may limit our opportunities in a declining commodity environment. In addition, the availability of raw materials, commodities and product components fluctuates from time to time due to factors outside of our control. If these costs increase or availability is restricted, it could have an adverse impact on our operating results in the foreseeable future. See Part I — Item 1A, "Risk Factors — Increases in the costs and restrictions on the availability of raw materials, energy, commodities and product components could adversely affect our financial performance," and "— Forward-Looking Statements."

Financial Measures

In evaluating our financial condition and operating performance, we focus primarily on earnings, operating margins, cash flows and return on invested capital. In addition to maintaining and expanding our business with our existing customers in our more established markets, our expansion plans are focused primarily on emerging markets. Asia, and China in particular, continues to present significant growth opportunities, as major global automotive manufacturers implement production expansion plans and local automotive manufacturers aggressively expand their operations to meet increasing demand in this region. In addition to our wholly owned locations, we currently have twelve operating joint ventures with operations in Asia, as well as two additional joint ventures in North America dedicated to serving Asian automotive manufacturers. We also have aggressively pursued this strategy by selectively increasing our vertical integration capabilities globally, as well as expanding our component manufacturing capacity in Asia, Brazil, Eastern Europe, Mexico and Northern Africa. Furthermore, we have expanded our low-cost engineering capabilities in India and the Philippines.

Our success in generating cash flow will depend, in part, on our ability to manage working capital effectively. Working capital can be significantly impacted by the timing of cash flows from sales and purchases. Historically, we generally have been successful in aligning our vendor payment terms with our customer payment terms. However, our ability to continue to do so may be impacted by adverse automotive industry conditions, changes to our customers' payment terms and the financial condition of our suppliers, as well as our financial condition. In addition, our cash flow is impacted by our ability to manage our inventory and capital spending effectively. We utilize return on invested capital as a measure of the efficiency with which our assets generate earnings. Improvements in our return on invested capital will depend on our ability to maintain an appropriate asset base for our business and to increase productivity and operating efficiency.

Acquisition

In January 2018, we completed the acquisition of Israel-based EXO Technologies, a leading developer of differentiated GPS technology providing high-accuracy positioning solutions for autonomous and connected vehicle applications. EXO Technologies has operations in San Mateo, California and Tel Aviv, Israel and has developed core technology that addresses the need for high-accuracy positioning of a vehicle. Its proprietary technology works with existing GPS receivers to provide centimeter-level accuracy anywhere on the globe without the need for terrestrial base-station networks. The integration of this technology with our vehicle and connectivity expertise enables an industry-leading vehicle positioning solution.

Operational Restructuring

In 2018, we incurred pretax restructuring costs of approximately $88 million and related manufacturing inefficiency charges of approximately $16 million. Any future restructuring actions will depend upon market conditions, customer actions and other factors.

For further information, see Note 4, "Restructuring," to the consolidated financial statements included in this Report.

Share Repurchase Program and Quarterly Cash Dividends
Since the first quarter of 2011, our Board of Directors has authorized $5.0 billion in share repurchases under our common stock share repurchase program. In 2018, we repurchased $705 million of shares and have a remaining repurchase authorization of $800 million, which will expire on December 31, 2020.
In 2018, our Board of Directors declared a quarterly cash dividend of $0.70 per share of common stock, reflecting a 40% increase over the quarterly cash dividend declared in 2017.
For further information related to our common stock share repurchase program and our quarterly dividends, see Item 5, "Market for the Company’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities," "— Liquidity and Financial Condition — Capitalization" and Note 10, "Capital Stock, Accumulated Other Comprehensive Loss and Equity," to the consolidated financial statements included in this Report.
Other Matters
In 2018, we acquired an additional 20% interest in Changchun Lear FAWSN Automotive Electrical and Electronics Co., Ltd. ("Lear FAWSN") from a joint venture partner and amended the existing joint venture agreement to eliminate the substantive participating rights of the remaining joint venture partner. Prior to the amendment, Lear FAWSN was accounted for under the equity method. In conjunction with obtaining control of Lear FAWSN and the valuation of our prior equity investment in Lear FAWSN at fair value, we recognized a gain of approximately $10 million.
In 2018, we recognized a $5 million settlement charge, which is reflected in other (income) expense, net, in connection with our annuity purchase for certain terminated vested plan participants of our U.S. defined benefit pension plans.
In 2018, we recognized tax benefits of $83 million related to the reversal of valuation allowances on the deferred tax assets of certain foreign subsidiaries, share-based compensation, a tax rate change in a foreign subsidiary, an adjustment to the 2017 provisional income tax expense, restructuring charges and various other items, offset by tax expense of $34 million related to an increase in foreign withholding tax on certain undistributed foreign earnings and the establishment of valuation allowances on the deferred tax assets of certain foreign subsidiaries and various other items.
In 2017, we amended the joint venture agreement of Shanghai Lear STEC Automotive Parts Co., Ltd. ("Lear STEC") to eliminate the substantive participating rights of our joint venture partner. In conjunction with obtaining control of Lear STEC and the valuation of our prior equity investment in Lear STEC at fair value, we recognized a gain of approximately $54 million.
In 2017, we recognized a $15 million litigation charge, of which approximately $13 million is recorded in cost of sales and approximately $2 million is recorded in interest expense, related to an unfavorable ruling issued by a foreign court.
In 2017, we recognized tax expense of $131 million related to a one-time transition tax on accumulated foreign earnings and $43 million to reflect the new U.S. corporate tax rate and other tax reform changes to our deferred tax accounts, offset by tax benefits of $290 million related to foreign tax credits on repatriated earnings, $30 million related to the reversal of valuation allowances on the deferred tax assets of certain foreign subsidiaries, $17 million related to share-based compensation, $14 million related to an incentive tax credit in a foreign subsidiary, $8 million related to the redemption of our senior notes due 2023 (the "2023 Notes") and $30 million related to restructuring charges and various other items.
In 2016, we amended the joint venture agreement of Beijing BAI Lear Automotive Systems Co., Ltd. ("Beijing BAI") to eliminate the substantive participating rights of our joint venture partner. In conjunction with gaining control of Beijing BAI and the valuation of our prior equity investment in Beijing BAI at fair value, we recognized a gain of approximately $30 million.
In 2016, we recognized a $34 million non-cash settlement charge, which is reflected in other (income) expense, net, in connection with our lump-sum payout to certain terminated vested plan participants of our U.S. defined benefit pension plans.
In 2016, we recognized net tax benefits of $24 million related to restructuring charges, a non-cash pension settlement charge and various other items.

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As discussed above, our results for the years ended December 31, 2018, 2017 and 2016, reflect the following items (in millions):

For the year ended December 31,	2018	2017	2016
Costs related to restructuring actions, including manufacturing inefficiencies of $16 million in 2018, $2 million in 2017 and $6 million in 2016	$104	$75	$70
Acquisition and other related costs	1	4	1
Acquisition-related inventory fair value adjustment	—	5	—
Pension settlement charge	5	—	34
Litigation	(17)	15	—
Losses on extinguishment of debt	—	21	—
Gain related to affiliate, net	(1)	(54)	(30)
Favorable indirect tax ruling in a foreign jurisdiction	(16)	—	—
Tax benefits, net	(49)	(215)	(24)

For further information regarding these items, see Note 3, "Acquisitions," Note 4, "Restructuring," Note 5, "Investments in Affiliates and Other Related Party Transactions," Note 6, "Debt," Note 7, "Income Taxes," and Note 8, "Pension and Other Postretirement Benefit Plans," to the consolidated financial statements included in this Report.

This section includes forward-looking statements that are subject to risks and uncertainties. For further information regarding these and other factors that have had, or may have in the future, a significant impact on our business, financial condition or results of operations, see Part I — Item 1A, "Risk Factors," and "— Forward-Looking Statements."

Results of Operations

A summary of our operating results in millions of dollars and as a percentage of net sales is shown below:

For the year ended December 31,	2018		2017		2016	
Net sales						
Seating	$16,021.9	75.8 %	$15,873.0	77.6 %	$14,356.7	77.4 %
E-Systems	5,126.6	24.2	4,594.0	22.4	4,200.9	22.6
Net sales	21,148.5	100.0	20,467.0	100.0	18,557.6	100.0
Cost of sales	18,830.2	89.0	18,175.9	88.8	16,435.0	88.6
Gross profit	2,318.3	11.0	2,291.1	11.2	2,122.6	11.4
Selling, general and administrative expenses	612.8	2.9	635.2	3.1	608.2	3.3
Amortization of intangible assets	51.4	0.2	47.6	0.2	53.0	0.3
Interest expense	84.1	0.4	85.7	0.4	82.5	0.4
Other (income) expense, net	31.6	0.2	(4.1)	—	40.6	0.2
Provision for income taxes	311.9	1.5	197.5	1.0	370.2	2.0
Equity in net income of affiliates	(20.2)	(0.1)	(51.7)	(0.2)	(72.4)	(0.4)
Net income attributable to noncontrolling interests	96.9	0.5	67.5	0.3	65.4	0.3
Net income attributable to Lear	$1,149.8	5.4 %	$1,313.4	6.4 %	$975.1	5.3 %

Year Ended December 31, 2018, Compared With Year Ended December 31, 2017

Net sales for the year ended December 31, 2018 were $21.1 billion, as compared to $20.5 billion for the year ended December 31, 2017, an increase of $0.7 billion or 3%. New business in all regions, net foreign exchange rate fluctuations, sales as a result of obtaining control of affiliates and the acquisition of Grupo Antolin's automotive seating business ("Antolin Seating") positively impacted net sales by $1,062 million, $337 million, $311 million and $215 million, respectively. These increases were partially offset by lower production volumes on key Lear platforms in all regions except South America, which negatively impacted net sales by $1,261 million.

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(in millions)	Cost of Sales
2017	$18,175.9
Material cost	314.5
Labor and other	290.8
Depreciation	49.0
2018	$18,830.2

Cost of sales in 2018 was $18.8 billion, as compared to $18.2 billion in 2017. New business in all regions and net foreign exchange rate fluctuations resulted in an increase in cost of sales of $1,208 million. The impact of lower production volumes on key Lear platforms in all regions except South America was partially offset by cost of sales as a result of obtaining control of affiliates and the acquisition of Antolin Seating.

Gross profit and gross margin were $2.3 billion and 11.0% of net sales in 2018, as compared to $2.3 billion and 11.2% of net sales in 2017. New business and net foreign exchange rate fluctuations positively impacted gross profit by $191 million. The impact of selling price reductions and lower production volumes on key Lear platforms was partially offset by favorable operating performance, including the benefit of operational restructuring actions, gross profit as a result of obtaining control of affiliates and the acquisition of Antolin Seating. These factors had a corresponding impact on gross margin.

Selling, general and administrative expenses, including engineering and development expenses, were $613 million for the year ended December 31, 2018, as compared to $635 million for the year ended December 31, 2017. In 2018, the benefit of lower compensation expense was partially offset by the impact of net foreign exchange rate fluctuations and higher restructuring costs. As a percentage of net sales, selling, general and administrative expenses were 2.9% in 2018, as compared to 3.1% in 2017.

Amortization of intangible assets was $51 million in 2018, as compared to $48 million in 2017.

