LEAR CORP
Form 10-K
February 06, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017.
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission file number: 1-11311
(Exact name of registrant as specified in its charter)

Delaware	13-3386776
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
21557 Telegraph Road, Southfield, MI	48033
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (248) 447-1500
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
Emerging growth company	¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of July 1, 2017, the aggregate market value of the registrant's common stock, par value $0.01 per share, held by non-affiliates of the registrant was $9,648,744,720. The closing price of the common stock on July 1, 2017, as reported on the New York Stock Exchange, was $142.08 per share.

As of February 2, 2018, the number of shares outstanding of the registrant's common stock was 66,920,130 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the registrant's Notice of Annual Meeting of Stockholders and Definitive Proxy Statement on Schedule 14A for its Annual Meeting of Stockholders to be held in May 2018, as described in the Cross Reference Sheet and Table of Contents included herewith, are incorporated by reference into Part III of this Report.

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LEAR CORPORATION AND SUBSIDIARIES
CROSS REFERENCE SHEET AND TABLE OF CONTENTS

(1) Certain information is incorporated by reference, as indicated below, to the registrant’s Notice of Annual Meeting of Stockholders and Definitive Proxy Statement on Schedule 14A for its Annual Meeting of Stockholders to be held in May 2018 (the "Proxy Statement").

(2) A portion of the information required is incorporated by reference to the Proxy Statement sections entitled "Election of Directors" and "Directors and Corporate Governance."

(3) Incorporated by reference to the Proxy Statement sections entitled "Directors and Corporate Governance — Director Compensation," "Compensation Discussion and Analysis," "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report."

(4) A portion of the information required is incorporated by reference to the Proxy Statement section entitled "Directors and Corporate Governance — Security Ownership of Certain Beneficial Owners, Directors and Management."

(5) Incorporated by reference to the Proxy Statement sections entitled "Certain Relationships and Related Party Transactions" and "Directors and Corporate Governance — Independence of Directors."

(6) Incorporated by reference to the Proxy Statement section entitled "Fees of Independent Accountants."

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PART I

ITEM 1 – BUSINESS

In this Report, when we use the terms the "Company," "Lear," "we," "us" and "our," unless otherwise indicated or the context otherwise requires, we are referring to Lear Corporation and its consolidated subsidiaries. A substantial portion of the Company’s operations are conducted through subsidiaries controlled by Lear Corporation. The Company is also a party to various joint venture arrangements. Certain disclosures included in this Report constitute forward-looking statements that are subject to risks and uncertainties. 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."

BUSINESS OF THE COMPANY

General

Lear Corporation is 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 worlds's major automotive manufacturers. We have 257 manufacturing, engineering and administrative locations in 39 countries and are continuing to grow our business in all automotive producing regions of the world, both organically and through complementary acquisitions. Our manufacturing footprint reflects more than 151 facilities in 22 low cost countries.

We use our product, design and technological expertise, global reach and competitive manufacturing footprint to achieve the following financial goals and objectives with the aim to maximize stockholder value:

- Continue to deliver profitable growth, balancing risks and returns;
- Maintain a strong balance sheet with investment grade credit metrics; and
- Consistently return excess cash to our stockholders.

Our business is organized under two reporting segments: Seating and E-Systems. Each of these segments has a varied product and technology range across a number of component categories:

- Seating — Our Seating segment 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. We also offer seat heating and cooling capabilities through technology partnerships and design-integrated supplier solutions.

E-Systems — Our E-Systems segment consists of the design, development, engineering and manufacture of complete electrical distribution systems that 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 and systems for high power battery electric vehicle and hybrid electric vehicle power management and distribution systems. We also design, develop, engineer and manufacture sophisticated electronic control modules that facilitate signal, data and power management within the vehicle, as well as associated software. We have electronic hardware and software capabilities in wireless communication and cybersecurity that securely process various signals to, from and within the vehicle, as well as capabilities to provide roadside modules that communicate real-time traffic information to vehicles in the area.

We serve the worldwide automotive and light truck market in both our Seating and E-Systems segments. We have automotive content on more than 400 vehicle nameplates worldwide and serve all of the world’s major automotive manufacturers across our businesses and various component categories in both our Seating and E-Systems segments. It is common to have both seating and electrical content on the same and multiple vehicle platforms with a single customer. In addition, our electrical components are increasingly integrated into our complete seat systems, as the new technologies, functions and features that we are developing in our Seating business are often enabled by electronic sensors, software and controls. We are the only global automotive supplier with significant capabilities in electronics, software and seating. 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

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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.

Available Information on our Website

Our website address is http://www.lear.com. We make available on our website, free of charge, the periodic reports that we file with or furnish to the Securities and Exchange Commission ("SEC"), as well as all amendments to these reports, as soon as reasonably practicable after such reports are filed with or furnished to the SEC. We also make available on our website or in printed form upon request, free of charge, our Corporate Governance Guidelines, Code of Business Conduct and Ethics (which includes specific provisions for our executive officers), charters for the standing committees of our Board of Directors and other information related to the Company. We are not including the information contained on our website as a part of, or incorporating it by reference into, this Report.

The public may read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site (http://www.sec.gov) that contains reports, proxy and information statements and other information related to issuers that file electronically with the SEC.

History

Lear was founded in Detroit in 1917 as American Metal Products, a manufacturer of seating assemblies and other components for the automotive and aircraft industries, and was incorporated in Delaware in 1987. Through a management-led buyout in 1988, Lear Corporation established itself as a privately-held seat assembly operation for the North American automobile market with annual sales of approximately $900 million. We completed an initial public offering in 1994 and developed into a global supplier through organic growth and a series of acquisitions.

In May 1999, we acquired UT Automotive, Inc. ("UT Automotive") from United Technologies Corporation. UT Automotive was a leading supplier of automotive electrical distribution systems. The acquisition of UT Automotive represented our entry into automotive electrical and electronic systems and was the basis for our current E-Systems segment.

We have subsequently augmented our internal growth plans with selective acquisitions to expand our component capabilities and global footprint, as well as expand our technology portfolio:

- In May 2012, we acquired Guilford Mills, a leading supplier of automotive seat and interior fabric, from Cerberus Capital Management, L.P., for approximately $243 million.
- In January 2015, we acquired Everett Smith Group, Ltd., the parent company of Eagle Ottawa, LLC ("Eagle Ottawa"), the world's leading provider of leather for the automotive industry, for approximately $844 million.
- In August 2015, we acquired intellectual property and technology from Autonet Mobile, a developer of wireless communication software and devices for automotive applications.
- In November 2015, we completed the acquisition of Arada Systems Inc., an automotive technology company that specializes in vehicle-to-vehicle ("V2V") and vehicle-to-infrastructure ("V2I" and together with V2V, "V2X") communications.
- In December 2016, we acquired AccuMED Holdings Corp. ("AccuMED"), a privately-held developer and manufacturer of specialty fabrics, for approximately $149 million. AccuMED provides innovative fabric processing technology that will benefit our automotive fabric operations and adds scale to our existing non-automotive fabric products.
- In April 2017, we acquired Grupo Antolin's automotive seating business ("Antolin Seating") for approximately $292 million. Antolin Seating is headquartered in France with operations in five countries in Europe and North Africa. The Antolin Seating business is comprised of just-in-time seat assembly, as well as seat structures, mechanisms and seat covers. Antolin Seating has modern facilities and a reputation for lean manufacturing, superior quality and innovation, including high-functionality and light-weight seat designs.

- In January 2018, we acquired Israel-based EXO Technologies, a leading developer of differentiated GPS technology providing high-accuracy positioning solutions for autonomous and connected vehicle applications.

