UNITED BANCSHARES INC/OH
Form 10-Q
August 04, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 June 30, 2009

Commission file number 000-29283

UNITED BANCSHARES, INC.

(Exact name of Registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

100 S. High Street, Columbus Grove, Ohio

(Address of principal executive offices)

34-1516518

(I.R.S. Employer Identification Number)

45830

(Zip Code)

(419) 659-2141

(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 [ ] 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. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ____ Accelerated filer ____ Non-accelerated filer ____ Smaller Reporting Company _X_

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 issuer s classes of common stock, as of July 10, 2009: 3,442,779

This document contains 27 pages. The Exhibit Index is on page 27 immediately preceding the filed exhibits.

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UNITED BANCSHARES, INC.

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PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

United Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets (Unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 7,822,179	$ 18,554,222
Interest-bearing deposits in other banks	11,237,279	6,932,446
Federal funds sold	100,000	135,625
Total cash and cash equivalents	19,159,458	25,622,293
SECURITIES, available-for-sale	132,607,541	136,498,302
FEDERAL HOME LOAN BANK STOCK, at cost	4,893,800	4,893,800
LOANS HELD FOR SALE	343,633	241,838
LOANS	421,472,576	418,143,370
Less allowance for loan losses	(3,796,752)	(3,198,130)
Net loans	417,675,824	414,945,240
PREMISES AND EQUIPMENT, net	9,234,857	9,296,614
GOODWILL	7,282,013	7,282,013
CASH SURRENDER VALUE OF LIFE INSURANCE	12,141,461	11,889,832
OTHER ASSETS, including accrued interest receivable and other intangible assets	5,538,534	5,394,051
TOTAL ASSETS	$ 608,877,121	$ 616,063,983

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES

Deposits		
Non-interest bearing	$ 41,475,513	$ 41,710,057
Interest bearing	417,991,494	423,081,587
Total deposits	459,467,007	464,791,644
Other borrowings	82,555,788	86,252,383
Junior subordinated deferrable interest debentures	10,300,000	10,300,000
Accrued expenses and other liabilities	3,135,154	4,060,241
Total liabilities	555,457,949	565,404,268

SHAREHOLDERS' EQUITY		
Common stock, $1 stated value, authorized 10,000,000 shares;		
issued 3,760,557 shares	3,760,557	3,760,557
Surplus	14,659,661	14,659,661
Retained earnings	39,261,091	37,528,026
Accumulated other comprehensive income (loss)	597,023	(412,304)
Treasury stock, 317,778 shares at June 30, 2009 and 318,894 shares at December 31, 2008, at cost	(4,859,160)	(4,876,225)
Total shareholders' equity	53,419,172	50,659,715
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 608,877,121	$ 616,063,983

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiary

Condensed Consolidated Statements of Income (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
INTEREST INCOME				
Loans, including fees	$ 6,755,167	$ 7,316,381	$ 13,494,415	$ 13,276,257
Securities:				
Taxable	1,085,188	977,191	2,240,741	2,072,210
Tax-exempt	494,721	481,944	988,048	936,477
Other	7,973	116,870	18,636	164,473
Total interest income	8,343,049	8,892,386	16,741,840	17,557,670
INTEREST EXPENSE				
Deposits	2,315,872	2,795,316	4,768,138	5,722,834
Other borrowings	885,996	1,150,231	1,792,294	2,388,655
Total interest expense	3,201,868	3,945,547	6,560,432	8,111,489
NET INTEREST INCOME	5,141,181	4,946,839	10,181,408	9,446,181
PROVISION FOR LOAN LOSSES	1,175,000	370,000	1,775,000	645,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,966,181	4,576,839	8,406,408	8,801,181
NON-INTEREST INCOME				
Gain on sales of loans	554,761	152,216	971,540	245,696
Gain on sales of securities	125,491	22,861	130,491	44,347
Change in fair value of mortgage servicing rights	224,571	373,503	169,066	122,241
Other	681,895	757,726	1,298,487	1,451,300
Total non-interest income	1,586,718	1,306,306	2,569,584	1,863,584
NON-INTEREST EXPENSES	3,872,918	3,549,380	7,448,133	7,182,688
Income before income taxes	1,679,981	2,333,765	3,527,859	3,482,077

