Autoliv (Q2 2026 Results)
July 17, 2026

Corporate Speakers

- Anders Trapp; Autoliv; Vice President, Investor Relations
- Mikael Bratt; Autoliv; President, Chief Executive Officer
- Monika Grama; Autoliv; Executive Vice President Finance, Chief Financial Officer

Participants

- Colin Langan; Wells Fargo; Analyst
- Emmanuel Rosner; Wolfe Research; Analyst
- Gautam (Tom) Narayan; RBC; Analyst
- Winnie Dong; Deutsche Bank; Analyst
- Hampus Engellau; Handelsbanken; Analyst
- Itay Michaeli; TD Cowen; Analyst
- Agnieszka Vilela; Nordea; Analyst
- Dan Levy; Barclays; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the Autoliv Second Quarter 2026 Financial Results Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to our speaker today, Anders Trapp. Please go ahead.

Anders Trapp^ Welcome everyone, to our second quarter 2026 earnings call. On this call we have our President and Chief Executive Officer, Mikael Bratt; our Chief Financial Officer, Monika Grama; and me, Anders Trapp, VP Investor Relations. During today's earnings call we will highlight several key areas including our strong performance despite the challenged market environment.

We will provide an update on our structural cost reduction initiatives in EMEA, an update on the latest market development and our full year guidance and the potential impact of ongoing political challenges. Following the presentation, we will be available to answer questions. As usual, the slides are available on autoliv.com.

Turning to the next slide. We have the safe harbor statement which is an integrated part of this presentation and includes the Q&A that follows. During the presentation, we will reference non-U.S. GAAP measures. The reconciliations of historical U.S. GAAP to non-U.S. GAAP measures are disclosed in our quarterly earnings release available on autoliv.com and in the 10-Q that will be filed with the SEC and also at the end of the presentation.

Lastly, I should mention that this call is intended to conclude at three p.m. Central European Time. So please, follow a limit of two questions per person. I now hand it over to our CEO, Mikael Bratt.

Mikael Bratt^ Thank you, Anders. Looking on the next slide. We delivered a record second quarter, both for sales and adjusted operating income underscoring the resilience of our company and the strength of our market position, supported by strong customer partnerships and the relentless focus and continuous improvement. We have built a solid momentum for the rest of the year.

During the quarter, we also navigated geopolitical development effectively mitigating the impact of tariffs, supply chain disruptions and raw material cost volatility. And as you might have seen in the report, I will hear from us during this call we had several positive and negative onetime items in the quarter. This includes a supplier settlement reversion from Q3 2025, an IEEPA refund government income in India, an impairment charge related to restructuring activities in Turkey and a reverse expected credit loss reserve. Combined, these items have virtually no impact on the adjusted operating margin and only a slight negative impact on the top line.

Our positive sales momentum in Asia continued during the quarter. In China, we once again outperformed light vehicle production, driven by strong growth with Chinese OEMs, where our sales outperformed by more than 40 percentage points.

In India, we grew sales by 36% organically, reflecting mainly the spend of increased safety content in vehicles in India. Adjusted operating income and margin improvement improved despite raw material headwinds, particularly higher helium prices. The strong performance was primarily driven by higher sales and well-executed activities to improve efficiency and costs.

I am pleased that our cash flow improved in line with our expectations, resulting in record operating cash flow for a second quarter and supporting our ambitious shareholder return strategy. Despite repurchasing over 1.6 million shares for $200 million and paying a dividend of $64 million, our leverage ratio improved to 1.2x. During the quarter, we announced additional structural cost initiatives which we will elaborate on in the next slide.

Based on what we know today, we reiterate our full year 2026 guidance of flat organic sales with continued significant outperformance of light vehicle production in both China and India. We continue to expect an adjusted operating margin of around 10.5% to 11%. This is based on the assumption that global light vehicle production will decline by around 2.5% and that the gross headwind from raw materials is around $110 million.

I'm also proud that we signed strategic cooperation agreements with leading Chinese vehicle manufacturers, Great Wall Motor and XPENG. These agreements mark important milestones in our strategy to expand with leading Chinese vehicle manufacturers and further demonstrate the competitiveness of our safety solutions.

They strengthen our position as a trusted safety partner and creates a strong platform for sustainable long-term growth, both in China and globally as they expand their footprint. Looking now on our continued cost reduction activities on the next slide.

To strengthen our competitiveness and support our financial targets, we are continuing our global structural cost reduction initiatives.