Interest expense was $84 million in 2018, as compared to $86 million in 2017.

Other (income) expense, net, which includes non-income related taxes, foreign exchange gains and losses, gains and losses related to certain derivative instruments and hedging activities, losses on the extinguishment of debt, gains and losses on the disposal of fixed assets, the non-service cost components of net periodic benefit cost and other miscellaneous income and expense, was $32 million in 2018, as compared to ($4) million in 2017. In 2018, we recognized a gain of $10 million related to obtaining control of an affiliate and a settlement charge of $5 million related to our annuity purchase for certain terminated vested plan participants of our U.S. defined benefit pension plans. In 2017, we recognized a gain of $54 million related to obtaining control of an affiliate and a loss of $21 million related to the extinguishment of debt.

In 2018, the provision for income taxes was $312 million, representing an effective tax rate of 20.3% on pretax income before equity in net income of affiliates of $1.5 billion. In 2017, the provision for income taxes was $198 million, representing an effective tax rate of 12.9% on pretax income before equity in net income of affiliates of $1.5 billion, for the reasons described below.

In 2018 and 2017, the provision for income taxes was primarily impacted by the level and mix of earnings among tax jurisdictions. The provision for income taxes in 2018 was also impacted by the reduction in the U.S. federal corporate income tax rate from 35% to 21%. In 2018, we recognized tax benefits of $39 million related to the reversal of valuation allowances on the deferred tax assets of certain foreign subsidiaries, $11 million related to share-based compensation, $7 million related to a tax rate change in a foreign subsidiary, $5 million related to an adjustment to the 2017 provisional income tax expense and $21 million related to restructuring charges and various other items, offset by tax expense of $22 million related to an increase in foreign withholding tax on certain undistributed foreign earnings and $12 million to establish valuation allowances on the deferred tax assets of certain foreign subsidiaries and various other items. In addition, we recognized a gain of $10 million related to obtaining control of an affiliate, for which no tax expense was provided. In 2017, we recognized tax expense of $131 million related to a one-time transition tax on accumulated foreign earnings and $43 million to reflect the new U.S. corporate tax rate and other tax reform changes to our deferred tax accounts. In addition, we recognized tax benefits of $290 million related to foreign

tax credits on repatriated earnings, $30 million related to the reversal of valuation allowances on the deferred tax assets of certain foreign subsidiaries, $17 million related to share-based compensation, $14 million related to an incentive tax credit in a foreign subsidiary, $8 million related to the redemption of the 2023 Notes and $30 million related to restructuring charges and various other items. In addition, we recognized a gain of $54 million related to obtaining control of an affiliate, for which no tax expense was provided. Excluding these items, the effective tax rate for 2018 and 2017 approximated the U.S. federal statutory income tax rate of 21% and 35%, respectively, adjusted for income taxes on foreign earnings, losses and remittances, valuation allowances, tax credits, income tax incentives and other permanent items.

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For information related to our valuation allowances, see "Other Matters — Significant Accounting Policies and Critical Accounting Estimates — Income Taxes."

Equity in net income of affiliates was $20 million for the year ended December 31, 2018, as compared to $52 million for the year ended December 31, 2017, as a result of lower customer production affecting certain of our affiliates and obtaining control of other affiliates.

Net income attributable to Lear was $1,150 million, or $17.22 per diluted share, in 2018, as compared to $1,313 million, or $18.59 per diluted share, in 2017. Net income and diluted net income per share decreased for the reasons described above. In addition, diluted net income per share was impacted by the decrease in average shares outstanding between the periods.

Reportable Operating Segments

We have two reportable operating segments: Seating, which includes complete seat systems and all major seat components, including seat covers and surface materials such as leather and fabric, seat structures and mechanisms, seat foam and headrests, and E-Systems, which includes complete electrical distribution systems, as well as sophisticated electronic control modules, electrification products and connectivity products. Key components in our electrical distribution portfolio include wire harnesses, terminals and connectors and junction boxes for both ICE and electrification architectures that require management of higher voltage and power. Key components in our electronic control module portfolio include body control modules, wireless receiver and transmitter technology and lighting and audio control modules, as well as portfolios specific to electrification and connectivity trends. Electrification products include charging systems (onboard charging modules, cord set charging equipment and wireless charging systems), battery electronics (battery disconnect units, cell monitoring supervisory systems and integrated total battery control modules) and other power management modules, including converter and inverter systems. Connectivity products include gateway modules, connected gateways and independent communication modules to manage both wired and wireless networks and data in vehicles.

The financial information presented below is for our two reportable operating segments and our other category for the periods presented. The other category includes unallocated costs related to corporate headquarters, regional headquarters and the elimination of intercompany activities, none of which meets the requirements for being classified as an operating segment. Corporate and regional headquarters costs include various support functions, such as information technology, corporate finance, legal, executive administration and human resources, as well as advanced engineering expenses. Financial measures regarding each segment’s pretax income before equity in net income of affiliates, interest expense and other (income) expense ("segment earnings") and segment earnings divided by net sales ("margin") are not measures of performance under accounting principles generally accepted in the United States ("GAAP"). Segment earnings and the related margin are used by management to evaluate the performance of our reportable operating segments. Segment earnings should not be considered in isolation or as a substitute for net income attributable to Lear, net cash provided by operating activities or other income statement or cash flow statement data prepared in accordance with GAAP or as measures of profitability or liquidity. In addition, segment earnings, as we determine it, may not be comparable to related or similarly titled measures reported by other companies

For a reconciliation of consolidated segment earnings to consolidated income before provision for income taxes and equity in net income of affiliates, see Note 13, "Segment Reporting," to the consolidated financial statements included in this Report.

Seating –

A summary of financial measures for our Seating segment is shown below (dollar amounts in millions):

For the year ended December 31,	2018	2017
Net sales	$16,021.9	$15,873.0
Segment earnings [1]	1,263.6	1,250.8
Margin	7.9 %	7.9 %

(1) See definition above.

Seating net sales were $16.0 billion for the year ended December 31, 2018, as compared to $15.9 billion for the year ended December 31, 2017, an increase of $149 million or 1%. New business, net foreign exchange rate fluctuations

and the acquisition of Antolin Seating positively impact net sales by $576 million, $231 million and $215 million, respectively. These increases were partially offset by the impact of lower production volumes on key Lear platforms, which decreased net sales by $888 million.
Segment earnings, including restructuring costs, and the related margin on net sales were $1.3 billion and 7.9% in 2018 and 2017. New business, net foreign exchange rate fluctuations and the acquisition of Antolin Seating positively impact segment

earnings by $107 million. Favorable operating performance, including the benefit of operational restructuring actions, of $234 million was more than offset by the impact of selling price reductions and lower production volumes on key Lear platforms.

E-Systems –

A summary of financial measures for our E-Systems segment is shown below (dollar amounts in millions):

For the year ended December 31,	2018	2017
Net sales	$5,126.6	$4,594.0
Segment earnings [(1)]	628.5	641.6
Margin	12.3 %	14.0 %

(1) See definition above.

E-Systems net sales were $5.1 billion for the year ended December 31, 2018, as compared to $4.6 billion for the year ended December 31, 2017, an increase of $533 million or 12%. New business, sales as a result of obtaining control of affiliates and net foreign exchange rate fluctuations positively impacted net sales by $486 million, $311 million and $106 million, respectively. These increases were partially offset by lower production volumes on key Lear platforms, which reduced net sales by $373 million.

Segment earnings, including restructuring costs, and the related margin on net sales were $629 million and 12.3% in 2018, as compared to $642 million and 14.0% in 2017. New business, earnings as a result of obtaining control of affiliates and net foreign exchange rate fluctuations positively impacted segment earnings by $118 million. Improved operating performance of $75 million was more than offset by the impact of lower production volumes on key Lear platforms and selling price reductions.

Other –

A summary of financial measures for our other category, which is not an operating segment, is shown below (dollar amounts in millions):

For the year ended December 31,	2018	2017
Net sales	$ —	$ —
Segment earnings [(1)]	(238.0)	(284.1)
Margin	N/A	N/A

(1) See definition above.

Segment earnings related to our other category were ($238) million in 2018, as compared to ($284) million in 2017, reflecting the benefit of lower compensation expense and a favorable litigation settlement of $13 million in 2018.

Year Ended December 31, 2017, Compared With Year Ended December 31, 2016

Net sales for the year ended December 31, 2017 were $20.5 billion, as compared to $18.6 billion for the year ended December 31, 2016, an increase of $1.9 billion or 10%. New business, primarily in North America, Europe and Asia, and the acquisition of Antolin Seating positively impacted net sales by $1.4 billion and $350 million, respectively.

(in millions)	Cost of Sales
2016	$16,435.0
Material cost	1,270.2
Labor and other	421.0
Depreciation	49.7
2017	$18,175.9

Cost of sales in 2017 was $18.2 billion, as compared to $16.4 billion in 2016. New business, primarily in North America, Europe and Asia, and the acquisition of Antolin Seating resulted in an increase in cost of sales of $1.6 billion.

Gross profit and gross margin were $2.3 billion and 11.2% of net sales in 2017, as compared to $2.1 billion and 11.4% of net sales in 2016. New business and the acquisition of Antolin Seating positively impacted gross profit by $194 million. The

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impact of favorable operating performance, including the benefit of operational restructuring actions, of $257 million was more than offset by the impact of selling price reductions. These factors had a corresponding impact on gross margin.

Selling, general and administrative expenses, including engineering and development expenses, were $635 million for the year ended December 31, 2017, as compared to $608 million for the year ended December 31, 2016. In 2017, we recognized higher restructuring costs, as well as higher engineering and development expenses to support future business growth. As a percentage of net sales, selling, general and administrative expenses were 3.1% in 2017, as compared to 3.3% in 2016.

Amortization of intangible assets was $48 million in 2017, as compared to $53.0 million in 2016.

Interest expense was $86 million in 2017, as compared to $83 million in 2016.

Other (income) expense, net, which includes non-income related taxes, foreign exchange gains and losses, gains and losses related to certain derivative instruments and hedging activities, losses on the extinguishment of debt, gains and losses on the disposal of fixed assets, the non-service cost components of net periodic benefit cost and other miscellaneous income and expense, was ($4) million in 2017, as compared to $41 million in 2016. In 2017, we recognized a gain of $54 million related to obtaining control of an affiliate and a loss of $21 million related to the extinguishment of debt. In 2016, we recognized a gain of $30 million related to obtaining control of an affiliate and a non-cash settlement charge of $34 million in connection with our lump-sum payout to certain terminated vested plan participants of our U.S. defined benefit pension plans.

In 2017, the provision for income taxes was $198 million, representing an effective tax rate of 12.9% on pretax income before equity in net income of affiliates of $1.5 billion. In 2016, the provision for income taxes was $370 million, representing an effective tax rate of 27.7% on pretax income before equity in net income of affiliates of $1.3 billion, for the reasons described below.