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Industry and Strategy

We supply all vehicle segments of the automotive light vehicle original equipment market in every major automotive producing region in the world. 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 improved 5% in 2016 from the prior year and another 2% in 2017 to a record 93.3 million units.

Details on light vehicle production in certain key regions for 2017 and 2016 are provided below. Our actual results are impacted by the specific mix of products within each market, as well as other factors described in Item 1A, "Risk Factors."

(In thousands of units)	2017 (1)	2016 (1, 2)	% Change
North America	17,128.4	17,836.7	(4)%
Europe and Africa	22,947.0	22,311.5	3%
Asia	48,233.3	47,054.4	3%
South America	3,115.2	2,567.8	21%
Other	1,913.0	1,582.1	21%
Total	93,336.9	91,352.5	2%

(1) Production data based on IHS Automotive.

(2) Production data for 2016 has been updated to reflect actual production levels.

Details on light vehicle production in certain emerging markets for 2017 and 2016 are provided below.

(In thousands of units)	2017 (1)	2016 (1, 2)	% Change
China	26,289.2	25,712.1	2%
India	4,419.8	4,140.2	7%
Brazil	2,635.1	2,091.9	26%
Russia	1,444.0	1,218.8	18%

(1) Production data based on IHS Automotive.

(2) Production data for 2016 has been updated to reflect actual production levels.

Details on our sales in certain key regions for 2017 and 2016 are provided below.

(In millions)	2017	2016	% Change
North America	$7,788.1	$7,523.6	4%
Europe and Africa	8,136.5	7,051.8	15%
Asia	3,794.9	3,444.6	10%
South America	747.5	537.6	39%
Total	$20,467.0	$18,557.6	10%
China (consolidated)	$2,519.3	$2,277.6	11%
China (non-consolidated)	1,500.1	1,598.6	(6)%

A growing trend toward crossover and sport utility vehicles has benefited our business, as our content on such vehicles can be significantly higher than average, particularly in our Seating segment. Crossover and sport utility vehicle production has grown to approximately 33% of total vehicle production in 2017, up from 18% of total vehicle production five years ago. China has been a major driver of this trend, where crossover and sport utility vehicle production now comprises approximately 39% of total vehicle production, up from 12% of total vehicle production five years ago.

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 with above average long-term growth expectations.

Our strategy is built on addressing these trends and the major imperatives for success as an automotive supplier: quality, 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 best solutions for our customers. We have restructured, and

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continue to align, our manufacturing and engineering footprint to attain a leading competitive cost position globally. We have established or expanded activities 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.

In addition, we believe that the trends of efficiency, connectivity and safety are rapidly evolving and advancing into the following technology trends that 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:

- Electrification - Demand for more energy efficient vehicles is increasing, both from customers to meet stricter fuel economy and emissions standards and from a growing segment of consumers to reduce the environmental impact of automobiles. This requires further use of electronically controlled and assisted powertrains and related components to improve fuel efficiency and the adoption of alternative energy powertrains, such as 48-volt mild hybrid, full hybrid, hybrid electric and high power battery electric, that facilitate electrification of the vehicle, as well as the use of lighter weight materials throughout the vehicle.
- Connectivity - Customer and consumer demands for constant communication and information exchange with the vehicle continue to increase. What began with consumer demand to extend and integrate mobile connectivity into the vehicle by connecting mobile devices with vehicle infotainment systems is evolving such that the vehicle itself will have an embedded, direct line of wireless communication connecting the vehicle with various networks (e.g., cellular, infrastructure, satellite, etc.) and other vehicles. We expect these trends to continue, making the vehicle a constantly connected device, receiving and transmitting data through a variety of signals, which communicate directly with on-board vehicle systems.
- Autonomy/Advanced Driver Assistance - Customer and consumer demands are evolving from safety features and systems that protect vehicle occupants when a crash occurs to advanced driver assistance systems (ADAS) that help prevent crashes by assisting in the vehicle's operation under certain conditions. The development of automated intervention uses many of the same core technologies that will enable vehicles to drive autonomously under an increasing variety of driving conditions.

These trends are becoming widely accepted and are also attracting new, non-traditional participants in the automotive industry that are leveraging technology, vehicle electrification and consumer relationships to exploit growth opportunities in the industry. Regulation is also a major influence on these trends, as government mandates (e.g., for vehicles to meet minimum fuel economy and emissions standards or be equipped with certain safety-related components) are driving vehicle design and technology plans.

We are well positioned for growth by capitalizing on these trends as we supply high value systems and components that drive critical functionality and core elements of the vehicle's electrical architecture and design. The systems and components that we design, develop and manufacture facilitate and support more fuel efficient or fully electrically-powered alternative powertrains, facilitate connectivity of various vehicle systems, and impact a vehicle's safety, crashworthiness and readiness for autonomous driving systems. Many of our systems and components also directly impact the consumer, providing us with the opportunity to offer our automotive customers technology, solutions and designs that will differentiate their vehicles in the consumer marketplace.

We are well positioned to directly participate in the connectivity trend as we design, develop and supply systems, components and software that connect the various electrical and electronic systems within the vehicle into integrated on-board power and data communication networks. We further have the technology and expertise to wirelessly and securely connect these on-board vehicle networks and systems with external networks over various standards and protocols. This expertise allows us to offer our automotive customers electronic modules, such as connected gateway modules, that offer functionality such as over-the-air software updates or cellular communication of vehicle performance data to the automotive manufacturers, their dealers or the vehicle owners. Our expertise in V2X technology allows us to provide in-vehicle and roadside modules and software that facilitate direct, high speed communication between vehicles and road infrastructure. Importantly, we have expertise in cybersecurity, including architectures, designs and techniques that promote highly secure transmission of data to, from and within the vehicle, as well as road infrastructure.

Furthermore, a seat is an active part of the vehicle safety system. As a result of our innovative product design and technology capabilities, we are able to provide seats with enhanced safety features, such as the active head restraint and seat structures that withstand collision impact well in excess of what is demanded by regulatory agencies. We have developed products and materials to reduce cost and enhance seat design and packaging flexibility, including our mini recliners and micro adjust tracks. Another way in which we are well positioned to benefit from this trend-related growth is our belief that the seat system will become increasingly more sophisticated, dynamic and connected to both the occupants and the vehicle. The seat is the logical focal point for monitoring the driver and passenger and for facilitating feedback between the vehicle and the occupants. Our capabilities in V2X communications and applications position us to provide high speed communication between vehicles, even

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in extreme weather conditions, potentially reducing crashes through real-time advisories alerting drivers to imminent hazards in the roadway ahead, including other vehicles on a potential path for collision.

Continued growth in more fuel efficient, complex and electronically controlled powertrains is helping to drive content growth in the vehicle's electrical distribution system. The emergence and continued development of alternative energy powertrains, including electric, hybrid electric, 48-volt mild hybrid and other technologies, is driving growth in high power electric systems and components. Hybrid and electric vehicles incorporate both high power and low power components. As a result, they offer a significant incremental content opportunity for us of up to $2,000 per vehicle for full electric vehicle architectures. These trends all support continued growth in electrical and electronic content on the vehicle, as well as associated software. This content growth will require far more complex vehicle electrical architectures. Our significant experience designing and manufacturing highly integrated and standardized architectures that optimize size, performance and quality leaves us well positioned to take advantage of the growth in electrical content and the increasingly complex architectures.