As a part of this effort, we have decided to gradually discontinue our manufacturing operations in Turkey which today produce steering-wheels, airbags and seatbelts. Production will be transferred to our existing facilities across EMEA region, allowing us to optimize our manufacturing footprint while maintaining our ability to serve customers efficiently. This decision is expected to affect approximately 2,200 employees.

The transition will take place over the coming years with a complete closure anticipated during the first half of 2028. From a financial perspective, we expect total restructuring charges of approximately $142 million, of which $90 million was recognized in the second quarter of 2026. Cash out is expected to be approximately $129 million with a limited impact on our 2026 cash flow.

Importantly, this initiative is expected to generate annual pretax savings of approximately $40 million. With benefits beginning to materialize in 2027 and reaching the full run rate in 2028. Overall, this action is an important step in improving our cost competitiveness and is supporting us in achieving our financial targets.
Looking now on the next slide.
Second quarter sales increased by approximately 3% year-over-year, driven by outperformance relative to light vehicle production, along with favorable currency effects, partly offset by lower tariff-related compensations. The adjusted operating income for Q2 increased by 7% to $270 million. The adjusted operating margin was 9.6%, 30 basis points higher. Operating cash flow was a strong $434 million, an increase of $157 million.

Looking on to the next slide.
We continue to deliver broad-based improvements. Our positive direct labor productivity trend continues. This is supported by the implementation of our strategic initiatives including automation and digitalization. Gross profit increased by $8 million, while the gross margin decreased by 30 basis points, mainly due to the reversion of a supplier settlement.

The decline in gross margin from 18.5% to 18.2%, driven by a supplier compensation reversion and asset impairments related to the Turkey restructuring which combined reduces gross margin by almost 80 basis points. RD&E net increased year-over-year, primarily on negative currency translation effects, higher personnel costs and lower engineering income due to timing of specific customer development projects.

SG&A decreased by $7 million, mainly due to reverse estimate of credit loss reserves, partly offset by negative FX translation effects. In relation to sales, SG&A improved by 40 basis points to 4.9%.
Looking now on the market development in the second quarter on the next slide.

According to S&P Global's July data, global light vehicle production declined by 0.3% in the second quarter, approximately 160 basis points better than expected in April, stronger-than-expected performance in North and South America Europe, India and South Korea helped offset softer production levels in China.

The global regional LVP mix was approximately 60 basis points unfavorable in the quarter, primarily driven by stronger LVP in lower content markets relative to other markets. During the quarter, volatility improved year-over-year, but declined slightly sequentially, driven by weaker development in China. We will talk about the market development more in detail later in the presentation.

Looking now on our sales growth in more detail on the next slide.

Our consolidated quarterly net sales exceeded $2.8 billion for the second time in our history. This was approximately $90 million higher than in the prior year, primarily driven by positive currency translation effects of $62 million. This benefit was partly offset by approximately $5 million of lower tariff-related compensations, mainly due to an IEEPA-related refund of $9.6 million during the quarter. Excluding currencies, our organic sales grew $27 million or by 1% including negative tariff cost compensation.

Based on the latest light vehicle production data from S&P Global, we outperformed the market by over 1 percentage points globally. Our outperformance was significant in Asia. In Asia, excluding China, we outperformed the market by 6 percentage points, driven by continued strong sales growth in India, where we outperformed by around 20 percentage points. Japan and South Korea also contributed to the outperformance.

In China, we delivered outperformance of more than 7 percentage points, supported by strong sales growth with Chinese OEMs where our sales to them grew over 40 percentage points faster than their LVP grew.

As a result, the Chinese OEMs accounted for 55% of our sales in China in the quarter compared to 40% last year. The negative performance in the Americas can partly be attributed to lower tariff compensation following the IEEPA refund as well as an unfavorable mix driven by strong Light Vehicle Production growth in lower content South American market. Globally, Chery, Suzuki, Nio, were the largest drivers of sales growth during the quarter. Despite the Light Vehicle Production decline in China, China accounted for 19% of sales.

Asia, excluding China, also accounted for 19%. Americas was 32% and EMEA was 30%. Looking now on the next slide.

The second quarter of 2026 saw a high number of new launches, primarily in China with both Chinese and other OEM's. These new China launches reflect strong momentum for Autoliv in this important market. Higher CPV is driven by front center airbags on many of these new vehicles.

