

AUTOLIV INC
Form 10-Q
October 27, 2016

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, 2016

Commission File No.: 001-12933

AUTOLIV, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	51-0378542 (I.R.S. Employer Identification No.)
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Vasagatan 11, 7 th floor, SE-111 20, Box 70381, SE-107 24 Stockholm, Sweden (Address of principal executive offices)	N/A (Zip Code)
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+46 8 587 20 600

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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 Exchange 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 21, 2016, there were 88,224,177 shares of common stock of Autoliv, Inc., par value \$1.00 per share, outstanding.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on 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 include 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. All forward-looking statements, including without limitation, statements regarding the expected consummation of the joint venture with Volvo Cars, management’s examination of historical operating trends and data as well as estimates of future sales, operating margin, cash flow, effective tax rate or other future operating performance or financial results are based upon our current expectations, various assumptions and/or data available from third parties. 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 forward-looking statements are inherently subject to known and unknown risks, uncertainties and other factors which may cause actual future results, performance or achievements to differ materially from the future results, performance or achievements expressed in or implied by such forward-looking statements.

In some cases, you can identify these statements by forward-looking words such as “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes,” “may,” “likely,” “might,” “would,” “should,” “could,” or the negative of these terms or comparable terminology, although not all forward-looking statements contain such words.

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 light vehicle production; fluctuation in vehicle production schedules for which the Company is a supplier; changes in and the successful execution of our capacity alignment, restructuring and cost reduction initiatives and the market reaction thereto; changes in general industry and market conditions or regional growth or decline; loss of business from increased competition; higher raw material, fuel and energy costs; changes in consumer and customer preferences for end products; customer losses; changes in regulatory conditions; customer bankruptcies; consolidations or restructuring or divestiture of customer brands; unfavorable fluctuations in currencies or interest rates among the various jurisdictions in which we operate; component shortages; costs or difficulties related to the integration of any new or acquired businesses and technologies; continued uncertainty in pricing negotiations with customers; successful integration of acquisitions and operations of joint ventures; our ability to be awarded new business; product liability, warranty and recall claims and investigations and other litigation and customer reactions thereto (including the resolution of the ongoing Toyota Recall (defined below)); higher expenses for our pension and other postretirement benefits including higher funding requirements for our pension plans; work stoppages or other labor issues; possible adverse results of pending or future litigation or infringement claims; our ability to protect our intellectual property rights; negative impacts of antitrust investigations or other governmental investigations and associated litigation relating to the conduct of our business; tax assessments by governmental authorities and changes in our effective tax rate; dependence on key personnel; legislative or regulatory changes impacting or limiting our business; political conditions; dependence on and relationships with customers and suppliers; and other risks and uncertainties identified in Item 1A “Risk Factors” in our Form 10-K and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on February 19, 2016.

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 publicly or revise any forward-looking statements in light of new information or future events, except as required by law.

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

1	<u>Basis of Presentation</u>	8
2	<u>Recently Issued Accounting Pronouncements</u>	8
3	<u>Business Combinations</u>	10
4	<u>Fair Value Measurement</u>	11
5	<u>Income Taxes</u>	14
6	<u>Inventories</u>	14
7	<u>Goodwill</u>	15
8	<u>Restructuring</u>	15
9	<u>Product-Related Liabilities</u>	16
10	<u>Retirement Plan</u>	16
11	<u>Controlling and Non-Controlling Interest</u>	17
12	<u>Contingent Liabilities</u>	17
13	<u>Stock Incentive Plan</u>	20
14	<u>Earnings per share</u>	21
15	<u>Segment Information</u>	21
16	<u>Subsequent Events</u>	22

	<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	23
--	--	----

	<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	39
--	---	----

	<u>ITEM 4. CONTROLS AND PROCEDURES</u>	40
--	--	----

	<u>PART II - OTHER INFORMATION</u>	40
--	------------------------------------	----

	<u>ITEM 1. LEGAL PROCEEDINGS</u>	40
--	----------------------------------	----

	<u>ITEM 1A. RISK FACTORS</u>	40
--	------------------------------	----

	<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	43
--	--	----

	<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	43
--	--	----

	<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	43
--	--	----

	<u>ITEM 5. OTHER INFORMATION</u>	43
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	<u>ITEM 6. EXHIBITS</u>	44
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CONSOLIDATED STATEMENTS OF NET INCOME (UNAUDITED)

(Dollars in millions, except per share data)

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Net sales	\$2,461.3	\$ 2,184.5	\$7,469.8	\$ 6,650.1
Cost of sales	(1,966.0)	(1,744.4)	(5,947.0)	(5,326.7)
Gross profit	495.3	440.1	1,522.8	1,323.4
Selling, general and administrative expenses	(116.5)	(101.3)	(349.9)	(303.1)
Research, development and engineering expenses, net	(165.5)	(130.4)	(500.7)	(397.2)
Amortization of intangibles	(12.2)	(4.2)	(32.0)	(11.2)
Other expense, net	(10.0)	(46.4)	(31.2)	(165.4)
Operating income	191.1	157.8	609.0	446.5
Income from equity method investments	0.5	0.6	1.2	3.5
Interest income	1.0	0.8	3.1	1.8
Interest expense	(15.6)	(15.6)	(46.7)	(49.6)
Other non-operating items, net	8.1	8.2	9.2	8.6
Income before income taxes	185.1	151.8	575.8	410.8
Income tax expense	(49.6)	(52.7)	(158.4)	(139.2)
Net income	\$135.5	\$ 99.1	\$417.4	\$ 271.6
Less: Net (loss) income attributable to non-controlling interest	(2.3)	0.2	(2.0)	0.3
Net income attributable to controlling interest	\$137.8	\$ 98.9	\$419.4	\$ 271.3
Net earnings per share – basic	\$1.56	\$ 1.12	\$4.76	\$ 3.08
Net earnings per share – diluted	\$1.56	\$ 1.12	\$4.74	\$ 3.07
Weighted average number of shares outstanding, net of				
treasury shares (in millions)	88.2	88.1	88.2	88.2
Weighted average number of shares outstanding, assuming				
dilution and net of treasury shares (in millions)	88.5	88.3	88.4	88.4
Number of shares outstanding, excluding dilution and net of				
treasury shares (in millions)	88.2	88.1	88.2	88.1
Cash dividend per share – declared	\$0.58	\$ 0.56	\$1.74	\$ 1.68
Cash dividend per share – paid	\$0.58	\$ 0.56	\$1.72	\$ 1.66

See “Notes to unaudited condensed consolidated financial statements.”

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income	\$ 135.5	\$ 99.1	\$ 417.4	\$ 271.6
Other comprehensive income (loss) before tax:				
Change in cumulative translation adjustments	(2.1)	(75.6)	36.5	(166.2)
Net change in cash flow hedges	1.2	1.1	3.9	0.6
Net change in unrealized components of defined benefit plans	1.2	2.5	3.2	6.9
Other comprehensive (loss) income, before tax	0.3	(72.0)	43.6	(158.7)
Tax effect allocated to other comprehensive income (loss)	(0.4)	(0.8)	(1.0)	(2.2)
Other comprehensive (loss) income, net of tax	(0.1)	(72.8)	42.6	(160.9)
Comprehensive income	\$ 135.4	\$ 26.3	\$ 460.0	\$ 110.7
Less: Comprehensive (loss) income attributable to non-controlling interest	1.0	(0.1)	11.0	0.0
Comprehensive income attributable to controlling interest	\$ 134.4	\$ 26.4	\$ 449.0	\$ 110.7

See "Notes to unaudited condensed consolidated financial statements."

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	As of	
	September 30,	
	2016	December 31,
	(unaudited) 2015	
Assets		
Cash and cash equivalents	\$1,182.6	\$ 1,333.5
Receivables, net	1,991.4	1,787.6
Inventories, net	799.2	711.4
Other current assets	172.1	205.8
Total current assets	4,145.3	4,038.3
Property, plant and equipment, net	1,675.8	1,437.1
Investments and other non-current assets	345.1	255.8
Goodwill	1,891.5	1,666.3
Intangible assets, net	243.5	128.0
Total assets	\$8,301.2	\$ 7,525.5
Liabilities and equity		
Short-term debt	\$73.0	\$ 39.6
Accounts payable	1,191.5	1,169.6
Accrued expenses	963.3	755.6
Other current liabilities	198.2	261.6
Total current liabilities	2,426.0	2,226.4
Long-term debt	1,471.8	1,499.4
Pension liability	216.2	197.0
Other non-current liabilities	150.2	134.6
Total non-current liabilities	1,838.2	1,831.0
Common stock	102.8	102.8
Additional paid-in capital	1,329.3	1,329.3
Retained earnings	3,765.3	3,499.4
Accumulated other comprehensive loss	(378.8)	(408.5)
Treasury stock	(1,055.9)	(1,067.4)
Total controlling interest	3,762.7	3,455.6
Non-controlling interest	274.3	12.5
Total equity	4,037.0	3,468.1
Total liabilities and equity	\$8,301.2	\$ 7,525.5

See "Notes to unaudited condensed consolidated financial statements."