We believe that the convergence of these technology trends and eventual wide-spread adoption of autonomous vehicles will benefit both our Seating and E-Systems segments. We believe that autonomous vehicles will have seat designs and requirements that are far more flexible and demanding in both autonomous and piloted driving states. Further, more active monitoring of the driver and the driver’s position and physical state will be required to manage the transitions between autonomous and piloted driving conditions. A demand for mobility services and on-demand transportation from providers such as Uber or Lyft is helping to drive interest and growth in these technology trends, particularly fully autonomous vehicles. The increasing prevalence of mobility services will potentially create a new segment of autonomous vehicle fleet customers with unique vehicle technology and design needs, including more flexible, durable and connected seating solutions for a wide range of passengers. Not only will autonomous vehicles need to be fully connected and networked to maximize their safety and efficiency, their power consumption will be significantly higher to support the array of sensors and processing power required to operate such vehicles.

Seating Segment

Lear is a recognized global leader in complete automotive seat systems and key individual seat components. The Seating segment 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, as well as seating-related electrical and electronics (including software products). We believe that we have the most complete set of component offerings of any automotive seating supplier and are a market leader in every automotive producing market in the world. Further, we have expertise and are building capabilities in seat comfort technologies, including heating and cooling through technology partnerships and design-integrated supplier solutions. Overall, our global manufacturing and engineering expertise, low-cost footprint, complete component capabilities, quality leadership and strong customer relationships provide us with a solid platform for future growth in this segment.

We produce seat systems that are fully assembled and ready for installation in automobiles and light trucks. Seat systems are generally designed and engineered for specific vehicle models or platforms. We develop seat systems and components for all vehicle segments from compact cars to full-size sport utility vehicles. We are the world leader in luxury and performance automotive seating, providing craftsmanship, elegance in design, use of innovative materials and industry-leading technology required by premium brands, including Alfa Romeo, Audi, BMW, Cadillac, Ferrari, Jaguar Land Rover, Lamborghini, Lincoln, Maserati, Mercedes-Benz and Porsche.

We have been executing a strategy for vertical integration of key seat components to enhance growth, improve quality, increase profitability and support our current market position in just-in-time seat assembly. In this regard, our capabilities in seat structures and mechanisms include complete development and manufacturing capabilities in every major automotive producing region in the world. In addition, we have developed standardized seat structures and mechanisms that can be adapted to multiple segments to minimize investment costs. We believe that our low-cost manufacturing footprint in seat structures and mechanisms and our precision engineered seat mechanism expertise are competitive advantages.

We have also expanded our seat cover operations, including precision cutting, assembly, sewing and lamination of seat fabric, in low-cost markets, entered the fabric business (largely through our acquisition of Guilford Mills) and added industry-leading leather design, development and manufacturing capabilities (through our acquisition of Eagle Ottawa). On a global basis, we can provide a full range of seat cover capabilities and design solutions, including the use of unique leather and fabric applications. We believe that the combination of these capabilities in seating surface materials leads the industry.

Craftsmanship and Design (Crafted by Lear™)

We believe that our broad portfolio of capabilities, including advanced design and material integration skills, is a differentiating competitive advantage for us. The breadth of our portfolio and depth of our design expertise allow us to have early involvement

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in the automotive manufacturer's design process and the opportunity to better integrate all seating components to provide differentiated design comfort, quality and overall value for the end consumer. We are leveraging our unique position to be an industry leader in differentiated design through our Center for Craftsmanship. This is a dedicated studio for customer interface where designers and engineers work collaboratively to create innovative solutions early in the design process. We have also developed a proprietary craftsmanship process called Harmonic Precision that synthesizes all of our component expertise and technologies with our customers' design visions to create an objective analysis of the impact that the final design and execution will have in the marketplace. The team of experts at the Center for Craftsmanship has developed a portfolio of product technologies that deliver differentiated design, craftsmanship, comfort and sustainable products, including IMPACT by Lear™, a selection of premium textiles and leathers that include both sustainable materials and processes such as natural fibers, fibers made from certified recycled stock, olive tanned leathers and 100% water-based leather finishing to reduce our impact on the environment. ComforCore™, a knit product that provides superior comfort profiles while reducing the use of petroleum-derived foam products, and Contour Connect™ enable the strong design lines and thinner seating profiles our customers are designing into the automotive interiors of the future. We believe that our unmatched component capabilities, design know-how, global manufacturing presence and our Crafted by Lear™ portfolio of enabling and sustainable technologies uniquely position us to bring innovative designs into production with the highest level of craftsmanship.

Intelligent Seating (INTU™ Seating)

The seat is emerging as an integral device facilitating the direct connection between drivers and passengers and the vehicle. This direct connection will increasingly support the functionality of connected and autonomous vehicles. We believe that we are the only seating supplier with both global capabilities in all major seat components and global electronics development (including software), manufacturing and integration. We believe that the seat will increasingly integrate electronics, not only for motorized control, but for dynamic sensing and response. We have developed active sensing and comfort seat capabilities, utilizing electronically controlled sensor and adjustment systems and internally developed algorithms. These seat designs automatically and constantly adjust the seat's cushioning and support based on the occupant's position and ideal alignment for health and wellness. We are also developing technologies that will monitor certain bio-metric readings through seat sensors with a high level of accuracy and reliability. We believe that intelligent and dynamic seating solutions, which we call INTU™ Seating, will provide future benefits as consumers and automotive manufacturers demand seats that can sense key attributes of a driver and passenger and communicate these attributes within the vehicle network, as well as to external networks. Our seats will intuitively anticipate and dynamically adjust to the occupant's needs and preferences related to posture, health and wellness, comfort and safety. We believe that the seat will increasingly become a more dynamic and integrated system that will actively react 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 (Drop & Go™)

Our Drop & Go™ adaptive seating solution provides enhanced flexibility and cargo management for crossovers, SUVs and passenger vans, while delivering seat electrification. Drop & Go™ 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, Drop & Go™ allows virtually limitless configurations of seats including full removal. Drop & Go™ 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.

Financial Summary

A summary of revenues from external customers and other financial information for our Seating segment is shown below. For additional information regarding the operating results of our Seating segment, see Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations." For additional information regarding Lear’s total sales and long-lived assets by geographic area, as well as customer concentrations, see Note 12, "Segment

Reporting," to the consolidated financial statements included in this Report. The top five customers of this segment are: General Motors, Ford, BMW, Fiat Chrysler and Daimler.

(In millions)	2017	2016	2015
Revenues from external customers	$15,873.0	$14,356.7	$14,098.5
Segment earnings (1)	1,250.8	1,136.0	907.0
Depreciation and amortization	289.5	258.1	239.3
Capital expenditures	398.3	341.6	317.2
Total assets	7,303.4	6,199.2	5,780.7

(1) As discussed in Note 2, "Summary of Significant Accounting Policies — Segment Reporting," segment earnings represents pretax income before equity in net income of affiliates, interest expense and other expense.

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 $65 billion in 2017. 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."

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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 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

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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.

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.

Financial Summary

A summary of revenues from external customers and other financial information for our E-Systems segment is shown below. For additional information regarding the operating results of our E-Systems segment, see Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations." For additional information regarding Lear’s total sales and long-lived assets by geographic area, as well as customer concentrations, see Note 12, "Segment Reporting," to the consolidated financial statements included in this Report.

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

(In millions)	2017	2016	2015
Revenues from external customers	$4,594.0	$4,200.9	$4,112.9
Segment earnings (1)	641.6	591.3	554.4
Depreciation and amortization	123.4	107.6	99.3
Capital expenditures	176.3	162.4	134.4
Total assets	2,268.0	1,675.9	1,572.9

(1) As discussed in Note 2, "Summary of Significant Accounting Policies — Segment Reporting," segment earnings represents pretax income before equity in net income of affiliates, interest expense and other expense.

Competition

We estimate the global target market for our E-Systems business to be over $90 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 seventeen 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.

