

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-38636

Garrett Motion Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

La Pièce 16, Rolle, Switzerland
(Address of principal executive offices)

82-4873189

(I.R.S. Employer
Identification No.)

1180

(Zip Code)

+41 21 695 30 00

(Registrant's telephone number, including area code)

N/A

(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	GTX	New York Stock Exchange

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 27, 2020, the registrant had 75,635,938 shares of common stock, \$0.001 par value per share, outstanding.

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BASIS OF PRESENTATION

On October 1, 2018, Garrett Motion Inc. became an independent publicly-traded company through a pro rata distribution (the “Distribution”) by Honeywell International Inc. (“Former Parent” or “Honeywell”) of 100% of the then-outstanding shares of Garrett to Honeywell’s stockholders (the “Spin-Off”). Each Honeywell stockholder of record received one share of Garrett common stock for every 10 shares of Honeywell common stock held on the record date.

In connection with the Spin-Off, Garrett entered into a number of agreements with Honeywell, including but not limited to an indemnification and reimbursement agreement (the “Subordinated Indemnity Agreement”) and a tax matters agreement (the “Tax Matters Agreement”).

Unless the context otherwise requires, references to “Garrett,” “we,” “us,” “our,” and “the Company” in this Quarterly Report on Form 10-Q refer to Garrett Motion Inc. and its subsidiaries following the Spin-Off.

This Quarterly Report on Form 10-Q contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q, including without limitation statements regarding our future results of operations and financial position, the anticipated impact of the novel coronavirus (“COVID-19”) pandemic on our business, results of operations and financial position, expectations regarding the growth of the turbocharger and electric vehicle markets and other industry trends, the sufficiency of our cash and cash equivalents, anticipated sources and uses of cash, anticipated investments in our business, our business strategy, anticipated payments under our agreements with Honeywell, and the expected timing of those payments, anticipated interest expense, and the plans and objectives of management for future operations and capital expenditures are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential,” or “continue” or the negative of these terms or other similar expressions. The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to a number of important factors that could cause actual results to differ materially from those in the forward-looking statements, including:

1. changes in the automotive industry and economic or competitive conditions;
2. our ability to develop new technologies and products, and the development of either effective alternative turbochargers or new replacement technologies;
3. failure to protect our intellectual property or allegations that we have infringed the intellectual property of others, and our ability to license necessary intellectual property from third parties;
4. potential material losses and costs as a result of any warranty claims and product liability actions brought against us;
5. significant failure or inability to comply with the specifications and manufacturing requirements of our original equipment manufacturer customers or by increases or decreases to the inventory levels maintained by our customers;
6. volume of products we produce and market demand for such products and prices we charge and the margins we realize from our sales of our products;
7. loss of or a significant reduction in purchases by our largest customers, material nonpayment or nonperformance by any our key customers, and difficulty collecting receivables;
8. inaccuracies in estimates of volumes of awarded business;
9. work stoppages, other disruptions or the need to relocate any of our facilities;
10. supplier dependency;
11. failure to meet our minimum delivery requirements under our supply agreements;
12. failure to increase productivity or successfully execute repositioning projects or manage our workforce;
13. potential material environmental liabilities and hazards;
14. natural disasters and physical impacts of climate change;
15. pandemics, including without limitation the COVID-19 pandemic, and effects on our workforce and supply chain;
16. technical difficulties or failures, including cybersecurity risks;
17. the outcome of and costs associated with pending and potential material litigation matters, including our pending lawsuit against Honeywell;
18. changes in legislation or government regulations or policies, including with respect to CO2 reduction targets in Europe as part of the Green Deal objectives or other similar changes which may contribute to a proportionately higher level of battery electric vehicles;
19. risks related to international operations and our investment in foreign markets, including risks related to the withdrawal of the United Kingdom from the European Union (“Brexit”);

20. risks related to our agreements with Honeywell, such as the Subordinated Indemnity Agreement and Tax Matters Agreement;
21. the terms of our indebtedness and our ability to access capital markets;
22. unforeseen adverse tax effects;
23. costs related to operating as a standalone public company and failure to achieve benefits expected from the Spin-Off;
24. our leveraged capital structure and liabilities to Honeywell may pose significant challenges to our overall strategic and financial flexibility and have a material adverse effect on our business, liquidity position and financial position;
25. inability to recruit and retain qualified personnel; and
26. the other factors described under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019, as updated in this Quarterly Report on Form 10-Q, and in our other filings with the Securities and Exchange Commission ("SEC").

You should read this Quarterly Report and the documents that we reference in this Quarterly Report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

GARRETT MOTION INC.
CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions, except per share amounts)			
Net sales (Note 3)	477	802	1,222	1,637
Cost of goods sold	393	620	996	1,259
Gross profit	<u>\$ 84</u>	<u>\$ 182</u>	<u>\$ 226</u>	<u>\$ 378</u>
Selling, general and administrative expenses	51	58	112	118
Other expense, net (Note 5)	15	17	31	36
Interest expense	20	18	36	34
Non-operating (income) expense	(4)	2	(8)	6
Income before taxes	<u>\$ 2</u>	<u>\$ 87</u>	<u>\$ 55</u>	<u>\$ 184</u>
Tax expense (Note 6)	11	21	12	45
Net (loss) income	<u>\$ (9)</u>	<u>\$ 66</u>	<u>\$ 43</u>	<u>\$ 139</u>
Earnings (loss) per common share				
Basic	\$ (0.12)	\$ 0.88	\$ 0.57	\$ 1.87
Diluted	\$ (0.12)	\$ 0.86	\$ 0.57	\$ 1.83
Weighted average common shares outstanding				
Basic	75,595,991	74,591,478	75,316,827	74,414,450
Diluted	75,845,511	76,900,544	75,837,459	76,129,821

The Notes to the Consolidated Interim Financial Statements are an integral part of this statement.

GARRETT MOTION INC.
CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Net (loss) income	\$ (9)	\$ 66	\$ 43	\$ 139
Foreign exchange translation adjustment	(50)	(34)	(11)	25
Defined benefit pension plan adjustment, net of tax (Note 18)	—	—	—	1
Changes in fair value of effective cash flow hedges, net of tax (Note 14)	(2)	(1)	(2)	2
Total other comprehensive (loss) income, net of tax	\$ (52)	\$ (35)	\$ (13)	\$ 28
Comprehensive (loss) income	<u>\$ (61)</u>	<u>\$ 31</u>	<u>\$ 30</u>	<u>\$ 167</u>

The Notes to the Consolidated Interim Financial Statements are an integral part of this statement.

GARRETT MOTION INC.
CONSOLIDATED INTERIM BALANCE SHEETS
(Unaudited)

	<u>June 30,</u> 2020	<u>December 31,</u> 2019
(Dollars in millions)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 139	\$ 187
Accounts, notes and other receivables – net (Note 7)	554	707
Inventories – net (Note 9)	234	220
Other current assets	77	85
Total current assets	1,004	1,199
Investments and long-term receivables	34	36
Property, plant and equipment – net	457	471
Goodwill	193	193
Deferred income taxes	272	268
Other assets (Note 10)	106	108
Total assets	\$ 2,066	\$ 2,275
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 705	\$ 1,009
Borrowings under revolving credit facility	135	—
Current maturities of long-term debt	4	4
Obligations payable to Honeywell, current (Note 17)	37	69
Accrued liabilities (Note 11)	284	310
Total current liabilities	1,165	1,392
Long-term debt	1,403	1,409
Deferred income taxes	35	51
Obligations payable to Honeywell (Note 17)	1,304	1,282
Other liabilities (Note 12)	262	274
Total liabilities	\$ 4,169	\$ 4,408
COMMITMENTS AND CONTINGENCIES (Note 17)		
EQUITY (DEFICIT)		
Common stock, par value \$0.001; 400,000,000 shares authorized, 76,008,388 and 74,911,139 issued and 75,630,561 and 74,826,329 outstanding as of June 30, 2020 and December 31, 2019, respectively	—	—
Additional paid-in capital	24	19
Retained earnings	(2,244)	(2,282)
Accumulated other comprehensive income (Note 15)	117	130
Total stockholders' deficit	(2,103)	(2,133)
Total liabilities and stockholders' deficit	\$ 2,066	\$ 2,275

The Notes to the Consolidated Interim Financial Statements are an integral part of this statement.

GARRETT MOTION INC.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended June 30,	
	2020	2019
(Dollars in millions)		
Cash flows from operating activities:		
Net income	\$ 43	\$ 139
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(5)	—
Depreciation	37	35
Amortization of deferred issuance costs	3	3
Foreign exchange loss	3	11
Stock compensation expense	6	9
Pension expense	—	3
Other	4	6
Changes in assets and liabilities:		
Accounts, notes and other receivables	114	(42)
Inventories	(23)	(26)
Other assets	(11)	14
Accounts payable	(231)	(14)
Accrued liabilities	(16)	(48)
Obligations payable to Honeywell	(8)	(61)
Other liabilities	(11)	8
Net cash (used for) provided by operating activities	<u>\$ (95)</u>	<u>\$ 37</u>
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(63)	(51)
Other	(1)	18
Net cash used for investing activities	<u>\$ (64)</u>	<u>\$ (33)</u>
Cash flows from financing activities:		
Proceeds from revolving credit facility	1,023	300
Payments of revolving credit facility	(904)	(300)
Payments of long-term debt	(2)	(21)
Other	(3)	4
Net cash provided by (used for) financing activities	<u>114</u>	<u>(17)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(3)	(1)
Net decrease in cash and cash equivalents	(48)	(14)
Cash and cash equivalents at beginning of period	187	196
Cash and cash equivalents at end of period	<u>\$ 139</u>	<u>\$ 182</u>

The Notes to the Consolidated Interim Financial Statements are an integral part of this statement.

GARRETT MOTION INC.
CONSOLIDATED INTERIM STATEMENTS OF EQUITY (DEFICIT)
(Unaudited)
(in millions)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Invested Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Deficit
	Shares	Amount					
Balance at December 31, 2018	74	—	5	(2,595)	—	73	(2,517)
Net income	—	—	—	73	0	—	73
Other comprehensive income, net of tax	—	—	—	—	—	63	63
Stock-based compensation	1	—	5	—	—	—	5
Balance at March 31, 2019	<u>75</u>	<u>—</u>	<u>10</u>	<u>(2,522)</u>	<u>—</u>	<u>136</u>	<u>(2,376)</u>
Net income	—	—	—	66	—	—	66
Other comprehensive income, net of tax	—	—	—	—	—	(35)	(35)
Stock-based compensation	—	—	4	—	—	—	4
Balance at June 30, 2019	<u>75</u>	<u>—</u>	<u>14</u>	<u>(2,456)</u>	<u>—</u>	<u>101</u>	<u>(2,341)</u>
Balance at December 31, 2019	75	—	19	(2,282)	—	130	(2,133)
Net income	—	—	—	52	—	—	52
Other comprehensive income, net of tax	—	—	—	—	—	39	39
Stock-based compensation	—	—	2	—	—	—	2
Tax withholding related to vesting of restricted stock units and other	—	—	(1)	—	—	—	(1)
Adoption impact of ASU 2016-13, Financial Instruments - Credit Losses	—	—	—	(5)	—	—	(5)
Balance at March 31, 2020	<u>75</u>	<u>—</u>	<u>20</u>	<u>(2,235)</u>	<u>—</u>	<u>169</u>	<u>(2,046)</u>
Net loss	—	—	—	(9)	—	—	(9)
Other comprehensive loss, net of tax	—	—	—	—	—	(52)	(52)
Stock-based compensation	—	—	4	—	—	—	4
Balance at June 30, 2020	<u>75</u>	<u>—</u>	<u>24</u>	<u>(2,244)</u>	<u>—</u>	<u>117</u>	<u>(2,103)</u>

The Notes to the Consolidated Interim Financial Statements are an integral part of this statement.

GARRETT MOTION INC.
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
(Dollars in millions, except per share amounts)

Note 1. Background and Basis of Presentation

Background

Garrett Motion Inc. (the “Company” or “Garrett”) designs, manufactures and sells highly engineered turbocharger and electric-boosting technologies for light and commercial vehicle original equipment manufacturers (“OEMs”) and the global vehicle independent aftermarket, as well as automotive software solutions. These OEMs in turn ship to consumers globally. We are a global technology leader with significant expertise in delivering products across gasoline, diesel, natural gas and electric (hybrid and fuel cell) powertrains. These products are key enablers for fuel economy and emission standards compliance.

COVID-19

In December 2019, a strain of novel coronavirus disease, COVID-19, was identified in Wuhan, China. This virus has been declared a pandemic and has spread across the world, including throughout Asia, the United States and Europe. Our business operations have been materially disrupted and our revenues have decreased significantly as a result of the COVID-19 pandemic and related response measures, and we expect our financial performance in the quarter ending September 30, 2020, and in future fiscal quarters, to be materially negatively affected by the pandemic and its impact on the global automotive industry.

On June 12, 2020, the Company entered into an amendment (the “2020 Amendment”) to its Credit Agreement, dated as of September 27, 2018 (as amended, the “Credit Agreement”) by and among the Company, Garrett LX I S.à r.l., Garrett LX II S.à r.l., Garrett LX III S.à r.l., Garrett Borrowing LLC, and Garrett Motion Sàrl (f/k/a Honeywell Technologies Sàrl), the lenders and issuing banks party thereto and JPMorgan Chase Bank, N.A., as administrative agent, consisting of:

- a seven-year term B loan facility, consisting of a tranche denominated in Euro of €375 million and a tranche denominated in U.S. Dollars of \$425 million (the “Term B Facility”);
- a five-year term A loan facility in an aggregate principal amount of €330 million (the “Term A Facility” and, together with the Term B Facility, the “Term Loan Facilities”); and
- a five-year revolving credit facility in an aggregate principal amount of €430 million (the “Revolving Facility” and, together with the Term Loan Facilities, the “Senior Credit Facilities”).

The primary purpose for entering into the 2020 Amendment was to obtain covenant relief with respect to the total leverage ratio and interest coverage ratios under the Credit Agreement as a result of the impact of the COVID-19 pandemic and the Company’s leveraged capital structure. The 2020 Amendment provides that the financial maintenance covenants set forth in the Credit Agreement will not apply until the earlier of the occurrence of a Covenant Relief Termination Event (as defined below) and the conclusion of the Relief Period (as defined below) and puts the following financial ratios and tests in place during the Relief Period:

- **Minimum Liquidity:** As of the end of each fiscal month, commencing with the fiscal month ending June 30, 2020, the restricted group under the Credit Agreement must have minimum liquidity of not less than: (a) \$125 million through, and including, the fiscal month ending March 31, 2021 and (b) \$200 million, as of the end of each fiscal month ending thereafter for the remainder of the Relief Period. Liquidity includes available unrestricted cash and amounts available to be drawn under the Revolving Facility.
- **Net Secured Leverage Ratio:** As of the end of each fiscal quarter, commencing with fiscal quarter ending June 30, 2020, the ratio of (a)(i) consolidated secured debt minus (ii) the lesser of available unrestricted cash on such day and \$100 million to (b) consolidated EBITDA (as defined in the Credit Agreement) over the last twelve months, must not exceed the ratio set out in the table below:

Fiscal Quarter Ending	Consolidated Net Secured Leverage Ratio
June 30, 2020	5.75 to 1.00
September 30, 2020	9.25 to 1.00
December 31, 2020	10.75 to 1.00
March 31, 2021	11.75 to 1.00
June 30, 2021	6.50 to 1.00
September 30, 2021	4.50 to 1.00
December 31, 2021	4.25 to 1.00
March 31, 2022	3.75 to 1.00
June 30, 2022	3.50 to 1.00

- **Maximum Cash:** Commencing with the fiscal month ending June 30, 2020, the Company must not permit the average amount of available unrestricted cash of the restricted group under the Credit Agreement based on the balance for each of the last five business days of the fiscal month to exceed \$165 million.

Upon the occurrence of a Covenant Relief Termination Event or the conclusion of the Relief Period, the total leverage ratio and interest coverage ratio covenants included in the Credit Agreement will again apply. The minimum liquidity, net secured leverage ratio and maximum cash covenants will no longer apply following the conclusion of the Relief Period.

The “Relief Period” will conclude on the earlier of (a) June 30, 2022 and (b) the date on which the administrative agent receives a certificate from a financial officer of the Company certifying as of such date that (i) the Company is in compliance with the total leverage ratio and interest coverage ratio covenants included in the Credit Agreement as they would apply without giving effect to the Relief Period for the most recently ended period of four consecutive fiscal quarters ended on or prior to such date and (ii) if such date is on or prior to the date of delivery of the Company’s financial statements with respect to the period of four consecutive quarters ending June 30, 2022, based on a financial model provided to the administrative agent, the Company expects in good faith that it will be in compliance with such total leverage ratio and interest coverage ratio covenants as they would apply without giving effect to the Relief Period from the end of the quarter in which such certificate is given until and including the period of four consecutive quarters ending June 30, 2022.

A “Covenant Relief Termination Event” will occur if any member of the restricted group under the Credit Agreement (including Garrett ASASCO Inc. (“Garrett ASASCO”), a wholly owned indirect subsidiary of the Company) makes any payment under the Subordinated Indemnity Agreement but excluding the payment in respect of the second fiscal quarter of 2020. As of the date of this Quarterly Report on Form 10-Q, based on the Company’s current forecasts, we do not anticipate that a Covenant Relief Termination Event will occur prior to 2022.