In terms of Autoliv's sales potential, the Nio ES9 is the most significant in the quarter. For rest of 2026, we expect a high number of new product launches, mainly driven by Chinese OEMs, offsetting fewer launches in Americas and Europe.
Let's continue with the next slide. I will now hand over to Monika.

Monika Grama^ Thank you, Mikael. I will talk about the financials more in detail on the next few slides. Turning to the next slide.

This slide highlights our key figures for the second quarter of 2026 compared to the same quarter of 2025. Our net sales were $2.8 billion, representing a 3% increase.

Gross profit increased by $8 million and gross margin decreased by 30 basis points. The drivers behind the gross profit improvement were mainly positive FX effects and lower cost for materials. This was partly offset by $13 million in costs for our supplier compensation reversal and $9 million in asset impairments related to the restructuring facility. The adjusted operating income increased from $251 million to $270 million and the adjusted operating margin increased from 9.3% to 9.6%. The reported operating income of $192 million was $78 million lower than the adjusted operating income, mainly due to higher capacity alignment activities.

The adjusted earnings per share diluted increased by $0.23 to $2.43. The main drivers were $0.18 from higher operating income, $0.10 from lower number of outstanding shares during partly offset by $0.07 from higher taxes. Our Adjusted Return On Capital Employed and Adjusted Return On Equity were solid 25% and 28%, respectively. We repurchased shares of $200 million and paid a dividend of $0.87 per share.

Looking now on the adjusted operating income bridge on the next slide.

In the second quarter of 2026, our adjusted operating income increased by $18 million. Operations contributed $61 million, primarily driven by higher organic sales and cost reductions supported by better call-off stability. This was partly offset by $15 million in cost for our supplier compensation reversal, excluding $6 million of FX translation effect and the supplier compensation reversal, RD&E net and SG&A increased by $6 million, partly driven by $5 million lower RD&E reimbursement.

During the quarter, we recovered approximately 83% of our U.S. tariffs, excluding IEEPA-related recovery bringing our year-to-date recovery rate to 78%. The combination of unrecovered tariff and the dilutive effects of the recovered portion was around 20 basis points negative. However compared to last year, it was a positive impact of around 15 basis points as the negative effect of last year was around 35 basis points.

Looking now at cash flow on the next slide.

Operating cash flow for the second quarter was $434 million, an increase of $157 million. This change was primarily driven by a positive working capital impact of $240 million. The working capital contribution reflects a normalization following the first quarter increase which was largely driven by the high sales level in March 2026 and several adverse onetime impacts. The improvement was primarily attributable to changes in accounts payable of $120 million, net receivables of $35 million and accrued severance and restructuring costs of $48 million.

Free operating cash flow improved by $177 million to $340 million. Year-to-date operating cash flow increased by $4 million to $359 million, and free operating cash flow improved by $31 million to $178 million compared to the prior year. Capital expenditures net for the quarter decreased by $19 million. Capital expenditures net in relation to sales was 3.4% versus 4.2% year-on-year. The lower level of capital expenditures net is mainly related to lower footprint optimization and less capacity expansion.

The cash conversion for the last 12 months was 119% and exceeding our target of at least 80%. Now looking on our debt leverage on the next slide.

Autoliv's balance leverage strategy reflects our prudent financial management, enabling resilience, innovation and sustain stakeholder value over time. Our leverage ratio improved from 1.3 to 1.2 times during the quarter despite shareholder returns totaling $264 million.

Our net debt decreased by around $75 million in the quarter, while the 12-month trailing adjusted EBITDA increased by $33 million. On to the next slide.

I will now hand it back to Mikael.

Mikael Bratt^ Thank you, Monika. I will talk about the outlook for 2026, more in detail on the next few slides. Turning to the next slide.

Overall, S&P Global expects global light vehicle production to decline by 2.3% in 2026, representing an almost 2 percentage point downward revision from its January forecast. The downgrade is primarily driven by lower production expectations in China and Middle East, while many other markets continue to demonstrate notable demand resilience.

In Europe, Light Vehicle Production is expected to decline by nearly 1% reflecting ongoing affordability challenges and increasing competition from Chinese imports. For North America, S&P Global has a revised outlook, and now expects production to decline by only 1% in 2026. The market continues to display resilience despite uncertainty related to the conflict in the Middle East and the higher fuel prices.

S&P Global has lowered its outlook for China Light Vehicle Production by 4 percentage points since January and now expect a 5% decline in 2026. The weaker outlook reflects a challenging demand environment, driven by reduced government incentives, ongoing macroeconomic headwinds and increasingly cautious consumer sentiment despite continued strength in the vehicle exports.

