

AUTOLIV INC
Form 10-Q
October 26, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report

Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934

For the quarterly period ended September 30, 2011

Commission File No.: 001-12933

AUTOLIV, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: AUTOLIV INC - Form 10-Q

Delaware (State or other jurisdiction of incorporation or organization)	51-0378542 (I.R.S. Employer Identification No.)
World Trade Center, Klarabergsviadukten 70, Box 70381, SE-107 24 Stockholm, Sweden (Address of principal executive offices)	N/A (Zip Code)
+46 8 587 20 600 (Registrant's telephone number, including area code)	

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 requirement for the past 90 days.

Yes: No:

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes: No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer:

Accelerated filer:

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: As of October 20, 2011, there were 89,276,458 shares of common stock of Autoliv, Inc., par value \$1.00 per share, outstanding.

Table of Contents

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains statements that are not historical facts but rather forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are those that address activities, events or developments that Autoliv, Inc. (Autoliv , the Company or we) or its management believes or anticipates may occur in the future, including statements relating to industry trends, business opportunities, sales contracts, sales backlog and on-going commercial arrangements and discussions, as well as any statements about future operating performance or financial results.

In some cases, you can identify these statements by forward-looking words such as estimates, expects, anticipates, projects, plans, intends, believes, might, will, should, or the negative of these terms and other comparable terminology, although not all forward-looking statements are so identified.

All such forward-looking statements, including without limitation, management's examination of historical operating trends and data, are based upon our current expectations, various assumptions and data available from third parties and apply only as of the date of this report. Our expectations and assumptions are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that such forward-looking statements will materialize or prove to be correct as these assumptions are inherently subject to risks and uncertainties and contingencies which are difficult or impossible to predict and are beyond our control.

Because these forward-looking statements involve risks and uncertainties, the outcome could differ materially from those set out in the forward-looking statements for a variety of reasons, including without limitation, changes in and the successful execution of our restructuring and cost reduction initiatives discussed herein and the market reaction thereto, changes in general industry and market conditions, increased competition, higher raw material, fuel and energy costs, changes in consumer and customer preferences for end products, customer losses, customer bankruptcies, consolidations or restructuring, divestiture of customer brands, fluctuation of foreign currencies, fluctuation in vehicle production schedules for which the Company is a supplier, component shortages, market acceptance of our new products, costs or difficulties related to the integration of any new or acquired businesses and technologies, continued uncertainty in program awards and performance, the financial results of companies in which Autoliv has made technology investments or joint venture arrangements, pricing negotiations with customers, our ability to be awarded new business, increased costs, supply issues, product liability, warranty and recall claims and other litigation and customer reactions thereto, possible adverse results of pending or future litigation or infringement claims, negative impacts of governmental investigations and litigation relating to the conduct of our business, tax assessments by governmental authorities, legislative or regulatory changes, political conditions,

Table of Contents

dependence on customers and suppliers, as well as the risks identified in Item 1A Risk Factors in this quarterly report and the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2010. Except for the Company's ongoing obligation to disclose information under the U.S. federal securities laws, the Company undertakes no obligation to update publicly or revise any forward-looking statements whether as a result of new information or future events.

For any forward-looking statements contained in this or any other document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we assume no obligation to update any such statement.

Table of Contents

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

1.1	<u>Basis of Presentation</u>	8
1.2	<u>New Accounting Pronouncements</u>	8
1.3	<u>Fair Value Measurement</u>	8
1.4	<u>Income Taxes</u>	15
1.5	<u>Inventories</u>	16
1.6	<u>Restructuring</u>	16
1.7	<u>Product-Related Liabilities</u>	17
1.8	<u>Retirement Plans</u>	17
1.9	<u>Comprehensive Income</u>	18
1.10	<u>Equity and Equity Units Offering</u>	18
1.11	<u>Non-Controlling Interest</u>	19
1.12	<u>Contingent Liabilities</u>	20
1.13	<u>Earnings Per Share</u>	21
1.14	<u>Subsequent Events</u>	22

<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	22
---	----

<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	28
--	----

<u>ITEM 4. CONTROLS AND PROCEDURES</u>	28
---	----

<u>ITEM 4T. CONTROLS AND PROCEDURES</u>	28
--	----

<u>PART II - OTHER INFORMATION</u>	28
---	----

<u>ITEM 1. LEGAL PROCEEDINGS</u>	28
---	----

<u>ITEM 1A. RISK FACTORS</u>	29
-------------------------------------	----

<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	30
---	----

<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	30
---	----

<u>ITEM 4. [Removed and Reserved]</u>	30
--	----

<u>ITEM 5. OTHER INFORMATION</u>	30
---	----

<u>ITEM 6. EXHIBITS</u>	30
--------------------------------	----

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(Dollars in millions, except per share data)

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net sales	\$ 2,017.6	\$ 1,740.9	\$ 6,187.7	\$ 5,263.2
Cost of sales	(1,606.4)	(1,367.1)	(4,888.9)	(4,093.9)
Gross profit	411.2	373.8	1,298.8	1,169.3
Selling, general & administrative expenses	(91.5)	(76.0)	(277.5)	(238.9)
Research, development & engineering expenses, net	(103.7)	(88.6)	(335.7)	(273.9)
Amortization of intangibles	(4.2)	(4.9)	(13.5)	(13.8)
Other income (expense), net	(6.9)	(2.2)	(7.0)	(16.1)
Operating income	204.9	202.1	665.1	626.6
Equity in earnings of affiliates, net of tax	2.0	1.7	5.2	3.7
Interest income	1.4	0.9	3.4	2.5
Interest expense	(16.2)	(13.5)	(47.1)	(41.3)
Loss on extinguishment of debt	0.1		(6.2)	(12.1)
Other financial items, net	0.4	(1.6)	(3.0)	(4.7)
Income before income taxes	192.6	189.6	617.4	574.7
Income tax expense	(53.5)	(48.5)	(150.1)	(158.0)
Net income	\$ 139.1	\$ 141.1	\$ 467.3	\$ 416.7
Less net income attributable to non-controlling interests	0.7	1.0	2.4	3.6
Net income attributable to controlling interest	\$ 138.4	\$ 140.1	\$ 464.9	\$ 413.1
Net earnings per share basic	\$ 1.55	\$ 1.58	\$ 5.21	\$ 4.76
Net earnings per share diluted	\$ 1.48	\$ 1.51	\$ 4.95	\$ 4.50
Weighted average number of shares outstanding, net of treasury shares (in millions)	89.3	88.6	89.2	86.8
Weighted average number of shares outstanding, assuming dilution and net of treasury shares (in millions)	93.5	92.8	93.8	91.8
Number of shares outstanding, excluding dilution and net of treasury shares (in millions)	89.3	88.7	89.3	88.7
Cash dividend per share declared	\$ 0.45	\$ 0.35	\$ 1.33	\$ 0.65
Cash dividend per share paid	\$ 0.45	\$ 0.30	\$ 1.28	\$ 0.30

See Notes to unaudited condensed consolidated financial statements .

Table of Contents**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in millions)

	September 30, 2011 (unaudited)	As of December 31, 2010
<i>Assets</i>		
Cash & cash equivalents	\$ 630.7	\$ 587.7
Receivables, net	1,527.8	1,367.6
Inventories, net	619.4	561.7
Other current assets	165.4	171.6
Total current assets	2,943.3	2,688.6
Property, plant & equipment, net	1,102.7	1,025.8
Investments and other non-current assets	256.9	228.1
Goodwill	1,612.1	1,612.3
Intangible assets, net	114.3	109.7
Total assets	\$ 6,029.3	\$ 5,664.5
<i>Liabilities and equity</i>		
Short-term debt	\$ 221.8	\$ 87.1
Accounts payable	1,058.1	1,003.1
Accrued expenses	499.4	484.5
Other current liabilities	204.2	259.8
Total current liabilities	1,983.5	1,834.5
Long-term debt	480.2	637.7
Pension liability	141.3	136.0
Other non-current liabilities	122.2	117.1
Total non-current liabilities	743.7	890.8
Total parent shareholders' equity	3,287.8	2,927.3
Non-controlling interests	14.3	11.9
Total equity	3,302.1	2,939.2
Total liabilities and equity	\$ 6,029.3	\$ 5,664.5

See Notes to unaudited condensed consolidated financial statements .

Table of Contents**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

(Dollars in millions)

	Nine months ended	
	September 30, 2011	September 30, 2010
Operating activities		
Net income	\$ 467.3	\$ 416.7
Depreciation and amortization	197.9	213.7
Other, net	36.8	38.7
Changes in operating assets and liabilities	(236.9)	(71.0)
Net cash provided by operating activities	465.1	598.1
Investing activities		
Capital expenditures	(263.0)	(145.8)
Proceeds from sale of property, plant and equipment	6.4	3.7
Acquisitions and divestitures of businesses and other, net	(1.4)	(73.5)
Net cash used in investing activities	(258.0)	(215.6)
Financing activities		
Net increase (decrease) in short-term debt	116.2	(180.7)
Issuance of long-term debt	47.1	
Repayments and other changes in long-term debt	(214.3)	(115.6)
Dividends paid	(114.1)	(26.6)
Cash paid for extinguishment of debt	(6.3)	(8.3)
Common stock options exercised	12.1	13.2
Acquisition of subsidiary shares from non-controlling interest		(63.7)
Other	(5.7)	
Net cash used in financing activities	(165.0)	(381.7)
Effect of exchange rate changes on cash and cash equivalents	0.9	13.7
Increase in cash and cash equivalents	43.0	14.5
Cash and cash equivalents at beginning of period	587.7	472.7
Cash and cash equivalents at end of period	\$ 630.7	\$ 487.2

See Notes to unaudited condensed consolidated financial statements .

Table of Contents

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise noted, all amounts are presented in millions of dollars, except for per share amounts)

September 30, 2011

1.1 Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included in the financial statements. All such adjustments are of a normal recurring nature. Certain prior-year amounts have been reclassified to conform to current year presentation.

The condensed consolidated balance sheet at December 31, 2010 has been derived from the audited financial statements at that date, but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

Statements in this report that are not of historical fact are forward-looking statements that involve risks and uncertainties that could affect the actual results of the Company. A description of the important factors that could cause Autoliv's actual results to differ materially from the forward-looking statements contained in this report may be found in this report and Autoliv's other reports filed with the Securities and Exchange Commission (the "SEC"). For further information, refer to the consolidated financial statements, footnotes and definitions thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed on February 23, 2011.

The Company's filings with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements, management certifications, current reports on Form 8-K and other documents, can be obtained free of charge from Autoliv at the Company's address. These documents are also available at the SEC's web site at www.sec.gov and at the Company's corporate website at www.autoliv.com.

1.2 New Accounting Pronouncements

The following accounting guidance has been issued and will be effective for the Company after fiscal year 2011:

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, *Presentation of Comprehensive Income*, which updates Accounting Standards Codification ("ASC") Topic 220. ASU No. 2011-05 eliminates the ability of reporting entities to present changes in other comprehensive income as a component of stockholder's equity, and requires that changes in other comprehensive income be shown either in a continuous statement of comprehensive income or as a statement immediately following the statement of earnings. ASU No. 2011-05 is effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. ASU No. 2011-05 will have no impact on the Company's consolidated financial statements, other than presentation of comprehensive income.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which updates ASC Topic 820. ASU No. 2011-04 clarifies the intent of ASC 820 around the highest and best use concept being relevant only to nonfinancial assets, the fair value of instruments in shareholders' equity should be measured from the perspective of a market participant holding the instrument as an asset, and the appropriate usage of premiums and discounts in a fair value measurement. ASU No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. ASU No. 2011-04 is not expected to have a material impact on the Company's consolidated financial statements.

1.3 Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis

The Company uses derivative financial instruments, derivatives, as part of its debt management to mitigate the market risk that occurs from its exposure to changes in interest and foreign exchange rates. The Company does not enter into derivatives for trading or other speculative purposes. The use of such derivatives is in accordance with the strategies contained in the Company's overall financial policy. No derivatives have a maturity beyond 2019. Certain derivatives are designated either as fair value hedges or cash flow hedges in line with the hedge accounting criteria in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*.

