AUTOLIV INC
Form 10-Q
April 25, 2014
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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 March 31, 2014

Commission File No.: 001-12933

AUTOLIV, INC.

(Exact name of registrant as specified in its charter)

Delaware	**51-0378542**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

Vasagatan 11, 7th floor, SE-111 20,

Box 70381,

SE-107 24 Stockholm, Sweden	**N/A**
(Address of principal executive offices)	**(Zip Code)**

+46 8 587 20 600

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes: x 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: x 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:	x	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: x

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: As of April 16, 2014, there were 93,702,537 shares of common stock of Autoliv, Inc., par value $1.00 per share, outstanding.

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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. For example, forward-looking statements include, without limitation, statements relating to industry trends, business opportunities, sales contracts, sales backlog, and on-going commercial arrangements and discussions, as well as any statements about future operating performance or financial results.

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

All forward-looking statements, including without limitation, management s examination of historical operating trends and data, are based upon our current expectations, various assumptions and data available from third parties. 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.

Because these forward-looking statements involve risks and uncertainties, the outcomes could differ materially from those set out in the forward-looking statements for a variety of reasons, including without limitation, changes in and the successful execution of our capacity alignment, restructuring and cost reduction initiatives discussed herein and the market reaction thereto; changes in general industry market conditions or regional growth or declines; 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; divestiture of customer brands; unfavorable fluctuations in currencies or interest rates among the various jurisdictions in which we operate; fluctuation in vehicle production schedules for which the Company is a supplier; component shortages; market acceptance of our new products; costs or difficulties related to the integration of any new or acquired businesses and technologies; continued uncertainty in program awards and performance; the financial results of companies in which Autoliv has made technology investments or joint-venture arrangements; pricing negotiations with customers; our ability to be awarded new business; product liability, warranty and recall claims and other

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litigation and customer reactions thereto; higher expenses for our pension and other postretirement benefits including higher funding requirements of our pension plans; work stoppages or other labor issues at our facilities or at the facilities of our customers or suppliers; possible adverse results of pending or future litigation or infringement claims; negative impacts of antitrust investigations or other governmental investigations and associated litigation relating to the conduct of our business (including securities or other litigation); tax assessments by governmental authorities; dependence on key personnel; legislative or regulatory changes limiting our business; political conditions; dependence on customers and suppliers; and other risks and uncertainties identified in Item 1A Risk Factors 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, 2013 filed with the SEC on February 21, 2014. The Company undertakes no obligation to update publicly or revise any forward-looking statements in light of new information or future events.

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

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CONSOLIDATED STATEMENTS OF NET INCOME (UNAUDITED)

(Dollars in millions, except per share data)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Net sales	**$ 2,295.8**	**$ 2,135.0**
Cost of sales	(1,850.5)	(1,720.7)
Gross profit	**445.3**	**414.3**
Selling, general & administrative expenses	(102.5)	(95.9)
Research, development & engineering expenses, net	(142.2)	(129.1)
Amortization of intangibles	(4.1)	(5.2)
Other income (expense), net	(4.8)	(1.7)
Operating income	**191.7**	**182.4**
Equity in earnings of affiliates, net of tax	1.7	1.7
Interest income	1.2	0.9
Interest expense	(8.0)	(7.9)
Other financial items, net	(2.3)	(7.0)
Income before income taxes	**184.3**	**170.1**
Income tax expense	(53.2)	(45.0)
Net income	**$ 131.1**	**$ 125.1**
Less: net income attributable to non-controlling interests	0.8	1.6
Net income attributable to controlling interest	**$ 130.3**	**$ 123.5**
Net earnings per share basic	**$ 1.39**	**$ 1.29**
Net earnings per share diluted	**$ 1.38**	**$ 1.29**
Weighted average number of shares outstanding, net of treasury shares (in millions)	**94.0**	**95.6**
Weighted average number of shares outstanding, assuming dilution and net of treasury shares (in millions)	**94.3**	**95.8**
Number of shares outstanding, excluding dilution and net of treasury shares (in millions)	**93.7**	**95.6**
Cash dividend per share declared	**$ 0.52**	**$ 0.50**
Cash dividend per share paid	**$ 0.52**	**$ 0.50**

