

**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 **September 30, 2022**

**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)

**82-4873189**

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

**La Pièce 16, Rolle, Switzerland**

(Address of principal executive offices)

**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	The Nasdaq Stock Market LLC
Series A Cumulative Convertible Preferred Stock, par value \$0.001 per share	GTXAP	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

As of October 21, 2022, the registrant had 64,818,357 shares of Common Stock, \$0.001 par value per share, outstanding.



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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in millions, except per share amounts)				
Net sales (Note 3)	\$ 945	\$ 839	\$ 2,705	\$ 2,771
Cost of goods sold	767	676	2,183	2,219
Gross profit	178	163	522	552
Selling, general and administrative expenses	57	60	164	166
Other expense, net	1	—	2	1
Interest expense	18	25	61	70
Loss on extinguishment of debt	—	—	5	—
Non-operating income	(29)	(4)	(73)	(4)
Reorganization items, net (Note 1)	—	(9)	2	(130)
Income before taxes	131	91	361	449
Tax expense (Note 5)	26	28	83	82
Net income	105	63	278	367
Less: preferred stock dividend (Note 18)	(40)	(36)	(117)	(60)
Net income available for distribution	\$ 65	\$ 27	\$ 161	\$ 307
Earnings per common share				
Basic	\$ 0.21	\$ 0.09	\$ 0.52	\$ 1.46
Diluted	\$ 0.21	\$ 0.09	\$ 0.52	\$ 1.15
Weighted average common shares outstanding				
Basic	64,820,887	65,056,274	64,834,298	70,802,999
Diluted	65,250,287	65,081,343	65,118,021	318,580,250

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Net income	\$ 105	\$ 63	\$ 278	\$ 367
Foreign exchange translation adjustment	10	(6)	13	37
Changes in fair value of effective cash flow hedges, net of tax (Note 16)	9	2	26	7
Changes in fair value of net investment hedges, net of tax (Note 16)	45	12	87	27
Total other comprehensive income, net of tax	64	8	126	71
Comprehensive income	<u>\$ 169</u>	<u>\$ 71</u>	<u>\$ 404</u>	<u>\$ 438</u>

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

**GARRETT MOTION INC.**  
**CONSOLIDATED INTERIM BALANCE SHEETS**  
(Unaudited)

	September 30, 2022	December 31, 2021
(Dollars in millions)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 159	\$ 423
Restricted cash	2	41
Accounts, notes and other receivables – net (Note 6)	797	747
Inventories – net (Note 8)	283	244
Other current assets	130	56
Total current assets	1,371	1,511
Investments and long-term receivables	32	28
Property, plant and equipment – net	419	485
Goodwill	193	193
Deferred income taxes	250	289
Other assets (Note 9)	338	200
Total assets	\$ 2,603	\$ 2,706
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 1,001	\$ 1,006
Current maturities of long-term debt (Note 13)	7	7
Mandatorily redeemable Series B Preferred Stock (Note 15)	—	200
Accrued liabilities (Note 10)	331	295
Total current liabilities	1,339	1,508
Long-term debt (Note 13)	1,108	1,181
Mandatorily redeemable Series B Preferred Stock – long-term (Note 15)	—	195
Deferred income taxes	17	21
Other liabilities (Note 11)	241	269
Total liabilities	\$ 2,705	\$ 3,174
<b>COMMITMENTS AND CONTINGENCIES (Note 20)</b>		
<b>EQUITY (DEFICIT)</b>		
Series A Preferred Stock, par value \$0.001; 245,390,067 and 245,921,617 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	\$ —	\$ —
Common Stock, par value \$0.001; 1,000,000,000 and 1,000,000,000 shares authorized, 64,925,058 and 64,570,950 issued and 64,818,324 and 64,570,950 outstanding as of September 30, 2022 and December 31, 2021, respectively	—	—
Additional paid-in capital	1,331	1,326
Retained deficit	(1,555)	(1,790)
Accumulated other comprehensive income (loss) (Note 17)	122	(4)
Total deficit	(102)	(468)
Total liabilities and deficit	\$ 2,603	\$ 2,706

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)**

(Dollars in millions)	Nine Months Ended September 30,	
	2022	2021
<b>Cash flows from operating activities:</b>		
Net income	\$ 278	\$ 367
Adjustments to reconcile net income to net cash provided by (used for) operating activities		
Reorganization items, net	—	(423)
Deferred income taxes	16	10
Depreciation	64	70
Amortization of deferred issuance costs	6	5
Interest payments, net of debt discount accretion	(19)	18
Loss on extinguishment of debt	5	—
Foreign exchange loss	4	7
Stock compensation expense	8	5
Pension expense	—	(1)
Change in fair value of derivatives	(54)	—
Other	2	(3)
Changes in assets and liabilities:		
Accounts, notes and other receivables	(166)	48
Inventories	(80)	(59)
Other assets	13	40
Accounts payable	180	(161)
Accrued liabilities	(2)	(19)
Obligations payable to Honeywell	—	(375)
Other liabilities	(17)	25
Net cash provided by (used for) operating activities	\$ 238	\$ (446)
<b>Cash flows from investing activities:</b>		
Expenditures for property, plant and equipment	(78)	(74)
Other	—	1
Net cash used for investing activities	\$ (78)	\$ (73)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of Series A Preferred Stock	—	1,301
Proceeds from issuance of long-term debt, net of deferred financing costs	—	1,221
Payments of long-term debt	(5)	(1,513)
Payments of revolving credit facility	—	(370)
Payments of debtor-in-possession financing	—	(200)
Redemption of Series B Preferred stock	(381)	—
Payments for Cash-Out election	—	(69)
Payments for share repurchases	(4)	—
Payments for dividends	(42)	—
Debt financing costs	(4)	(8)
Net cash (used for) provided by financing activities	\$ (436)	\$ 362
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(27)	(2)
Net decrease in cash, cash equivalents and restricted cash	(303)	(159)
Cash, cash equivalents and restricted cash at beginning of the period	464	693
Cash, cash equivalents and restricted cash at end of the period	\$ 161	\$ 534
<b>Supplemental cash flow disclosure:</b>		
Income taxes paid (net of refunds)	\$ 38	\$ 47
Interest paid	56	42
Reorganization items paid	4	342
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Issuance of Series B Preferred Stock	—	577

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)

	Series A Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive (Loss)/Income	Total Deficit
	Shares	Amount	Shares	Amount				
(in millions)								
Balance at December 31, 2020	—	\$ —	76	\$ —	\$ 28	\$ (2,207)	\$ (129)	\$ (2,308)
Net loss	—	—	—	—	—	(105)	—	(105)
Other comprehensive income, net of tax	—	—	—	—	—	—	111	111
Stock-based compensation	—	—	—	—	2	—	—	2
Balance at March 31, 2021	—	—	76	—	\$ 30	\$ (2,312)	\$ (18)	\$ (2,300)
Net income	—	—	—	—	—	409	—	409
Cash-out election	—	—	(11)	—	—	(69)	—	(69)
Issuance of Series A Preferred Stock	248	—	—	—	1,301	—	—	1,301
Other comprehensive loss, net of tax	—	—	—	—	—	—	(48)	(48)
Stock-based compensation	—	—	—	—	1	—	—	1
Balance at June 30, 2021	248	\$ —	65	\$ —	\$ 1,332	\$ (1,972)	\$ (66)	\$ (706)
Net income	—	—	—	—	—	63	—	63
Other comprehensive income, net of tax	—	—	—	—	—	—	8	8
Stock-based compensation	—	—	—	—	2	—	—	2
Balance at September 30, 2021	248	\$ —	65	\$ —	\$ 1,334	\$ (1,909)	\$ (58)	\$ (633)
(in millions)								
	Series A Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive (Loss)/Income	Total Deficit
	Shares	Amount	Shares	Amount				
Balance at December 31, 2021	246	\$ —	64	\$ —	\$ 1,326	\$ (1,790)	\$ (4)	\$ (468)
Net income	—	—	—	—	—	88	—	88
Share repurchases	—	—	—	—	(1)	(1)	—	(2)
Other comprehensive income, net of tax	—	—	—	—	—	—	23	23
Stock-based compensation	—	—	—	—	2	—	—	2
Balance at March 31, 2022	246	—	64	—	\$ 1,327	\$ (1,703)	\$ 19	\$ (357)
Net income	—	—	—	—	—	85	—	85
Share repurchases	—	—	—	—	(1)	—	—	(1)
Other comprehensive income, net of tax	—	—	—	—	—	—	39	39
Stock-based compensation	—	—	—	—	3	—	—	3
Balance at June 30, 2022	246	\$ —	64	\$ —	\$ 1,329	\$ (1,618)	\$ 58	\$ (231)
Net income	—	—	—	—	—	105	—	105
Share repurchases	—	—	—	—	(1)	—	—	(1)
Other comprehensive income, net of tax	—	—	—	—	—	—	64	64
Dividends declared	—	—	—	—	—	(42)	—	(42)
Stock-based compensation	—	—	—	—	3	—	—	3
Balance at September 30, 2022	246	\$ —	64	\$ —	\$ 1,331	\$ (1,555)	\$ 122	\$ (102)

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) power trains. These products are key enablers for fuel economy and emission standards compliance.

***Basis of Presentation***

The accompanying unaudited Consolidated Interim Financial Statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission applicable to interim financial statements. While these statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by United States generally accepted accounting principles (“GAAP”) for complete financial statements. The unaudited Consolidated Interim Financial Statements should therefore be read in conjunction with the Consolidated Financial Statements and accompanying notes for the year ended December 31, 2021 included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on February 14, 2022 (our “2021 Form 10-K”). The results of operations for the three and nine months ended September 30, 2022 and cash flows for the nine months ended September 30, 2022 should not necessarily be taken as indicative of the entire year. All amounts presented are in millions, except per share amounts.

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 to minimize the potentially disruptive effects of quarterly closing on our business processes. For differences in actual closing dates that are material to year-over-year comparisons of quarterly or year-to-date results have been adjusted for the three months ended September 30, 2022. Our actual closing dates for the three months ended September 30, 2022 and 2021 were October 1, 2022 and October 2, 2021, respectively.

We evaluate segment reporting in accordance with ASC 280, *Segment Reporting*. We concluded that Garrett operates in a single operating segment and a single reportable segment based on the operating results available and evaluated regularly by the chief operating decision maker (“CODM”), which is our Chief Executive Officer, to make decisions about resource allocation and performance assessment. The CODM makes operational performance assessments and resource allocation decisions on a consolidated basis, inclusive of all of the Company’s products across channels and geographies.

The preparation of the financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases these estimates on assumptions that it believes to be reasonable under the circumstances, including considerations for the impact of the outbreak of the COVID-19 pandemic on the Company's business due to various global macroeconomic, operational and supply-chain risks as a result of COVID-19. Actual results could differ from the original estimates, requiring adjustments to these balances in future periods.

***Voluntary Filing Under Chapter 11***

On September 20, 2020 (the “Petition Date”), the Company and certain of its subsidiaries (collectively, the “Debtors”) each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”). The Debtors’ chapter 11 cases (the “Chapter 11 Cases”) were jointly administered under the caption “In re: Garrett Motion Inc., 20-12212.” On April 20, 2021, the Debtors filed the Revised Amended Plan of Reorganization (the “Plan”). On April 26, 2021, the Bankruptcy Court entered an order among other things, confirming the Plan. On April 30, 2021 (the “Effective Date”), the conditions to the effectiveness of the Plan were satisfied or waived and the Company emerged from bankruptcy (“Emergence”).

## Emergence from Chapter 11

Upon Emergence or shortly thereafter, amounts recorded as liabilities subject to compromise were either settled, or such amounts have been reinstated to current or non-current liabilities in the Consolidated Interim Balance Sheet, based upon management's judgment as to the timing for settlement of such claims.