Edgar Filing: AUTOLIV INC - Form 10-Q

However, in certain cases hedge accounting is not applied either because non hedge accounting treatment creates the same accounting result or the hedge does not meet the hedge accounting requirements, although entered into applying the same rationale concerning mitigating market risk that occurs from changes in interest and foreign exchange rates.

Table of Contents

When a hedge is classified as a fair value hedge, the change in the fair value of the hedge is recognized in the Consolidated Statement of Income along with the off-setting change in the fair value of the hedged item. When a hedge is classified as a cash flow hedge, any change in the fair value of the hedge is initially recorded in equity as a component of Other Comprehensive Income, (OCI), and reclassified into the Consolidated Statement of Income when the hedge transaction affects net earnings. There were no material reclassifications from OCI to the Consolidated Statement of Income during the three and nine months ended September 30, 2011 and, likewise, no material reclassifications are expected for the next twelve months. Any ineffectiveness has been immaterial.

The Company records derivatives at fair value. Any gains and losses on derivatives recorded at fair value are reflected in the Consolidated Statement of Income with the exception of cash flow hedges where an immaterial portion of the fair value is reflected in other comprehensive income in the balance sheet. The degree of judgment utilized in measuring the fair value of the instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of asset or liability, whether the asset or liability has an established market and the characteristics specific to the transaction. Derivatives with readily active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, assets rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment utilized in measuring fair value.

Under existing GAAP, there is a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by the hierarchy are as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these asset and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level 3 - Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The following tables summarize the valuation of the Company's derivatives by the above noted pricing observability levels:

Description	Total carrying amount in Consolidated Balance Sheet September 30, 2011	Fair Value Measurements at September 30, 2011 Using		
		Level 1	Level 2	Level 3
Assets				
Derivatives	\$ 32.2		\$ 32.2	
Total Assets	\$ 32.2		\$ 32.2	
Liabilities				
Derivatives	\$ 1.4		\$ 1.4	
Total Liabilities	\$ 1.4		\$ 1.4	

Description	Total carrying amount in Consolidated	Fair Value Measurements at December 31, 2010 Using		
		Level 1	Level 2	Level 3

Edgar Filing: AUTOLIV INC - Form 10-Q

Balance
Sheet
December 31,
2010

Assets		
Derivatives	\$ 17.1	\$ 17.1
Total Assets	\$ 17.1	\$ 17.1
Liabilities		
Derivatives	\$ 7.1	\$ 7.1
Total Liabilities	\$ 7.1	\$ 7.1

Table of Contents

The tables below present information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010. Although the Company is party to close-out netting agreements with most derivative counterparties, the fair values in the tables below and in the Consolidated Balance Sheets at September 30, 2011 and 2010, have been presented on a gross basis.

Description	Nominal volume	Fair Value Measurements at September 30, 2011		Balance sheet location
		Derivative asset	Derivative liability	
Derivatives designated as hedging instruments				
Interest rate swaps, less than 9 years (fair value hedge)	\$ 60.0	\$ 15.3	\$	Other non current asset
Total derivatives designated as hedging instruments	\$ 60.0	\$ 15.3	\$	
Derivatives not designated as hedging instruments				
Cross currency interest rate swaps, less than 1 year	\$ 40.3	\$ 3.5	\$	Other current assets
Foreign exchange swaps, less than 6 months	976.2	13.4	1.4	Other current assets/ liabilities
Total derivatives not designated as hedging instruments	\$ 1,016.5	\$ 16.9	\$ 1.4	
Total derivatives	\$ 1,076.5	\$ 32.2	\$ 1.4	

Description	Nominal volume	Fair Value Measurements at December 31, 2010		Balance sheet location
		Derivative asset	Derivative liability	
Derivatives designated as hedging instruments				
Interest rate swaps, less than 9 years (fair value hedge)	\$ 60.0	\$ 9.3	\$	Other non-current asset
Total derivatives designated as hedging instruments	\$ 60.0	\$ 9.3	\$	
Derivatives not designated as hedging instruments				
Cross currency interest rate swaps, less than 1 year	\$ 40.3	\$ 3.7	\$	Other current assets
Foreign exchange swaps, less than 6 months	1,486.2	4.1	7.1	Other current assets/ liabilities
Total derivatives not designated as hedging instruments	\$ 1,526.5	\$ 7.8	\$ 7.1	
Total derivatives	\$ 1,586.5	\$ 17.1	\$ 7.1	

Table of Contents

Description	Amount gain (loss) recognized in Consolidated Statement of Income July-September 2011				Amount of gain (loss) recognized in OCI on derivative effective portion	Amount of gain (loss) reclassified from accumulated OCI into interest expense
	Nominal Volume	Other Financial Items, net	Interest Expense	Interest Income		
Derivatives designated as hedging instruments						
Interest rate swap, less than 9 years (fair value hedge)	\$ 60.0	\$	\$ 5.0	\$	\$	\$
Hedged item (fair value hedge)						
Fixed rate private placement debt due 2019	\$ 60.0	\$	\$ (5.0)	\$	\$	\$
Total gain(loss) in Consolidated Statement of Income			\$ 0.0			

Description	Amount gain (loss) recognized in Consolidated Statement of Income January-September 2011				Amount of gain (loss) recognized in OCI on derivative effective portion	Amount of gain (loss) reclassified from accumulated OCI into interest expense
	Nominal Volume	Other Financial Items, net	Interest Expense	Interest Income		
Derivatives designated as hedging instruments						
Interest rate swap, less than 9 years (fair value hedge)	\$ 60.0	\$	\$ 6.0	\$	\$	\$
Hedged item (fair value hedge)						
Fixed rate private placement debt due 2019	\$ 60.0	\$	\$ (6.0)	\$	\$	\$
Total gain(loss) in Consolidated Statement of Income			\$ 0.0			

Table of Contents

Description	Nominal volume	Amount gain (loss) recognized in Consolidated Statement of Income July-September 2010			Amount of gain (loss) recognized in OCI on derivative effective portion	Amount of gain (loss) reclassified from accumulated OCI into interest expense
		Other financial items, net	Interest expense	Interest income		
Derivatives designated as hedging instruments						
Cross currency interest rate swaps, less than 1 year (cash flow hedge)	\$ 54.1	\$ 0.5	\$	\$	\$ (0.2)	\$
Interest rate swap, less than 10 years (fair value hedge)	60.0		2.1			
Total derivatives designated as hedging instruments	\$ 114.1					
Hedged item (fair value hedge)						
Fixed rate private placement debt due 2019	\$ 60	\$	\$ (2.1)	\$	\$	\$
Total gain(loss) in Consolidated Statement of Income			\$ 0.0			

Description	Nominal volume	Amount gain (loss) recognized in Consolidated Statement of Income January-September 2010			Amount of gain (loss) recognized in OCI on derivative effective portion	Amount of gain (loss) reclassified from accumulated OCI into interest expense
		Other financial items, net	Interest expense	Interest income		
Derivatives designated as hedging instruments						
Cross currency interest rate swaps, less than 1 year (cash flow hedge)	\$ 54.1	\$ (4.0)	\$	\$	\$ 0.2	\$
Interest rate swap, less than 10 years (fair value hedge)	60.0		7.1			
Total derivatives designated as hedging instruments	\$ 114.1					
Hedged item (fair value hedge)						
Fixed rate private placement debt due 2019	\$ 60	\$	\$ (7.1)	\$	\$	\$
Total gain(loss) in Consolidated Statement of Income			\$ 0.0			

Table of Contents

Description	Nominal Volume	Amount gain (loss) recognized in Consolidated Statement of Income July-September 2011		
		Other Financial Items, net	Interest Expense	Interest Income
Derivatives not designated as hedging instruments				
Cross currency interest rate swaps, less than 1 year	\$ 40.3	\$ (3.8)	\$ 0.0	\$
Foreign exchange swaps, less than 6 months	976.2	28.2	(0.9)	
Total derivatives not designated as hedging instruments	\$ 1,016.5			

Description	Nominal Volume	Amount gain (loss) recognized in Consolidated Statement of Income January-September 2011		
		Other Financial Items, net	Interest Expense	Interest Income
Derivatives not designated as hedging instruments				
Cross currency interest rate swaps, less than 1 year	\$ 40.3	\$ (0.4)	\$ 0.1	\$
Foreign exchange swaps, less than 6 months	976.2	15.2	(0.2)	
Total derivatives not designated as hedging instruments	\$ 1,016.5			

Description	Nominal Volume	Amount gain (loss) recognized in Consolidated Statement of Income July-September 2010		
		Other Financial Items, net	Interest Expense	Interest Income
Derivatives not designated as hedging instruments				
Cross currency interest rate swaps, less than 1 year	\$ 20.3	\$ 2.9	\$ 0.0	\$
Cross currency interest rate swaps, less than 2 years	40.3	5.7	0.1	
Foreign exchange swaps, less than 6 months	1,140.6	(2.6)	0.3	
Total derivatives not designated as hedging instruments	\$ 1,201.2			

Table of Contents

Description	Nominal Volume	Amount gain (loss) recognized in Consolidated Statement of Income January-September 2010		
		Other Financial Items, net	Interest Expense	Interest Income
Derivatives not designated as hedging instruments				
Cross currency interest rate swaps, less than 1 year	\$ 20.3	\$ 1.6	\$ 0.1	\$
Cross currency interest rate swaps, less than 2 years	40.3	3.2	0.1	
Foreign exchange swaps, less than 6 months	1,140.6	(1.8)	0.4	
Total derivatives not designated as hedging instruments	\$ 1,201.2			

All amounts recognized in the Consolidated Statement of Income related to derivatives, not designated as hedging instruments, relate to economic hedges and thus have been materially off-set by an opposite Consolidated Statement of Income effect of the related financial liabilities or financial assets.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, other current liabilities and short-term debt approximate their fair value because of the short term maturity of these instruments. The fair value of long-term debt is determined either from quoted market prices as provided by participants in the secondary market or for long-term debt without quoted market prices, estimated using a discounted cash flow method based on the Company's current borrowing rates for similar types of financing. The fair value of derivatives is estimated using a discounted cash flow method based on quoted market prices. The fair value and carrying value of debt is summarized in the table below. The discount rates for all derivative contracts are based on bank deposit or swap interest rates. Credit risk has been considered when determining the discount rates used for the derivative contracts which when aggregated by counterparty are in a liability position.

Fair Value of Debt

	September 30, September 30, 2011 Carrying value ¹⁾	September 30, September 30, 2011 Fair value	September 30, December 31, 2010 Carrying value ¹⁾	September 30, December 31, 2010 Fair value	September 30,	September 30,
Long-term debt						
U.S. Private placement	\$ 415.3	\$ 455.3	\$ 409.3	\$ 442.8		
Medium-term notes	43.7	40.9	88.2	96.3		
Notes ²⁾			100.2	115.7		
Other long-term debt	21.2	21.2	40.0	39.7		
Total	\$ 480.2	\$ 517.4	\$ 637.7	\$ 694.5		
Short-term debt						
Overdrafts and other short-term debt	\$ 43.7	\$ 43.7	\$ 29.7	\$ 29.7		
Short-term portion of long-term debt	72.8	72.8	57.4	57.4		
Notes ²⁾	105.3	111.6				
Total	\$ 221.8	\$ 228.1	\$ 87.1	\$ 87.1		

1) Debt as reported in balance sheet.

2) Notes issued as part of the equity units offering has been reclassified to short-term (for further information, see Note 1.10).

Assets and liabilities measured at fair value on a non-recurring basis

In addition to assets and liabilities that are measured at fair value on a recurring basis, the Company also has assets and liabilities in its balance sheet that are measured at fair value on a non-recurring basis. Assets and liabilities that are measured at fair value on a non-recurring basis

Edgar Filing: AUTOLIV INC - Form 10-Q

include long-lived assets, including investments in affiliates, and restructuring liabilities (see Note 1.6).