Each of the Revolving Facility and Term A Facility continues to mature on September 27, 2023, and the Term B Facility continues to mature on September 27, 2025. Pursuant to the 2020 Amendment, (i) the margin applicable to loans under the Term B Facility will increase by 75 basis points through the maturity date and (ii) the margin applicable to loans under the Revolving Facility and Term A Facility will increase by 25 basis points until the Company delivers consolidated financial statements as of and for its first fiscal quarter ending on or after the last day of the Relief Period. In addition, pursuant to the 2020 Amendment, if (a) our corporate family rating by Moody’s is B2 or lower or there is no corporate family rating of the Company by Moody’s and, at the same time, (b) our corporate rating from S&P is B+ or lower or there is no corporate rating of the Company by S&P, then upon the first occurrence of this ratings event the margin applicable to loans under our Senior Credit Facilities will increase by 25 basis points through the maturity date.

The 2020 Amendment also tightened certain of the baskets applicable to our ability to incur additional indebtedness, create liens, and make investments and restricted payments. These increased restrictions will no longer apply following the conclusion of the Relief Period. The 2020 Amendment also modifies the conditions to drawdown under the Revolving Facility and makes certain other changes to the Senior Credit Facilities.

The 2020 Amendment qualified as a debt modification that did not result in an extinguishment or have a material impact on our Consolidated Interim Financial Statements.

Basis of Presentation

The Consolidated Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). All amounts presented are in millions, except per share amounts.

Asbestos-related expenses, net of probable insurance recoveries, are presented within Other expense, net in the Consolidated Interim Statement of Operations. Honeywell is subject to certain asbestos-related and environmental-related liabilities, primarily related to its legacy Bendix business. In conjunction with the Spin-Off, certain operations that were part of the Bendix business, along with the ownership of the Bendix trademark, as well as certain operations that were part of other legacy elements of the Business, were transferred to us. The accounting for the majority of our asbestos-related liability payments and accounts payable reflect the terms of the Subordinated Indemnity Agreement with Honeywell entered into on September 12, 2018, under which Garrett ASASCO is required to make payments to Honeywell in amounts equal to 90% of Honeywell’s asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell’s net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. The Subordinated Indemnity Agreement provides that the agreement will terminate upon the earlier of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which certain amounts owed to Honeywell during each such year were less than \$25 million as converted into Euros in accordance with the terms of the agreement. We are currently engaged in litigation against Honeywell in connection with the Subordinated Indemnity Agreement. For additional information, see Note 17, Commitments and Contingencies.

The Consolidated Interim Financial Statements are unaudited; however, in the opinion of management, they contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to state fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. GAAP applicable to interim periods. The Consolidated Interim Financial Statements should be read in conjunction with the audited annual Consolidated and Combined Financial Statements for the year ended December 31, 2019 included in our Annual Report on Form 10-K, as filed with the SEC on February 27, 2020 (our “2019 Form 10-K”). The results of operations for the three and six months ended June 30, 2020 and cash flows for the six months ended June 30, 2020 should not necessarily be taken as indicative of the entire year.

We report our quarterly financial information using a calendar convention: the first, second and third quarters are consistently reported as ending on March 31, June 30 and September 30. It has been our practice to establish actual quarterly closing dates using a predetermined fiscal calendar, which requires our businesses to close their books on a Saturday in order to minimize the potentially disruptive effects of quarterly closing on our business processes. The effects of this practice are generally not significant to reported results for any quarter and only exist within a reporting year. For differences in actual closing dates that are material to year-over-year comparisons of quarterly or year-to-date results, such differences have been adjusted for the three months ended June 30, 2020. Our actual closing dates for the three months ended June 30, 2020 and 2019 were June 27, 2020 and June 29, 2019, respectively.

Note 2. Summary of Significant Accounting Policies

The accounting policies of the Company are set forth in Note 2 to the audited annual Consolidated and Combined Financial Statements for the year ended December 31, 2019 included in our 2019 Form 10-K. We include herein certain updates to those policies.

Trade Receivables and Allowance for Doubtful Accounts—Trade accounts receivable are recorded at the invoiced amount as a result of transactions with customers. Garrett maintains allowances for doubtful accounts for estimated losses as a result of a customer’s inability to make required payments. As of January 1, 2020, Garrett adopted ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new guidance requires an entity to recognize as an allowance its estimate of lifetime expected credit losses rather than incurred losses. The guidance is also applicable to contract assets such as unbilled receivables. Consistent with the new guidance, Garrett estimates losses from doubtful accounts expected over the contractual life of the receivables based on days past due as measured from the contractual due date and collection history. Garrett also takes into consideration changes in economic conditions that may not be reflected in historical trends (for example, customers in bankruptcy, liquidation or reorganization). Receivables are written-off against the allowance for doubtful accounts when they are determined uncollectible. Such determination includes analysis and consideration of the particular conditions of the account, including time intervals since last collection, customer performance against agreed upon payment plans, solvency of customer and any bankruptcy proceedings.

Recently Adopted Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, which amends certain disclosure requirements related to fair value measures. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Effective January 1, 2020, the Company adopted the new guidance. The adoption did not have an impact on our Consolidated Interim Balance Sheets, Consolidated Interim Statements of Operations and related Notes to the Consolidated Interim Financial Statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires measurement and recognition of expected credit losses for financial assets held. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Early adoption is permitted. Adoption of the new standard resulted in an increase in the allowance for doubtful accounts of \$5 million which was recognized as a cumulative-effect adjustment to opening retained earnings as of January 1, 2020.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-14, Compensation-Retirement Benefits Defined Benefit Plans – General (Subtopic 715-20), which amends certain disclosure requirements related to the defined benefit pension and other postretirement plans. The guidance is effective for fiscal years beginning after December 15, 2020, including interim periods within that fiscal year. Early adoption is permitted. The Company is currently evaluating the impact on its disclosures.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform. The amendments in this Update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. The Company is currently evaluating the impact on our hedging relationships, other transactions, and disclosures.

Note 3. Revenue Recognition and Contracts with Customers

Disaggregated Revenue

Net sales by region (determined based on country of shipment) and channel are as follows:

	Three months ended June 30, 2020			
	OEM	Aftermarket	Other	Total
United States	\$ 33	\$ 32	\$ 1	\$ 66
Europe	160	22	6	188
Asia	202	11	5	218
Other International	—	5	—	5
	<u>\$ 395</u>	<u>\$ 70</u>	<u>\$ 12</u>	<u>\$ 477</u>

	Six months ended June 30, 2020			
	OEM	Aftermarket	Other	Total
United States	\$ 125	\$ 72	\$ 1	\$ 198
Europe	554	52	15	621
Asia	361	19	11	391
Other International	3	9	—	12
	<u>\$ 1,043</u>	<u>\$ 152</u>	<u>\$ 27</u>	<u>\$ 1,222</u>

	Three months ended June 30, 2019			
	OEM	Aftermarket	Other	Total
United States	\$ 77	\$ 49	\$ 2	\$ 128
Europe	416	31	8	455
Asia	190	13	7	210
Other International	4	5	—	9
	<u>\$ 687</u>	<u>\$ 98</u>	<u>\$ 17</u>	<u>\$ 802</u>

	Six months ended June 30, 2019			
	OEM	Aftermarket	Other	Total
United States	\$ 160	\$ 94	\$ 3	\$ 257
Europe	845	68	20	933
Asia	389	26	14	429
Other International	8	10	—	18
	<u>\$ 1,402</u>	<u>\$ 198</u>	<u>\$ 37</u>	<u>\$ 1,637</u>

Contract Balances

The following table summarizes our contract assets and liabilities balances:

	2020
Contract assets—January 1	\$ 6
Contract assets—June 30	32
Change in contract assets—Increase/(Decrease)	26
Contract liabilities—January 1	\$ (3)
Contract liabilities—June 30	(3)
Change in contract liabilities—(Increase)/Decrease	\$ —

Note 4. Research, Development & Engineering

Garrett conducts research, development and engineering (“RD&E”) activities, which consist primarily of the development of new products and product applications. RD&E costs are charged to expense as incurred unless the Company has a contractual guarantee for reimbursement from the customer. Customer reimbursements are netted against gross RD&E expenditures as they are considered a recovery of cost. Such costs are included in Cost of goods sold as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Research and development costs	\$ 25	\$ 29	\$ 52	\$ 61
Engineering-related expenses	3	1	7	4
	<u>\$ 28</u>	<u>\$ 30</u>	<u>\$ 59</u>	<u>\$ 65</u>

Note 5. Other Expense, Net

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Indemnification related — post Spin-Off	\$ 12	\$ 17	\$ 27	\$ 36
Indemnification related — litigation	2	—	3	—
Factoring and notes receivables discount fees	1	—	1	—
	<u>\$ 15</u>	<u>\$ 17</u>	<u>\$ 31</u>	<u>\$ 36</u>

Note 6. Income Taxes

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Tax expense	\$ 11	\$ 21	\$ 12	\$ 45
Effective tax rate	550%	24.1%	21.8%	24.5%

For the period ended June 30, 2020 the Company computed its effective tax rate using actual year to date information rather than a full year forecast to compute an annual effective tax rate. Based on current forecasts which take into account a range of potential impacts from COVID-19, the Company’s effective tax rate is expected to be highly sensitive to changes in earnings because of non-deductible asbestos related expenses which have no correlation to earnings. Accordingly, the Company concluded that computing its effective tax rate using year to date actual results is its best estimate of tax expense for the period ended June 30, 2020.

The effective tax rate for the three months ended June 30, 2020 is significantly higher than the effective tax rate for the three months ended June 30, 2019 primarily because of substantially lower earnings due to the adverse economic impacts of COVID-19 and, to a lesser extent, an increase in tax reserves.

The effective tax rate for the six months ended June 30, 2020 is lower than the effective tax rate for the six months ended June 30, 2019 because of a decrease in withholding taxes related to undistributed earnings, partially offset by the impacts of lower earnings.

The effective tax rate for the three months ended June 30, 2020 was higher than the U.S. federal statutory rate of 21% primarily due to lower earnings, the impacts of non-deductible asbestos related expenses which have no correlation to earnings and tax reserves.

The effective tax rate for the three months ended June 30, 2019 was higher than the U.S. federal statutory rate of 21% primarily due to non-deductible asbestos related expenses, withholding taxes on current year earnings and tax reserves, partially offset by non-U.S. earnings taxed at lower rates.

The effective tax rate can vary from quarter to quarter due to changes in the Company's global mix of earnings, impacts of COVID-19, the resolution of income tax audits, changes in tax laws (including updated guidance on U.S. tax reform), deductions related to employee share-based payments, internal restructurings and pension mark-to-market adjustments.

In connection with the global outbreak of COVID-19, many countries have enacted legislation to provide various forms of emergency economic relief, including the CARES Act in the United States, that may provide financial benefits to the Company. At this time, we do not expect such benefits to have a material impact to the Company.

Note 7. Accounts, Notes and Other Receivables—Net

	June 30, 2020	December 31, 2019
Trade receivables	\$ 438	\$ 574
Notes receivables	55	68
Other receivables	70	69
	\$ 563	\$ 711
Less—Allowance for doubtful accounts	(9)	(4)
	<u>\$ 554</u>	<u>\$ 707</u>

Trade Receivables include \$32 million and \$4 million of unbilled balances as of June 30, 2020 and December 31, 2019, respectively. These amounts are billed in accordance with the terms of customer contracts to which they relate. Unbilled receivables include \$32 million and \$6 million of contract assets as of June 30, 2020 and December 31, 2019, respectively. See Note 3, Revenue Recognition and Contracts with Customers.

Note 8. Factoring and Notes Receivable

The Company entered into arrangements with financial institutions to sell eligible trade receivable. During the periods ended June 30, 2020 and December 31, 2019, the Company sold \$66 and \$27 million of eligible receivables, respectively, without recourse, and accounted for these arrangements as true sales.

The Company also received guaranteed bank notes without recourse, in settlement of accounts receivables, primarily in the Asia Pacific region. The Company can hold the bank notes until maturity, exchange them with suppliers to settle liabilities, or sell them to third party financial institutions in exchange for cash. During the periods ended June 30, 2020 and December 31, 2019, the Company sold \$47 and \$105 million of bank notes, respectively, without recourse, and accounted for these as true sales.

Note 9. Inventories—Net

	June 30, 2020	December 31, 2019
Raw materials	\$ 158	\$ 142
Work in process	22	18
Finished products	83	85
	\$ 263	\$ 245
Less—Reserves	(29)	(25)
	<u>\$ 234</u>	<u>\$ 220</u>

Note 10. Other Assets

	June 30, 2020	December 31, 2019
Advanced discounts to customers, non-current	\$ 61	\$ 62
Operating right-of-use assets (Note 13)	34	35
Undesignated cross-currency swap at fair value	1	—
Other	10	11
	<u>\$ 106</u>	<u>\$ 108</u>

Note 11. Accrued Liabilities

	June 30, 2020	December 31, 2019
Customer pricing reserve	\$ 88	\$ 90
Compensation, benefit and other employee related	62	64
Repositioning	6	4
Product warranties and performance guarantees	25	29
Taxes	23	33
Advanced discounts from suppliers, current	19	19
Customer advances and deferred income ^(a)	18	12
Accrued interest	5	5
Short-term lease liability (Note 13)	8	8
Other (primarily operating expenses)	30	46
	<u>\$ 284</u>	<u>\$ 310</u>

- (a) Customer advances and deferred income include \$2 million and \$3 million of contract liabilities as of June 30, 2020 and December 31, 2019, respectively. See Note 3, Revenue Recognition and Contracts with Customers.

The Company accrued repositioning costs related to projects to optimize its product costs and right-size its organizational structure. Expenses related to the repositioning accruals are included in Cost of goods sold in our Consolidated Interim Statements of Operations.

	Severance Costs	Exit Costs	Total
Balance at December 31, 2018	\$ 13	\$ 2	\$ 15
Charges	3	—	3
Usage—cash	(6)	(2)	(8)
Adjustments and reclassifications	(6)	1	(5)
Foreign currency translation	—	—	—
Balance at June 30, 2019	<u>\$ 4</u>	<u>\$ 1</u>	<u>\$ 5</u>

	Severance Costs	Exit Costs	Total
Balance at December 31, 2019	\$ 3	\$ 1	\$ 4
Charges	6	—	6
Usage—cash	(4)	—	(4)
Adjustments and reclassifications	—	—	—
Foreign currency translation	—	—	—
Balance at June 30, 2020	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ 6</u>

Note 12. Other Liabilities

	<u>June 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Pension and other employee related	\$ 93	\$ 94
Advanced discounts from suppliers	37	46
Uncertain tax positions	80	79
Long-term lease liability (Note 13)	27	28
Other	25	27
	<u>\$ 262</u>	<u>\$ 274</u>

Note 13. Leases

We have operating leases for real estate and machinery and equipment. Our leases have remaining lease terms of up to 11 years, some of which include options to extend the leases for up to two years, and some of which include options to terminate the leases within the year.

The components of lease expense are as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Operating lease cost	\$ 3	\$ 3	\$ 6	\$ 6

Supplemental cash flow information related to operating leases is as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash outflows from operating leases	\$ 3	\$ 3	\$ 5	\$ 6
Right-of-use assets obtained in exchange for lease obligations:				
Operating leases	\$ 5	\$ 3	\$ 5	\$ 8

Supplemental balance sheet information related to operating leases is as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Other assets	\$ 34	\$ 35
Accrued liabilities	8	8
Other liabilities	27	28
	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Weighted-average lease term	5.83	6.30
Weighted-average discount rate	6.23	6.36

Maturities of operating lease liabilities were as follows:

	June 30, 2020
2020	\$ 5
2021	8
2022	7
2023	6
2024	5
Thereafter	11
Total lease payments	42
Less imputed interest	(7)
	<u>\$ 35</u>

Note 14. Financial Instruments and Fair Value Measures

Our credit, market and foreign currency risk management policies are described in Note 18, Financial Instruments and Fair Value Measures, of the notes to the audited annual Consolidated Financial Statements for the year ended December 31, 2019 included in our 2019 Form 10-K. At June 30, 2020 and December 31, 2019, we had contracts with aggregate gross notional amounts of \$1,399 million and \$1,820 million, respectively, to limit interest rate risk and to exchange foreign currencies, principally the U.S. Dollar, Swiss Franc, Euro, Chinese Yuan, Japanese Yen, Mexican Peso, New Romanian Leu, Czech Koruna, Australian Dollar and Korean Won.

Financial and nonfinancial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2020 and December 31, 2019:

	Notional Amounts		Fair Value			
			Assets		Liabilities	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Designated forward currency exchange contracts	\$ 286	\$ 392	\$ 4	\$ 5 (a)	\$ 1	\$ 1 (b)
Undesignated instruments:						
Undesignated cross-currency swap	418	420	1	— (c)	—	1 (d)
Undesignated interest rate swap	471	561	—	—	2	1 (d)
Undesignated forward currency exchange contracts	224	447	2	2 (a)	—	3 (b)
	<u>\$ 1,399</u>	<u>\$ 1,820</u>	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ 3</u>	<u>\$ 6</u>

- (a) Recorded within Other current assets in the Company's Consolidated Interim Balance Sheets
(b) Recorded within Accrued liabilities in the Company's Consolidated Interim Balance Sheets
(c) Recorded within Other assets in the Company's Consolidated Interim Balance Sheets
(d) Recorded within Other liabilities in the Company's Consolidated Interim Balance Sheets

The foreign currency exchange, interest rate swap and cross-currency swap contracts are valued using market observable inputs. As such, these derivative instruments are classified within Level 2. The assumptions used in measuring fair value of the cross-currency swap are considered Level 2 inputs, which are based upon market observable interest rate curves, cross currency basis curves, credit default swap curves, and foreign exchange rates.