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 625 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 600 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 2017, Ford and General Motors, two of the largest automotive and light truck manufacturers in the world, each accounted for 18% of our net sales. 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 12, "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 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 2018, our 2018 to 2020 sales backlog is $3.2 billion, an increase of 14% as compared to our sales backlog as of January 2017. Our current sales backlog reflects $1.2 billion related to 2018 and 60% and 40% related to our Seating and E-Systems segments, respectively. In addition, our 2018 to 2020 sales backlog at our non-consolidated joint ventures is $700 million. Our current sales backlog assumes volumes based on the independent industry projections of IHS Automotive as of December 2017 and a Euro exchange rate of $1.18 / Euro. 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, 2017, consisted of 43% passenger cars, 44% crossovers and SUVs and 13% trucks and vans.

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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 14, "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, 2017 and 2016, our employment levels worldwide were approximately as follows:

Region	2017	2016
United States and Canada	9,900	9,900
Mexico	51,200	48,700
Central and South America	14,900	11,100
Europe and Africa	59,200	52,600
Asia	29,800	26,100
Total	165,000	148,400

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."

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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, 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.

We will continue to dedicate resources to engineering and development. Engineering and development costs incurred in connection with product launch, to the extent not recoverable from our customers, are charged to cost of sales as incurred. All other engineering and development costs are charged to selling, general and administrative expenses when incurred. Engineering and development costs charged to selling, general and administrative expenses totaled $148 million, $144 million and $127 million for the years ended December 31, 2017, 2016 and 2015, respectively. Engineering and development costs for which reimbursement is contractually guaranteed by our customers are capitalized. Engineering and development costs capitalized totaled $257 million, $179 million and $194 million for the years ended December 31, 2017, 2016 and 2015, respectively.

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 11, "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, 2017, we had eighteen operating joint ventures located in five countries. Of these joint ventures, nine are consolidated, and nine are accounted for using the equity method of accounting. Fourteen of the joint ventures operate in Asia, and four operate in North America (including one that is dedicated to serving Asian automotive manufacturers). Net sales of our consolidated joint ventures accounted for approximately 12% of our net sales in 2017. As of December 31, 2017, our investments in non-consolidated joint ventures totaled $147 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.

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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 Electrical and Electronics Co., Ltd.	49
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 the automotive manufacturers, 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, 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, changing consumer attitudes toward vehicle ownership and usage, such as ride sharing and on-demand transportation, and other factors.

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. While we are pursuing a strategy of aggressively expanding our sales and operations in Asia, no assurances can be given as to how successful we will be in doing so. As a result, 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.

- 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.

Although we receive purchase orders from our customers, these purchase orders 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. We regularly negotiate contracts and sales prices with our customers. These contracts 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

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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. Our inability to achieve product cost reductions which 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. 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 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.

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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, as well as the efforts of new non-traditional entrants to the industry, to grow market share could exert downward pressure on our product pricing and margins. In addition, the success of portions of our business requires us to develop and/or incorporate leading technologies. Such technologies are subject to rapid obsolescence. Our inability to maintain access to these technologies (either through development or licensing) may adversely affect our ability to compete. If we are unable to differentiate our products or maintain a low-cost footprint, 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.

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 76,400 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 77% of our global unionized work force, including approximately 2% of our unionized workforce in the United States and Canada, are scheduled to expire during 2018. 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.

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- 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, 2017, we had approximately $2.0 billion of outstanding indebtedness, as well as $1.75 billion available for borrowing 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.

- 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.

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

We rely on the accuracy, capacity and security of our information technology systems. Despite the security measures that we have implemented, including those measures related to cybersecurity, our systems, as well as those of our customers, suppliers and other service providers, 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. Although cybersecurity and the continued development and enhancement of our controls, processes and practices designed to protect our information technology systems 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 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. 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.

- 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 United States recently passed a comprehensive tax reform bill that could adversely affect our financial performance.

On December 22, 2017, President Trump signed into law new legislation that significantly revises the Internal Revenue Code of 1986, as amended (the "IRC"). The newly enacted federal income tax law, among other things, contains significant changes to corporate taxation, including the reduction of the corporate income tax rate from 35% to 21%, 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, 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, the overall impact of the new federal tax law is uncertain, and our financial performance could be adversely affected. In addition, it is uncertain if, and to what extent, various states will conform to the new tax law and foreign countries will react by adopting tax legislation or taking other actions that could adversely affect our business.

- Significant changes in the North American Free Trade Agreement ("NAFTA") could adversely affect our financial performance.

The United States, Mexico and Canada are currently re-negotiating NAFTA, from which the U.S. government has advised it will withdraw if an agreement on revised terms is not reached. The U.S. government proposed changes to NAFTA that would require automotive products to contain significantly higher North American content, as well as specific U.S. domestic content, in order to obtain duty-free treatment under NAFTA. Canada offered counter-proposals, and the three countries are continuing discussions to achieve revised rules for automotive products. Reflective of the automotive industry, our vehicle parts manufacturing facilities in the United States, Mexico and Canada are highly dependent on duty-free trade within the NAFTA region. A significant number of our facilities are in Mexico and represent a critical component of our supply chain and that of our customers. We have significant imports into the United States, and the imposition of customs duties on these imports could negatively impact our financial performance. If such customs duties are implemented, Mexico and Canada may take retaliatory actions with respect to U.S. imports or U.S. investments in their countries. Any such potential actions could adversely affect our financial performance.

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- 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, beginning on the withdrawal notification date, unless an extension is agreed to by the parties. The negotiations between the parties have yet to produce an overall structure for their ongoing relationship following Brexit. We have significant operations in both the United Kingdom and the European Union. 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.

ITEM 1B – UNRESOLVED STAFF COMMENTS

None.

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ITEM 2 – PROPERTIES

As of December 31, 2017, our operations were conducted through 257 facilities, some of which are used for multiple purposes, including 86 just-in-time manufacturing facilities, 121 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.

Of our 257 total facilities, which include facilities owned or leased by our consolidated subsidiaries, 107 are owned and 150 are leased with expiration dates ranging from 2017 through 2053. We believe that substantially all of our property and equipment is in good condition and that we have sufficient capacity to meet our current and expected manufacturing and distribution needs. See Part II — Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Financial Condition."

Seating

Argentina
Escobar, BA
Ferreyra, CBA
Belgium
Brussels
Brazil
Betim
Caçapava
Joinville
Pernambuco
Canada
Ajax, ON
Whitby, ON
China
Beijing
Changshu
Chongqing
Guangzhou
Hangzhou
Liuzhou
Nanjing
Rui'an
Shanghai
Shenyang
Wuhan
Wuhu
Czech Republic
Hranice
Czech Republic (continued)
Kolin
Stribro
Dominican Republic
Santo Domingo
France
Cergy
Feignies
Jarney
Roche La Moliere
Germany
Besigheim
Bremen
Eisenach
Ginsheim-Gustavsburg
Rietberg
Wackersdorf
Hungary
Györ
Mor
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
Nuevo Casas Grandes, CH
Mexico (continued)
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
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
Rosslyn
South Korea
Gyeongju
Spain
Barcelona
Burgos
Epila
Martorell
O Porrino
Sant Esteve
Sesrovir
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
Navegantes
Czech Republic
Vyskov
Germany
Bersenbrueck
Kronach
Saarlouis
Hungary
Gödöllö
Gyöngyös
India
Pune
Mexico
Morocco
Kenitra
Salé Al-Jadida
Tangier
Philippines
LapuLapu City
Russia
Volokolamsk
Serbia
Novi Sad
South Africa
Port Elizabeth
Thailand
Kabin Buri
United States
Plymouth, IN
Taylor, MI
Traverse City, MI

