

AUTOLIV INC  
Form 10-Q  
October 31, 2006

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, 2006

Commission File No.: 1-12933

AUTOLIV, INC.

(Exact name of registrant as  
specified in its charter)

Delaware

51-0378542

(State or other jurisdic-  
tion of incorporation or  
organization)

World Trade Center,  
Klarabergsviadukten 70,  
Box 70381,  
SE-107 24 Stockholm, Sweden

(I.R.S. Employer Identi-  
fication No.)

N/A

(Address of principal executive offices)

(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 is a large accelerated filer, an accelerated filer, or a

non-accelerated filer.

Large accelerated filer:  Accelerated filer:  Non-accelerated filer:

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 27, 2006, there were 81,273,151 shares of common stock of Autoliv, Inc., par value \$1.00 per share, outstanding.

## **FORWARD-LOOKING STATEMENTS**

This Form 10-Q contains statements that are not historical facts but forward-looking statements that involve risks and uncertainties that could cause Autoliv, Inc.'s ("Autoliv" or the "Company") results to differ materially from what is projected, including but not limited to the following: higher raw material costs or other expenses; a major loss of customers; increased competitive pricing pressure on the Company's business; failure to develop or commercialize successfully new products or technologies; the outcome of pending and future litigation and changes in governmental procedures, laws or regulations, including environmental regulations; plant disruptions or shutdowns due to accidents, natural acts or governmental action; labor disputes; product liability and recall issues; and other difficulties in improving margin or financial performance. In addition, the Company's forward-looking statements could be affected by general industry and market conditions and growth rates, general domestic and international economic conditions, including currency exchange rate fluctuations, and other factors. Except for the Company's ongoing obligation to disclose material information under the federal securities laws, the Company undertakes no obligations to update publicized information and forward-looking statements whether as a result of new information or future events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

## **INDEX**

### **PART I - FINANCIAL INFORMATION**

#### **ITEM 1. FINANCIAL STATEMENTS**

- 1.1 Basis of Presentation
- 1.2 Receivables
- 1.3 Inventories
- 1.4 Restructuring
- 1.5 Product Related Liabilities
- 1.6 Comprehensive Income
- 1.7 Stock Incentive Plan
- 1.8 New Accounting Pronouncements
- 1.9 Income Taxes
- 1.10 Retirement Plans
- 1.11 Contingent Liabilities
- 1.12 Debt and Credit Agreements

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

#### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **ITEM 4. CONTROLS AND PROCEDURES**

### **PART II - OTHER INFORMATION**

#### **ITEM 1. LEGAL PROCEEDINGS**

#### **ITEM 1A. RISK FACTORS**

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

#### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

#### **ITEM 5. OTHER INFORMATION**

#### **ITEM 6. EXHIBITS**

## **PART I - FINANCIAL INFORMATION**

### **ITEM 1 FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**  
(Dollars in millions, except per share data)

|  | Quarter July - September |                  |                  | First 9 months   |
|--|--------------------------|------------------|------------------|------------------|
|  | <u>2006</u>              | <u>2005</u>      | <u>2006</u>      | <u>2005</u>      |
| <i>Net sales</i>   |                          |                  |                  |                  |
| - Airbag products  | \$925.8                  | \$934.3          | \$3,030.3        | \$3,152.0        |
| - Seatbelt products  | <u>484.8</u>             | <u>457.4</u>     | <u>1,556.1</u>   | <u>1,587.9</u>   |
| <b>Total net sales</b>   | <b>1,410.6</b>           | <b>1,391.7</b>   | <b>4,586.4</b>   | <b>4,739.9</b>   |
| Cost of sales  | <u>(1,132.4)</u>         | <u>(1,110.5)</u> | <u>(3,634.9)</u> | <u>(3,772.1)</u> |
| <b>Gross profit</b>  | <b>278.2</b>             | <b>281.2</b>     | <b>951.5</b>     | <b>967.8</b>     |
| Selling, general & administrative expenses   | (79.3)                   | (78.2)           | (242.8)          | (249.1)          |
| Research, development & engineering expenses   | (94.6)                   | (88.8)           | (307.8)          | (310.2)          |
| Amortization of intangibles  | (3.7)                    | (3.9)            | (11.3)           | (11.3)           |
| Other income (expense), net  | <u>1.3</u>               | <u>(6.0)</u>     | <u>(5.8)</u>     | <u>(20.3)</u>    |
| <b>Operating income</b>  | <b>101.9</b>             | <b>104.3</b>     | <b>383.8</b>     | <b>376.9</b>     |
| Equity in earnings of affiliates   | 1.5                      | 1.1              | 4.6              | 5.1              |
| Interest income  | 1.7                      | 1.4              | 6.4              | 5.8              |
| Interest expense   | (12.2)                   | (11.4)           | (33.8)           | (35.9)           |
| Other financial items, net   | <u>(1.1)</u>             | <u>(.3)</u>      | <u>(3.7)</u>     | <u>(.6)</u>      |
| <b>Income before income taxes</b>  | <b>91.8</b>              | <b>95.1</b>      | <b>357.3</b>     | <b>351.3</b>     |
| Income taxes   | 34.9                     | (33.7)           | (43.9)           | (119.8)          |
| Minority interests in subsidiaries   | <u>(5.0)</u>             | <u>(2.3)</u>     | <u>(14.3)</u>    | <u>(8.9)</u>     |
| <b>Net income</b>  | <b>\$121.7</b>           | <b>\$59.1</b>    | <b>\$299.1</b>   | <b>\$222.6</b>   |
| <b>Earnings per share - basic</b>  | <b>\$1.49</b>            | <b>\$.67</b>     | <b>\$3.62</b>    | <b>\$2.46</b>    |
| <b>Earnings per share - diluted</b>  | <b>\$1.48</b>            | <b>\$.66</b>     | <b>\$3.60</b>    | <b>\$2.45</b>    |
| <b>Weighted average number of shares outstanding, assuming dilution and net of treasury shares (in millions)</b> | <b>82.1</b>              | <b>89.3</b>      | <b>83.0</b>      | <b>90.9</b>      |
| <b>Number of shares outstanding, net of treasury shares and excluding dilution (in millions)</b>                 | <b>81.2</b>              | <b>87.0</b>      | <b>81.2</b>      | <b>87.0</b>      |
| <b>Cash dividend per share - paid</b>  | <b>\$.35</b>             | <b>\$.30</b>     | <b>\$.99</b>     | <b>\$.85</b>     |

See "Notes to unaudited consolidated financial statements".