See Notes to unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in millions)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Net income	**$ 131.1**	**$ 125.1**
Foreign currency translation adjustments	(1.6)	(35.9)
Defined benefit pension plan	(0.1)	2.5
Other comprehensive loss, before tax	**(1.7)**	**(33.4)**
Income tax expense related to defined benefit pension plan	(0)	(0.9)
Other comprehensive loss, net of tax	**(1.7)**	**(34.3)**
Comprehensive income	**$ 129.4**	**$ 90.8**
Less: comprehensive income attributable to non-controlling interest	0.4	1.6
Comprehensive income attributable to controlling interest	**$ 129.0**	**$ 89.2**

See Notes to unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

	As of	
	March 31, 2014 (unaudited)	**December 31, 2013**
Assets		
Cash & cash equivalents	$ 1,096.8	$ 1,118.3
Receivables, net	1,826.1	1,688.0
Inventories, net	663.6	661.8
Other current assets	214.4	232.3
Total current assets	**3,800.9**	**3,700.4**
Property, plant & equipment, net	1,354.4	1,336.2
Investments and other non-current assets	271.2	259.0
Goodwill	1,610.6	1,610.1
Intangible assets, net	73.2	77.3
Total assets	**$ 7,110.3**	**$ 6,983.0**
Liabilities and equity		
Short-term debt	$ 360.6	$ 339.4
Accounts payable	1,166.8	1,199.9
Accrued expenses	749.3	633.9
Other current liabilities	279.0	255.3
Total current liabilities	**2,555.7**	**2,428.5**
Long-term debt	277.7	279.1
Pension liability	151.8	147.3
Other non-current liabilities	125.2	127.7
Total non-current liabilities	**554.7**	**554.1**
Common stock	102.8	102.8
Additional paid-in capital	1,329.3	1,329.3
Retained earnings	3,047.5	2,965.9
Accumulated other comprehensive (loss) income	(0.9)	0.5
Treasury stock	(495.2)	(417.2)
Total parent shareholders equity	**3,983.5**	**3,981.3**
Non-controlling interest	16.4	19.1
Total equity	**3,999.9**	**4,000.4**
Total liabilities and equity	**$ 7,110.3**	**$ 6,983.0**

See Notes to unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in millions)

	Three months ended	
	March 31, 2014	**March 31, 2013**
Operating activities		
Net income	$ 131.1	$ 125.1
Depreciation and amortization	73.8	69.6
Other, net	(5.6)	13.7
Changes in operating assets and liabilities	(14.0)	(67.6)
Net cash provided by operating activities	**185.3**	**140.8**
Investing activities		
Expenditures for property, plant and equipment	(93.3)	(88.0)
Proceeds from sale of property, plant and equipment	0.6	2.0
Acquisitions and divestitures of businesses and other, net	(1.4)	(0.1)
Net cash used in investing activities	**(94.1)**	**(86.1)**
Financing activities		
Net increase in short-term debt	17.4	2.9
Repayments and other changes in long-term debt	(0.4)	(0.6)
Dividends paid to non-controlling interest	(3.1)	
Dividends paid	(48.8)	(47.8)
Repurchased shares	(94.3)	
Common stock options exercised	15.9	2.0
Other, net	0.0	0.5
Net cash used in financing activities	**(113.3)**	**(43.0)**
Effect of exchange rate changes on cash and cash equivalents	0.6	1.1
(Decrease) increase in cash and cash equivalents	**(21.5)**	**12.8**
Cash and cash equivalents at beginning of period	1,118.3	977.7
Cash and cash equivalents at end of period	**$ 1,096.8**	**$ 990.5**

See Notes to unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

March 31, 2014

1 Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (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 GAAP for complete financial statements. In the opinion of management, 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, 2014. Certain prior-year amounts have been reclassified to conform to current year presentation.

The condensed consolidated balance sheet at December 31, 2013 has been derived from the audited financial statements at that date, but does not include all the information and footnotes required by 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, 2013, filed with the SEC on February 21, 2014.

2 New Accounting Pronouncements

No accounting guidance has been issued during 2014, with an effective date in or after fiscal year 2014, that is expected to have a significant impact on the Company s consolidated financial statements.

3 Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis

The Company uses derivative financial instruments, derivatives , as part of its debt management to mitigate the market risk that occurs from its exposure to changes in interest and foreign exchange rates. The Company does not enter into derivatives for trading or other speculative purposes. The Company s use of derivatives is in accordance with the strategies contained in the Company s overall financial policy. The derivatives outstanding at March 31, 2014 were foreign exchange swaps. All swaps principally match the terms and maturity of the underlying debt and no swaps have a maturity beyond six months. 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 Statement 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 Statement of Net Income when the hedge transaction affects net earnings. There were no derivatives designated as hedging instruments outstanding as of March 31, 2014 and December 31, 2013.