In 2017 and 2016, the provision for income taxes was impacted by the level and mix of earnings among tax jurisdictions. In 2017, we recognized tax expense of $131 million related to a one-time transition tax on accumulated foreign earnings and $43 million to reflect the new U.S. corporate tax rate and other tax reform changes to our deferred tax accounts. In addition, we recognized tax benefits of $290 million related to foreign tax credits on repatriated earnings, $30 million related to the reversal of valuation allowances on the deferred tax assets of certain foreign subsidiaries, $17 million related to share-based compensation, $14 million related to an incentive tax credit in a foreign subsidiary, $8 million related to the redemption of the 2023 Notes and $30 million related to restructuring charges and various other items. In addition, we recognized a gain of $54 million related to obtaining control of an affiliate, for which no tax expense was provided. In 2016, we recognized net tax benefits of $24 million related to restructuring charges, a non-cash pension settlement charge and various other items. In addition, we recognized a gain of $30 million related to obtaining control of an affiliate, for which no tax expense was provided. Excluding these items, the effective tax rate in 2017 and 2016 approximated the U.S. federal statutory income tax rate of 35% adjusted for income taxes on foreign earnings, losses and remittances, valuation allowances, tax credits, income tax incentives and other permanent items.

For information related to our valuation allowances, see "Other Matters — Significant Accounting Policies and Critical Accounting Estimates — Income Taxes."

Equity in net income of affiliates was $52 million for the year ended December 31, 2017, as compared to $72 million for the year ended December 31, 2016, reflecting the consolidation of two of our affiliates.

Net income attributable to Lear was $1,313 million, or $18.59 per diluted share, in 2017, as compared to $975 million, or $13.33 per diluted share, in 2016. Net income and diluted net income per share increased for the reasons described above. In addition, diluted net income per share was impacted by the decrease in average shares outstanding between the periods.

Reportable Operating Segments

For a description of our reportable operating segments, see "Year Ended December 31, 2018, Compared with Year Ended December 31, 2017 — Reportable Operating Segments" above.

Seating –

A summary of financial measures for our Seating segment is shown below (dollar amounts in millions):

For the year ended December 31,	2017	2016
Net sales	$15,873.0	$14,356.7
Segment earnings [1]	1,250.8	1,136.0
Margin	7.9 %	7.9 %

(1) See definition above.

Seating net sales were $15.9 billion for the year ended December 31, 2017, as compared to $14.4 billion for the year ended December 31, 2016, an increase of $1.5 billion or 11%. New business and the acquisition of Antolin Seating positively impacted net sales by $1.2 billion and $350 million, respectively.

Segment earnings, including restructuring costs, and the related margin on net sales were $1.3 billion and 7.9% in 2017, as compared to $1.1 billion and 7.9% in 2016. New business and the acquisition of Antolin Seating positively impacted segment earnings by $152 million. The impact of favorable operating performance, including the benefit of operational restructuring actions, of $202 million was offset by the impact of selling price reductions.

E-Systems –

A summary of financial measures for our E-Systems segment is shown below (dollar amounts in millions):

For the year ended December 31,	2017	2016
Net sales	$4,594.0	$4,200.9
Segment earnings [1]	641.6	591.3
Margin	14.0 %	14.1 %

(1) See definition above.

E-Systems net sales were $4.6 billion for the year ended December 31, 2017, as compared to $4.2 billion for the year ended December 31, 2016, an increase of $393 million or 9%. New business, sales as a result of obtaining control of an affiliate and higher volumes on key Lear platforms positively impacted net sales by $210 million, $116 million and $45 million, respectively.

Segment earnings, including restructuring costs, and the related margin on net sales were $642 million and 14.0% in 2017, as compared to $591 million and 14.1% in 2016. New business, earnings as a result of obtaining control of an affiliate and higher production volumes on key Lear platforms positively impacted segment earnings by $56 million. The impact of improved operating performance of $77 million was more than offset by the impact of selling price reductions.

Other –

A summary of financial measures for our other category, which is not an operating segment, is shown below (dollar amounts in millions):

For the year ended December 31,	2017	2016
Net sales	$ —	$ —
Segment earnings [1]	(284.1)	(265.9)
Margin	N/A	N/A

(1) See definition above.

Segment earnings related to our other category were ($284) million in 2017, as compared to ($266) million in 2016.

Liquidity and Financial Condition

Our primary liquidity needs are to fund general business requirements, including working capital requirements, capital expenditures, operational restructuring actions and debt service requirements. In addition, we expect to continue to pay quarterly dividends and repurchase shares of our common stock pursuant to our authorized common stock share repurchase program (see Item 5, "Market for the Company’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities"). Our principal sources of liquidity are cash flows from operating activities, borrowings under available credit facilities and our existing cash balance. A substantial portion of our operating income is generated by our subsidiaries. As a result, we are dependent on the earnings and cash flows of and the combination of dividends, royalties, intercompany loan repayments and other distributions and advances from our subsidiaries to provide the funds necessary to meet our obligations.

As of December 31, 2018 and 2017, cash and cash equivalents of $1,094 million and $952 million, respectively, were held in foreign subsidiaries and can be repatriated, primarily through the repayment of intercompany loans and the payment of dividends, without creating additional income tax expense. There are no significant restrictions on the ability of our subsidiaries to pay dividends or make other distributions to Lear. For further information regarding potential dividends from our non-U.S. subsidiaries, see "— Adequacy of Liquidity Sources," below and Note 7, "Income Taxes," to the consolidated financial statements included in this Report.

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Cash Flows

Year Ended December 31, 2018, Compared with Year Ended December 31, 2017

A summary of net cash provided by operating activities is shown below (in millions):

For the year ended December 31,	2018	2017	Incremental Increase (Decrease) in Operating Cash Flow
Consolidated net income and depreciation and amortization	$1,731	$1,809	$ (78)
Net change in working capital items:			
Accounts receivable	231	(115)	346
Inventory	(33)	(76)	43
Accounts payable	(199)	195	(394)
Accrued liabilities and other	(118)	68	(186)
Net change in working capital items	(119)	72	(191)
Other	168	(98)	266
Net cash provided by operating activities	$1,780	$1,783	$ (3)

In 2018, decreases in accounts receivable and accounts payable primarily reflect lower production volumes at the end of 2018, as compared to 2017, and changes in accrued liabilities and other primarily reflect the timing of tax payments and tax receipts. In 2018, 'other' in the table above includes decreases in our net deferred tax assets and our recoverable customer engineering, development and tooling of $87 million and $54 million, respectively.

Net cash used in investing activities was $694 million in 2018, as compared to $869 million in 2017. In 2017, we paid $292 million for the acquisition of Antolin Seating. In 2018, capital spending totaled $677 million, as compared to $595 million in 2017. Capital spending in 2019 is estimated at $700 million.

Net cash used in financing activities was $1,031 million in 2018, as compared to $742 million in 2017. In 2018, we paid $705 million for repurchases of our common stock, $186 million of dividends to Lear stockholders and $79 million of dividends to noncontrolling interest holders. In 2017, we received net proceeds of $745 million related to the issuance of our senior notes due 2027 (the "2027 Notes"), paid $517 million related to the redemption of the outstanding 2023 Notes and repaid a net of $203 million in connection with the refinancing of our credit agreement (see "— Credit Agreement" and "— Senior Notes" below). Also in 2017, we paid $451 million for repurchases of our common stock, $138 million of dividends to Lear stockholders and $82 million of dividends to noncontrolling interest holders.

For further information regarding our 2018 and 2017 financing transactions, see "— Capitalization" below and Note 6, "Debt," and Note 10, "Capital Stock, Accumulated Other Comprehensive Loss and Equity," to the consolidated financial statements included in this Report.

Year Ended December 31, 2017, Compared with Year Ended December 31, 2016

A summary of net cash provided by operating activities is shown below (in millions):

For the year ended December 31,	2017	2016	Incremental Increase (Decrease) in Operating Cash Flow
Consolidated net income and depreciation and amortization	$1,809	$1,419	$ 390
Net change in working capital items:			
Accounts receivable	(115)	(176)	61
Inventory	(76)	(54)	(22)
Accounts payable	195	158	37
Accrued liabilities and other	68	160	(92)
Net change in working capital items	72	88	(16)
Other	(98)	112	(210)
Net cash provided by operating activities	$1,783	$1,619	$ 164

In 2017, increases in accounts receivable, inventories and accounts payable primarily reflect higher working capital to support the increase in our sales. In 2017, changes in accrued liabilities and other primarily reflect the timing of payment of accrued liabilities. Other includes our deferred tax (benefit) provision, which was ($81) million in 2017, as compared to $104 million in 2016, resulting in a decrease in operating cash flows of $185 million between years.

Net cash used in investing activities was $869 million in 2017, as compared to $637 million in 2016. In 2017, we paid $292 million for the acquisition of Antolin Seating. In 2016, we paid $149 million for the acquisition of AccuMED Holdings Corp. ("AccuMED").

Net cash used in financing activities was $742 million in 2017, as compared to $873 million in 2016. In 2017, we received net proceeds of $745 million related to the issuance of the 2027 Notes, paid $517 million related to the redemption of the outstanding 2023 Notes and repaid a net of $203 million in connection with the refinancing of our credit agreement (see "— Credit Agreement" and "— Senior Notes" below). Also in 2017, we paid $451 million for repurchases of our common stock, $138 million of dividends to Lear stockholders and $82 million of dividends to noncontrolling interest holders. In 2016, we paid $659 million for repurchases of our common stock, $89 million of dividends to Lear stockholders and $33 million of dividends to noncontrolling interest holders.

For further information regarding our 2017 and 2016 financing transactions, see "— Capitalization" below and Note 6, "Debt," and Note 10, "Capital Stock, Accumulated Other Comprehensive Loss and Equity," to the consolidated financial statements included in this Report.

Capitalization

From time to time, we utilize uncommitted lines of credit to fund our capital expenditures and working capital requirements at certain of our foreign subsidiaries, in addition to cash provided by operating activities. As of December 31, 2018, we had short-term debt balances outstanding of $10 million. As of December 31, 2017, we had no short-term debt balances outstanding. The availability of uncommitted lines of credit may be affected by our financial performance, credit ratings and other factors.

Senior Notes

As of December 31, 2018, our senior notes (collectively, the "Notes") consist of the amounts shown below (in millions, except stated coupon rates):

Note	Aggregate Principal Amount at Maturity	Stated Coupon Rate

Senior unsecured notes due 2024 (the "2024 Notes")	$ 325	5.375%
Senior unsecured notes due 2025 (the "2025 Notes")	650	5.25%
2027 Notes	750	3.8%
	$ 1,725	

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The issue, maturity and interest payable dates of the Notes are shown below:

Note	Issuance Date	Maturity Date	Interest Payable Dates
2024 Notes	March 2014	March 15, 2024	March 15 and September 15
2025 Notes	November 2014	January 15, 2025	January 15 and July 15
2027 Notes	August 2017	September 15, 2027	March 15 and September 15

The 2027 Notes were priced at 99.294% of par, resulting in a yield to maturity of 3.885%. The proceeds from the offering of $745 million, after original issue discount, were used to redeem the outstanding $500 million in aggregate principal amount of the 2023 Notes at a redemption price equal to 100% of the aggregate principal amount thereof, plus a "make-whole" premium of $17 million, as well as to refinance a portion of our $500 million prior term loan facility (see "— Credit Agreement" below). In connection with these transactions, we recognized a loss of $21 million on the extinguishment of debt and paid related issuance costs of $6 million.