Reorganization items, net represent amounts incurred after the Petition Date as a direct result of the Chapter 11 Cases and are comprised of the following for the three and nine months ended September 30, 2022 and 2021, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Gain on settlement of Honeywell claims <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ (502)
Advisor fees	—	(8)	—	172
Bid termination and expense reimbursement	—	—	—	79
Director's and officers insurance	—	—	—	39
Expenses related to Senior Notes <sup>(2)</sup>	—	—	—	28
Write off pre-petition debt issuance cost	—	—	—	25
Employee stock cash out	—	—	—	13
Debtor in Possession ("DIP") financing fees	—	—	—	1
Other	—	(1)	2	15
Total reorganization items, net	<u>\$ —</u>	<u>\$ (9)</u>	<u>\$ 2</u>	<u>\$ (130)</u>

(1) The gain on settlement of Honeywell claims of \$502 million is comprised of the pre-emergence Honeywell claims of \$1,459 million, less the \$375 million payment to Honeywell, less the Series B Preferred Stock issued to Honeywell which was recorded at \$577 million, less a currency translation adjustment of \$5 million.

(2) Includes \$15 million in connection with a complaint in the Bankruptcy Court against the trustee of the indenture governing the Company's previously-issued 5.125% senior notes due 2026, and \$13 million related to post-petition interest thereon. The obligations of the Debtors under the indenture were canceled at Emergence.

## Note 2. Summary of Significant Accounting Policies

The accounting policies of the Company are set forth in Note 3 to the Consolidated Financial Statements for the year ended December 31, 2021 included in our 2021 Form 10-K.

### Recently Adopted Accounting Pronouncements

In November 2021, the Financial Accounting Standards Board ("FASB") issued accounting standards update ("ASU") 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. The amendments in this update increase the transparency surrounding government assistance by requiring disclosure of 1) the types of assistance received, 2) an entity's accounting for the assistance, and 3) the effect of the assistance on the entity's financial statements. The update is effective for annual periods beginning after December 15, 2021. The Company adopted the new guidance as of January 1, 2022. The adoption did not have a material impact on our Consolidated Interim Financial Statements; however, the Company expects to increase its disclosures with respect to government assistance beginning with our Annual Report on Form 10-K for the year ended December 31, 2022.

### Recently Issued Accounting Pronouncements

In September 2022, the FASB issued ASU 2022-04, *Disclosure of Supplier Finance Program Obligations (Topic 405-50): Disclosure of Supplier Finance Purchase Obligations*. The amendment in this update requires companies to disclose key terms of supplier financing programs used in connection with the purchase of goods and services, along with information about their obligations under these programs including a rollforward of those obligations. The guidance is effective for fiscal years beginning after December 15, 2022 on a retrospective basis, including interim periods within those fiscal years, except for the requirement to disclose rollforward information, which is effective on a prospective basis for

fiscal years beginning after December 15, 2023. Early adoption is permitted. The Company is currently evaluating the guidance to determine the impact on its 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 September 30, 2022				Three Months Ended September 30, 2021			
	OEM	Aftermarket	Other	Total	OEM	Aftermarket	Other	Total
	(Dollars in millions)							
United States	\$ 134	\$ 54	\$ 1	\$ 189	\$ 92	\$ 49	\$ 2	\$ 143
Europe	381	41	6	428	348	40	5	393
Asia	288	14	6	308	271	12	6	289
Other	14	6	—	20	8	6	—	14
	<u>\$ 817</u>	<u>\$ 115</u>	<u>\$ 13</u>	<u>\$ 945</u>	<u>\$ 719</u>	<u>\$ 107</u>	<u>\$ 13</u>	<u>\$ 839</u>

	Nine Months Ended September 30, 2022				Nine Months Ended September 30, 2021			
	OEM	Aftermarket	Other	Total	OEM	Aftermarket	Other	Total
	(Dollars in millions)							
United States	\$ 354	\$ 159	\$ 2	\$ 515	\$ 290	\$ 129	\$ 4	\$ 423
Europe	1,181	117	21	1,319	1,263	117	21	1,401
Asia	765	34	18	817	853	36	20	909
Other	36	18	—	54	20	18	—	38
	<u>\$ 2,336</u>	<u>\$ 328</u>	<u>\$ 41</u>	<u>\$ 2,705</u>	<u>\$ 2,426</u>	<u>\$ 300</u>	<u>\$ 45</u>	<u>\$ 2,771</u>

#### Contract Balances

The following table summarizes our contract assets and liabilities balances:

	2022	2021
	(Dollars in millions)	
Contract assets—January 1	\$ 63	\$ 61
Contract assets—September 30	51	56
Change in contract assets—(Decrease)/Increase	<u>\$ (12)</u>	<u>\$ (5)</u>
Contract liabilities—January 1	\$ (5)	\$ (2)
Contract liabilities—September 30	(9)	(4)
Change in contract liabilities—(Increase)/Decrease	<u>\$ (4)</u>	<u>\$ (2)</u>

### 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Research and development costs	\$ 38	\$ 33	\$ 112	\$ 99
Engineering-related expenses	4	5	13	16
	<u>\$ 42</u>	<u>\$ 38</u>	<u>\$ 125</u>	<u>\$ 115</u>

#### Note 5. Income Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Tax expense	\$ 26	\$ 28	\$ 83	\$ 82
Effective tax rate	19.8 %	30.8 %	23.0 %	18.3 %

The effective tax rate for the three months ended September 30, 2022 is lower than the effective tax rate for the three months ended September 30, 2021 primarily related to lower nondeductible expenses in addition to a decrease in withholding taxes on undistributed earnings.

The effective tax rate for the nine months ended September 30, 2022 is higher than the effective rate for the nine months ended September 30, 2021 primarily related to the nontaxable gain recognized in 2021 on the settlement of the Honeywell claims partially offset by nondeductible expenses recorded in the prior period and a decrease in withholding taxes on undistributed earnings.

The effective tax rate for the three months ended September 30, 2022 was lower than the U.S. federal statutory rate of 21% primarily due to a decrease in the withholding taxes on undistributed earnings.

The effective tax rate for the nine months ended September 30, 2022 is higher than the U.S. federal statutory rate of 21% primarily due to tax reserves, partially offset by lower taxes on non-U.S. earnings and the previously mentioned decrease in withholding taxes on undistributed earnings.

The effective tax rate can vary from quarter to quarter due to changes in the Company's global mix of earnings, 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.

#### Note 6. Accounts, Notes and Other Receivables—Net

	September 30, 2022	December 31, 2021
	(Dollars in millions)	
Trade receivables	\$ 645	\$ 553
Notes receivable	85	121
Other receivables	75	78
	<u>805</u>	<u>752</u>
Less—Allowance for expected credit losses	(8)	(5)
	<u>\$ 797</u>	<u>\$ 747</u>

Trade receivables include \$51 million and \$63 million of unbilled customer contract asset balances as of September 30, 2022 and December 31, 2021, respectively. These amounts are billed in accordance with the terms of customer contracts to which they relate. See Note 3, *Revenue Recognition and Contracts with Customers*.

Notes receivable is related to guaranteed bank notes without recourse that the Company receives in settlement of accounts receivables, primarily in the Asia Pacific region. See Note 7, *Factoring and Notes Receivable* for further information.

#### Note 7. Factoring and Notes Receivable

The Company enters into arrangements with financial institutions to sell eligible trade receivables. The receivables are sold without recourse and the Company accounts for these arrangements as true sales. The Company also receives 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. Bank notes sold to third-party financial institutions without recourse are likewise accounted for as true sales.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Eligible receivables sold without recourse	\$ 112	\$ 104	\$ 481	\$ 437
Guaranteed bank notes sold without recourse	35	—	102	—

The expenses related to the sale of trade receivables and guaranteed bank notes are recognized within Other expense, net in the consolidated interim statements of operations, and were immaterial for the three and nine months ended September 30, 2022.

	September 30,	December 31,
	2022	2021
	(Dollars in millions)	
Receivables sold but not yet collected by the bank from the customer	\$ 12	\$ 26
Guaranteed bank notes sold but not yet collected by the bank from the customer	1	—

As of September 30, 2022 the Company has no guaranteed bank notes pledged as collateral and at December 31, 2021, the Company has pledged as collateral \$5 million of guaranteed bank notes, which have not been sold in order to be able to issue bank notes as payment to certain suppliers. Such pledged amounts are included as Notes receivable in our Consolidated Interim Balance Sheet.

#### Note 8. Inventories—Net

	September 30,	December 31,
	2022	2021
	(Dollars in millions)	
Raw materials	\$ 203	\$ 162
Work in process	19	19
Finished products	90	92
	312	273
Less—Reserves	(29)	(29)
	\$ 283	\$ 244

**Note 9. Other Assets**

	September 30, 2022	December 31, 2021
(Dollars in millions)		
Advanced discounts to customers, non-current	\$ 50	\$ 61
Operating right-of-use assets (Note 12)	43	51
Income tax receivable	27	27
Pension and other employee related	15	15
Designated cross-currency swaps	131	30
Designated and undesignated derivatives	64	7
Other	8	9
	<u>\$ 338</u>	<u>\$ 200</u>

**Note 10. Accrued Liabilities**

	September 30, 2022	December 31, 2021
(Dollars in millions)		
Customer pricing reserve	\$ 61	\$ 72
Compensation, benefit and other employee related	67	76
Repositioning	9	10
Product warranties and performance guarantees - short-term (Note 20)	19	21
Income and other taxes	42	25
Advanced discounts from suppliers, current	9	14
Customer advances and deferred income <sup>(1)</sup>	28	23
Accrued interest	10	8
Short-term lease liability (Note 12)	9	9
Accrued freight	9	11
Dividends payable (Note 14)	42	—
Other (primarily operating expenses) <sup>(2)</sup>	26	26
	<u>\$ 331</u>	<u>\$ 295</u>

(1) Customer advances and deferred income include \$9 million and \$5 million of contract liabilities as of September 30, 2022 and December 31, 2021, respectively. See Note 3, *Revenue Recognition and Contracts with Customers*.

(2) Includes \$4 million and \$3 million of environmental liabilities as of September 30, 2022 and December 31, 2021, respectively.

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

	Severance Costs	Exit Costs	Total
(Dollars in millions)			
Balance at December 31, 2021	\$ 10	\$ —	\$ 10
Charges	4	—	4
Usage—cash	(5)	—	(5)
Balance at September 30, 2022	<u>\$ 9</u>	<u>\$ —</u>	<u>\$ 9</u>

	Severance Costs	Exit Costs	Total
	(Dollars in millions)		
Balance at December 31, 2020	\$ 7	\$ —	\$ 7
Charges	14	—	14
Usage—cash	(7)	—	(7)
Balance at September 30, 2021	<u>\$ 14</u>	<u>\$ —</u>	<u>\$ 14</u>

**Note 11. Other Liabilities**

	September 30, 2022	December 31, 2021
	(Dollars in millions)	
Income taxes	\$ 107	\$ 106
Pension and other employee related	48	61
Long-term lease liability (Note 12)	36	42
Advanced discounts from suppliers	8	16
Product warranties and performance guarantees – long-term (Note 20)	10	11
Environmental remediation – long term	13	15
Other	19	18
	<u>\$ 241</u>	<u>\$ 269</u>

**Note 12. Leases**

We have operating leases that primarily consist of real estate, machinery and equipment. Our leases have remaining lease terms of up to 15 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Operating lease cost	\$ 4	\$ 4	\$ 12	\$ 12

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash outflows from operating leases	\$ 3	\$ 3	\$ 9	\$ 9
Right-of-use assets obtained in exchange for lease obligations:				
Operating leases	2	18	4	23

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

	September 30, 2022	December 31, 2021
	(Dollars in millions)	
Other assets	\$ 43	\$ 51
Accrued liabilities	9	9
Other liabilities	36	42

	September 30, 2022	December 31, 2021
Weighted-average remaining lease term (in years)	8.43	8.88
Weighted-average discount rate	5.61 %	5.65 %

Maturities of operating lease liabilities as of September 30, 2022 were as follows:

	(Dollars in millions)
2022	\$ 3
2023	10
2024	8
2025	7
2026	5
Thereafter	22
Total lease payments	55
Less imputed interest	(11)
	<u>\$ 44</u>



### Note 13. Long-term Debt and Credit Agreements

The principal outstanding and carrying amounts of our long-term debt as of September 30, 2022 are as follows:

	Due	Interest Rate	September 30, 2022
Dollar Facility	4/30/2028	LIBOR plus 325 bps	\$ 708
Euro Facility	4/30/2028	EURIBOR plus 350 bps	438
Total principal outstanding			1,146
Less: unamortized deferred financing costs			(31)
Less: current portion of long-term debt			(7)
Total long-term debt			\$ 1,108

#### Credit Facilities

On the Effective Date, in accordance with the Plan, the Company entered into a credit agreement (as amended from time to time, the "Credit Agreement") providing for senior secured financing, consisting of a seven-year secured first-lien U.S. Dollar term loan facility initially in the amount of \$715 million (the "Dollar Term Facility"), a seven-year secured first-lien Euro term loan facility initially in the amount of €450 million (the "Euro Term Facility," and together with the Dollar Facility, the "Term Loan Facilities"); and a five-year senior secured first-lien revolving credit facility initially in the amount of \$300 million providing for multi-currency revolving loans, (the "Revolving Facility," and together with the Term Loan Facilities, the "Credit Facilities"). On January 11, 2022 and March 22, 2022, the Company amended the Credit Agreement, increasing the maximum amount of borrowings available under the Revolving Facility from \$300 million to approximately \$475 million. The maturity date of the Revolving Facility remains unchanged at April 30, 2026, with certain extension rights at the discretion of each lender.