PROVISION FOR INCOME TAXES	345,000	585,000	761,000	788,000
NET INCOME	$ 1,334,981	$ 1,748,762	$ 2,766,859	$ 2,694,077
	========	========	========	========
NET INCOME PER SHARE				
Basic	$ 0.39	$ 0.51	$ 0.80	$ 0.78
Weighted average common shares outstanding	3,442,779	3,439,996	3,442,600	3,453,609
Diluted	$ 0.39	$ 0.51	$ 0.80	$ 0.78
Weighted average common shares outstanding	3,442,894	3,441,382	3,442,658	3,455,070

See notes to consolidated financial statements

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United Bancshares, Inc. and Subsidiary

Consolidated Statements of Shareholders Equity (Unaudited)

Six months ended June 30, 2009 and 2008

		Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
BALANCE AT DECEMBER 31, 2008	$	3,760,557	14,659,661	37,528,026	(412,304)
Net income				2,766,859	
Change in unrealized gain (loss) on securities,					
net of tax					1,009,327
Total comprehensive income					
Dividends declared ($0.30 per share)				(1,032,833)	
1,116 shares issued from treasury in connection with the					
Corporation s Employee Stock Purchase Plan				(961)	
BALANCE AT JUNE 30, 2009	$	3,760,557	14,659,661	39,261,091	597,023
BALANCE AT DECEMBER 31, 2007	$	3,760,557	14,659,661	35,187,304	(576,065)
Net income				2,694,077	
Change in unrealized loss on available-for-sale securities,					
net of income taxes					(156,458)
Total comprehensive income					
Dividends declared ($0.30 per share)				(1,032,188)	
3,723 shares issued from treasury in connection with the					
Corporation s Employee Stock Purchase Plan				(8,589)	
Purchase of 55,000 common shares					
BALANCE AT JUNE 30, 2008		$ 3,760,557	14,659,661	36,840,604	(732,523)

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiary

Condensed Consolidated Statement of Cash Flows (Unaudited)

	Six months ended June 30,	
	2009	2008
Cash flows from operating activities	$ 2,571,089	$ 2,814,273
Cash flows from investing activities:		
Purchases of available-for-sale securities, net of proceeds from calls or maturities	5,604,859	13,444,981
Net increase in loans	(4,505,584)	(58,604,786)
Insurance proceeds from casualty loss	145,000	-
Expenditures for premises and equipment	(240,238)	(117,023)
Net cash from investing activities	1,004,037	(45,276,828)
Cash flows from financing activities:		
Net change in deposits	(5,324,637)	65,447,025
Long-term borrowings, net of repayments	(3,696,595)	6,698,999
Purchase of treasury shares	-	(777,250)
Proceeds from issuance of common stock	16,104	49,255
Cash dividends paid	(1,032,833)	(1,032,188)
Net cash from financing activities	(10,037,961)	70,387,841
Net change in cash and cash equivalents	(6,462,835)	27,925,286
Cash and cash equivalents:		
At beginning of period	25,622,293	15,079,214
At end of period	$ 19,159,458	$ 43,004,500
Cash paid for:		
Interest	$ 6,799,903	$ 7,973,451
Income taxes	$ 910,000	$ 845,000

See notes to consolidated financial statements

United Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2009

Note 1 Consolidated Financial Statements

The consolidated financial statements of United Bancshares, Inc. and subsidiary (the Corporation) have been prepared without audit and in the opinion of management reflect all adjustments (which include normal recurring adjustments) necessary to present fairly such information for the periods and dates indicated. Since the unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q, they do not contain all information and footnotes typically included in financial statements prepared in conformity with generally accepted accounting principles. Operating results for the six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. Complete audited consolidated financial statements with footnotes thereto are included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2008.

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, The Union Bank Company (Union). Union has formed a wholly-owned subsidiary, UBC Investments, Inc. (UBC) to hold and manage its securities portfolio. The operations of UBC are located in Wilmington, Delaware. Significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting policies of the Corporation conform to generally accepted practices within the banking industry. The Corporation considers all of its principal activities to be banking related.

Note 2 - New Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (Revised 2007), *Business Combinations* (SFAS 141 (R)). SFAS 141(R) recognizes and measures the goodwill acquired in the business combination and defines a bargain purchase, and requires the acquirer to recognize that excess as a gain attributable to the acquirer. In contrast statement 141 requires the negative goodwill amount to be allocated as a pro rata reduction of the amounts assigned to assets acquired. SFAS 141(R) also requires the expensing of transaction costs that were previously capitalized as part of the cost of the transaction under SFAS 141. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after December 15, 2008. The Corporation has not entered into any business combination transactions since the effective date of SFAS No. 141(R).

Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161) requires qualitative disclosures about objectives and strategies for using derivative instruments, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Since the Corporation has not held any derivative instruments or conducted hedging activities, adoption of SFAS 161 did not have any impact on the consolidated financial statements.