The indentures governing the Notes contain certain restrictive covenants and customary events of default. As of December 31, 2018, we were in compliance with all covenants under the indentures governing the Notes.

For further information related to the Notes, including information on early redemption, covenants and events of default, see Note 6, "Debt," to the consolidated financial statements included in this Report and the indentures governing the Notes which have been incorporated by reference as exhibits to this Report.

Credit Agreement

In August 2017, we entered into a new credit agreement (the "Credit Agreement') consisting of a $1.75 billion revolving credit facility (the "Revolving Credit Facility") and a $250 term loan facility (the "Term Loan Facility"), both of which mature on August 8, 2022. In connection with this transaction, we borrowed $250 million under the Term Loan Facility. At the same time, we terminated our previously existing credit agreement, which consisted of a $1.25 billion revolving credit facility and a $500 million term loan facility, and repaid amounts outstanding under the term loan facility of $453 million. Together with the offering of the 2027 Notes, these transactions extended our maturity profile and increased our operational flexibility and borrowing capacity.

As of December 31, 2018, we were in compliance with all covenants under the Credit Agreement.

For further information related to the Credit Agreement, including information on pricing, covenants and events of default, see Note 6, "Debt," to the consolidated financial statements included in this Report and the amended and restated credit agreement, which has been incorporated by reference as an exhibit to this Report.

Contractual Obligations

The scheduled maturities of the Notes, obligations under the Credit Agreement and the scheduled interest payments on the Notes as of the date of this Report are shown below (in millions). In addition, our lease commitments under non-cancelable operating leases as of December 31, 2018, are shown below (in millions):

	2019	2020	2021	2022	2023	Thereafter	Total
Senior notes	$—	$—	$—	$—	$—	$ 1,725	$1,725
Credit agreement — term loan facility	8	14	14	206	—	—	242
Scheduled interest payments	80	80	80	80	80	174	574
Lease commitments	125	95	75	57	44	160	556
Total	$213	$189	$169	$343	$124	$ 2,059	$3,097

We enter into agreements with our customers to produce products at the beginning of a vehicle's life cycle. Although such agreements do not provide for a specified quantity of products, once we enter into such agreements, we are generally required to fulfill our customers' purchasing requirements for the production life of the vehicle. Prior to being formally awarded a program, we typically work closely with our customers in the early stages of the design and engineering of a vehicle's systems. Failure to complete the design and engineering work related to a vehicle's systems, or to fulfill a customer's contract, could have a material adverse impact on our business.

We also enter into agreements with suppliers to assist us in meeting our customers' production needs. These agreements vary as to duration and quantity commitments. Historically, most have been short-term agreements, which do not provide for minimum purchases, or are requirements-based contracts.

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We may be required to make significant cash outlays related to our unrecognized tax benefits, including interest and penalties. However, due to the uncertainty of the timing of future cash flows associated with our unrecognized tax benefits, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing authorities. Accordingly, unrecognized tax benefits, including interest and penalties, of $49 million as of December 31, 2018, have been excluded from the contractual obligations table above. For further information related to our unrecognized tax benefits, see Note 7, "Income Taxes," to the consolidated financial statements included in this Report.

We also have minimum funding requirements with respect to our pension obligation. We may elect to make contributions in excess of the minimum funding requirements in response to investment performance or changes in interest rates or when we believe that it is financially advantageous to do so and based on our other cash requirements. Our minimum funding requirements after 2019 will depend on several factors, including investment performance and interest rates. Our minimum funding requirements may also be affected by changes in applicable legal requirements. Our minimum required contributions to our domestic and foreign pension plans, including distributions to participants in certain of our non-qualified defined benefit plans, are expected to be approximately $10 million to $15 million in 2019. We also have payments due with respect to our postretirement benefit obligation. We do not fund our postretirement benefit obligation. Rather, payments are made as costs are incurred by covered retirees. We expect payments related to our postretirement benefit obligation to be approximately $6 million in 2019.

For further information related to our pension and other postretirement benefit plans, see "— Other Matters — Pension and Other Postretirement Benefit Plans" and Note 8, "Pension and Other Postretirement Benefit Plans," to the consolidated financial statements included in this Report.

Common Stock Share Repurchase Program

See Item 5, "Market for the Company’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."

Dividends

Our Board of Directors declared quarterly cash dividends of $0.70 and $0.50 per share of common stock in 2018 and 2017, respectively.

We currently expect to pay quarterly cash dividends in the future, although such payments are at the discretion of our Board of Directors and will depend upon our financial condition, results of operations, capital requirements, alternative uses of capital and other factors that our Board of Directors may consider at its discretion. See Part II - Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements," and Note 6, "Debt," to the consolidated financial statements included in this Report.

Adequacy of Liquidity Sources

As of December 31, 2018, we had approximately $1.5 billion of cash and cash equivalents on hand and $1.75 billion in available borrowing capacity under our Revolving Credit Facility. Together with cash provided by operating activities, we believe that this will enable us to meet our liquidity needs to satisfy ordinary course business obligations. In addition, we expect to continue to pay quarterly dividends and repurchase shares of our common stock pursuant to our authorized common stock share repurchase program (see Item 5, "Market for the Company’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities"). Our future financial results and our ability to continue to meet our liquidity needs are subject to, and will be affected by, cash flows from operations, including the impact of restructuring activities, automotive industry conditions, the financial condition of our customers and suppliers and other related factors. Additionally, an economic downturn or reduction in production levels could negatively impact our financial condition. For further discussion of the risks and uncertainties affecting our cash flows from operations and our overall liquidity, see Part I — Item 1A, "Risk Factors," "— Executive Overview" above and "— Forward-Looking Statements" below.

Market Risk Sensitivity

In the normal course of business, we are exposed to market risks associated with fluctuations in foreign exchange rates, interest rates and commodity prices. We manage a portion of these risks through the use of derivative financial instruments in accordance with our policies. We enter into all hedging transactions for periods consistent with the

underlying exposures. We do not enter into derivative instruments for trading purposes.

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Foreign Exchange

Operating results may be impacted by our buying, selling and financing in currencies other than the functional currency of our operating companies ("transactional exposure"). We may mitigate a portion of this risk by entering into forward foreign exchange, futures and option contracts. The foreign exchange contracts are executed with banks that we believe are creditworthy. Gains and losses related to foreign exchange contracts are deferred where appropriate and included in the measurement of the foreign currency transaction subject to the hedge. Gains and losses incurred related to foreign exchange contracts are generally offset by the direct effects of currency movements on the underlying transactions.

A summary of the notional amount and estimated aggregate fair value of our outstanding foreign exchange contracts is shown below (in millions):

December 31,	2018	2017
Notional amount (contract maturities < 24 months)	$2,153	$2,220
Fair value	14	(23)

Currently, our most significant foreign currency transactional exposures relate to the Mexican peso, various European currencies, the Thai baht, the Chinese renminbi, the Japanese yen, the Brazilian real and the South African rand. We have performed a sensitivity analysis of our net transactional exposure, as shown below (in millions):

		Potential Earnings Benefit (Adverse Earnings Impact)	
December 31,	Hypothetical Strengthening % [1]	2018	2017
U.S. dollar	10%	$(19)	$(19)
Euro	10%	20	25

(1) Relative to all other currencies to which it is exposed for a twelve-month period

We have performed a sensitivity analysis related to the aggregate fair value of our outstanding foreign exchange contracts, as shown below (in millions):

		Estimated Change in Fair Value	
December 31,	Hypothetical Change % [2]	2018	2017
U.S. dollar	10%	$37	$23
Euro	10%	72	76

(2) Relative to all other currencies to which it is exposed

There are certain shortcomings inherent in the sensitivity analyses above. The analyses assume that all currencies would uniformly strengthen or weaken relative to the U.S. dollar or Euro. In reality, some currencies may strengthen while others may weaken, causing the earnings impact to increase or decrease depending on the currency and the direction of the rate movement.

In addition to the transactional exposure described above, our operating results are impacted by the translation of our foreign operating income into U.S. dollars ("translational exposure"). In 2018, net sales outside of the United States accounted for 82% of our consolidated net sales, although certain non-U.S. sales are U.S. dollar denominated. We do not enter into foreign exchange contracts to mitigate our translational exposure.

Interest Rate Swaps

Our exposure to market risk associated with changes in variable interest rates impacts our interest payments on current and future debt obligations. We have entered into forward starting interest rate swap contracts ("Interest Rate Swaps") to partially hedge the risk of changes in interest payments attributable to increases in the benchmark interest rate.

From time to time, we also utilize interest rate swap and other derivative contracts to convert certain fixed rate debt obligations to variable rate, matching effective and maturity dates to specific debt instruments. All of our Interest Rate Swaps are executed with banks that we believe are creditworthy and are denominated in currencies that match the underlying debt instrument. All of these contracts are designated as cash flow hedges.

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A summary of the notional amount, estimated aggregate fair value and contract value of our outstanding Interest Rate Swaps is shown below (in millions):

December 31, 2018	
Notional amount (contract maturities < 3 months)	$500
Fair value	$(15)

The fair value of all outstanding Interest Rate Swaps is subject to changes in value due to changes in interest rates. A sensitivity analysis related to the aggregate fair value of our outstanding Interest Rate Swaps is shown below (in millions):

December 31, 2018	Hypothetical Parallel Shift - Basis Points	Estimated Change in Fair Value
Interest rate	100	$ 46

Commodity Prices

Raw material, energy and commodity costs can be volatile, reflecting changes in supply and demand and global trade and tariff policies. We have developed and implemented strategies to mitigate the impact of higher raw material, energy and commodity costs, such as the selective in-sourcing of components, the continued consolidation of our supply base, longer-term purchase commitments and the selective expansion of low-cost country sourcing and engineering, as well as value engineering and product benchmarking. However, these strategies, together with commercial negotiations with our customers and suppliers, typically offset only a portion of the adverse impact. Certain of these strategies also may limit our opportunities in a declining commodity cost environment. If these costs increase, it could have an adverse impact on our operating results in the foreseeable future. See Part I — Item 1A, "Risk Factors — Increases in the costs and restrictions on the availability of raw materials, energy, commodities and product components could adversely affect our financial performance," and "— Forward-Looking Statements."

We have commodity price risk with respect to purchases of certain raw materials, including steel, copper, diesel fuel, chemicals, resins and leather. Our main cost exposures relate to steel, copper and leather. The majority of the steel used in our products is comprised of fabricated components that are integrated into a seat system, such as seat frames, recliner mechanisms, seat tracks and other mechanical components. Therefore, our exposure to changes in steel prices is primarily indirect, through these purchased components. Approximately 91% of our copper purchases and a significant portion of our leather purchases are subject to price index agreements with our customers.

For further information related to the financial instruments described above, see Note 14, "Financial Instruments," to the consolidated financial statements included in this Report.