S&P Global and revised Light Vehicle Production outlook upward for both Japan and South Korea and now expect production to decline by only 1% and 2%, respectively. The improved outlook reflects strengthening exports to the U.S. and Europe, supported by robust demand for fuel-efficient hybrid electric vehicles. India's light vehicle production is expected to increase by 9%, driven by a reduction in purchase taxes on new vehicles which benefit smaller and lower-priced models.

However escalating political tension in the Persian Gulf continue to increase risks across the automotive value chain with potential implications for energy prices, consumer sentiment, supply chain stability, raw material availability and overall industry volumes.

Now looking at the second half year development on the next slide.

As we look ahead to the second half of the year, we remain focused on managing a dynamic external environment. We are closely monitoring the potential impact of geopolitical developments in and around Persian Gulf which could affect supply chains, raw material costs and overall, vehicle demand.

Our 2026 guidance currently assumes a gross raw material headwind of approximately $110 million. And we continue to evaluate multiple scenarios as the situation evolves. Despite these challenges, we expect margin expansion to be supported by FX, engineering income and customer compensations. For the third quarter, we expect the adjusted operating margin to be similar to the first half year level.

Importantly, customer compensation engineering income, other litigation initiatives are expected to be weighted towards the fourth quarter, resulting in a significant step-up in profitability in the fourth quarter. Therefore the earnings structure in 2026 is expected to be similar to that of 2023 and 2024, reflecting both the timing of anticipated compensations and a cyclical seasonal ramp-up in profitability and operating leverage.

Now looking on the updated full year guidance on the next slide.

This slide shows our full year guidance which excludes effects from capacity alignment and antitrust-related matters. It is based on no material changes to tariffs or trade restrictions that are in effect as of July 9,2026, as well as no significant changes in the macroeconomic environment or changes in customer call-off volatility or significant supply chain disruptions.

We expect to outperform Light Vehicle Production by around 2.5 percentage points as our organic sales is expected to be flat, while global Light Vehicle Production is expected to decline by 2.5%. The net currency translation effects on sales is expected to be around 2.5% positive.

The guidance for adjusted operating margin is around 10.5% to 11%. Operating cash flow is expected to be around $1.2 billion. And we expect CapEx to be below 5% of sales. Our positive cash flow and strong balance sheet supports our continued commitment to a high level of shareholder returns. We expect a tax rate around 30%.

Looking on to the next slide.

This concludes our formal comments for today's earnings call and we would like to open the line for questions from analysts and investors. I now hand it back to our operator, Sandra.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We will now take the first question from the line of Colin Langan from Wells Fargo. Please go ahead.

Colin Langan^ Oh great thanks for taking my questions. If I look at your comments about the cadence of margins, I think you had previously said it would be more linear. Now it sounds -- I think the math is something like you need a 15% margin in Q4 to kind of get to the midpoint of your full year guidance. What changed and how maybe we should think about raw material costs? I think year-to-date, you had $26 million. Is that a similar number in Q3? And is all of that recovered in Q4? And is that why we have the -- is that a big driver of the Q4 spike is the recovery of that raw material in Q4? Thank you.

Mikael Bratt^ Thank you. Good question there. I mean as you said, I mean when we started this year, our expectation was that we should see more of a, let's say, normal traditional sequence of how the quarter played out in the year. And now we're talking about the more back-end loaded. And the reason and why it's more back-end loaded is because we see the inflationary pressure here in the value chain as a result of the Persian Gulf.

So I think what has changed is really the upward pressure on the cost side. And for us, as you know we don't buy raw materials directly. So it's to our supply chain, and we have timeline there, but we also have, say, diluting effect of the high profit as well. But we need to get that through and then enter into the negotiations with our customers here on price adjustments. So the way of working is very similar to what we saw, if you got during the inflationary year standpoint '23, '24 as we go through this year.

So that is really the change compared to when we talked about before. And let me just say then also that, I mean I feel very comfortable in how this trajectory look like. Because I mean first of all, we have done it before.

Secondly, we are very focused around the different activities to secure the outcome here, meaning that it's a combination, of course, of our internal work here to drive efficiency and cost improvement in general and here we also, as we stated in the report, we have a good momentum in what we do there, and that's why we feel comfortable here to retain and maintain the full year guidance.

And then in combination then with price discussions with customers and also here, I would say we have well-established routines also to manage that. So yes, I mean we have here activities here to do and have confidence in our ability to work on that.