Under the first amendment, London Inter-bank Offered Rate ("LIBOR") was replaced as an available rate at which borrowings under the Revolving Facility could accrue with, for loans borrowed in U.S. Dollars, the daily overnight secured financing rate ("SOFR") published by the Federal Reserve Bank of New York and for loans borrowed in Australian Dollars, the average bid reference rate administered by ASX Benchmarks Pty Limited. The Term Loan Facilities under the Credit Agreement continue to be able to accrue interest under the LIBOR, but will switch to an alternative benchmark rate upon the cessation of LIBOR after June 30, 2023. The Euro Facilities under the Credit Agreement continue to accrue interest under the Euro Interbank Offered Rate ("EURIBOR").

The second amendment also removed the requirement that payments made in cash for the benefit of holders of shares of the Company's Series A Preferred Stock, par value \$0.001 per share (the "Series A Preferred Stock") on or before December 31, 2022 be made on a ratable basis to the holders of the Common Stock, and made additional clarifying amendments to certain provisions.

The amendments to our Credit Agreement as described above were accounted under ASC 470-50, *Debt Modifications and Extinguishments* as a debt modification that did not result in an extinguishment or have a material impact on our Consolidated Interim Financial Statements.

Under the Revolving Facility, the Company may use up to \$125 million for the issuance of letters of credit to the Swiss Borrower or any of its subsidiaries. Letters of credit are available for issuance under the Credit Agreement on terms and conditions customary for financings of this kind, which issuances reduce availability under the Revolving Facility. As of September 30, 2022 the Company had no loans outstanding under the Revolving Facility, no outstanding letters of credit, and available borrowing capacity of approximately \$475 million.

Separate from the Revolving Facility, the Company has a bilateral letter of credit facility, which also matures on April 30, 2026. On September 14, 2022, the Company amended the bilateral letter of credit agreement to reduce the available capacity from \$35 million to \$15 million. The maturity date and other terms of the amended agreement remained the same. As of September 30, 2022, the Company had \$12 million utilized and \$3 million of remaining available capacity under such facility.

#### Interest Rate and Fees

The Dollar Term Facility is subject to an interest rate, at our option, of either (a) an alternate base rate ("ABR") (which shall not be less than 1.50%) or (b) an adjusted LIBOR rate ("LIBOR") (which shall not be less than 0.50%), in

each case, plus an applicable margin equal to 3.25% in the case of LIBOR loans and 2.25% in the case of ABR loans. The Euro Term Facility is subject to an interest rate equal to an adjusted EURIBOR rate (which shall not be less than zero) plus an applicable margin equal to 3.50%. Interest payments with respect to the Dollar and Euro Term 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.

The Revolving Facility is subject to an interest rate comprised of an applicable benchmark rate as provided under the Credit Agreement (which shall not be less than 1.00% if such benchmark is the ABR rate and not less than 0.00% in the case of other applicable benchmark rates) that is selected based on the currency in which borrowings are outstanding thereunder, in each case, plus an applicable margin, that may vary based on our leverage ratio.

In addition to paying interest on outstanding borrowings under the Revolving Facility, we are also required to pay a quarterly commitment fee based on the average daily unused portion of the Revolving Facility during such quarter, which is determined by our leverage ratio and ranges from 0.25% to 0.50% per annum.

#### **Prepayments**

The Credit Agreement also contains certain mandatory prepayment provisions in the event that we incur certain types of indebtedness, receive net cash proceeds from certain non-ordinary course asset sales or other dispositions of property or, starting with the fiscal year ending on December 31, 2022, have excess cash flow (calculated on an annual basis with the required prepayment equal to 50%, 25% or 0% of such excess cash flow, subject to compliance with certain leverage ratios), in each case subject to terms and conditions customary for financings of this kind.

#### **Certain Covenants**

The Credit Agreement contains certain affirmative and negative covenants customary for financings of this type. The Revolving Facility also contains a financial covenant requiring the maintenance of a consolidated total leverage ratio of not greater than 4.7 times as of the end of each fiscal quarter if, on the last day of any such fiscal quarter, the aggregate amount of loans and letters of credit (excluding backstopped or cash collateralized letters of credit and other letters of credit with an aggregate face amount not exceeding \$30 million) outstanding under the Revolving Facility exceeds 35% of the aggregate commitments in effect thereunder on such date.

As of September 30, 2022, the Company was in compliance with all covenants.

The Credit Agreement also contained certain restrictions on the Company's ability to pay cash dividends on or to redeem or otherwise acquire for cash the Series A Preferred Stock unless a ratable payment (on an as-converted basis) was made to holders of our common equity and such payments would otherwise be permitted under the terms of the Credit Agreement. These restrictions were removed as part of the credit amendments noted above.

The Company's ability to pay cash dividends on shares of Common Stock is also subject to conditions set forth in the Certificate of Designations for the Series A Cumulative Convertible Preferred Stock (the "Series A Certificate of Designations") as described in Note 21, *Equity*, of the Consolidated Financial Statements and accompanying notes for the year ended December 31, 2021 included in our 2021 Form 10-K. On March 3, 2022, the terms of the Series A Certificate of Designations were further amended to (i) expand the scope of permitted Distributions on Dividend Junior Stock (each as defined in the Series A Certificate of Designations) to include purchases by the Company of shares of Dividend Junior Stock in individually negotiated transactions, (ii) remove the requirement that dividends or Distributions on Dividend Junior Stock must occur on or prior to December 31, 2022, and (iii) expressly permit the purchase, redemption or other acquisition for cash by the Company of shares of Dividend Junior Stock without requiring ratable participation by holders of Series A Preferred Stock.

#### **Note 14. Series A Preferred Stock**

On September 8, 2022, the Disinterested Directors Committee of the board of directors (the "Board") of the Company declared a cash dividend of \$0.17 per share on the Company's Series A Preferred Stock. As of the record date of September 23, 2022, a total of 245,413,317 shares of Series A Preferred Stock were outstanding, resulting in an aggregate dividend amount of \$42 million. Cash was transferred on September 28, 2022, to the transfer agent for the Series A Preferred Stock in the amount of \$42 million for the settlement of the dividend which occurred on October 3, 2022. As of September 30,

2022, a dividend payable of \$42 million was recorded within Accrued liabilities, and the cash held by the transfer agent was recorded within Other Current Assets.

As of September 30, 2022, the remaining unpaid cumulative dividends not yet declared on the shares of Series A Preferred Stock outstanding as of that date was \$172 million.

#### Note 15. Mandatorily Redeemable Series B Preferred Stock

On June 28, 2022, the Company completed the early redemption of its remaining outstanding Series B Preferred Stock. Under this final early redemption, the Company redeemed 271,628,259 shares of its Series B Preferred Stock for an aggregate price of \$212 million. The Company recognized a loss on extinguishment of debt of \$5 million within the Condensed Interim Statement of Operations related to the early redemption.

#### Note 16. Financial Instruments and Fair Value Measures

Our credit, market and foreign currency risk management policies are described in Note 19, *Financial Instruments and Fair Value Measures*, to the Consolidated Financial Statements for the year ended December 31, 2021 included in our 2021 Form 10-K. As of September 30, 2022 and December 31, 2021, we had contracts with aggregate gross notional amounts of \$2,451 million and \$2,788 million, respectively, to hedge interest rates and foreign currencies, principally the U.S. Dollar, Swiss Franc, British Pound, Euro, Chinese Yuan, Japanese Yen, Mexican Peso, New Romanian Leu, Czech Koruna, Australian Dollar and Korean Won.

#### Fair Value of Financial Instruments

The FASB's accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). 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 September 30, 2022 and December 31, 2021:

	Notional Amounts		Fair Value			
			Assets		Liabilities	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
<i>Designated instruments:</i>						
Designated forward currency exchange contracts	\$ 501	\$ 382	\$ 41	\$ 9 <sup>(a)</sup>	\$ 4	\$ 1 <sup>(c)</sup>
Designated cross-currency swap	715	715	131	30 <sup>(b)</sup>	—	—
<b>Total designated instruments</b>	<b>1,216</b>	<b>1,097</b>	<b>172</b>	<b>39</b>	<b>4</b>	<b>1</b>
<i>Undesignated instruments:</i>						
Undesignated interest rate swap	809	940	64	7 <sup>(b)</sup>	—	—
Undesignated forward currency exchange contracts	426	751	5	2 <sup>(a)</sup>	6	4 <sup>(c)</sup>
<b>Total undesignated instruments</b>	<b>1,235</b>	<b>1,691</b>	<b>69</b>	<b>9</b>	<b>6</b>	<b>4</b>
<b>Total designated and undesignated instruments</b>	<b>\$ 2,451</b>	<b>\$ 2,788</b>	<b>\$ 241</b>	<b>\$ 48</b>	<b>\$ 10</b>	<b>\$ 5</b>

(a) Recorded within Other current assets

(b) Recorded within Other assets

(c) Recorded within Accrued liabilities

As of September 30, 2022, the Company had outstanding interest rate swaps with an aggregate notional amount of €830 million, with maturities of April 2023, April 2024, April 2025, April 2026 and April 2027. The Company uses interest rate swaps specifically to mitigate variable interest risk exposure on its long-term debt portfolio and has not designated them as hedging instruments for accounting purposes.

The cross-currency swaps have been designated as net investment hedges of its Euro-denominated operations. As of September 30, 2022, an aggregate notional amount of €606 million was designated as net investment hedges of the Company's investment in Euro-denominated operations. The cross-currency swaps' fair values were net assets of \$131 million at September 30, 2022. Our Consolidated Interim Statements of Comprehensive Income include Changes in fair value of net investment hedges, net of tax, of \$45 million and \$87 million, during the three and nine months ended September 30, 2022, respectively, related to these net investment hedges. No ineffectiveness has been recorded on the net investment hedges.

The Company's forward currency exchange contracts under our cash flow hedging program are assessed as highly effective and are designated as cash flow hedges. Gains and losses on derivatives qualifying as cash flow hedges are recorded in Accumulated other comprehensive income (loss) until the underlying transactions are recognized in earnings.

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 the 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, cash equivalents and restricted cash, Account receivables and Notes and Other receivables contained in the Consolidated Interim Balance Sheet approximates fair value.