The carrying value of Cash and cash equivalents, Account receivables, Notes and Other receivables, and Account payables contained in the Consolidated Balance Sheets approximates fair value.

The following table sets forth the Company's financial assets and liabilities that were not carried at fair value:

	June 30, 2020	
	Carrying Value	Fair Value
Long-term debt and related current maturities	\$ 1,407	\$ 1,309

The Company determined the fair value of certain of its long-term debt and related current maturities utilizing transactions in the listed markets for similar liabilities. As such, the fair value of the long-term debt and related current maturities is considered Level 2.

Note 15. Accumulated Other Comprehensive Income (Loss)

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Foreign Exchange Translation Adjustment	Changes in Fair Value of Effective Cash Flow Hedges	Pension Adjustments	Total Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2018	\$ 86	\$ —	\$ (13)	\$ 73
Other comprehensive income (loss) before reclassifications	25	2	—	27
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	1	1
Net current period other comprehensive income (loss)	25	2	1	28
Balance at June 30, 2019	<u>\$ 111</u>	<u>\$ 2</u>	<u>\$ (12)</u>	<u>\$ 101</u>
	Foreign Exchange Translation Adjustment	Changes in Fair Value of Effective Cash Flow Hedges	Pension Adjustments	Total Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2019	\$ 153	\$ 4	\$ (27)	\$ 130
Other comprehensive income (loss) before reclassifications	(11)	(2)	—	(13)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—	—
Net current period other comprehensive income (loss)	(11)	(2)	—	(13)
Balance at June 30, 2020	<u>\$ 142</u>	<u>\$ 2</u>	<u>\$ (27)</u>	<u>\$ 117</u>

Note 16. Earnings Per Share

The details of the earnings per share ("EPS") calculations for the three and six months ended June 30, 2020 and 2019 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Basic				
Net (loss) Income	\$ (9)	\$ 66	\$ 43	\$ 139
Weighted average common shares outstanding	75,595,991	74,591,478	75,316,827	74,414,450
EPS – Basic	<u>\$ (0.12)</u>	<u>\$ 0.88</u>	<u>\$ 0.57</u>	<u>\$ 1.87</u>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Diluted				
Net (loss) Income	\$ (9)	\$ 66	\$ 43	\$ 139
Weighted average common shares outstanding – Basic	75,595,991	74,591,478	75,316,827	74,414,450
Dilutive effect of unvested RSUs and other contingently issuable shares	249,520	2,309,066	520,632	1,715,371
Weighted average common shares outstanding – Diluted	75,845,511	76,900,544	75,837,459	76,129,821
EPS – Diluted	\$ (0.12)	\$ 0.86	\$ 0.57	\$ 1.83

Diluted EPS is computed based upon the weighted average number of common shares outstanding for the period plus the dilutive effect of common stock equivalents using the treasury stock method and the average market price of our common stock for the period.

The diluted earnings per share calculations exclude the effect of stock options when the options' assumed proceeds exceed the average market price of the common shares during the period. For the three and six months ended June 30, 2020, the weighted number of stock options excluded from the computations was 437,333 and 439,649, respectively. These stock options were outstanding for the three and six months ended June 30, 2020, respectively.

Note 17. Commitments and Contingencies

Obligations payable to Honeywell

Honeywell is a defendant in asbestos-related personal injury actions mainly related to its legacy Bendix friction materials (“Bendix”) business. The Bendix business manufactured automotive brake linings that contained chrysotile asbestos in an encapsulated form. Claimants consist largely of individuals who allege exposure to asbestos from brakes from either performing or being in the vicinity of individuals who performed brake replacements. Certain operations that were part of the Bendix business were transferred to Garrett.

In connection with the Spin-Off, Garrett ASASCO, a wholly owned indirect subsidiary of the Company, entered into the Subordinated Indemnity Agreement with Honeywell on September 12, 2018. As of the Spin-Off date of October 1, 2018, Garrett ASASCO is obligated to make payments to Honeywell in amounts equal to 90% of Honeywell’s asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell’s net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. Pursuant to the terms of this Subordinated Indemnity Agreement, Garrett ASASCO is responsible for paying to Honeywell such amounts, up to a cap of an amount equal to the Euro-to-U.S. dollar exchange rate determined by Honeywell as of a date within two business days prior to the date of the Distribution (1.16977 USD = 1 EUR) equivalent of \$175 million in respect of such liabilities arising in any given calendar year. The payments that Garrett ASASCO is required to make to Honeywell pursuant to the terms of the Subordinated Indemnity Agreement will not be deductible for U.S. federal income tax purposes. The Subordinated Indemnity Agreement provides that the agreement will terminate upon the earlier of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which certain amounts owed to Honeywell during each such year were less than \$25 million as converted into Euros in accordance with the terms of the agreement. During the first quarter of 2020, Garrett ASASCO paid Honeywell the Euro-equivalent of \$35 million in connection with the Subordinated Indemnity Agreement. Honeywell and Garrett agreed to defer the payment under the Subordinated Indemnity Agreement due May 1, 2020 to December 31, 2020 (the “Q2 Payment”). As of the date of this Quarterly Report on Form 10-Q, we do not anticipate that Garrett ASASCO will make any additional payments under the Subordinated Indemnity Agreement, other than the Q2 Payment, prior to 2022, in accordance with the payment deferral mechanism contained in the Subordinated Indemnity Agreement, which is described in additional detail in our 2019 Form 10-K. In accordance with the Subordinated Indemnity Agreement, we anticipate that the deferred payments will be partially settled on April 30, 2023, up to the available capacity to make such payments under the Credit Agreement, assuming we remain in compliance with the financial maintenance covenants in the Credit Agreement at that time. We expect to pay the remaining balance of deferred amounts from 2023 onwards. These amounts do not reflect any increases to the aggregate amount owed to Honeywell.

In conjunction with the 2020 Amendment, on June 12, 2020, Garrett ASASCO entered into an amendment (the “Subordinated Indemnity Amendment”) to the Subordinated Indemnity Agreement. The Subordinated Indemnity Amendment:

- Amends the negative covenants contained in Exhibit L of the Subordinated Indemnity Agreement to reflect amendments made by the 2020 Amendment to the corresponding negative covenants in the Credit Agreement; and
- Modifies the Subordinated Indemnity Agreement such that we may not agree to an amendment or waiver of (i) the minimum liquidity, net secured leverage ratio and maximum cash covenants under the Credit Agreement as amended by the 2020 Amendment that would make those covenants more restrictive to us and (ii) during the Relief Period, the additional drawdown condition for revolving borrowings, in each case, without the prior written consent of Honeywell.

On December 2, 2019, the Company and its subsidiary Garrett ASASCO, filed a Summons with Notice in the Commercial Division of the Supreme Court of the State of New York, County of New York (the “NY Supreme Court”) commencing an action (the “Action”) against Honeywell, certain of Honeywell’s subsidiaries and certain of Honeywell’s employees for declaratory judgment, breach of contract, breach of fiduciary duties, aiding and abetting breach of fiduciary duties, corporate waste, breach of the implied covenant of good faith and fair dealing, and unjust enrichment. On January 15, 2020, the Company and Garrett ASASCO, filed a Complaint in the NY Supreme Court in connection with the Action. The lawsuit arises from the Subordinated Indemnity Agreement. The Company is seeking declaratory relief; compensatory damages in an amount to be determined at trial; rescission of the Subordinated Indemnity Agreement; attorneys’ fees and costs and such other and further relief as the Court may deem just and proper. There can be no assurance as to the time and resources that will be required to pursue these claims or the ultimate outcome of the lawsuit. Among other claims, Garrett asserts that Honeywell is not entitled to indemnification because it improperly seeks indemnification for amounts attributable to punitive damages and intentional misconduct, and because it has failed to establish other prerequisites for indemnification under New York law. Specifically, the claim asserts that Honeywell has failed to establish its right to indemnity for each and every asbestos settlement of the thousands for which it seeks indemnification. The Action seeks to establish that the Subordinated Indemnity Agreement is not enforceable, in whole or in part. On March 5, 2020, Honeywell filed a “Notice of Motion to Dismiss Garrett’s Complaint.” On June 18, 2020, by agreement of the parties, Honeywell withdrew its motion to dismiss and Garrett agreed to file an amended complaint on September 15, 2020.

On September 12, 2018, we also entered into a Tax Matters Agreement with Honeywell (the “Tax Matters Agreement”), which governs the respective rights, responsibilities and obligations of Honeywell and us after the Spin-Off with respect to all tax matters (including tax liabilities, tax attributes, tax returns and tax contests). The Tax Matters Agreement generally provides that, following the Spin-Off date of October 1, 2018, we are responsible and will indemnify Honeywell for all taxes, including income taxes, sales taxes, value-added and payroll taxes, relating to Garrett for all periods, including periods prior to the completion date of the Spin-Off. Among other items, as a result of the mandatory transition tax imposed by the Tax Cuts and Jobs Act, Garrett ASASCO is required to make payments to a subsidiary of Honeywell in the amount representing the net tax liability of Honeywell under the mandatory transition tax attributable to us, as determined by Honeywell. We estimate that Garrett ASASCO’s total aggregate payments to Honeywell with respect to the mandatory transition tax will be \$240 million with \$193 million in payments remaining as of June 30, 2020. Under the terms of the Tax Matters Agreement, Garrett ASASCO is required to pay this amount in Euros, without interest, in five annual installments, each equal to 8% of the aggregate amount, followed by three additional annual installments equal to 15%, 20% and 25% of the aggregate amount, respectively. Following the Spin-Off in October 2018, Garrett ASASCO paid the first annual installment in October 2018, with subsequent annual installments to be paid in April of each year. The annual installment due on April 1, 2020 has been deferred to December 31, 2020 in agreement with Honeywell.

In addition, the Tax Matters Agreement addresses the allocation of liability for taxes incurred as a result of restructuring activities undertaken to effectuate the Spin-Off. The Tax Matters Agreement also provides that we are required to indemnify Honeywell for certain taxes (and reasonable expenses) resulting from the failure of the Spin-Off and related internal transactions to qualify for their intended tax treatment under U.S. federal, state and local income tax law, as well as foreign tax law. Further, the Tax Matters Agreement also imposes certain restrictions on us and our subsidiaries (including restrictions on share issuances, redemptions or repurchases, business combinations, sales of assets and similar transactions) that are designed to address compliance with Section 355 of the Internal Revenue Code of 1986, as amended, and are intended to preserve the tax-free nature of the Spin-Off.

On July 17, 2020, we provided notice to Honeywell asserting that Honeywell has caused material breaches of the Tax Matters Agreement and that the Tax Matters Agreement is unenforceable.

The following table summarizes our Obligation payable to Honeywell related to these agreements:

	Six Months Ended June 30, 2020		
	Asbestos and environmental	Tax Matters	Total
Beginning of year	\$ 1,090	\$ 261	\$ 1,351
Accrual for update to estimated liability	—	—	—
Legal fees expensed	27	—	27
Payments to Honeywell	(35)	—	(35)
Currency translation adjustment	(2)	—	(2)
End of period	<u>\$ 1,080</u>	<u>\$ 261</u>	<u>\$ 1,341</u>
Current	—	37	37
Non-current	1,080	224	1,304
Total	<u>\$ 1,080</u>	<u>\$ 261</u>	<u>\$ 1,341</u>

Asbestos Matters

The accounting for the majority of our asbestos-related liability payments and accounts payable reflect the terms of the Subordinated Indemnity Agreement with Honeywell entered into by Garrett ASASCO on September 12, 2018, under which Garrett ASASCO is required to make payments to Honeywell in amounts equal to 90% of Honeywell's asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell's net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. The Subordinated Indemnity Agreement provides that the agreement will terminate upon the earlier of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which certain amounts owed to Honeywell during each such year were less than \$25 million as converted into Euros in accordance with the terms of the agreement.

The following tables present information regarding Bendix related asbestos claims activity:

Claims Activity	Six Months Ended June 30, 2020	Year Ended December 31, 2019
	Claims Unresolved at the beginning of the period	6,480
Claims Filed	1,013	2,659
Claims Resolved	(1,195)	(2,388)
Claims Unresolved at the end of the period	<u>6,298</u>	<u>6,480</u>

Disease Distribution of Unresolved Claims	Six Months Ended June 30, 2020	Years Ended December 31, 2019
	Mesothelioma and Other Cancer Claims	3,278
Nonmalignant Claims	3,020	3,081
Total Claims	<u>6,298</u>	<u>6,480</u>

Honeywell has experienced average resolutions per claim excluding legal costs as follows:

	Years Ended December 31,			
	2019	2018	2017	2016
	(in whole dollars)			
Malignant claims	\$ 50,200	\$ 55,300	\$ 56,000	\$ 44,000
Nonmalignant claims	\$ 3,900	\$ 4,700	\$ 2,800	\$ 4,485

It is not possible to predict whether resolution values for Bendix-related asbestos claims will increase, decrease or stabilize in the future.

Other Matters

We are subject to other lawsuits, investigations and disputes arising out of the conduct of our business, including matters relating to commercial transactions, government contracts, product liability, prior acquisitions and divestitures, employee benefit plans, intellectual property, and environmental, health and safety matters. We recognize a liability for any contingency that is probable of occurrence and reasonably estimable. We continually assess the likelihood of adverse judgments of outcomes in these matters, as well as potential ranges of possible losses (taking into consideration any insurance recoveries), based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts. To date, no such matters are material to the Consolidated Interim Statements of Operations.

Note 18. Pension Benefits

We sponsor several funded U.S. and non-U.S. defined benefit pension plans. Significant plans outside of the U.S. are in Switzerland and Ireland. Other pension plans outside of the U.S. are not material to the Company either individually or in the aggregate.

Our general funding policy for qualified defined benefit pension plans is to contribute amounts at least sufficient to satisfy regulatory funding standards. We are not required to make any contributions to our U.S. pension plan in 2020. We expect to make contributions of cash and/or marketable securities of approximately \$7 million to our non-U.S. pension plans to satisfy regulatory funding standards in 2020, of which \$3 million has been contributed through the first six months of the year.

Net periodic benefit costs for our significant defined benefit plans include the following components:

	Three Months Ended June 30,				Six Months Ended June 30,			
	U.S. Plans		Non-U.S. Plan,		U.S. Plans		Non-U.S. Plan,	
	2020	2019	2020	2019	2020	2019	2020	2019
Service cost	\$ —	\$ —	\$ 2	\$ 1	\$ 1	\$ —	\$ 5	\$ 2
Interest cost	1	—	—	—	3	1	1	1
Expected return on plan assets	(3)	—	(1)	—	(5)	(1)	(3)	(1)
Amortization of prior service (credit)	—	—	—	—	—	—	—	—
	<u>\$ (2)</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ (1)</u>	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ 2</u>

For both our U.S. and non-U.S. defined benefit pension plans, we estimate the service and interest cost components of net period benefit (income) cost by utilizing a full yield curve approach in the estimation of these cost components by applying the specific spot rates along the yield curve used in the determination of the pension benefit obligation to their underlying projected cash flows. This approach provides a more precise measurement of service and interest costs by improving the correlation between projected cash flows and their corresponding spot rates.

Note 19. China Variable Interest Entity

On September 20, 2018 in preparation of the Spin-Off, we entered into an agreement by and between Honeywell and Garrett (the “China Purchase Agreement”) in which Honeywell agreed to sell to Garrett 100% of the equity interests of Honeywell Transportation Investment (China) Co., Ltd. (“Garrett China”) consisting of our primary operations in China, in exchange for upfront consideration of 8,444,077 shares of our common stock. No further consideration from Garrett was due. The China Purchase Agreement was amended to extend the date of the transfer of the equity interests in Garrett China from September 20, 2019 to June 30, 2020.

Prior to the transfer of the equity interests, Garrett China was considered a variable interest entity for which Garrett is the primary beneficiary because the China Purchase Agreement provided Garrett control to direct the management and operation of Garrett China as well as all economic benefits and losses. The intent of the agreement was to place Garrett in the same position as if it already owned 100% of the equity interests of Garrett China. As the agreement was effective prior to the Spin-Off date while the Company and Garrett China were under common control of Honeywell, the assets and liabilities of Garrett China were recognized at their carrying amounts.

On June 3, 2020 Honeywell transferred 100% of the equity interests of Garrett China in accordance with the China Purchase Agreement. Following the transfer, Garret continues to consolidate Garrett China. However, Garrett China is no longer considered to be a variable interest entity as Garrett now owns 100% of the equity interests. There was no change in the basis of the net assets of Garrett China as the transaction did not result in a change of control under U.S. GAAP.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations, which we refer to as our “MD&A,” should be read in conjunction with our Consolidated Interim Financial Statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q as well as the audited annual Consolidated and Combined Financial Statements for the year ended December 31, 2019, included in our Form 10-K, as filed with the Securities and Exchange Commission on February 27, 2020 (our “2019 Form 10-K”). Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. As a result of many important factors, including those set forth in the “Risk Factors” section of our 2019 Form 10-K and this Quarterly Report on Form 10-Q, our actual results could differ materially from the results described in, or implied, by these forward-looking statements.