**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Dollars in millions)

|  | September 30<br><u>2006</u><br>(unaudited) | December 31<br><u>2005</u> |
|--|--|----------------------------|
| <i>Assets</i>                            |  |                            |
| Cash & cash equivalents                  | \$131.9                                    | \$295.9                    |
| Receivables                              | 1,245.3                                    | 1,149.0                    |
| Inventories                              | 513.4                                      | 485.4                      |
| Other current assets                     | <u>174.8</u>                               | <u>232.2</u>               |
| <b>Total current assets</b>              | <b>2,065.4</b>                             | <b>2,162.5</b>             |
| Property, plant & equipment, net         | 1,127.7                                    | 1,080.7                    |
| Investments and other non-current assets | 157.7                                      | 142.9                      |
| Goodwill                                 | 1,532.3                                    | 1,524.8                    |
| Intangible assets, net                   | <u>144.9</u>                               | <u>154.3</u>               |

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|   |                  |                  |
|---|------------------|------------------|
| <b>Total assets</b>                               | <b>\$5,028.0</b> | <b>\$5,065.2</b> |
| <i>Liabilities and shareholders' equity</i>       |                  |                  |
| Short-term debt                                   | \$118.8          | \$508.4          |
| Accounts payable                                  | 697.5            | 682.6            |
| Accrued expenses                                  | 313.4            | 305.1            |
| Other current liabilities                         | <u>284.6</u>     | <u>268.2</u>     |
| <b>Total current liabilities</b>                  | <b>1,414.3</b>   | <b>1,764.3</b>   |
| Long-term debt                                    | 982.8            | 757.1            |
| Pension liability                                 | 58.9             | 49.6             |
| Other non-current liabilities                     | 110.1            | 112.4            |
| Minority interests in subsidiaries                | 77.1             | 65.7             |
| Shareholders' equity                              | <u>2,384.8</u>   | <u>2,316.1</u>   |
| <b>Total liabilities and shareholders' equity</b> | <b>\$5,028.0</b> | <b>\$5,065.2</b> |

See "Notes to unaudited consolidated financial statements"

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(Dollars in millions)

|   | Quarter July - Sept |                | First 9 months |                |
|---|---------------------|----------------|----------------|----------------|
|   | <u>2006</u>         | <u>2005</u>    | <u>2006</u>    | <u>2005</u>    |
| <b>Operating activities</b>                             |                     |                |                |                |
| Net income  | \$127.7             | \$59.1         | \$299.1        | \$222.6        |
| Depreciation and amortization                           | 74.1                | 72.7           | 222.8          | 234.7          |
| Deferred taxes and other                                | (2.8)               | 12.9           | (2.0)          | 36.0           |
| Changes in operating assets and liabilities             | <u>(91.0)</u>       | <u>(20.8)</u>  | <u>(117.2)</u> | <u>(169.2)</u> |
| <b>Net cash provided by operating activities</b>        | <b>102.0</b>        | <b>123.9</b>   | <b>402.7</b>   | <b>324.1</b>   |
| <b>Investing activities</b>                             |                     |                |                |                |
| Capital expenditures                                    | (87.6)              | (66.0)         | (247.7)        | (234.5)        |
| Proceeds from sale of property, plant and equipment     | 3.5                 | .4             | 32.9           | 2.2            |
| Acquisitions of businesses and other, net               | <u>6.4</u>          | <u>.6</u>      | <u>6.8</u>     | <u>2.2</u>     |
| <b>Net cash used in investing activities</b>            | <b>(77.7)</b>       | <b>(65.0)</b>  | <b>(208.0)</b> | <b>(230.1)</b> |
| <b>Financing activities</b>                             |                     |                |                |                |
| Net increase (decrease) in short-term debt              | 30.3                | 36.5           | (318.6)        | (97.5)         |
| Issuance of long-term debt                              | 28.5                | 136.6          | 323.7          | 351.5          |
| Repayments and other changes in long-term debt          | -                   | (71.4)         | (158.5)        | (140.3)        |
| Dividends paid  | (28.7)              | (26.8)         | (82.1)         | (77.2)         |
| Shares repurchased                                      | (52.4)              | (132.6)        | (155.1)        | (233.3)        |
| Stock options exercised                                 | .6                  | .7             | 6.1            | 4.3            |
| Minority interests and other, net                       | <u>(3.1)</u>        | <u>.2</u>      | <u>(3.4)</u>   | <u>(5.0)</u>   |
| <b>Net cash used in financing activities</b>            | <b>(24.8)</b>       | <b>(56.8)</b>  | <b>(387.9)</b> | <b>(197.5)</b> |
| Effect of exchange rate changes on cash                 | <u>6.6</u>          | <u>(2.2)</u>   | <u>29.2</u>    | <u>(18.8)</u>  |
| <b>Increase (decrease) in cash and cash equivalents</b> | <b>6.1</b>          | <b>(.1)</b>    | <b>(164.0)</b> | <b>(122.3)</b> |
| Cash and cash equivalents at period-start               | <u>125.8</u>        | <u>107.0</u>   | <u>295.9</u>   | <u>229.2</u>   |
| <b>Cash and cash equivalents at period-end</b>          | <b>\$131.9</b>      | <b>\$106.9</b> | <b>\$131.9</b> | <b>\$106.9</b> |

See "Notes to unaudited consolidated financial statements"

**KEY RATIOS (UNAUDITED)**

|  | Quarter July - Sept |             | First 9 months |             |
|--|---------------------|-------------|----------------|-------------|
|  | <u>2006</u>         | <u>2005</u> | <u>2006</u>    | <u>2005</u> |
| Earnings per share - basic <sup>1)</sup>   | \$1.49              | \$.67       | \$3.62         | \$2.46      |
| Earnings per share - diluted <sup>1)</sup> | \$1.48              | \$.66       | \$3.60         | \$2.45      |
| Equity per share                           | 29.37               | 27.93       | 29.37          | 27.93       |

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|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Cash dividend per share - paid                     | .35    | .30    | .99    | .85    |
| Operating working capital, \$ in millions<br>3)    | 668    | 587    | 668    | 587    |
| Capital employed, \$ in millions                   | 3,352  | 3,243  | 3,352  | 3,243  |
| Net debt, \$ in millions 3)                        | 967    | 814    | 967    | 814    |
| Net debt to capitalization, % 3)4)                 | 28     | 25     | 28     | 25     |
| Gross margin, % 5)                                 | 19.7   | 20.2   | 20.7   | 20.4   |
| Operating margin, % 6)                             | 7.2    | 7.5    | 8.4    | 8.0    |
| Return on shareholders' equity, %                  | 20.6   | 9.6    | 17.0   | 11.7   |
| Return on capital employed, %                      | 12.5   | 13.0   | 15.9   | 15.7   |
| Weighted average no. of shares in<br>millions 1)2) | 82.1   | 89.3   | 83.0   | 90.9   |
| No. of shares at period-end in millions<br>7)      | 81.2   | 87.0   | 81.2   | 87.0   |
| No. of employees at period-end                     | 35,400 | 34,300 | 35,400 | 34,300 |
| Headcount at period-end                            | 41,300 | 39,700 | 41,300 | 39,700 |
| Days receivables outstanding 8)                    | 83     | 86     | 74     | 76     |
| Days inventory outstanding 9)                      | 37     | 36     | 33     | 32     |

1)Net of treasury shares.