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in millions)

	Nine months ended September 30,	
	2016	2015
Operating activities		
Net income	\$417.4	\$ 271.6
Depreciation and amortization	279.4	229.6
Other, net	17.4	(12.9)
Changes in operating assets and liabilities	(140.0)	(59.1)
Net cash provided by operating activities	574.2	429.2
Investing activities		
Expenditures for property, plant and equipment	(343.6)	(347.7)
Proceeds from sale of property, plant and equipment	4.1	14.0
Acquisitions and divestitures of businesses and other, net	(227.4)	(138.2)
Net cash used in investing activities	(566.9)	(471.9)
Financing activities		
Net decrease in short-term debt	(4.7)	(18.6)
Repayments and other changes in long-term debt	—	(12.2)
Dividends paid to non-controlling interest	(1.7)	—
Dividends paid	(151.7)	(146.4)
Repurchased shares	—	(104.4)
Common stock options exercised	5.1	17.3
Other, net	0.8	1.9
Net cash used in financing activities	(152.2)	(262.4)
Effect of exchange rate changes on cash and cash equivalents	(6.0)	(42.8)
Decrease in cash and cash equivalents	(150.9)	(347.9)
Cash and cash equivalents at beginning of period	1,333.5	1,529.0
Cash and cash equivalents at end of period	\$1,182.6	\$ 1,181.1

See "Notes to unaudited condensed consolidated financial statements."

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, 2016

1 Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) 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 U.S. GAAP for complete financial statements. In the opinion of management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the prior year audited financial statements and 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 result for the interim period is not necessarily indicative of the results to be expected for any future period or for the fiscal year ending December 31, 2016.

The Condensed Consolidated Balance Sheet at December 31, 2015 has been derived from the audited financial statements at that date, but does not include all the information and footnotes required by U.S. GAAP 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, 2015, filed with the SEC on February 19, 2016.

2 Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-15, Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments, which provides guidance on eight cash flow classification issues and thereby reducing the current and potential future diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in ASU 2016-15 are effective for public companies for fiscal years beginning after December 31, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company plans to early adopt this standard as of January 1, 2017. The adoption of this standard is not expected to have a material impact for any periods presented.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments (ASU 2016-13), which requires measurement and recognition of expected credit losses for financial assets held. ASU 2016-13 is effective for public companies during the fiscal year 2020, and

earlier adoption is permitted during the fiscal year 2019. We are currently evaluating the impact of our pending adoption of ASU 2016-13 on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718), which simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. The Company plans to adopt this standard prospectively as of January 1, 2017. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Topic 842 affects any entity that enters into a lease, with some specified scope exceptions. For public business entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early application is permitted for all entities. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements, which will require right of use assets and lease liabilities be recorded in the consolidated balance sheet for operating leases.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740), which simplifies the presentation of deferred income taxes. The amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in this Update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company early adopted the standard prospectively in its interim reporting for March 31, 2016. The impact of the change on the consolidated condensed balance sheet was approximately \$70 million reclassified from current deferred tax assets to non-current deferred tax assets and approximately \$20 million reclassified from current deferred tax liabilities to non-current deferred tax liabilities.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard was originally to be effective for public entities for annual and interim periods beginning after December 15, 2016. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606), that defers the effective date of ASU 2014-09 for all entities by one year. Public business entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing, which is an amendment that clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance. The effective date and transition requirements for the amendments in this Update are the same as in Topic 606. The Company is currently in the process of evaluating which adoption method to use and assessing the potential impact the new standard and the related Updates will have on its operations and consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330), which requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. For public business entities, this Update is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in this Update should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company plans to adopt this standard as of January 1, 2017. The adoption of this standard is not expected to have a material impact for any periods presented.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30), simplifying the Presentation of Debt Issuance Costs, that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted for financial statements that have not been previously issued. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (that is, debt issuance cost asset and the debt liability). The Company adopted the standard in its interim reporting for March 31, 2016. The effect of the change on the balance sheet as of March 31, 2016 was \$1.7 million reclassified from debt issuance cost asset to the debt liability. Prior period information was not retrospectively adjusted as the effects of the adoption of ASU 2015-03 were not material to those periods.

3 Business Combinations

Autoliv-Nissin Brake Systems

On March 31, 2016, the Company acquired a 51% interest in the entities that formed Autoliv-Nissin Brake Systems (ANBS) for approximately \$263 million in cash. ANBS designs, manufactures and sells products in the brake control and actuation systems business. Nissin Kogyo retained a 49% interest in the entities that formed ANBS. The Company has management and operational control of ANBS and has consolidated the results of operation and balance sheet from ANBS from the date of the acquisition forward. The transaction was accounted for as a business combination.

The acquisition combines Nissin Kogyo's world leading expertise and technology in brake control and actuation systems with Autoliv's global reach and customer base to create a global competitive offering in the growing global brake control systems market. ANBS will also further strengthen the Company's role as a leading system supplier of products and systems for autonomous driving vehicles. ANBS is included in the Electronics segment. From the date of the acquisition through September 30, 2016, the ANBS business reported net sales of \$278 million and a net loss attributable to controlling interest of \$3 million, net of a loss attributable to the non-controlling interest of \$3 million. The operating loss from the date of the acquisition through September 30, 2016 included \$0.9 million of purchase accounting inventory fair value step-up adjustments in cost of sales upon the sale of acquired inventory. The total purchase accounting inventory fair value step-up adjustments included in the balance sheet at the acquisition date were \$0.9 million.

Total ANBS acquisition related costs were approximately \$3.5 million for the year ended December 31, 2015 and approximately \$2.0 million for the nine months ended September 30, 2016 and were reflected in Selling, general and administrative expenses in the Consolidated Statements of Net Income.

The pro forma effects of this acquisition would not materially impact the Company's reported results for any period presented.

The preliminary acquisition date fair value of the consideration transferred for the Company's 51% interest in the entities that formed ANBS was \$262.8 million in a cash transaction.

The following table summarizes the preliminary fair values of identifiable assets acquired and liabilities assumed as of March 31, 2016:

Amounts preliminary recognized as of acquisition date March 31, 2016 (in millions)

Assets:	
Cash and cash equivalents	\$37.7
Receivables	1.5
Inventories	33.0
Other current assets	8.0
Property, plant and equipment	134.5
Other non-current assets	0.7
Intangibles	129.0
Goodwill	217.8

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Total assets	\$562.2
Liabilities:	
Accounts payable	\$6.0
Other current liabilities	19.1
Pension liabilities	9.1
Other non-current liabilities	12.7
Total liabilities	\$46.9
Net assets acquired	\$515.3
Less: Non-controlling interest	\$(252.5)
Controlling interest	\$262.8

Acquired Intangibles primarily consist of the fair value of customer contracts of \$64.9 million and certain technology of \$64.1 million. The customer contracts will be amortized straight-line over 7 years and the technology will be amortized straight-line over 10 years.

The recognized goodwill of \$217.8 million reflects expected synergies from combining Autoliv's global reach and customer base with Nissin Kogyo's world leading expertise (including workforce) and technology in brake control and actuation systems. A significant portion of the goodwill is deductible for tax purposes.

The fair values recognized for the acquired assets, assumed liabilities and goodwill are preliminary pending finalization of valuation process.

4 Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis

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 the contingent consideration relating to the M/A-COM acquisition in August 2015 is re-measured on a recurring basis (for further information, see the Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 19, 2016). As of September 30, 2016, there was no material change in the fair value of this contingent consideration.

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 Company's use of derivatives is in accordance with the strategies contained in the Company's overall financial risk policy. The derivatives outstanding at September 30, 2016 were foreign exchange swaps and forward contracts. All swaps principally match the terms and maturity of the underlying debt and no swaps have a maturity beyond six months. The foreign exchange forward contracts are designated as cash flow hedges of certain external purchases. All derivatives are recognized in the consolidated financial statements at fair value. Certain derivatives are from time to time designated either as fair value hedges or cash flow hedges in line with the hedge accounting criteria. For certain other derivatives, 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.

When a hedge is classified as a fair value hedge, the change in the fair value of the hedge is recognized in the Consolidated Statements of Net 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 Statements of Net Income when the hedge transaction affects net earnings. The Company uses the forward rate with respect to the measurement of changes in fair value of cash flow hedges when revaluing foreign exchange forward contracts. There were no material reclassifications from OCI to the Consolidated Statements of Net Income during the first nine months of 2016. Any ineffectiveness in the first nine months of 2016 was not material.

The Company's derivatives are all classified as Level 2 of the fair value hierarchy and there have been no transfers between the levels during this or comparable periods.

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, 2016 and December 31, 2015. The carrying value is the same as the fair value as these instruments are recognized in the consolidated financial statements at fair value. Although the Company is party to close-out netting agreements (i.e. ISDA agreements) with all derivative counterparties, the fair values in the tables below and in the Condensed Consolidated Balance Sheet at September 30, 2016 and in the Consolidated Balance Sheet at December 31, 2015, have been presented on a gross basis. The amounts subject to netting agreements that the Company chose not to offset are presented below. According to the close-out netting agreements, transaction amounts payable to a counterparty on the same date and in the same currency can be netted.