China	Wismar	Apodaca, NL	Poland	Spain
Chongqing	Honduras	Chihuahua, CH	Mielec	Almussafes
Shanghai	Naco	Juarez, CH	Romania	Valls
Wuhan		Torreon, CA	Campulung	
Yangzhou			Pitesti	

ADMINISTRATIVE/TECHNICAL

Australia	France	India	Japan (continued)	South Korea	United States
Essendon Fields	Vélizy-Villacoublay	Bengaluru	Nagoya	Seoul	Ann Arbor, MI
Belgium	Germany	Pune	Tokyo	Spain	Detroit, MI
Leuven	Cologne	Israel	Yokohama	Valls	El Paso, TX
Brazil	Korntal-Münchingen	Tel Aviv	Mexico	Sweden	Rochester Hills, MI
São Paulo	Remscheid	Italy	Juarez, CH	Gothenburg	San Mateo, CA
China	Schwaig-Oberding	Grugliasco, TO	Netherlands	Thailand	Santa Rosa, CA
Shanghai	Sindelfingen	Japan	Hilversum	Bangkok	Southfield, MI
Czech Republic	Wolfsburg	Akigun	Philippines	United Kingdom	Wilmington, NC
Brno		Hiroshima	LapuLapu City	Coventry	
Pilsen		Kariya	Singapore		

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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 11, "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	59	Vice President, Treasurer and Chief Diversity Officer
Thomas A. DiDonato	59	Senior Vice President, Human Resources
Amy A. Doyle	50	Vice President, Chief Accounting Officer
Jay K. Kunkel	58	Senior Vice President and President, Asia-Pacific Operations
Terrence B. Larkin	63	Executive Vice President, Business Development, General Counsel and Corporate Secretary
Frank C. Orsini	45	Senior Vice President and President, E-Systems
Raymond E. Scott*	52	Executive Vice President and President, Seating
Matthew J. Simoncini*	57	President and Chief Executive Officer
Melvin L. Stephens	62	Senior Vice President, Communications and Corporate and Investor Relations
Jeffrey H. Vanneste	58	Senior Vice President and Chief Financial Officer

* Mr. Simoncini has elected to retire as President and Chief Executive Officer and as a member of the Board of Directors of the Company, effective February 28, 2018. The Board of Directors has elected Raymond E. Scott to serve as President and Chief Executive Officer of the Company, effective February 28, 2018.

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, Treasurer and Chief Diversity Officer, a position she has held since January 2014. Previously, Ms. Burgess served as the Company’s Vice President and Treasurer since August 2002 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, Human Resources, a position he has held 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, 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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Jay K. Kunkel	Mr. Kunkel is the Company's Senior Vice President and President, Asia-Pacific Operations, a position he has held since June 2013. Prior to joining the Company, Mr. Kunkel served as President Asia and as a Member of the Automotive Management Board for Continental A.G. since December 2007 and initially joined Continental A.G. in February 2005. Prior to joining Continental A.G., Mr. Kunkel served as a Director for SRP International Group Ltd. and held various positions of increasing responsibility at PricewaterhouseCoopers, Visteon, Mitsubishi and Chrysler.
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 Senior Vice President and President, E-Systems, a position he has held since September 2012. Mr. Orsini most recently 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 1994. Mr. Orsini currently sits on the board of directors of Focus: HOPE, a non-profit organization.
Raymond E. Scott	Mr. Scott is the Company's Executive Vice President and President, Seating, a position he has held since November 2011. Mr. Scott most recently 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. Mr. Scott has been elected by the Board of Directors to serve as President and Chief Executive Officer, effective February 28, 2018.
Matthew J. Simoncini	Mr. Simoncini is the Company's President and Chief Executive Officer, a position he has held since September 2011. Mr. Simoncini most recently served as the Company's Senior Vice President and Chief Financial Officer since 2007. Previously, he served as the Company's Senior Vice President, Finance and Chief Accounting Officer since August 2006, Vice President, Global Finance since February 2006, Vice President of Operational Finance since June 2004, Vice President of Finance — Europe since 2001 and prior to 2001, in various senior financial management positions for the Company and UT Automotive, Inc. Mr. Simoncini has elected to retire as President and Chief Executive Officer and as a member of the Board of Directors of the Company, effective February 28, 2018. Mr. Simoncini will serve as a non-executive employee of the Company until his retirement from the Company on January 4, 2019.
Melvin L. Stephens	Mr. Stephens is the Company's Senior Vice President, Communications and Corporate & Investor Relations, a position he has held since April 2012. Mr. Stephens most recently served as the Company's Senior Vice President, Communications, Human Resources and Investor Relations since September 2009. Previously, he served as the Company's Vice President of Corporate Communications and Investor Relations since January 2002. Prior to joining the Company, Mr. Stephens worked for Ford Motor Company for 23 years and held various leadership positions in finance, business planning, corporate strategy, communications, sales and marketing and investor relations.

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."

The high and low sales prices per share of our common stock, as reported on the New York Stock Exchange, and the amount of our dividend declarations for 2017 and 2016 are shown below:

2017	Price Range of Common Stock		Cash Dividend
	High	Low	Per Share
4th Quarter	$181.46	$170.27	$ 0.50
3rd Quarter	174.66	140.45	0.50
2nd Quarter	153.28	132.01	0.50
1st Quarter	149.00	132.29	0.50

2016	Price Range of Common Stock		Cash Dividend
	High	Low	Per Share
4th Quarter	$138.80	$110.77	$ 0.30
3rd Quarter	121.78	98.00	0.30
2nd Quarter	120.00	97.35	0.30
1st Quarter	122.09	93.54	0.30

Dividends

Our Board of Directors declared quarterly cash dividends of $0.50 and $0.30 per share of common stock in 2017 and 2016, 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.

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 2, 2018, there were 50 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 $4.1 billion in share repurchases under our common stock share repurchase program. As of December 31, 2017, we have a remaining repurchase authorization of $545.6 million, which will expire on December 31, 2019.

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," Note 6, "Debt," and Note 9, "Capital Stock, Accumulated Other Comprehensive Loss and Equity," to the consolidated financial statements included in this Report.

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As of December 31, 2017, we have paid $3.5 billion in aggregate for repurchases of our outstanding common stock, at an average price of $79.73 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, 2017, 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)	
October 1, 2017 through October 28, 2017	—	$ —	—	$ 667.8	
October 29, 2017 through November 25, 2017	216,626	175.32	216,626	629.9	
November 26, 2017 through December 31, 2017	477,036	176.72	477,036	545.6	
Total	693,662	$ 176.29	693,662	$ 545.6	(1)

(1) Remaining authorization as of December 31, 2017.

Performance Graph

The following graph compares the cumulative total stockholder return from December 31, 2012 through December 31, 2017, 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, 2011, in each of our common stock, the stocks comprising the S&P 500 Index and the stocks comprising the peer group.

	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Lear Corporation	$ 100.00	$ 174.70	$ 213.46	$ 269.70	$ 293.66	$ 397.06
S&P 500	$ 100.00	$ 132.38	$ 150.49	$ 152.55	$ 170.79	$ 208.06
Current Peer Group (1)	$ 100.00	$ 159.84	$ 190.22	$ 174.60	$ 175.14	$ 236.82
Previous Peer Group (1)	$ 100.00	$ 161.37	$ 189.49	$ 171.06	$ 173.07	$ 232.20

(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.