2)Assuming dilution.

3)See tabular presentation reconciling this non-GAAP measure to GAAP in the Management's Discussion & Analysis of Financial Condition and Results of Operations.

4)Net debt in relation to net debt, minority and equity.

5)Gross profit relative to sales.

6)Operating income relative to sales.

7)Net of treasury shares and excluding dilution.

8)Outstanding receivables relative to average daily sales.

9)Outstanding inventory relative to average daily sales.

See "Notes to unaudited consolidated financial statements"

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Unless otherwise noted, all amounts are dollars in millions, except for per share amounts) September 30, 2006

#### 1.1 Basis of Presentation

The accompanying interim unaudited 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.

The consolidated balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The Company's reporting periods in this report consist of thirteen week periods, ending on the Friday closest to the last day of the calendar month. For convenience, the accompanying financial statements have been shown as ending on the last day of the calendar month.

In the first quarter of 2006 the Company began accruing dividends when declared by the Board of Directors. The effect of this change,

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recorded in "Other current liabilities", is not material to the Company's financial position for any periods presented.

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 Autoliv's 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 Autoliv, Inc. annual report on Form 10-K for the year ended December 31, 2005.

The filings with the SEC of Autoliv's annual report, 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 also be obtained free of charge from Autoliv at the Company's address. These documents are also available at the SEC's website, [www.sec.gov](http://www.sec.gov), and at the Company's corporate website [www.autoliv.com](http://www.autoliv.com).

### 1.2 Receivables

During the third quarter of 2006 the Company has sold receivables relating to selected customers to various external financial institutions without recourse. These factoring agreements have the effect of reducing net debt, reducing accounts receivable and days sales outstanding. The Company received \$39 million in cash net of discount of \$0.5 million. No factoring agreements were entered into in 2005.

### 1.3 Inventories

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

|                   | September 30, 2006 | December 31, 2005 |
|-------------------|--------------------|-------------------|
| Raw material      | \$182.0            | \$166.8           |
| Work in progress  | 226.3              | 206.7             |
| Finished products | <u>105.1</u>       | <u>111.9</u>      |
|                   | \$513.4            | \$485.4           |

### 1.4 Restructuring

#### 2005

In 2005, employee-related restructuring provisions of \$19.6 million were made for severance costs related to plant consolidation, primarily in the United Kingdom, Australia and France. The provision has been charged against "Other income (expense), net" in the income statement. The change in liability during 2005 is mainly related to a resolution of a legal dispute. The table below summarizes the change in the balance sheet position of the total restructuring reserves from December 31, 2004 to December 31, 2005.

|                                  | December 31<br>2004 | Cash<br>payments | Change in<br>reserve | Translation<br>difference | December 31<br>2005 |
|----------------------------------|---------------------|------------------|----------------------|---------------------------|---------------------|
| Restructuring - employee related | \$4.7               | \$(15.7)         | \$19.6               | \$(.8)                    | \$7.8               |
| Liability                        | <u>16.2</u>         | -                | <u>(6.0)</u>         | <u>(.7)</u>               | <u>9.5</u>          |
| Total reserve                    | \$20.9              | \$(15.7)         | \$13.6               | \$(1.5)                   | \$17.3              |

During 2005, 1,054 additional employees became entitled to redundancy payments and 689 employees covered by the restructuring reserves left the Company. As of December 31, 2005, 461 employees remained who are covered by the restructuring reserves.

**2006****Q1**

The movements in the employee-related restructuring provisions in the quarter mainly relate to plant consolidation initiated in 2005, primarily in the United Kingdom, Australia and France. The provision has been charged against "Other income (expense), net" in the income statement. The change in liability during 2006 is mainly related to a resolution of a legal dispute resulting in cash payments. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2005 to March 31, 2006.

|                                  | December 31<br>2005 | Cash<br>payments | Change in<br>reserve | Translation<br>difference | March 31<br>2006 |
|----------------------------------|---------------------|------------------|----------------------|---------------------------|------------------|
| Restructuring - employee related | \$7.8               | \$(3.4)          | \$3.4                | -                         | \$7.8            |
| Liability                        | <u>9.5</u>          | <u>(4.5)</u>     | <u>(1.3)</u>         | <u>\$1</u>                | <u>3.8</u>       |
| Total reserve                    | \$17.3              | \$(7.9)          | \$2.1                | \$1                       | \$11.6           |

During the quarter, 182 employees covered by the reserves left the Company. As of March 31, 2006, 500 employees remained who are covered by the restructuring reserves.

**Q2**

The increase in the employee-related restructuring provisions in the quarter mainly relates to textile operations in high-cost countries. The cash payments relate to the United Kingdom, Canada and Australia for restructuring activities initiated in 2006 as well as in 2005. The provision has been charged against "Other income (expense), net" in the income statement. The table below summarizes the change in the balance sheet position of the restructuring reserves from March 31, 2006 to June 30, 2006.

|                                  | March 31<br>2006 | Cash<br>payments | Change in<br>reserve | Translation<br>difference | June 30<br>2006 |
|----------------------------------|------------------|------------------|----------------------|---------------------------|-----------------|
| Restructuring - employee related | \$7.8            | \$(6.2)          | \$6.8                | \$4                       | \$8.8           |
| Liability                        | <u>3.8</u>       | -                | <u>(.5)</u>          | <u>.2</u>                 | <u>3.5</u>      |
| Total reserve                    | \$11.6           | \$(6.2)          | \$6.3                | \$6                       | \$12.3          |

During the quarter, 486 employees covered by the reserves left the Company. As of June 30, 2006, 370 employees remained who are covered by the restructuring reserves.

**Q3**

The increase in the employee-related restructuring provisions in the quarter mainly relates to operations in high-cost countries. The cash payments mainly relate to the United Kingdom, Sweden and Australia for restructuring activities initiated in 2006 as well as in 2005. The provision has been charged against "Other income (expense), net" in the income statement. The table below summarizes the change in the balance sheet position of the restructuring reserves from June 30, 2006 to September 30, 2006.

|                                  | June 30<br>2006 | Cash<br>payments | Change in<br>reserve | Translation<br>difference | Sept 30<br>2006 |
|----------------------------------|-----------------|------------------|----------------------|---------------------------|-----------------|
| Restructuring - employee related | \$8.8           | \$(2.7)          | \$1.1                | -                         | \$7.2           |
| Liability                        | <u>3.5</u>      | -                | <u>(2.1)</u>         | -                         | <u>1.4</u>      |

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|               |        |         |         |   |       |
|---------------|--------|---------|---------|---|-------|
| Total reserve | \$12.3 | \$(2.7) | \$(1.0) | - | \$8.6 |
|---------------|--------|---------|---------|---|-------|

During the quarter, 180 employees covered by the reserves left the Company. As of September 30, 2006, 287 employees remained who are covered by the restructuring reserves.