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

	September 30, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Dollars in millions)			
Term Loan Facilities	\$ 1,115	\$ 1,071	\$ 1,188	\$ 1,227

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 17. Accumulated Other Comprehensive Income (Loss)

The changes in Accumulated Other Comprehensive Income (Loss) by component are set forth below:

	Foreign Exchange Translation Adjustment	Changes in Fair Value of Effective Cash Flow Hedges	Changes in Fair Value of Net Investment Hedges	Pension Adjustments	Total Accumulated Other Comprehensive Income (Loss)
	(Dollars in millions)				
Balance at December 31, 2020	\$ (81)	\$ (3)	\$ —	\$ (45)	\$ (129)
Other comprehensive income before reclassifications	37	5	27	—	69
Amounts reclassified from accumulated other comprehensive income	—	2	—	—	2
Net current period other comprehensive income	37	7	27	—	71
Balance at September 30, 2021	\$ (44)	\$ 4	\$ 27	\$ (45)	\$ (58)

	Foreign Exchange Translation Adjustment	Changes in Fair Value of Effective Cash Flow Hedges	Changes in Fair Value of Net Investment Hedges	Pension Adjustments	Total Accumulated Other Comprehensive Income (Loss)
(Dollars in millions)					
Balance at December 31, 2021	\$ (43)	\$ 7	\$ 41	\$ (9)	\$ (4)
Other comprehensive income before reclassifications	13	43	87	—	143
Amounts reclassified from accumulated other comprehensive income	—	(17)	—	—	(17)
Net current period other comprehensive income	13	26	87	—	126
Balance at September 30, 2022	<u>\$ (30)</u>	<u>\$ 33</u>	<u>\$ 128</u>	<u>\$ (9)</u>	<u>\$ 122</u>

#### Note 18. Earnings Per Share

Earnings per share ("EPS") is calculated using the two-class method pursuant to the issuance of our Series A Preferred Stock on the Effective Date. Our Series A Preferred Stock is considered a participating security because holders of the Series A Preferred Stock will also be entitled to such dividends paid to holders of Common Stock to the same extent on an as-converted basis. The two-class method requires an allocation of earnings to all securities that participate in dividends with common shares, such as our Series A Preferred Stock, to the extent that each security may share in the entity's earnings. Basic earnings per share are then calculated by dividing undistributed earnings allocated to common stock by the weighted average number of common shares outstanding for the period. The Series A Preferred Stock is not included in the computation of basic earnings per share in periods in which we have a net loss, as the Series A Preferred Stock is not contractually obligated to share in our net losses.

Diluted earnings per share for the three and nine months ended September 30, 2022 and 2021 is calculated using the more dilutive of the two-class or if-converted methods. The two-class method uses net income available to common shareholders and assumes conversion of all potential shares other than the participating securities. The if-converted method uses net income and assumes conversion of all potential shares including the participating securities. As previously disclosed in our 2021 Form 10-K, the basic and diluted earnings per share for the three and nine months ended September 30, 2021 have been restated in the table below as compared to the previously filed Quarterly Report on Form 10-Q for the corresponding period to correct for the calculation using the two-class and if-converted methods.

The details of the EPS calculations for the three and nine months ended September 30, 2022 and 2021 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in millions except per share)				
<b>Basic earnings per share:</b>				
Net income	\$ 105	\$ 63	\$ 278	\$ 367
Less: preferred stock dividend	(40)	(36)	(117)	(60)
Net income available for distribution	65	27	161	307
Less: earnings allocated to participating securities	(51)	(21)	(127)	(203)
Net income available to common shareholders	\$ 14	\$ 6	\$ 34	\$ 104
Weighted average common shares outstanding- Basic	64,820,887	65,056,274	64,834,298	70,802,999
EPS – Basic	\$ 0.21	\$ 0.09	\$ 0.52	\$ 1.46
<b>Diluted earnings per share:</b>				
<i>Method used:</i>	<i>Two-class</i>	<i>Two-class</i>	<i>Two-class</i>	<i>If-converted</i>
Weighted average common shares outstanding - Basic	64,820,887	65,056,274	64,834,298	70,802,999
Dilutive effect of unvested RSUs and other contingently issuable shares	429,400	25,069	283,723	8,289
Dilutive effect of participating securities	—	—	—	247,768,962
Weighted average common shares outstanding – Diluted	65,250,287	65,081,343	65,118,021	318,580,250
EPS – Diluted	\$ 0.21	\$ 0.09	\$ 0.52	\$ 1.15

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. There were no options outstanding as of or during the three and nine months ended September 30, 2022 or during the three months ended September 30, 2021. For the nine months ended September 30, 2021, the weighted average number of stock options excluded from the computations was 175,497.

#### Note 19. Related Party Transactions

We lease certain facilities and receive property maintenance services from Honeywell, which was the owner of our Series B Preferred Stock that was fully redeemed by the Company on June 28, 2022, is a holder of our common stock and Series A Preferred Stock and has a director on our board of directors (the "Board"). We also contract with Honeywell for the occasional purchase of certain goods and services. Lease and service agreements were made at commercial terms prevalent in the market at the time they were executed.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Dollars in millions)				
Payments under agreements with Honeywell	\$ 2	\$ 2	\$ 6	\$ 6

Our payments under the agreements with Honeywell were included in Cost of goods sold and Selling, general and administrative expenses in our Consolidated Interim Statements of Operations. Related to the agreements with Honeywell, our Consolidated Interim Balance Sheet at September 30, 2022 and our Consolidated Balance Sheet at December 31, 2021 includes liabilities of \$9 million and \$15 million, respectively. Liability balances are primarily related to lease contracts of \$6 million and \$12 million as of September 30, 2022 and December 31, 2021, respectively.

## Note 20. Commitments and Contingencies

### Chapter 11 Cases

On the Effective Date, the conditions to effectiveness of the Plan were satisfied or waived and the Company emerged from bankruptcy. Since the Effective Date, the reorganized Debtors have been administering and reconciling outstanding proofs of claim and proofs of interest filed against the Debtors. All of the Chapter 11 Cases other than the main lead Chapter 11 Case of the Company have been closed. The main Chapter 11 Case of the Company will remain open until all proofs of claim and proofs of interest are fully administered. Refer to Note 1, *Background and Basis of Presentation*, for additional information.

### Securities Litigation

On September 25, 2020, a putative securities class action complaint was filed against Garrett Motion Inc. and certain current and former Garrett officers and directors in the United States District Court for the Southern District of New York. The case bears the caption: *Steven Husson, Individually and On Behalf of All Others Similarly Situated, v. Garrett Motion Inc., Olivier Rabiller, Alessandro Gili, Peter Bracke, Sean Deason, and Su Ping Lu*, Case No. 1:20-cv-07992-JPC (SDNY) (the "Husson Action"). The Husson Action asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 as amended (the "Exchange Act"), for securities fraud and control person liability. On September 28, 2020, the plaintiff sought to voluntarily dismiss his claim against Garrett Motion Inc. in light of the Company's bankruptcy; this request was granted.

On October 5, 2020, another putative securities class action complaint was filed against certain current and former Garrett officers and directors in the United States District Court for the Southern District of New York. This case bears the caption: *The Gabelli Asset Fund, The Gabelli Dividend & Income Trust, The Gabelli Value 25 Fund Inc., The Gabelli Equity Trust Inc., SM Investors LP and SM Investors II LP, on behalf of themselves and all others similarly situated, v. Su Ping Lu, Olivier Rabiller, Alessandro Gili, Peter Bracke, Sean Deason, Craig Balis, Thierry Mabru, Russell James, Carlos M. Cardoso, Maura J. Clark, Courtney M. Enghauser, Susan L. Main, Carsten Reinhardt, and Scott A. Tozier*, Case No. 1:20-cv-08296-JPC (SDNY) (the "Gabelli Action"). The Gabelli Action also asserted claims under Sections 10(b) and 20(a) of the Exchange Act.

On November 5, 2020, another putative securities class action complaint was filed against certain current and former Garrett officers and directors in the United States District Court for the Southern District of New York. This case bears the caption: *Joseph Froehlich, Individually and On Behalf of All Others Similarly Situated, v. Olivier Rabiller, Alessandro Gili, Peter Bracke, Sean Deason, and Su Ping Lu*, Case No. 1:20-cv-09279-JPC (SDNY) (the "Froehlich Action"). The Froehlich Action also asserted claims under Sections 10(b) and 20(a) of the Exchange Act.

The actions were assigned to Judge John P. Cronan. On November 24, 2020, competing motions were filed seeking the appointment of lead plaintiff and lead counsel and the consolidation of the Husson, Gabelli, and Froehlich Actions.

On December 8, 2020, counsel for the plaintiffs in the Gabelli Action — the Entwistle & Cappucci law firm — filed an unopposed stipulation and proposed order that would (1) appoint the plaintiffs in the Gabelli Action — the "Gabelli Entities" — the lead plaintiffs; (2) would appoint Entwistle & Cappucci as lead counsel for the plaintiff class; and (3) consolidate the Gabelli Action, the Husson Action, and the Froehlich Action (the "Consolidated D&O Action"). On January 21, 2021, the Court granted the motion to consolidate the actions and granted the Gabelli Entities' motions for appointment as lead plaintiff and for selection of lead counsel. On February 25, 2021, plaintiffs filed a Consolidated Amended Complaint.

The Company's insurer, AIG, has accepted the defense, subject to the customary reservation of rights.

The Company agreed with the Gabelli Entities and their lead counsel to permit a class claim to be recognized in the bankruptcy court and to have securities claims against the Company to be litigated in the district court alongside the Consolidated D&O Action. The Gabelli Entities have agreed that any recoveries against Garrett Motion Inc. on account of securities claims litigated through the class claim are limited to available insurance policy proceeds. On July 2, 2021, the bankruptcy court entered an order approving the joint request from the Company and the Gabelli Entities to handle the securities claims against Garrett Motion Inc. in this manner.

The Gabelli Entities were authorized, and on July 22, 2021 filed a second amended complaint to add claims against Garrett Motion Inc. On August 11, 2021, Garrett Motion Inc., Olivier Rabiller, Alessandro Gili, Peter Bracke, Sean Deason, Russell James, Carlos Cardoso, Maura Clark, Courtney Enghauser, Susan Main, Carsten Reinhardt, and Scott

Tozier filed a motion to dismiss with respect to claims asserted against them. On the same day, Su Ping Lu, who is represented separately, filed a motion to dismiss with respect to the claims asserted against her. Lead plaintiffs' opposition to the motions to dismiss was filed on October 26, 2021, and the defendant's reply briefs were filed on or before December 8, 2021. On March 31, 2022, the judge dismissed the complaints entirely - Su Ping Lu's motion to dismiss was granted with prejudice while the court granted the plaintiffs 30 days to file a third amended complaint against the Company and the other defendants.

On May 2, 2022, the plaintiffs filed a Third Amended Complaint ("TAC") against all of the foregoing Defendants apart from Alessandro Gili and Su Ping Lu. On June 24, 2022, defendants moved to dismiss the TAC in its entirety, with prejudice. Plaintiffs filed their opposition on August 16, 2022, and defendants filed their reply brief on September 23, 2022. On September 22, 2022, the action was reassigned from Judge John P. Cronan to Judge Jennifer L. Rochon, who was recently appointed.

#### ***Brazilian Tax Matter***

In September 2020, the Brazilian tax authorities issued an infraction notice against Garrett Motion Industria Automotiva Brasil Ltda, challenging the use of certain tax credits ("Befiex Credits") between January 2017 and February 2020. The infraction notice results in a loss contingency that may or may not ultimately be incurred by the Company. The estimated total amount of the contingency as of September 30, 2022 was \$31 million, including penalties and interest. The Company appealed the infraction notice on October 23, 2020. In March 2021, in response to our request, the Brazilian Tax Authorities reconsidered their position for a portion of the \$31 million mentioned above and allowed Garrett Motion Brazil the right to offset Federal Tax with the Befiex Credits. The letter does not qualify as a formal decision and requires formal recognition from the Judge and from the Federal Judgement Office in charge of the disputes. In August 2021, the \$31 million claim was however suspended until Garrett Motion Brazil receives a final judicial decision. The Company believes, based on management's assessment and the advice of external legal counsel, that it has meritorious arguments in connection with the infraction notice and any liability for the infraction notice is currently not probable. Accordingly, no accrual is required at this time.