Description	September 30, 2016 Fair Value			Balance sheet location
	Nominal volume	Measurements Derivative asset	Derivative liability	
Derivatives designated as hedging instruments ¹⁾				
Foreign exchange forward contracts, less than 1 year (cash flow hedge)	\$ 65.3	\$ 4.0	\$ 0.0	Other current assets/ Other current liabilities
Foreign exchange forward contracts, less than 2 years (cash flow hedge)	11.7	0.9	0.0	Other non-current assets/ Other non-current liabilities
Total derivatives designated as hedging instruments	\$ 77.0	\$ 4.9	\$ 0.0	
Derivatives not designated as hedging instruments				
Foreign exchange swaps, less than 6 months	\$ 367.2	\$ 0.4	\$ 0.7	Other current assets/ Other current liabilities
Total derivatives not designated as hedging instruments	\$ 367.2	\$ 0.4	\$ 0.7	

¹⁾There is no netting since there are no offsetting contracts.

²⁾Net nominal amount after deducting for offsetting swaps under ISDA agreements is \$367.2 million.

³⁾Net amount after deducting for offsetting swaps under ISDA agreements is \$0.4 million.

⁴⁾Net amount after deducting for offsetting swaps under ISDA agreements is \$0.7 million.

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December 31, 2015
Fair Value

Description	Nominal volume	Measurements		Balance sheet location
		Derivative asset	Derivative liability	
Derivatives designated as hedging instruments ¹⁾				
Foreign exchange forward contracts, less than 1 year (cash flow hedge)	\$ 58.0	\$ 0.2	\$ 0.2	Other current assets/ Other current liabilities
Foreign exchange forward contracts, less than 2 years (cash flow hedge)	11.3	0.0	0.1	Other non-current assets/ Other non-current liabilities
Total derivatives designated as hedging instruments				
	\$ 69.3	\$ 0.2	\$ 0.3	
Derivatives not designated as hedging instruments				
Foreign exchange swaps, less than 6 months		²⁾	³⁾	⁴⁾ Other current liabilities
	\$ 482.4	\$ 2.5	\$ 5.1	
Total derivatives not designated as hedging instruments				
	\$ 482.4	\$ 2.5	\$ 5.1	

¹⁾There is no netting since there are no offsetting contracts.

²⁾Net nominal amount after deducting for offsetting swaps under ISDA agreements is \$435.8 million.

³⁾Net amount after deducting for offsetting swaps under ISDA agreements is \$2.4 million.

⁴⁾Net amount after deducting for offsetting swaps under ISDA agreements is \$4.9 million.

12

Derivatives designated as hedging instruments

The derivatives designated as hedging instruments outstanding at September 30, 2016 were foreign exchange forward contracts, classified as cash flow hedges. For the three and nine months ended September 30, 2016, the cumulative gains and losses recognized in OCI on the cash flow hedges were a gain of \$1.3 million and a gain of \$4.0 million (net of taxes), respectively. The derivatives designated as hedging instruments outstanding at September 30, 2015 were foreign exchange forward contracts, classified as cash flow hedges. For the three and nine months ended September 30, 2015, the cumulative gains and losses recognized in OCI on derivative effective portion, net were a gain of \$1.4 million and a gain of \$1.0 million, respectively.

For the three and nine months ended September 30, 2016, the gains and losses reclassified from OCI and recognized in the Consolidated Statements of Net Income were a gain of \$0.1 million and a gain of \$0.3 million (net of taxes), respectively. Gains and losses recognized and remaining in OCI as of September 30, 2016 is a gain of \$3.8 million (net of taxes). Any ineffectiveness in the first nine months of 2016 was not material. For the three and nine months ended September 30, 2015, the gains and losses reclassified from OCI and recognized in the Consolidated Statements of Net Income, net were a gain of \$0.2 million and a gain of \$0.2 million, respectively. Gains and losses recognized and remaining in OCI as of September 30, 2015 was a gain of \$0.8 million (net of taxes). There was no material ineffectiveness recorded during the first nine months of 2015.

Derivatives not designated as hedging instruments

Derivatives not designated as hedging instruments relate to economic hedges and are marked to market with all amounts recognized in the Consolidated Statements of Net Income. The derivatives not designated as hedging instruments outstanding at September 30, 2016 were foreign exchange swaps. During the first quarter of 2016, the Company entered into foreign exchange option contracts to hedge foreign exchange risk related to the ANBS acquisition. These foreign exchange option contracts matured during the first quarter of 2016 and are no longer outstanding.

For the three and nine months ended September 30, 2016, the gains and losses recognized in other non-operating items, net were a loss of \$1.3 million and a loss of \$0.2 million, respectively, for derivative instruments not designated as hedging instruments. The derivatives not designated as hedging instruments outstanding at September 30, 2015 were foreign exchange swaps. For the three and nine months ended September 30, 2015, the gains and losses recognized in other financial items, net were a gain of \$0.6 million and a loss of \$1.0 million, respectively, for derivative instruments not designated as hedging instruments. For the three and nine months ended September 30, 2016 and September 30, 2015, the gains and losses recognized as interest expense were immaterial.

Fair Value of Debt

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, from estimates using a discounted cash flow method based on the Company's current borrowing rates for similar types of financing. The fair value and carrying value of debt is summarized in the table below. The Company has determined that each of these fair value measurements of debt reside within Level 2 of the fair value hierarchy.

September 30, 2016	September 30, 2016	December 31, 2015	December 31, 2015
Carrying	Fair	Carrying	Fair

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	value ¹⁾	value	value ¹⁾	value
Long-term debt				
U.S. Private placement	\$ 1,417.9	\$ 1,541.7	\$ 1,421.5	\$ 1,472.6
Medium-term notes	40.6	41.8	77.8	79.6
Other long-term debt	13.3	13.3	0.1	0.1
Total	\$ 1,471.8	\$ 1,596.8	\$ 1,499.4	\$ 1,552.3
Short-term debt				
Overdrafts and other short-term debt	\$ 38.0	\$ 38.0	\$ 39.4	\$ 39.4
Short-term portion of long-term debt	35.0	35.0	0.2	0.2
Total	\$ 73.0	\$ 73.0	\$ 39.6	\$ 39.6

¹⁾Debt as reported in balance sheet.

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 include long-lived assets, including equity method investments.

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 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 the three and nine month periods ended September 30, 2016, the Company did not record any material impairment charges on its long-lived assets.

5 Income Taxes

The effective tax rate in the third quarter of 2016 was 26.8% compared to 34.7% in the same quarter of 2015. Discrete tax items, net in the third quarter of 2016 had a favorable impact of 1.1%. In the third quarter of 2015, discrete tax items, net had a favorable impact of 0.4%.

The effective tax rate in the first nine months of 2016 was 27.5% compared to 33.9% for the first nine months of 2015. In the first nine months of 2016, the net impact of discrete tax items caused a 0.2% decrease to the effective tax rate. The net impact of discrete tax items in the first nine months of 2015 caused a 0.6% decrease to the effective tax rate.

For the three and nine month periods ended September 30, 2016, the tax rate has been favorably impacted by the mix of earnings in various jurisdictions compared to the same period in the prior year.

The Company files income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. At any given time, the Company is undergoing tax audits in several tax jurisdictions covering multiple years. The Company is no longer subject to income tax examination by the U.S. federal income tax authorities for years prior to 2012. With few exceptions, the Company is no longer subject to income tax examination by U.S. state or local tax authorities or by non-U.S. tax authorities for years prior to 2009.

As of September 30, 2016, the Company is not aware of any proposed income tax adjustments resulting from tax examinations that would have a material impact on the Company's condensed consolidated financial statements. The conclusion of such audits could result in additional increases or decreases to unrecognized tax benefits in some future period or periods.

During the third quarter of 2016, the Company recorded a net increase of \$2.0 million to income tax reserves for unrecognized tax benefits based on tax positions related to the current year, including accruing additional interest related to unrecognized tax benefits of prior years. During the third quarter of 2016, the Company recorded no adjustment to income tax reserves for unrecognized tax benefits of prior years due to the lapse of the applicable statute of limitations. Of the total unrecognized tax benefits of \$34.8 million recorded at September 30, 2016, \$11.2 million is classified as current tax payable and \$23.6 million is classified as non-current tax payable on the Condensed Consolidated Balance Sheet.

6 Inventories

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

	As of	
	September 30,	December 31,
	2016	2015
Raw materials	\$400.9	\$ 339.9
Work in progress	263.7	243.4
Finished products	238.6	217.9
Inventories	\$903.2	\$ 801.2
Inventory valuation reserve	(104.0)	(89.8)
Total inventories, net of reserve	\$799.2	\$ 711.4

7 Goodwill

	Passive Safety		Electronics
	Segment	Segment	Total
Carrying amount December 31, 2015	\$ 1,388.3	\$ 278.0	\$1,666.3
Acquisition	—	217.8	217.8
Effect of currency translation	2.5	4.9	7.4
Carrying amount September 30, 2016	\$ 1,390.8	\$ 500.7	\$1,891.5

The goodwill recognized in the first quarter of 2016 was related to the ANBS acquisition (see Note 3).