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

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

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

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

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

The Company s derivatives are all classified as Level 2 and there have been no transfers 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 March 31, 2014 and December 31, 2013. The carrying value is the same as the fair value. Although the Company is party to close-out netting agreements (ISDA agreements) with all derivative counterparties, the fair values in the tables below and in the Condensed Consolidated Balance Sheets at March 31, 2014 and in the Consolidated Balance Sheets at December 31, 2013, have been presented on a gross basis. The net amounts subject to netting agreements that the Company choose not to offset are presented in footnotes. 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.

	March 31, 2014			**Dec 31, 2013**		
		Fair Value Measurements			**Fair Value Measurements**	
Description	**Nominal volume**	**Derivative asset** (Other current assets)	**Derivative liability** (Other current liabilities)	**Nominal volume**	**Derivative asset** (Other current assets)	**Derivative liability** (Other current liabilities)
Derivatives not designated as hedging instruments						
Foreign exchange swaps, less than 6 months	$ 434.9 1)	$ 0.9 2)	$ 0.5 3)	$ 504.1 4)	$ 1.7 5)	$ 2.8 6)
Total derivatives not designated as hedging instruments	**$ 434.9**	**$ 0.9**	**$ 0.5**	**$ 504.1**	**$ 1.7**	**$ 2.8**

1) Net nominal amount after deducting for offsetting swaps under ISDA agreements is $339.8 million.
2) Net amount after deducting for offsetting swaps under ISDA agreements is $0.9 million.
3) Net amount after deducting for offsetting swaps under ISDA agreements is $0.4 million.
4) Net nominal amount after deducting for offsetting swaps under ISDA agreements is $425.4 million.
5) Net amount after deducting for offsetting swaps under ISDA agreements is $1.5 million.
6) Net amount after deducting for offsetting swaps under ISDA agreements is $2.6 million.

Derivatives designated as hedging instruments

There were no derivatives designated as hedging instruments outstanding as of March 31, 2014 and December 31, 2013. During the first quarter of 2013 the Company closed a $60 million interest rate swap which was designated as a hedging instrument. For the three months ended March 31, 2013 the gains and losses recognized in other financial items, net were immaterial. For the three months ended March 31, 2013, the Company recognized a loss of $1.3 million, as interest expense related to this closed interest rate swap. The hedged item related to the closed interest rate swap consists of a $60 million debt note which matures in 2019. The fair value change related to this note of $1.3 million decreased interest expense and thus fully off-set the $1.3 million fair value change related to the hedging instrument as of March 31, 2013.

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Derivatives not designated as hedging instruments

All amounts recognized in the Consolidated Statement of Net Income related to derivatives, not designated as hedging instruments, relate to economic hedges and thus have been materially off-set by an opposite Consolidated Statement of Net Income effect of the related financial liabilities or financial assets. The derivatives not designated as hedging instruments outstanding at March 31, 2014 were foreign exchange swaps. For the three months ended March 31, 2014, the gains and losses recognized in other financial items, net were a gain of $1.6 million, for derivative instruments not designated as hedging instruments. For the three months ended March 31, 2013, the Company recognized a gain of $1.2 million, in other financial items, net for derivative instruments not designated as hedging instruments. For the three months ended March 31, 2014 and March 31, 2013, the gains and losses recognized as interest expense were immaterial.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, other current liabilities and short-term debt approximate their fair value because of the short term maturity of these instruments. The fair value of long-term debt is determined either from quoted market prices as provided by participants in the secondary market or for long-term debt without quoted market prices, estimated using a discounted cash flow method based on the Company s current borrowing rates for similar types of financing. The fair value of derivatives is estimated using a discounted cash flow method based on quoted market prices. The fair value and carrying value of debt is summarized in the table below. The Company has determined that each of these fair value measurements of debt reside within Level 2 of the fair value hierarchy. The discount rates for all derivative contracts are based on bank deposit or swap interest rates. Credit risk has been considered when determining the discount rates used for the derivative contracts, which when aggregated by counterparty, are in a liability position.