Colin Langan^ And we should expect almost 100% of the raw materials recovered? Just to clarify. Or is there still some exposure not for the year because of the timing?

Mikael Bratt^ No. I mean it's a combination of, let's call it, self-help, meaning that we need, of course, to do our bit here with making sure that we don't let through everything in -- from our suppliers. So we're working with our suppliers to make sure that we are as efficient as possible in this environment there. And then we have also cost-out activities internally in the company and then the third leg is then the price adjustments with our customers here. So as you know the price negotiations with the customers is also very detailed.

It's not a general percentage adjustment. It is really down to the component level here to see how the different components have been impacted by customers. So hence the lead time also. But there are several levers to work with how to offset the inflation.

Colin Langan^ Got it. And just last question. You lowered production from one to down 2.5. What is the offset? Is that better growth over market? And where are you seeing that sort of better-than-expected growth that's offsetting the production weakness? Is that maybe a geographic mix helper?

Mikael Bratt^ No. I think, I mean what we see here is, of course, is that we have a positive mix with how the market is developing. And we also have good growth with our Chinese customers here in India sort of contributing here. So I think we are in the right places here to capture the growth.

Colin Langan^ Got it thank you for taking my question.

Mikael Bratt^ Thank you.

Operator^ Thank you. We will now take the next question from the line of Emmanuel Rosner from Wolfe Research. Please go ahead.

Emmanuel Rosner^ Great thank you so much. One follow-up on the cadence, please. Are you expecting -- just to be clear, are you expecting most of the mitigating impact from the recoveries and from your own self-help to happen in the fourth quarter? I'm just trying to understand the delta between what you're seeing for Q3 margins and then what maybe consensus expectations were, that's probably like $35 million delta? Like just curious if -- are these unmitigated headwinds in Q3 and then you get it all back in Q4?

Mikael Bratt^ No. I mean the majorities in Q4, I think that's how you should read it. I mean of course, we are managing a part of it in the third quarter. But as a natural progression also if you look at the engineering income, it's mainly in the fourth quarter rather than in the third quarter. So I think that's financially. So it's really engineering income.

It is also the higher customer compensation that we talk about here for the inflation. And I think also if you look at the sales progression, it's also for the remainder of the year also geared towards the fourth quarter. So that's really the reason for that.

Emmanuel Rosner^ Understood. And then can you give us a little bit more color around the IEEPA refund dynamics? I wasn't able to follow exactly to what extent it helped your EBIT in the quarter and what you expect on a full year basis?

Monika Grama^ So right now in the quarter, we got back around $12 million from the government which we largely passed on to our customers around $9 million. So we retain a positive impact of $3 million in the net results. And as mentioned previously we -- our aim is to recover the tariff or the net impact of the tariff year-to-date to a large extent on year to go and to reach a similar recovery rates that we had in the prior year which was around 5%.

Emmanuel Rosner^ Okay understood thank you very much.

Monika Grama^ Thank you.

Operator^ Thank you. We will now take the next question from the line of Tom Narayan from RBC. Please go ahead.

Gautam (Tom) Narayan^ Yes hi thank you for taking the question. I have a follow-up to Colin's question on the growth over market. I remember at the Investor Day in Sweden, we heard a story about how we're going to see good growth over market coming from a increasing content per vehicle, especially from emerging markets. You got calling for 2.5% growth over market this year.

I know there are some offsets, right, notably, Americas in this past quarter was down 5%. So I just wanted to understand that a little bit more. I know in the report, there was a call out of South America which had, I guess, lower content per vehicle and then on replacement vehicles. But does this mean that the growth in South America were happening in vehicles with no safety content? I just want to understand why it would be down 5 %, I know that's versus a very strong market level in South America, but if you have any safety content, I would think it would be up. So I just want to understand that better. And then I have a follow-up.

Mikael Bratt^ Yes. I mean let me start. Because I mean when we talk about the growth in the Capital Markets Day, you mentioned here, I mean was really three significant buckets we talked about. One was LVP, 1% to 2%. It was then the content that's 1% to 2%.

So I mean if you had a flat LVP, you had a content growth there of 1% to 2% on top of that. And what we're talking about now here is really that we see a market that is down with 2.5%, the LVP portion of it. And then, of course, we have a mix effect here connected to the content very much. And what we talk about here is when South America is growing and U.S., if we stay in America, so to speak, and then simplify a little bit which is a high content, it's flat or even will be down.