Other Matters

Legal and Environmental Matters

We are involved from time to time in various legal proceedings and claims, including, without limitation, commercial and contractual disputes, product liability claims and environmental and other matters. As of December 31, 2018, we had recorded reserves for pending legal disputes, including commercial disputes and other matters, of $11 million. In addition, as of December 31, 2018, we had recorded reserves for product liability claims and environmental matters of $29 million and $9 million, respectively. Although these reserves were determined in accordance with GAAP, the ultimate outcomes of these matters are inherently uncertain, and actual results may differ significantly from current estimates. For a description of risks related to various legal proceedings and claims, see Part I — Item 1A, "Risk Factors." For a more complete description of our outstanding material legal proceedings, see Note 12, "Commitments and Contingencies," to the consolidated financial statements included in this Report.

Significant Accounting Policies and Critical Accounting Estimates

Our significant accounting policies are more fully described in Note 2, "Summary of Significant Accounting Policies," to the consolidated financial statements included in this Report. Certain of our accounting policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting

period. These estimates and assumptions are based on our historical experience, the terms of existing contracts, our evaluation of trends in the industry, information provided by our customers and suppliers and information available from other outside sources, as appropriate. However, these

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estimates and assumptions are subject to an inherent degree of uncertainty. As a result, actual results in these areas may differ significantly from our estimates.

We consider an accounting estimate to be critical if it requires us to make assumptions about matters that were uncertain at the time the estimate was made and changes in the estimate would have had a significant impact on our consolidated financial position or results of operations.

Pre-Production Costs Related to Long-Term Supply Agreements

We incur pre-production engineering and development ("E&D") and tooling costs related to the products produced for our customers under long-term supply agreements. We expense all pre-production E&D costs for which reimbursement is not contractually guaranteed by the customer. In addition, we expense all pre-production tooling costs related to customer-owned tools for which reimbursement is not contractually guaranteed by the customer or for which we do not have a non-cancelable right to use the tooling.

A change in the commercial arrangements affecting any of our significant programs that would require us to expense E&D or tooling costs that we currently capitalize could have a material adverse impact on our operating results.

Impairment of Goodwill

As of December 31, 2018 and 2017, we had recorded goodwill of $1,405 million and $1,401 million, respectively. Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment is more likely than not to have occurred. In conducting our annual impairment testing, we may first perform a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount. If not, no further goodwill impairment testing is performed. If it is more likely than not that a reporting unit’s fair value is less than its carrying amount, or if we elect not to perform a qualitative assessment of a reporting unit, we then compare the fair value of the reporting unit to the related net book value. If the net book value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. We conduct our annual impairment testing as of the first day of our fourth quarter.

We utilize an income approach to estimate the fair value of each of our reporting units and a market valuation approach to further support this analysis. The income approach is based on projected debt-free cash flow which is discounted to the present value using discount factors that consider the timing and risk of cash flows. We believe that this approach is appropriate because it provides a fair value estimate based upon the reporting unit’s expected long-term operating cash flow performance. This approach also mitigates the impact of cyclical trends that occur in the industry. Fair value is estimated using recent automotive industry and specific platform production volume projections, which are based on both third-party and internally developed forecasts, as well as commercial and discount rate assumptions. The discount rate used is the value-weighted average of our estimated cost of equity and of debt ("cost of capital") derived using both known and estimated customary market metrics. Our weighted average cost of capital is adjusted by reporting unit to reflect a risk factor, if necessary. Other significant assumptions include terminal value growth rates, terminal value margin rates, future capital expenditures and changes in future working capital requirements. While there are inherent uncertainties related to the assumptions used and to management’s application of these assumptions to this analysis, we believe that the income approach provides a reasonable estimate of the fair value of our reporting units. The market valuation approach is used to further support our analysis and is based on recent transactions involving comparable companies.

In 2018, we performed a qualitative assessment of our reporting units. The assessment was completed as of the first day of our fourth quarter. The assessment indicated that it was more likely than not that the fair value of each of the reporting units exceeded its respective carrying value. We do not believe that any of our reporting units is at risk for impairment.

Impairment of Long-Lived Assets

We monitor our long-lived assets for impairment indicators on an ongoing basis in accordance with GAAP. If impairment indicators exist, we perform the required impairment analysis by comparing the undiscounted cash flows expected to be generated from the long-lived assets to the related net book values. If the net book value exceeds the undiscounted cash flows, an impairment loss is measured and recognized. An impairment loss is measured as the difference between the net book value and the fair value of the long-lived assets. Fair value is estimated based upon a

combination of market and cost approaches, as appropriate. Changes in economic or operating conditions impacting these estimates and assumptions could result in the impairment of our long-lived assets.

For the years ended December 31, 2018, 2017 and 2016, we recognized fixed asset impairment charges of $5 million, $1 million and $5 million, respectively, in conjunction with our restructuring actions, as well as additional fixed asset impairment charges of $1 million, $2 million and $1 million, respectively. See Note 4, "Restructuring," to the consolidated financial statements included in this Report.

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Impairment of Investments in Affiliates

As of December 31, 2018 and 2017, we had aggregate investments in affiliates of $108 million and $147 million, respectively. We monitor our investments in affiliates for indicators of other-than-temporary declines in value on an ongoing basis in accordance with GAAP. If we determine that an other-than-temporary decline in value has occurred, we recognize an impairment loss, which is measured as the difference between the recorded book value and the fair value of the investment. Fair value is generally determined using an income approach based on discounted cash flows or negotiated transaction values. A deterioration in industry conditions and decline in the operating results of our non-consolidated affiliates could result in the impairment of our investments.

Restructuring

Accruals have been recorded in conjunction with our restructuring actions. These accruals include estimates primarily related to facility consolidations and closures, employment reductions and contract termination costs. Actual costs may vary from these estimates. Restructuring-related accruals are reviewed on a quarterly basis, and changes to restructuring actions are appropriately recognized when identified.

Legal and Other Contingencies

We are involved from time to time in various legal proceedings and claims, including commercial or contractual disputes, product liability claims and environmental and other matters, that arise in the normal course of business. We routinely assess the likelihood of any adverse judgments or outcomes related to these matters, as well as ranges of probable losses, by consulting with internal personnel principally involved with such matters and with our outside legal counsel handling such matters. We have accrued for estimated losses in accordance with GAAP for those matters where we believe that the likelihood that a loss has occurred is probable and the amount of the loss is reasonably estimable. The determination of the amount of such reserves is based on knowledge and experience with regard to past and current matters and consultation with internal personnel principally involved with such matters and with our outside legal counsel handling such matters. The amount of such reserves may change in the future due to new developments or changes in circumstances. The inherent uncertainty related to the outcome of these matters can result in amounts materially different from any provisions made with respect to their resolution. See Note 12, "Commitments and Contingencies," to the consolidated financial statements included in this Report.

Pension and Other Postretirement Benefit Plans

We provide certain pension and other postretirement benefits to our employees and retired employees, including pensions, postretirement health care benefits and other postretirement benefits.

Approximately 7% of our active workforce is covered by defined benefit pension plans, and less than 1% of our active workforce is covered by other postretirement benefit plans. Pension plans provide benefits based on plan-specific benefit formulas as defined by the applicable plan documents. Postretirement benefit plans generally provide for the continuation of medical benefits for all eligible employees. We also have contractual arrangements with certain employees which provide for supplemental retirement benefits. In general, our policy is to fund our pension benefit obligation based on legal requirements, tax and liquidity considerations and local practices. We do not fund our postretirement benefit obligation.

Plan assets and obligations are measured using various actuarial assumptions, such as discount rates, rate of compensation increase, mortality rates, turnover rates and health care cost trend rates, which are determined as of the current year measurement date. The measurement of net periodic benefit cost is based on various actuarial assumptions, including discount rates, expected return on plan assets and rate of compensation increase, which are determined as of the prior year measurement date. We review our actuarial assumptions on an annual basis and modify these assumptions when appropriate. As required by GAAP, the effects of the modifications are recorded currently or are amortized over future periods.

The determination of the discount rate is generally based on an index created from a hypothetical bond portfolio consisting of high-quality fixed income securities with durations that match the timing of expected benefit payments. Changes in the selected discount rate could have a material impact on the projected benefit obligations, unfunded status and related net periodic benefit cost of our pension and other postretirement benefit plans.

The expected return on plan assets is determined based on several factors, including adjusted historical returns, historical risk premiums for various asset classes and target asset allocations within the portfolio. Adjustments made to the historical returns are based on recent return experience in the equity and fixed income markets and the belief that deviations from historical returns are likely over the relevant investment horizon.

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Key assumptions are shown below:

	Pension	Other Postretirement
Benefit obligations as of December 31, 2018	$875	$ 87
Discount rate -		
Domestic plans	4.3 %	4.2 %
Foreign plans	3.4 %	3.8 %
Net periodic benefit cost for the year ended December 31, 2018	$6	$ 1
Discount rate -		
Domestic plans	3.6 %	3.5 %
Foreign plans	3.1 %	3.5 %
Expected return on plan assets -		
Domestic plans	6.5 %	N/A
Foreign plans	5.9 %	N/A
Net periodic benefit cost for the year ended December 31, 2019 (1)	$8	$ 1
Discount rate -		
Domestic plans	4.3 %	4.2 %
Foreign plans	3.4 %	3.8 %
Expected return on plan assets -		
Domestic plans	6.3 %	N/A
Foreign plans	5.9 %	N/A

(1) Forecasted

The sensitivity to a 100 basis point ("bp") decrease in the discount rate and expected return on plan assets is shown below (in millions):

	Increase in Benefit Obligation		Increase in 2018 Net Periodic Benefit Cost	
	Pension	Other Postretirement	Pension	Other Postretirement
100 bp decrease in discount rate	$128	$ 10	$ 3	$ —
100 bp decrease in expected return on plan assets	N/A	N/A	$ 7	N/A

For further information related to our pension and other postretirement benefit plans, see "— Liquidity and Financial Condition — Capitalization — Contractual Obligations" above and Note 8, "Pension and Other Postretirement Benefit Plans," to the consolidated financial statements included in this Report.

Revenue Recognition and Sales Commitments

We enter into contracts with our customers to provide production parts generally at the beginning of a vehicle's life cycle. Typically, these contracts do not provide for a specified quantity of products, but once entered into, we are often expected to fulfill our customers' purchasing requirements for the production life of the vehicle. Many of these contracts may be terminated by our customers at any time. Historically, terminations of these contracts have been minimal. We receive purchase orders from our customers, which provide the commercial terms for a particular production part, including price (but not quantities). Contracts may also provide for annual price reductions over the production life of the vehicle, and prices may be adjusted on an ongoing basis to reflect changes in product content/cost and other commercial factors.

Revenue is recognized at a point in time when control of the product is transferred to the customer under standard commercial terms, as we do not have an enforceable right to payment prior to such transfer. The amount of revenue recognized reflects the consideration that we expect to be entitled to in exchange for those products based on the annual purchase orders, annual price reductions and ongoing price adjustments (some of which is accounted for as variable consideration). Our customers pay for products received in accordance with payment terms that are

customary within the industry. Our contracts with our customers do not have significant financing components. We record a contract liability for advances received from our customers. Amounts billed to customers related to shipping and handling costs are included in net sales in the consolidated statements of

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income. Shipping and handling costs are accounted for as fulfillment costs and are included in cost of sales in the consolidated statements of income. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction that we collect from a customer are excluded from revenue.