Fair Value of Debt

Long-term debt	**March 31, 2014 Carrying value1)**	**March 31, 2014 Fair value**	**December 31, 2013 Carrying value1)**	**December 31, 2013 Fair value**
U.S. Private placement	$ 176.2	$ 191.6	$ 177.6	$ 187.7
Medium-term notes	100.2	101.5	99.9	100.5
Other long-term debt	1.3	1.3	1.6	1.6
Total	**$ 277.7**	**$ 294.4**	**$ 279.1**	**$ 289.8**
Short-term debt				
Overdrafts and othershort-term debt	$ 86.3	$ 86.3	$ 65.6	$ 65.6
Short-term portion of long-term debt	167.9	174.2	167.2	172.6
Notes2)	106.4	106.6	106.6	107.6
Total	**$ 360.6**	**$ 367.1**	**$ 339.4**	**$ 345.8**

1) Debt as reported in balance sheet.
2) Notes issued as part of the equity units offering were remarketed in April 2012, with final maturity in April 2014.

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 investments in affiliates, and restructuring liabilities (see Note 6).

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

As of March 31, 2014 the Company had $93.7 million of restructuring reserves which were measured at fair value upon initial recognition of the associated liability (see Note 6). For the three months ended March 31, 2014, the Company did not record any impairment charges on its long-lived assets.

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4 Income Taxes

For the first three months of 2014, the effective tax rate was 28.9%, compared with an effective tax rate of 26.5% in the first three months of 2013. In the first three months of 2014, the net impact of discrete tax items was not material. The net impact of discrete tax items in the first three months of 2013 caused a 0.4% decrease to the effective tax rate.

The Company files income tax returns in the United States federal jurisdiction, various state jurisdictions and foreign jurisdictions. At any given time, the Company is undergoing tax audits in several tax jurisdictions covering multiple years. The Company is effectively no longer subject to income tax examination by the U.S. Federal tax authorities for years prior to 2009. In addition, with few exceptions, the Company is also no longer subject to income tax examination by U.S. state and local and non-U.S. tax authorities for years prior to 2005.

The Company is undergoing tax audits in several jurisdictions covering multiple years. As of March 31, 2014 the Company is not aware of any proposed income tax adjustments resulting from those tax examinations that would have a material impact on the Company s 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 first quarter of 2014, the Company recorded a net increase of $0.6 million to income tax reserves for unrecognized tax benefits based on tax positions related to the current and prior years, including accruing additional interest related to unrecognized tax benefits of prior years. Of the total unrecognized tax benefits of $23.9 million recorded at March 31, 2014, $5.1 million is classified as current tax payable and $18.8 million is classified as non-current tax payable on the Condensed Consolidated Balance Sheet.

5 Inventories

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

	As of	
	March 31, 2014	**December 31, 2013**
Raw materials	$ 317.5	$ 314.8
Work in progress	243.6	232.9
Finished products	190.7	201.9
Inventories	**751.8**	**749.6**
Inventory valuation reserve	(88.2)	(87.8)
Total inventories, net of reserve	**$ 663.6**	**$ 661.8**

6 Restructuring

Restructuring provisions are made on a case-by-case basis and primarily include severance costs incurred in connection with headcount reductions and plant consolidations. The Company expects to finance restructuring programs over the next several years through cash generated from its ongoing operations or through cash available under existing credit facilities. The Company does not expect that the execution of these activities will have a material adverse impact on its liquidity position.

First quarter of 2014

The employee-related restructuring provisions in the first quarter of 2014 mainly related to headcount reductions in Europe. The cash payments mainly related to high-cost countries in Europe. The changes in the employee-related reserves were charged against Other income (expense), net in the Consolidated Statements of Net Income. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2013 to March 31, 2014.

	December 31, 2013	Provision/ Charge	Provision/ Reversal	Cash payments	Translation difference	March 31, 2014
Restructuring employee-related	$ 93.9	$ 5.1	$ (0.2)	$ (5.2)	$ (0.2)	$ 93.4
Other	0.3				0.0	0.3
Total reserve	**$ 94.2**	**$ 5.1**	**$ (0.2)**	**$ (5.2)**	**$ (0.2)**	**$ 93.7**

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2013

In 2013, the employee-related restructuring provisions mainly related to headcount reductions throughout Europe. The cash payments mainly related to high-cost countries in Europe. The changes in the employee-related reserves have been charged against Other income (expense), net in the Consolidated Statements of Net Income. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2012 to December 31, 2013.