Of course, you have -- even if you have growth in South America content, it's not enough to offset what's going down in the high content markets. So there, of course, you'll get a negative mix effect on the content side. So long story short, we definitely see that the content growth is there. And we see also how both, let's call it, the low content markets are growing in the content as well as the high content over time here. And when we talk about India specifically, it's very much so that is a content-driven growth that we see.

I mean in the last two years, the content have grown sequentially with 20% two years in a row. So a strong growth there. So what we try to convey. But of course you have a mix effect here that is not moving in the full potential here.

Gautam (Tom) Narayan^ Okay. Understood. And then my follow-up, I guess, what was, I guess, the rationale to move production from Turkey to EMEA? Was it cost saves coming from a plant maybe that wasn't as automated? Was it labor? I guess what was driving that decision?

Mikael Bratt^ No. I think, I mean we constantly review our global footprint. And here, we're talking about EMEA, where we have over the last couple of years, taken significant steps to consolidate our activities and optimize them as we move forward. And that's something we have done and we continue to do going forward also to make the work we have the most competitive setup. And we saw here now that with the opportunity to continue to consolidate capacity into other sites in Europe.

We have a strong business gains to do so, and you have seen the numbers and how the numbers here. And that was of course a tough decision to take and painful for our quality in Turkey that have done a great job over the years. But we need, of course, to make sure that we maintain our competitiveness.

So we are moving some to our Tunisian operations that is -- has been growing plant over the last couple of years here. And we're also moving into other sites of Europe and Romania, for example. So it's to continue to sharpen our position.

Gautam (Tom) Narayan^ Thank you.

Operator^ Thank you. We will now take the next question from the line of Winnie Dong from Deutsche Bank. Please go ahead.

Winnie Dong^ Hi thank you so much for taking our question. I just wanted to follow up on your production assumption for the full year a little bit more. So now you're assuming 2.5% decline previously you were at 1%. I think lately, it has actually improved all a little bit. So I just wanted to understand if there is a mixed situation that's going on? And if you can help us triangulate what you're seeing and if you're just truing up to what the market it's trending towards.

Mikael Bratt^ Yes. Yes. Thank you for your question. I think I mean S&P now is at minus 2.3%. We are at minus 2.5%. I would say that about the same level, it's marginal difference here. And I mean the big move, you could say here is that we have seen more weakening deeper weakening in China than expected here. To some extent, also the Middle East, but Middle East is still a very small part of the total picture.

So I think it was less than 2% when you talk about Middle East, Africa here. So I mean it's really about the weakening in China, domestic sales there and the domestic operations. So that is the change that we talked about.

Winnie Dong^ Okay. Okay. Got you. That's helpful. And you do have very good momentum happening in China. And I know it's kind of difficult to delineate the strength between domestic which is seeing a lot of weakness right now but export is actually very, very strong. But is there like a general framework on how we can think about how much the exports is actually contributing to your outgrowth in China?

Mikael Bratt^ I think it's -- I mean it's not really -- I mean for us, we -- it's all domestic, you could say, that we are delivering in there because we don't have separate value chains or separate setups, if it's an export vehicle or it's a domestic. So we don't really see that split from our perspective. So for us, it's all domestic sales to domestic plants. But I mean you're absolutely correct here that the production level is holding up better than what the sales -- domestic sales to the end consumer would indicate.

So -- so our operation is definitely supported by the exports here. And yes, I think we will see going forward here. But when we talk about the adjustments we just mentioned to the minus 2.5%. It's the net effect of that, of course.

Winnie Dong^ Got you. Thank you so much.

Mikael Bratt^ Thank you.

Operator^ Thank you. We will now take the next question from the line of Hampus Engellau from Handelsbanken. Please go ahead.

Hampus Engellau^ Thank you very much. One question for me. It's relegating to the Turkey production closure. But also going back to your capacity line and programs in Europe, that initially was about 8,000 people, and this is additional 2,200. I'm just trying to understand where are now in terms of headcount and how you see demand trending? Is this a part of the automation program that you have been running since 2019? Or is it also that you said that you need less capacity or have had more -- too much capacity. Interesting to hear your thoughts on these different parameters. Thank you.