### 1.5 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 it is possible to reasonably estimate costs. Provisions for warranty claims are estimated based on prior experience and likely changes in performance of newer products and the mix and volume of the products sold. The provisions are recorded on an accrual basis.

Cash payments have been made for recall and warranty-related issues in connection with a variety of different products and customers. The significant payments in 2005 were made in connection with ongoing recalls for the replacement of defective products.

For further explanation, see section 1.11 "Contingent Liabilities" below.

The table below summarizes the change in the balance sheet position of the product-related liabilities for the quarter.

|   | Quarter July - September |               |
|---|--------------------------|---------------|
|   | 2006                     | 2005          |
| <b>Reserve at beginning of the period</b> | <b>\$26.0</b>            | <b>\$51.9</b> |
| Change in reserve                         | 2.7                      | 4.5           |
| Cash payments                             | (5.5)                    | (12.8)        |
| Translation difference                    | =                        | .7            |
| <b>Reserve at end of the period</b>       | <b>\$23.2</b>            | <b>\$44.3</b> |

### 1.6 Comprehensive Income

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

|  | Quarter<br>July - September |               | Nine months<br>January - September |                |
|--|-----------------------------|---------------|------------------------------------|----------------|
|  | 2006                        | 2005          | 2006                               | 2005           |
| <b>Net income</b>                        | <b>\$121.7</b>              | <b>\$59.1</b> | <b>\$299.1</b>                     | <b>\$222.6</b> |
| Minimum pension liability                | (.2)                        | .1            | (.5)                               | .5             |
| Fair value of derivatives                | (.3)                        | (.1)          | (1.3)                              | 4.2            |
| Translation of foreign operations        | =                           | <u>12.4</u>   | <u>17.8</u>                        | <u>(128.0)</u> |
| <b>Other comprehensive income (loss)</b> | <b>(.5)</b>                 | <b>12.4</b>   | <b>16.0</b>                        | <b>(123.3)</b> |
| <b>Comprehensive income</b>              | <b>\$121.2</b>              | <b>\$71.5</b> | <b>\$315.1</b>                     | <b>\$99.3</b>  |

### 1.7 Stock Incentive Plan



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Under the Autoliv, Inc. 1997 Stock Incentive Plan (the "Plan") adopted by the Shareholders, and as further amended, awards have been made to selected executive officers of the Company and other key employees in the form of stock options and Restricted Stock Units ("RSUs"). All options are granted for 10-year terms, have an exercise price equal to the fair market value of the share at the date of the grant, and become exercisable after one year of continued employment following the grant date. Each RSU represents a promise to transfer one of the Company's shares to the employee after three years of service following the date of grant or upon retirement. The source of the shares issued upon share option exercise or lapse of RSU service period is treasury shares. The number of stock options exercised and the number of RSUs vested during the nine month period are 194,806 and 111,694, respectively.

Beginning January 1, 2006, compensation costs for all of the Company's stock-based compensation awards are determined based on the fair value method, using a modified prospective method as defined by FAS-123(R). The Company records the compensation expense for RSUs and stock options over the service lives of the employees during the vesting period. The impact of the adoption of FAS-123(R) was less than 0.1 percentage point in relation to sales.

As a result of adopting Statement 123(R) on January 1, 2006, the Company's income before income taxes and net income for the quarter ended September 30, 2006, are \$1.0 million and \$0.7 million lower, respectively, and the Company's income before income taxes and net income for the nine months ended September 30, 2006 are \$3.0 million and \$2.0 million lower, respectively, than if it had continued to account for share-based compensation under APB Opinion 25. Basic and diluted earnings per share for the quarter ended September 30, 2006 are \$0.01 and \$0.01 lower, respectively, and the Company's basic and diluted earnings per share for the nine months ended September 30, 2006 are \$0.02 and \$0.02 lower, respectively, than if the Company had continued to account for share-based compensation under APB Opinion 25.

The total compensation expense for RSUs granted in 2006, 2005 and 2004 was \$4.8 million, \$4.6 million and \$3.6 million, respectively. The weighted average fair value of options granted during 2006, 2005 and 2004 was estimated at \$13.83, \$13.33 and \$11.11, respectively, using the Black-Scholes option-pricing model. The total compensation cost related to nonvested awards not yet recognized is \$5.9 million and \$1.0 million for RSUs and stock options respectively. The weighted average period over which this cost is expected to be recognized is approximately two years and three months for RSUs and stock options respectively.

Below is a pro-forma table which presents how the Company's total and per share net income for 2005 would have appeared had compensation costs for all of the Company's stock-based compensation awards been determined based on the fair value of such awards at the grant date, consistent with the methods of FAS-123 Accounting for Stock-Based Compensation:

|   | <b>Quarter</b>          | <b>Nine months</b>         |
|---|-------------------------|----------------------------|
|   | <b>July - September</b> | <b>January - September</b> |
|   | <b>2005</b>             | <b>2005</b>                |
| Net income as reported  | \$59.1                  | \$222.6                    |
| Add: Compensation under intrinsic value method included in net income, net of tax | .6                      | 1.8                        |
| Deduct: Compensation under fair value method for all awards, net of tax           | <u>(1.6)</u>            | <u>(4.8)</u>               |
| Net income pro-forma  | \$58.1                  | \$219.6                    |
| Earnings per share:   |                         |                            |
| As reported - basic   | \$.67                   | \$2.46                     |
| As reported - assuming dilution   | \$.66                   | \$2.45                     |
| Pro-forma - basic   | \$.65                   | \$2.43                     |
| Pro-forma - assuming dilution   | \$.65                   | \$2.42                     |

### 1.8 New Accounting Pronouncements

New accounting policies issued by the Financial Accounting Standards Board (FASB), which are effective on or after January 1, 2006, are the following:

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Statement No.151 *Inventory Cost*, an amendment of ARB No. 42, Chapter 4, was issued in November 2004 and is effective for fiscal years beginning after June 2005. FAS-151 clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The application of FAS-151 did not have a significant impact on earnings and financial position.

Revised Statement No. 123 *Share-Based Payment* was issued in December 2004. On April 14, 2005, the SEC provided additional phased-in guidance regarding Statement No. 123(R). Under the terms of this guidance the provisions became effective for the Company on January 1, 2006. Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values (i.e. pro-forma disclosure is no longer an alternative to financial statement recognition). The application of FAS-123(R) did not have a materially different impact than the pro-forma earnings disclosed in the note to the Stock Incentive Plan.

FASB Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*, which aims to clarify the requirement to record liabilities stemming from a legal obligation to clean up and retire fixed assets, like a plant or a factory, when a retirement depends on a future event. FIN 47 is effective for fiscal years ending after December 15, 2005. The application of FIN 47 did not have any significant impact on earnings and financial position.

FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, creates a single model to address uncertainty in tax positions prescribing a minimum threshold for the recognition of tax positions. FIN 48 also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 clearly scopes out income taxes from FASB No. 5, *Accounting for Contingencies*. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has yet not completed its analysis of the impact of FIN 48.