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In 2017, we modified our peer group to exclude Federal-Mogul Holdings Corporation and to add Adient plc. Referenced in the graph above, our current peer group 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. In October 2016, Adient plc was spun off from Johnson Controls International Plc. The performance history of Adient plc has been included in the current peer group calculation beginning January 1, 2017. In January 2017, Federal-Mogul Holdings Corporation ceased to be publicly traded. The performance history of Federal-Mogul Holdings Corporation has been excluded from the current peer group calculation for all periods presented and from the previous peer group calculation beginning January 1, 2017. In December 2017, Delphi Automotive PLC spun off its powertrain business and began operating under the name Aptiv PLC. The performance history of Delphi Automotive PLC has been included in both the current and previous peer group calculations.

We believe that the companies that comprise our current peer group more closely align with our business and industry and provide a better comparison of returns. For comparison purposes, we have included our previous peer group in the stock performance graph above.

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, 2017, 2016, 2015, 2014 and 2013, 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,	2017 (1)	2016 (2)	2015 (3)	2014 (4)	2013 (5)
Statement of Operations: (in millions)					
Net sales	$20,467.0	$18,557.6	$18,211.4	$17,727.3	$16,234.0
Gross profit	2,291.1	2,102.1	1,819.8	1,492.8	1,299.7
Selling, general and administrative expenses	635.2	621.9	580.5	529.9	528.7
Amortization of intangible assets	47.6	53.0	52.5	33.7	34.4
Interest expense	85.7	82.5	86.7	67.5	68.4
Other (income) expense, net (6)	(4.1)	6.4	68.6	74.3	58.1
Consolidated income before provision for income taxes and equity in net income of affiliates	1,526.7	1,338.3	1,031.5	787.4	610.1
Provision for income taxes	197.5	370.2	285.5	121.4	192.7
Equity in net income of affiliates	(51.7)	(72.4)	(49.8)	(36.3)	(38.4)
Consolidated net income	1,380.9	1,040.5	795.8	702.3	455.8
Net income attributable to noncontrolling interests	67.5	65.4	50.3	29.9	24.4
Net income attributable to Lear	$1,313.4	$975.1	$745.5	$672.4	$431.4

For the year ended December 31,	2017 (1)	2016 (2)	2015 (3)	2014 (4)	2013 (5)
Statement of Operations Data:					
Basic net income per share available to Lear common stockholders	$18.79	$13.48	$9.71	$8.39	$5.07
Diluted net income per share available to Lear common stockholders	$18.59	$13.33	$9.59	$8.23	$4.99
Weighted average shares outstanding – basic	68,542,363	72,345,436	76,754,270	80,187,516	85,094,889
Weighted average shares outstanding – diluted	69,277,981	73,124,949	77,767,017	81,728,479	86,415,786
Dividends per share	$2.00	$1.20	$1.00	$0.80	$0.68
Statement of Cash Flows Data: (in millions)					
Cash flows from operating activities	$1,783.1	$1,619.3	$1,271.1	$927.8	$820.1
Cash flows from investing activities	(868.6)	(637.1)	(965.3)	(780.6)	(403.9)
Cash flows from financing activities	(742.0)	(872.9)	(156.3)	(160.8)	(698.5)
Capital expenditures	594.5	528.3	485.8	424.7	460.6
Other Data (unaudited):					
Ratio of earnings to fixed charges (7)	12.6x	12.0x	9.4x	8.4x	6.8x

As of or for the year ended December 31,	2017	2016	2015	2014	2013
Balance Sheet Data: (in millions) (8)					
Current assets	$6,613.0	$5,649.3	$5,286.6	$5,165.6	$4,735.1
Total assets	11,945.9	9,900.6	9,405.8	9,113.1	8,303.0
Current liabilities	4,854.3	4,182.3	3,839.6	3,945.1	3,556.0
Long-term debt	1,951.5	1,898.0	1,931.7	1,454.0	1,042.3
Equity	4,292.6	3,192.9	3,017.7	3,029.3	3,149.5
Other Data (unaudited):					
Employees at year end	165,000	148,400	136,200	125,200	122,300
North American content per vehicle (9)	$455	$422	$443	$398	$377
North American vehicle production (in millions) (10)	17.1	17.8	17.5	17.0	16.2
European content per vehicle (11)	$355	$316	$314	$341	$315
European vehicle production (in millions) (12)	22.9	22.3	21.5	20.6	19.8

(1) 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, a change in the accounting for share-based compensation, an incentive tax credit in a foreign subsidiary, the redemption of the 2023 Notes, restructuring charges and various other items.

(2) 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.

(3) 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.

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(4) 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.

(5) 2013 results include $83.8 million of restructuring and related manufacturing inefficiency charges (including $9.2 million of fixed asset impairment charges), $3.0 million of costs related to a proxy contest, $7.3 million of losses and incremental costs related to the destruction of assets caused by a fire at one of our European production facilities, $3.6 million loss on the partial extinguishment of debt and $27.8 million of net tax benefits related to restructuring, net changes in valuation allowances with respect to the deferred tax assets of certain foreign subsidiaries, the retroactive reinstatement of the U.S. research and development tax credit by the American Taxpayer Relief Act of 2012, which was signed into law on January 2, 2013, and various other items.

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

(7) "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.

(8) The balance sheet data for 2014 and 2013 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 Accounting Standards Update ("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." In addition, the balance sheet data for 2014 and 2013 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."

(9) "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 2016 has been updated to reflect actual production levels.

(10) "North American vehicle production" includes car and light truck production in the United States, Canada and Mexico based on IHS Automotive. Production data for 2016 has been updated to reflect actual production levels.

(11) "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 2016 has been updated to reflect actual production levels.

(12) "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 2016 has been updated to reflect actual production levels.

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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 that 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 and systems for high power battery electric vehicle and hybrid electric vehicle power management and distribution systems. We also design, develop, engineer and manufacture sophisticated electronic control modules that facilitate signal, data and power management within the vehicle, as well as associated software. We have electronic hardware and software capabilities in wireless communication and cybersecurity that securely process various signals to, from and within the vehicle, as well as capabilities to provide roadside modules that communicate real-time traffic information to vehicles in the area.

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.

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 2017, as compared to 2016, are shown below (in millions of units):

	2017	2016	% Change
North America	17.1	17.8	(4)%
Europe and Africa	22.9	22.3	3 %
Asia	48.2	47.1	3 %
South America	3.1	2.6	21 %
Other	2.0	1.6	21 %
Global light vehicle production	93.3	91.4	2 %

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 2017 and 2016 is shown below:

	2017	2016
North America	38 %	40 %
Europe and Africa	40 %	38 %
Asia	19 %	19 %
South America	3 %	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. In addition, three trends have broadly emerged as major drivers of change and growth in the automotive industry: efficiency, connectivity and safety. These trends are rapidly evolving and advancing into the technology trends of electrification, connectivity and autonomy / advanced driver assistance, which 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 64.5% in 2017, as compared to 64.8% in 2016 and 66.6% in 2015. Raw material, energy and commodity costs can be volatile. 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. We currently have fourteen operating joint ventures with operations in Asia, as well as an additional joint venture 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.

Acquisitions

Antolin Seating

On April 28, 2017, we completed the acquisition of Grupo Antolin's automotive seating business ("Antolin Seating") for $292 million, net of cash acquired. Antolin Seating is headquartered in France with operations in five countries in Europe and North Africa. The Antolin Seating business is comprised of just-in-time seat assembly, as well as seat structures, mechanisms and seat covers.

For further information, see Note 3, "Acquisitions," to the consolidated financial statements included in this Report.

Subsequent Event

On January 10, 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.

Operational Restructuring

In 2017, we incurred pretax restructuring costs of approximately $73 million and related manufacturing inefficiency charges of approximately $2 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.

Financing Transactions

Senior Notes

In August 2017, we issued $750 million in aggregate principal amount at maturity of senior unsecured notes due 2027 (the "2027 Notes") at a stated coupon rate of 3.8%. 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 $500 million in aggregate principal amount of senior unsecured notes due 2023 (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.