Mikael Bratt^ Thank you, Hampus. As I alluded to before I mean is a constant review of how to optimize your production facilities. And when -- it's not like we had overcapacity in Turkey, but we had an overcapacity in the whole system here where we saw opportunities to consolidate even further. And I mean you're correct in the way to say that the optimization definitely contributes to our opportunity to put more into the existing plants or somewhere else. And when you drive the optimization, you can also create the flexibility we have talked about before and we can also see that with an efficient automized and flexible setup you need less square meter to produce the same amount. So -- so when you harvest that so to speak, you'll come to these kind of decisions every now and then where you're actually looking at the complete site by the consolidating it in. So it's a way of harvesting the continuous improvement or also the step changes that we've seen as a result of new technology.

Hampus Engellau^ All right. Thank you.

Mikael Bratt^ Thank you.

Operator^ Thank you. We will now take the next question from the line of Itay Michaeli from TD Cowen. Please go ahead.

Itay Michaeli^ Great thank you everybody. Just two follow-ups for me. Just first back to the margin guidance, just given the updated cadence for the year, is there any bias at this point towards the lower half or upper half of your full year margin range?

Mikael Bratt^ No. As you see here, we haven't expressed upper or lower end or any more precision than -- and what we have here which is within range of around 10.5% to 11%. And I think if you ask me, which I think you do, why we are not more precise here.

It is really that we see with everything going on here that there is difficult to be more precise than what we are with the interval here. And I think the interval here reflects the volatility in the markets, so to say, and uncertainty when it comes to the market in home and also the inflation pressure here, if it's -- if is this a long-term or if it's more of a short term thing? So what we see right now this is the best judgment we can do now that we should be within that range.

Itay Michaeli^ That's helpful thank you. And as a quick follow-up, can you maybe comment on order intake trends in the quarter if you've seen any improvement there? And maybe how just like order in the last couple of years, just maybe impacts we how should we think about your growth over market in Americas and Europe, say, over the 12 to 24 months?

Mikael Bratt^ Yes. I mean we don't disclose any details around the current order intake more than I can say that I feel comfortable that we have activities in that area that support depending on our market area which is around 45% as we have before.

As always, you start out the year where you have a lot of indications that will be at a certain level. And then as the year plays out, some things are being pushed out to the next year, meaning that the OEMs decides to delay the decisions and so on. And in this circumstances that we have right now with a lot of questions around the sentiment in the market, the driveline issues and so on that we saw taking place maybe one year, 1.5 years ago and some reshuffling in the model programs.

I would say to some extent that is partly still going on, but it is a reasonable activity this year when it comes to tenders that are out there. And so all in all, I think we are in good shape here to defend our market share. And I would say also activity level wise, it's a decent year from OEM perspective in terms of activities.

Itay Michaeli^ That’s very helpful thank you.

Mikael Bratt^ Thank you.

Operator^ Thank you. We will now take the next question from the line of Agnieszka Vilela from Nordea. Please go ahead.

Agnieszka Vilela^ Thank you and hi Mikael.

Mikael Bratt^ Hi.

Agnieszka Vilela^ I have two questions. Starting with your growth of the Chinese OEMs. I mean you have been very successful by increasing your sales towards them and the - a new cooperation with XPENG and Great Wall. Overall, do you expect that the growing China mix in your sales will have neutral positive or negative impact on your group content per vehicle and on your profitability?

Mikael Bratt^ As you know the profitability part, I can't go into any details here. And as we normally say, it's more platform program by a platform program than anything else. But in terms of our growth opportunities here, I definitely see this business is very important and great opportunity to secure our future growth here. As you've seen here, I mean we have grown from 22% of our China sales in '22 to 55% China sales now in Q2 with COEMs. At the same time as the China OEMs have taken their share of the light vehicle production from roughly 43% in '22 to 72% now in the second quarter of this year.

So the combination here of us increasing with them as well as they increasing their share of Light Vehicle Production contributes very positively, of course, to the growth, but also to securing our position in China here as the market leader and also with the opportunities that may be in the future here also when the Chinese OEMa are also moving out their footprint to support a more locally integrated in the different regions.

But right now you could say it's mainly an export-driven activity which also supports us, of course, here in this. And in the quarter, 4 out of 8 fastest-growing customers are Chinese OEMs. So it's very helpful, absolutely and important.

And I think also back to the agreements you referred to, it's, of course, also very interesting opportunities for us also when it comes to driving innovation here because many of these customers are very innovative in terms of the expectations on the future interiors and, I would say, more advanced products to solve more challenging seating positions et cetera. So very interesting from an innovation point of view as well.