The following, Management’s Discussion and Analysis of Financial Condition and Results of Operations is intended to help you understand the results of operations and financial condition of Garrett Motion Inc. for the three and six months ended June 30, 2020.

Overview and Business Trends

Garrett designs, manufactures and sells highly engineered turbocharger and electric-boosting technologies for light and commercial vehicle original equipment manufacturers (“OEMs”) and the global vehicle independent aftermarket as well as automotive software solutions. These OEMs in turn ship to consumers globally. We are a global technology leader with significant expertise in delivering products across gasoline, diesel, natural gas and electric (hybrid and fuel cell) powertrains. These products are key enablers for fuel economy and emission standards compliance.

Market penetration of vehicles with a turbocharger is expected to increase from approximately 49% in 2019 to approximately 55% by 2023, according to IHS Markit (“IHS”), which we believe will allow the turbocharger market to grow at a faster rate than overall automobile production. We expect that the powertrain mix evolution trends will remain mostly unchanged, which should support the turbocharger industry in the short to medium term. In particular, the phasing out of battery electric vehicles (“BEV”) incentive in China from June 2019 and the change in new energy vehicles (“NEV”) credit policy in November 2019, have significantly reduced BEV sales in China, which are now below 2018 levels. In Europe, the COVID-19 stimulus packages are mostly directed to electric vehicles, but we do not expect a material adverse impact on the turbocharger market in the short term, as selling price, charging time, charging infrastructure availability and profitability issues for OEMs remain challenges. However, in the long term, a revision of CO2 reduction targets by 2030 proposed by the E.U. could drive an increase of BEV penetration in Europe beyond currently forecasted levels. The turbocharger market volume growth is expected to be particularly strong in China and other high-growth regions in the same period.

In the short to medium term, we believe that turbo penetration will grow as turbos remain one of the most cost-efficient levers to improve the fuel efficiency of conventional Gasoline and Diesel vehicles as well as hybrid and fuel-cell vehicles. Growth in the turbo market is expected in all regions, with special mention for high-growth regions in Asia, where rising income levels continue to drive long-term automotive and vehicle content demand. While these positive factors do not isolate the turbo industry from fluctuations in global vehicle production volumes, such factors may mitigate the negative impact of macroeconomic cycles, or the negative impact of a shift from light vehicle Diesel to light vehicle Gasoline engines.

In addition, specific to Garrett’s financial situation and high debt leverage, we have seen a potential risk developing with some OEMs questioning whether to award (or award less) new business to Garrett in the next few years, which has impacted our long term revenue expectations. In the shorter term, financial stability concerns could also drive some OEMs to consider dual sourcing some of the high volume engine platforms, already awarded to Garrett, in order to balance perceived supply risk and possibly shift volumes to the second source supplier.

Impact of COVID-19 Pandemic

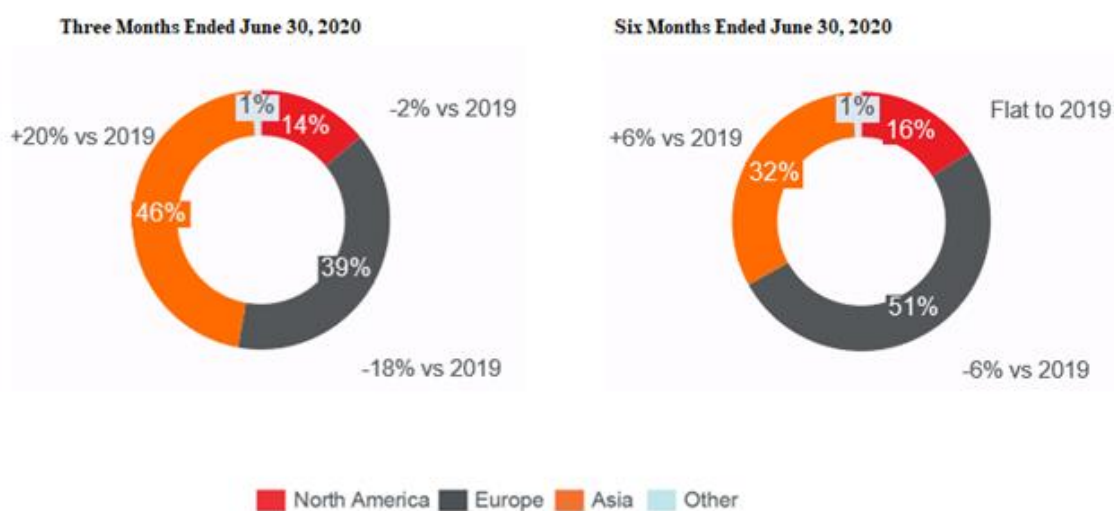
The ongoing global COVID-19 pandemic has created unparalleled challenges for the auto industry in the short-term. In the three months ended March 31, 2020, our manufacturing facility in Wuhan, China was shut down for six weeks in February and March and we saw diminished production in our Shanghai, China facility for that same time period, which adversely impacted our net sales for the period. During the second quarter, while our facilities in China have re-opened, certain of our manufacturing facilities in other geographies have been shut down or operated at reduced capacity during the majority of the period. This situation is expected to continue and may be exacerbated if COVID-19 drives new lockdown measures at our manufacturing facilities. Additional or continued facilities closures or reductions in operation could significantly reduce our production volumes and have a material adverse impact on our business, results of operations and financial condition.

The 2020 auto industry outlook remains highly uncertain, but we believe it is clear that the automotive industry is facing a downturn that will exceed the financial crisis in 2008 and 2009. The vehicle production drop is expected to impact all verticals. Europe and the U.S. are expected to be the most impacted, while China already appears on a recovery path. As a result, we expect a contraction of turbocharger industry revenue in 2020. The health and safety of our employees, customers, and suppliers is our top priority. In parallel, we are continuously updating various scenarios for vehicle demand and OEM production volumes through 2020 and 2021. Each scenario is backed with contingency plans that we believe will allow us to react swiftly to changes in customer demand while protecting Garrett's long-term growth potential. In addition, we have implemented cost control measures and cash management actions, including:

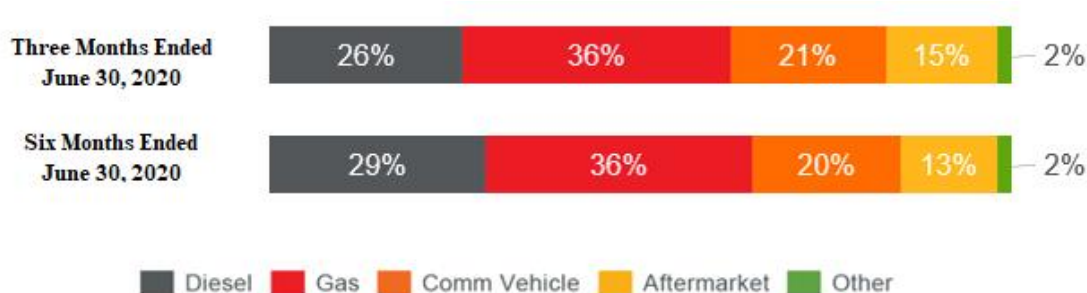
- Postponing capital expenditures;
- Optimizing working capital requirements;
- Lowering discretionary spending;
- Flexing the organizational cost by implementing short-term working schemes;
- Reducing temporary workforce and contract service workers; and
- Restricting external hiring.

The following charts show our percentage of revenues by geographic region and product line for the three and six months ended June 30, 2020 and the percentage change from the prior year comparable period.

By Geography



By Product Line



- We are a global business that generated revenues of approximately \$0.5 billion and \$1.2 billion for the three and six months ended June 30, 2020 respectively.
- Light vehicle products (which includes Diesel and Gas products, including products for passenger cars, SUVs, light trucks, and other products) accounted for approximately 62% and 65% of our revenues for the three and six months ended June 30, 2020. Commercial vehicle products (products for on-highway trucks and off-highway trucks, construction, agriculture and power-generation machines) accounted for 21% and 20% of our revenues for the three and six months ended June 30, 2020.
- Our OEM sales contributed approximately 83% and 85% of our revenues while our aftermarket and other products contributed 15% and 13% of our revenues for the three and six months ended June 30, 2020.
- Approximately 39% and 51% of our revenues came from sales to customers located in Europe, 46% and 32% from sales to customers located in Asia, 14% and 16% from sales to customers in North America, and 1% and 1% from sales to customers in other international markets for the three and six months ended June 30, 2020.

Basis of Presentation

The Consolidated Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). All amounts presented are in millions, except per share amounts.

Liabilities under the Subordinated Indemnity Agreement

The accounting for the majority of our asbestos-related liability payments and accounts payable reflect the terms of the Subordinated Indemnity Agreement, under which Garrett ASASCO is required to make payments to Honeywell in amounts equal to 90% of Honeywell’s asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell’s net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. The Subordinated Indemnity Agreement provides that the agreement will terminate upon the earlier of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which certain amounts owed to Honeywell during each such year were less than \$25 million as converted into Euros in accordance with the terms of the agreement. During the first quarter of 2020, Garrett ASASCO paid Honeywell the Euro-equivalent of \$35 million in connection with the Subordinated Indemnity Agreement. Honeywell and Garrett agreed to defer the payment from Garrett ASASCO under the Subordinated Indemnity Agreement due May 1, 2020 to December 31, 2020 (the “Q2 Payment”). As of the date of this Quarterly Report on Form 10-Q, we do not anticipate that Garrett ASASCO will make any additional payments under the Subordinated Indemnity Agreement, other than the Q2 Payment, prior to 2022, in accordance with the payment deferral mechanism contained in the Subordinated Indemnity Agreement. Garrett ASASCO has made all payments under the Subordinated Indemnity Agreement under protest, as described below.

On December 2, 2019, the Company and Garrett ASASCO, filed a Summons with Notice in the Commercial Division of the Supreme Court of the State of New York, County of New York (the “NY Supreme Court”) commencing an action (the “Action”) against Honeywell, certain of Honeywell’s subsidiaries and certain of Honeywell’s employees for declaratory judgment, breach of contract, breach of fiduciary duties, aiding and abetting breach of fiduciary duties, corporate waste, breach of the implied covenant of good faith and fair dealing, and unjust enrichment. On January 15, 2020, the Company and Garrett ASASCO, filed a Complaint in the NY Supreme Court in connection with the Action. The lawsuit arises from the Subordinated Indemnity Agreement. The Company is seeking declaratory relief; compensatory damages in an amount to be determined at trial; rescission of the Subordinated Indemnity

Agreement; attorneys' fees and costs and such other and further relief as the Court may deem just and proper. There can be no assurance as to the time and resources that will be required to pursue these claims or the ultimate outcome of the lawsuit. Among other claims, Garrett asserts that Honeywell is not entitled to indemnification because it improperly seeks indemnification for amounts attributable to punitive damages and intentional misconduct, and because it has failed to establish other prerequisites for indemnification under New York law. Specifically, the claim asserts that Honeywell has failed to establish its right to indemnity for each and every asbestos settlement of the thousands for which it seeks indemnification. The Action seeks to establish that the Subordinated Indemnity Agreement is not enforceable, in whole or in part. On March 5, 2020, Honeywell filed a "Notice of Motion to Dismiss Garrett's Complaint." On June 18, 2020, by agreement of the parties, Honeywell withdrew its motion to dismiss and Garrett agreed to file an amended complaint on September 15, 2020.

Results of Operations for the three and six months ended June 30, 2020 compared with the three and six months ended June 30, 2019

Net Sales

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Net sales	\$ 477	\$ 802	\$ 1,222	\$ 1,637
% change compared with prior period	(40.5)%		(25.4)%	

The change in net sales compared to prior year period is attributable to the following:

	For the Three Months Ended June 30, 2020	For the Six Months Ended June 30, 2020
Volume	(39.4)%	(23.5)%
Price	0.2%	(0.1)%
Foreign Currency Translation	(1.3)%	(1.8)%
	<u>(40.5)%</u>	<u>(25.4)%</u>

Three Months Ended June 30, 2020 compared with Three Months Ended June 30, 2019

Our net sales decreased for the three months ended June 30, 2020 compared to the prior year period by \$325 million or 40.5% (including a negative impact of 1.3% due to foreign currency translation). The decrease in sales was primarily driven by light vehicles OEM products decline of \$231 million, commercial vehicles OEM products decline of \$62 million, aftermarket products decline of \$28 million and other products decline of \$5 million.

Our light vehicles OEM product decline was primarily driven by lower diesel volumes in Europe and Asia and lower gasoline volumes in Europe and North America, partially offset by increased gasoline volumes in China as a result of increased turbocharger penetration in gasoline engines and new product launches. The decrease in net sales for commercial vehicles was mainly driven by lower volumes in Europe and North America. The decrease in aftermarket product sales was primarily driven by volume decreases in Europe and North America. The decrease in other net sales was primarily driven by a decrease in prototype volumes.

Due to the COVID-19 pandemic, our manufacturing facilities in Mexicali, Mexico and Pune, India were shut down for five weeks in April and May 2020 and we saw diminished production in our European manufacturing facilities for that same time period, which were the primary drivers of the decrease in sales in the Europe and North America regions during the three months ended June 30, 2020. Since our facilities in China re-opened in the middle of March, the production of those facilities in China has recovered significantly with an increase in net sales of 57% compared to the three months ended June 30, 2019.

Six Months Ended June 30, 2020 compared with Six Months Ended June 30, 2019

Our net sales decreased for the six months ended June 30, 2020 compared to the prior year period by \$415 million or 25.4% (including a negative impact of 1.8% due to foreign currency translation). The decrease in sales was primarily driven by light vehicles OEM products decline of \$266 million, commercial vehicles OEM products decline of \$93 million, aftermarket products decline of \$46 million and other products decline of \$10 million.

Our light vehicles OEM product decline was primarily driven by lower diesel volumes in Europe and Asia and lower gasoline volumes in Europe and North America, partially offset by increased gasoline volumes in China as a result of increased turbocharger penetration in gasoline engines and new product launches. The decrease in net sales for commercial vehicles was mainly driven by lower volumes in Europe and North America. The decrease in aftermarket product sales was primarily driven by volume decreases in Europe and North America. The decrease in other net sales was primarily driven by a decrease in prototype volumes.

Due to the COVID-19 pandemic, our manufacturing facility in Wuhan, China, was shut down for six weeks in February and March 2020 and we saw diminished production in our Shanghai, China facility for the same time period, which were the primary drivers of the decrease in sales in the Asia region during the three months ended March 31, 2020. Since our facilities in China re-opened in the middle of March, the production of those facilities in China has recovered significantly with an increase in net sales of 20% compared to the six months ended June 30, 2019.

Our manufacturing facilities in Mexicali, Mexico and Pune, India were shut down for five weeks in April and May 2020 and we saw diminished production in our European manufacturing facilities for that same time period, which were the primary drivers of the decrease in sales in the Europe and North America regions during the three months ended June 30, 2020.

Cost of Goods Sold

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Cost of goods sold	\$ 393	\$ 620	\$ 996	\$ 1,259
% change compared with prior period	(36.6)%		(20.9)%	
Gross profit percentage	17.6%	22.7%	18.5%	23.1%

Three Months Ended June 30, 2020 compared with Three Months Ended June 30, 2019

Costs of goods sold decreased in the three months ended June 30, 2020 compared to the prior year period by \$227 million or 36.6% primarily due to a decrease in direct material costs of \$200 million, driven by decreased volumes.

Gross profit percentage decreased by 5.1 percentage points primarily due to unfavorable impact of productivity including lower volume leverage (4.8 percentage points), unfavorable impacts from mix and price (0.8 percentage points), unfavorable impacts from inflation (1.2 percentage points) and higher premium costs (0.4 percentage points), partially offset by the favorable impact of foreign exchange rates (0.3 percentage points), favorable impact from repositioning costs (0.3 percentage points) and lower warranty costs (1.5 percentage points).

Six Months Ended June 30, 2020 compared with Six Months Ended June 30, 2019

Costs of goods sold decreased in the six months ended June 30, 2020 compared to the prior year period by \$263 million or 20.9% primarily due to a decrease in direct material costs and labor costs of \$235 million, driven by decreased volumes.

Gross profit percentage decreased by 4.6 percentage points primarily due to unfavorable impacts from mix and price (2.2 percentage points), unfavorable impacts from inflation (0.9 percentage points), unfavorable impact of productivity including lower volume leverage (1.0 percentage points), higher costs from premium freight and other plant related costs (0.4 percentage points), and unfavorable impact from foreign and exchange rates (0.3 percentage points), partially offset by the favorable impacts from foreign exchange rates (0.2 percentage points).

Selling, General and Administrative Expenses

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Selling, general and administrative expense	\$ 51	\$ 58	\$ 112	\$ 118
% of sales	10.7%	7.2%	9.2%	7.2%

Three Months Ended June 30, 2020 compared with Three Months Ended June 30, 2019

Selling, general and administrative expenses decreased in the three months ended June 30, 2020 compared to the prior year period by \$7 million, mainly due to \$16 million of cost saving actions implemented to ease the impact of COVID-19 on our financial performance, including merit freezes, state funded lay-offs, unpaid leaves and reductions in travel expenses and professional services, as well as one-time Spin-Off costs incurred in the prior year period, partially offset by \$9 million in higher professional service fees mainly related to strategic planning costs in the current year period.