FASB Staff Position EITF 03-6-*1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* (FSP EITF 03-6-1) requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008, and requires retrospective adjustment of earning per share data. Since the Corporation has no unvested share-based payment awards, the adoption of FSP EITF 03-6-1, effective January 1, 2009, did not have any impact on the Corporation s consolidated results of operations or earnings per share.

In April, 2009, the FASB issued Staff Positions (FSP) No. 115-2 and No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* which amends existing guidance for determining whether an impairment is other-than-temporary for debt securities. The FSP requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost and fair value is recognized in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. Additionally, the FSP expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. The FSP is effective for interim and annual reporting periods ending after June 15, 2009. The Corporation adopted the FSP during the second quarter of 2009, but the adoption did not have any impact on the consolidated financial statements since the Corporation did not hold any other-than-temporarily impaired debt securities.

In April, 2009, the FASB issued Staff Position (FSP) No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). FSP 157-4 emphasizes that even if there has been a significant decrease in the volume and level of activity, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants. FSP 157-4 provides a number of factors to consider when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability in relation to normal market activity. In addition, when transactions or quoted prices are not considered orderly, adjustments to those prices based on the weight of available information may be needed to determine the appropriate fair value. FSP 157-4 also requires increased disclosures. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. There was no impact on the consolidated financial statements of the Corporation as a result of the adoption of FSP 157-4 during the second quarter of 2009.

In April, 2009, the FASB issued Staff Position (FSP) No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* which amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies that were previously only required in annual financial statements. The FSP is effective for interim reporting periods ending after June 15, 2009. The Corporation adopted the FSP for the quarter ended June 30, 2009.

The estimated fair values of recognized financial instruments at June 30, 2009 and December 31, 2008 were as follows (dollars in thousands):

	June 30, 2009		**December 31, 2008**	
	Carrying amount	**Estimated value**	**Carrying amount**	**Estimated value**
FINANCIAL ASSETS				
Cash and cash equivalents	$ 19,159	$ 19,159	$ 25,622	$ 25,622
Securities, including Federal Home Loan Bank stock	137,501	137,501	141,392	141,392

Net loans, including loans				
held for sale	418,019	436,877	415,187	439,018
Mortgage servicing rights	1,156	1,156	703	703
	$ 575,835	$ 594,693	$ 582,904	$ 606,735
FINANCIAL LIABILITIES				
Deposits	$ 459,467	$ 465,766	$ 464,792	$ 471,588
Other borrowings	82,556	96,988	86,252	90,617
Junior subordinated deferrable				
interest debentures	10,300	6,530	10,300	6,232
Other liabilities	3,135	3,135	4,060	4,160
	$ 555,458	$ 572,419	$ 565,404	$ 572,597

The above summary does not include accrued interest receivable and cash surrender value of life insurance which are also considered financial instruments. The estimated fair value of such items is considered to be their carrying amounts.

There are also unrecognized financial instruments at June 30, 2009 and December 31, 2008 which relate to commitments to extend credit and letters of credit. The contract amount of such financial instruments amounts to $64,742,000 at June 30, 2009 and $87,637,000 at December 31, 2008. Such amounts are also considered to be the estimated fair values.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments shown above:

Cash and cash equivalents:

Fair value is determined to be the carrying amount for these items (which include cash on hand, due from banks, and federal funds sold) because they represent cash or mature in 90 days or less and do not represent unanticipated credit concerns.

Securities:

The fair value of securities is determined based on quoted market prices of the individual securities or, if not available, estimated fair value was obtained by comparison to other known securities with similar risk and maturity characteristics. Such value does not consider possible tax ramifications or estimated transaction costs.

Loans:

Fair value for loans was estimated for portfolios of loans with similar financial characteristics. For adjustable rate loans, which re-price at least annually and generally possess low risk characteristics, the carrying amount is believed to be a reasonable estimate of fair value. For fixed rate loans the fair value is estimated based on a discounted cash flow analysis, considering weighted average rates and terms of the portfolio, adjusted for credit and interest rate risk inherent in the loans. Fair value for nonperforming loans is based on recent appraisals or estimated discounted cash flows.

Mortgage servicing rights:

The fair value for mortgage servicing rights is determined based on an analysis of the portfolio by an independent third party.

Deposit liabilities:

The fair value of core deposits, including demand deposits, savings accounts, and certain money market deposits, is the amount payable on demand. The fair value of fixed-maturity certificates of deposit is estimated using the rates offered at quarter end for deposits of similar remaining maturities. The estimated fair value does not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the marketplace.