Statement No.157, *Fair Value Measurements*, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. FAS-157 was issued in September 2006 and is effective for fiscal years beginning after November 15, 2007. The Company has not yet evaluated the effects on earnings and financial position of the application of FAS-157.

Statement No.158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FAS-87, 88, 106, and 132(R). FAS-158 was issued in September 2006. FAS-158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan in its statement of financial position beginning with fiscal years ending after December 15, 2006. FAS-158 requires the measurement of plan assets and benefit obligations as of the date of the employer's fiscal year-end beginning with fiscal years ending after December 15, 2008. The Company has not yet evaluated the effects on earnings and financial position of the application of FAS-158.

### 1.9 Income Taxes

The effective tax rate for the first nine months of 2006 was 12.3%, which compares with 34.1% in the first nine months of 2005. During the third quarter of 2006, the Company recognized a non-cash income tax benefit of \$57 million resulting from the release of income tax reserves associated with the United States income tax audit examination cycle. On September 18, 2006, following the recent completion of a United States Internal Revenue Service ("IRS") examination, the statute of limitations covering the United States federal income tax returns of Autoliv, Inc. and its United States subsidiaries for all years through December 31, 2002 closed. The recently completed IRS examination and the corresponding closing of the statute of limitations covered the six tax years since the formation of the Autoliv, Inc. United States tax group in 1997.

During the second and third quarters, several subsidiaries recorded adjustments to their estimates of prior year income tax provisions. During the first quarter, several subsidiaries completed studies of R&D tax credit eligibility and concluded that they are able to substantially increase the benefit claimed for these credits for both 2005 and 2006. The 2005 catch-up effect was recorded entirely in the first quarter. Excluding the total of \$71 million of discrete tax items, the effective rate for the nine-month period would have approximated historical levels. These discrete items include the \$57 million release of income tax reserves, the R&D tax credit benefit noted above and various other items including provision to tax reserve adjustments. The \$66 million of discrete tax items in the third quarter only, created tax income and led to a negative effective tax rate. Excluding the discrete items, the third quarter tax rate would have approximated historical levels.

At September 30, 2006, the Company had approximately \$56 million of remaining reserves for income taxes that may become payable in future periods as a result of income tax audits. The Company provides reserves on the basis that tax authorities will examine all issues in all open years. At any given time the Company is undergoing income tax audits in several tax jurisdictions and covering multiple years. The Company expects the completion of certain tax audits and the closure of certain tax years in the near term and believes that it is reasonably possible that additional reserves could be released into income during fiscal year 2006.

### 1.10 Retirement Plans

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The Company has non-contributory defined benefit pension plans covering employees at most United States operations. 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.

Autoliv, in consultation with the relevant plan fiduciaries, has revised its approach to investing global pension assets. From 2006 onwards, the level of equity exposure will be reduced from broadly 80% to approximately 65%. This move will help reduce volatility in both balance sheet and income statement figures for pensions going forward and takes into account the increasing maturity of the Company's United Kingdom pension plan.

The main defined benefit plan is a United States plan, for which the funding policy is that the funding level will target meeting the accrued benefit obligation (ABO).

The Company has frozen participation in the United States pension plans to include only those employees hired as of December 31, 2003.

The Company's main non-United States defined benefit plan is the United Kingdom plan. The United Kingdom defined benefit plan was subject to a significant curtailment in 2005 in connection with a plant closure.

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 months ended September 30, 2006.

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 for the year ended December 31, 2005.

The components of the total net benefit cost associated with the Company's defined benefit retirement plans are as follows:

|                                    | Quarter          |           | Nine months         |           |
|------------------------------------|------------------|-----------|---------------------|-----------|
|                                    | July - September | 2005      | January - September | 2005      |
|                                    | 2006             | 2005      | 2006                | 2005      |
| Service cost                       | \$3.8            | \$4.4     | \$11.4              | \$13.7    |
| Interest cost                      | 3.0              | 2.9       | 8.9                 | 8.1       |
| Expected return on plan assets     | (2.8)            | (2.1)     | (8.4)               | (6.1)     |
| Amortization of prior service cost | -                | .1        | .1                  | .5        |
| Amortization of net (gain) loss    | <u>.6</u>        | <u>.4</u> | <u>1.8</u>          | <u>.9</u> |
| Net periodic benefit cost          | \$4.6            | \$5.7     | \$13.8              | \$17.1    |

### 1.11 Contingent Liabilities

#### Product Warranty and Recalls

Autoliv is exposed to product liability and warranty claims in the event that its products fail to perform as expected and such failure results, or is alleged to result, in bodily injury and/or property damage. We cannot assure that we will not experience any material warranty or product liability losses in the future or that we will not incur significant costs to defend such claims. In addition, if any of our products are or are alleged to be defective, we may be required to participate in a recall involving such 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 recall claim or a product liability claim brought against us in excess of our available insurance, may have a material adverse effect on our business. Vehicle manufacturers are also 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 us responsible for some or all of the repair or replacement costs of defective products under new vehicle warranties, when the product supplied did not perform as expected. Accordingly, the future costs of warranty claims by our customers may be material. However, we believe our established reserves are adequate to cover potential warranty costs. Our warranty reserves are based upon our best estimates of amounts necessary to settle future and existing claims. We regularly evaluate the appropriateness of these reserves, and adjust them when appropriate. However, the final amounts determined to be due related to these matters could differ materially from our recorded estimates.

The table in section 1.5 "Product-Related Liabilities" above summarizes the change in the balance sheet position of the product-related

liabilities during the quarter.

For information on legal proceedings, see Part II - Other Information, Item 1.

## 1.12 Debt and Credit Agreements

In the second quarter of 2006, a 300 million Eurobond together with the related hedging instruments matured, as disclosed in Note 12 of the Company's Annual Report for the year ended December 31, 2005. The Company has issued United States commercial paper, which is classified as long-term debt, and used available cash balances to repay the matured financial instruments. The Company has also issued \$310 million equivalent of SEK denominated medium-term notes during the first two quarters to extend its maturity profile and has repaid SEK commercial paper to off-set the issuance of the medium-term notes.

The result of the above is that "short-term debt" has decreased by \$390 million since the beginning of the year. "Cash and cash equivalents" have decreased by \$164 million. "Long-term debt" has increased by \$226 million and the related derivative assets presented in "Other current assets" have decreased by \$94 million since the beginning of the year.

## 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 2005 Annual Report on Form 10-K filed with the SEC on February 28, 2006. Unless otherwise noted, all dollar amounts are in millions.*

Autoliv is one of the world's leading suppliers 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, safety seats and other safety systems and products. Autoliv has production facilities in 29 countries and has as customers almost all of the world's largest car manufacturers.