Agnieszka Vilela^ Perfect thank you for the color. And the second question, coming back to growth. Looking at your performance in H1, you outperformed the market by 2 percentage points. But just looking at what you guide for the full year, it looks like the outperformance can accelerate to 3 percentage points. Can you just give us any kind of reasons why and drivers behind this acceleration in our performance and growth?

Mikael Bratt^ Yes. I think FX is one part of it as well. And I think we have also talked here about before slightly positive effect coming from the mix here because before we talked about more of a flat neutral region mix for '26. And now we're looking at let's say, 40 basis points contribution coming from that as well. And then, of course, also you have some compensation activities here with our customers contributing a as well.

Agnieszka Vilela^ Thank you.

Mikael Bratt^ Thank you.

Operator^ Thank you. We will now take our final question from the line of Dan Levy from Barclays. Please go ahead.

Dan Levy^ Hi good morning and thank you for taking the question. Wanted to go back to the question or the point of recovery payments. Can you maybe just put this in context of how the recovery payments that you're getting or the plan to get on raw materials, how that's at all related to the other recovered payments you'd have on other inflationary measures, whether it's you are linked. And with automakers, you took a very good track record in the past of getting recoveries, but with automakers, especially in North America, tighter on pricing, is that at all playing any role in the type of conversations you have in the magnitude of recoveries?

Mikael Bratt^ Yes. I wouldn't say that there is any difference in the dialogue today compared to what was in '25, '24, '23 here, it's never easy, and it has never been. But once again, I think here, when it comes to the different buckets you're referring to here, I mean tariffs is fairly straight forward, I would say, because that's something you have to pay when you cross the border, and it's very easily connected to the value flows you have towards the customer with 232. I mean because we are mainly talking about the tariffs between Mexico and the U.S. here.

With the 232, it will be almost automized to a large extent when that is fully implemented. Engineering income is also something we're talking about here for the second half. That's also something that is a part of ordinary course of business as we have been for years, so nothing strange here. And when it comes to inflation compensation here, we see that the combination here of course, that we need to do our part here together with our suppliers and our internal efficiency and then come to customers.

So it's a mix of the three here. And once again, it's a very detailed in down to the component well and also here, we are and so back and establish routines there. So I would almost call it business as usual, but -- but maybe let's describe a little bit too simple. But we have a good way to deal with that part as well and we are progressing as we speak here. And no change either improved or deteriorated in terms of our ability to do it.

Dan Levy^ Thank you. And as a follow-up, I wanted to ask about the strategic cooperation framework you signed with Great Wall and XPENG. Could you just help us understand if you're aiming to set up additional agreements with other automakers? And to what extent does this position you well as you start to look at potential sourcing opportunities for these automakers in Europe? Does that position you to the front as they start to give out awards?

Mikael Bratt^ No. Of course, it's something that we constantly work with together with our customers, and we have had this type of agreements in the past also with others which we also have, I think, communicated not that long ago. So they are important, I would say, are connected very much also to, first of all, the innovation opportunities here because it really means that we get very close to our customers here by working well in advance with new joint challenges here.

So as I said before here, this different seeking positions that is not traditional, but may come when you see autonomous vehicle increase eventually over time. But already today, comfort is a key factor for many OEMs, meaning that you should be able to sit more relaxed, lean back more than what the current setups allow you to do. So we call it the zero gravity seat, I think we have spoken about that also in a few times.

It's an opportunity there. But further out you go, you could say with the ambitions that some of the OEMs have here in terms of creating new interesting vehicles here, you have to have more challenging solutions at the end of the day which drives also content, I would say. And it puts us up to be in the forefront on developing this new type of technologies that is needed in the future. So very, very interesting and great opportunity to support our customers in a good way.

Dan Levy^ Great. Thank you.

Mikael Bratt^ Thank you.

Operator^ Thank you. All the time we have for questions today. I would now like to turn the conference back to Mikael Bratt for closing remarks.

Mikael Bratt^ Thank you Sandra. Let's look on the next slide here. Before we conclude today's call I would like to highlight our new innovation center in Vårgårda, Sweden which was inaugurated in June and represents an important investment in our future growth and technology.

By bringing research, testing, prototyping and pilot production together in one location, the center will help accelerate innovation and shorten development cycles. The center also expands collaboration with industry, academia and society, creating a strong platform for future innovation.

We believe these investments will support long-term growth, enhance our competitive position and help us save even more lives in the years ahead.

Finally, the third quarter call is scheduled for Friday, October 23, 2026. Thank you for your attention. And until next time stay safe.