Six Months Ended June 30, 2020 compared with Six Months Ended June 30, 2019

Selling, general and administrative expenses decreased in the six months ended June 30, 2020 compared to the prior year period by \$6 million, mainly due to \$15 million of cost saving actions implemented to ease the impact of COVID-19 on our financial performance, including merit freezes, state funded lay-offs, unpaid leaves and reductions in travel expenses and professional services, as well as one-time Spin-Off costs incurred in the prior year period, partially offset by \$9 million higher professional service fees mainly related to strategic planning costs in the current year period.

Other Expense, Net

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Other expense, net	\$ 15	\$ 17	\$ 31	\$ 36
% of sales	3.1%	2.1%	2.5%	2.2%

Three Months Ended June 30, 2020 compared with Three Months Ended June 30, 2019

Other expense, net decreased in the three months ended June 30, 2020 compared to the prior year period by \$2 million. The decrease was attributable to the decrease in legal fees incurred in connection with the Subordinated Indemnity Agreement.

Six Months Ended June 30, 2020 compared with Six Months Ended June 30, 2019

Other expense, net decreased in the six months ended June 30, 2020 compared to the prior year period by \$5 million. The decrease was attributable to the decrease in legal fees incurred in connection with the Subordinated Indemnity Agreement.

Interest Expense

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Interest expense	\$ 20	\$ 18	\$ 36	\$ 34

Three Months Ended June 30, 2020 compared with Three Months Ended June 30, 2019

Interest expense increased in the three months ended June 30, 2020 compared to the prior year period by \$2 million, mainly due to higher interest expense due to the full drawn down of our Revolving Credit Facility and fees related to the amendment, dated June 12, 2020 (the "2020 Amendment"), to our Credit Agreement, dated as of September 27, 2018 (as amended, the "Credit Agreement"), partially offset by lower interest expense on our Term Loans due to partial prepayments in 2019.

Six Months Ended June 30, 2020 compared with Six Months Ended June 30, 2019

Interest expense increased in the six months ended June 30, 2020 compared to the prior year period by \$2 million, mainly due to higher interest expense due to the full drawn down of our Revolving Credit Facility and Credit Agreement amendment related fees, partially offset by lower interest expense on our Term Loans due to partial prepayments in 2019.

Non-operating expense (income)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Non-operating (income) expense	\$ (4)	\$ 2	\$ (8)	\$ 6

Three Months Ended June 30, 2020 compared with Three Months Ended June 30, 2019

Non-operating (income) expense for the three months ended June 30, 2020 increased to an income of \$4 million from an expense of \$2 million in the prior year period, primarily due to impacts from changes in foreign exchange rates, net of hedging.

Six Months Ended June 30, 2020 compared with Six Months Ended June 30, 2019

Non-operating (income) expense for the six months ended June 30, 2020 increased to an income of \$8 million from an expense of \$6 million in the prior year period, primarily due to impacts from changes in foreign exchange rates, net of hedging.

Tax Expense

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Tax expense	\$ 11	\$ 21	\$ 12	\$ 45
Effective tax rate	550%	24.1%	21.8%	24.5%

See Note 6, Income Taxes of the Notes to the Consolidated Interim Financial Statements for a discussion of the change in effective tax rates for the three and six months ended June 30, 2020 versus the prior year periods.

Net (loss) Income

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Net (loss) Income	\$ (9)	\$ 66	\$ 43	\$ 139

Three Months Ended June 30, 2020 compared with Three Months Ended June 30, 2019

As a result of the factors described above, there was a net loss of \$9 million for the three months ended June 30, 2020 as compared to net income of \$66 million for the three months ended June 30, 2019.

Six Months Ended June 30, 2020 compared with Six Months Ended June 30, 2019

As a result of the factors described above, net income was \$43 million for the six months ended June 30, 2020 as compared to net income of \$139 million for the six months ended June 30, 2019.

Non-GAAP Measures

It is management's intent to provide non-GAAP financial information to supplement the understanding of our business operations and performance, and it should be considered by the reader in addition to, but not instead of, the financial statements prepared in accordance with GAAP. Each non-GAAP financial measure is presented along with the most directly comparable GAAP measure so as not to imply that more emphasis should be placed on the non-GAAP measure. The non-GAAP financial information presented may be determined or calculated differently by other companies and may not be comparable to other similarly titled measures used by other companies. Additionally, the non-GAAP financial measures have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Company's operating results as reported under GAAP.

EBITDA and Adjusted EBITDA(1)(2)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Net (loss) income — GAAP	\$ (9)	\$ 66	\$ 43	\$ 139
Net interest expense (income)	19	15	34	30
Tax expense	11	21	12	45
Depreciation	18	16	37	35
EBITDA (Non-GAAP)	\$ 39	\$ 118	\$ 126	\$ 249
Other expense, net (which consists of indemnification, asbestos and environmental expenses)(3)	14	17	30	36
Non-operating (income) expense(2)(4)	(3)	(3)	(5)	(2)
Stock compensation expense(5)	4	4	6	9
Repositioning charges(6)	1	2	6	3
Foreign exchange (gain) loss on debt, net of related hedging (gain) loss	(1)	8	(1)	8
Spin-off costs(7)(8)	—	8	—	10
Professional service costs(9)	9	—	9	—
Adjusted EBITDA (Non-GAAP)	\$ 63	\$ 154	\$ 171	\$ 313

(1) We evaluate performance on the basis of EBITDA and Adjusted EBITDA. We define “**EBITDA**” as our net income (loss) calculated in accordance with U.S. GAAP, plus the sum of net interest expense (income), tax expense and depreciation. We define “**Adjusted EBITDA**” as EBITDA, plus the sum of non-operating expense (income), other expenses, net (which primarily consists of indemnification, asbestos and environmental expenses), stock compensation expense, repositioning charges, foreign exchange gain (loss) on debt, net of related hedging (gain) loss, Spin-Off costs and professional services costs. We believe that EBITDA and Adjusted EBITDA are important indicators of operating performance and provide useful information for investors because:

- o EBITDA and Adjusted EBITDA exclude the effects of income taxes, as well as the effects of financing and investing activities by eliminating the effects of interest and depreciation expenses and therefore more closely measure our operational performance; and
- o certain adjustment items, while periodically affecting our results, may vary significantly from period to period and have disproportionate effect in a given period, which affects comparability of our results.

In addition, our management may use Adjusted EBITDA in setting performance incentive targets in order to align performance measurement with operational performance.

- (2) We have elected to change our definition of Adjusted EBITDA to exclude the non-service component of pension expense. Non-service pension expense is comprised of interest costs, expected return on plan assets and actuarial gains/losses. The components of non-service pension expense are primarily tied to financial market performance, changes in market interest rates and investment performance. The service cost component of our pension plans remains in Adjusted EBITDA. We consider the non-service component of pension expense to be outside the performance of our ongoing core business operations and believe that presenting Adjusted EBITDA including only the service component of pension expense, in addition to our GAAP operating results, provides increased transparency as to the operating costs of providing pension benefits to our employees and the underlying trends in our operating business performance. As a result, the prior periods presented were recast to conform to the current year presentation.
- (3) The accounting for the majority of our asbestos-related liability payments and accounts payable reflect the terms of the Subordinated Indemnity Agreement with Honeywell entered into on September 12, 2018, under which Garrett ASASCO is required to make payments to Honeywell in amounts equal to 90% of Honeywell’s asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell’s net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. See Note 17, Commitments and Contingencies of Notes to the Consolidated Interim Financial Statements.
- (4) Non-operating (income) expense adjustment includes the non-service component of pension expense and other expense, net and excludes interest income, equity income of affiliates, and the impact of foreign exchange.
- (5) Stock compensation expense adjustment includes only non-cash expenses.

- (6) Repositioning charges adjustment primarily includes severance costs related to restructuring projects to improve future productivity.
- (7) During the fourth quarter of 2019 additional spin-off costs related to the first three quarters of 2019 were identified and included within the adjustment for the three and twelve months end December 31, 2019 as presented in our 2019 Form 10K. As a result, the three and six months ended June 30, 2019 were recast to include these additional costs.
- (8) Spin-Off costs primarily include costs incurred for the set-up of the IT, Legal, Finance, Communications and Human Resources functions after the Spin-Off from Honeywell on October 1, 2018.
- (9) Professional service costs consist of professional service fees to support strategic planning for the Company. We consider these costs to be unrelated to our ongoing core business operations.

Three Months Ended June 30, 2020 compared with Three Months Ended June 30, 2019

Adjusted EBITDA (non-GAAP) decreased by \$91 million for the three months ended June 30, 2020 compared to the prior year period. The decrease was primarily due to unfavorable impacts of sales volume (\$104 million), inflation (\$6 million) and foreign exchange including prior year's hedge gains (\$3 million), partially offset by the favorable impact of productivity net of mix (\$9 million), selling, general and administrative expenses (\$7 million), lower research and development expenses (\$4 million) and price (\$2 million).

Six Months Ended June 30, 2020 compared with Six Months Ended June 30, 2019

Adjusted EBITDA (non-GAAP) decreased by \$142 million for the six months ended June 30, 2020 compared to the prior year period. The decrease was primarily due to unfavorable impacts of sales volume (\$133 million), inflation (\$11 million), productivity net of mix (\$14 million) and unfavorable impact from price (\$1 million), partially offset by the favorable impact of lower research and development expenses (\$9 million), selling, general and administrative expenses (\$6 million) and foreign exchange including prior year's hedge losses (\$2 million).

Cash flow from operations less Expenditures for property, plant and equipment (1)

	For the Six Months Ended June 30,	
	2020	2019
	(Dollars in millions)	
Net cash (used for) provided by operating activities —		
GAAP	(95)	37
Expenditures for property, plant and equipment	(63)	(51)
Cash flow from operations less Expenditures for property, plant and equipment (Non-GAAP)	\$ (158)	\$ (14)

- (1) Cash flow from operations less Expenditures for property, plant and equipment is a non-GAAP financial measure that reflects an additional way of viewing our liquidity that, when viewed with our GAAP results, provides a supplemental understanding of factors and trends affecting our cash flows. Cash flow from operations less Expenditures for property, plant and equipment is calculated by subtracting Expenditures for property, plant and equipment from Net cash provided by (used for) operating activities. We believe it is a more conservative measure of cash flow, and therefore useful to investors, because purchases of fixed assets are necessary for ongoing operations. We believe it is important to view Cash flow from operations less Expenditures for property, plant and equipment as a supplement to our Consolidated and Combined Statements of Cash Flows.

Cash flow from operations less Expenditures for property, plant and equipment (non-GAAP) decreased by \$144 million for the six months ended June 30, 2020 versus the prior year period, primarily due to unfavorable impact from working capital of \$58 million, a decrease in net income, net of deferred taxes of \$101 million, and an unfavorable impact of \$26 million from the issuance of employee continuity awards and customer settlements primarily relating to warranty, pricing, quick saving, partially offset by delayed Obligations payable to Honeywell of \$53 million. Additionally, Expenditures for property, plant and equipment expenses increased by \$12 million.

Liquidity and Capital Resources

We expect that our cash requirements in 2020 will primarily be to fund operating activities, working capital, and capital expenditures, and to meet our obligations under our debt instruments and the Subordinated Indemnity Agreement described below, as well as the Tax Matters Agreement. In addition, we may engage in repurchases of our debt and equity securities from time to time. In light of the ongoing COVID-19 pandemic, on April 6, 2020, the Company fully drew the remaining funds available under its revolving credit facility of approximately \$470 million to increase its financial flexibility in the current environment. The unutilized revolving credit facility proceeds were repaid at the end of the second quarter of 2020. We have historically funded our cash requirements through the combination of cash flows from operating activities, available cash balances and available borrowings through our debt agreements. If these sources of liquidity need to be augmented, additional cash requirements would likely be financed through the issuance of debt or equity securities; however, there can be no assurances, particularly in light of the volatility in global financial markets as a result of the COVID-19 pandemic, that we will be able to obtain additional debt or equity financing on acceptable terms in the future or at all. We believe that our operating cash flows, available cash balances and available borrowings through our debt agreements enable us to meet our short-term liquidity needs for the next twelve months.

Senior Credit Facilities

On September 27, 2018, we entered into a Credit Agreement by and among us, certain of our subsidiaries, the lenders and issuing banks party thereto and JPMorgan Chase Bank, N.A., as administrative agent. The Credit Agreement was amended on June 12, 2020. The Credit Agreement provides for senior secured financing of approximately the Euro equivalent of \$1,254 million, consisting of (i) a seven-year senior secured first-lien term B loan facility, which consists of a tranche denominated in Euro of €375 million and a tranche denominated in U.S. Dollars of \$425 million (the “Term B Facility”), (ii) a five-year senior secured first-lien term A loan facility in an aggregate principal amount of €330 million (the “Term A Facility” and, together with the Term B Facility, the “Term Loan Facilities”) and (iii) a five-year senior secured first-lien revolving credit facility in an aggregate principal amount of €430 million with revolving loans to the Swiss Borrower (as defined in the Credit Agreement), to be made available in a number of currencies including Australian Dollars, Euros, Pounds Sterling, Swiss Francs, U.S. Dollars and Yen (the “Revolving Facility” and, together with the Term Loan Facilities, the “Senior Credit Facilities”). Each of the Revolving Facility and the Term A Facility matures five years after the effective date of the Credit Agreement, in each case with certain extension rights in the discretion of each lender. The Term B Facility matures seven years after the effective date of the Credit Agreement, with certain extension rights in the discretion of each lender.

The Senior Credit Facilities are subject to an interest rate, at our option, of either (a) base rate determined by reference to the highest of (1) the rate of interest last quoted by The Wall Street Journal as the “prime rate” in the United States, (2) the greater of the federal funds effective rate and the overnight bank funding rate, plus 0.5% and (3) the one month adjusted LIBOR rate, plus 1% per annum (“ABR”), (b) an adjusted LIBOR rate (“LIBOR”) (which shall not be less than zero), or (c) an adjusted EURIBOR rate (“EURIBOR”) (which shall not be less than zero), in each case, plus an applicable margin. Pursuant to the 2020 Amendment, (i) the margin applicable to loans under the Term B Facility will increase by 75 basis points through the maturity date and (ii) the margin applicable to loans under the Revolving Facility and Term A Facility will increase by 25 basis points until the Company delivers consolidated financial statements as of and for its first fiscal quarter ending on or after the last day of the Relief Period. In addition, pursuant to the 2020 Amendment, if (a) our corporate family rating by Moody’s is B2 or lower or there is no corporate family rating of the Company by Moody’s and, at the same time, (b) our corporate rating from S&P is B+ or lower or there is no corporate rating of the Company by S&P, then upon the first occurrence of this ratings event the margin applicable to loans under our Senior Credit Facilities will increase by 25 basis points through the maturity date.

The applicable margin for the U.S. Dollar tranche of the Term B Facility is currently 3.25% per annum (for LIBOR loans) and 2.25% per annum (for ABR loans) while that for the euro tranche of the Term B Facility is currently 3.50% per annum (for EURIBOR loans). The applicable margin for each of the Term A Facility and the Revolving Credit Facility varies based on our leverage ratio which is increased by 25 basis points until the Company delivers consolidated financial statements as of and for its first fiscal quarter ending on or after the last day of the Relief Period. Accordingly, the interest rates for the Senior Credit Facilities will fluctuate during the term of the Credit Agreement based on changes in the ABR, LIBOR, EURIBOR or future changes in our corporate rating or leverage ratio. Interest payments with respect to the Term Loan Facilities are required either on a quarterly basis (for ABR loans) or at the end of each interest period (for LIBOR and EURIBOR loans) or, if the duration of the applicable interest period exceeds three months, then every three months.

We are obligated to make quarterly principal payments throughout the term of the Term Loan Facilities according to the amortization provisions in the Credit Agreement. Borrowings under the Credit Agreement are prepayable at our option without premium or penalty. We may request to extend the maturity date of all or a portion of the Senior Credit Facilities subject to certain conditions customary for financings of this type. The Credit Agreement also contains certain mandatory prepayment provisions in the event that we incur certain types of indebtedness or receive net cash proceeds from certain non-ordinary course asset sales or other dispositions of property, in each case subject to terms and conditions customary for financings of this type.

The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type that, among other things, limit our and our subsidiaries' ability to incur additional indebtedness or liens, to dispose of assets, to make certain fundamental changes, to enter into restrictive agreements, to make certain investments, loans, advances, guarantees and acquisitions, to prepay certain indebtedness and to pay dividends, to make other distributions or redemptions/ repurchases, in respect of the our and our subsidiaries' equity interests, to engage in transactions with affiliates, amend certain material documents or to permit the International Financial Reporting Standards equity amount of Lux Borrower (as defined in the Credit Agreement) to decrease below a certain amount. The 2020 Amendment tightened certain of the baskets applicable to our ability to incur additional indebtedness, create liens, and make investments and restricted payments. These increased restrictions will no longer apply following the conclusion of the Relief Period. The 2020 Amendment also modifies the conditions to drawdown under the Revolving Facility and makes certain other changes to the Senior Credit Facilities.