The Company has determined that the fair value measurements included in each of these assets and liabilities rely primarily on Company-specific inputs and the Company's assumptions about the use of the assets and settlements of

Table of Contents

liabilities, as observable inputs are not available. The Company has determined that each of these fair value measurements reside within Level 3 of the fair value hierarchy. To determine the fair value of long-lived assets, the Company utilizes the projected cash flows expected to be generated by the long-lived assets, then discounts the future cash flows over the expected life of the long-lived assets. For restructuring obligations, the amount recorded represents the fair value of the payments expected to be made, and such provisions are discounted if the payments are expected to extend beyond one year.

As of September 30, 2011 the Company had \$36.7 million of restructuring reserves which were measured at fair value upon initial recognition of the associated liability (see Note 1.6). For the nine months ended September 30, 2011 the Company has not recorded any impairment charges on its long-lived assets.

1.4 Income Taxes

For the first nine months of 2011 the effective tax rate was 24.3%, compared with an effective tax rate of 27.5% in the first nine months of 2010. In the first nine months of 2011, the impact of discrete tax items caused a 3.1% decrease to the effective tax rate. The net impact of discrete tax items in the first nine months of 2010 caused a 1.7 percentage point decrease to the effective tax rate. In the third quarter of 2011, the impact of discrete tax items caused a 1.1% increase to the effective tax rate for the quarter. The net impact of discrete tax items in the third quarter of 2010 caused a 2.9% decrease to the effective tax rate for the quarter.

The Company files income tax returns in the United States federal jurisdiction and various states and foreign jurisdictions. At any given time, the Company is undergoing tax audits in several tax jurisdictions covering multiple years. The Company is effectively no longer subject to income tax examination by the U.S. Federal tax authorities for years prior to 2009. In addition, with few exceptions, the Company is also no longer subject to income tax examination by U.S. state and local and non-U.S. tax authorities for years prior to 2003.

The Internal Revenue Service (IRS) began an examination of the Company's 2003-2005 U.S. income tax returns in the second quarter of 2006. On March 31, 2009, the IRS field examination team issued an examination report in which the examination team proposed to increase the Company's U.S. taxable income due to alleged incorrect transfer pricing in transactions between a U.S. subsidiary and other subsidiaries during the period 2003-2005. The Company, after consultation with its tax counsel, filed a protest to the examination report to seek review of the examination report by the Appeals Office of the IRS. By letter dated June 1, 2010, the Appeals Office team assigned to review the examination report informed the Company that it had concluded that the IRS should withdraw all of the adjustments that would have increased the Company's taxable income due to alleged incorrect transfer pricing. In April 2011, the Company was informed that the IRS internal review process had been concluded and that the proposed resolution had been sent to the U.S. Congress Joint Committee on Taxation for review in the context of a refund the Company is claiming for this same period. In May 2011, the Company was notified by the IRS that the Joint Committee had cleared the Appeals Office resolution of Autoliv's 2003-2005 tax returns, and the Company has now completed the formalities to close the IRS audit of 2003-2005. In addition, the IRS began an examination of the Company's 2006-2008 U.S. income tax returns in the third quarter 2009. There were no material adjustments resulting from this audit cycle, and the Company completed the formalities to close the IRS audit of 2006-2008. In addition, the Company is undergoing tax audits in several non-U.S. jurisdictions covering multiple years. As of September 30, 2011, as a result of those tax examinations, the Company is not aware of any proposed income tax adjustments that would have a material impact on the Company's financial statements.

As a result of the conclusion of the U.S. tax audits and other proceedings, the Company released approximately \$24 million of its tax reserves in the second quarter of 2011. Other audits could result in additional increases or decreases to the unrecognized tax benefits in some future period or periods.

During the third quarter 2011, the Company recorded an increase of \$2.0 million to income tax reserves for unrecognized tax benefits based on tax positions related to the current and prior years, in addition to accruing additional interest of \$0.6 related to unrecognized tax benefits of prior years. During the second quarter 2011, the Company recorded a decrease of \$24.7 million to income tax reserves for unrecognized tax benefits based on tax positions related to the current and prior years, and accrued additional interest of \$0.5 related to unrecognized tax benefits of prior years. In addition, during the second quarter 2011, the Company recorded a decrease of \$5.1 million to income tax reserves relating to settlements with taxing authorities. During the first quarter 2011, the Company recorded an increase of \$4.3 million to income tax reserves for unrecognized tax benefits based on tax positions related to the current and prior years, including an accrual for additional interest in 2011 related to unrecognized tax benefits of prior years. Of the total unrecognized tax benefits of \$19.9 million recorded at September 30, 2011, \$2.8 million is classified as current tax payable and \$17.1 million is classified as non-current tax payable on the Condensed Consolidated Balance Sheet.

Table of Contents**1.5 Inventories**

Inventories are stated at the lower of cost (principally FIFO) or market. The components of inventories were as follows net of reserves:

	September 30, 2011	As of December 31, 2010
Raw materials	\$ 253.1	\$ 224.5
Work in progress	211.5	201.4
Finished products	154.8	135.8
Total Inventories, net of reserve	\$ 619.4	\$ 561.7

1.6 Restructuring

Restructuring provisions are made on a case-by-case basis and primarily include severance costs incurred in connection with headcount reductions and plant consolidations. The Company expects to finance restructuring programs over the next several years through cash generated from its ongoing operations or through cash available under existing credit facilities. The Company does not expect that the execution of these activities will have an adverse impact on its liquidity position. The tables below summarize the change in the balance sheet position of the restructuring reserves from December 31, 2009 to September 30, 2011.

Third quarter 2011

The employee-related restructuring provisions in the third quarter 2011 mainly relate to headcount reductions in Europe and Australia. The cash payments mainly relate to high-cost countries in Europe and Australia. The changes in the employee-related reserves were charged against Other income (expense), net in the Consolidated Statements of Income. The table below summarizes the change in the balance sheet position of the restructuring reserves from June 30, 2011 to September 30, 2011.

	June 30, 2011	Provision/ Charge	Provision/ Reversal	Cash payments	Translation difference	September 30, 2011
Restructuring employee-related	\$ 41.1	\$ 1.6	\$ (0.8)	\$ (3.4)	\$ (2.6)	\$ 35.9
Other	0.4	0.5		(0.1)		0.8
Total reserve	\$ 41.5	\$ 2.1	\$ (0.8)	\$ (3.5)	\$ (2.6)	\$ 36.7

Second quarter 2011

The employee-related restructuring provisions in the second quarter 2011 mainly relate to headcount reductions in Europe and North America. The cash payments mainly relate to high-cost countries in Europe and Australia. The changes in the employee-related reserves were charged against Other income (expense), net in the Consolidated Statements of Income. The table below summarizes the change in the balance sheet position of the restructuring reserves from March 31, 2011 to June 30, 2011.

	March 31, 2011	Provision/ Charge	Provision/ Reversal	Cash payments	Translation difference	June 30, 2011
Restructuring employee-related	\$ 46.0	\$ 1.5	\$ (0.6)	\$ (6.9)	\$ 1.1	\$ 41.1
Other	0.4					0.4
Total reserve	\$ 46.4	\$ 1.5	\$ (0.6)	\$ (6.9)	\$ 1.1	\$ 41.5

First quarter 2011

Edgar Filing: AUTOLIV INC - Form 10-Q

The employee-related restructuring provisions in the first quarter 2011 mainly relate to headcount reductions in Europe and North America. The cash payments mainly relate to high-cost countries in Europe and Australia. The changes in the employee-related reserves were charged against Other income (expense), net in the Consolidated Statements of Income. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2010 to March 31, 2011.

	December 31, 2010	Provision/ Charge	Provision/ Reversal	Cash payments	Translation difference	March 31, 2011
Restructuring employee-related	\$ 48.4	\$ 3.8	\$ (1.5)	\$ (7.7)	\$ 3.0	\$ 46.0
Other	0.2	0.2				0.4
Total reserve	\$ 48.6	\$ 4.0	\$ (1.5)	\$ (7.7)	\$ 3.0	\$ 46.4

Table of Contents**2010**

In 2010, the employee-related restructuring provisions, made on a case-by-case basis, related mainly to headcount reductions throughout Europe. Reversals in 2010 mainly related to restructuring reserves in North America and Europe and were due to capacity reduction that was not as severe as originally communicated. The cash payments mainly related to high-cost countries in Europe and Australia. The changes in the employee-related reserves have been charged against Other income (expense), net in the Consolidated Statements of Income. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2009 to December 31, 2010.

	December 31, 2009	Provision/ Charge	Provision/ Reversal	Cash payments	Non- cash	Translation difference	December 31, 2010
Restructuring employee-related	\$ 100.1	\$ 30.3	\$ (10.2)	\$ (66.1)	\$	\$ (5.7)	\$ 48.4
Fixed asset impairment		1.0			(1.0)		
Other	0.2	0.2		(0.2)			0.2
Total reserve	\$ 100.3	\$ 31.5	\$ (10.2)	\$ (66.3)	\$ (1.0)	\$ (5.7)	\$ 48.6

1.7 Product-Related Liabilities

The Company has reserves for product risks. Such reserves are related to product performance issues including recall, product liability and warranty issues.

The Company records liabilities for product-related risks when probable claims are identified and when it is possible to reasonably estimate costs. Provisions for warranty claims are estimated based on prior experience, likely changes in performance of newer products and the mix and volume of the products sold. The provisions are recorded on an accrual basis. For further explanation, see Note 1.12 Contingent Liabilities below.

The table below summarizes the change in the balance sheet position of the product-related liabilities. The provisions and cash paid for the three month period ended September 30, 2011 mainly relate to recall related issues. The provisions for the nine month period ended September 30, 2011 mainly relate to warranty related issues. The cash paid for the nine month period ended September 30, 2011 mainly relate to recall related issues. The provisions and cash paid for the three and nine month periods ended September 30, 2010 mainly related to recalls.

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Reserve at beginning of the period	\$ 37.4	\$ 25.7	\$ 39.2	\$ 30.6
Provision	6.0	10.6	8.5	15.2
Cash payments	(9.4)	(1.4)	(15.4)	(9.8)
Translation difference	(1.2)	1.8	0.5	0.7
Reserve at end of the period	\$ 32.8	\$ 36.7	\$ 32.8	\$ 36.7

1.8 Retirement Plans

The Company has non-contributory defined benefit pension plans covering employees at most operations in the United States. Benefits are based on an average of the employee's earnings in the years preceding retirement and on credited service. Certain supplemental unfunded plan arrangements also provide retirement benefits to specified groups of participants.

The Company has frozen participation in the U.S. pension plans to include only those employees hired as of December 31, 2003. The U.K. defined benefit plan is the most significant individual non-U.S. pension plan and the company has frozen participation to include only those employees hired as of April 30, 2003.

The Net Periodic Benefit Costs related to Other Post-retirement Benefits were not significant to the Consolidated Financial Statements of the Company for the three and nine month periods ended September 30, 2011 and September 30, 2010, respectively.

Edgar Filing: AUTOLIV INC - Form 10-Q

For further information on Pension Plans and Other Post-retirement Benefits, see Note 18 to the Consolidated Financial Statements of the Company included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

The components of total Net Periodic Benefit Cost associated with the Company's defined benefit retirement plans are as follows:

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Service cost	\$ 4.6	\$ 3.5	\$ 13.7	\$ 10.2
Interest cost	4.3	3.9	12.8	11.6
Expected return on plan assets	(3.6)	(3.1)	(10.8)	(9.3)
Amortization prior service cost (credit)	(0.2)	(0.2)	(0.7)	(0.7)
Amortization of (gain) loss	1.2	1.1	3.7	3.5
Net Periodic Benefit Cost	\$ 6.3	\$ 5.2	\$ 18.7	\$ 15.3

Table of Contents**1.9 Comprehensive Income**

Comprehensive income includes net income for the period and items charged directly to equity.