8 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 a material adverse impact on its liquidity position. The majority of restructuring activities relate to the Passive Safety segment. The changes in the employee-related reserves have been charged against Other income (expense), net in the Consolidated Statements of Net Income.

Three months ended September 30, 2016

The employee-related restructuring provisions and cash payments for the three months ended September 30, 2016 mainly related to headcount reductions in high-cost countries in Europe and Asia. The table below summarizes the change in the balance sheet position of the restructuring reserves from June 30, 2016 to September 30, 2016.

	June 30, 2016	Provision/ Charge	Provision/ Reversal	Cash payments	Translation difference	September 30, 2016
Restructuring employee-related	\$ 66.5	\$ 3.4	\$ (0.1)	\$ (11.8)	\$ 0.4	\$ 58.4
Other	0.1	-	-	-	(0.1)	-
Total reserve	\$ 66.6	\$ 3.4	\$ (0.1)	\$ (11.8)	\$ 0.3	\$ 58.4

Nine months ended September 30, 2016

The employee-related restructuring provisions and cash payments for the nine months ended September 30, 2016 mainly related to headcount reductions in high-cost countries in Europe and Asia. The table below summarizes the

change in the balance sheet position of the restructuring reserves from December 31, 2015 to September 30, 2016.

	December 31, 2015	Provision/ Charge	Provision/ Reversal	Cash payments	Translation difference	September 30, 2016
Restructuring employee-related	\$ 87.7	\$ 20.6	\$ (0.8)	\$ (50.9)	\$ 1.8	\$ 58.4
Other	0.2	—	—	—	(0.2)	-
Total reserve	\$ 87.9	\$ 20.6	\$ (0.8)	\$ (50.9)	\$ 1.6	\$ 58.4

Three months ended September 30, 2015

The employee-related restructuring provisions and cash payments for the three months ended September 30, 2015 mainly related to headcount reductions in high-cost countries in Europe. The table below summarizes the change in the balance sheet position of the restructuring reserves from June 30, 2015 to September 30, 2015.

	June 30, 2015	Provision/ Charge	Provision/ Reversal	Cash payments	Translation difference	September 30, 2015
Restructuring employee-related	\$ 81.9	\$ 41.1	\$ (0.1)	\$ (12.5)	\$ (0.5)	\$ 109.9
Total reserve	\$ 81.9	\$ 41.1	\$ (0.1)	\$ (12.5)	\$ (0.5)	\$ 109.9

Nine months ended September 30, 2015

The employee-related restructuring provisions and cash payments for the nine months ended September 30, 2015 mainly related to headcount reductions in high-cost countries in Europe. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2014 to September 30, 2015.

	December 31, 2014	Provision/ Charge	Provision/ Reversal	Cash payments	Translation difference	September 30, 2015
Restructuring employee-related	\$ 79.6	\$ 84.0	\$ (1.9)	\$ (45.1)	\$ (6.7)	\$ 109.9
Other	0.2	0.3	-	(0.5)	-	-
Total reserve	\$ 79.8	\$ 84.3	\$ (1.9)	\$ (45.6)	\$ (6.7)	\$ 109.9

9 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. For further explanation, see Note 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 months ended September 30, 2016 and September 30, 2015 mainly related to warranty related issues. The provisions and cash paid for the nine months ended September 30, 2016 mainly related to warranty related issues, while provisions and cash paid for the nine months ended September 30, 2015 mainly related to recall related issues.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Reserve at beginning of the period	\$68.3	\$ 62.9	\$60.8	\$ 51.3
Change in reserve	9.9	7.9	27.2	32.8
Cash payments	(12.9)	(6.7)	(23.4)	(18.9)
Translation difference	—	(0.5)	0.7	(1.6)
Reserve at end of the period	\$65.3	\$ 63.6	\$65.3	\$ 63.6

10 Retirement Plans

The Company has contributory and non-contributory defined benefit pension plans covering employees at most operations in the U.S. and in certain other countries. The main plan is the U.S. plan for which the benefits are based on an average of the employee's earnings in the years preceding retirement and on credited service. Certain supplemental

funded and 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 condensed consolidated financial statements of the Company for the three and nine month periods ended September 30, 2016 and September 30, 2015 and are not included in the table below.

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,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Service cost	\$3.7	\$ 5.7	\$14.4	\$ 17.3
Interest cost	5.3	5.3	16.0	15.8
Expected return on plan assets	(5.0)	(5.3)	(15.3)	(16.0)
Amortization prior service credit	(0.2)	(0.2)	(0.5)	(0.5)
Amortization of actuarial loss	1.4	2.5	4.4	7.5
Net Periodic Benefit Cost	\$5.2	\$ 8.0	\$19.0	\$ 24.1

11 Controlling and Non-Controlling Interest

	Three Months ended September 30, 2016 Equity attributable to			September 30, 2015 Equity attributable to		
	Controlling	Non-controlling	Total	Controlling	Non-controlling	Total
	interest	interest	Total	interest	interest	Total
Balance at beginning of period	\$3,676.8	\$ 275.6	\$3,952.4	\$3,325.9	\$ 15.1	\$3,341.0
Total Comprehensive Income:						
Net income	137.8	(2.3)	135.5	98.9	0.2	99.1
Foreign currency translation	(5.4)	3.3	(2.1)	(75.2)	(0.4)	(75.6)
Net change in cash flow hedges	1.2	—	1.2	1.1	—	1.1
Defined benefit pension plan	0.8	—	0.8	1.7	—	1.7
Total Comprehensive Income	134.4	1.0	135.4	26.5	(0.2)	26.3
Common Stock incentives	2.7	—	2.7	3.6	—	3.6
Cash dividends declared	(51.2)	—	(51.2)	(49.3)	—	(49.3)
Investment in subsidiary by non-controlling						
interest	—	(2.3)	(2.3)	—	1.6	1.6
Purchase of subsidiary shares from non-controlling interests	—	-	-	—	(4.2)	(4.2)
Balance at end of period	\$3,762.7	\$ 274.3	\$4,037.0	\$3,306.7	\$ 12.3	\$3,319.0

	Nine Months ended September 30, 2016 Equity attributable to			September 30, 2015 Equity attributable to		
	Controlling	Non-controlling	Total	Controlling	Non-controlling	Total
	interest	interest	Total	interest	interest	Total
Balance at beginning of period	\$3,455.6	\$ 12.5	\$3,468.1	\$3,427.1	\$ 15.0	\$3,442.1
Total Comprehensive Income:						
Net income	419.4	(2.0)	417.4	271.3	0.3	271.6
Foreign currency translation	23.5	13.0	36.5	(165.9)	(0.3)	(166.2)
Net change in cash flow hedges	3.9	—	3.9	0.6	—	0.6
Defined benefit pension plan	2.2	—	2.2	4.7	—	4.7
Total Comprehensive Income	449.0	11.0	460.0	110.7	0.0	110.7
Common Stock incentives	11.6	—	11.6	20.9	—	20.9
Cash dividends declared	(153.5)	—	(153.5)	(147.8)	—	(147.8)
Repurchased shares	—	—	—	(104.4)	—	(104.4)
Dividends paid to non-controlling interest on subsidiary shares	—	(1.7)	(1.7)	—	—	—

Investment in subsidiary by
non-controlling

interest	—	252.5	252.5	—	1.6	1.6
Purchase of subsidiary shares from						
non-controlling interests	—	-	-	0.2	(4.3) (4.1)
Balance at end of period	\$3,762.7	\$ 274.3	\$4,037.0	\$3,306.7	\$ 12.3	\$3,319.0

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, and with the exception of losses resulting from the antitrust proceedings described below, it is the opinion of management that the various legal proceedings and investigations 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 October 2014, one of the Company's Brazilian subsidiaries received a notice of deficiency from the state tax authorities from the state of São Paulo, Brazil which, primarily, alleged violations of ICMS (VAT) payments and improper warehousing documentation. The aggregate assessment for all alleged violations was R\$68.5 million (approximately \$21.0 million), inclusive of fines, penalties and interest. The Company believes the full amount assessed is baseless and that it has reasonable legal and factual defenses to the assessment and, consequently, plans to defend its interests vigorously. However, the Company believes that a loss is probable with respect to at least a portion of the assessed amount and has accrued an amount in 2015 that was not material to the Company's results of operations. However, the Company cannot predict or estimate the duration or ultimate outcome of this matter.

In March 2015, the Company was informed of an investigation being conducted in Turkey by the Directorate of Kocaeli Customs Custody, Smuggling and Enquiry into the Company's import and customs payment structure and the associated import taxes and fees for the period of 2006–2012. The Company cannot predict the duration, scope or ultimate outcome of this investigation and is unable to estimate the financial impact it may have, or predict the reporting periods in which any such financial impacts may be recorded. Consequently, the Company has made no provision for any expenses as of September 30, 2016 with respect to this investigation.

ANTITRUST MATTERS

Authorities in several jurisdictions are currently conducting broad, and in some cases, long-running investigations of suspected anti-competitive behavior among parts suppliers in the global automotive vehicle industry. These investigations include, but are not limited to, segments in which the Company operates. In addition to pending matters, authorities of other countries with significant light vehicle manufacturing or sales may initiate similar investigations. It is the Company's policy to cooperate with governmental investigations.