The Credit Agreement also contains financial covenants, including a consolidated total leverage ratio covenant and a consolidated interest coverage ratio covenant. The 2020 Amendment provides that the consolidated total leverage ratio covenant and consolidated interest coverage ratio covenant will not apply until the earlier of the occurrence of a Covenant Relief Termination Event (as defined below) and the conclusion of the Relief Period and puts the following financial ratios and tests in place during the Relief Period:

- *Minimum Liquidity:* As of the end of each fiscal month, commencing with the fiscal month ending June 30, 2020, the restricted group under the Credit Agreement must have minimum liquidity of not less than: (a) \$125 million through, and including, the fiscal month ending March 31, 2021 and (b) \$200 million, as of the end of each fiscal month ending thereafter for the remainder of the Relief Period. Liquidity includes available unrestricted cash and amounts available to be drawn under the Revolving Facility.
- *Net Secured Leverage Ratio:* As of the end of each fiscal quarter, commencing with fiscal quarter ending June 30, 2020, the ratio of (a)(i) consolidated secured debt *minus* (ii) the lesser of available unrestricted cash on such day and \$100 million to (b) consolidated EBITDA over the last twelve months, must not exceed the ratio set out in the table below:

Fiscal Quarter Ending	Consolidated Net Secured Leverage Ratio
June 30, 2020	5.75 to 1.00
September 30, 2020	9.25 to 1.00
December 31, 2020	10.75 to 1.00
March 31, 2021	11.75 to 1.00
June 30, 2021	6.50 to 1.00
September 30, 2021	4.50 to 1.00
December 31, 2021	4.25 to 1.00
March 31, 2022	3.75 to 1.00
June 30, 2022	3.50 to 1.00

- *Maximum Cash:* Commencing with the fiscal month ending June 30, 2020, the Company must not permit the average amount of available unrestricted cash of the restricted group under the Credit Agreement based on the balance for each of the last five business days of the fiscal month to exceed \$165 million.

Upon the occurrence of a Covenant Relief Termination Event or the conclusion of the Relief Period, the total leverage ratio and interest coverage ratio covenants included in the Credit Agreement will again apply. The minimum liquidity, net secured leverage ratio and maximum cash covenants will no longer apply following the conclusion of the Relief Period.

The "Relief Period" will conclude on the earlier of (a) June 30, 2022 and (b) the date on which the administrative agent receives a certificate from a financial officer of the Company certifying as of such date that (i) the Company is in compliance with the total leverage ratio and interest coverage ratio covenants included in the Credit Agreement as they would apply without giving effect to the Relief Period for the most recently ended period of four consecutive fiscal quarters ended on or prior to such date and (ii) if such date is on or prior to the date of delivery of the Company's financial statements with respect to the period of four consecutive quarters ending June 30, 2022, based on a financial model provided to the administrative agent, the Company expects in good faith that it will be in compliance with such total leverage ratio and interest coverage ratio covenants as they would apply without giving effect to the Relief Period from the end of the quarter in which such certificate is given until and including the period of four consecutive quarters ending June 30, 2022.

A “Covenant Relief Termination Event” will occur if any member of the restricted group under the Credit Agreement (including Garrett ASASCO) makes any payment under the Subordinated Indemnity Agreement but excluding the payment in respect of the second fiscal quarter of 2020. As of the date of this Quarterly Report on Form 10-Q, we do not anticipate that a Covenant Relief Termination Event will occur prior to 2022.

We were in compliance with our financial covenants as of June 30, 2020.

Senior Notes

On September 27, 2018, we completed the offering of €350 million (approximately \$410 million based on exchange rates as of September 27, 2018) in aggregate principal amount of 5.125% senior notes due 2026 (the “Senior Notes”). The Senior Notes bear interest at a fixed annual interest rate of 5.125% and mature on October 15, 2026.

The Senior Notes were issued pursuant to an Indenture, dated September 27, 2018 (the “Indenture”), which, among other things and subject to certain limitations and exceptions, limits our ability and the ability of our restricted subsidiaries to: (i) incur, assume or guarantee additional indebtedness or issue certain disqualified equity interests and preferred shares, (ii) pay dividends or distributions on, or redeem or repurchase, capital stock and make other restricted payments, (iii) make investments, (iv) consummate certain asset sales or transfers, (v) engage in certain transactions with affiliates, (vi) grant or assume certain liens on assets to secure debt unless the notes are secured equally and ratably (vii) restrict dividends and other payments by certain of their subsidiaries and (viii) consolidate, merge, sell or otherwise dispose of all or substantially all of our or our restricted subsidiaries’ assets.

Subordinated Indemnity Agreement

On September 12, 2018, Garrett ASASCO entered into the Subordinated Indemnity Agreement, under which Garrett ASASCO is required to make certain payments to Honeywell in amounts equal to 90% of Honeywell’s asbestos-related liability payments and accounts payable, primarily related to the Bendix business in the United States, as well as certain environmental-related liability payments and accounts payable and non-United States asbestos-related liability payments and accounts payable, in each case related to legacy elements of the Business, including the legal costs of defending and resolving such liabilities, less 90% of Honeywell’s net insurance receipts and, as may be applicable, certain other recoveries associated with such liabilities. Pursuant to the terms of the Subordinated Indemnity Agreement, Garrett ASASCO is responsible for paying to Honeywell such amounts, up to a cap of an amount equal to the Distribution Date Currency Exchange Rate (1.16977 USD = 1 EUR) equivalent of \$175 million (exclusive of any late payment fees) in respect of such liabilities arising in any given calendar year. This Subordinated Indemnity Agreement may have material adverse effects on our liquidity and cash flows and on our results of operations, regardless of whether we experience a decline in net sales. See “We are subject to risks associated with the Indemnification and Reimbursement Agreement, pursuant to which we are required to make substantial cash payments to Honeywell, measured in substantial part by reference to estimates by Honeywell of certain of its liabilities” under “Risk Factors” in our 2019 Form 10-K. In addition, the payments that Garrett ASASCO is required to make to Honeywell pursuant to the terms of the Subordinated Indemnity Agreement will not be deductible for U.S. federal income tax purposes. The Subordinated Indemnity Agreement provides that the agreement will terminate upon the earlier of (x) December 31, 2048 or (y) December 31st of the third consecutive year during which certain amounts owed to Honeywell during each such year were less than \$25 million as converted into Euros in accordance with the terms of the agreement.

During the first quarter of 2020, Garrett ASASCO paid Honeywell the Euro-equivalent of \$35 million in connection with the Subordinated Indemnity Agreement. In January 2020 we received from Honeywell the 2019 Prior Year Aggregate Loss Statement (as defined in the Subordinated Indemnity Agreement) which confirmed that the payments made to Honeywell as required by the Subordinated Indemnity Agreement in 2019 included an overpayment of \$33 million. This payment will be deducted from the Q2 Payment and will reduce the cash payments payable to Honeywell in 2020. Honeywell and Garrett have agreed to defer the Q2 Payment due May 1, 2020 to December 31, 2020. As of the date of this Quarterly Report on Form 10-Q, based on the Company’s current forecasts, we do not anticipate that Garrett ASASCO will make any additional payments under the Subordinated Indemnity Agreement, other than the Q2 Payment, prior to 2022, in accordance with the payment deferral mechanism contained in the Subordinated Indemnity Agreement.

We are currently engaged in litigation against Honeywell in connection with the Subordinated Indemnity Agreement. For additional information, see Part II, Item 1. Legal Proceedings.

Tax Matters Agreement

On September 12, 2018, we entered into a Tax Matters Agreement with Honeywell (the “Tax Matters Agreement”), which governs the respective rights, responsibilities and obligations of Honeywell and us after the Spin-Off with respect to all tax matters (including tax liabilities, tax attributes, tax returns and tax contests).

The Tax Matters Agreement generally provides that we are responsible and will indemnify Honeywell for all taxes, including income taxes, sales taxes, VAT and payroll taxes, relating to Garrett for all periods, including periods prior to the completion date of the Spin-Off. Among other items, as a result of the mandatory transition tax imposed by the Tax Cuts and Jobs Act, Garrett ASASCO is required to make payments to a subsidiary of Honeywell in the amount representing the net tax liability of Honeywell under the mandatory transition tax attributable to us, as determined by Honeywell. We estimate that Garrett ASASCO's total aggregate payments to Honeywell with respect to the mandatory transition tax will be \$240 million with \$193 million in payments remaining as of December 31, 2019. Under the terms of the Tax Matters Agreement, Garrett ASASCO is required to pay this amount in Euros, without interest, in five annual installments, each equal to 8% of the aggregate amount, followed by three additional annual installments equal to 15%, 20% and 25% of the aggregate amount, respectively. Garrett ASASCO paid the first annual installment in October 2018 and subsequent annual installments are due in April of each year. The annual installment due on April 1, 2020 has been deferred to December 31, 2020 in agreement with Honeywell.

In addition, the Tax Matters Agreement addresses the allocation of liability for taxes incurred as a result of restructuring activities undertaken to effectuate the Spin-Off. The Tax Matters Agreement also provides that we are required to indemnify Honeywell for certain taxes (and reasonable expenses) resulting from the failure of the Spin-Off and related internal transactions to qualify for their intended tax treatment under U.S. federal, state and local income tax law, as well as foreign tax law. Further, the Tax Matters Agreement also imposes certain restrictions on us and our subsidiaries (including restrictions on share issuances, redemptions or repurchases, business combinations, sales of assets and similar transactions) that are designed to address compliance with Section 355 of the Internal Revenue Code of 1986, as amended, and are intended to preserve the tax-free nature of the Spin-Off.

On July 17, 2020, we provided notice to Honeywell asserting that Honeywell has caused material breaches of the Tax Matters Agreement and that the Tax Matters Agreement is unenforceable.

Cash Flow Summary for the Six Months Ended June 30, 2020 and 2019

	For the Six Months Ended June 30,	
	2020	2019
	(Dollars in millions)	
Cash (used for) provided by:		
Operating activities	(95)	37
Investing activities	(64)	(33)
Financing activities	114	(17)
Effect of exchange rate changes on cash	(3)	(1)
Net decrease in cash and cash equivalents	<u>\$ (48)</u>	<u>\$ (14)</u>

Cash used for operating activities increased by \$132 million for the six months ended June 30, 2020 versus the prior year period, primarily due to an unfavorable impact from working capital of \$58 million, a decrease in net income, net of deferred taxes of \$101 million, an unfavorable impact of \$26 million in employee continuity awards and customer settlements primarily relating to warranty, pricing and quick saving, partially offset by a delayed Obligations payable to Honeywell of \$53 million.

Cash used for investing activities increased by \$31 million for the six months ended June 30, 2020 versus the prior year period, primarily due to an unfavorable impact from Expenditures for property, plant and equipment of \$12 million and an unfavorable impact from a prior year settlement received on the re-couponing of our cross currency swap contract of \$19 million.

Cash provided by financing activities increased by \$131 million for the six months ended June 30, 2020 versus the prior year period. The increase was driven by a draw down on our Revolving Credit Facility of \$119 million and payments of long-term debt during the six months ended June 30, 2020 totaling \$2 million, as compared to \$21 million of such payments during the prior year period.

Seasonality

Our business is typically moderately seasonal. Our primary North American customers historically reduce production during the month of July and halt operations for approximately one week in December; our European customers generally reduce production during the months of July and August and for one week in December; and our Chinese customers often reduce production during the period surrounding the Chinese New Year. Shut-down periods in the rest of the world generally vary by country. In addition, automotive production is traditionally reduced in the months of July, August and September due to the launch of parts production for new vehicle models. Accordingly, our results have historically reflected this seasonality. Our sales predictability in the short term might also be impacted by sudden changes in customer demand, driven by our OEM customers' supply chain management.

We also typically experience seasonality in cash flow, as a relatively small portion of our full year cash flow is typically generated in the first quarter of the year and a relatively large portion in the last quarter. This seasonality in cash flow is mostly caused by timing of supplier payments for capital expenditures, changes in working capital balances related to the sales seasonality discussed above, and the impact of incentive payments to management. Additionally, tax payments are due based on jurisdictional requirements which vary in timing throughout the year.

Contractual Obligations and Probable Liability Payments

There have been no material changes to our contractual obligations from those described in our 2019 Form 10-K, other than with regards to the anticipated timing of our payments under the Subordinated Indemnity Agreement as described elsewhere in this Quarterly Report on Form 10-Q.

Capital Expenditures

We believe our capital spending in recent years has been sufficient to maintain efficient production capacity, to implement important product and process redesigns and to expand capacity to meet increased demand. Productivity projects have freed up capacity in our manufacturing facilities and are expected to continue to do so. We expect to continue investing to expand and modernize our existing facilities and invest in our facilities to create capacity for new product development.

In light of the near-term impact of the COVID-19 pandemic, we have reviewed current capital expenditure programs and re-phased some programs related to future capacity expansion, and long-term development programs. We expect this to materially reduce new capital expenditures in 2020 without having an adverse effect on our ability to deliver long-term projects on time.

Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet financial arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

The preparation of our Consolidated Interim Financial Statements in accordance with generally accepted accounting principles is based on the selection and application of accounting policies that require us to make significant estimates and assumptions about the effects of matters that are inherently uncertain. Actual results could differ from our estimates and assumptions, and any such differences could be material to our financial statements. Our critical accounting policies are summarized in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our 2019 Form 10-K. As of June 30, 2020, there were no significant changes to any of our critical accounting policies.

Recent Accounting Pronouncements

See Note 2, Summary of Significant Accounting Policies of the Notes to Consolidated Interim Financial Statements for further discussion of recent accounting pronouncements.

Other Matters

Litigation and Environmental Matters

See Note 17, Commitments and Contingencies of the Notes to the Consolidated Interim Financial Statements for a discussion of environmental, asbestos and other litigation matters.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For a discussion of the Company's quantitative and qualitative disclosures about market risks, see Item 7A Quantitative and Qualitative Disclosures About Market Risks, in our Annual Report on Form 10-K for the year ended December 31, 2019. As of June 30, 2020, there have been no material changes in this information.

Item 4. Controls and Procedures.

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2020.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 1. Legal Proceedings.

On December 2, 2019, the Company and its subsidiary, Garrett ASASCO Inc., filed a Summons with Notice in the Commercial Division of the Supreme Court of the State of New York, County of New York (the “NY Supreme Court”) commencing an action (the “Action”) against Honeywell, certain of Honeywell’s subsidiaries and certain of Honeywell’s employees for declaratory judgment, breach of contract, breach of fiduciary duties, aiding and abetting breach of fiduciary duties, corporate waste, breach of the implied covenant of good faith and fair dealing, and unjust enrichment. On January 15, 2020, the Company and Garrett ASASCO Inc. filed a Complaint in the NY Supreme Court in connection with the Action. The lawsuit arises from the Subordinated Indemnity Agreement. The Company is seeking declaratory relief, compensatory damages in an amount to be determined at trial rescission of the Subordinated Indemnity Agreement, attorneys’ fees and costs, and such other and further relief as the Court may deem just and proper. Among other claims, Garrett asserts that Honeywell is not entitled to indemnification because it improperly seeks indemnification for amounts attributable to punitive damages and intentional misconduct, and because it has failed to establish other prerequisites for indemnification under New York law. Specifically, the claim asserts that Honeywell has failed to establish its right to indemnity for each and every asbestos settlement of the thousands for which it seeks indemnification. The Action seeks to establish that the Subordinated Indemnity Agreement is not enforceable, in whole or in part. On March 5, 2020, Honeywell filed a “Notice of Motion to Dismiss Garrett’s Complaint.” On June 18, 2020, by agreement of the parties, Honeywell withdrew its motion to dismiss and Garrett agreed to file an amended complaint on September 15, 2020.

We are involved in various other lawsuits, claims and proceedings incident to the operation of our businesses, including those pertaining to product liability, product safety, environmental, safety and health, intellectual property, employment, commercial and contractual matters and various other matters. Although the outcome of any such lawsuit, claim or proceeding cannot be predicted with certainty and some may be disposed of unfavorably to us, we do not currently believe that such lawsuits, claims or proceedings will have a material adverse effect on our financial position, results of operations or cash flows. We accrue for potential liabilities in a manner consistent with accounting principles generally accepted in the United States. Accordingly, we accrue for a liability when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed under “Risk Factors” in our 2019 Form 10-K. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by any forward-looking statements contained in this report.

Other than the below, there have been no material changes in the risks affecting the Company since the filing of our 2019 Form 10-K. We are updating the risk factors included in our 2019 Form 10-K to include the following:

The COVID-19 pandemic has adversely impacted and is expected to further adversely impact our business and results of operations.

During 2020, the novel coronavirus disease, COVID-19, has spread across the world, including throughout Asia, the United States and Europe. The outbreak and government measures taken in response have also had a significant adverse impact, both direct and indirect, on our businesses and the economy. Our manufacturing facility in Wuhan, China was shut down for six weeks in February and March 2020 and we saw diminished production in our Shanghai, China facility for that same time period, which were the primary drivers of the decrease in sales in the Asia region during the three months ended March 31, 2020. While our facilities in China have re-opened, our manufacturing facilities in Mexicali, Mexico and Pune, India were shut down for five weeks in April and May 2020 and our manufacturing facilities in Europe operated at reduced capacity for the three months ending June 30, 2020. This significantly reduced our production volumes and had a material adverse impact on our business, results of operations and financial condition. We expect these disruptions will continue to negatively impact our revenues in 2020. We have also faced limitations on our employee resources, including because of stay-at-home orders from local governments, new Paid Time Off policies, employee furloughs, state-funded layoffs, sickness of employees or their families or the desire of employees to avoid contact with large groups of people. The pandemic has also diverted management resources and the prolonged work-from-home arrangements have created business continuity and cybersecurity risks.

Certain of our customers have been similarly affected and are experiencing closures and labor shortages. As a result of such closures, we have experienced weakened demand from our customers, who have not been able to accept orders or have delayed or canceled orders, which has negatively affected our revenues. If this trend continues, our revenues will continue to be negatively impacted.