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income	\$ 139.1	\$ 141.1	\$ 467.3	\$ 416.7
Pension liability	0.6	0.5	1.1	2.6
Net change in cash flow hedges		(0.2)		0.2
Translation of foreign operations	(60.7)	65.5	(1.4)	(7.9)
Other comprehensive income (loss)	(60.1)	65.8	(0.3)	(5.1)
Comprehensive income	\$ 79.0	\$ 206.9	\$ 467.0	\$ 411.6
Less Comprehensive income attributable to non-controlling interest	0.8	1.2	2.8	3.8
Comprehensive income attributable to controlling interest	\$ 78.2	\$ 205.7	\$ 464.2	\$ 407.8

1.10 Equity and Equity Units Offering

On March 30, 2009, the Company sold, in an underwritten registered public offering, approximately 14.7 million common shares from treasury stock and 6.6 million equity units (the Equity Units), listed on the NYSE as Corporate Units, for an aggregate stated amount and public offering price of \$235 million and \$165 million, respectively. Equity Units is a term that describes a security that is either a Corporate Unit or a Treasury Unit, depending upon what type of note (either a Note or a Treasury Security, as described below) is used by the holder to secure the forward purchase contract. The Equity Units initially consisted of a Corporate Unit which is (i) a forward purchase contract obligating the holder to purchase from the Company for a price in cash of \$25, on the purchase contract settlement date of April 30, 2012, subject to early settlement in accordance with the terms of the Purchase Contract and Pledge Agreement, a certain number (at the Settlement Rate outlined in the Purchase Contract and Pledge Agreement) of shares of Common Stock; and (ii) a 1/40, or 2.5%, undivided beneficial ownership interest in a \$1,000 principal amount of the Company's 8% senior notes due 2014 (the Senior Notes).

In the second quarter 2010, the Company issued an aggregate of approximately 3.1 million shares of Autoliv's common stock and paid an aggregate of approximately \$7.4 million in cash in exchange for an aggregate of approximately 2.3 million Equity Units pursuant to separately negotiated exchange agreements. These exchanges were exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 3(a)(9). Following the exchanges, approximately 4.3 million Equity Units remain outstanding.

The Settlement Rate is based on the applicable market value of the Company's common stock on the settlement date. The minimum and maximum number of shares to be issued under the purchase contracts at final settlement is currently approximately 5.7 million and 6.8 million, respectively (taking into account the exchange of Equity Units discussed above and to all previously paid dividends, including the dividend paid in the third quarter 2011, but without giving effect to the fourth quarter 2011 dividend that has been declared but not paid and without giving effect to any future dividends that may be paid or any events that would result in an adjustment to the final settlement rate).

The Notes will be remarketed between January 12, 2012 and March 31, 2012 whereby the interest rate on the Senior Notes will be reset and certain other terms of the Senior Notes may be modified in order to generate sufficient

Table of Contents

remarketing proceeds to satisfy the Equity Unit holders' obligations under the purchase contract. If the Senior Notes are not successfully remarketed, then a put right of holders of the notes will be automatically exercised unless such holders (a) notify the Company of their intent to settle their obligations under the purchase contracts in cash, and (b) deliver \$25 in cash per purchase contract, by the applicable dates specified by the purchase contracts. Following such exercise and settlement, the Equity Unit holders' obligations to purchase shares of Common Stock under the purchase contracts will be satisfied in full, and the Company will deliver the shares of Common Stock to such holders.

The Company allocated proceeds received upon issuance of the Equity Units based on relative fair values at the time of issuance. The fair value of the purchase contract at issuance was \$3.75 and the fair value of the note was \$21.25. The discount on the notes will be amortized using the effective interest method. Accordingly, the difference between the stated rate (i.e. cash payments of interest) and the effective interest rate will be credited to the value of the notes. Thus, at the end of the three years, the notes will be stated on the balance sheet at their face amount. The Company allocated 1% of the 6% of underwriting commissions paid to the debt as deferred charges based on commissions paid for similar debt issuances, but including factors for market conditions and the Company's credit rating at the time of the offering. The deferred charges will be amortized over the life of the note (until remarketing day) using the interest method. The remaining underwriting commissions (5%) were allocated to the equity forward and recorded as a reduction to paid-in capital.

1.11 Non-Controlling Interest

	July-September 2011 Equity attributable to			January-September 2011 Equity attributable to		
	Parent	Non- controlling interest	Total	Parent	Non- controlling interest	Total
Balance at beginning of period	\$ 3,247.3	\$ 13.5	\$ 3,260.8	\$ 2,927.3	\$ 11.9	\$ 2,939.2
Total Comprehensive Income:						
Net income	138.4	0.7	139.1	464.9	2.4	467.3
Net change in cash flow hedges	0		0	0		0
Foreign currency translation	(60.8)	0.1	(60.7)	(1.8)	0.4	(1.4)
Pension liability	0.6		0.6	1.1		1.1
<i>Total Comprehensive Income</i>	<i>78.2</i>	<i>0.8</i>	<i>79.0</i>	<i>464.2</i>	<i>2.8</i>	<i>467.0</i>
Common Stock incentives	2.5		2.5	15.0		15.0
Dividends paid to non-controlling interests on subsidiary shares					(0.4)	(0.4)
Cash dividends declared	(40.2)		(40.2)	(118.7)		(118.7)
Balance at September 30, 2011	\$ 3,287.8	\$ 14.3	\$ 3,302.1	\$ 3,287.8	\$ 14.3	\$ 3,302.1

	July-September 2010 Equity attributable to			January-September 2010 Equity attributable to		
	Parent	Non- controlling interest	Total	Parent	Non- controlling interest	Total
Balance at beginning of period	\$ 2,617.6	\$ 3.9	\$ 2,621.5	\$ 2,388.2	\$ 47.8	\$ 2,436.0
Total Comprehensive Income:						
Net income	140.1	1.0	141.1	413.1	3.6	416.7
Net change in cash flow hedges	(0.2)		(0.2)	0.2		0.2
Foreign currency translation	65.3	0.2	65.5	(8.1)	0.2	(7.9)
Pension liability	0.5		0.5	2.6		2.6
<i>Total Comprehensive Income</i>	<i>205.7</i>	<i>1.2</i>	<i>206.9</i>	<i>407.8</i>	<i>3.8</i>	<i>411.6</i>
Purchase of non-controlling interest by parent	0.0	4.0	4.0	(12.0)	(42.5)	(54.5)
Common Stock incentives	6.7		6.7	14.4		14.4
Cash dividends declared	(32.0)		(32.0)	(57.6)		(57.6)

Common stock issue				57.2		57.2
Balance at September 30, 2010	\$ 2,798.0	\$ 9.1	\$ 2,807.1	\$ 2,798.0	\$ 9.1	\$ 2,807.1

Table of Contents

1.12 Contingent Liabilities

Legal Proceedings

Various claims, lawsuits and proceedings are pending or threatened against the Company or its subsidiaries, covering a range of matters that arise in the ordinary course of its business activities with respect to commercial, product liability and other matters.

Litigation is subject to many uncertainties, and the outcome of any litigation cannot be assured. After discussions with counsel, it is the opinion of management that the various lawsuits to which the Company currently is a party will not have a material adverse impact on the consolidated financial position of Autoliv, but the Company cannot provide assurance that Autoliv will not experience material litigation, product liability or other losses in the future.

In 2009, Autoliv initiated a voluntary closure due to economical reasons of its Normandy Precision Components (NPC) plant located in France. Employment contracts of fourteen protected employees (i.e., union representatives) may under French law be terminated only with the approval of the authorities. Such approval was granted for eight of the fourteen protected employees but refused for six of them. The eight former protected employees have appealed the decision to allow for dismissal. The six protected employees have resigned from their positions as union representatives. Although French labor law is complex and unpredictable, the Company believes that the amount it has accrued relating to these fourteen former protected employees will be sufficient to satisfy the amounts that may be due to these fourteen protected employees. In parallel, most of the other former NPC-employees filed claims in a French court in September 2010, alleging damages for unfair dismissal in an aggregate amount of 11 million (approximately \$15 million). While we intend to vigorously defend against this action, the outcome of this legal dispute relating to most of the other former NPC-employees is unpredictable and any reserves may not be sufficient to cover any associated expense.

As previously reported on February 8, 2011, Autoliv ASP Inc., a Company subsidiary received a grand jury subpoena from the Antitrust Division of the United States Department of Justice (DOJ) requesting documents and information as part of a long-running investigation into possible anti-competitive behavior among certain suppliers to the automotive vehicle industry, including Autoliv. On June 7-9, 2011, representatives of the antitrust authorities of the European Commission (EC) visited two facilities of Autoliv BV & Co KG, a Company subsidiary in Germany, to gather information for a similar inquiry.

The DOJ and EC investigations are still ongoing. It is likely that, for the reporting periods in which the related liabilities become estimable or the investigations are resolved, the Company's operating results and cash flows will be materially impacted. However, as the Company cannot predict the duration, future scope or final outcome of the investigations, it is unable to estimate such impact or predict the reporting periods in which it may be recorded.

Product Warranty, Recalls and Intellectual Property

Autoliv is exposed to various claims for damages and compensation if products fail to perform as expected. Such claims can be made, and result in costs and other losses to the Company, even where the product is eventually found to have functioned properly. Where a product (actually or allegedly) fails to perform as expected the Company faces warranty and recall claims. Where such (actual or alleged) failure results, or is alleged to result, in bodily injury and/or property damage, the Company may also face product-liability claims. There can be no assurance that the Company will not experience material warranty, recall or product (or other) liability claims or losses in the future, or that the Company will not incur significant costs to defend against such claims. The Company may be required to participate in a recall involving its products. Each vehicle manufacturer has its own practices regarding product recalls and other product liability actions relating to its suppliers. As suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, vehicle manufacturers are increasingly looking to their suppliers for contribution when faced with recalls and product liability claims. A warranty, recall or product-liability claim brought against the Company in excess of its insurance may have a material adverse effect on the Company's business. Vehicle manufacturers are also

Table of Contents

increasingly requiring their outside suppliers to guarantee or warrant their products and bear the costs of repair and replacement of such products under new vehicle warranties. A vehicle manufacturer may attempt to hold the Company responsible for some, or all, of the repair or replacement costs of products when the product supplied did not perform as represented by us or expected by the customer. Accordingly, the future costs of warranty claims by the customers may be material. However, the Company believes its established reserves are adequate to cover potential warranty settlements. Autoliv's warranty reserves are based upon the Company's best estimates of amounts necessary to settle future and existing claims. The Company regularly evaluates the appropriateness of these reserves, and adjusts them when appropriate. However, the final amounts determined to be due related to these matters could differ materially from the Company's recorded estimates.

The Company believes that it is currently reasonably insured against recall and product liability risks, at levels sufficient to cover potential claims that are reasonably likely to arise in our businesses based on past experience. Autoliv cannot be assured that the level of coverage will be sufficient to cover every possible claim that can arise in our businesses, now or in the future, or that such coverage always will be available should we, now or in the future, wish to extend or increase insurance.

In its products, the Company utilizes technologies which may be subject to intellectual property rights of third parties. While the Company does seek to identify the intellectual property rights of relevance to its products, and to procure the necessary rights to utilize such intellectual property rights, we may fail to do so. Where the Company so fails, the Company may be exposed to material claims from the owners of such rights. Where the Company has sold products which infringe upon such rights, our customers may be entitled to be indemnified by us for the claims they suffer as a result thereof. Such claims could be material.

On April 19, 2010, SEVA Technologies SA (SEVA) initiated actions against several employees and wholly-owned subsidiaries of Autoliv, Inc. In the actions, SEVA alleges that following preliminary discussions with SEVA starting in 2006, Autoliv's subsidiaries misappropriated SEVA's confidential information disclosed to such subsidiaries under a non-disclosure agreement and used such information to obtain a patent. SEVA is principally seeking to have SEVA declared the owner of the patent and certain former SEVA employees declared the inventors of the patent. SEVA has also indicated that it may seek damages of \$22 million (approximately \$30 million). Autoliv has rejected the claims but continues to evaluate the matter as SEVA amends or modifies its allegations. Autoliv intends to continue to vigorously defend itself against the same and has made no provisions for any expenses relating thereto.