#### ***Warranties and Guarantees***

In the normal course of business, we issue product warranties and product performance guarantees. We accrue for the estimated cost of product warranties and performance guarantees based on contract terms and historical experience at the time of sale to the customer. Adjustments to initial obligations for warranties and guarantees are made as changes to the obligations become reasonably estimable. Product warranties and product performance guarantees are included in Accrued Liabilities and Other Liabilities. The following table summarizes information concerning our recorded obligations for product warranties and product performance guarantees.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Warranty and product performance guarantees at beginning of period	\$ 30	\$ 32	\$ 32	\$ 14
Accruals for warranties/guarantees issued during the year	3	5	10	16
Settlement of warranty/guarantee claims	(2)	(5)	(10)	(14)
Amounts reclassified from Liabilities subject to compromise	—	—	—	16
Foreign currency translation	(2)	—	(3)	—
Warranty and product performance guarantees at end of period	\$ 29	\$ 32	\$ 29	\$ 32

#### ***Other Commitments and Contingencies***

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 occurring 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.



## Note 21. Pension Benefits

We sponsor several funded U.S. and non-U.S. defined benefit pension plans. Significant plans outside the U.S. are in Switzerland and Ireland. Other pension plans outside 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 2022. 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 2022, of which \$5 million has been contributed as of September 30, 2022.

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	U.S. Plans		Non-U.S. Plan		U.S. Plans		Non-U.S. Plan	
	2022	2021	2022	2021	2022	2021	2022	2021
	(Dollars in millions)							
Service cost	\$ —	\$ —	\$ 2	\$ 3	\$ 1	\$ 1	\$ 5	\$ 8
Interest cost	1	1	—	—	4	3	1	1
Expected return on plan assets	(2)	(3)	(2)	(2)	(6)	(8)	(5)	(5)
Amortization of prior service (credit)	—	—	—	—	—	—	—	(1)
	\$ (1)	\$ (2)	\$ —	\$ 1	\$ (1)	\$ (4)	\$ 1	\$ 3

For both our U.S. and non-U.S. defined benefit pension plans, we estimate the service and interest cost components of net periodic 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.

## 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 Financial Statements for the year ended December 31, 2021, included in our Form 10-K, as filed with the Securities and Exchange Commission on February 14, 2022 (our "2021 Form 10-K"). Some of the information contained in this MD&A 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 2021 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 MD&A is intended to help you understand the results of operations and financial condition of Garrett Motion Inc., for the three and nine months ended September 30, 2022.

### Executive Summary

Our net sales for the three months ended September 30, 2022 were \$945 million, representing an increase of \$106 million or 13% (including an unfavorable impact of \$105 million or 12% due to foreign currency translation) compared to the prior year. The increase in our sales, net of the impacts of foreign currency translation, was driven by higher volumes as markets partially recover from the semiconductor shortages in the prior year, and successful inflation pass through to customers net of pricing across all product lines. We also saw new product launches on gasoline and continued ramp up on programs in commercial vehicles.

For the three months ended September 30, 2022, our light vehicle product sales (which comprise diesel and gasoline products, including products for passenger cars, SUVs, light trucks, and other products) accounted for approximately 68% of our revenues. Commercial vehicle product sales (products for on- and off-highway trucks, construction, agriculture and power-generation machines) accounted for 19% of our revenues. Our OEM sales contributed approximately 87% of our revenues while our aftermarket and other products contributed 13% of our revenues. Approximately 45% of our revenues came from sales to customers located in Europe, 33% from sales to customers located in Asia, 20% from sales to customers in North America, and 2% from sales to customers in other international markets.

On September 8, 2022, the Company declared a cash dividend of \$0.17 per share on its Series A Preferred Stock, payable to shareholders of record as of the close of business on September 23, 2022. On September 28, 2022, the Company transferred the aggregate dividend amount of \$42 million to the transfer agent for the Series A Preferred Stock, for the settlement of the dividend to the shareholders of record, which occurred on October 3, 2022.

### Macroeconomic disruptions

The automotive industry continues to be impacted by uncertainty due to worldwide semiconductor shortages, the COVID-19 pandemic, governmental responses to the pandemic including the lockdown measures in China, and geopolitical tensions in particular from the ongoing military conflict between Russia and Ukraine. The semiconductor shortage is expected to continue into 2023 although to a lesser extent compared to the previous year, and production levels may be reduced further should COVID-related lockdown measures persist or extend. The evolution of the conflict between Russia and Ukraine and the consequent energy shortage in Europe, especially during the winter season, may further expose supply related challenges for the automotive industry while adding inflationary pressure and triggering recessionary scenarios. The Company continues to review production levels at OEM plants and closely monitor supply-chain disruptions related to logistics and component shortages in order to minimize the impact of the bottleneck in supply and mitigate any potential disruption in production. Additionally, we implemented new procedures in 2021 for the monitoring of supplier risks and we believe we have substantially addressed such risks with manageable economic impacts including use of premium freight or adjusted payment terms that are limited in time. However, it is possible that additional supply chain constraints may appear for the industry as the global supply chain restarts. Finally, we have prepared contingency plans for multiple scenarios that we believe will allow us to react swiftly to changes in customer demand while protecting Garrett's long-term growth potential.

### Trends

The turbocharger industry is expected to increase from approximately 45 million units in 2022 to approximately 46 million units by 2026, according to IHS for light vehicles and Knibb, Gormezano and Partners ("KGP") for commercial vehicles on-highway and off-highway. The turbocharger industry growth is mainly driven by an expected increase in the

penetration of hybrid vehicles, from 14 million hybrid cars globally in 2022 to an anticipated 29 million hybrid cars globally in 2026.

In the short to medium term, we continue to believe that turbocharger demand will grow as turbochargers remain one of the most cost-efficient levers to improve the fuel efficiency of conventional gasoline and diesel vehicles as well as hybrid vehicles. In addition, fuel cell vehicles also require a high-performance electric boosting system. In the commercial vehicle industry, we expect a slower transition to battery electric vehicles ("BEV"), due to specific mission profile and associated range and charging time constraints, which translates into more resilient turbocharger demand, as most on-highway commercial vehicles are turbocharged. In addition, low or zero emission alternative fuels for internal combustion engines ("ICE"), like natural gas or hydrogen, are expected to gain momentum in coming years, supporting continued turbocharger demand. We expect growth in the turbocharger industry in all regions, with special mention for high-growth regions in Asia, where rising income levels continue to drive long-term automotive and vehicle component demand. While these positive factors do not isolate the turbocharger industry from fluctuations in global vehicle production volumes, such factors may mitigate the negative impact of macroeconomic cycles.

The global turbocharger industry is traditionally subject to inflationary pressures with respect to raw materials which place operational and profitability burdens on the entire supply chain. Given the recent macroeconomic disruptions including the geopolitical tensions from the ongoing Russia-Ukraine conflict, we expect to see continued commodity cost volatility which could have an impact on future earnings. Accordingly, we continue to seek to mitigate both inflationary pressures and our material-related cost exposures by negotiating commodity cost contract escalation or pass-through agreements with customers and cost reductions with suppliers. 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.

The following tables show our revenues by geographic region and product line for the three and nine months ended September 30, 2022 and 2021, respectively.

**By Geography**

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
	(Dollars in millions)							
United States	\$ 189	20%	\$ 143	17%	\$ 515	19%	\$ 423	15%
Europe	428	45%	393	47%	1,319	49%	1,401	51%
Asia	308	33%	289	34%	817	30%	909	33%
Other	20	2%	14	2%	54	2%	38	1%
Total	<u>\$ 945</u>		<u>\$ 839</u>		<u>\$ 2,705</u>		<u>\$ 2,771</u>	

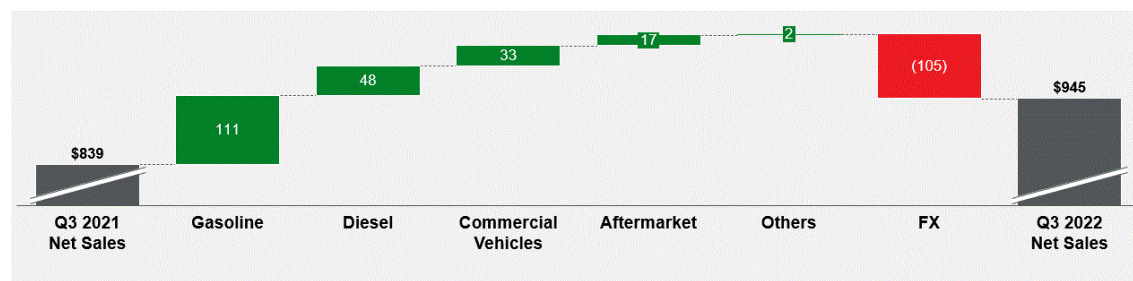
**By Product Line**

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
	(Dollars in millions)							
Diesel	\$ 238	25%	\$ 225	27%	\$ 729	27%	\$ 823	30%
Gas	401	43%	332	39%	1,109	41%	1,066	38%
Commercial Vehicle	178	19%	162	19%	498	18%	537	19%
Aftermarket	115	12%	107	13%	328	12%	300	11%
Other	13	1%	13	2%	41	2%	45	2%
Total	<u>\$ 945</u>		<u>\$ 839</u>		<u>\$ 2,705</u>		<u>\$ 2,771</u>	

## Results of Operations for the Three and Nine Months Ended September 30, 2022

### Net Sales

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Net sales	\$ 945	\$ 839	\$ 2,705	\$ 2,771
% change compared with prior period	12.6 %		(2.4)%	



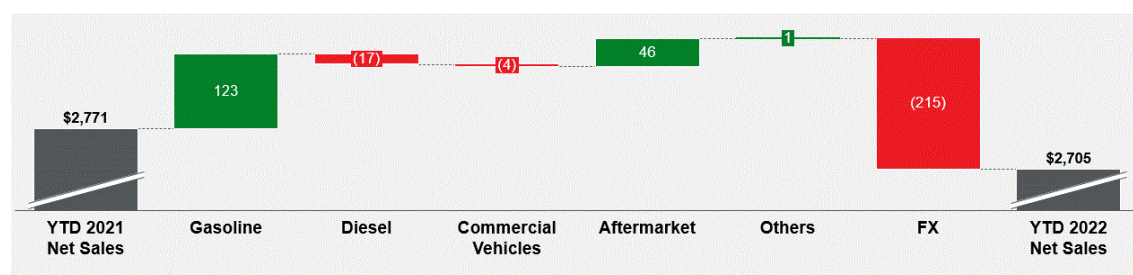
For the three months ended September 30, 2022, net sales increased compared to prior year by \$106 million or 13%, including an unfavorable impact of \$105 million or 12% due to foreign currency translation driven by lower Euro-to-US dollar exchange rates. This increase is driven by higher volumes as markets recover from the semiconductor shortages experienced in the prior year, and \$43 million of inflation recoveries net of pricing across all product lines.

Gasoline product sales increased by \$69 million or 21% (including an unfavorable impact of \$42 million or 13% due to foreign currency translation), primarily driven by favorable impacts from new product launches in North America which delivered incremental sales year over year, and market recovery in Europe and North America from the prior year's semiconductor shortages.

Diesel product sales increased by \$13 million or 6% (including an unfavorable impact of \$35 million or 15% due to foreign currency translation). This increase was mainly due to a market recovery in Europe, following the semiconductor shortages faced in the prior year.

Commercial vehicle sales increased by \$16 million or 10% (including an unfavorable impact of \$17 million or 10% due to foreign currency translation), primarily driven by strong demand in Europe, Japan and North America in a less disruptive environment for both on and off-highway combined with ramp up to peak volumes of new program while facing headwind in China due to lower local demand, following the implementation of heightened China 6a emissions standards for heavy-duty trucks on July 1, 2021.

Aftermarket sales improved by \$8 million or 7% (including an unfavorable impact of \$9 million or 9% due to foreign currency translation), primarily due to strong demand in North America and Europe related to favorable aftermarket conditions such as increased off-highway demand for new and service parts, as well as growth through new product introductions, favorable pricing impacts and improved shipment performance.



For the nine months ended September 30, 2022, net sales decreased compared to prior year by \$66 million or 2%. This decrease was primarily due to an unfavorable impact of \$215 million or 7% due to foreign currency translation driven by a lower Euro-to-US dollar exchange rate, and overall lower volumes for the year. These decreases were partially offset by \$101 million of improved mix and \$69 million of inflation recoveries net of pricing across all product lines.