Other borrowings and junior subordinated deferrable debentures:

The fair value of other borrowings (consisting of Federal Home Loan Bank borrowings, securities sold under agreements to repurchase, customer repurchase agreements, and junior subordinated deferrable debentures) are determined using the net present value of discounted cash flows based on current borrowing rates for similar types of borrowing arrangements, and are obtained from an independent third party.

Other financial instruments:

The fair value of commitments to extend credit and letters of credit is determined to be the contract amount, since these financial instruments generally represent commitments at existing rates. The fair value of other borrowings is determined based on a discounted cash flow analysis using current interest rates. The fair value of the junior subordinated deferrable interest debentures is determined based on quoted market prices of similar instruments. The fair value of other liabilities is generally considered to be carrying value except for the deferred compensation agreement. The fair value of the contract is determined based on a discounted cash flow analysis using a current interest rate for a similar instrument.

The fair value estimates of financial instruments are made at a specific point in time based on relevant market information. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument over the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Since no ready market exists for a significant portion of the financial instruments, fair value estimates are largely based on judgments after considering such factors as future expected credit losses, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

In June, 2009, the FASB issued Statement No. 168. *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* . Under the Statement, The FASB Accounting Standards Codification (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and, on that date, the Codification will supersede all then-existing non-SEC accounting and reporting standards. In the FASB s view, the issuance of this Statement and Codification will not change GAAP. The Corporation does not expect that the adoption of this Statement will have a significant impact on the consolidated financial statements.

Note 3 - Securities

The amortized cost and fair value of available-for-sale securities as of June 30, 2009 and December 31, 2008 are as follows (dollars in thousands):

	June 30, 2009		**December 31, 2008**	
	Amortized cost	**Fair value**	**Amortized cost**	**Fair value**
Obligations of states and political subdivisions	$ 47,740	$ 47,052	$ 47,296	$ 46,522
Mortgage-backed	83,462	85,052	89,325	89,476
Other	502	504	502	500
Total	$ 131,704	$ 132,608	$ 137,123	$ 136,498
	=======	=======	=======	=======

A summary of gross unrealized gains and losses on available-for-sale securities at June 30, 2009 and December 31, 2008 follows (dollars in thousands):

	June 30, 2009		December 31, 2008	
	Gross unrealized gains	Gross unrealized losses	Gross unrealized gains	Gross unrealized losses
Obligations of states and political subdivisions	$ 528	$ 1,216	$ 330	$ 1,104
Mortgage-backed	2,245	655	1,283	1,132
Other	2	-	-	2
Total	$ 2,775	$ 1,871	$ 1,613	$ 2,238
	========	=======	========	=======

Note 4 - Other Comprehensive Income

The components of other comprehensive income and related tax effects are as follows for the six-month periods ended June 30, 2009 and 2008 (dollars in thousands):

	2009	2008
Unrealized holding gains on available-for-sale securities	$ 1,659	$ (193)
Reclassification adjustments for securities gains realized in income	(130)	(44)
Net unrealized gains	1,529	(237)
Tax effect	520	(81)
Net-of-tax amount	$ 1,009	$ (156)
	=======	=======

Note 5 Junior Subordinated Deferrable Interest Debentures

The Corporation has formed and invested $300,000 in a business trust, United (OH) Statutory Trust (United Trust) which is not consolidated by the Corporation. United Trust issued $10,000,000 of trust preferred securities, which are guaranteed by the Corporation, and are subject to mandatory redemption upon payment of the debentures. United Trust used the proceeds from the issuance of the trust preferred securities, as well as the Corporation s capital investment, to purchase $10,300,000 of junior subordinated deferrable interest debentures issued by the Corporation. The debentures have a stated maturity date of March 26, 2033. As of March 26, 2008, and quarterly thereafter, the debentures may be shortened at the Corporation s option. The interest rate of the debentures was fixed at 6.40% for a five-year period through March 26, 2008. Effective March 27, 2008, interest is at a floating rate adjustable quarterly and equal to 315 basis points over the 3-month LIBOR amounting to 4.38% at June 30, 2009. Interest is payable quarterly. The Corporation has the right, subject to events in default, to defer payments of interest on the debentures by extending the interest payment period for a period not exceeding 20 consecutive quarterly periods. Interest expense on the debentures amounted to $227,000 and $307,000 for the six-month periods ended June 30, 2009 and 2008, respectively and is included in interest expense-borrowings in the accompanying consolidated statements of income.