	December 31, 2012	Provision/ Charge	Provision/ Reversal	Cash payments	Translation difference	December 31, 2013
Restructuring employee-related	$ 74.9	$ 40.4	$ (4.7)	$ (20.0)	$ 3.3	$ 93.9
Other	0.9		(0.2)	(0.4)	0.0	0.3
Total reserve	**$ 75.8**	**$ 40.4**	**$ (4.9)**	**$ (20.4)**	**$ 3.3**	**$ 94.2**

7 Product-Related Liabilities

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

The Company records liabilities for product-related risks when probable claims are identified and when it is possible to reasonably estimate costs. Provisions for warranty claims are estimated based on prior experience, likely changes in performance of newer products and the mix and volume of the products sold. The provisions are recorded on an accrual basis. For further explanation, see Note 11 Contingent Liabilities below.

The table below summarizes the change in the balance sheet position of the product-related liabilities. The provisions for the three months ended March 31, 2014 mainly relate to warranty related issues. The cash paid for the three months ended March 31, 2014 mainly relate to warranty related issues. The provisions for the three months ended March 31, 2013 mainly related to recall related issues. The cash paid for the three months ended March 31, 2013 mainly related to warranty related issues.

	Three months ended	
	March 31, 2014	**March 31, 2013**
Reserve at beginning of the period	**$ 36.4**	**$ 29.9**
Change in reserve	7.3	9.6
Cash payments	(2.7)	(3.0)
Translation difference	(0.2)	(0.5)
Reserve at end of the period	**$ 40.8**	**$ 36.0**

8 Retirement Plans

The Company has contributory and non-contributory defined benefit pension plans covering employees at most operations in the United States 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 months ended March 31, 2014 and March 31, 2013 and are not included in the table below.

For further information on Pension Plans and Other Post-retirement Benefits, see Note 18 to the Consolidated Financial Statements of the Company included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 21, 2014.

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

	Three months ended	
	March 31, 2014	March 31, 2013
Service cost	$ 5.3	$ 5.7
Interest cost	5.3	5.0
Expected return on plan assets	(5.0)	(3.9)
Amortization prior service credit	(0.2)	(0.2)
Amortization of actuarial loss	0.7	3.0
Net Periodic Benefit Cost	**$ 6.1**	**$ 9.6**

9 Equity and Equity Units Offering

On March 30, 2009, the Company sold, in an underwritten registered public offering, approximately 14.7 million common shares from treasury stock and 6.6 million equity units (the Equity Units), listed on the NYSE as Corporate Units, for an aggregate stated amount and public offering price of $235 million and $165 million, respectively. Equity Units is a term that describes a security that is either a Corporate Unit or a Treasury Unit, depending upon what type of note is used by the holder to secure the forward purchase contract (either a Note or a Treasury Security, as described below). The Equity Units initially consisted of a Corporate Unit which is (i) a forward purchase contract obligating the holder to purchase from the Company for a price in cash of $25, on the purchase contract settlement date of April 30, 2012, subject to early settlement in accordance with the terms of the Purchase Contract and Pledge Agreement, a certain number (at the Settlement Rate outlined in the Purchase Contract and Pledge Agreement) of shares of Common Stock; and (ii) a 1/40, or 2.5%, undivided beneficial ownership interest in a $1,000 principal amount of the Company s 8% senior notes due 2014 (the Senior Notes). The Company allocated proceeds received upon issuance of the Equity Units based on relative fair values at the time of issuance. The fees associated with the remarketing (described below) were allocated such that 1% of the 6% of underwriting commissions paid to the debt were allocated as deferred charges based on commissions paid for similar debt issuances, but including factors for market conditions at the time of the offering and the Company s credit rating, and the deferred charges will be amortized using the effective interest rate method over the life of the notes until April 30, 2014.

The Company successfully completed the remarketing of the Senior Notes in March 2012, pursuant to which the interest rate on the Senior Notes was reset and certain other terms of the Senior Notes were modified. On March 15, 2012, the coupon was reset to 3.854% with a yield of 2.875% per annum which will be applicable until final maturity on April 30, 2014. Autoliv did not receive any proceeds from the remarketing until the settlement of the forward stock purchase contracts on April 30, 2012. On April 30, 2012, Autoliv settled the 4,250,920 purchase contracts still outstanding following the repurchase of 2.3 million Equity Units in 2010. Autoliv settled the purchase contracts by issuing approximately 5.8 million shares of common stock in exchange for $106,273,000 in proceeds generated by the maturity of the U.S. Treasury securities purchased following the remarketing. The settlement of the purchase contracts concluded Autoliv s equity obligations under the Equity Units.