In July 2011, we discovered that one of our plants in Asia had failed to properly report and maintain certain test protocols. We have informed the customer concerned and continue to investigate the matter. At this time we cannot estimate if this failure will impact our results of operations.

The table in Note 1.7 Product-Related Liabilities above summarizes the change in the balance sheet position of the product related liabilities for the three and nine month periods ended September 30, 2011 and September 30, 2010, respectively.

1.13 Earnings per share

The Company calculates basic earnings per share (EPS) by dividing net income attributable to controlling interest by the weighted-average number of common shares outstanding for the period (net of treasury shares). When it would not be antidilutive (such as during periods of net loss), the diluted EPS also reflects the potential dilution that could occur if common stock were issued for awards under the Stock Incentive Plan and for common stock issued upon conversion of the equity units.

For the three and nine month periods ended September 30, 2011, 3.8 million and 4.1 million shares, respectively, were included in the dilutive weighted average share amount related to the equity units. The potential number of shares which will currently be issued in the future related to the final settlement of the equity units varies between approximately 5.7 million, if the Autoliv share price is \$19.20 or higher, and approximately 6.8 million, if the price is \$16.00 or less, giving effect to the exchange of Equity Units discussed in Note 1.10 and taking into account all previously paid dividends, including the dividend paid in the third quarter 2011, but without giving effect to the fourth quarter 2011 dividend that has been declared but not yet paid and without giving effect to any future dividends that may be paid or any events that would result in an adjustment to the final settlement rate.

For the three and nine month periods ended September 30, 2011, approximately 0.3 and 0.2 million common shares respectively, which could potentially dilute basic EPS in the future, were not included in the computation of the diluted EPS.

During the first nine months of 2011 and 2010 approximately 0.3 million and 0.5 million shares, respectively, from the treasury stock have been utilized by the Stock Incentive Plan.

Table of Contents

Actual weighted average shares used in calculating earnings per share were:

(In millions)	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Weighted average shares basic	89.3	88.6	89.2	86.8
Effect of dilutive securities:				
- stock options/share awards	0.4	0.5	0.5	0.5
- equity units	3.8	3.7	4.1	4.5
Weighted average shares diluted	93.5	92.8	93.8	91.8

1.14 Subsequent Events

Exceptionally heavy rains during the monsoon season have caused severe flooding in Thailand. This flooding has not yet caused direct damage to Autoliv properties in Thailand and we are fortunate to report that we are not aware of any injuries sustained by Autoliv employees thus far. However, damages sustained by our customers and suppliers have disrupted the supply and distribution chain and caused certain auto manufacturers in the region to suspend production. At the time of this filing it is possible that the flooding will further intensify and there can be no certainty as to what extent our production and results of operations will be affected.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Consolidated Financial Statements and accompanying Notes thereto included elsewhere herein and with our 2010 Annual Report on Form 10-K filed with the SEC on February 23, 2011. Unless otherwise noted, all dollar amounts are in millions.

Autoliv is a Delaware corporation with principal executive offices in Stockholm, Sweden. It was created from the merger of Autoliv AB (AAB) and the automotive safety products division of Morton International, Inc. in 1997. The Company functions as a holding corporation and owns two principal subsidiaries, AAB, and Autoliv ASP, Inc. (ASP).

Autoliv, through AAB and ASP, is the world's leading supplier of automotive safety systems, with a broad range of product offerings, including modules and components for passenger and driver-side airbags, side-impact airbag protection systems, seatbelts, steering wheels, safety electronics, whiplash protection systems and child seats, including components for such systems, as well as night vision systems, radar and other active safety systems. Autoliv has approximately 80 production facilities in 29 countries and our customers include the world's largest car manufacturers.

Shares of Autoliv common stock are traded on the New York Stock Exchange under the symbol ALV and Swedish Depositary Receipts representing shares of Autoliv common stock trade on the NASDAQ OMX Nordic Exchange in Stockholm under the symbol ALIV. Options in Autoliv shares are traded in Philadelphia and AMSE under the symbol ALV. Corporate Units from the Company's Equity Unit offering in 2009 are traded on the New York Stock Exchange under the symbol ALV.PrZ.

Non-GAAP financial measures

Some of the following discussions refer to non-GAAP financial measures: see Organic sales, Operating working capital, Net debt, Leverage ratio and Interest coverage ratio. Management believes that these non-GAAP financial measures assist investors in analyzing trends in the Company's business. Additional descriptions regarding management's use of these financial measures are included below. Investors should consider these non-GAAP financial measures in addition to, rather than as a substitute for, financial reporting measures prepared in accordance with GAAP. These non-GAAP financial measures have been identified as applicable in each section of this report with a tabular presentation reconciling them to GAAP. It should be noted that these measures, as defined, may not be comparable to similarly titled measures used by other companies.

RESULTS OF OPERATIONS

Overview

The following table shows some of the key ratios. Management uses these measures internally as a means of analyzing the Company's current and future financial performance and our core operations as well as identifying trends in our financial conditions and results of operations. We have provided this information to investors to assist in meaningful comparisons of past and present operating results and to assist in highlighting the results of ongoing core operations. These ratios are more fully explained in our MD&A discussion below and should be read in conjunction with the consolidated financial statements in our annual report and the unaudited condensed consolidated financial statements in this quarterly report.

Table of Contents**KEY RATIOS**

(Dollars in millions)

	Three months ended		Nine months ended	
	or as of September 30 2011	2010	or as of September 30 2011	2010
Operating working capital ¹⁾	\$ 576	\$ 467	\$ 576	\$ 467
Capital employed ⁷⁾	\$ 3,343	\$ 3,145	\$ 3,343	\$ 3,145
Net debt ¹⁾	\$ 41	\$ 338	\$ 41	\$ 338
Net debt to capitalization, % ^{1, 2)}	1	11	1	11
Gross margin, % ³⁾	20.4	21.5	21.0	22.2
Operating margin, % ⁴⁾	10.2	11.6	10.7	11.9
Return on total equity, % ⁸⁾	17.0	20.8	19.8	21.4
Return on capital employed, % ⁹⁾	24.6	26.4	27.4	27.0
No. of employees at period-end ¹⁰⁾	37,937	33,222	37,937	33,222
Headcount at period-end ¹¹⁾	47,695	42,801	47,695	42,801
Days receivables outstanding ⁵⁾	72	74	70	73
Days inventory outstanding ⁶⁾	33	33	32	33

1) See tabular presentation reconciling this non-GAAP measure to GAAP below under the heading *Liquidity and Sources of Capital*

2) Net debt in relation to net debt and total equity (including non-controlling interest)

3) Gross profit relative to sales

4) Operating income relative to sales

5) Outstanding receivables relative to average daily sales

6) Outstanding inventory relative to average daily sales

7) Total equity and net debt

8) Net income relative to average total equity

9) Operating income and equity in earnings of affiliates, relative to average capital employed

10) Employees with a continuous employment agreement, recalculated to full time equivalent heads

11) Employees plus temporary, hourly workers

THREE MONTHS ENDED SEPTEMBER 30, 2011 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2010**Market overview**

During the three-month period July - September 2011, global light vehicle production (LVP) is estimated by IHS to have increased by close to 6% compared to the same quarter in 2010. This was almost in line with IHS's expectation at the beginning of the quarter.

In **Europe** (including Eastern Europe), where Autoliv derives somewhat less than 40% of its consolidated sales, LVP is estimated to have increased by 5%. LVP increased by 5% both in Western Europe and in Eastern Europe.

In **The Americas**, which accounts for slightly more than 30% of consolidated sales, LVP increased by 5%. Ford, Chrysler and General Motors (GM) raised their North American production by 12%, 10% and 5%, respectively. The Asian and European vehicle manufacturers increased LVP by 2% in North America. At the beginning of the third quarter, these manufacturers expected to increase their North American production by 4%.

In **China**, which accounts for just over 10% of consolidated sales, LVP grew by 10% instead of by 12% as expected.

Edgar Filing: AUTOLIV INC - Form 10-Q

In *Japan*, which accounts for 10% of Autoliv's consolidated sales, LVP declined by 4%, which was half as much as expected by IHS.

In the *Rest of Asia (RoA)*, which accounts for 10% of consolidated sales, LVP grew by 8%. LVP in South Korea, where the average safety content per vehicle is higher than in the other RoA-countries, rose by 8%, which was 2 pp less than expected.

Consolidated Sales

The Company has substantial operations outside the United States and at the present time nearly 80% of its sales are denominated in currencies other than the U.S. dollar. This makes the Company and its performance in regions outside the United States sensitive to changes in U.S. dollar exchange rates. The measure *Organic sales* presents the increase or decrease in the Company's overall U.S. dollar net sales on a comparative basis, allowing separate discussion of the impacts of acquisitions/divestments and exchange rate fluctuations and our ongoing core operations and results. The tabular reconciliation below presents the change in *Organic sales* reconciled to the change in the total net sales as can be derived from our unaudited financial statements.

Reconciliation of the change in *Organic sales* to GAAP financial measure

Components of net sales increase (decrease)

Three months ended September 30, 2011

(Dollars in millions)

	Europe		Americas		Japan		China		RoA		Total	
	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
Organic sales change	9.6	58.2	10.4	58.2	(12.1)	(25.7)	16.8	34.0	24.1	38.9	9.4	163.6
Effect of exchange rates	9.6	57.3	1.0	6.0	10.7	22.7	5.6	11.4	8.2	13.0	6.3	110.4
Impact of acquisitions/divestments	0.4	2.7					1.5	3.0	(1.9)	(3.0)	0.2	2.7
Reported net sales change	19.6	118.2	11.4	64.2	(1.4)	(3.0)	23.9	48.4	30.4	48.9	15.9	276.7

Table of Contents

Consolidated sales increased by 16% to \$2,018 million compared to the same quarter in 2010. Currency effects added slightly more than 6%. Acquisitions and divestitures were insignificant. Organic sales (non-U.S. GAAP measure, see table above) rose by slightly more than 9% and outperformed global LVP by close to 4 pp. The Company outperformed LVP in virtually all regions.

Autoliv's strong performance was driven by recent vehicle launches and a favorable vehicle mix, particularly with Hyundai/KIA and the Detroit 3. Sales were also driven by strong demand for side airbags for chest protection and for electronics (both passive electronics and active safety systems), as well as by the continued global trend of upgrading seatbelt systems with pretensioners.

Sales by Product

Sales of *airbag products* (including steering wheels and passive safety electronics) rose by nearly 15% to \$1,319 million compared to the same quarter in 2010. Currency effects added slightly more than 6%. Acquisitions had a minor impact. The organic sales (non-U.S. GAAP measure, see table above) growth of slightly more than 8% was almost 3 pp higher than the increase in global LVP. Sales were driven by strong demand for side airbags for chest protection, passenger airbags and for passive safety electronics, particularly by Hyundai/KIA, Chrysler, GM, and Ford.

Sales of *seatbelt products* grew by 16% to \$659 million compared to the same quarter in 2010. Currency effects added 7%. The organic sales (non-U.S. GAAP measure, see table above) increase of 9% was more than 3 pp higher than the growth in global LVP. Sales were driven by new business, mainly in Europe and China, especially from GM, Ford, Hyundai/KIA and Nissan.

Sales of *active safety products* (primarily automotive radar and night vision systems) rose by 78% to \$40 million, and grew organically (non-U.S. GAAP measure, see table above) by 75%. This was mainly due to new radar business with Chrysler and higher optional take-rates at Mercedes.

Sales by Region

Sales from Autoliv's *European* companies increased by 20% to \$722 million, compared to the same quarter in 2010, including favorable currency effects that accounted for nearly half of the increase. Organic sales (non-U.S. GAAP measure, see table above) growth of 10% was almost twice as much as expected and almost twice as much as the 5% increase in European LVP. Autoliv's strong performance was driven by several recent vehicle launches such as the BMW *1-series*, the Land Rover *Evoque* and the Ford *Focus/C-Max*, as well as by higher production volumes for the BMW *Mini Countryman* and the Audi *A8* and *A6*. This strong demand more than offset weaker demand in debt-challenged EU-countries and the negative effect from some contracts that expired.