On June 7-9, 2011, representatives of the European Commission ("EC"), the European antitrust authority, visited two facilities of a Company subsidiary in Germany to gather information for an investigation of anti-competitive behavior among suppliers of occupant safety systems. The investigation is still pending and the Company remains unable to estimate the financial impact such investigation will have or predict the reporting periods in which such financial impact may be recorded and has consequently not recorded a provision for loss as of September 30, 2016. However, management has concluded that it is probable that the Company's operating results and cash flows will be materially adversely impacted for the reporting periods in which the EC investigation is resolved or becomes estimable.

In August 2014, the Competition Commission of South Africa (the "CCSA") contacted the Company regarding an investigation into the Company's sales of occupant safety systems in South Africa. The Company is cooperating with the CCSA. The Company believes that a loss with respect to this investigation is probable and accrued an amount for the period ended June 30, 2016 related to this investigation. Due to further developments with respect to this investigation, the Company accrued an additional amount during the three month period ended September 30, 2016. The aggregate accrued amount remains not material to the Company's results of operations. The Company cannot predict or estimate the duration or ultimate outcome of the CCSA investigation.

On July 6, 2015, the Company learned that the General Superintendence of the Administrative Council for Economic Defense ("CADE") in Brazil had initiated an investigation of an alleged cartel involving sales in Brazil of seatbelts, airbags, and steering wheels by the Company's Brazilian subsidiary and the Brazilian subsidiary of a competitor. The Company believes that a loss in the form of a civil penalty is probable with respect to this matter and accrued an initial amount for the period ended December 31, 2015. Due to further developments with CADE's investigation the Company accrued an additional amount during the period ended March 31, 2016. The aggregate accrued amount remains not material to the Company's results of operations. The Company cannot predict or estimate the duration or ultimate outcome of this matter.

The Company is also subject to civil litigation alleging anti-competitive conduct in the U.S. and Canada. Specifically, the Company, several of its subsidiaries and its competitors were named as defendants in a total of nineteen purported antitrust class action lawsuits filed between June 2012 and June 2015. Fifteen of these lawsuits were filed in the U.S. and were consolidated in the Occupant Safety Systems (OSS) segment of the Automobile Parts Antitrust Litigation, a Multi-District Litigation (MDL) proceeding in the United States District Court for the Eastern District of Michigan. Plaintiffs in the U.S. cases sought to represent four purported classes - direct purchasers, auto dealers, end-payors, and, as of the filing of the last class action in June 2015, truck and equipment dealers - who purchased occupant safety systems or components directly from a defendant, indirectly through purchases or leases of new vehicles containing such systems, or through purchases of replacement parts.

In May 2014, the Company, without admitting any liability, entered into separate settlement agreements with representatives of the three classes of plaintiffs then pending in the MDL. Pursuant to the settlement agreements, the Company agreed to pay \$40 million to the direct purchaser settlement class, \$6 million to the auto dealer settlement class, and \$19 million to the end-payor settlement class, for a total of \$65 million. This amount was expensed during the second quarter of 2014. In exchange, the plaintiffs agreed that the plaintiffs and the settlement classes would release Autoliv from all claims regarding their U.S. purchases that were or could have been

asserted on behalf of the three classes in the MDL. In January 2015, the MDL court granted final approval of the direct purchaser class settlement, which had been reduced to approximately \$35.5 million because of opt-outs; in December 2015, the MDL court granted final approval of the auto dealer class settlement; and on June 20, 2016, the MDL court granted final approval of the end-payor class settlement, over the objections of several individual class members, some of whom have appealed the MDL court's approval of the Company's end-payor settlement and several other defendants' settlements that were approved at the same time. This appeal will delay the finality of the Company's settlement with the end-payor class. In addition, several individuals and one insurer (and its affiliated entities) have opted-out of all of the pending end-payor class settlements, including the Company's settlement. The class settlements do not resolve any claims of settlement class members who opt-out of the settlements or the unasserted claims of any purchasers of occupant safety systems who are not otherwise included in a settlement class, such as states and municipalities.

In September 2016, the insurer (and its affiliated entities) that opted out of the end-payor class settlement filed an antitrust lawsuit in the United States District Court for the Eastern District of Michigan, the venue for the MDL, against the Company and the other settling defendants in the end-payor class settlement. The Company has not been served with the lawsuit. The Company cannot predict or estimate the duration or ultimate outcome of this matter.

In March 2015, the Company, without admitting any liability, reached agreements regarding additional settlements to resolve certain direct purchasers' global (including U.S.) or non-U.S. antitrust claims that were not covered by the direct purchaser class settlement described above. The total amount of these additional settlements was \$81 million. Autoliv expensed during the first quarter of 2015 approximately \$77 million as a result of these additional settlements, net of existing amounts that had been accrued in 2014.

In April 2016, the Company reached an agreement to settle with the truck and equipment dealers class for a non-material amount. The settlement is subject to court approval following notice to the class and the opportunity for class members to object to or opt-out of the settlement. A final approval hearing is scheduled for November 17, 2016.

The remaining four antitrust class action lawsuits are pending in Canada (Sheridan Chevrolet Cadillac Ltd. et al. v. Autoliv, Inc. et al., filed in the Ontario Superior Court of Justice on January 18, 2013; M. Serge Asselin v. Autoliv, Inc. et al., filed in the Superior Court of Quebec on March 14, 2013; Ewert v. Autoliv, Inc. et al., filed in the Supreme Court of British Columbia on July 18, 2013; and Cindy Retallick and Jagjeet Singh Rajput v. Autoliv ASP, Inc. et al., filed in the Queen's Bench of the Judicial Center of Regina in the province of Saskatchewan on May 14, 2014). The Canadian cases assert claims on behalf of putative classes of both direct and indirect purchasers of occupant safety systems. On October 13, 2016, the Company reached an agreement in principle with plaintiffs in three of the four class actions to settle on a nationwide class basis for an amount that is not material to the Company's results of operations. The settlement is subject to the execution of a formal settlement agreement and court approval following notice to the class members. Once approved, this national settlement will include the claims of the putative members of the fourth class action. The Company accrued amounts during the three month periods ended March 31, 2016 and June 30, 2016 and an additional amount during the three month period ended September 30, 2016 in connection with these claims.

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. Government safety regulators may also play a role in warranty and recall practices. 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 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. 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 adequacy of these reserves, and adjusts them when appropriate. However, the final amounts actually due related to these matters could differ materially from the Company's recorded estimates.

In addition, as vehicle manufacturers increasingly use global platforms and procedures, quality performance evaluations are also conducted on a global basis. Any one or more quality, warranty or other recall issue(s) (including those affecting few units and/or having a small financial impact) may cause a vehicle manufacturer to implement measures such as a temporary or prolonged suspension of new orders, which may have a material impact on the Company's results of operations.

The Company carries insurance for potential recall and product liability claims at coverage levels based on our prior claims experience. Autoliv cannot assure 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, increase or otherwise adjust our insurance.

On June 29, 2016, the Company announced that it is cooperating with Toyota Motor Corp. in its recall of approximately 1.4 million vehicles equipped with a certain model of the Company's side curtain airbag (the "Toyota Recall"). Toyota has informed the Company that there have been eight reported incidents where a side curtain airbag has partially inflated without a deployment signal from the airbag control unit. The incidents have all occurred in parked, unoccupied vehicles and no personal injuries have been reported. The root cause analysis of the issue is ongoing. However, at this point in time the Company believes that a compromised manufacturing process at a sub-supplier may be a contributing factor and, as no incidents have been reported in vehicles produced by other OEMs with the same inflator produced during the same period as those recalled by Toyota, that vehicle-specific characteristics may also contribute to the issue. The sub-supplier's manufacturing process was changed in January 2012, and the vehicles now recalled by Toyota represent more than half of all inflators of the relevant type manufactured before the sub-supplier process was changed.

As previously disclosed in our Quarterly Reports on Form 10-Q for the periods ended March 31, 2016 and June 30, 2016, the Company determined pursuant to ASC 450 that a loss with respect to this issue is reasonably possible. If the Company is obligated to indemnify Toyota for the costs associated with the Toyota Recall, the Company expects that its insurance will generally cover such costs and liabilities and estimates that the Company's loss, net of expected insurance recoveries, would be less than \$20 million. However, the ultimate costs of the Toyota Recall could be materially different. The main variables affecting the ultimate cost for the Company are: the determination of proportionate responsibility (if any) among Toyota, the Company, and any relevant sub-suppliers; the ultimate number of vehicles repaired; the cost of repair per vehicle; and the actual recoveries from sub-suppliers and insurers. The Company's insurance policies generally include coverage of the costs of a recall, although costs related to replacement parts are generally not covered.

In its products, the Company utilizes technologies which may be subject to intellectual property rights of third parties. While the Company does seek to procure the necessary rights to utilize intellectual property rights associated with its products, it 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, its customers may be entitled to be indemnified by the Company for the claims they suffer as a result thereof. Such claims could be material.

The table in Note 9 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, 2016 and September 30, 2015.