The COVID-19 pandemic continues to rapidly evolve. The extent to which the outbreak impacts our business, liquidity and financial results will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the continued geographic spread of the disease, the duration of the pandemic, travel restrictions and social distancing in the European Union, China and other countries, the duration and extent of business closures or business disruptions and the effectiveness of actions taken to contain and treat the disease. If we or our customers experience prolonged shutdowns or other business disruptions beyond current expectations, our ability to conduct our business in the manner and within planned timelines could be materially and adversely impacted, and our business and financial results may continue to be adversely affected.

Additionally, concerns over the economic impact of the COVID-19 pandemic have caused extreme volatility in financial and other capital markets, which has adversely impacted and may continue to adversely impact our stock price and our ability to access capital markets.

Our leveraged capital structure and liabilities to Honeywell may pose significant challenges to our overall strategic and financial flexibility and have a material adverse effect on our business, liquidity position and financial position.

As previously disclosed, on June 12, 2020, we entered into an amendment to the Credit Agreement to obtain relief from certain of our financial covenants, including our consolidated leverage ratio, in light of current and anticipated operating conditions. Notwithstanding the relief negotiated with our lenders, our leverage ratio remains high and we expect that it will remain so for at least the next several quarters. This high leverage is exacerbated by Garrett ASASCO's significant liabilities and obligations to Honeywell under the Subordinated Indemnity Agreement and the Tax Matters Agreement. Our leveraged capital structure poses significant challenges to our overall strategic and financial flexibility and may impair our ability to gain or hold market share in the highly competitive automotive supply market. This leverage may be greater than that of some of our competitors, which may put us at a competitive disadvantage. In addition, our business has been and may continue to be significantly impacted by the COVID-19 pandemic and related response measures, which has had adverse consequences for our leverage. See “-The COVID-19 pandemic has adversely impacted and is expected to further adversely impact our business and results of operations.” above for more information. If we are unable to manage through these challenges, or if our liquidity position is otherwise impaired, including as a result of the COVID-19 pandemic and related response measures, we may be required to take further actions to manage our liabilities. Any actions in relation to liability management may materially reduce the value or trading price of our common stock, dilute existing holders of our common stock by the issuance of equity (whether through conversion of existing liabilities into equity or otherwise) or result in the cancellation of existing common stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description	Incorporated by Reference				Filed/ Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
2.1+	Indemnification and Reimbursement Agreement, dated September 12, 2018, by and among Honeywell ASASCO Inc., Honeywell ASASCO 2 Inc., and Honeywell International Inc.	8-K	001-38636	2.1	2/27/2020	
2.2+	Tax Matters Agreement, dated September 12, 2018, by and between Honeywell International Inc., Garrett Motion Inc., and, solely for purposes of Section 3.02(g), 5.05 and 6.13(b), Honeywell ASASCO Inc. and Honeywell ASASCO 2 Inc.	8-K	001-38636	2.2	9/14/2018	
3.1	Amended and Restated Certificate of Incorporation of Garrett Motion Inc.	S-8	333-227619	4.1	10/1/2018	
3.2	Amended and Restated By-laws of Garrett Motion Inc.	S-8	333-227619	4.2	10/1/2018	
4.1	Indenture, dated as of September 27, 2018, between Garrett LX I S.à r.l., Garrett Borrowing LLC, the Company, the guarantors named therein, Deutsche Trustee Company Limited, as Trustee, Deutsche Bank AG, London Branch, as Security Agent and Paying Agent, and Deutsche Bank Luxembourg S.A., as Registrar and Transfer Agent	8-K	001-38636	4.1	10/1/2018	
10.1	Employment Contract, dated May 29, 2020, between Garrett Motion Sàrl, Garrett Motion Inc. and Sean Deason.					*
10.2	Addendum to Employment Agreement, dated June 8, 2020, between Garrett Motion Sàrl and Peter Bracke.					*
10.3	First Amendment, dated as of June 12, 2020, to the Credit Agreement dated as of September 27, 2018, among the Company, Garrett LX I S.à r.l., Garrett LX II S.à r.l., Garrett LX III S.à r.l., Garrett Borrowing LLC, Garrett Motion Sàrl (f/k/a Honeywell Technologies Sàrl), the other Loan Parties party thereto, the Lenders and Issuing Banks party thereto and JPMorgan Chase Bank, N.A., as administrative agent.	8-K	001-38636	10.1	6/12/2020	
10.4	First Amendment, dated as of June 12, 2020, to the Indemnification and Reimbursement Agreement, dated as of September 12, 2018, among HHI, Honeywell International Inc., and Garrett ASASCO.	8-K	001-38636	10.2	6/12/2020	
10.5	Form of Continuity Award Agreement.	8-K	001-38636	10.1	6/19/2020	
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					*
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					*
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					**
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					**
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					*

Exhibit Number	Description	Incorporated by Reference			Filed/ Furnished Herewith
		Form	File No.	Exhibit	
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				*

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Garrett Motion Inc.

Date: July 30, 2020

By: _____
Olivier Rabiller
President and Chief Executive Officer

Date: July 30, 2020

By: _____
Sean Deason
Senior Vice President and Chief Financial Officer

EMPLOYMENT CONTRACT

between

Garrett Motion Sàrl, headquartered at Z.A. La Pièce 16, 1180 Rolle, Switzerland
(The “Company”);

Garrett Motion Inc. a Delaware registered company headquartered at Z.A. La Pièce 16, 1180
Rolle Switzerland (“GTX”)

and

Sean Deason of Avenue de Fre 15, 1180 Uccle, Belgium

1. Interpretation

- 1.1 Throughout this Agreement, any reference to the term “Group Company” shall mean the Company and all companies which are for the time being either a Holding Company of the Company or a Subsidiary Company of either the Company or any such Holding Company (and “Subsidiary Company” and “Holding Company” shall have the meanings ascribed to them by art. 5 para. 1 Ordinance on Merger Control).
- 1.2 For the avoidance of doubt, reference to the “Group” shall be taken to mean the Company, any Subsidiary Company, any Holding Company and/or any company within the Garrett Motion Inc. corporate group.

2. Date of Commencement of Employment

- 2.1 Your employment with the Company under this Agreement shall begin with effect from June 15, 2020 at the earliest and subject to the obtaining of proper work authorization.

3. Employee Warranties

- 3.1 By entering into this Agreement:
- (a) you warrant that you are not bound by, nor subject to any court order, arrangement, obligation (express or implied), restriction or undertaking (contractual or otherwise) which prohibits you or restricts you from entering into this Agreement;
 - (b) you undertake to indemnify the Company and/or any Group Company against any claims, costs, damages, liabilities and/or expenses which the Company and/or any Group Company may incur as a result of any claim that you are in breach of any order, arrangement, obligation, restriction or undertaking referred to in clause 3.1(a) above;
 - (c) you warrant that you are entitled to work in Rolle, Canton of Vaud, Switzerland, on behalf of the Company and that will notify the Company immediately if you cease to be so entitled during the course of your employment;

- (d) you warrant that you have no previous convictions relating to (and have not previously been reported for or been the subject to investigation for) bribery-related offences (including, without limitation, offences under local applicable anti-bribery legislation).

4. Job Title, Duration of Employment & Duties

4.1 Your job title is Senior Vice President, Chief Financial Officer which is a full-time permanent role.

4.2 Your duties in such role are to be commensurate with the job title, together with all lawful and reasonable requests made to you in relation to the business operations of the Company and the Group (and any changes therein) from time to time.

4.3 In addition to your role as Chief Financial Officer, you may be appointed as executive officer of GTX. Your role with GTX is limited to the participation in GTX board meetings and will be in accordance with the Garrett Motion Global Business Guidelines, as amended from time to time. You will not carry out any of the GTX activities in Switzerland nor under your role and employment with the Company.

This executive officer position and related duties within Garrett Motion Inc. does not represent a substantial part of your working time and should normally require no more than 15 days out of 240 working days of your working time per calendar year.

4.4 You agree that you shall faithfully and diligently carry out all work and tasks which are entrusted to you, always safeguarding the interests of the Company and of the Group in this regard. You must not during your employment with the Company (whether or not during or outside your normal working hours) carry out any work for (or be involved) in any other business for yourself or any other person, firm, company or organization, without first obtaining written permission from the Company. In all cases, it is your obligation to declare any conflict of interest or potential conflict of interest that may arise during the course of your employment with the Company and in accordance with the Group's Code of Business Conduct or such other conflict of interest policies and procedures in place from time to time.

4.5 In addition, you also agree:

- (a) to do your work with care and integrity, taking account of time, place and agreed conditions;
- (b) to act in conformity with orders and instructions given by the Company and/or the Group (or their representatives) in order to fulfil your duties under this Agreement;
- (c) to protect the Company's interests at all time. You are consequently prohibited during the term of your employment with the Company from committing or participating in any act of unfair competition and from any act prejudicial to the Company, the Group and its employees;
- (d) to refrain, during your employment and following its termination (for whatever reason) from divulging any confidential and/or commercially sensitive information of the Company and/or the Group which you only became aware of by virtue of your employment with the Company;
- (e) to refrain from anything which may be harmful either to your own safety or to that of Company, the Group and/or any of the Group's staff or third parties;

(f) to comply at all times with the Company's Code of Business Conduct and/or any policies in place from time to time.

5. Normal Place of Work

5.1 Your normal place of work is at the Company's premises in Rolle, Canton of Vaud, Switzerland.

5.2 In addition, noting the seniority and global nature of your role, you understand that your employment with the Company requires flexibility and as such, you agree to travel to such other locations as the Company and/or the Group may from time to time require, including overseas.

6. Normal Hours of Work

6.1 Your agreed mandatory working hours are at least 40 hours per week, distributed over five days.

6.2 Noting the seniority and global nature of your role, you understand that you shall have to work beyond such mandatory working hours and/or work timetable in order to properly fulfil your duties. You acknowledge and agree that the basic salary set out in clause 7 below sufficiently takes into account the need for you to work such additional hours as may be necessary from time-to-time, and so you expressly renounce receipt of any additional remuneration compensation for any such extra/overtime hours.

7. Basic Salary

7.1 Your basic salary will be **CHF 570'000** gross per annum, payable in 13 instalments (the "Basic Salary").

7.2 Your duties in relation with your role as executive officer of GTX, as described in clause 4.3 above will be compensated by a lump sum gross payment of 35'625 CHF per annum, determined on the basis of 15 out of 240 working days per calendar year. You agree that this gross payment is already included in the Basic Salary mentioned above in clause 7.1. It will be paid through your ordinary Swiss monthly pay slip on a pro-rata basis through your thirteen ordinary Swiss monthly pay slips by Garrett Motion Sàrl on behalf of GTX and subject to any applicable income tax and social security and pension contributions. This amount is considered an intercompany liability and will be settled as soon as reasonably practicable (and in no event more than 21 days) each month between the two entities during the normal payroll cycle.

7.3 Your Basic Salary will accrue from day-to-day and is payable by credit transfer into your nominated bank account by twelve equal monthly payments and a thirteenth month payment (prorated accordingly), subject to all applicable statutory or contractual deductions that the Company is obliged to make. Such deductions could include withholding for OASI (AVS) / DI (AI) / ALI (APG), unemployment insurance, pension fund contributions, non-professional accident insurance, or withholding taxes (if applicable).

The amounts of any such deductions shall be indicated in the monthly pay slip and can be changed on the basis of new legal provisions or changes in the insurance applicable to you. Where applicable, you shall also receive family allowance payments from the Company.

7.4 The Company may at any time deduct from your Basic Salary any sums which you owe to the Company or any member of the Group, and on entering into this Agreement you give the Company express consent to make such deduction (subject at all times to applicable local law), including but not limited to the following instances:

- (a) for each full or part day of unauthorised absence;
- (b) where you cause loss or damage to the Company's property through your own negligence; and/or
- (c) where there is any overpayment to you of any kind.

8. Annual Incentive Compensation

- 8.1 Subject to the eligibility requirements and the rules set out in Annual Incentive Compensation "ICP" in place from time to time, you are eligible to participate in "ICP" program, which shall provide you, on an annual basis, with an annual target bonus award opportunity equal to **80%** of your basic salary.
- 8.2 Based on the rules of such annual individual bonus program in place from time to time, you may receive an annual bonus payment, which shall be made in relation to the relevant calendar year on or around the March payroll date of the subsequent calendar year. For the avoidance of doubt, any payment made to you under the Group's individual annual bonus program for any given calendar year, will be made subject at all time to you being in active employment (and therefore not under notice of termination of employment, regardless of whether served by you or by the Company) as at the relevant due payment date.
- 8.3 The Company may amend or withdraw the annual individual bonus program at any time. Your participation in such annual individual bonus program does not guarantee the payment of any annual bonus to you and payment under such scheme, together with scale of any such payment, shall remain entirely at the discretion of the Company. Any annual bonus payment to you shall be purely discretionary and shall not form part of your contractual remuneration under this Agreement and shall not be pensionable. Payment of a bonus to you by the Company in any given bonus year (i.e. the relevant calendar year) shall not confer any right or entitlement for you to receive a bonus payment in any other bonus year even if a bonus has been paid under the bonus program over several consecutive years.

9. Annual Long-Term Incentive Awards

- 9.1 You will be eligible to participate in annual long-term incentive awards with an initial target of **170%** of your base salary, subject to the terms and conditions of the applicable stock plan and the relevant award agreements. The size and mix of future awards will be determined by the Company's Board of Directors.

10. Sign-on Awards

- 10.1 You will receive a sign-on bonus payment amounting to CHF 1 million gross, payable during your first month of employment. If you leave the Company for any reason within one year of your Commencement of Employment Date, the entire sign-on bonus payment will be immediately repayable by you to the Company.

11. Pension Scheme

- 11.1 You shall be enrolled in the applicable pension scheme of the Company. Contributions and benefits are determined by the pension scheme rules and regulations, as amended from time to time at the Company's discretion.

11.2 Your employee contributions (if any) shall be deducted by the Company from your basic salary on a monthly basis.

12. Car Allowance

12.1 You will receive a car allowance payment of CHF 1'725 gross per month for the duration of your employment with the Company, subject to you being (and remaining) legally entitled to drive in Switzerland, to be paid at the same time and in the same manner, as your monthly payment of basic salary referred to in clause 7 above, but which shall not be treated for any purpose as part of your basic salary and shall not be pensionable.

13. Vacation

13.1 The Company vacation year runs from January 1st to December 31st.

13.2 Your contractual paid vacation entitlement, in addition to any local applicable public holiday, is in line with the formula below (which includes previous service with an associated employer):

Less than 3 years' service:	25 days per annum
3 - 9 years' service:	27 days per annum
10 + years' service:	30 days per annum

13.3 Under Swiss labor law, the minimum entitlement is 20 days of paid vacation per year. Holidays must be taken at a time convenient to the Company and agreed in advance with the Company, in line with any Company vacation policy in place from time to time.

14. Illness or Accident-Related Absence

14.1 In case of your inability to perform your duties under this Agreement due to illness or accident, you shall be entitled to receive your basic salary according to the applicable terms and conditions of the Company's insurance in place from time to time for loss of earnings due to illness or accident.

14.2 If no insurance for loss of earnings due to illness or accident has been entered into by the Company, the Company's obligation to continue to pay you your basic salary during such period of absence due to illness or accident shall be determined by Art. 324a of the Swiss Code of Obligations (Bernese scale).

14.3 In the case of your inability to perform your duties under this Agreement due to illness or accident, your obligations shall be as follows:

- (a) on the first day of absence, to immediately notify, during the Company's working hours, your manager of the fact of the absence and if possible the expected return to work date;
- (b) to present a medical certificate for any illness related absence exceeding three days, sent to the Company within five days of start of such absence provided, however, that the Company may at any time ask that a medical certificate be provided from the first day of absence;
- (c) if required by the Company, you agree to undergo a medical examination by a medical professional (of the Company's choice and at the Company's expense). In case of any divergence of opinion between the responsible Company-appointed medical professional physician and your own medical adviser, the parties shall agree, as at that moment, to

submit the dispute to be arbitrated by a third medical professional chosen by common agreement of the physicians for each of the parties;

- (d) you release your medical professional and the medical professional appointed by the Company from their secrecy obligation vis-à-vis the Company to the extent required for the Company to assess its rights and obligations and
- (e) the Company reserves the right to request that you return to work upon presentation of a medical certificate attesting to a complete cure/recovery.

15. Employee Agreement relating to Trade Secrets, Proprietary and Confidential Information

15.1 Noting the seniority and global nature of your role, you agree as a condition of this Agreement to enter into the Company's '*Employee Agreement Relating to Trade Secrets, Proprietary and Confidential Information*', the form of which is annexed at Appendix 1 to this Agreement.

16. Data Protection

16.1 You hereby acknowledge that you have been informed that the Company uses computerised files containing personal data and you accept that your personal data is used by the Human Resources Department.

16.2 Your personal data collected by the Company shall be processed in line with applicable data privacy legislation, and shall not be used in any manner incompatible with the purposes covered by the present provisions. Such data makes it possible to identify you indirectly or directly, to assess your suitability for your role and to perform your employment contract and may be incorporated and used in completely controlled systems, computerised or manual.

16.3 You are informed that the data systems are managed directly or indirectly by the Company or by any member of the Group and may be stored and retained in memory.

16.4 You expressly accept the transfer of your personal data to other members of the Group or in the framework of externalisation of some functions, towards any service beneficiary, as well as incorporation of some data in similar systems in other countries, including outside Switzerland and the European Economic Area. Those countries may have data protection laws and regulations that are different from those in Switzerland.