Autoliv is a Delaware holding corporation with principal executive offices in Stockholm, Sweden, which owns two principal subsidiaries, Autoliv AB ("AAB") and Autoliv ASP, Inc. ("ASP"). AAB, a Swedish corporation, is a leading developer, manufacturer and supplier to the automotive industry of car occupant restraint systems. Starting with seatbelts in 1956, AAB expanded its product lines to include seatbelt pretensioners (1989), frontal airbags (1991), side-impact airbags (1994), steering wheels (1995) and seat sub-systems (1996). ASP, an Indiana corporation, pioneered airbag technology in 1968 and has since grown into one of the world's leading producers of airbag modules and inflators. ASP designs, develops and manufactures airbag inflators, modules and airbag cushions, seatbelts and steering wheels. It sells inflators and modules for use in driver, passenger, side-impact and knee bolster airbag systems for worldwide automotive markets.

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 Stockholm Stock Exchange under the symbol "ALIV". Options in Autoliv shares are traded in Philadelphia and AMSE under the symbol "ALV".

## 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. 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

THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2005

### Market Overview

During the quarter, light vehicle production in the Triad (i.e. Europe, North America and Japan) is estimated to have decreased by 2% compared to the third quarter 2005. At the beginning of the quarter, light vehicle production was expected to be flat.

In **Europe**, (including Eastern Europe), where Autoliv generates more than half of its revenues, light vehicle production decreased by 1% due to an overall 5% drop in Western Europe. Both declines were 2 percentage points worse than expected. However, in Eastern Europe light vehicle production is reported to have risen by 15%.

In **North America**, which accounts for a quarter of Autoliv's consolidated revenues, light vehicle production dropped by 8% which was twice as much as expected. "The Big 3" (i.e. GM, Ford and Chrysler) reduced their production by 12%, while the North American light vehicle production of Asian and European vehicle manufacturers was flat. Autoliv has a higher sales value per vehicle with the Asian and European manufacturers than with an average Big-3 vehicle, which somewhat moderated the sharp drop in North American vehicle production.

In **Japan**, which accounts for nearly one tenth of Autoliv's consolidated sales, light vehicle production increased by 6%.

Autoliv's market is driven not only by vehicle production but also by the fact that new vehicle models are being equipped with an increasing number of airbags and other safety systems in response to consumer demand, new crash test programs and regulations. For instance, the United States Congress is expected to adopt the proposed regulation on side impact crash testing and China is introducing a crash test rating program for new vehicle models.

### Consolidated Sales

Autoliv's consolidated net sales increased by 1% to \$1,411 million compared to the third quarter 2005. Currency effects boosted sales by 3%. Consequently, organic sales (i.e. U.S. GAAP sales excluding currency translation effects and acquisitions/divestitures) decreased by only 2% despite a 5% decrease in West European and a 8% drop in North American light vehicle production. At the beginning of the quarter, organic sales were expected to remain unchanged compared to the same quarter 2005, but light vehicle production has been weaker than expected both in North America and Western Europe. A long strike among certain customers in Korea also negatively affected sales.

Organic sales were driven by Autoliv's strong position in "The Rest of the World" (e.g. China) where both the increase in vehicle production and the increase in the safety content per vehicle is stronger than in the traditional markets within the Triad. Sales were also driven by the continued introduction of Autoliv's side curtain airbag, *The Inflatable Curtain*, into an increasing number of vehicle models. In addition, Autoliv gained market share in steering wheels, safety electronics and seatbelts. These favorable trends were not enough, however, to offset the negative effects caused by weak North American and West European vehicle production, a strike among certain customers in Korea, continued pricing pressure from customers and strong competition in frontal airbags.

The Company has substantial operations outside the United States and currently, approximately 75% of the 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 the U.S. dollar exchange rates. The measure "Organic sales" presents the increase or decrease in our overall U.S. dollar net sales on a comparative basis, allowing separate discussion of the impacts of acquisitions/divestments and exchange rate fluctuations. 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)**  
**Quarter July - September, 2006**  
**(All amounts are Dollars in millions)**

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|                                    | Europe     |             | N. America   |               | Japan        |              | RoW         |             | Total      |             |
|------------------------------------|------------|-------------|--------------|---------------|--------------|--------------|-------------|-------------|------------|-------------|
|                                    | %          | \$          | %            | \$            | %            | \$           | %           | \$          | %          | \$          |
| Organic sales change               | (6.2)      | (44.9)      | (4.6)        | (19.4)        | 11.2         | 13.8         | 17.0        | 21.8        | (2.0)      | (28.7)      |
| Impact of acquisitions/divestments | -          | -           | -            | -             | -            | -            | -           | -           | -          | -           |
| Effect of exchange rates           | <u>6.6</u> | <u>47.7</u> | <u>(.1)</u>  | <u>(.4)</u>   | <u>(3.7)</u> | <u>(4.6)</u> | <u>3.8</u>  | <u>4.9</u>  | <u>3.4</u> | <u>47.6</u> |
| <b>Reported net sales change</b>   | <b>.4</b>  | <b>2.8</b>  | <b>(4.7)</b> | <b>(19.8)</b> | <b>7.5</b>   | <b>9.2</b>   | <b>20.8</b> | <b>26.7</b> | <b>1.4</b> | <b>18.9</b> |

**Reconciliation of the change in "Organic sales" to GAAP financial measure**  
**Components of net sales increase (decrease)**

First 9 months, 2006  
 (All amounts are Dollars in millions)

|                                    | Europe       |                | N. America  |              | Japan        |               | RoW         |             | Total        |                |
|------------------------------------|--------------|----------------|-------------|--------------|--------------|---------------|-------------|-------------|--------------|----------------|
|                                    | %            | \$             | %           | \$           | %            | \$            | %           | \$          | %            | \$             |
| Organic sales change               | (6.9)        | (181.7)        | (.8)        | (10.4)       | 9.5          | 38.2          | 14.3        | 58.0        | (2.0)        | (95.9)         |
| Impact of acquisitions/divestments | -            | -              | -           | -            | -            | -             | -           | -           | -            | -              |
| Effect of exchange rates           | <u>(1.5)</u> | <u>(40.8)</u>  | <u>.1</u>   | <u>1.4</u>   | <u>(6.8)</u> | <u>(27.5)</u> | <u>2.2</u>  | <u>9.3</u>  | <u>(1.2)</u> | <u>(57.6)</u>  |
| <b>Reported net sales change</b>   | <b>(8.4)</b> | <b>(222.5)</b> | <b>(.7)</b> | <b>(9.0)</b> | <b>2.7</b>   | <b>10.7</b>   | <b>16.5</b> | <b>67.3</b> | <b>(3.2)</b> | <b>(153.5)</b> |