As a result of an initiative to more closely link the Company's stock incentive program to the Company's financial performance, the Compensation Committee of the Board of Directors approved a new long-term equity incentive program, pursuant to which performance shares will replace stock options. The first grants under the new long-term incentive (LTI) program were made in February 2016.

On February 15, 2016 and May 9, 2016, the Compensation Committee of the Board of Directors granted shares under the LTI program pursuant to which certain employees received 50% of their LTI grant value in the form of performance shares and 50% in the form of restricted stock units. The restricted stock units granted on February 15, 2016 and May 9, 2016 will vest in three approximately equal annual installments beginning on the first anniversary of the grant date, subject to the grantee's continued employment with the Company on each vesting date. Additionally, the grantee may earn 0%-200% of the target number of performance shares based on the Company's achievement of specified targets for the Company's compound annual growth rate (CAGR) for sales and the Company's CAGR in earnings per share relative to an established benchmark growth rate. Each performance target is weighted 50% and results are measured at the end of the three-year performance period.

The fair value of the restricted stock units and performance shares granted under the LTI program are calculated as the grant date fair value of the shares expected to be issued. The grant date fair value for the restricted stock units at February 15, 2016 and May 9, 2016 was \$7.0 million and \$0.2 million, respectively. This cost will be amortized straight line over the vesting periods. The grant date fair value of the performance shares at February 15, 2016 and May 9, 2016 was \$6.9 million and \$0.2 million, respectively, and is based upon the market value of the Autoliv common stock at the grant date. The performance conditions are not considered in the determination of the grant date fair value for these awards. Compensation expense is recognized over the performance period based on management's estimate of the number of units expected to vest. Management evaluates its estimate of the actual number of shares expected to be issued at the end of the program on a quarterly basis. The cumulative effect of the change in estimate is recognized in the period of change as an adjustment to compensation expense, if necessary.

14 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 shares of common stock 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 Company's Stock Incentive Plan.

For the three and nine months ended September 30, 2016, approximately 0.2 million shares of common stock, respectively, were not included in the computation of the diluted EPS, which could potentially dilute basic EPS in the future. For the three and nine months ended September 30, 2015, approximately 0.2 million shares of common stock were not included in the computation of the diluted EPS, which could potentially dilute basic EPS in the future.

During the three months ended September 30, 2016 and September 30, 2015, approximately 7 thousand and 24 thousand shares of common stock, respectively, from the treasury stock have been utilized by the Company's Stock Incentive Plan. During the nine months ended September 30, 2016 and September 30, 2015, approximately 0.1 million and 0.3 million shares of common stock, respectively, from the treasury stock have been utilized by the Company's Stock Incentive Plan.

Actual weighted average shares used in calculating EPS were:

(In millions)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Weighted average shares basic	88.2	88.1	88.2	88.2
Effect of dilutive securities: stock options/share awards	0.3	0.2	0.2	0.2
Weighted average shares diluted	88.5	88.3	88.4	88.4

15 Segment Information

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The Company currently reports its results in two segments, Passive Safety and Electronics. Passive Safety includes the Company's airbag, seatbelt and steering wheel businesses, while Electronics combines all of the Company's electronics resources and expertise in passive safety electronics, active safety electronics and brake control systems. The fair value of the net assets acquired as part of the ANBS acquisition (as of March 31, 2016) is being reported in the Electronics segment.

Net sales, including Intersegment Sales	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
(Dollars in millions)	2016	2015	2016	2015
Passive Safety	\$1,898.7	\$ 1,797.2	\$5,883.5	\$ 5,552.9
Electronics	577.4	397.1	1,631.5	1,125.4
Total segment sales	\$2,476.1	\$ 2,194.3	\$7,515.0	\$ 6,678.3
Corporate and other	1.1	3.9	3.1	11.1
Intersegment sales	(15.9)	(13.7)	(48.3)	(39.3)
Total net sales	\$2,461.3	\$ 2,184.5	\$7,469.8	\$ 6,650.1

21

Income before Income Taxes	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
(Dollars in millions)	2016	2015	2016	2015
Passive Safety	\$ 190.8	\$ 145.8	\$ 589.2	\$ 404.7
Electronics	5.0	11.4	31.7	32.2
Segment operating income	\$ 195.8	\$ 157.2	\$ 620.9	\$ 436.9
Corporate and other	(4.7)	0.6	(11.9)	9.6
Interest and other non-operating expenses, net	(6.5)	(6.6)	(34.4)	(39.2)
Income from equity method investments	0.5	0.6	1.2	3.5
Income before income taxes	\$ 185.1	\$ 151.8	\$ 575.8	\$ 410.8

Capital Expenditures	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
(Dollars in millions)	2016	2015	2016	2015
Passive Safety	\$ 96.2	\$ 84.2	\$ 269.5	\$ 306.5
Electronics	22.8	12.4	66.8	37.1
Corporate and other	1.1	1.1	7.3	4.1
Total capital expenditures	\$ 120.1	\$ 97.7	\$ 343.6	\$ 347.7

Depreciation and Amortization	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
(Dollars in millions)	2016	2015	2016	2015
Passive Safety	\$ 69.2	\$ 67.1	\$ 206.8	\$ 192.6
Electronics	26.2	11.8	66.0	33.6
Corporate and other	2.2	1.2	6.6	3.4
Total depreciation and amortization	\$ 97.6	\$ 80.1	\$ 279.4	\$ 229.6

Segment Assets	As of	
	September 30,	December 31,
(Dollars in millions)	2016	2015
Passive Safety	\$5,782.7	\$ 5,539.3
Electronics	1,712.6	966.5
Segment assets	\$7,495.3	\$ 6,505.8
Corporate and other ¹⁾	805.9	1,019.7
Total assets	\$8,301.2	\$ 7,525.5

¹⁾Corporate and other assets mainly consist of cash and cash equivalents, income taxes and equity method investments.

16 Subsequent Events

There were no reportable events subsequent to September 30, 2016.

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

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and accompanying Notes thereto included elsewhere herein and with our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the United States Securities and Exchange Commission (the "SEC") on February 19, 2016. Unless otherwise noted, all dollar amounts are in millions.

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

Autoliv is a leading developer, manufacturer and supplier of automotive safety systems to the automotive industry with a broad range of product offerings, including passive safety systems and active safety systems. Passive safety systems are primarily meant to improve vehicle safety. Passive safety products include modules and components for passenger and driver-side airbags, side-impact airbag protection systems, seatbelts, steering wheels, whiplash protection systems and child seats, and components for such systems. Active safety systems are designed to assist the driver and ultimately to avoid any crashes by intervening before a collision can occur. Active safety products include automotive radars, night vision systems, cameras with driver assist systems, positioning systems, passive safety electronics, active seatbelts and brake control systems.

Autoliv's filings with the SEC, including this Quarterly Report on Form 10-Q, annual reports on Form 10-K, current reports on Form 8-K, proxy statements and all of our other reports and statements, and amendments thereto, are available free of charge on our corporate website at www.autoliv.com as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC (i.e. generally the same day as the filing).

Shares of Autoliv common stock trade on the New York Stock Exchange under the symbol "ALV". Swedish Depository Receipts representing shares of Autoliv common stock ("SDRs") trade on NASDAQ Stockholm under the symbol "ALIV SDB", and options in SDRs trade on the same exchange under the name "Autoliv SDB". Options in Autoliv shares trade on NASDAQ OMX PHLX and NYSE Amex Options under the symbol "ALV". Our fiscal year ends on December 31.

EXECUTIVE OVERVIEW

The third quarter developed slightly better than the Company's expectations. Growth was in line with the Company's guidance and operating margin was higher than expected with strong growth in Europe and China.

Regionally, the light vehicle production growth in China was stronger than expected. Future growth depends, to some extent, on the continuation of government incentives currently in place, but the Company believes in the long term growth prospects in China. In the U.S. market the monthly vehicle sales figures continue to indicate a slowdown in the market, while Europe continues to see high vehicle production levels. Autoliv currently has a healthy product mix in Europe and it outperformed the European vehicle production growth in the quarter by double digit levels.

In active safety the Company is now starting to see the lower growth rates that it has indicated for some time. This is due to the ramp down of GPS modules and internally developed brake control products. After the launch of the Company's new active safety products in the beginning of 2016, it has won significant new business. However some of that business has a later expected start of production and additionally some of the business opportunities have not materialized as previously anticipated. Therefore, the Company expects to reach its end of decade sales target in Active Safety about one year later than earlier communicated.

The Company continues to have a positive situation in its passive safety business. The historically high order intake continued and the Company is gaining future market share beyond its previous expectations. The Company was able to achieve double digit operating margin in passive safety while deploying additional engineering and other resources to meet this wave of growth that are expected to come from 2018 and onwards.

The combined effect of the developments in active and passive safety is further increasing the Company's confidence that it is on the right path to surpass its \$12 billion corporate sales target for the end of the decade. This will allow the Company to grow its sustainable market share and further strengthen its technology and market leadership. The Company also continues to monitor the overall macro- and industry situation and is ready to take necessary actions while focusing on executing on its growth strategy with a relentless focus on quality.