For further information, see "— Liquidity and Financial Condition — Capitalization — Senior Notes" and Note 6, "Debt," to the consolidated financial statements included in this Report.

Credit Agreement

In August 2017, we entered into a new unsecured credit agreement (the "Credit Agreement") consisting of a $1.75 billion revolving credit facility (the "Revolving Credit Facility") and a $250 million 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 and paid related issuance costs of $6 million. 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.

For further information, see "— Liquidity and Financial Condition — Capitalization — Credit Agreement" and Note 6, "Debt," 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 $4.1 billion in share repurchases under our common stock share repurchase program. In 2017, we completed $454 million of share repurchases and have a remaining repurchase authorization of $546 million, which will expire on December 31, 2019.

In 2017, our Board of Directors declared a quarterly cash dividend of $0.50 per share of common stock.

For further information regarding 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 9, "Capital Stock, Accumulated Other Comprehensive Loss and Equity," to the consolidated financial statements included in this Report.

Other Matters

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 a change in the accounting for 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 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, of which approximately $20 million was recorded in cost of sales and approximately $14 million was recorded in selling, general and administrative expenses, 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.

In 2015, we recognized net tax benefits of $43 million related to restructuring charges, debt redemption costs, acquisition costs and various other items.

As discussed above, our results for the years ended December 31, 2017, 2016 and 2015, reflect the following items (in millions):

For the year ended December 31,	2017	2016	2015
Costs related to restructuring actions, including manufacturing inefficiencies of $2 million in 2017, $6 million in 2016 and $8 million in 2015	$75	$70	$97
Pension settlement charge	—	34	—
Acquisition and other related costs	4	1	11
Acquisition-related inventory fair value adjustment	5	—	16
Litigation	15	—	—
Losses on extinguishment of debt	21	—	14

(Gain) loss related to affiliate	(54)	(30)	2
Tax benefits, net	(215)	(24)	(43)

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

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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,	2017		2016		2015	
Net sales						
Seating	$15,873.0	77.6 %	$14,356.7	77.4 %	$14,098.5	77.4 %
E-Systems	4,594.0	22.4	4,200.9	22.6	4,112.9	22.6
Net sales	20,467.0	100.0	18,557.6	100.0	18,211.4	100.0
Cost of sales	18,175.9	88.8	16,455.5	88.7	16,391.6	90.0
Gross profit	2,291.1	11.2	2,102.1	11.3	1,819.8	10.0
Selling, general and administrative expenses	635.2	3.1	621.9	3.4	580.5	3.2
Amortization of intangible assets	47.6	0.2	53.0	0.3	52.5	0.3
Interest expense	85.7	0.4	82.5	0.4	86.7	0.3
Other (income) expense, net	(4.1)	—	6.4	—	68.6	0.4
Provision for income taxes	197.5	1.0	370.2	2.0	285.5	1.6
Equity in net income of affiliates	(51.7)	(0.2)	(72.4)	(0.4)	(49.8)	(0.3)
Net income attributable to noncontrolling interests	67.5	0.3	65.4	0.4	50.3	0.2
Net income attributable to Lear	$1,313.4	6.4 %	$975.1	5.3 %	$745.5	4.3 %

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	$16,455.5
Material cost	1,270.2
Labor and other	400.5
Depreciation	49.7
2017	$18,175.9

Cost of sales in 2017 was $18.2 billion, as compared to $16.5 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 11.3% of net sales in 2016. New business and the acquisition of Antolin Seating positively impacted gross profit by $194 million. The 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 $622 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. In 2016, we recognized a $14 million non-cash settlement charge in connection with our lump-sum payout to certain terminated vested plan participants of our U.S. defined benefit pension plans. As a percentage of net sales, selling, general and administrative expenses were 3.1% in 2017, as compared to 3.4% in 2016.

Amortization of intangible assets was $48 million in 2017, as compared to $53 million in 2016.

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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 and other miscellaneous income and expense, was ($4) million in 2017, as compared to $6 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.
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 a change in the accounting for 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

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, electronic control modules and associated software and wireless communication modules. Key components in the electrical distribution system include wire harnesses, terminals and connectors and junction boxes, including components and systems for high power battery electric vehicle and hybrid electric vehicle power management and distribution systems.
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. Financial measures regarding each segment's pretax income before equity in net income of affiliates, interest expense and other 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 12, "Segment Reporting," to the consolidated financial statements included in this Report.

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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)	(300.1)
Margin	N/A	N/A

(1) See definition above.

Segment earnings related to our other category were ($284) million in 2017, as compared to ($300) million in 2016. In 2016, we recognized a $34 million non-cash settlement charge in connection with our lump-sum payout to certain terminated vested plan participants of our U.S. defined benefit pension plans.

Year Ended December 31, 2016, Compared With Year Ended December 31, 2015

Net sales for the year ended December 31, 2016 were $18.6 billion, as compared to $18.2 billion for the year ended December 31, 2015, an increase of $346 million or 2%. New business in Asia, Europe and South America and higher

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production volumes on key Lear platforms in Europe and Asia positively impacted net sales by $845 million and $139 million, respectively. These increases were partially offset by net foreign exchange rate fluctuations related to the strengthening of the U.S. dollar against most major currencies and selling price reductions, which reduced net sales by $602 million.

(in millions)	Cost of Sales
2015	$16,391.6
Material cost	(91.4)
Labor and other	128
Depreciation	27.3
2016	$16,455.5

Cost of sales in 2016 was $16.5 billion, as compared to $16.4 billion in 2015. New business in Asia, Europe and South America and higher production volumes on key Lear platforms in Europe and Asia resulted in an increase in cost of sales of $810 million. These increases were partially offset by favorable operating performance and the benefit of operational restructuring actions and net foreign exchange rate fluctuations related to the strengthening of the U.S. dollar against most major currencies, which reduced cost of sales by $703 million.

Gross profit and gross margin were $2.1 billion and 11.3% of net sales in 2016, as compared to $1.8 billion and 10.0% of net sales in 2015. New business and higher production volumes on key Lear platforms positively impacted gross profit by $148 million. The impact of favorable operating performance and the benefit of operational restructuring actions of $412 million more than offset the impact of selling price reductions and net foreign exchange rate fluctuations of $300 million. These factors had a corresponding impact on gross margin.

Selling, general and administrative expenses, including engineering and development expenses, were $622 million for the year ended December 31, 2016, as compared to $581 million for the year ended December 31, 2015, reflecting an increase in engineering and development expenses to support future business growth, as well as a $14 million non-cash settlement charge in connection with our lump-sum payout to certain terminated vested plan participants of our U.S. defined benefit pension plans. As a percentage of net sales, selling, general and administrative expenses were 3.4% in 2016, as compared to 3.2% in 2015.

Amortization of intangible assets was $53 million in 2016 and 2015.

Interest expense was $83 million in 2016, as compared to $87 million in 2015.

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, gains and losses on the extinguishment of debt, gains and losses on the disposal of fixed assets and other miscellaneous income and expense, was $6 million in 2016, as compared to $69 million in 2015. In 2016, we recognized a gain of $30 million related to obtaining control of an affiliate. In 2015, we recognized a loss of $14 million related to the redemption of the remaining outstanding aggregate principal amount of our 8.125% senior unsecured notes due 2020. Net foreign exchange losses decreased to $10 million in 2016, as compared to $23 million in 2015.

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 $1,338 million. In 2015, the provision for income taxes was $286 million, representing an effective tax rate of 27.7% on pretax income before equity in net income of affiliates of $1,032 million.