**Reconciliation of "Operating working capital" to GAAP financial measure**

(All amounts are Dollars in millions)

|   | Sept. 30, 2006 | June 30, 2006  | Dec. 31, 2005  | Sept. 30, 2005 |
|---|----------------|----------------|----------------|----------------|
| Total current assets                    | \$2,065.4      | \$2,059.3      | \$2,162.5      | \$2,112.4      |
| Total current liabilities               | (1,414.3)      | (1,475.8)      | (1,764.3)      | (1,864.5)      |
| <b>Working capital</b>                  | <b>\$651.1</b> | <b>\$583.5</b> | <b>\$398.2</b> | <b>\$247.9</b> |
| Cash and cash equivalents               | (131.9)        | (125.8)        | (295.9)        | (106.9)        |
| Short-term debt                         | 118.8          | 82.0           | 508.4          | 547.3          |
| Derivative asset and liability, current | .1             | (.4)           | (92.9)         | (101.0)        |
| Dividends payable                       | 30.1           | 28.9           | -              | -              |
| <b>Operating working capital</b>        | <b>\$668.2</b> | <b>\$568.2</b> | <b>\$517.8</b> | <b>\$587.3</b> |

**Reconciliation of "Net debt" to GAAP financial measure**

(All amounts are Dollars in millions)

|                           | Sept. 30, 2006   | June 30, 2006    | December 31, 2005 | Sept. 30, 2005   |
|---------------------------|------------------|------------------|-------------------|------------------|
| Short-term debt           | \$118.8          | \$82.0           | \$508.4           | \$547.3          |
| Long-term debt            | 982.8            | 959.2            | 757.1             | 472.2            |
| <b>Total debt</b>         | <b>\$1,101.6</b> | <b>\$1,041.2</b> | <b>\$1,265.5</b>  | <b>\$1,019.5</b> |
| Cash and cash equivalents | (131.9)          | (125.8)          | (295.9)           | (106.9)          |
| Debt-related derivatives  | (2.8)            | (2.4)            | (92.7)            | (99.0)           |
| <b>Net debt</b>           | <b>\$966.9</b>   | <b>\$913.0</b>   | <b>\$876.9</b>    | <b>\$813.6</b>   |

**Reconciliation of "Interest coverage ratio" to GAAP financial measure**

First 9 months 2006

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(All amounts are Dollars in millions)

|  |         |
|--|---------|
| Operating income   | \$519.6 |
| Amortization of intangibles (incl. impairment writeoffs) | 15.5    |
| Operating profit per the Policy                          | \$535.1 |
| Interest expense, net <sup>1)</sup>                      | 34.7    |
| Interest coverage ratio                                  | 15.4    |

### Reconciliation of "Leverage ratio" to GAAP financial measure September 30, 2006

(All amounts are Dollars in millions)

|   |                  |
|---|------------------|
| Net debt <sup>2)</sup>  | \$966.9          |
| Pension liabilities   | 58.9             |
| <b>Net debt per the policy</b>  | <b>\$1,025.8</b> |
| Income before income taxes  | \$488.0          |
| Plus: Interest expense, net <sup>1)</sup>                                 | 34.7             |
| Depreciation and amortization of intangibles (incl. impairment writeoffs) | 297.0            |
| <b>EBITDA per the Policy</b>  | <b>\$819.7</b>   |
| Net debt to EBITDA ratio  | 1.3              |

- **BMW's new Mini:** Driver airbag with steering wheel, passenger airbag, side airbags, *Inflatable Curtains*, safety electronics and seatbelts with pretensioners
- **Chrysler's new Sebring:** Driver airbag with steering wheel, passenger airbag, *Inflatable Curtains* and seatbelts with pretensioners
- **Hondas's new Acura MDX:** Driver airbag with steering wheel, passenger airbag, side airbags and *Inflatable Curtains*
- **Hyundai's new Terracan:** Driver airbag, passenger airbag, side airbags, *Inflatable Curtains* and safety electronics
- **Mitsubishi's new Grunder:** Driver airbag, passenger airbag and seatbelts
- **Nissan's new Altima:** Side airbags and *Inflatable Curtains*
- **Nissan's new Sentra:** Passenger airbag, side airbags, *Inflatable Curtains* and seatbelts with pretensioners
- **Peugeot's new Boxer:** Side airbags, *Inflatable Curtains* and seatbelts with pretensioners
- **Suzuki's new XL7:** Passenger airbag, seatbelts with pretensioners and safety electronics
- **Volvo's new C30:** Driver airbag, passenger airbag, side airbags, *Inflatable Curtains*, and seatbelts with pretensioners.

### Other Significant Events

- \$57 million has been released from the Company's tax reserves due to a recently completed tax examination in the United States and the subsequent closing, on September 18, of the statute of limitations covering the tax returns for the six years since the formation of Autoliv Inc. on May 1, 1997 through December 31, 2002.
- During the quarter, 933,300 shares of Autoliv stock were repurchased for \$52 million at an average cost of \$56.08 per share. During the nine-month period, 2.8 million shares for \$155 million were repurchased at an average cost of \$54.81 per share. Since the repurchase program was adopted in 2000, 22.8 million shares have been repurchased at an average cost of \$37.32 per share. Under the existing authorizations, an additional 7.2 million shares can be repurchased.
- Autoliv has been awarded development and supply contracts for a new safety electronics technology where the central vehicle stability sensing function is integrated into the airbag control unit. This world-first electronics architecture will reduce complexity and provide substantial cost savings for these safety systems.
- Mr. Benoit Marsaud, former Vice President Manufacturing and President of Autoliv Europe, has been appointed to a newly created position as Chief Operating Officer.

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- Autoliv has received a Toyota Technology Award for "the world's first frontal airbag for the rear seat", i.e. Autoliv's *Seat Cushion Airbag* that has been developed for the Lexus LS460.

### DIVIDEND AND NEXT REPORT

The quarterly dividend has been raised again. This time the increase is 6% to 37 cents per share. The dividend will be paid on December 7, 2006 to shareholders of record as of November 9. The ex-date is November 7, 2006. Autoliv intends to publish the quarterly report for the fourth quarter on February 8, 2007.

### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of September 30, 2006, our future contractual obligations have not changed significantly from the amounts reported in our 2005 Annual Report on Form 10-K filed with SEC on February 28, 2006.

### ITEM 3                    QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the information that was provided in the Company's 2005 Annual Report on Form 10-K filed with the SEC on February 28, 2006.

### ITEM 4                    CONTROLS AND PROCEDURES

(a)                            Evaluation of Disclosure Controls and Procedures

Autoliv's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's 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 effectively recording, processing, summarizing and reporting,



on a timely basis information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

(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.

## 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.

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 litigations to which the Company is currently 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 any material product liability or other losses in the future.

In December 2003, a United States Federal District Court awarded a supplier of Autoliv ASP, Inc. approximately \$27 million plus pre-judgment interest of \$6 million in connection with a commercial dispute that relates to purchase commitments. Autoliv appealed the verdict and the supplier cross-appealed in regard to the calculation of the amount of pre-judgment interest. The United States Court of Appeals for the Federal Circuit on August 7, 2006, affirmed the judgment of the district court on certain appeal issues, vacated the district courts decision on certain other appeal issues and remanded the case for the district court to reconsider, and finally adjusted the district court's calculations of pre-judgment interest. The remanded issues are now pending before the

United States Federal District Court and decision is expected within approximately two to four months. While legal proceedings are subject to inherent uncertainty, Autoliv believes that it has meritorious grounds for appeal, which would result in a new trial, and that it is possible that the judgment could be eliminated or substantially altered. Consequently, in the opinion of the Company's management, it is not possible to determine the final outcome of this litigation at this time. It cannot be assured that the final outcome of this litigation will not result in a loss that will have to be recorded by the Company.