Sales from Autoliv's companies in *The Americas* rose by slightly more than 11% to \$625 million, and included favorable currency effects of 1%. Organic sales (non-U.S. GAAP measure, see table above) growth of slightly more than 10% was 5 pp higher than the increase in the region's LVP. This was primarily due to strong performance by Chrysler, Ford and GM, specifically with recent models such as Dodge's *Charger* and *Durango*, Ford's *Focus* and Chevrolet's *Cruze*. In addition, Dodge increased production for its *Caravan*, Chrysler for its *Town & Country* and Ford for its *F-Series* and *Explorer*.

Sales from Autoliv's companies in *China* rose by nearly 24% to \$251 million. Currency effects added 6% and an acquisition from last year added 1%. The organic sales (non-U.S. GAAP measure, see table above) growth of nearly 17% was 7 pp higher than the growth in Chinese LVP. Autoliv's strong performance was driven by higher production volumes for several GM models as well as for Citroën's *C4*; Peugeot's *308*, *408* and the new *508*; BMW's *5-series*; Mercedes' *E-Class* and Audi's *A4*. Autoliv's strong performance was also driven by strong export sales to South Korea. These favorable effects more than offset the weaker-than-expected LVP among some domestic Chinese vehicle manufacturers.

Sales from Autoliv's companies in *Japan* decreased by 1% to \$210 million, compared to the same quarter in 2010, despite positive currency effects of 11%. The 12% overall decline in organic sales (non-U.S. GAAP measure, see table above) was less than expected, but 8 pp more than the 4% decline in Japanese LVP. In the second quarter, the recovery in Japanese LVP after the earthquake was quicker for vehicles to which Autoliv is a supplier, which helped Autoliv outperform Japanese LVP. In this quarter, however, other vehicle models have shown the strongest recovery. In addition, deliveries for one vehicle model were transferred to Autoliv Thailand.

Sales from Autoliv's companies in the *Rest of Asia (RoA)* increased by 30% to \$210 million, compared to the same quarter in 2010. Currency effects added 8%, while a divestiture of certain non-core assets had a 2% negative impact. Organic sales (non-U.S. GAAP measure, see table above) growth of 24% was almost three times as high as the 8% increase in the region's LVP. In South Korea, organic sales (non-U.S. GAAP measure, see table above) grew by 38%, substantially exceeding the 8% growth in the country's LVP. Autoliv's sales were driven by GM's new *Gentra* and Hyundai's new *Veloster* and by higher production volumes for Hyundai's *Verna*, *ix35* and *Santa Fe* and KIA's *Sportage* and *Sorento*.

Earnings for the Three-Month Period Ended September 30, 2011

For the third quarter 2011, gross profit improved by 10%, or \$37 million, to \$411 million compared to the same quarter in 2010. However, gross margin declined to 20.4% from 21.5%, compared to the same quarter in 2010. This was primarily due to higher raw material prices and negative currency revaluation effects.

Operating income increased by \$3 million to \$205 million, compared to the same quarter in 2010. Most of the \$37 million improvement in gross profit was offset by a \$15 million higher Research, Development and Engineering (R,D&E) expense, net and a \$15 million higher Selling, General & Administrative (S,G&A) expense, partially due to currency translation effects. In addition, legal expenses were \$5 million higher due to the ongoing antitrust investigations. However, in relation to sales, R,D&E expense, net stood unchanged at 5.1% despite significantly more R,D&E projects especially in active safety, while S,G&A rose only marginally to 4.5% from an exceptionally low level due to a positive one-time effect in the same quarter in 2010. Operating margin declined to 10.2% from 11.6%. Expenses related to the antitrust investigations (reported in Other expense) reduced the operating margin by 0.2 percentage points.

Income before taxes increased by \$3 million to \$193 million compared to the same quarter in 2010. This reflects the improvement in operating income and a favorable swing in Other financial items that last year was affected by losses on foreign currency loans. These favorable effects were partially offset by \$2 million higher interest expense, net due to higher floating interest rates for loans in Swedish Krona.

Net income attributable to controlling interest declined by \$2 million to \$138 million due to a higher effective tax rate that rose to 27.8% from 25.5% during the same quarter in 2010. Discrete tax items, net were \$2 million unfavorable in the third quarter in 2011 compared to \$5 million favorable in the same quarter in 2010.

Earnings per share assuming dilution declined by 3 cents to \$1.48. Higher pre-tax income improved earnings per share by 3 cents, while higher tax expense had a negative impact of 5 cents and more shares outstanding of 1 cent. The weighted average number of shares outstanding, assuming dilution, increased slightly to 93.5 million from 92.8 million during the same quarter in 2010.

NINE MONTHS ENDED SEPTEMBER 30, 2011 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2010

Market overview

During the period January - September 2011, global light vehicle production (LVP) increased by 4%, compared to the same period in 2010.

In *Europe*, LVP increased by 8%. In Western Europe the increase was 5% and in Eastern Europe 14%.

In *The Americas*, LVP rose by 7% due to Chrysler, Ford and GM increasing their North American LVP by 13%. The North American LVP of Asian and European vehicle manufacturers increased by almost 1%.

In *Japan*, LVP dropped by 22% due to component shortages after the earthquake.

In *China*, LVP grew by 8% and in the *Rest of Asia (RoA)* by 11%.

Consolidated Sales

The Company has substantial operations outside the United States and at the present time nearly 80% of its sales are denominated in currencies other than the U.S. dollar. This makes the Company and its performance in regions outside the United States sensitive to changes in U.S. dollar exchange rates. The measure *Organic sales* presents the increase or decrease in the Company's overall U.S. dollar net sales on a comparative basis, allowing separate discussion of the impacts of acquisitions/divestments and exchange rate fluctuations and our ongoing core operations and results. The tabular reconciliation below presents the change in *Organic sales* reconciled to the change in the total net sales as can be derived from our unaudited financial statements.

Reconciliation of the change in *Organic sales* to GAAP financial measure

Components of net sales increase (decrease)

Nine months ended September 30, 2011

(Dollars in millions)

Edgar Filing: AUTOLIV INC - Form 10-Q

	Europe		Americas		Japan		China		RoA		Total	
	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
Organic sales change	8.5	172.4	16.0	263.3	(18.6)	(108.9)	16.3	92.0	18.0	78.1	9.4	496.9
Effect of exchange rates	8.2	167.6	1.7	26.4	11.1	65.1	4.9	27.5	6.4	27.7	6.0	314.3
Impact of acquisitions/divestments	0.4	8.4					3.6	20.5	19.4	84.4	2.2	113.3
Reported net sales change	17.1	348.4	17.7	289.7	(7.5)	(43.8)	24.8	140.0	43.8	190.2	17.6	924.5

Table of Contents

For this year's first nine months, consolidated sales increased by almost 18% to \$6,188 million, compared to the same period in 2010. Currency effects added 6% and acquisitions net of divestitures added slightly more than 2%. Organic sales (non-U.S. GAAP measure, see table above) increased by more than 9%, which was 5 pp higher than the increase in global LVP.

Sales by Product

Sales of *airbag products* increased by 17% to \$4,057 million. Currency effects added almost 6% and acquisitions added 2%. The organic sales (non-U.S. GAAP measure, see table above) increase of 9% was 5 pp higher than the increase in global LVP.

Sales of *seatbelt products* rose by 16% to \$2,015 million. Currency effects added almost 7% and acquisitions added slightly more than 2%. Consequently, organic sales (non-U.S. GAAP measure, see table above) grew by 7%, 3 pp more than the increase in global LVP.

Sales of *active safety products* (primarily automotive radar and night vision systems) almost doubled (rising by 96%) to \$116 million and grew organically (non-U.S. GAAP measure, see table above) by 92%.

Sales by Region

Sales from Autoliv's *European* companies increased by 17% to \$2,386 million, including positive currency effects of 8%. The organic sales (non-U.S. GAAP measure, see table above) growth of 9% was slightly higher than the 8% increase in European LVP. In addition to the above-mentioned vehicle models that contributed to the performance in the third quarter, sales were driven by strong demand for the Mercedes *C-class*, and from AvtoVAZ in Russia and Dacia in Romania, especially in the first six months.

Sales from Autoliv's companies in *The Americas* increased by slightly less than 18% to \$1,931 million, including positive currency effects of less than 2%. The organic sales (non-U.S. GAAP measure, see table above) increase of 16% was more than twice the 7% increase in LVP in the Americas. Autoliv's strong performance was mainly due to several recent launches of vehicles with high safety content by Chrysler, GM and Ford along with their production increases.

Sales from Autoliv's companies in *China* rose by 25% to \$705 million. Currency effects added 5% and acquisitions added almost 4%. The organic sales (non-U.S. GAAP measure, see table above) growth of more than 16% was 8 pp stronger than the 8% increase in Chinese LVP, primarily due to market share gains, particularly in the first and the third quarters, and to export sales to South Korea and Japan.

Sales from Autoliv's companies in *Japan* declined by slightly less than 8% to \$541 million despite positive currency effects of 11%. The organic sales (non-U.S. GAAP measure, see table above) decline of 19% was 3 pp less than the drop in Japanese LVP. This reflects the strong start of the year for Autoliv and a favorable vehicle model mix that partially mitigated the effects of the sharp drop in Japanese LVP in the second quarter.

Sales from Autoliv's companies in the *RoA* jumped by nearly 44% to \$625 million. Acquisitions boosted sales by slightly more than 19%, while currency effects had a favorable impact of 6%. The organic sales (non-U.S. GAAP measure, see table above) increase of 18% was 7 pp higher than the growth in RoA's LVP. This was mainly due to Autoliv's strong performance in the important South Korean market and to new business from Hyundai/KIA and GM.

Earnings for the Nine-Month Period Ended September 30, 2011

Gross profit increased by 11%, or \$130 million, to \$1,299 million, compared to the same period in 2010. However, gross margin declined by 1.2 pp to 21.0%. This was due to higher raw material prices and the consequences of the earthquake in Japan.

Operating income improved by 6%, or \$39 million, to \$665 million. Operating margin declined in line with the gross margin decline, or by 1.2 pp, to 10.7%. Expenses of \$8 million related to the antitrust investigations had a 0.1 percentage point negative margin effect.

Income before taxes increased by 7%, or \$43 million, to \$617 million, primarily due to the improvement in operating income and a \$6 million lower expense in the second quarter for debt extinguishment. Most of the \$5 million higher interest expense, net was offset by higher earnings in affiliates and a lower negative impact from Other financial items, net.

Net income attributable to controlling interest improved by 13%, or \$52 million, to \$465 million. Income tax expense was \$150 million, including favorable discrete tax items of \$19 million, net which was mainly due to the \$24 million release of tax reserves in the second quarter.

Edgar Filing: AUTOLIV INC - Form 10-Q

The effective tax rate was 24.3% compared to 27.5% for the nine-month period last year.

Earnings per share, assuming dilution, improved by 10%, or \$0.45, to \$4.95 from the same period 2010. The average number of shares outstanding increased by 2% to 93.8 million. The higher number of shares outstanding had an 11 cent negative effect on earnings per share.

LIQUIDITY AND SOURCES OF CAPITAL

Cash flow from operations for the third quarter amounted to \$192 million, the second highest third-quarter cash flow behind the third quarter in 2010 when operations generated \$198 million in cash.

Capital expenditures, net of \$86 million were \$20 million more than depreciation and amortization in the third quarter and \$27 million more than capital expenditures during the third quarter in 2010. Higher capital expenditures reflect capacity expansions in Asia and South America as well as in active safety.

Operations for the first nine months generated \$465 million in cash compared to \$598 million during the first nine months of 2010. Capital expenditures, net amounted to \$257 million and depreciation and amortization to \$198 million for the first nine months compared to \$142 million and \$214 million, respectively, during the same period last year.

The Company uses the non-U.S. GAAP measure Operating working capital as defined in the table below in its communication with investors and for management review of the development of the working capital cash generation from operations. The reconciling items used to derive this measure are by contrast managed as part of the Company's overall debt management but they are not part of the responsibilities of day-to-day operations management.