Gasoline product sales increased by \$43 million or 4% (including an unfavorable impact of \$80 million or 8% due to foreign currency translation), primarily driven by new product launches in North America which delivered incremental sales year over year, partially offset by lower Euro-to-dollar exchange rates and lower sales in China due to the increased COVID-related lockdown measures implemented by the Chinese government in the six months ended June 30, 2022.

Diesel product sales decreased by \$94 million or 11% (including an unfavorable impact of \$77 million or 9% due to foreign currency translation). This decrease was mainly due to the global semiconductor shortage and other supply shortage at customers due to the ongoing geopolitical crisis and pandemic related disruptions, accentuated by the impact of higher sales for the nine months ended September 30, 2021 due to recovery in customer demand following pandemic-related disruptions in 2020.

Commercial vehicle sales decreased by \$39 million or 7% (including an unfavorable impact of \$35 million or 6% due to foreign currency translation), primarily driven by low demand in China in the nine months ended September 30, 2022, after a strong pre-buy effect in the six months ended June 30, 2021, partially compensated by strong demand in the rest of the world despite a complex supply environment and new launches ramping up.

Aftermarket sales improved by \$28 million or 9% (including an unfavorable impact of \$18 million or 6% due to foreign currency translation), primarily due to strong demand in North America and Europe related to favorable aftermarket conditions such as increased off-highway demand for new and service parts, increased revenues from our Performance and Motorsport Turbo business, new distributor openings, as well as growth through new product introductions and favorable pricing impacts.

### Cost of Goods Sold and Gross Profit

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Cost of goods sold	\$ 767	\$ 676	\$ 2,183	\$ 2,219
% change compared with prior period	13.5 %		(1.6)%	
Gross profit percentage	18.8 %	19.4 %	19.3 %	19.9 %

	Cost of Goods Sold		Gross Profit	
	(Dollars in millions)			
Cost of Goods Sold / Gross Profit for the three months ended September 30, 2021	\$	676	\$	163
<i>Increase/(decrease) due to:</i>				
Volume		84		37
Product mix		34		6
Price, net of inflation pass-through		—		43
Commodity, transportation & energy inflation		52		(52)
Productivity, net		(14)		22
Research & development		7		(7)
Foreign exchange rate impacts		(72)		(34)
Cost of Goods Sold / Gross Profit for the three months ended September 30, 2022	\$	767	\$	178

For the three months ended September 30, 2022, cost of goods sold increased by \$91 million, primarily driven by our higher sales volumes and an unfavorable product mix, which contributed to increases of \$84 million and \$34 million, respectively. Cost of goods sold further increased due to \$52 million of inflation on commodities, transportation and energy costs, as well as \$7 million increase in Research and development ("R&D") costs which reflects our shift in investment in new technologies and headcount increase year-over-year. Our continued focus on productivity contributed to a decrease in

cost of goods sold of \$14 million, net of \$1 million of higher premium freight costs driven by supply chain disruptions, transportation constraints and volume volatility. Foreign currency impacts also contributed to decreases of \$72 million.

Gross profit increased by \$15 million, mainly driven by the higher sales volumes of \$37 million and \$43 million of inflation recoveries from customer pass-through agreements net of pricing reductions. Furthermore, gross profit increased \$22 million from higher productivity and \$6 million of favorable product mix. These increases were partially offset by \$52 million inflation on commodities, transportation and energy costs, as well as higher premium freight costs, as discussed above, and \$7 million of higher R&D costs.

	Cost of Goods Sold		Gross Profit	
	(Dollars in millions)			
Cost of Goods Sold / Gross Profit for the nine months ended September 30, 2021	\$	2,219	\$	552
<i>Increase/(decrease) due to:</i>				
Volume		(23)		(10)
Product mix		81		20
Price, net of inflation pass-through		—		69
Commodity, transportation & energy inflation		101		(101)
Productivity, net		(60)		71
Research & development		15		(15)
Foreign exchange rate impacts		(150)		(64)
Cost of Goods Sold / Gross Profit for the nine months ended September 30, 2022	\$	2,183	\$	522

For nine months ended September 30, 2022, cost of goods sold decreased by \$36 million, primarily driven by our lower sales volumes and foreign currency impacts which contributed to decreases of \$23 million and \$150 million, respectively. Our continued focus on productivity also contributed to a decrease in cost of goods sold of \$60 million, net of \$8 million of higher premium freight costs driven by supply chain disruptions, transportation constraints and volume volatility. These decreases were partially offset by \$101 million of inflation on commodities, transportation and energy costs, as well as \$81 million due to an unfavorable product mix. R&D expenses also increased by \$15 million which reflects our shift in investment in new technologies and headcount increase year-over-year.

Gross profit decreased by \$30 million, mainly driven by the lower sales volumes, inflation on commodities, transportation and energy costs, as well as higher premium freight costs as discussed above. Higher R&D costs and \$64 million of unfavorable foreign currency translational, transactional and hedging effects also reduced our gross profit. These decreases were partially offset by \$71 million of higher productivity and \$69 million of inflation recoveries from customer pass-through agreements net of pricing reductions.

#### ***Selling, General and Administrative Expenses***

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Selling, general and administrative expense	\$ 57	\$ 60	\$ 164	\$ 166
% of sales	6.0 %	7.1 %	6.1 %	6.0 %

Selling, general and administrative (“SG&A”) expenses for the three months ended September 30, 2022 decreased by \$3 million compared with the prior year, primarily due to \$6 million of favorable impacts from foreign exchange rates and \$3 million of lower professional services costs, partially offset by \$4 million of increased bad debt expense and \$1 million of higher travel expenses.

For the nine months ended September 30, 2022, SG&A decreased by \$2 million versus the prior year. This decrease was driven by \$13 million benefit from favorable foreign exchange rates compared to the prior year and \$7 million of lower employee-related costs which reflect not only lower expected employee incentive payout, but also \$2 million of one-time cash continuity awards that were recognized in 2021. These decreases were partially offset by \$6 million of higher professional services costs, \$3 million from increased travel expenses and \$9 million of higher bad debt expenses due primarily to a non-recurring bad debt recovery recognized during the first quarter of 2021.

## Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Interest expense	\$ 18	\$ 25	\$ 61	\$ 70

For the three months ended September 30, 2022, interest expense decreased by \$7 million compared to the prior year, primarily due to \$11 million of interest accretion in 2021 on our Series B Preferred Stock that was issued at Emergence and fully early redeemed by June 2022, partially offset by \$3 million of higher interest expense on our current Dollar Term Facility.

For the nine months ended September 30, 2022, interest expense decreased by \$9 million compared to the prior year, primarily due to \$8 million of higher interest accretion on our Series B Preferred Stock in 2021 that was fully early redeemed by the end of June 2022 and \$1 million of lower interest expense from the extinguishment of our pre-emergence debt and concurrent issuance of the Credit Facilities, effective at Emergence.

## Non-operating income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Non-operating income	\$ (29)	\$ (4)	\$ (73)	\$ (4)

For the three months ended September 30, 2022, non-operating income increased by \$25 million from \$4 million in the prior year and comprised of \$25 million of interest income primarily from unrealized marked-to-market gains on our interest rate swaps.

For the nine months ended September 30, 2022, non-operating income increased by \$69 million and comprised of \$63 million of interest income primarily from unrealized marked-to-market gains on our interest rate swaps and \$4 million of other non-operating gains partially offset by \$6 million of foreign exchange remeasurement losses and \$3 million related to non-service components of net periodic pension benefits.

## Reorganization items, net

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Reorganization items, net	\$ —	\$ (9)	\$ 2	\$ (130)

There were no expenses incurred for Reorganization items, net for the three months ended September 30, 2022. During the prior year period, reorganization items, net amounted to a \$9 million gain, representing the reversal of excess accrual of professional service fees related to the Chapter 11 Cases.

For the nine months ended September 30, 2022, reorganization items, net was an expense of \$2 million related to professional service fees incurred for the remaining main Chapter 11 Case. During the prior year period, reorganization items, net amounted to \$130 million gain, representing \$502 million gain on settlement of Honeywell claims, partially offset by \$173 million professional service fees related to the Chapter 11 Cases, \$79 million related to the termination of and expense reimbursement under that certain share and asset purchase agreement entered into on the Petition Date by the Debtors, AMP Intermediate B.V. and AMP U.S. Holdings, LLC (the "Stalking Horse Purchase Agreement"), \$39 million Directors and Officers insurance related to Chapter 11 Cases, \$25 million write off on debt issuance costs of the Company's pre-petition term loan facilities, \$13 million in employee stock awards cancellation and \$43 million in other costs mainly related to unsecured notes settlement.

### *Tax Expense*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Tax expense	\$ 26	\$ 28	\$ 83	\$ 82
Effective tax rate	19.8 %	30.8 %	23.0 %	18.3 %

The effective tax rate for the three months ended September 30, 2022 is lower than the effective tax rate for the three months ended September 30, 2021 primarily related to lower nondeductible expenses in addition to a decrease in withholding taxes on undistributed earnings.

The effective tax rate for the nine months ended September 30, 2022 is higher than the effective rate for the nine months ended September 30, 2021 primarily related to the nontaxable gain recognized in 2021 on the settlement of the Honeywell claims partially offset with nondeductible expenses recorded in the prior period and a decrease in withholding taxes on undistributed earnings.

### *Net Income*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Net income	\$ 105	\$ 63	\$ 278	\$ 367

Net income for the three months ended September 30, 2022 increased by \$42 million compared with the prior year, primarily due to the \$15 million increase in gross profit and \$25 million increase in non-operating income, as discussed in the above sections.

For the nine months ended September 30, 2022, net income decreased by \$89 million compared with the prior year primarily as result of the \$132 million net gain on reorganization items recognized in prior year and \$30 million of lower gross profit, partially offset by the increase in non-operating income, as discussed in above sections.

### **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 an analysis of the Company's operating results as reported under GAAP.



**EBITDA and Adjusted EBITDA <sup>(1)</sup>**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Net income — GAAP	\$ 105	\$ 63	\$ 278	\$ 367
Interest expense, net of interest income	(9)	24	(5)	67
Tax expense	26	28	83	82
Depreciation	21	23	64	70
EBITDA (Non-GAAP)	143	138	420	586
Reorganization items, net <sup>(2)</sup>	—	(9)	2	(130)
Stock compensation expense <sup>(3)</sup>	3	2	8	5
Repositioning costs <sup>(4)</sup>	1	3	4	14
Foreign exchange loss on debt, net	—	—	—	9
Loss on extinguishment of debt	—	—	5	—
Discounting costs on factoring	1	—	2	—
Other non-operating income <sup>(5)</sup>	(2)	(3)	(11)	(9)
Professional service costs <sup>(6)</sup>	—	1	—	1
Capital tax expense <sup>(7)</sup>	—	2	—	2
Adjusted EBITDA (Non-GAAP)	\$ 146	\$ 134	\$ 430	\$ 478

(1) We evaluate performance on the basis of EBITDA and Adjusted EBITDA. We define “EBITDA” as our net income calculated in accordance with U.S. GAAP, plus the sum of net interest expense, tax expense and depreciation. We define “Adjusted EBITDA” as EBITDA, plus the sum of net reorganization items, stock compensation expense, repositioning costs, net foreign exchange loss on debt, loss on extinguishment on debt, discounting costs on factoring, other non-operating income and professional service costs and capital tax expense incurred in conjunction with our reorganization. We believe that EBITDA and Adjusted EBITDA are important indicators of operating performance and provide useful information for investors because:

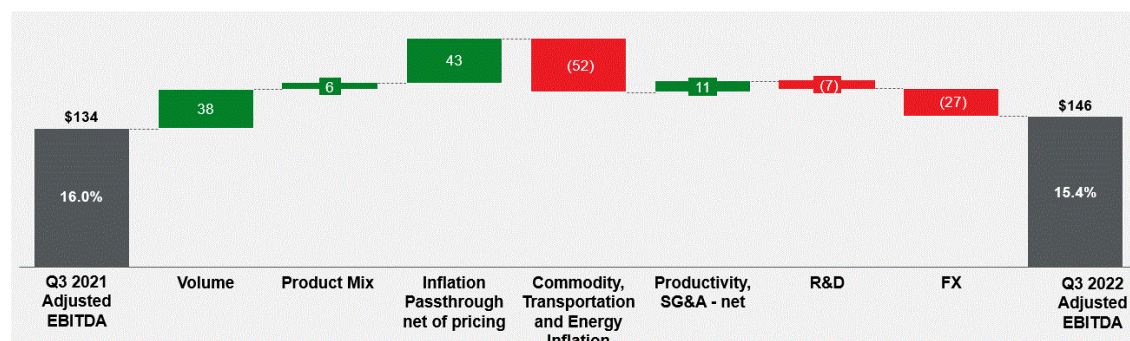
- EBITDA and Adjusted EBITDA exclude the effects of income taxes, as well as the effects of financing and investing activities by eliminating the effects of interest and depreciation expenses and therefore more closely measure our operational performance; and
- certain adjustment items, while periodically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

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

- (2) The Company applied ASC 852 for periods subsequent to the Petition Date to distinguish transactions and events that were directly associated with the Company’s reorganization from the ongoing operations of the business. Accordingly, certain expenses and gains incurred during the Chapter 11 Cases are recorded within Reorganization items, net in the Consolidated Interim Statements of Operations. See Note 1, *Background and Basis of Presentation* of the Notes to the Consolidated Interim Financial Statements.
- (3) Stock compensation expense includes only non-cash expenses.
- (4) Repositioning costs includes severance costs related to restructuring projects to improve future productivity.
- (5) Reflects the non-service component of net periodic pension costs and other income that are non-recurring or not considered directly related to the Company’s operations.