16.5 The Company shall require any entity receiving your personal data to afford a similar level of protection to that provided for under the laws of Switzerland.

16.6 You are informed that you have a right to access your personal data while such is being processed and/or managed by or on behalf of the Company even though the Company may have the right to restrict, delay or refuse access in accordance with applicable law. Furthermore, you have the right to request correction of any inaccurate personal data.

17. Probation and Termination of Employment

17.1 The first six months of employment are considered as a probation period during which either party can terminate the Agreement with a notice period of one month. After the probation period, the Agreement may be terminated by either party giving notice in accordance with clause 17.2

17.2 Either party may terminate your employment by giving the other six months' written notice, to take effect at the end of the relevant calendar month in which the notice expires.

- 17.3 Upon either party giving the other the applicable written notice of termination as per clauses 17.1 and 17.2 above, the Company reserves the right, at its sole discretion, to place you on garden leave for any or all of your notice entitlement. During any such period where you are placed on garden leave, all terms, conditions and benefits in relation to your employment with the Company shall remain in place, except that you will not be required to carry out any of your day-to-day duties, and you must not without (without prior approval from your manager and/or the Human Resources Department as applicable) (i) attend any workplace or premises belonging to the Company, or any other member of the Group or any customer or third party partner (whether actual or potential) of any member of the Group; or (ii) have any contact whatsoever with any staff member of the Company (whether actual or potential) or of any member of the Group (other than purely social contact); or (iii) have any contact whatsoever with any customer or third party partner (whether actual or potential) of any member of the Group.
- 17.4 For the avoidance of doubt, during any period that you are placed on garden leave, the Company is entitled to require you to perform modified duties and/or take any unused holiday that you have accrued. During any such period where you are placed on garden leave, you may assume a gainful activity, provided (i) such other activity does not compete with the business of the Company or any member of the Group; (ii) such other activity does not violate any of your other duties to the Company or any member of the Group; and (iii) any income that you receive from such gainful activity shall be notified to the Company for the purposes of the Company deducting such sum from your salary and other benefits.
- 17.5 Notwithstanding the termination on notice provisions for either party in accordance with clauses [17.1](#) and 17.2 above, the Company may also terminate your employment summarily without any entitlement to notice or payment in respect of such notice by notifying you in writing for cause.
- 17.6 Upon the termination of your employment for whatever reason (and regardless of whether in accordance with clauses [17.1](#), 17.2 or 17.5 above), or upon the commencement of any garden leave in accordance with clause 17.3 above, you must immediately return all property belonging to the Company, any Group Company or any customer or third party partner (whether actual or potential) of any Group Company (including but not limited to documents, plans, records, computer programs, Company phone sim or phone device, Company laptop, Company vehicle or any other equipment, keys, credit cards, security passes and materials), as well as all confidential information belonging to the Company, any Group Company or any customer or third party partner (whether actual or potential) of any Group Company in your possession or control (including but not limited to any confidential information on computer hardware or software, whether stored on disks, equipment or otherwise), and no notes or copies of any trade secrets, sensitive information or confidential information shall be retained. Any retention right is excluded. You may be required to sign an undertaking that all such property and/or confidential information has been returned to the Company (or where applicable and requested, destroyed).
- 17.7 Further, upon the termination of your employment for whatever reason (and regardless of whether in accordance with clauses [17.1](#), 17.2 or 17.5 above), you agree that you will not represent yourself as being connected with the Company or any Group Company, in any capacity (other than as a former employee), or use any registered names or trading names associated with the Company and/or any Group Company. For the avoidance of doubt, this includes such representations on LinkedIn or other social media platforms.
- 17.8 If applicable, upon the termination of your employment for whatever reason (and regardless of whether in accordance with clauses [17.1](#), 17.2 or 17.5 above), and/or at the express request of the Company, you will immediately resign from your directorship in all offices held by you in the

Company and/or in any Group Company, and in addition, you agree to comply with all reasonable requests made by the Company to you with regards to the proper execution of any pending directorship duties prior to your termination as well as all reasonable requests necessary to complete your resignation/removal as a director.

17.9 Upon termination of your employment (other than termination of your employment by the Company for cause as set out in clause 17.5 above), as a designated officer of the Group, you shall be eligible to participate in the Garrett Motion Inc. Severance Plan for Designated Officers (the “Officers Severance Plan”) according to the rules of the Officers Severance Plan in force from time to time.

18. Post-Termination Restrictions

18.1 The following definitions apply for the restrictions set out in the remainder of this clause:

“**Capacity**” means acting as agent, consultant, director, employee, owner, partner, shareholder or in any other capacity (whether directly or otherwise and/or whether acting on your own behalf or in conjunction with any firm, company or person).

“**Relevant Period**” means the 24 month period prior to the your last actual date of work while employed by the Company.

“**Restricted Business**” means (a) the commercialization (including but not limited to development, design, marketing, manufacturing, importing, selling, renting, or otherwise placing into commerce) of turbocharging technology and automotive software products and services; and/or (b) any other business activity which the Company or any other Group Company may be engaged in during the Relevant Period, in either case with which you were involved in to a material extent during your employment with the Company in the Relevant Period.

“**Restricted Customer**” means any firm, company or person who, during the Relevant Period, was a customer (or prospective customer) of the Company or any other member of the Group and with whom you had contact with or about whom you became aware or informed of during your employment with the Company.

“**Restricted Partner**” means any firm, company or person who, during the Relevant Period, was a client or business partner (or prospective client or business partner) of the Company or any other member of the Group and with whom you had contact with or about whom you became aware or informed of during your employment with the Company.

“**Restricted Person**” means anyone employed or engaged by the Company and/or any member of the Group and with whom you dealt with in the course of your employment in the Relevant Period (but excluding any employee employed in an administrative, clerical, manual or secretarial capacity); and

“**Territory**” means (noting the seniority and global nature of your role): (a) all jurisdictions across the globe in which the Company or any member of the Group have business operations; and/or (b) all jurisdictions globally where, during the Relevant Period, the Company and/or any member of the Group undertook Restricted Business and in respect of which during the Relevant Period you were involved or for which you had management responsibility.

18.2 In order to protect the Group’s legitimate proprietary interests, confidential information and its businesses and employees, including but not limited to, Garrett’s business methods, business

systems, strategic plans, plans for acquisition or disposition of products, expansion plans, financial status and plans, financial data, customer lists and data, and personnel information to which you have had access to as a result of your employment with the Company, and noting the seniority and global nature of your role, you expressly covenant with the Company (for itself and as trustee and agent for each Group Company) that you shall not:

- (a) for a period of 24 months after the termination of your employment, be involved in any Capacity with any business concern in the Territory which is (or intends to be) in competition, whether directly or otherwise, with any Restricted Business;
- (b) for a period of 12 months after the termination of your employment, solicit or endeavour to entice away from the Company and/or other member of the Group, the business or custom of a Restricted Customer or Restricted Person with a view to providing goods or services to that Restricted Customer or Restricted Person in competition with any Restricted Business;
- (c) for a period of 12 months after the termination of your employment, deal or otherwise be involved with the provision of goods or services to (or otherwise have any business dealings with) any Restricted Customer or Restricted Person in the course of any business concern which is in competition with any Restricted Business; and/or
- (d) for a period of 12 months after the termination of your employment, in the course of any business concern which is in competition with any Restricted Business, offer to employ or engage or otherwise endeavour to entice away from the Company and/or any other member of the Group, any Restricted Person (whether or not such person would be in breach of contract as a result of such employment or engagement).

- 18.3 None of the restrictions in clause [18.2](#) above shall prevent you from holding an investment by way of shares or other securities of not more than 5% of the total issued share capital of any company, whether or not it is listed or dealt in on a recognised stock exchange.
- 18.4 The periods for which the restrictions in clause 18.2 apply shall be reduced by any period that you spend on garden leave (in accordance with clause [17.3](#) above) immediately before the termination of your employment.
- 18.5 If you receive an offer to be involved in a business concern in any Capacity during your employment with the Company, or before the expiry of the last of the covenants in clause [18.2](#), you shall give the person making the offer to you a copy of this clause 18 and shall tell the Company the identity of that person as soon as possible after receiving such offer.
- 18.6 You confirm that you have entered into the restrictions in clause [18.2](#) with the Company having been given sufficient time to properly consider the content and implications for you. Further, you warrant and represent your experience and capabilities are such that the restrictions contained in clause [18.2](#) will not, upon the termination of your employment with the Company (for whatever reason), prevent you from obtaining employment or otherwise earning a reasonable living.
- 18.7 Each of the restrictions set out in clause [18.2](#) are intended to be separate and severable. If any of the restrictions themselves shall be held to be void but would otherwise be valid if part of their wording were deleted or amended, such restriction shall apply with such deletion or amendment as may be necessary to make it valid or effective.

- 18.8 If your employment is transferred to any firm, company, person or entity other than another Group Company (the “New Employer”) pursuant to art. 333 of the Swiss Code of Obligations, you agree that this clause 188 will apply to the benefit of such New Employer.
- 18.9 Noting the seniority and global nature of your role, you understand that a violation of the obligations under this clause 18 is likely to cause serious damage to the Company and/or another member of the Group. Therefore, upon any breach of your obligations under this clause [188](#), you agree that you shall pay to the Company an amount equal to your last annual gross basic salary as a contractual penalty. However, you also warrant that the payment of such contractual penalty shall not relieve you from your obligations. The Company’s right to claim damages is expressly reserved. Furthermore, the Company shall in any event be entitled to seek judicial enforcement of your obligations.
- 18.10 You further agree that a remedy at law for any breach or threatened breach of the provisions of this clause 18 would be inadequate and therefore agree that the Company shall be entitled to injunctive relief in case of any such breach or threatened breach. You acknowledge and agree that the Company may apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive relief in order to enforce or prevent any violation of the provisions of this clause, and that money damages would not be an adequate remedy for such breach. You acknowledge and agree that a violation of this clause would cause irreparable harm to the Company and/or the Group, and covenant that you will not assert in any proceeding that a violation or further violation of this clause: (i) will not result in irreparable harm to the Company and/or Group; or (ii) could be remedied adequately at law. The Company’s right to injunctive relief shall be cumulative and in addition to any other remedies available at law or equity. In the event that a court determines that you have breached or threatened to breach this clause, you agree to reimburse the Company for all attorneys’ fees and costs incurred in enforcing its terms. However, nothing contained herein shall be construed as prohibiting the Company from pursuing any other remedies available for any such breach or threatened breach against you or your new employer, which may also include, but not be limited to, contract damages, lost profits and punitive damages.

19. Stock Ownership Guidelines for Company Officers

- 19.1 As an executive officer of Garrett Motion Inc., you are required to hold a multiple of your base salary in Garrett Motion Inc. shares in accordance with its stock ownership guidelines.

20. The Company’s Policies & Procedures

- 20.1 You shall be entitled to be reimbursed for reasonable out-of-pocket expenses wholly and properly incurred in the course of your duties, upon production of satisfactory evidence and subject at all times to your compliance with the Company’s Expenses policy in place from time to time. Any credit card supplied by the Company to you shall be used only for expenses incurred by you in the course of your duties.
- 20.2 With respect to health and safety during work, you are obliged to respect all measures of precaution, in line with local legislation and as stated by the Company in its Health, Safety & Environment policies.
- 20.3 You agree at all times to adhere to and respect all policies and procedures applicable in the Company, whether referenced in this Agreement or not, as such policies and procedures might be implemented and/or amended from time to time. In the event of differences between this Agreement and any Company policies or procedures, the provisions of this Agreement shall prevail.

21. Dodd-Frank Clawback

21.1 Notwithstanding any other provision of this Agreement to the contrary, in conformity with Section 10D of the United States Securities Exchange Act 1934, as amended, and any regulations promulgated, or national securities exchange listing conditions adopted, with respect thereto (collectively, the "Clawback Requirements"), if the Company is required to prepare an accounting restatement due to intentional misconduct or grossly negligent conduct with any financial reporting requirements under the securities laws, then you shall return to the Company, or forfeit if not yet paid, the amount of any "incentive-based compensation" (as defined under the Clawback Requirements) received during the three-year period preceding the date on which the Company is required to prepare the accounting restatement, based on the erroneous data, in excess of what would have been paid to you under the accounting restatement as determined by the Company in accordance with the Clawback Requirements.

22. Relocation

22.1 This Agreement is contingent on you agreeing to relocate to the Rolle, Switzerland area. You will be eligible for relocation assistance in accordance with the Company's relocation guidelines. You will be contacted by a representative from our relocation vendor after you return your signed Agreement to initiate the relocation process in accordance with the company's relocation policy in place from time to time.

22.2 The Company agrees to pay a one-time gross relocation bonus of **CHF 150'000.** --, to be paid within thirty (30) days following your first day of work.

Should you terminate your employment with the Company or should the Company terminate your employment within 24 months of employment (other than for reason of redundancy), you will be required to pay back the relocation bonus in full.

22.3 The company will reimburse Cigna health insurance for yourself and your immediate dependents as per their terms & conditions. This is valid for the duration of your employment with the Company.

22.4 The company will reimburse the cost of tuition at a local international school for up to two years. The yearly gross total amount per child should not exceed 36,000 CHF to cover applicable school fees and will be reimbursed based on School invoices.

23. General

23.1 You must notify your manager immediately of any matter which may impact any aspect of your employment, including but not limited to the following non-exhaustive examples:

- (a) if you become aware of any breach of employment duties or any leak of confidential information;
- (b) If you become aware of any misconduct on the part of any other employee;
- (c) if you become bankrupt, of unsound mind, are disqualified from acting as a director or are subject to or involved in any professional, civil or criminal proceedings which might affect the carrying out of your duties; or

(d) if you commit, are charged with or are convicted of any criminal offence (excluding minor driving offences).

23.2 There are no collective agreements, which directly affect the terms and conditions of your employment.

23.3 All amendments to this Agreement shall be in writing, in English and signed by both parties.

24. Relevant Law

24.1 The laws of Switzerland govern this Agreement and all other contractual documentation given to you.

25. Execution

25.1 This Agreement may be executed in any number of counterparts, each of which when executed shall constitute a duplicate original, but all the counterparts shall together constitute the one agreement.

25.2 Upon execution, this Agreement shall constitute the entire agreement and understanding between the parties' in respect of the matters dealt in it, and supersedes, cancels and nullifies any previous agreement between the parties relating to such matters including but not limited to any previous contract of employment between you and the Company (or any other member of the Group).

Executed in Rolle, 29 May 2020

/s/ Fabrice Spenninck

/s/ Sean Deason

Fabrice Spenninck

Sean Deason

Senior Vice President,
Chief Human Resources and
Communications

The Company

The Executive

Rolle, June 8, 2020

Mr. Peter Bracke

ADDENDUM TO THE EMPLOYMENT AGREEMENT

All other provisions of the initial Employment Agreement and subsequent addenda shall be unaffected

Between: Garrett Motion Sàrl (the “Employer”)

and: Mr. Peter Bracke (“the “Employee”)

Job Title: Chief Transformation Officer

Salary: CHF 400'000.- gross salary per year as reference salary, paid in thirteen installments

Annual Incentive Compensation Subject to the eligibility requirements and the rules set out in Annual Incentive Compensation “ICP” in place from time to time, you are eligible to participate in “ICP” program, which shall provide you, on an annual basis, with an annual target bonus award opportunity equal to **50%** of your annual basic salary.

Based on the rules of such annual individual bonus program in place from time to time, you may receive an annual bonus payment (or where applicable, pro-rated bonus payment), which shall be made in relation to the relevant calendar year on or around the March payroll date of the subsequent calendar year. For the avoidance of doubt, any payment made to you under the Group’s individual annual bonus program for any given calendar year, will be made subject at all time to you being in active employment (and therefore not under notice of termination of employment, regardless of whether served by you or by the Company) as at the relevant due payment date.

The Company may amend or withdraw the annual individual bonus program at any time. Your participation in such annual individual bonus program does not guarantee the payment of any annual bonus to you and payment under such scheme, together with scale of any such payment, shall remain entirely at the discretion of the Company. Any annual bonus payment to you shall be purely discretionary and shall not form part of your contractual remuneration under this Agreement and shall not be pensionable. Payment of a bonus to you by the Company in any given bonus year (i.e. the relevant calendar year) shall not confer any right or entitlement for you to receive a bonus payment in any other bonus year even if a bonus has been paid under the bonus program over several consecutive years.

Effective Date: 01.07.2020

This addendum cancels the agreement dated September 3, 2019. All other provisions of the initial Employment Agreement and subsequent addenda shall be unaffected.

To accept this offer please print, sign and date the original offer letter, and return within five (5) calendar days of receipt.

I would like to thank you for your continued contribution to Garrett and I wish you all the best in your new role of Chief Transformation Officer.

Yours sincerely,

/s/ Olivier Rabiller
Oliver Rabiller
Chief Executive Officer

Read and Accepted:

/s/ Peter Bracke
2020
Mr. Peter Bracke

08-06-

Date

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Garrett Motion Inc. (the "Company") for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: July 30, 2020

By: _____ /s/ Olivier Rabiller
Olivier Rabiller
President and Chief Executive Officer
(*principal executive officer*)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Garrett Motion Inc. (the "Company") for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: July 30, 2020

By: _____ /s/ Sean Deason
Sean Deason
Senior Vice President and Chief Financial Officer
(principal financial officer)