Reconciliation of Operating working capital to GAAP financial measure

(Dollars in millions)

	September 30, 2011	June 30, 2011	December 31, 2010	September 30, 2010
Total current assets	\$ 2,943.3	\$ 2,979.6	\$ 2,688.6	\$ 2,671.5
Total current liabilities	(1,983.5)	(2,074.7)	(1,834.5)	(1,911.4)
Working capital	959.8	904.9	854.1	760.1
Cash and cash equivalents	(630.7)	(559.7)	(587.7)	(487.2)
Short-term debt	221.8	205.9	87.1	156.2
Derivative (asset) and liability, current	(15.5)	8.0	(0.7)	6.9
Dividends payable	40.2	40.2	35.6	31.0
Operating working capital	\$ 575.6	\$ 599.3	\$ 388.4	\$ 467.0

During the third quarter, operating working capital (non-U.S. GAAP measure, see table above) decreased to 7.1% of sales from 7.7% at June 30. This was due to higher 12-month sales and 0.3 pp from a classification change. The Company's policy is that working capital should not exceed 10% in relation to last 12-month sales.

Accounts receivable decreased to 72 days in relation to sales from 74 days at the same date last year but increased from 71 days from June 30. During the third quarter, inventories increased to 33 days outstanding from 31 days at June 30 but was unchanged from the same date last year.

Reconciliation of Net debt to GAAP financial measure

(Dollars in millions)

	September 30, 2011	June 30, 2011	December 31, 2010	September 30, 2010
Short-term debt	\$ 221.8	\$ 205.9	\$ 87.1	\$ 156.2
Long-term debt	480.2	487.9	637.7	680.0

Edgar Filing: AUTOLIV INC - Form 10-Q

Total debt	702.0	693.8	724.8	836.2
Cash and cash equivalents	(630.7)	(559.7)	(587.7)	(487.2)
Debt-related derivatives	(30.8)	(2.3)	(10.0)	(11.2)
Net debt	\$ 40.5	\$ 131.8	\$ 127.1	\$ 337.8

Table of Contents

Net debt (non-U.S. GAAP measure, see table above) declined during the third quarter by \$91 million to \$41 million despite dividend payments of \$40 million. This decline was due to strong cash flow and favorable currency effects of \$34 million. Gross interest-bearing debt increased during the third quarter by \$8 million to \$702 million.

The non-U.S. GAAP measure net debt is also used in the non-U.S. GAAP measure Leverage ratio which together with the non-U.S. GAAP measure Interest coverage ratio constitute the Company's debt limitation policy. Management uses this measure to analyze the amount of debt the Company should incur. This policy also provides guidance to credit and equity investors regarding the extent to which the Company would be prepared to leverage its operations. For details on leverage ratio and interest coverage ratio, refer to the tables below that reconcile these two non-U.S. GAAP measures to U.S. GAAP measures.

Reconciliation of Leverage ratio to GAAP financial measure

(Dollars in millions)

	September 30, 2011	December 31, 2010
Net debt ²⁾	\$ 40.5	\$ 127.1
Pension liabilities	141.3	136.0
Less: Debt portion of equity units	(105.3)	(100.2)
Net debt per the policy	\$ 76.5	\$ 162.9
Income before income taxes ³⁾	\$ 848.3	\$ 805.5
Plus: Interest expense, net ^{1, 3)}	62.0	63.1
Depreciation and amortization of intangibles (incl. impairment write-offs) ³⁾	265.9	281.7
EBITDA per the Policy ³⁾	\$ 1,176.2	\$ 1,150.3
Net debt to EBITDA ratio	0.1	0.1

1) Interest expense, net, is interest expense less interest income.

2) Net debt is short- and long-term debt and debt-related derivatives less cash and cash equivalents.

3) Latest 12-months.

Reconciliation of Interest coverage ratio to GAAP financial measure

(Dollars in millions)

	September 30, 2011	December 31, 2010
Operating income ²⁾	\$ 907.6	\$ 869.2
Amortization of intangibles (incl. impairment write-offs) ²⁾	17.7	18.0
Operating profit per the Policy²⁾	\$ 925.3	\$ 887.2
Interest expense, net ^{1, 2)}	\$ 62.0	\$ 63.1
Interest coverage ratio	14.9	14.1

- 1) *Interest expense, net, is interest expense less interest income.*
- 2) *Latest 12-months.*

Table of Contents

Autoliv's policy is to maintain a leverage ratio (non-U.S. GAAP measure, see table above) significantly below 3.0 times and an interest-coverage ratio (non-U.S. GAAP measure, see table above) significantly above 2.75 times. During the third quarter, the Company's leverage ratio stood unchanged at 0.1 times, while the interest coverage ratio decreased to 14.9 times from 15.4 times on June 30. Leverage ratio is measured as adjusted net debt (non-U.S. GAAP measure, see table above) in relation to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), which is also a non-U.S. GAAP measure (see table above). Interest coverage is defined as operating income (excluding amortization of intangibles) in relation to interest expense, net. Adjusted net debt includes pension liabilities but excludes the debt from equity units since these funds are regarded as equity by Standard & Poor's due to the fact that the purchase contracts of the equity units are binding and not revocable. Net debt to capitalization ratio declined to 1% at the end of the quarter from 4% on June 30 due to the cash flow.

During the third quarter, total equity increased by \$41 million to \$3,302 million due to net income of \$139 million, common stock incentives of \$2 million and reductions in pension liabilities of \$1 million. This was partially offset by unfavorable currency effects of \$61 million and a \$40 million accrual for the declared dividend for the fourth quarter. Total parent shareholders' equity was \$3,288 million corresponding to \$36.82 per share.

Despite \$114 million in dividend payments, net debt decreased by \$86 million during the nine-month period from \$127 million at the beginning of the period to \$41 million. Gross interest-bearing debt decreased by \$23 million to \$702 million. Net debt to capitalization declined to 1% from 4% at the end of 2010.

During the first nine months, total equity increased by \$363 million mainly as a result of the \$467 million net income and common stock incentives of \$15 million. Dividends for the first three quarters reduced equity by \$119 million.

Return on total equity was 20% and return on capital employed was 27% for the first nine months, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on its financial position, results of operations or cash flows.

Headcount

Total headcount (permanent employees and temporary personnel) increased by 1,400 during the third quarter to 47,700 and by 4,400 during the nine-month period. Of the headcount increase during the third quarter, 79% were direct production workers in response to the expanding manufacturing volumes, 88% were in low-cost countries (LCC) and 43% were temporary personnel.

Currently, 71% of total headcount are direct workers in manufacturing, 65% are in LCC and 20% are temporary personnel compared to 70%, 62%, and 22%, respectively, at the same time a year ago.

Outlook

Based on Autoliv's latest call-offs from customers, we expect to continue to outperform global LVP by growing the Company's organic (non-U.S. GAAP measure) and consolidated sales in the fourth quarter by more than 9% compared to an expected growth in global LVP of nearly 4% according to IHS. The effects of acquisitions and currency are expected to be insignificant provided the current exchange rates prevail. This would lead to a consolidated sales increase of more than 15% to almost \$8.3 billion for the full year, including an average organic sales (non-U.S. GAAP measure) growth of more than 9% in 2011. It should be noted that the macroeconomic environment is uncertain. Therefore, it is currently unusually difficult to make forecasts about LVP.

These sales assumptions imply an operating margin of approximately 11.5% for the fourth quarter. However, given the current uncertainty surrounding the flooding in Thailand (see Other Events), we guide the fourth quarter operating margin to be in the range of 11-11.5%.

For the full year, operating margin is essentially unchanged from our July indication of more than 11%. However given the uncertainties surrounding the flooding in Thailand, we are now slightly modifying our operating margin guidance to be around 11%.

The margin guidance does not include any impact from the ongoing antitrust investigations (including legal fees or any other potential costs) since such impact is not currently estimable (see Other Events).

The projected effective tax rate for the remainder of the year, excluding any discrete tax items that might arise, is estimated to be around 28%.

OTHER RECENT EVENTS

Launches in the 3rd quarter 2011

BMW's new 1-Series: Camera-based vision system for advanced drive assist systems, side airbags, inflatable curtains and seatbelts.

BMW's new Mini Coupé: Driver airbag with steering wheel, passenger airbag, side airbags, seatbelts with pretensioners and safety electronics.

Chery's new Riich G3: Driver airbag with steering wheel, passenger airbag, side airbags, inflatable curtains, seatbelts with pretensioners and safety electronics.

Citroën's new DS5: Seatbelts with pretensioners.

Ford's new Ranger: Knee driver airbag, passenger airbag, side airbags, inflatable curtains and safety electronics.

Great Wall's new Hover H6: Driver airbag with steering wheel, passenger airbag, seatbelts with pretensioners and safety electronics.

Mercedes' new B-Class: Radar system (for collision prevention assist and blind-spot monitoring), knee driver airbag, passenger airbag, side airbags, inflatable curtains, active seatbelts with pre-pretensioners.

Other Events

As previously announced, the U.S. Department of Justice and the European Commission are investigating possible anti-competitive behavior among certain automotive suppliers, including Autoliv. It is likely that, for the reporting periods in which the related liabilities become estimable or the investigations are resolved, the Company's operating results and cash flows will be materially impacted. However, as the Company cannot predict the duration, future scope or final outcome of the investigations, it is unable to estimate such impact or predict the reporting periods in which it may be recorded.

Great Wall Motor Co., Ltd. and Autoliv have entered into a strategic agreement to enhance technical cooperation in the area of active and integrated safety on top of the companies' ongoing cooperation in passive safety. Great Wall is China's leading SUV and pickup manufacturer.

To supplement Autoliv's own short- and medium-range radar, the Company has acquired an exclusive license to a 77 GHz long-range radar technology (hardware and algorithms) from the German company ASTYX Communications and Sensors GmbH. The Astyx world-class technology will feature *Full Speed Adaptive Cruise Control (SPACC)* to automatically keep a safe distance between the driver's vehicle and vehicles ahead. It will also feature *Emergency Braking (EB)* used to autonomously brake a vehicle when an accident is imminent and *Forward Collision Warning (FCW)* to alert the driver in the event the vehicle is approaching another vehicle in a manner that could create an accident.

Edgar Filing: AUTOLIV INC - Form 10-Q

At the Frankfurt Auto Show, BMW introduced Autoliv's camera-based vision system featuring *Lane Departure Warning* and *Forward Collision Warning* technologies. Other features include: *Traffic Sign Recognition*, providing the driver with information about speed zones and no-pass zones, and *Automatic High/Low Beam Switching*.

Autoliv has developed the world's first system that combines the controls for vehicle brakes with the controls for vehicle restraints. The Company has already been awarded production business for this enhanced, cost-efficient system.

We have experienced manufacturing difficulty in Thailand as a result of recent severe flooding. Although neither of our two plants in Thailand has been flooded, several manufacturing lines have been stopped due to component shortages from suppliers affected by the flooding. Additionally, some customer plants in the country have also been forced to suspend production. At present, the final financial impact on Autoliv cannot be assessed since the duration of these disruptions is not known. We currently estimate the effect on operating income to be at least \$6 million during the fourth quarter.

Dividend

As previously announced, the Company has declared a quarterly dividend of 45 cents per share which will be paid on Thursday, December 1, 2011 to shareholders of record on November 17. The ex-date, when the shares will trade without the right to the dividend, will be November 15, 2011.

Next Report

Autoliv intends to publish the quarterly report for the fourth quarter 2011 on Wednesday, February 1, 2012.

Table of Contents

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of September 30, 2011, the Company's future contractual obligations have not changed materially from the amounts reported in the 2010 Annual Report on Form 10-K filed with SEC on February 23, 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Other than as set forth below, as of September 30, 2011, there have been no material changes to the information related to quantitative and qualitative disclosures about market risk that was provided in the Company's 2010 Annual Report on Form 10-K filed with the SEC on February 23, 2011.