- (6) Professional service costs consist of professional service fees related to strategic planning for the Company. Costs incurred in 2021 relate to strategic planning activities for the Company which occurred following the Effective Date. We consider these costs to be unrelated to our ongoing core business operations.
- (7) The canton of Vaud, Switzerland, generally provides for crediting the cantonal corporate income tax against capital tax. There was no income tax payable for the period ended September 30, 2021 and therefore the 2021 capital tax due of \$2 million was recorded in SG&A.

**Adjusted EBITDA for the Three Months Ended September 30, 2022**



For the three months ended September 30, 2022, net income increased by \$42 million versus the prior year as discussed above within the Results of Operations for the Three and Nine Months Ended September 30, 2022 section.

Adjusted EBITDA increased by \$12 million compared to the prior year, mainly due to volume increases, increased productivity and inflation pass-through net of pricing, which contributed to a year over year contraction of 60 basis points on our Adjusted EBITDA margin. The increase in Adjusted EBITDA were partially offset by inflation on commodities, transportation and energy, as well as unfavorable foreign exchange impacts. Our volumes for the three months ended September 30, 2022 totaled 3.6 million units, representing an increase of approximately 15% from the prior year.

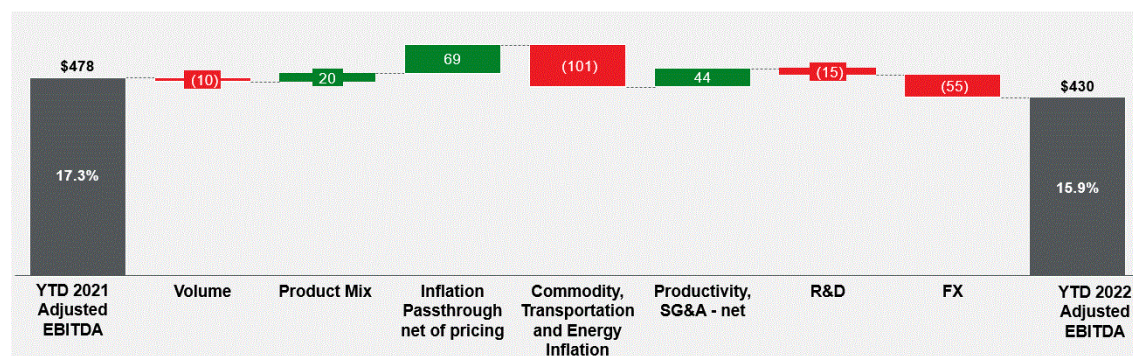
During the three months ended September 30, 2021, we faced demand volatility driven mainly by the global semiconductor shortage, resulting in supply chain disruptions. However, we have started to see customer demand increases and market recovery during the three months ended September 30, 2022, as well as favorable impacts from new product launches in gasoline and ramp up to peak volumes on programs in commercial vehicles.

We maintained our focus on productivity in the current year as rising commodity prices led to higher raw material costs, particularly for nickel, aluminum and steel alloys. We recovered a majority of the increases from our customer pass-through agreements, especially for nickel, and continue to negotiate with our customers for further escalators while actively managing our supply base and cost recovery mechanisms to minimize the impact of materials cost inflation. The increased productivity was partially offset by year-over-year labor inflation and increased premium freight costs driven by supply chain disruptions, transportation constraints and volume volatility, while managing to decrease our SG&A expenses due to lower professional service fees, despite higher travel expenses and an increased bad debt expense.

R&D expenses increased \$7 million which reflects our shift in investment in new technologies, increased hiring to accelerate growth in the new technologies and year-over-year labor inflation.

Losses in foreign currency from translational, transactional and hedging effects in the three months ended September 30, 2022, primarily driven by a lower Euro-to-US dollar exchange rate versus the prior-year period, also accounted for \$27 million of the decrease in Adjusted EBITDA.

## Adjusted EBITDA for the Nine Months Ended September 30, 2022



For the nine months ended September 30, 2022, net income decreased by \$89 million versus the prior year as discussed above within the Results of Operations for the Three and Nine Months Ended September 30, 2022 section.

Adjusted EBITDA decreased by \$48 million compared to the prior year, mainly due to volume decreases, inflation on commodities, transportation and energy as well as unfavorable foreign exchange impacts, partially offset by increased productivity, inflation pass-through net of pricing, which contributed to a year over year contraction of 140 basis points on our Adjusted EBITDA margin. Our volumes for the nine months ended September 30, 2022 totaled 10.2 million units, representing a decrease of approximately 1% from the prior year.

During the first six months of 2022, we faced demand volatility driven mainly by the global semiconductor shortage and geopolitical tensions due to the ongoing military conflict between Russia and Ukraine, resulting in supply chain disruptions. We have, however, started to see improved customer demand and market recovery during the three months ended September 30, 2022, as well as favorable impacts from new product launches in gasoline.

We maintained our focus on productivity in the current year as rising commodity prices led to higher raw material costs, particularly for nickel, aluminum and steel alloys. We recovered a majority of the cost increases from our customer pass-through agreements, especially for nickel, and continue to negotiate with our customers for further escalators while actively managing our supply base and cost recovery mechanisms to minimize the impact of materials, transportation and energy cost inflation. The increased productivity was partially offset by year-over-year labor inflation and increased premium freight costs driven by supply chain disruptions, transportation constraints and volume volatility.

R&D expenses increased \$15 million which reflects our shift in investment in new technologies, increased hiring to accelerate growth in the new technologies and year-over-year labor inflation.

Losses in foreign currency from translational, transactional and hedging effects in the nine months ended September 30, 2022, primarily driven by a lower Euro-to-US dollar exchange rate versus the prior-year period, also accounted for \$55 million of the decrease in Adjusted EBITDA.

### Liquidity and Capital Resources

Historically, we have financed our operations with funds generated from operating activities, available cash and cash equivalents, as well as borrowings under a senior secured revolving credit facility and the issuance of senior notes, commitments under both of which were cancelled in connection with the Chapter 11 Cases. During the pendency of our bankruptcy proceedings, we financed our operations with funds generated from operating activities and available cash and cash equivalents, and also had in place debtor-in-possession financing arrangements.

Following the completion of the Chapter 11 Cases and Emergence, including during the nine months ended September 30, 2022, we funded our operations primarily through cash flows from operating activities, borrowings from Credit Facilities and cash and cash equivalents. As of September 30, 2022, the Company reported a cash and cash equivalents position of \$159 million (not including \$2 million in restricted cash as of September 30, 2022) as compared to \$423 million as of December 31, 2021 (not including \$41 million in restricted cash as of December 31, 2021). As of September 30, 2022, the Company had no borrowings or letters of credit outstanding under the Revolving Facility, and

available borrowing capacity of \$475 million. In addition, as of September 30, 2022, the Company had \$1,146 million of principal outstanding on its Term Loan Facilities and had utilized \$12 million of the bilateral letter of credit facilities with \$3 million of remaining available capacity.

During the nine months ended September 30, 2022, we repaid \$5 million on our Dollar Facility and \$381 million related to our Series B Preferred Stock which included the final early redemption payment, following which no shares of our Series B Preferred Stock remain outstanding. Additionally, holders of our Series A Preferred Stock are entitled to receive, when, as and if declared by a committee of disinterested directors of the Board out of funds legally available for such dividend, cumulative cash dividends at an annual rate of 11% on the stated amount per share plus the amount of any accrued and unpaid dividends on such share. These dividends accumulate whether or not declared. During the nine months ended September 30, 2022, we declared a cash dividend of \$0.17 per share on our Series A Preferred Stock for a total aggregate dividend of \$42 million. As of September 30, 2022, the aggregate accumulated undeclared and unpaid dividend was approximately \$172 million.

As disclosed in our 2021 Form 10-K, we expect to continue investing in our facilities as we expand our manufacturing capacity for new product launches and invest in strategic growth opportunities, in particular in the electrification of drivetrains.

We believe the combination of expected cash flows, the funding received from our Series A Preferred Stock issuance, the term loan borrowings, and the revolving credit facilities being committed until 2026, will provide us with adequate liquidity to support the Company's operations.

#### ***Emergence - Exit Financing and Entry into Credit Facilities***

Upon our emergence from Chapter 11 proceedings on the Effective Date, the following transactions significantly improved the Company's liquidity:

- Net proceeds from the issuance of Term Loan Facilities of \$1,221 million;
- The Company obtained \$300 million in commitments under a five-year secured first-lien multi-currency Revolving Facility, \$125 million of which may be used for the issuance of letters of credit;
- The Company obtained a \$35 million letter of credit facility for a term of five years;
- Debt repayment of \$1,103 million in secured term loan facilities and accrued interest, repayment of \$374 million in revolving credit facility, \$461 million in Senior Notes and accrued interest and \$101 million repayment of Debtor-in-possession Term Loan facility and accrued interest;
- Issuance of Series A Preferred Stock in a rights offering for \$1,301 million;
- Settlement of \$1,459 million of claims with Honeywell for a \$375 million payment and the issuance of \$577 million of Series B Preferred Stock.

On January 11, 2022 and March 22, 2022, the Company amended the Credit Agreement, increasing the maximum amount of borrowings under the Revolving Facility from \$300 million to \$475 million. For more information, see Note 13, *Long-term Debt and Credit Agreements*.

In connection with the Company's Emergence and pursuant to the Plan, the Company issued 247,768,962 shares of the Company's Series A Preferred Stock certain affiliated funds of Centerbridge Partners, L.P., certain affiliated funds of Oaktree Capital Management, L.P. and certain other investors and parties. All outstanding Series A Preferred Stock will convert into Common Stock of the Company automatically upon the occurrence of certain triggering events. Additionally, holders of the Series A Preferred Stock have the right to convert their shares of Series A Preferred Stock into Common Stock effective on January 1, April 1, July 1 and October 1 in each year. As the Certificate of Designations governing the Series A Preferred Stock prohibits the issuance of fractional shares of Common Stock upon the conversion of any shares of Series A Preferred Stock, the Company must pay a cash adjustment in respect of any such fractional share of Common Stock that would be issuable pursuant to a conversion. See Note 21, *Equity* of the Consolidated Financial Statements for the year ended December 31, 2021 included in our 2021 Form 10-K for additional information regarding the Series A Preferred Stock.