In 2016 and 2015, the provision for income taxes was impacted by the level and mix of earnings among tax jurisdictions. The provision was also impacted by a portion of our restructuring charges and other expenses, for which no tax benefit was provided as the charges were incurred in certain countries for which no tax benefit is likely to be realized due to a history of operating losses in those countries. In 2016, we recognized a gain of $30 million related to obtaining control of an affiliate, for which no tax expense was provided. In addition, we recognized net tax benefits of $24 million related to restructuring charges, a non-cash pension settlement charge and various other items. In 2015, we recognized net tax benefits of $43 million related to restructuring charges, debt redemption costs, acquisition costs and various other items. Excluding these items, the effective tax rate in 2016 and 2015 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 $72 million for the year ended December 31, 2016, as compared to $50 million for the year ended December 31, 2015, reflecting the increase in sales and improved operating performance of our equity affiliates in China.

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Net income attributable to Lear was $975 million, or $13.33 per diluted share, in 2016, as compared to $746 million, or $9.59 per diluted share, in 2015. 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, 2017, Compared with Year Ended December 31, 2016 — 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,	2016	2015
Net sales	$14,356.7	$14,098.5
Segment earnings (1)	1,136.0	907.0
Margin	7.9 %	6.4 %

(1) See definition above.

Seating net sales were $14.4 billion for the year ended December 31, 2016, as compared to $14.1 billion for the year ended December 31, 2015, an increase of $258 million or 2%. New business positively impacted net sales by $656 million. This increase was partially offset by net foreign exchange rate fluctuations and selling price reductions, which negatively impacted net sales by $427 million.

Segment earnings, including restructuring costs, and the related margin on net sales were $1,136 million and 7.9% in 2016, as compared to $907 million and 6.4% in 2015. New business and lower restructuring costs positively impacted segment earnings by $122 million. The impact of favorable operating performance and the benefit of operational restructuring actions of $261 million more than offset the impact of selling price reductions and net foreign exchange rate fluctuations.

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,	2016	2015
Net sales	$4,200.9	$4,112.9
Segment earnings (1)	591.3	554.4
Margin	14.1 %	13.5 %

(1) See definition above.

E-Systems net sales were $4.2 billion for the year ended December 31, 2016, as compared to $4.1 billion for the year ended December 31, 2015, an increase of $88 million or 2%. New business and higher production volumes on key Lear platforms positively impacted net sales by $179 million and $71 million, respectively. These increases were partially offset by selling price reductions and net foreign exchange rate fluctuations, which negatively impacted net sales by $175 million.

Segment earnings, including restructuring costs, and the related margin on net sales were $591 million and 14.1% in 2016, as compared to $554 million and 13.5% in 2015. New business and higher production volumes on key Lear platforms positively impacted segment earnings by $52 million. The impact of improved operating performance of $111 million was offset by the impact of selling price reductions and net foreign exchange rate fluctuations.

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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,	2016	2015
Net sales	$ —	$ —
Segment earnings [1]	(300.1)	(274.6)
Margin	N/A	N/A

(1) See definition above.

Segment earnings related to our other category were ($300) million in 2016, as compared to ($275) million in 2015. In 2016, we recognized a $34 million non-cash settlement charge in connection with our lump-sum payout to certain terminated vested plan participants of our U.S. defined benefit pension plans.

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, 2017 and 2016, cash and cash equivalents of $952 million and $767 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.

Cash Flows

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"). Capital spending in 2018 is estimated at $630 million.

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 the 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 9, "Capital Stock, Accumulated Other Comprehensive Loss and Equity," to the consolidated financial statements included in this Report.

Year Ended December 31, 2016, Compared with Year Ended December 31, 2015

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

For the year ended December 31,	2016	2015	Incremental Increase (Decrease) in Operating Cash Flow
Consolidated net income and depreciation and amortization	$1,419	$1,144	$ 275
Net change in working capital items:			
Accounts receivable	(176)	(173)	(3)
Inventory	(54)	4	(58)
Accounts payable	158	76	82
Accrued liabilities and other	160	151	9
Net change in working capital items	88	58	30
Other	112	69	43
Net cash provided by operating activities	$1,619	$1,271	$ 348

In 2016, increases in accounts receivable, inventories and accounts payable primarily reflect higher working capital to support the increase in our sales. In 2016, changes in accrued liabilities and other primarily reflect the timing of payment of accrued liabilities.

Net cash used in investing activities was $637 million in 2016, as compared to $965 million in 2015. In 2016, we paid $149 million for the acquisition of AccuMED. In 2015, we paid $465 million for the acquisition of Everett Smith Group Ltd., the parent of Eagle Ottawa, LLC ("Eagle Ottawa").

Net cash used in financing activities was $873 million in 2016, as compared to $156 million in 2015. In 2016 and 2015, we paid $659 million and $487 million, respectively, for repurchases of our common stock. In 2015, we borrowed $500 million under our prior term loan facility (see "— Credit Agreement" below) to finance, in part, the acquisition of Eagle Ottawa.

For further information regarding our 2016 and 2015 financing transactions, see "— Capitalization" below and Note 6, "Debt," and Note 9, "Capital Stock, Equity and Accumulated Other Comprehensive Loss," to the consolidated financial statements included in this Report.

Capitalization

From time to time, we utilize committed and uncommitted credit facilities 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, 2017, we had no short-term debt balances outstanding. As of December 31, 2016, our short-term debt balance was $9 million. The availability of uncommitted lines of credit may be affected by our financial performance, credit ratings and other factors.

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Senior Notes

As of December 31, 2017, 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%
Senior unsecured notes due 2027 (the "2027 Notes")	750	3.8%
	$ 1,725	

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 Notes are senior unsecured obligations. As discussed further in "— Credit Agreement" below, upon termination of our prior credit agreement, the subsidiaries that previously guaranteed the 2024 Notes and 2025 Notes were automatically released as guarantors. There are currently no guarantors of our obligations under the Notes.

The indentures governing the Notes contain certain restrictive covenants and customary events of default. As of December 31, 2017, 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 consisting of a $1.75 billion Revolving Credit Facility and a $250 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.

The Credit Agreement eliminated subsidiary guarantees required under our prior credit agreement. There are currently no guarantors of our obligations under the Credit Agreement.

As of December 31, 2017, 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.

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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, 2017, are shown below (in millions):

	2018	2019	2020	2021	2022	Thereafter	Total
Senior notes	$—	$—	$—	$—	$—	$ 1,725	$1,725
Credit agreement — term loan facility	6	8	14	14	206	—	248
Scheduled interest payments	83	80	80	80	80	254	657
Lease commitments	103	90	77	60	49	170	549
Total	$192	$178	$171	$154	$335	$ 2,149	$3,179

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.

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 $43 million as of December 31, 2017, 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 2018 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 2018. 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 2018.

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

Accounts Receivable Factoring

One of our European subsidiaries has an uncommitted factoring agreement, which provides for aggregate purchases of specified customer accounts of up to €200 million. As of December 31, 2017, there were no factored receivables outstanding. We cannot provide any assurances that this factoring facility will be available or utilized in the future.

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

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

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Adequacy of Liquidity Sources

As of December 31, 2017, 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.

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	2017	2016
Notional amount (contract maturities < 24 months)	$2,220	$1,956
Fair value	(23)	(54)

Currently, our most significant foreign currency transactional exposures relate to the Mexican peso, various European currencies, the Thai baht, the Chinese renminbi, the Brazilian real, the Japanese yen and the Canadian dollar. 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)	2017	2016
U.S. dollar	10%	$(19)	$(19)
Euro	10%	25	16

(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)	2017	2016
U.S. dollar	10%	$ 23	