Income Taxes

We account for income taxes in accordance with GAAP. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax loss and credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Our current and future provision for income taxes is impacted by the initial recognition of and changes in valuation allowances in certain countries. We intend to maintain these allowances until it is more likely than not that the deferred tax assets will be realized. Our future provision for income taxes will include no tax benefit with respect to losses incurred and, except for certain jurisdictions, no tax expense with respect to income generated in these countries until the respective valuation allowances are eliminated. Accordingly, income taxes are impacted by changes in valuation allowances and the mix of earnings among jurisdictions. We evaluate the realizability of our deferred tax assets on a quarterly basis. In completing this evaluation, we consider all available evidence in order to determine whether, based on the weight of the evidence, a valuation allowance for our deferred tax assets is necessary. Such evidence includes historical results, future reversals of existing taxable temporary differences and expectations for future taxable income (exclusive of the reversal of temporary differences and carryforwards), as well as the implementation of feasible and prudent tax planning strategies. If, based on the weight of the evidence, it is more likely than not that all or a portion of our deferred tax assets will not be realized, a valuation allowance is recorded. As of December 31, 2018, we had a valuation allowance related to tax loss and credit carryforwards and other deferred tax assets of $16 million in the United States and $334 million in several international jurisdictions. If operating results improve or decline on a continual basis in a particular jurisdiction, our decision regarding the need for a valuation allowance could change, resulting in either the initial recognition or reversal of a valuation allowance in that jurisdiction, which could have a significant impact on income tax expense in the period recognized and subsequent periods. In determining the provision for income taxes for financial statement purposes, we make certain estimates and judgments, which affect our evaluation of the carrying value of our deferred tax assets, as well as our calculation of certain tax liabilities.

The calculation of our gross unrecognized tax benefits and liabilities includes uncertainties in the application of, and changes in, complex tax regulations in a multitude of jurisdictions across our global operations. We recognize tax benefits and liabilities based on our estimate of whether, and the extent to which, additional taxes will be due. We adjust these benefits and liabilities based on changing facts and circumstances; however, due to the complexity of these uncertainties and the impact of tax audits, the ultimate resolutions may differ significantly from our estimates.

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the U.S. federal corporate income tax rate from 35% to 21% beginning in 2018, requires companies to pay a one-time transition tax on all offshore earnings that were previously tax deferred and creates new taxes on certain foreign sourced earnings.

Provisional Amounts –

In March 2018, the Financial Accounting Standards Board issued ASU 2018-05, "Income Taxes - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118" ("SAB 118"). The guidance provided for a provisional one-year measurement period for entities to finalize their accounting for certain tax effects related to the Act. In 2017 and during the first nine months of 2018, we recorded provisional amounts for certain enactment-date effects of the Act, for which the accounting had not been finalized, by applying the guidance in SAB 118. Accordingly, we completed our accounting for the effects of the Act in 2018 and recognized a net favorable adjustment to the 2017 provisional income tax expense of $5 million. The $5 million net tax benefit is comprised of a tax benefit of $15 million related to the one-time transition tax on offshore earnings, partially offset by a tax expense of $10 million related to the remeasurement of the December 31, 2017 deferred tax balances and numerous other items included in the Act.

Transition Tax on Deferred Foreign Earnings – The one-time transition tax is based on the post-1986 earnings and profits ("E&P") of our foreign subsidiaries, for which U.S. income taxes were previously deferred. The transition tax is based, in part, on the amount of E&P held in cash and other specified assets. For the year ended December 31, 2017, the provision for income taxes included provisional income tax expense of $131 million related to the one-time transition tax liability. In 2018, we completed our calculation of the post-1986 E&P and related foreign taxes of our foreign subsidiaries, as well as the classification of the E&P as cash or non-cash. Based on the completed calculation and consideration of proposed regulations and other guidance issued during 2018, we recorded a tax benefit of $15 million in 2018, reducing the one-time transition tax to $116 million.

Deferred tax assets and liabilities – In the fourth quarter of 2017, we remeasured our U.S. deferred tax assets and liabilities to reflect the effects of the Act, including the reduction in the corporate tax rate from 35% to 21% beginning in 2018. For the year ended December 31, 2017, the provision for income taxes included provisional income tax expense of $42 million related to the remeasurement of deferred tax balances. In 2018, we finalized our analysis of certain aspects of the Act and refined our calculations. Based on the completed analysis and calculations and consideration of proposed regulations and other guidance issued during 2018, we recorded tax expense of $10 million, increasing the tax expense related to the remeasurement of deferred tax balances to $52 million.

Global Intangible Low-Tax Income ("GILTI") –

The Act created a provision known as global intangible low-tax income ("GILTI") that imposes a U.S. tax on certain earnings of foreign subsidiaries that are subject to foreign tax below a certain threshold. We have made an accounting policy election to reflect GILTI taxes, if any, as a current income tax expense in the period incurred.

For further information, see "— Forward-Looking Statements," and Note 7, "Income Taxes," to the consolidated financial statements included in this Report.

Fair Value Measurements

We measure certain assets and liabilities at fair value on a non-recurring basis using unobservable inputs (Level 3 input based on the GAAP fair value hierarchy). For further information on these fair value measurements, see "— Impairment of Goodwill," "— Impairment of Long-Lived Assets," "— Restructuring" and "— Impairment of Investments in Affiliates" above.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. During 2018, there were no material changes in the methods or policies used to establish estimates and assumptions. Other matters subject to estimation and judgment include amounts related to accounts receivable realization, inventory obsolescence, asset impairments, useful lives of fixed and intangible assets, unsettled pricing discussions with customers and suppliers, restructuring accruals, deferred tax asset valuation allowances and income taxes, pension and other postretirement benefit plan assumptions, accruals related to litigation, warranty and environmental remediation costs and self-insurance accruals. Actual results may differ significantly from our estimates.

Recently Issued Accounting Pronouncements

For information on the impact of recently issued accounting pronouncements, see Note 16, "Accounting Pronouncements," to the consolidated financial statements included in this Report.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. The words "will," "may," "designed to," "outlook," "believes," "should," "anticipates," "plans," "expects," "intends," "estimates," "forecasts" and similar expressions identify certain of these forward-looking statements. We also may provide forward-looking statements in oral statements or other written materials released to the public. All such forward-looking statements contained or incorporated in this Report or in any other public statements which address operating performance, events or developments that we expect or anticipate may occur in the future, including, without limitation, statements related to business opportunities, awarded sales contracts, sales backlog and ongoing commercial arrangements, or statements expressing views about future operating results, are forward-looking statements. Actual results may differ materially from any or all forward-looking statements made by us. Important factors, risks and uncertainties that may cause actual results to differ materially from anticipated results include, but are not limited to:

- general economic conditions in the markets in which we operate, including changes in interest rates or currency exchange rates;
- changes in actual industry vehicle production levels from our current estimates;
- fluctuations in the production of vehicles or the loss of business with respect to, or the lack of commercial success of, a vehicle model for which we are a significant supplier;

- the outcome of customer negotiations and the impact of customer-imposed price reductions;
- the cost and availability of raw materials, energy, commodities and product components and our ability to mitigate such costs;

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- disruptions in relationships with our suppliers;
- the financial condition of and adverse developments affecting our customers and suppliers;
- risks associated with conducting business in foreign countries;
- currency controls and the ability to economically hedge currencies;
- global sovereign fiscal matters and creditworthiness, including potential defaults and the related impacts on economic activity, including the possible effects on credit markets, currency values, monetary unions, international treaties and fiscal policies;
- the operational and financial success of our joint ventures;
- competitive conditions impacting us and our key customers and suppliers;
- labor disputes involving us or our significant customers or suppliers or that otherwise affect us;
- the impact and timing of program launch costs and our management of new program launches;
- limitations imposed by our existing indebtedness and our ability to access capital markets on commercially reasonable terms;
- changes in discount rates and the actual return on pension assets;
- impairment charges initiated by adverse industry or market developments;
- our ability to execute our strategic objectives;
- disruptions to our information technology, including those related to cybersecurity;
- increases in our warranty, product liability or recall costs;
- the outcome of legal or regulatory proceedings to which we are or may become a party;
- the impact of pending legislation and regulations or changes in existing federal, state, local or foreign laws or regulations;
- the impact of regulations on our foreign operations;
- costs associated with compliance with environmental laws and regulations;
- developments or assertions by or against us relating to intellectual property rights;
- the impact of potential changes in tax and trade policies in the United States and related actions by countries in which we do business;
- the anticipated changes in economic and other relationships between the United Kingdom and the European Union; and
- other risks, described in Part I — Item 1A, "Risk Factors," as well as the risks and information provided from time to time in our filings with the Securities and Exchange Commission.

The forward-looking statements in this Report are made as of the date hereof, and we do not assume any obligation to update, amend or clarify them to reflect events, new information or circumstances occurring after the date hereof.

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To the Stockholders and Board of Directors of Lear Corporation
Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Lear Corporation and subsidiaries (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 5, 2019, expressed an unqualified opinion thereon.
Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2002.
Detroit, Michigan
February 5, 2019

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Lear Corporation

Opinion on Internal Control over Financial Reporting

We have audited Lear Corporation and subsidiaries' internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Lear Corporation and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2018 consolidated financial statements of the Company and our report dated February 5, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP
Detroit, Michigan
February 5, 2019

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LEAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

December 31,	2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	$1,493.2	$1,500.4
Accounts receivable	2,880.3	3,230.8
Inventories	1,196.8	1,205.7
Other	710.2	676.1
Total current assets	6,280.5	6,613.0
Long-Term Assets:		
Property, plant and equipment, net	2,598.1	2,459.4
Goodwill	1,405.3	1,401.3
Other	1,316.8	1,472.2
Total long-term assets	5,320.2	5,332.9
Total assets	$11,600.7	$11,945.9
Liabilities and Equity		
Current Liabilities:		
Short-term borrowings	$9.9	$—
Accounts payable and drafts	2,862.8	3,167.2
Accrued liabilities	1,615.0	1,678.1
Current portion of long-term debt	12.9	9.0
Total current liabilities	4,500.6	4,854.3
Long-Term Liabilities:		
Long-term debt	1,941.0	1,951.5
Other	640.4	694.1
Total long-term liabilities	2,581.4	2,645.6
Redeemable noncontrolling interest	158.1	153.4
Equity:		
Preferred stock, 100,000,000 shares authorized (including 10,896,250 shares of Series A convertible preferred stock authorized); no shares outstanding	—	—
Common stock, $0.01 par value, 300,000,000 shares authorized; 64,563,291 and 72,563,291 shares issued as of December 31, 2018 and 2017, respectively	0.6	0.7
Additional paid-in capital	1,017.4	1,215.4
Common stock held in treasury, 1,623,678 and 5,689,527 shares as of December 31, 2018 and 2017, respectively, at cost	(225.1)	(724.1)
Retained earnings	4,113.6	4,171.9
Accumulated other comprehensive loss	(705.8)	(513.4)
Lear Corporation stockholders’ equity	4,200.7	4,150.5
Noncontrolling interests	159.9	142.1
Equity	4,360.6	4,292.6
Total liabilities and equity	$11,600.7	$11,945.9

The accompanying notes are an integral part of these consolidated balance sheets.