10 Non-Controlling Interest

	Three months ended					
	March 31, 2014			March 31, 2013		
	Equity attributable to			Equity attributable to		
	Parent	Non-controlling interest	Total	Parent	Non-controlling interest	Total
Balance at beginning of period	**$ 3,981.3**	**$ 19.1**	**$ 4,000.4**	**$ 3,758.6**	**$ 17.5**	**$ 3,776.1**
Total Comprehensive Income:						
Net income	130.3	0.8	131.1	123.5	1.6	125.1
Foreign currency translation	(1.2)	(0.4)	(1.6)	(35.9)	0.0	(35.9)
Defined benefit pension plan	(0.1)		(0.1)	1.6		1.6
Total Comprehensive Income	*129.0*	*0.4*	*129.4*	*89.2*	*1.6*	*90.8*
Common Stock incentives	16.3		16.3	3.9		3.9
Cash dividends declared	(48.7)		(48.7)	(47.8)		(47.8)
Repurchased shares	(94.4)		(94.4)			
Dividends paid to non-controlling interests on subsidiary shares		(3.1)	(3.1)			
Balance at end of period	**$ 3,983.5**	**$ 16.4**	**$ 3,999.9**	**$ 3,803.9**	**$ 19.1**	**$ 3,823.0**

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11 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.

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 February 8, 2011, a Company subsidiary received a grand jury subpoena from the Antitrust Division of the U.S. Department of Justice (DOJ) related to its investigation of anti-competitive behavior among suppliers of occupant safety systems.

On June 6, 2012, the Company entered into a plea agreement with the DOJ and subsequently pled guilty to two counts of antitrust law violations involving a Japanese subsidiary and paid a fine of $14.5 million. Under the terms of the agreement the Company will continue to cooperate with the DOJ in its investigation of other suppliers, but the DOJ will not otherwise prosecute Autoliv or any of its subsidiaries, present or former directors, officers or employees for the matters investigated (the DOJ did reserve the option to prosecute three specific employees, none of whom is a member of the senior management of the Company).

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 a similar investigation. 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 March 31, 2014. 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.

On October 3, 2012, the Company received a letter from the Competition Bureau of Canada (CBC) related to the subjects investigated by the DOJ, seeking the voluntary production of certain corporate records and information related to sales subject to Canadian jurisdiction. On November 6, 2012, the Korean Fair Trade Commission visited one of the Company s South Korean subsidiaries to gather information for a similar investigation. The Company is cooperating with these investigations. The Company cannot predict the duration, scope or ultimate outcome of these investigations and is unable to estimate the financial impact they may have, or predict the reporting periods in which any such financial impacts may be recorded. Consequently, the Company has not recorded a provision for loss as of March 31, 2014 with respect to these investigations. Also, since the Company s plea agreement with the DOJ involved the actions of employees of a Japanese subsidiary of the Company, the Japan Fair Trade Commission is evaluating whether to initiate an investigation.

The Company is also subject to civil litigation alleging anti-competitive conduct. Notably, the Company, several of its subsidiaries and its competitors are defendants in a total of seventeen purported antitrust class action lawsuits filed between July 2012 and October 2013. Fourteen of these lawsuits, brought by direct purchasers, auto dealers and end-payors, have been joined 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. The substantive discovery in the OSS segment of the MDL, which includes Autoliv has not yet begun. The other three 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; and Ewert v. Autoliv, Inc. et al., filed in the Supreme Court of British Columbia on July 18, 2013). The Canadian cases assert claims on behalf of putative classes of auto dealers and end-payors. There is currently no timeline for discovery in the Canadian cases.

Plaintiffs in the above U.S. and Canadian civil antitrust class actions generally allege that the defendants have engaged in long-running global conspiracies to fix the prices of occupant safety systems or components thereof in violation of various antitrust laws and unfair or deceptive trade practice statutes. Plaintiffs seek to represent purported classes of direct purchasers, auto dealers and endpayors (e.g. consumers) who purchased occupant safety systems or components either directly from a defendant or indirectly through purchases or leases of new vehicles containing such systems. Plaintiffs seek injunctive relief, treble damages and attorneys fees. The plaintiffs in these cases make allegations that extend significantly beyond the specific admissions of the plea discussed above. The Company denies these overly broad allegations and intends to actively defend itself against the same. While it is probable that the Company will incur losses as a result of these antitrust cases, the duration or ultimate outcome of these cases currently cannot be predicted or estimated and no provision for a loss has been recorded as of March 31, 2014.