The Company believes that it is currently adequately insured against product and other liability risks, at levels sufficient to cover potential claims, but Autoliv cannot be assured that the level of coverage will be sufficient in the future or that such coverage will be available on the market.

## ITEM 1A RISK FACTORS

There have been no material changes in the information that was provided in the Company's 2005 Annual Report on Form 10-K filed with the SEC on February 28, 2006.

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

### (c) Stock repurchase program

During the third quarter of 2006, Autoliv has repurchased 933,300 shares for \$52.3 million at an average price of \$56.08. Since the repurchasing program was adopted in 2000, Autoliv has bought back 22.8 million shares at an average price of \$37.32 per share. Under the existing authorizations, another 7.2 million shares could be repurchased. Below is a summary of Autoliv's common stock repurchases by month for the quarter ended September 30, 2006.

| Date                               | Stockholm Stock Exchange<br>("SSE") |  | New York Stock Exchange<br>("NYSE") |  | SSE + NYSE   |   |  |
|------------------------------------|-------------------------------------|--|-------------------------------------|--|--|---|--|
|                                    | Total No. of<br>Shares<br>Purchased | Average Price<br>in USD<br>Paid per<br>Share | Total No. of<br>Shares<br>Purchased | Average Price<br>in USD<br>Paid per<br>Share | Total No. of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Average Price in<br>USD<br>Paid per Share | Maximum No. of<br>Shares<br>that may yet be<br>Purchased<br><br>under the Plans or<br>Programs |
| July 1-<br>July 31<br><b>Total</b> | -                                   | -  | -                                   | -  | -  | -   | 8,108,400  |
| Aug 1-<br>Aug 31<br><b>Total</b>   | 284,800                             | 56.1464                                      | 322,600                             | 56.0365                                      | 607,400  | 56.0880                                   | 7,501,000  |
| Sept 1-<br>Sept 30<br><b>Total</b> | 172,100                             | 55.9395                                      | 153,800                             | 56.1992                                      | 325,900  | 56.0620                                   | 7,175,100  |

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|              |         |         |         |         |         |         |           |
|--------------|---------|---------|---------|---------|---------|---------|-----------|
| <b>Total</b> | 456,900 | 56,0684 | 476,400 | 56.0890 | 933,300 | 56.0789 | 7,175,100 |
|--------------|---------|---------|---------|---------|---------|---------|-----------|

- 1) Announcement of share buy-back program with authorization to buy back 10 million shares made on May 9, 2000.
- 2) Announcement of expansion of existing share buy-back program from 10 million shares to 20 million shares made on April 30, 2003.
- 3) Announcement of expansion of existing share buy-back program from 20 million shares to 30 million shares made on December 15, 2005.
- 4) The share buy-back program does not have an expiration date.

### ITEM 3                    DEFAULTS UPON SENIOR SECURITIES

Not applicable.

### ITEM 4                    SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

### ITEM 5                    OTHER INFORMATION

Not applicable.

### ITEM 6                    EXHIBITS

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 3.1                | Autoliv's Restated Certificate of Incorporation incorporated herein by reference to Exhibit 3.1 to the Registration Statement on Form S-4 (File No. 333-23813, filing date June 13, 1997) (the "Registration Statement").   |
| 3.2                | Autoliv's Restated By-Laws incorporated herein by reference to Exhibit 3.2 to the Registration Statement.   |
| 4.1                | Rights Agreement, dated as of December 4, 1997, between Autoliv and First Chicago Trust Company of New York incorporated herein by reference to Exhibit 3 to Autoliv's Registration Statement on Form 8-A (File No. 1-12933, filing date December 4, 1997).   |
| 10.1               | Facilities Agreement, dated November 13, 2000, among Autoliv, Inc. and the lenders named therein, as amended by amendment dated November 5, 2001, as further amended by amendment dated December 12, 2001, and as further amended by amendment dated June 6, 2002, is incorporated herein by reference to Exhibit 10.1 on Form 10-K (File No. 1-12933, filing date July 2, 2002). |
| 10.2               | Autoliv, Inc. 1997 Stock Incentive Plan, incorporated herein by reference to Autoliv's Registration Statement on Form S-8 (File No. 333-26299, filing date May 1, 1997).  |
| 10.3               | Amendment No. 1 to Autoliv, Inc. Stock Incentive Plan, is incorporated herein by reference to Exhibit 10.3 on Form 10-K (File No. 1-12933, filing date July 2, 2002).   |
| 10.4               | Form of Employment Agreement between Autoliv, Inc. and its executive officers, is incorporated herein by reference to Exhibit 10.3 on Form 10-K (File No. 1-12933, filing date July 2, 2002).   |
| 10.5               | Form of Supplementary Agreement to the Employment Agreement between Autoliv and certain of its executive officers, is incorporated herein by reference to Exhibit 10.3 on Form 10-K (File No. 1-12933, filing date July 2, 2002).   |

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- 10.6 Employment Agreement, dated November 11, 1998, between Autoliv, Inc. and Lars Westerberg, is incorporated herein by reference to Exhibit 10.3 on Form 10-K (File No. 1-12933, filing date July 2, 2002).
- 10.7 Form of Severance Agreement between Autoliv and its executive officers, is incorporated herein by reference to Exhibit 10.3 on Form 10-K (File No. 1-12933, filing date July 2, 2002).
- 10.8 Pension Agreement, dated November 26, 1999, between Autoliv AB and Lars Westerberg, is incorporated herein by reference to Exhibit 10.3 on Form 10-K (File No. 1-12933, filing date July 2, 2002).
- 10.9\* Form of Amendment to Employment Agreement - notice.
- 10.10\* Form of Amendment to Employment Agreement - pension.
- 10.11\* Form of Agreement - additional pension.
- 10.12\*\* Amendment No.2 to the Autoliv, Inc. 1997 Stock Incentive Plan.
- 11 Information concerning the calculation of Autoliv's earnings per share is included in Note 1 of the Consolidated Notes to Financial Statements contained in the Company's Annual Report on Form 10-K (File No. 1-12933, filing date March 10, 2005) and is incorporated herein by reference.
- 31.1\*\*\* Certification of the Chief Executive Officer of Autoliv, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) of the 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 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.

\*Filed in 10-K for the fiscal year ended 2002.

\*\* Filed in 10-K for the fiscal year ended 2003.

\*\*\* Filed herewith.

## 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 31, 2006

AUTOLIV, INC.  
(Registrant)

By: /s/ Magnus Lindquist

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Magnus Lindquist  
Vice President  
Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)