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LEAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except share and per share data)

For the year ended December 31,	2018	2017	2016
Net sales	$21,148.5	$20,467.0	$18,557.6
Cost of sales	18,830.2	18,175.9	16,435.0
Selling, general and administrative expenses	612.8	635.2	608.2
Amortization of intangible assets	51.4	47.6	53.0
Interest expense	84.1	85.7	82.5
Other (income) expense, net	31.6	(4.1)	40.6
Consolidated income before provision for income taxes and equity in net income of affiliates	1,538.4	1,526.7	1,338.3
Provision for income taxes	311.9	197.5	370.2
Equity in net income of affiliates	(20.2)	(51.7)	(72.4)
Consolidated net income	1,246.7	1,380.9	1,040.5
Less: Net income attributable to noncontrolling interests	96.9	67.5	65.4
Net income attributable to Lear	$1,149.8	$1,313.4	$975.1
Basic net income per share available to Lear common stockholders	$17.35	$18.79	$13.48
Diluted net income per share available to Lear common stockholders	$17.22	$18.59	$13.33
Average common shares outstanding	65,672,164	68,542,363	72,345,436
Average diluted shares outstanding	66,161,816	69,277,981	73,124,949

The accompanying notes are an integral part of these consolidated financial statements.

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LEAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

For the year ended December 31,	2018	2017	2016
Consolidated net income	$1,246.7	$1,380.9	$1,040.5
Other comprehensive income (loss), net of tax:			
Defined benefit plan adjustments	11.2	8.8	1.8
Derivative instruments and hedging activities	13.2	22.2	(6.4)
Foreign currency translation adjustments	(233.0)	305.0	(109.5)
Total other comprehensive income (loss)	(208.6)	336.0	(114.1)
Consolidated comprehensive income	1,038.1	1,716.9	926.4
Less: Comprehensive income attributable to noncontrolling interests	80.7	81.3	56.8
Comprehensive income attributable to Lear	$957.4	$1,635.6	$869.6

The accompanying notes are an integral part of these consolidated financial statements.

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LEAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(In millions, except share data)

	Redeemable Non-controlling Interests	Preferred Stock	Common Stock	Additional Paid-in Capital	Common Stock Held in Treasury	Retained Earnings
Balance as of December 31, 2015	$ —	$ —	$ 0.8	$ 1,451.9	$ (623.0)	$ 2,827.8
Comprehensive income (loss):	—					
Net income	—	—	—	—	—	975.1
Other comprehensive income (loss)	—	—	—	—	—	—
Total comprehensive income (loss)	—	—	—	—	—	975.1
Stock-based compensation	—	—	—	68.2	—	—
Excess tax benefits related to stock-based compensation	—	—	—	8.8	—	—
Net issuances of 783,793 shares held in treasury in settlement of stock-based compensation	—	—	—	(124.2)	81.6	(4.7)
Repurchases of 5,816,363 shares of common stock at an average price of $113.26 per share	—	—	—	—	(658.8)	—
Dividends declared to Lear Corporation stockholders	—	—	—	—	—	(89.1)
Dividends declared to noncontrolling interests	—	—	—	—	—	—
Affiliate transaction	—	—	—	—	—	—
Acquisition of outstanding noncontrolling interests	—	—	—	(19.4)	—	—
Noncontrolling interests — other	—	—	—	—	—	(2.2)
Balance as of December 31, 2016	$ —	$ —	$ 0.8	$ 1,385.3	$ (1,200.2)	$ 3,706.9
Comprehensive income:						
Net income	3.2	—	—	—	—	1,313.4
Other comprehensive income	4.6	—	—	—	—	—
Total comprehensive income	7.8	—	—	—	—	1,313.4
Adoption of ASU 2016-09 (Note 7, "Income Taxes")	—	—	—	—	—	52.9
Stock-based compensation	—	—	—	70.2	—	—
Net issuances of 456,252 shares held in treasury in settlement of stock-based compensation	—	—	—	(84.2)	39.0	—
Repurchases of 3,014,131 shares of common stock at an average price of $150.77 per share	—	—	—	—	(454.4)	—
Retirement of 8,000,000 shares held in treasury at average price of $111.43 per share	—	—	(0.1)	(155.9)	891.5	(735.5)
Dividends declared to Lear Corporation stockholders	—	—	—	—	—	(140.3)
Dividends declared to noncontrolling interests	(4.9)	—	—	—	—	—
Affiliate transaction	125.0	—	—	—	—	—
Redeemable noncontrolling interest adjustment	25.5	—	—	—	—	(25.5)
Balance as of December 31, 2017	$ 153.4	$ —	$ 0.7	$ 1,215.4	$ (724.1)	$ 4,171.9
Comprehensive income (loss):						
Net income	12.9	—	—	—	—	1,149.8
Other comprehensive income (loss)	(9.4)	—	—	—	—	—
Total comprehensive income (loss)	3.5	—	—	—	—	1,149.8
Adoption of ASU 2016-16 (Note 7, "Income Taxes")	—	—	—	—	—	2.3

Stock-based compensation	—	—	—	41.4	—	—
Net issuances of 374,267 shares held in treasury in settlement of stock-based compensation	—	—	—	(81.5)	34.0	—
Repurchases of 4,308,418 shares of common stock at an average price of $163.69 per share	—	—	—	—	(705.2)	—
Retirement of 8,000,000 shares held in treasury at average price of $146.27 per share	—	—	(0.1)	(155.9)	1,170.2	(1,014.2)
Dividends declared to Lear Corporation stockholders	—	—	—	—	—	(185.8)
Dividends declared to noncontrolling interests	(9.2)	—	—	—	—	—
Affiliate transaction	—	—	—	—	—	—
Acquisition of outstanding noncontrolling interests	—	—	—	(2.0)	—	—
Redeemable noncontrolling interest adjustment	10.4	—	—	—	—	(10.4)
Noncontrolling interests — other	—	—	—	—	—	—
Balance as of December 31, 2018	$ 158.1	$ —	$ 0.6	$ 1,017.4	$ (225.1)	$ 4,113.6

The accompanying notes are an integral part of these consolidated financial statements.

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LEAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY (continued)
(In millions, except share data)

	Accumulated Other Comprehensive Loss, net of tax					
	Defined Benefit Plans	Derivative Instruments and Hedging Activities	Cumulative Translation Adjustments	Lear Corporation Stockholders' Equity	Non-controlling Interests	Equity
Balance as of December 31, 2015	$ (194.6)	$ (38.7)	$ (496.8)	$2,927.4	$ 90.3	$3,017.7
Comprehensive income (loss):						
Net income	—	—	—	975.1	65.4	1,040.5
Other comprehensive income (loss)	1.8	(6.4)	(100.9)	(105.5)	(8.6)	(114.1)
Total comprehensive income (loss)	1.8	(6.4)	(100.9)	869.6	56.8	926.4
Stock-based compensation	—	—	—	68.2	—	68.2
Excess tax benefits related to stock-based compensation	—	—	—	8.8	—	8.8
Net issuances of 783,793 shares held in treasury in settlement of stock-based compensation	—	—	—	(47.3)	—	(47.3)
Repurchases of 5,816,363 shares of common stock at an average price of $113.26 per share	—	—	—	(658.8)	—	(658.8)
Dividends declared to Lear Corporation stockholders	—	—	—	(89.1)	—	(89.1)
Dividends declared to noncontrolling interests	—	—	—	—	(41.2)	(41.2)
Affiliate transaction	—	—	—	—	41.0	41.0
Acquisition of outstanding noncontrolling interests	—	—	—	(19.4)	(13.4)	(32.8)
Noncontrolling interests — other				(2.2)	2.2	—
Balance as of December 31, 2016	$ (192.8)	$ (45.1)	$ (597.7)	$3,057.2	$ 135.7	$3,192.9
Comprehensive income (loss):						
Net income	—	—	—	1,313.4	64.3	1,377.7
Other comprehensive income	8.8	22.2	291.2	322.2	9.2	331.4
Total comprehensive income	8.8	22.2	291.2	1,635.6	73.5	1,709.1
Adoption of ASU 2016-09 (Note 7, "Income Taxes")	—	—	—	52.9	—	52.9
Stock-based compensation	—	—	—	70.2	—	70.2
Net issuances of 456,252 shares held in treasury in settlement of stock-based compensation	—	—	—	(45.2)	—	(45.2)
Repurchases of 3,014,131 shares of common stock at an average price of $150.77 per share	—	—	—	(454.4)	—	(454.4)
Retirement of 8,000,000 shares held in treasury at average price of $111.43 per share	—	—	—	—	—	—

Dividends declared to Lear Corporation stockholders	—	—	—	(140.3)	—	(140.3)
Dividends declared to noncontrolling interests	—	—	—	—	(67.1)	(67.1)
Affiliate transaction	—	—	—	—	—	—
Redeemable noncontrolling interest adjustment	—	—	—	(25.5)	—	(25.5)
Balance as of December 31, 2017	$ (184.0)	$ (22.9)	$ (306.5)	$4,150.5	$ 142.1	$4,292.6
Comprehensive income (loss):						
Net income	—	—	—	1,149.8	84.0	1,233.8
Other comprehensive income (loss)	11.2	13.2	(216.8)	(192.4)	(6.8)	(199.2)
Total comprehensive income (loss)	11.2	13.2	(216.8)	957.4	77.2	1,034.6
Adoption of ASU 2016-16 (Note 7, "Income Taxes")	—	—	—	2.3	—	2.3
Stock-based compensation	—	—	—	41.4	—	41.4
Net issuances of 374,267 shares held in treasury in settlement of stock-based compensation	—	—	—	(47.5)	—	(47.5)
Repurchases of 4,308,418 shares of common stock at an average price of $163.69 per share	—	—	—	(705.2)	—	(705.2)
Retirement of 8,000,000 shares held in treasury at average price of $146.27 per share	—	—	—	—	—	—
Dividends declared to Lear Corporation stockholders	—	—	—	(185.8)	—	(185.8)
Dividends declared to noncontrolling interests	—	—	—	—	(70.0)	(70.0)
Affiliate transaction	—	—	—	—	14.0	14.0
Acquisition of outstanding noncontrolling interests	—	—	—	(2.0)	—	(2.0)
Redeemable noncontrolling interest adjustment	—	—	—	(10.4)		(10.4)
Noncontrolling interests — other	—	—	—	—	(3.4)	(3.4)
Balance as of December 31, 2018	$ (172.8)	$ (9.7)	$ (523.3)	$4,200.7	$ 159.9	$4,360.6

The accompanying notes are an integral part of these consolidated financial statements.