On April 17, 2013, the Construction Laborers Pension Trust of Greater St. Louis (Plaintiff) filed a purported class action securities lawsuit against Autoliv and two of its officers in the United States District Court for the Southern District of New York (Civil Action File No. 13-CIV-2546). On October 21, 2013, Plaintiff filed an amended complaint in that lawsuit, adding as a third individual defendant an employee of one of the Company s subsidiaries. The amended complaint alleges misrepresentations or failures to disclose material facts that artificially inflated the Company s stock price in violation of the federal securities laws, in particular Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934, as amended, and failed to disclose prior to June 6, 2012 that employees had engaged in certain price fixing activity in violation of the law and that the Company s prior financial results allegedly had been inflated as a result of the anti-competitive activity. Plaintiff purports to bring this lawsuit on behalf of a class of purchasers of common stock of the Company between October 26, 2010 and July 21, 2011. Plaintiff seeks to recover damages in an unspecified amount. The Company and its two officers deny any wrongdoing, believe the claims are baseless, and will defend accordingly. On December 20, 2013, the Company filed a Motion to Dismiss the lawsuit, which the Court has not yet ruled on.

On February 18, 2014, Henry Zwang, a purported stockholder of the Company, filed a putative derivative lawsuit against Autoliv and twelve of its current or former officers and directors in the Delaware Court of Chancery (Case No. 9539 VCP). The complaint purports to allege claims against the individual defendants for breach of fiduciary duty, waste and unjust enrichment related to the Company s antitrust issues. The complaint names the Company as a nominal defendant only and purports to seek monetary and other relief on behalf of Autoliv against the individual defendants. The Company and its current and former officers and directors deny any wrongdoing, believe the claims are baseless, and will defend accordingly.

Product Warranty, Recalls and Intellectual Property

Autoliv is exposed to various claims for damages and compensation if products fail to perform as expected. Such claims can be made, and result in costs and other losses to the Company, even where the product is eventually found to have functioned properly. Where a product (actually or allegedly) fails to perform as expected the Company faces warranty and recall claims. Where such (actual or alleged) failure results, or is alleged to result, in bodily injury and/or property damage, the Company may also face product-liability claims. There can be no assurance that the Company will not experience material warranty, recall or product (or other) liability claims or losses in the future, or that the Company will not incur significant costs to defend against such claims. The Company may be required to participate in a recall involving its products. Each vehicle manufacturer has its own practices regarding product recalls and other product liability actions relating to its suppliers. As suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, vehicle manufacturers are increasingly looking to their suppliers for contribution when faced with recalls and product liability claims. A warranty, recall or product-liability claim brought against the Company in excess of its insurance may have a material adverse effect on the Company s business. Vehicle manufacturers are also increasingly requiring their outside suppliers to guarantee or warrant their products and bear the costs of repair and replacement of such products under new vehicle warranties. A vehicle manufacturer may attempt to hold the Company responsible for some, or all, of the repair or replacement costs of products when the product supplied did not perform as represented by us or expected by the customer. Accordingly, the future costs of warranty claims by the customers may be material. However, the Company believes its established reserves are adequate to cover potential warranty settlements. Autoliv s warranty reserves are based upon the Company s best estimates of amounts necessary to settle future and existing claims. The Company regularly evaluates the adequacy of these reserves, and adjusts them when appropriate. However, the final amounts determined to be due related to these matters could differ materially from the Company s recorded estimates.

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In addition, the global platforms and procedures used by vehicle manufacturers have led to quality performance evaluations being conducted on an increasingly 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 believes that it is currently reasonably insured against recall and product liability risks, at levels sufficient to cover potential claims that are reasonably likely to arise in the Company s businesses based on past 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 or increase insurance.

In its products, the Company utilizes technologies which may be subject to intellectual property rights of third parties. While the Company does seek to 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 7 Product-Related Liabilities above summarizes the change in the balance sheet position of the product related liabilities for the three months ended March 31, 2014 and March 31, 2013.

12 Earnings per share

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

For the three months ended March 31, 2014, approximately 0.2 million common shares were not included in the computation of the diluted EPS, which could potentially dilute basic EPS in the future.

During the three months ended March 31, 2014 and March 31, 2013 approximately 0.3 million and 0.1 million shares, respectively, from the treasury stock have been utilized by the Stock Incentive Plan.