Non-U.S. GAAP financial measures

Some of the following discussions refer to non-U.S. GAAP financial measures: see "Organic sales", "Operating working capital", "Net debt" and "Leverage ratio". Management believes that these non-U.S. GAAP financial measures provide supplemental information to investors regarding the performance of the Company's business and 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-U.S. GAAP financial measures in addition to, rather than as substitutes for, financial reporting measures prepared in accordance with U.S. GAAP. These historical non-U.S. GAAP financial measures have been identified as applicable in each section of this report with a tabular presentation reconciling them to the most directly comparable U.S. GAAP financial measures. 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 internally to analyze the Company's current and future financial performance and core operations as well as to identify trends in the Company's 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 below and should be read in conjunction with the consolidated financial statements in our Annual Report on Form 10-K and the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

KEY RATIOS

(Dollars in millions, except per share data)

	Three months ended		Nine Months ended	
	or as of September 30		or as of September 30	
	2016	2015	2016	2015
Total parent shareholders' equity per share	\$42.66	\$37.53	\$42.66	\$37.53
Operating working capital ¹⁾	\$657	\$623	\$657	\$623
Capital employed ⁶⁾	\$4,397	\$3,684	\$4,397	\$3,684
Net debt ¹⁾	\$360	\$365	\$360	\$365
Net debt to capitalization, % ¹¹⁾	8	10	8	10
Gross margin, % ²⁾	20.1	20.1	20.4	19.9
Operating margin, % ³⁾	7.8	7.2	8.2	6.7
Return on total equity, % ⁷⁾	13.6	11.9	14.5	10.9
Return on capital employed, % ⁸⁾	17.4	17.4	19.5	16.8
No. of employees at period-end ⁹⁾	59,930	53,371	59,930	53,371
Headcount at period-end ¹⁰⁾	68,778	61,813	68,778	61,813
Days receivables outstanding ⁴⁾	74	71	73	71
Days inventory outstanding ⁵⁾	34	33	33	33

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

²⁾ Gross profit relative to sales

³⁾ Operating income relative to sales

⁴⁾ Outstanding receivables relative to average daily sales

⁵⁾ Outstanding inventory relative to average daily sales

- 6) Total equity and net debt
- 7) Net income relative to average total equity
- 8) Operating income and income from equity method investments, relative to average capital employed
- 9) Employees with a continuous employment agreement, recalculated to full time equivalent heads
- 10) Employees plus temporary, hourly workers
- 11) Net debt in relation to capital employed

THREE MONTHS ENDED SEPTEMBER 30, 2016 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2015

Market overview

Light Vehicle Production Development

	Change vs. same quarter last year						
	China	Japan	RoA	Americas	Europe	Total	
LVP ¹⁾	23.7 %	1.5 %	(2.0)%	0.2 %	(1.7)%	5.5 %	

¹⁾Source: IHS October 17, 2016.

During the three month period from July to September 2016, global LVP is estimated by IHS to have grown by close to 6% compared to the same quarter in 2015. This was in line with IHS's expectation at the beginning of the quarter.

In China, which accounts for around 16% of Autoliv's sales, LVP grew by close to 24%, more than 7pp better than the July estimate.

In Japan, which accounts for around 9% of Autoliv's sales, LVP increased by close to 2%, less than 1pp better than the July estimate.

In the RoA, which represents around 9% of Autoliv's sales, LVP declined by 2%, close to 2pp worse than the July estimate.

In the Americas, which accounts for more than one third of Autoliv's sales, LVP was flat, which was close to 3pp worse than in the July estimate. In North America, LVP increased by more than 2%, which was less than 2pp worse than the July estimate. In South America, the decline was close to 11%, close to 8pp worse than the decline expected in IHS's July estimate.

In Europe, where Autoliv currently generates close to one third of its sales, LVP declined by close to 2%, which was close to 2pp worse than IHS's July estimate. In Western Europe, LVP declined by close to 2%, more than 2pp worse than the July estimate. In Eastern Europe, LVP declined by close to 2%, which was in line with the July estimate.

Consolidated Sales

The Company has substantial operations outside the U.S. and at the present time approximately 73% of its sales are denominated in currencies other than the U.S. dollar. This makes the Company and its performance in regions outside the U.S. sensitive to changes in U.S. dollar exchange rates when translated. 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/divestitures 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 condensed consolidated financial statements.

Sales by Product

Change vs. same quarter last year

	Sales	Reported		Acquisitions/	Currency		Organic	
	(MUSD)	(U.S. GAAP)	%	Divestitures	effects ¹⁾	%	change ³⁾	%
Airbags ²⁾	\$1,268.3	5.3	%	—	0.2	%	5.1	%
Seatbelts ²⁾	631.3	5.8	%	—	(1.0))%	6.8	%
Passive Safety Electronics	240.0	9.4	%	—	1.4	%	8.0	%
Active Safety Products	183.2	11.6	%	3.4	(0.4))%	8.6	%
Brake Control Systems	138.5	100.0	%	100.0	—		—	
Total	\$2,461.3	12.7	%	6.6	(0.0)	%	6.1	%

¹⁾Effects from currency translations. ²⁾Including Corporate and other sales.

³⁾Non-U.S. GAAP measure, see reconciliation table below.

Consolidated sales increased by close to 13% to \$2,461 million compared to \$2,185 million in the same quarter of 2015. Excluding negative currency translation effects of less than \$1 million and effects from M&A activities, the

organic sales growth (Non-U.S. GAAP measure, see reconciliation table above) was 6.1%, compared to the organic sales growth (Non-U.S. GAAP measure) of “around 6%” expected at the beginning of the quarter. The organic sales growth (Non-U.S. GAAP measure) was negatively impacted by a strike at a customer in South Korea.

Reconciliation of the change in “Organic sales” to U.S. GAAP financial measure

Components of net sales increase (decrease)

Three months ended September 30, 2016

(Dollars in millions)

	Airbag		Seatbelt		Passive Safety		Active Safety		Brake Control		Total	
	Products ²⁾		Products ²⁾		Electronics		Safety					
	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
Organic change	5.1	\$61.3	6.8	\$40.6	8.0	\$17.5	8.6	\$14.1	—	\$—	6.1	\$133.5
Currency effects ¹⁾	0.2	2.8	(1.0)	(6.1)	1.4	3.2	(0.4)	(0.7)	—	—	0.0	(0.8)
Acquisitions/divestitures	—	—	—	—	—	—	3.4	5.6	100.0	138.5	6.6	144.1
Reported change	5.3	\$64.1	5.8	\$34.5	9.4	\$20.7	11.6	\$19.0	100.0	\$138.5	12.7	\$276.8

1) Effects from currency translations. 2) Including Corporate and other sales.

The organic sales growth (Non-U.S. GAAP measure, see reconciliation table above) of airbag products (including steering wheels) was mainly driven by steering wheels in Europe and inflatable curtains in Japan and China.

The organic sales growth (Non-U.S. GAAP measure, see reconciliation table above) in seatbelt products was a result of strong sales growth in China and Europe, partly offset by South Korea. The trend of higher sales for more advanced and higher value-added seatbelt systems continued globally.

Organic sales (Non-U.S. GAAP measure, see reconciliation table above) for passive safety electronics products (mainly airbag control modules and remote sensing units) grew significantly in China, with both local and global OEMs.

The organic sales growth (Non-U.S. GAAP measure, see reconciliation table above) for active safety products (automotive radars, night vision systems, cameras with driver assist systems and positioning systems) was driven by sales of radar and camera systems in Europe, particularly to Mercedes and BMW. This was partly offset by lower sales in North America as a result of model transitions and unfavorable mix on slow-selling models.

Sales of Brake control systems were in line with expectations from the beginning of the quarter.

Sales by Region

Change vs. same
quarter last year

Sales	Reported	Acquisitions/	Currency	Organic
(MUSD)		Divestitures	effects ¹⁾	change ²⁾

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		(U.S. GAAP)							
Asia	\$897.6	25.9	%	13.8	%	2.9	%	9.2	%
Whereof: China	\$420.9	26.8	%	11.2	%	(5.4))%	21.0	%
Japan	\$266.5	55.5	%	35.5	%	18.8	%	1.2	%
Rest of Asia	\$210.2	0.2	%	—		3.2	%	(3.0))%
Americas	\$847.0	4.6	%	5.7	%	(2.5))%	1.4	%
Europe	\$716.7	8.4	%	—		(0.1))%	8.5	%
Global	\$2,461.3	12.7	%	6.6	%	0.0	%	6.1	%

1) Effects from currency translations.

2) Non-U.S. GAAP measure, see reconciliation table below.

27

Reconciliation of the change in “Organic sales” to U.S. GAAP financial measure

Components of net sales increase (decrease)

Three months ended September 30, 2016

(Dollars in millions)

	China		Japan		RoA		Americas		Europe		Total	
	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
Organic change	21.0	\$69.7	1.2	\$2.1	(3.0)	\$(6.4)	1.4	\$11.7	8.5	\$56.4	6.1	\$133.5
Currency effects ¹⁾	(5.4)	(18.0)	18.8	32.2	3.2	6.9	(2.5)	(20.7)	(0.1)	(1.2)	0.0	(0.8)
Acquisitions/divestitures	11.2	37.3	35.5	60.8	—	—	5.7	46.0	—	—	6.6	144.1
Reported change	26.8	\$89.0	55.5	\$95.1	0.2	\$0.5	4.6	\$37.0	8.4	\$55.2	12.7	\$276.8

1) Effects from currency translations.