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LEAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

For the year ended December 31,	2018	2017	2016
Cash Flows from Operating Activities:			
Consolidated net income	$1,246.7	$1,380.9	$1,040.5
Adjustments to reconcile consolidated net income to net cash provided by operating activities –			
Equity in net income of affiliates	(20.2)	(51.7)	(72.4)
Loss on extinguishment of debt	—	21.2	—
Fixed asset impairment charges	6.1	3.4	5.4
Deferred tax (benefit) provision	86.7	(81.3)	103.6
Depreciation and amortization	484.4	427.7	378.2
Stock-based compensation	41.4	70.2	68.2
Net change in recoverable customer engineering, development and tooling	54.4	(54.1)	(16.9)
Net change in working capital items (see below)	(118.9)	72.5	88.1
Changes in other long-term liabilities	(23.0)	6.6	(12.9)
Changes in other long-term assets	(16.7)	2.1	38.3
Other, net	38.9	(14.4)	(0.8)
Net cash provided by operating activities	1,779.8	1,783.1	1,619.3
Cash Flows from Investing Activities:			
Additions to property, plant and equipment	(677.0)	(594.5)	(528.3)
Acquisitions, net of cash acquired	—	(292.4)	(155.9)
Other, net	(16.5)	18.3	47.1
Net cash used in investing activities	(693.5)	(868.6)	(637.1)
Cash Flows from Financing Activities:			
New credit agreement borrowings	—	250.0	—
New credit agreement repayments	(6.3)	(1.6)	—
Prior credit agreement repayments	—	(468.7)	(21.9)
Short-term borrowings (repayments), net	7.3	(8.9)	9.1
Proceeds from the issuance of senior notes	—	744.7	—
Repurchase of senior notes	—	(517.0)	—
Payment of debt issuance and other financing costs	—	(11.9)	—
Repurchase of common stock	(704.9)	(450.5)	(658.8)
Dividends paid to Lear Corporation stockholders	(186.3)	(137.7)	(88.8)
Dividends paid to noncontrolling interests	(79.1)	(81.6)	(33.3)
Other, net	(61.2)	(58.8)	(79.2)
Net cash used in financing activities	(1,030.5)	(742.0)	(872.9)
Effect of foreign currency translation	(36.4)	56.3	(34.3)
Net Change in Cash, Cash Equivalents and Restricted Cash	19.4	228.8	75.0
Cash, Cash Equivalents and Restricted Cash as of Beginning of Period	1,500.4	1,271.6	1,196.6
Cash, Cash Equivalents and Restricted Cash as of End of Period	$1,519.8	$1,500.4	$1,271.6
Changes in Working Capital Items:			
Accounts receivable	$230.8	$(115.2)	$(176.3)
Inventories	(32.5)	(76.0)	(53.5)
Accounts payable	(199.3)	195.3	157.6
Accrued liabilities and other	(117.9)	68.4	160.3
Net change in working capital items	$(118.9)	$72.5	$88.1

Supplementary Disclosure:			
Cash paid for interest	$97.1	$94.0	$88.8
Cash paid for income taxes, net of refunds received of $40.6 million in 2018, $35.5 million in 2017 and $16.4 million in 2016	$279.2	$284.0	$237.6

The accompanying notes are an integral part of these consolidated financial statements.

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Lear Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(1) Basis of Presentation
Lear Corporation ("Lear," and together with its consolidated subsidiaries, the "Company") and its affiliates design and manufacture automotive seating and electrical distribution systems and related components. The Company's main customers are automotive original equipment manufacturers. The Company operates facilities worldwide.
The accompanying consolidated financial statements include the accounts of Lear, a Delaware corporation, and the wholly owned and less than wholly owned subsidiaries controlled by Lear.
(2) Summary of Significant Accounting Policies
Consolidation
Lear consolidates all entities, including variable interest entities, in which it has a controlling financial interest. Investments in affiliates in which Lear does not have control, but does have the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method (Note 5, "Investments in Affiliates and Other Related Party Transactions").
Fiscal Period Reporting
The Company's annual financial results are reported on a calendar year basis, and quarterly interim results are reported using a thirteen week reporting calendar.
Cash, Cash Equivalents and Restricted Cash
Cash and cash equivalents include all highly liquid investments with original maturities of ninety days or less. Restricted cash includes cash that is legally restricted as to use or withdrawal.
Accounts Receivable
The Company records accounts receivable as title is transferred to its customers. The Company's customers are the world's major automotive manufacturers. The Company records accounts receivable reserves for known collectibility issues, as such issues relate to specific transactions or customer balances. As of December 31, 2018 and 2017, accounts receivable are reflected net of reserves of $33.2 million and $41.8 million, respectively. The Company writes off accounts receivable when it becomes apparent, based upon age or customer circumstances, that such amounts will not be collected. Generally, the Company does not require collateral for its accounts receivable.
The Company receives bank notes from its customers, which are classified as other current assets in the consolidated balance sheets, for certain amounts of accounts receivable, primarily in Asia. The Company may hold such bank notes until maturity, exchange them with suppliers to settle liabilities or sell them to third-party financial institutions in exchange for cash.
Inventories
Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs. The Company records reserves for inventory in excess of production and/or forecasted requirements and for obsolete inventory in production and service inventories. A summary of inventories is shown below (in millions):

December 31,	2018	2017
Raw materials	$859.4	$869.3
Work-in-process	104.6	120.8
Finished goods	346.0	324.8
Reserves	(113.2)	(109.2)
Inventories	$1,196.8	$1,205.7

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Lear Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

Pre-Production Costs Related to Long-Term Supply Agreements

The Company incurs pre-production engineering and development ("E&D") and tooling costs related to the products produced for its customers under long-term supply agreements. The Company expenses all pre-production E&D costs for which reimbursement is not contractually guaranteed by the customer. In addition, the Company expenses all pre-production tooling costs related to customer-owned tools for which reimbursement is not contractually guaranteed by the customer or for which the Company does not have a non-cancelable right to use the tooling.

During 2018 and 2017, the Company capitalized $230.6 million and $257.4 million, respectively, of pre-production E&D costs for which reimbursement is contractually guaranteed by the customer. During 2018 and 2017, the Company also capitalized $198.1 million and $115.4 million, respectively, of pre-production tooling costs related to customer-owned tools for which reimbursement is contractually guaranteed by the customer or for which the Company has a non-cancelable right to use the tooling. These amounts are included in other current and long-term assets in the accompanying consolidated balance sheets as of December 31, 2018 and 2017. During 2018 and 2017, the Company collected $487.5 million and $311.1 million, respectively, of cash related to E&D and tooling costs.

The classification of recoverable customer E&D and tooling costs related to long-term supply agreements is shown below (in millions):

December 31,	2018	2017
Current	$160.9	$248.1
Long-term	80.4	59.3
Recoverable customer E&D and tooling	$241.3	$307.4

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Costs associated with the repair and maintenance of the Company’s property, plant and equipment are expensed as incurred. Costs associated with improvements which extend the life, increase the capacity or improve the efficiency or safety of the Company’s property, plant and equipment are capitalized and depreciated over the remaining useful life of the related asset. Depreciable property is depreciated over the estimated useful lives of the assets, using principally the straight-line method as follows:

Buildings and improvements	10 to 40 years
Machinery and equipment	5 to 10 years

A summary of property, plant and equipment is shown below (in millions):

December 31,	2018	2017
Land	$116.8	$118.8
Buildings and improvements	809.3	797.7
Machinery and equipment	3,463.3	3,077.4
Construction in progress	389.3	355.6
Total property, plant and equipment	4,778.7	4,349.5
Less – accumulated depreciation	(2,180.6)	(1,890.1)
Net property, plant and equipment	$2,598.1	$2,459.4

For the years ended December 31, 2018, 2017 and 2016, depreciation expense was $433.0 million, $380.1 million and $325.2 million, respectively. As of December 31, 2018, 2017 and 2016, capital expenditures recorded in accounts payable totaled $156.2 million, $119.7 million and $117.8 million, respectively.

Impairment of Goodwill

Goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment is more likely than not to have occurred. In conducting its annual impairment testing, the Company may first perform a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount. If not, no further goodwill impairment testing is required. If it is more likely than not that a reporting unit’s fair value is less than its carrying amount, or if the Company elects not to perform a qualitative assessment of a reporting unit, the Company then

compares the fair value of the reporting unit to the related net

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book value. If the net book value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. The Company conducts its annual impairment testing as of the first day of its fourth quarter.
The Company utilizes an income approach to estimate the fair value of each of its reporting units and a market valuation approach to further support this analysis. The income approach is based on projected debt-free cash flow which is discounted to the present value using discount factors that consider the timing and risk of cash flows. The Company believes that this approach is appropriate because it provides a fair value estimate based upon the reporting unit's expected long-term operating cash flow performance. This approach also mitigates the impact of cyclical trends that occur in the industry. Fair value is estimated using recent automotive industry and specific platform production volume projections, which are based on both third-party and internally developed forecasts, as well as commercial and discount rate assumptions. The discount rate used is the value-weighted average of the Company's estimated cost of equity and of debt ("cost of capital") derived using both known and estimated customary market metrics. The Company's weighted average cost of capital is adjusted by reporting unit to reflect a risk factor, if necessary. Other significant assumptions include terminal value growth rates, terminal value margin rates, future capital expenditures and changes in future working capital requirements. While there are inherent uncertainties related to the assumptions used and to management's application of these assumptions to this analysis, the Company believes that the income approach provides a reasonable estimate of the fair value of its reporting units. The market valuation approach is used to further support the Company's analysis and is based on recent transactions involving comparable companies.
In 2018, the Company performed a qualitative assessment of its reporting units. The assessment was completed as of the first day of our fourth quarter. The assessment indicated that it was more likely than not that the fair value of each of the reporting units exceeded its respective carrying value. The Company does not believe that any of our reporting units are at risk for impairment.
A summary of the changes in the carrying amount of goodwill for each of the periods in the two years ended December 31, 2018, is shown below (in millions):

	Seating	E-Systems	Total
Balance as of December 31, 2016	$1,091.2	$ 30.1	$1,121.3
Acquisitions	123.3	—	123.3
Affiliate transaction	—	94.4	94.4
Foreign currency translation and other	59.9	2.4	62.3
Balance as of December 31, 2017	1,274.4	126.9	1,401.3
Affiliate transaction	—	22.4	22.4
Foreign currency translation and other	(30.1)	11.7	(18.4)
Balance as of December 31, 2018	$1,244.3	$ 161.0	$1,405.3

For further information related to acquisitions and affiliate transactions, see Note 3, "Acquisitions," and Note 5, "Investments in Affiliates and Other Related Party Transactions."
Intangible Assets
As of December 31, 2018, intangible assets consist primarily of certain intangible assets recorded in connection with the acquisitions of Guilford Mills in 2012, the parent company of Eagle Ottawa, LLC in 2015, AccuMED in 2016 and Grupo Antolin's automotive seating business ("Antolin Seating") in 2017 (Note 3, "Acquisitions"). These intangible assets were recorded at their estimated fair value, based on independent appraisals, as of the transaction or acquisition date. The value assigned to technology intangibles is based on the royalty savings method, which applies a hypothetical royalty rate to projected revenues attributable to the identified technologies. Royalty rates were determined based primarily on analysis of market information. The customer-based intangible asset includes the acquired entity's established relationships with its customers and the ability of these customers to generate future economic profits for the Company. The value assigned to customer-based intangibles is based on the present value of future earnings attributable to the asset group after recognition of required returns to other contributory assets.

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Lear Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

A summary of intangible assets as of December 31, 2018 and 2017, is shown below (in millions):

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Useful Life (years)
Amortized intangible assets:				
Technology	$ 20.1	$ (11.8)	$ 8.3	8.5
Customer-based	533.4	(156.3)	377.1	11.6
Other				