As a result of the new \$1.1 billion revolving credit facility (RCF) announced in April, Autoliv cancelled two other back-up facilities in May with an aggregate amount of approximately \$535 million and prepaid \$95 million of debt, which in aggregate is expected to save \$5 million per year in interest expense and other financing costs. Additionally, on July 18, 2011, the Company's wholly owned subsidiary Autoliv AB amended its 225 million (\$304 million) facility agreement with the European Investment Bank (EIB), initially entered into on December 18, 2009. The amendment extends the commitment from EIB until December 18, 2012 instead of expiring according to the terms of the original agreement on June 20, 2011. The amendment also reduces the permitted maximum duration of loans drawn under the agreement from up to ten years to up to eight years and reduces the margin from EIB cost of funds + 1.2% to EIB cost of funds +0.3%. Otherwise the amended facility is substantially similar to the prior facility and, as with all of Autoliv's principal debt agreements, the amendment does not contain financial covenants, i.e. performance-related restrictions. This facility was unutilized at the third quarter closing.

The Company's refinancing risk policy requires it to maintain long-term facilities with an average maturity of at least three years (drawn or undrawn) corresponding to 150% of total net debt (non-U.S. GAAP measure, see Non-GAAP financial measures in Item 2, above). Currently, this ratio is above 4,000%, based on total net debt of \$41 million compared to long-term debt and facilities of \$1.9 billion. Of the long-term committed facilities, \$1.4 billion is currently unutilized. No significant financing is subject to financial covenants (i.e. performance-related restrictions).

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

An evaluation has been carried out, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

(b) Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 4T. CONTROLS AND PROCEDURES

Not applicable.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Various claims, lawsuits and proceedings are pending or threatened against the Company or its subsidiaries, covering a range of matters that arise in the ordinary course of its business activities with respect to commercial, product liability and other matters.

For further discussion of legal proceedings, see Note 1.12 Contingent Liabilities to the Unaudited Consolidated Financial Statements Legal Proceedings included in this quarterly report on Form 10-Q.

Litigation is subject to many uncertainties, and the outcome of any litigation cannot be assured. After discussions with counsel, it is the opinion of management that the litigation to which the Company is currently a party will not have a material adverse impact on the consolidated financial position of Autoliv. The Company may, however, experience material product liability or other losses in the future.

Table of Contents

The Company believes that it is currently adequately insured against product and other liability risks at levels sufficient to cover potential claims. The level of coverage may, however, be insufficient in the future or unavailable on the market.

ITEM 1A. RISK FACTORS

The risk factor set forth below is in addition to the risk factors previously disclosed in Part I, Item 1A. Risk Factors in our annual report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 23, 2011, which includes a detailed discussion of risk factors that could materially affect our business, financial condition or results of operations, and is herein incorporated by reference.

Our industry has been negatively impacted by the devastating effects of the earthquake and tsunami that recently hit Japan.

It is currently difficult to predict with any certainty or precision the continued impact on our operations due to the events triggered by the March 11, 2011 earthquake and tsunami in Japan. These events caused extensive and severe damage, impacting not only manufacturing facilities of automotive suppliers (including sub-suppliers) and manufacturers, but also of transportation, energy and distribution infrastructure. Although only one of our four plants in Japan suffered minor damages during the earthquake, and all are currently operational, customers and suppliers of Autoliv, as well as their respective suppliers and other customers, have experienced and may continue to experience disruptions to their operations.

Because of the global integration of the automotive industry (where a vehicle manufactured on one continent may contain parts generated on other continents), its tight delivery schedules and low levels of parts inventory, a disruption impacting even only a single critical supplier to the industry may impact the whole industry. Due to the risk of reduced capacity from our suppliers or customers, even where we are able to secure deliveries from our suppliers and to produce our products, our customers may not accept deliveries as they lack other components required to manufacture their products. There are also additional indirect effects that may impact our operations, which are difficult to predict at this time.

In sum, we cannot be certain what future impact the devastating events in Japan will have on our ability to produce and supply our products to our customers and to what extent our customers will decrease or cancel production orders. Similarly, we cannot anticipate what impact, if any, the changes in global vehicle production resulting from the events in Japan will have on our market share. As a result, no assurances can be given that these events will not have a material adverse effect on our business, financial condition and results of operations.

We are involved from time to time in legal proceedings and our business may suffer as a result of adverse outcomes of current or future legal proceedings.

We are, from time to time, involved in legal proceedings and commercial or contractual disputes that may be significant. These claims may include, without limitation, commercial or contractual disputes, including disputes with our suppliers, intellectual property matters, regulatory matters and governmental investigations, personal injury claims, environmental issues, tax and customs matters, and employment matters. Such legal proceedings, including regulatory actions and government investigations, may seek recovery of very large indeterminate amounts or to limit our operations, and the possibility that they may arise and their magnitude may remain unknown for substantial periods of time. A substantial legal liability or adverse regulatory outcome and the substantial cost to defend the litigation or regulatory proceedings may have an adverse effect on our business, operating results, financial condition, cash flows and reputation. No assurances can be given that such proceedings and claims will not have a material adverse impact on our profitability and consolidated financial position or that reserves or insurance will mitigate such impact.

See Note 1.12 Contingent Liabilities to the Unaudited Consolidated Financial Statements Legal Proceedings included in this quarterly report on Form 10-Q.

We could experience disruption in our supply or delivery chain which could cause one or more of our customers to halt production.

We, as with other component manufactures in the automotive industry, ship products to the vehicle assembly plants throughout the world so they are delivered on a just in time basis in order to maintain low inventory levels. Our suppliers also use a similar method. However, this just-in-time method makes the logistics supply chain in our industry very complex and very vulnerable to disruptions.

Such disruptions could be caused by any one of a myriad of potential problems, such as closures of one of our or our suppliers plants or critical manufacturing lines due to strikes, mechanical breakdowns, electrical outages, fires, explosions, political upheaval, as well as logistical complications due to weather, volcanic eruptions, flooding, or other natural disasters, mechanical failures, delayed customs processing and more. Additionally, as the Company grows in low cost countries, the risk for such disruptions is heightened. The lack of even a small single

Edgar Filing: AUTOLIV INC - Form 10-Q

subcomponent necessary to manufacture one of our products, for whatever reason, could force us to cease production, even for a prolonged period. Similarly, a potential quality issue could force us to halt deliveries while we validate the products. Even where products are ready to be shipped, or have been shipped, delays may arise before they reach our customer. Our customers may halt

Table of Contents

or delay their production for the same reason if one of their other suppliers fails to deliver necessary components. This may cause our customers, in turn to suspend their orders, or instruct us to suspend delivery, of our products, which may adversely affect our financial performance.

When we cease timely deliveries, we have to absorb our own costs for identifying and solving the root cause problem as well as expeditiously producing replacement components or products. Generally, we must also carry the costs associated with catching up, such as over-time and premium freight.

Additionally, if we are the cause for a customer being forced to halt production the customer may seek to recoup all of its losses and expenses from us. These losses and expenses could be very significant, and may include consequential losses such as lost profits. Thus, any supply-chain disruption, however small, could potentially cause the complete shutdown of an assembly line of one of our customers, and any such shutdown could expose us to material claims of compensation. Where a customer halts production because of another supplier failing to deliver on time, we may not be fully compensated, if at all.

For example in early 2010 volcanic activity in Iceland caused widespread and unprecedented delays in air travel. Additionally, severe flooding during the 2011 monsoon season in Thailand has disrupted our supply and distribution chain in the region. Such disruptions, whether caused by a volcano, earthquake, flooding or some other natural disaster, were they to resume or otherwise occur, could cause significant delays and complications to our ability to ship our products to customers, as well as receive shipments from our suppliers. Also, similar difficulties for other suppliers may force our customers to halt production which may in turn impact our sales shipments to such customers. It is impossible for us to predict if and when disruptions of air, ground and sea transport will occur again and, if so, what impact such disruptions will have. While we are taking precautions and will seek to mitigate the impact of any such disruptions, they could very severely impact our operations and/or those of our customers and force us to halt production for prolonged periods of time and/or to absorb very significant costs to avoid disruption of our customers operations.

We face risks related to our defined benefit pension plans, including the need for additional funding as well as higher costs and liabilities

Our defined benefit pension plans may require additional funding or give rise to higher related costs and liabilities which, in some circumstances, could reach material amounts and negatively affect our results of operations. We are required to make certain year-end assumptions regarding our pension plans. Our pension obligations are dependent on several factors, including factors outside our control such as changes in interest rates, the market performance of the diversified investments underlying the pension plans, actuarial data and adjustments, and an increase in the minimum funding requirements or other regulatory changes governing the plans. Adverse equity market conditions and volatility in the credit market may have an unfavorable impact on the value of the Company's pension assets and its future estimated pension liabilities. Internal factors such as an adjustment to the level of benefits provided under the plans may also lead to an increase in our pension liability. If these or other internal and external risks were to occur, alone or in combination, our required contributions to the plans and the costs and net liabilities associated with the plans could increase substantially and have a material effect on our business.

Information concerning our defined benefit plans is included in Note 18 of the Consolidated Financial Statements on pages 72 through 75 of the Annual Report, filed with the SEC on February 23, 2011 as Exhibit 13 to our Form 10-K for the year ended December 31, 2010.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Stock repurchase program

Since September 15, 2008 (the day of the default of Lehman Brothers), Autoliv has made no share repurchases. Since the repurchase program was adopted in 2000, Autoliv has repurchased 34.3 million Autoliv, Inc. shares at an average cost of US \$42.93 per share. Under the existing authorizations, approximately another 3.2 million shares may be repurchased. Although we suspended our share repurchases to preserve cash in order to maintain a strong cash position and as to possibly take advantage of potential market opportunities, we may from time to time repurchase our shares in the open market under the existing share repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. [REMOVED AND RESERVED]

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

Table of Contents**ITEM 6. EXHIBITS**

Exhibit No.	Description
3.1	Autoliv's Restated Certificate of Incorporation incorporated herein by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q, filed on May 14, 1997.
3.2	Autoliv's Restated By-Laws incorporated herein by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q, filed on May 14, 1997.
4.1	Senior Indenture, dated March 30, 2009, between Autoliv and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 to Autoliv's Registration Statement on Form 8-A (File No. 001-12933, filing date March 30, 2009).
4.2	First Supplemental Indenture, dated March 30, 2009, between Autoliv and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.2 to Autoliv's Registration Statement on Form 8-A (File No. 001-12933).
4.3	Purchase Contract and Pledge Agreement, dated March 30, 2009, among Autoliv and U.S. Bank National Association, as Stock Purchase Contract Agent, and U.S. Bank National Association, as Collateral Agent, Custodial Agent and Securities Intermediary, incorporated herein by reference to Exhibit 4.3 to Autoliv's Registration Statement on Form 8-A (File No. 001-12933).
4.4	General Terms and Conditions for Swedish Depository Receipts in Autoliv, Inc. representing common shares in Autoliv, Inc., effective as of March 1, 2008, with Skandinaviska Enskilda Banken AB (publ) serving as custodian, incorporated by reference to Exhibit 4.12 to Autoliv's Registration Statement on Form S-3 (File No. 333-158139, filing date March 23, 2009).
10.26	Amendment, dated July 18, 2011, to Financing Commitment Agreement of \$225 million originally dated December 18, 2009, among Autoliv AB, Autoliv, Inc. (as Guarantor) and the European Investment Bank (EIB), incorporated herein by reference to Exhibit 99.1 to the Quarterly Report on Form 10-Q (File No. 001-12933, filing date July 21, 2011).
31.1 *	Certification of the Chief Executive Officer of Autoliv, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2 *	Certification of the Chief Financial Officer of Autoliv, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1*	Certification of the Chief Executive Officer of Autoliv, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer of Autoliv, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information from the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2011, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Statements of Income; (ii) the Consolidated Balance Sheets; (iii) the Consolidated Statements of Cash Flows; and (iv) the Notes to the Consolidated Financial Statements.

* Filed herewith.

Table of Contents

SIGNATURE

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.

Date: October 26, 2011

AUTOLIV, INC.

(Registrant)

By: /s/ Mats Wallin

Mats Wallin
Chief Financial Officer
(Duly Authorized Officer and Principal
Financial Officer)