The organic sales growth (Non-U.S. GAAP measure, see reconciliation table above) of 6.1% in the quarter was mainly a result of strong growth in China and Europe, where organic sales (Non-U.S. GAAP measure, see reconciliation table above) grew by 21% and close to 9% respectively. This was a result of a combination of high content on well performing models and the ramp up of new launches.

Sales from Autoliv’s companies in China grew organically (Non-U.S. GAAP measure, see reconciliation table above) by 21% in the quarter. The growth in the quarter was driven by both global and local OEMs, particularly models from VW, Hyundai/Kia and Great Wall’s Haval brand. Sales growth was also supported by strong year-over-year growth in the LVP.

Organic sales (Non-U.S. GAAP measure, see reconciliation table above) from Autoliv’s companies in Japan increased by more than 1% in the quarter. The sales increase was mainly due to positive model transitions and ramp ups with models from Toyota. Nissan also contributed to the growth. Lower sales of replacement inflators partly offset the organic growth (Non-U.S. GAAP measure).

Organic sales (Non-U.S. GAAP measure, see reconciliation table above) from Autoliv’s companies in the Rest of Asia (RoA) declined by 3% in the quarter. This decline was driven by lower sales in South Korea, primarily driven by lower than expected LVP due to a strike at Hyundai/Kia. Strong organic sales growth (Non-U.S. GAAP measure) in India was mainly driven by strong sales for models launched in 2015, particularly from Hyundai and Suzuki.

In the Americas, both North and South America saw organic sales growth (Non-U.S. GAAP measure, see reconciliation table above) for the quarter. In North America, the organic sales growth of more than 1% was mainly driven by sales increases for models from Honda, FCA and Hyundai/Kia. Replacement inflators also contributed to the growth. Sales in South America (Brazil) increased by close to 8%, particularly driven by models from FCA, PSA and Renault.

The strong organic sales growth (Non-U.S. GAAP measure, see reconciliation table above) of close to 9% in the quarter from Autoliv’s companies in Europe was driven by increased sales to Mercedes, particularly the new E-Class with high active safety content as well as models from Hyundai/Kia and Renault.

Earnings

	Three months ended		Three months ended		
(Dollars in millions, except per share data)	September 30, 2016		September 30, 2015		Change
Net Sales	\$	2,461.3	\$	2,184.5	12.7 %
Gross profit	\$	495.3	\$	440.1	12.5 %
% of sales		20.1 %		20.1 %	0.0 pp
S,G&A	\$	(116.5)	\$	(101.3)	15.0 %
% of sales		(4.7)%		(4.6)%	(0.1)pp
R,D&E net	\$	(165.5)	\$	(130.4)	26.9 %
% of sales		(6.7)%		(6.0)%	(0.7)pp
Operating income	\$	191.1	\$	157.8	21.1 %
% of sales		7.8 %		7.2 %	0.6 pp
Income before taxes	\$	185.1	\$	151.8	21.9 %
Tax rate		26.8 %		34.7 %	(7.9)pp
Net income	\$	135.5	\$	99.1	36.7 %
Net income attributable to controlling interest	\$	137.8	\$	98.9	39.3 %
Earnings per share, diluted ¹⁾	\$	1.56	\$	1.12	39.3 %

1) Assuming dilution and net of treasury shares.

The gross profit for the third quarter of 2016 was \$495 million, which was \$55 million higher than in the same quarter of 2015, as a result of higher sales. The gross margin was unchanged at 20.1% compared to the same quarter of 2015. Favorable effects from currencies and raw material savings were offset by costs related to investments for capacity and growth.

Selling, General and Administrative (S,G&A) expenses increased by \$15 million.

Research, Development & Engineering (R,D&E) expenses, net, in support of future growth, increased by \$35 million compared to the same quarter in the prior year.

Operating income increased by \$33 million to \$191 million, or 7.8% of sales, compared to 7.2% of sales in the same quarter of 2015, when costs related to capacity alignments of \$42 million negatively affected the operating margin.

Costs of \$3 million related to capacity alignments and \$5 million related to antitrust matters reduced operating margin by 0.3pp in the third quarter, compared to 2.2pp in the same quarter of 2015. The decrease was primarily driven by higher investments for growth.

Income before taxes increased by \$33 million from the third quarter of 2015. Net Income attributable to controlling interest was \$138 million, an increase of \$39 million from the third quarter of 2015.

The effective tax rate in the third quarter of 2016 was 26.8% compared to 34.7% in the same quarter of 2015. Discrete items, net decreased the tax rate in the quarter by 1.1pp. In the third quarter of 2015, discrete tax items, net had a favorable impact of 0.4pp.

Earnings per share (EPS) assuming dilution was \$1.56 compared to \$1.12 for the same period one year ago. The EPS was positively affected by 34 cents from lower costs related to capacity alignment and 15 cents from a lower underlying tax rate.

The weighted average number of shares outstanding assuming dilution was 88.5 million compared to 88.3 million in the third quarter of 2015.

NINE MONTHS ENDED SEPTEMBER 30, 2016 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2015

Market overview

Light Vehicle Production Development

Year over year change	China	Japan	RoA	Americas	Europe	Total
LVP ¹⁾	11.4 %	(1.4)%	(0.1)%	(0.6)%	2.6 %	3.4 %

1)Source: IHS October 17, 2016.

For the first nine months of 2016, global LVP is estimated by IHS to have increased by more than 3% compared to the first nine months of 2015. This was essentially flat compared to IHS's expectation from the beginning of the year.

In China, which accounts for around 16% of Autoliv's sales, LVP grew by more than 11%, an increase of close to 3pp compared to the January 2016 estimate.

In Japan, which accounts for around 9% of Autoliv's sales, LVP declined by more than 1%, more than 3pp worse compared to the January 2016 estimate.

In the RoA, which accounts for around 9% of Autoliv's sales, LVP was essentially flat, close to 2pp worse compared to the expectation from the beginning of 2016.

In the Americas, which makes up more than one third of Autoliv's sales, LVP decreased by less than 1%, a decrease of 3pp compared to IHS's growth expectation of more than 2% from the beginning of the year. In North America, the increase was more than 2% compared to the more than 5% expected at the beginning of the year. In South America, the decrease was more than 16%, close to 5pp worse than the January 2016 estimate.

In Europe, where Autoliv currently generates close to one third of its sales, LVP grew by close to 3% which was 1pp better than IHS's estimate in January 2016. In Western Europe, LVP grew by close to 5%, close to 2pp better than estimated at the beginning of the year. In Eastern Europe, LVP decreased by more than 1%, less than 1pp worse than the January 2016 estimate.

Consolidated Sales

The Company has substantial operations outside the U.S. and at the present time approximately 73% of its sales are denominated in currencies other than the U.S. dollar. This makes the Company and its performance in regions outside the U.S. sensitive to changes in U.S. dollar exchange rates when translated. 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/divestitures 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 condensed consolidated financial statements.

Sales by Product

Year over year change

	Sales	Reported (U.S. GAAP)	Acquisitions/ Divestitures	Currency effects ¹⁾	Organic change ³⁾
	(MUSD)				
Airbags ²⁾	\$3,907.7	7.1 %	—	(1.7)%	8.8 %
Seatbelts ²⁾	1,977.2	3.3 %	—	(2.7)%	6.0 %
Passive Safety Electronics	753.4	13.5 %	—	(0.4)%	13.9 %
Active Safety Products	559.6	32.4 %	8.3 %	0.0 %	24.1 %
Brake Control Systems	271.9	100.0 %	100.0 %	—	—
Total	\$7,469.8	12.3 %	4.6 %	(1.8)%	9.5 %

¹⁾Effects from currency translations. ²⁾Including Corporate and other sales.

³⁾Non-U.S. GAAP measure, see reconciliation table below.

30

For the first nine months of 2016 consolidated sales increased to \$7,470 million from \$6,650 million for the same period in 2015. Excluding negative currency effects of close to 2% and acquisition effects from ANBS and MACOM of close to 5%, the organic sales growth (Non-U.S. GAAP measure, see reconciliation table above) was close to 10%. All parts of the Company, except South America and South Korea, showed organic sales growth (Non-U.S. GAAP measure) for the first nine months.

Reconciliation of the change in “Organic sales” to U.S. GAAP financial measure

Components of net sales increase (decrease)

Nine months ended September 30, 2016

(Dollars in millions)

	Airbag Products ²⁾		Seatbelt Products ²⁾		Passive Safety Electronics		Active Safety		Brake Control		Total		
	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	
Organic change	8.8	\$320.7	6.0	\$115.4	13.9	\$92.4	24.1	\$102.0	—	\$	—	9.5	\$630.5
Currency effects ¹⁾	(1.7)	(62.3)	(2.7)	(52.4)	(0.4)	(2.9)	0.0	(0.1)	—	\$	—		