Additionally, pursuant to the Plan, on the Effective Date, the Company issued 834,800,000 shares of Series B Preferred Stock to Honeywell in satisfaction of its claims against the Company arising from certain historical agreements between Honeywell and the Company. As of September 30, 2022, the Company has fully early redeemed the Series B Preferred Stock. See Note 15, *Mandatorily Redeemable Series B Preferred Stock* of the Notes to the Consolidated Interim Financial Statements and Note 17, *Mandatorily Redeemable Series B Preferred Stock* of the Consolidated Financial Statements for the year ended December 31, 2021 included in our 2021 Form 10-K for additional information regarding the Series B Preferred Stock.

### **Share Repurchase Program**

On November 16, 2021, the Board of Directors authorized a \$100 million share repurchase program valid until November 15, 2022, providing for the purchase of shares of Series A Preferred Stock and Common Stock. As of September 30, 2022, the Company had repurchased \$24 million of its Series A Preferred Stock and Common Stock, with \$76 million remaining under the share repurchase program. For more information, see Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*.

### **Cash Flow Summary for the Nine Months Ended September 30, 2022**

	Nine Months Ended September 30,	
	2022	2021
(Dollars in millions)		
Cash provided by (used for):		
Operating activities	\$ 238	\$ (446)
Investing activities	(78)	(73)
Financing activities	(436)	362
Effect of exchange rate changes on cash and restricted cash	(27)	(2)
Net decrease in cash, cash equivalents and restricted cash	\$ (303)	\$ (159)

Cash provided by operating activities increased by \$684 million for the nine months ended September 30, 2022 versus the prior year, primarily due to a \$375 million payment made to Honeywell in the prior year pursuant to the Plan, and a decrease in net income of \$89 million, net of a \$344 million increase in non-cash adjustments which included a \$423 million gain recognized in prior year on reorganization items and a \$54 million increase in the fair value of our undesignated derivative instruments. Favorable impacts from working capital of \$106 million also contributed to the increase in cash provided by operating activities, partially offset by a \$52 million decrease mainly driven by other assets and liabilities.

Cash used for investing activities increased by \$5 million for the nine months ended September 30, 2022 versus the prior year, with the increase due to increased expenditures for property, plant and equipment.

Cash used for financing activities increased by \$798 million for the nine months ended September 30, 2022 compared with the prior year. The change was driven by \$381 million paid for the final early redemption of our Series B Preferred Stock (exclusive of \$28 million of the redemption attributable to interest and included in cash used for operating activities), \$42 million of cash transferred to the transfer agent for settlement of our Series A Preferred Stock dividend declared on September 8, 2022, and \$4 million for repurchases of Series A Preferred Stock and Common Stock. Additionally, in 2021, there were \$1,301 million of proceeds from issuance of Series A Preferred Stock and \$1,221 million of proceeds from issuance of the new long-term debt, partially offset by \$200 million repayments on the Company's senior secured super-priority debtor in-possession credit agreement entered into in connection with the Chapter 11 Cases, \$370 million of full payment of our pre-petition revolving credit facility, \$1,513 million payments of our pre-petition long term debt and \$69 million payments made to holders of the Company's pre-Emergence common stock who made a cash-out election under the Plan.

### **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 2021 Form 10-K.

## Recent Accounting Pronouncements

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

## Special Note Regarding Forward-Looking Statements

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 (the “Securities Act”) 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 the following, are forward-looking statements: statements regarding our future results of operations and financial position, the consequences of the Chapter 11 Cases, the anticipated impact of the COVID-19 pandemic on our business, anticipated impacts of the ongoing conflict between Russia and Ukraine, 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, pending litigation, 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:

- increases in the costs and availability of raw materials and our ability to offset material price inflation;
- risks of natural disasters and climate change, and changes in legislation or government regulations or policies relating to climate change or otherwise, including with respect to greenhouse gas emission reduction targets, or other similar targets, in Europe (as part of the Green Deal objectives or otherwise); the United States; China; Japan; and Korea or other jurisdiction in which the Company does business, and growing recognition among consumers of the dangers of climate change, which may affect demand for our products, our supply chain, and results of our operations;
- changes in the automotive industry and economic or competitive conditions;
- any loss of, or a significant reduction in purchases by, our largest customers, material non-payment or non-performance by any of our key customers, and difficulty collecting receivables;
- impacts on our business from the ongoing COVID-19 pandemic, including reductions to production volumes as a result of reduced capacity at manufacturing facilities;
- any 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;

- potential material losses and costs as a result of any warranty claims and product liability actions brought against us;
- quality control and creditworthiness of the suppliers on which we rely;
- work stoppages, other disruptions or the need to relocate any of our facilities;
- inaccuracies in estimates of volumes of awarded business;
- the negotiating positions of our customers and our ability to negotiate favorable pricing terms;
- 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;
- risks related to disruptions in our supply chain and business operations due to the ongoing conflict between Russia and Ukraine;
- the effects of any deterioration on industry, economic or financial conditions on our ability to access the capital markets on favorable terms;
- any 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;
- any failure to increase productivity or successfully execute repositioning projects or manage our workforce;
- potential material environmental liabilities and hazards;
- the commencement of any lawsuits, investigations and disputes arising out of our current and historical businesses, and the consequences thereof;
- inability to recruit and retain qualified personnel; and
- the other factors described under the caption “Risk Factors” in our 2021 Form 10-K, as updated in this Quarterly Report on Form 10-Q, and our other filings with the SEC.

You should read this Quarterly Report on Form 10-Q and the documents that we reference herein 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.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As of September 30, 2022, the net fair value of all financial instruments with exposure to currency risk was a \$167 million asset. The potential loss or gain in fair value for such financial instruments from a hypothetical 10% adverse or favorable change in quoted currency exchange rates would be \$83 million and \$(149) million, respectively, at September 30, 2022 exchange rates. The model assumes a parallel shift in currency exchange rates; however, currency exchange rates rarely move in the same direction. The assumption that currency exchange rates change in a parallel fashion may overstate the impact of changing currency exchange rates on assets and liabilities denominated in currencies other than the U.S. dollar.

There have been no material changes to the Company’s quantitative and qualitative disclosures about interest rate or commodity price risks as disclosed in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risks, in our 2021 Form 10-K.

#### **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 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 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 September 30, 2022.

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings

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.

For additional information regarding our legal proceedings, see Note 20, *Commitments and Contingencies* of the Notes to the Consolidated Interim Financial Statements.

### Item 1A. Risk Factors

Except as disclosed below, there have been no material changes to the risks described under "Risk Factors" in our 2021 Form 10-K. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed under "Risk Factors" in our 2021 Form 10-K. These factors could materially adversely affect our business, financial condition, or results of operations, 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.

***The ongoing conflict between Russia and Ukraine has impacted our results of operations and could create or exacerbate certain risks we face to our business, financial condition and results of operations***

Russia's invasion of Ukraine and the global response, including the imposition of financial and economic sanctions by the United States and other countries, has created supply constraints that have impacted, and may continue to impact, our results of operations and could create or exacerbate risks facing our business. Although we do not presently expect the impacts of the ongoing conflict on our operating results to be material, certain risks that we have identified in our 2021 Form 10-K may be exacerbated. For example, the conflict has and may continue to lead to energy shortages in Europe, and a prolonged or intensified conflict could result in acute shortages of raw materials and price inflation on transportation costs, materials, and energy which in turn may adversely impact our supply chain. If the conflict expands beyond Ukraine, it could negatively impact our operations in neighboring countries such as Romania and Slovakia. An escalation of geopolitical tensions due to the ongoing conflict, including increased sanctions or restrictions on global trade, could also result in further supply chain disruptions, reduced customer demand, state-sponsored cyberattacks as well as increased volatility in the financial markets, all of which could have an adverse impact on our business and operations. These and other risks are described more fully in our 2021 Form 10-K.

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

During the three months ended September 30, 2022, the holders of our Series A Preferred Stock converted 30 shares of Series A Preferred Stock into 30 shares of Common Stock pursuant to the terms of the Certificate of Designations for the Series A Preferred Stock. These transactions did not involve any underwriters, underwriting discounts or commissions, or any public offering.

On November 16, 2021, the Board of Directors authorized a \$100 million share repurchase program valid until November 15, 2022, providing for the purchase of shares of Series A Preferred Stock and Common Stock. Our stock repurchases may occur through open market purchases, privately negotiated transactions or trading plans pursuant to Rule 10b5-1 of the Exchange Act. The amount and timing of specific repurchases are subject to market conditions, applicable legal requirements, restricted payment capacity under our debt instruments and other factors. The repurchase program may be suspended, modified or discontinued at any time without prior notice. The following table summarizes our share repurchase activity for the three months ended September 30, 2022 and additional information regarding our share repurchase program:

Period	Total Number of Common Shares Purchased	Average Price Paid per Share	Total Number of Preferred Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan or Program
July 1, 2022 – July 31, 2022	—	\$ —	88,082	\$ 7.92	88,082	\$ 76,975,175
August 1, 2022 – August 31, 2022	—	—	732	7.76	732	76,969,495
September 1, 2022 – September 30, 2022	—	—	75,957	7.62	75,957	76,390,352
Total	—	\$ —	164,771	\$ 7.78	164,771	\$ 76,390,352

Other than the amounts repurchased as part of our share repurchase program, there were no purchases of equity securities by the issuer or affiliated purchasers during the quarter ended September 30, 2022.

### Item 3. Defaults Upon Senior Securities

Holders of the Series A Preferred Stock will be entitled to receive, when, as and if declared by a committee of disinterested directors of the Board (which committee initially consisted of Daniel Ninivaggi, Julia Steyn, Robert Shanks and D'aun Norman) out of funds legally available for such dividend, cumulative cash dividends at an annual rate of 11% on the stated amount per share plus the amount of any accrued and unpaid dividends on such share, accumulating daily and payable quarterly on January 1, April 1, July 1 and October 1, respectively, in each year. Cash dividends in the aggregate amount of \$42 million were declared in respect of the period ended September 30, 2022. As a result, as of September 30, 2022, there were \$172 million of unpaid and undeclared cumulative preference dividends on the shares of Series A Preferred Stock outstanding as of that date.

Except as otherwise disclosed in this Quarterly Report on Form 10-Q or reported previously in a Current Report on Form 8-K by the Company, 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	
3.1	<a href="#">Second Amended and Restated Certificate of Incorporation of Garrett Motion Inc., dated April 30, 2021</a>	8-K	001-38636	3.1	04/30/2021	
3.2	<a href="#">Amended and Restated Certificate of Designations of Series A Cumulative Convertible Preferred Stock of Garrett Motion Inc.</a>	10-Q	001-38636	3.2	04/28/2022	
3.40	<a href="#">Third Amended and Restated Bylaws of Garrett Motion Inc., dated October 27, 2021</a>	10-K	001-38636	3.5	02/14/2022	
10.1 <sup>^</sup>	<a href="#">Amendment No. 2, dated March 23, 2022, to the Credit Agreement, dated April 30, 2021, among Garrett Motion Inc., Garrett L X I S à r.l., Garrett Motion Holdings, Inc., Garrett Motion Sàrl, the lenders and issuing banks party thereto and JPMorgan Chase Bank, N.A., as administrative agent</a>	POS AM	333-256659	10.3	06/09/2022	
31.1	<a href="#">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.</a>					*
31.2	<a href="#">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.</a>					*
32.1	<a href="#">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.</a>					**
32.2	<a href="#">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.</a>					**
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					*
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.

<sup>^</sup> Management contract or compensatory plan or arrangement.

**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: October 26, 2022

By: \_\_\_\_\_  
**Olivier Rabiller**  
**President and Chief Executive Officer**

Date: October 26, 2022

By: \_\_\_\_\_  
**Sean Deason**  
**Senior Vice President and Chief Financial Officer**

## CERTIFICATION

I, Olivier Rabiller, certify that:

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

Date: October 26, 2022

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

## CERTIFICATION

I, Sean Deason, certify that:

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

Date: October 26, 2022

By: \_\_\_\_\_  
/s/ Sean Deason  
Sean Deason  
Senior Vice President and Chief Financial Officer  
(principal financial 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 September 30, 2022 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: October 26, 2022

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 September 30, 2022 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: October 26, 2022

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