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

(In millions)	**Three months ended**	
	March 31, 2014	**March 31, 2013**
Weighted average shares basic	94.0	95.6
Effect of dilutive securities:		
- stock options/share awards	0.3	0.2
Weighted average shares diluted	94.3	95.8

13 Subsequent Events

After March 31, 2014, as previously announced, the Company issued and sold $1.25 billion of long term debt securities pursuant to a Note Purchase and Guaranty Agreement (the Note Purchase Agreement) dated April 23, 2014, by and among ASP, the Company and the purchasers listed therein (the Purchasers). The senior notes have an average interest rate of 3.84%, and consist of: $208 million aggregate principal amount of 5-year senior notes with an interest rate of 2.84%; $275 million aggregate principal amount of 7-year senior notes with an interest rate of 3.51%; $297 million aggregate principal amount of 10-year senior notes with an interest rate of 4.09%; $285 million aggregate principal amount of 12-year senior notes with an interest rate of 4.24%; and $185 million aggregate principal amount of 15-year senior notes with an interest rate of 4.44%.

A copy of the Note Purchase Agreement has been filed as Exhibit 4.6 to this Quarterly Report on Form 10-Q.

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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, 2013 filed with the United States Securities and Exchange Commission (the SEC) on February 21, 2014. 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 from the merger of Autoliv AB (AAB) and the automotive safety products business of Morton International, Inc., in 1997. The Company functions as a holding corporation and owns two principal subsidiaries, AAB and Autoliv ASP, Inc. (ASP).

AAB and ASP are leading developers, manufacturers and suppliers of automotive safety systems to the automotive industry with a broad range of product offerings, including modules and components for passenger and driver-side airbags, side-impact airbag protection systems, seatbelts, steering wheels, safety electronics, whiplash protection systems and child seats, including components for such systems, as well as vision and night vision systems, radar and other active safety systems.

Autoliv s filings with the SEC, which include this Quarterly Report on Form 10-Q, annual reports on Form 10-K, current reports on Form 8-K, insider transaction reports on Forms 3 and 4 and all related amendments, are made available free of charge on our corporate website at www.autoliv.com and are available as soon as reasonably practicable after they are electronically filed with the SEC.

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

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 and Net (cash) debt . Management believes that these non-U.S. GAAP financial measures assist investors in analyzing trends in the Company s business. Additional descriptions regarding management s use of these financial measures are included below. Investors should consider these non-U.S. GAAP financial measures in addition to, rather than as a substitute 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 U.S. GAAP. It should be noted that these measures, as defined, may not be comparable to similarly titled measures used by other companies.

RESULTS OF OPERATIONS

Overview

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

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KEY RATIOS

(Dollars in millions, except per share data)

	Three months ended or as of March 31	
	2014	**2013**
Total parent shareholders equity per share	$ 42.51	$ 39.79
Operating working capital 1)	$ 558	$ 633
Capital employed 6)	$ 3,530	$ 3,450
Net (cash) debt 1)	$ (470)	$ (373)
Gross margin, % 2)	19.4	19.4
Operating margin, % 3)	8.4	8.5
Return on total equity, % 7)	13.1	13.2
Return on capital employed, % 8)	22.0	21.5
No. of employees at period-end 9)	47,699	42,847
Headcount at period-end 10)	57,900	52,060
Days receivables outstanding 4)	73	73
Days inventory outstanding 5)	30	30

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 equity in earnings of affiliates, relative to average capital employed*
9) *Employees with a continuous employment agreement, recalculated to full time equivalent heads*
10) *Employees plus temporary, hourly workers*

THREE MONTHS ENDED MARCH 31, 2014 COMPARED WITH THREE MONTHS ENDED MARCH 31, 2013

Market overview

Light Vehicle Production Development

Change vs. same quarter last year

	China	Japan	RoA	Americas	Europe	Total
LVP 1)	10.4%	14.0%	(5.8)%	3.0%	7.1%	5.3%

1) Source: IHS April 16, 2014.

During the three month period from January to March 2014, global Light Vehicle Production (LVP) is estimated by IHS to have increased by more than 5% compared to the same quarter in 2013, which is in line with IHS s January estimate.

In **China**, which accounts for more than 15% of Autoliv s sales, LVP grew by more than 10%, which was a decrease of 2pp compared to the January estimate.

In **Japan**, which accounts for almost 10% of Autoliv s sales, LVP grew by 14%, which was a slight increase from the January estimate.

In the **RoA**, which represents almost 10% of Autoliv s sales, LVP declined by close to 6%, an improvement of around 1pp since the previous estimate for a decline of close to 7%.

In the **Americas**, which make up around one third of Autoliv s sales, the LVP increased by 3%, a decline of a