Each issue of the trust preferred securities carries an interest rate identical to that of the related debenture. The securities have been structured to qualify as Tier I capital for regulatory purposes and the dividends paid on such are tax deductible. However, under Federal Reserve Board guidelines, the securities cannot be used to constitute more

than 25% of the Corporation s core Tier I capital inclusive of these securities.

Note 6 Subsequent Events

Management evaluated subsequent events through August 3, 2009, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2009 but prior to August 3, 2009 that provided additional evidence about conditions that existed at June 30, 2009 have been recognized in the financial statements for the period ended June 30, 2009. &nP> (26.6) (14.8)

Cash paid for extinguishment of debt

(8.3)

Common stock and purchase contract issue, net

236.8

Common stock options exercised

13.2 0.7

Non-controlling interests share of dividends paid

(3.0)

Acquisition of subsidiary shares from non-controlling interest

(63.7) (4.6)

Net cash used in financing activities

(381.7) (243.6)

Effect of exchange rate changes on cash and cash equivalents

13.7 28.3

Increase (decrease) in cash and cash equivalents

14.5 (59.0)

Cash and cash equivalents at beginning of period

472.7 488.6

Cash and cash equivalents at end of period

$487.2 $429.6

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, 2010

1.1 Basis of Presentation

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

The condensed consolidated balance sheet at December 31, 2009 has been derived from the audited financial statements at that date, but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

Statements in this report that are not of historical fact are forward-looking statements that involve risks and uncertainties that could affect the actual results of the Company. A description of the important factors that could cause Autoliv s actual results to differ materially from the forward-looking statements contained in this report may be found in this report and Autoliv s other reports filed with the Securities and Exchange Commission (the SEC). For further information, refer to the consolidated financial statements, footnotes and definitions thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, filed on February 19, 2010.

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

1.2 New Accounting Pronouncements

The following accounting guidance has been issued and will be effective for the Company in or after fiscal year 2010:

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement No.167, *Amendments to FASB Interpretation No.46(R)*, primarily codified into Accounting Standards Codification (ASC) Topic 810, *Consolidation*. This guidance requires that the assessment of whether an entity has a controlling financial interest in a variable interest entity (VIE) must be performed on an ongoing basis. This guidance also requires that the assessment to determine if an entity has a controlling financial interest in a VIE must be qualitative in nature, and eliminates the quantitative assessment required in FIN 46(R). This guidance is effective for fiscal years beginning after November 15, 2009. The Company adopted this guidance on January 1, 2010. The adoption of this guidance had no effect on the Company s consolidated financial statements for the three and nine month periods ended September 30, 2010.

1.3 Business Acquisitions

As of March 31, 2010, Autoliv acquired Delphi s Occupant Protection Systems (OPS) operations in Korea and China for $73 million. The assets and liabilities assumed from these businesses were included in the Company s consolidated financial statements as of March 31, 2010. The purchase price allocation is preliminary as of September 30, 2010. The results from the operations have been included in the consolidated financial statements from April 1, 2010.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

September 30, 2010

1.4 Fair Value Measurement

Assets and liabilities measured at fair value on a recurring basis

The Company uses derivative financial instruments, derivatives , as part of its debt management to mitigate the market risk that occurs from its exposure to changes in interest and foreign exchange rates. The Company does not enter into derivatives for trading or other speculative purposes. The use of such derivatives is in accordance with the strategies contained in the Company s overall financial policy. No derivatives have a maturity beyond 2019. Certain derivatives are designated either as fair value hedges or cash flow hedges in line with the hedge accounting criteria in FASB ASC 815, *Derivatives and Hedging*. However, in certain cases hedge accounting is not applied either because non hedge accounting treatment creates the same accounting result or the hedge does not meet the hedge accounting requirements, although entered into applying the same rationale concerning mitigating market risk that occurs from changes in interest and foreign exchange rates.

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 Operations 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 Operations when the hedge transaction affects net earnings. There were no material reclassifications from OCI to the Consolidated Statement of Operations during the three and nine month periods ended September 30, 2010 and, likewise, no material reclassifications are expected for the next twelve months. Any ineffectiveness has been immaterial.

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

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

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

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

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

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

Description	Total carrying amount in Consolidated Balance Sheet September 30, 2010	Fair Value Measurements at September 30, 2010 Using Level 1	Level 2	Level 3
Assets				
Derivatives	$ 25.0		$ 25.0	
Total Assets	**$ 25.0**		**$ 25.0**	
Liabilities				
Derivatives	$ 13.8		$ 13.8	
Total Liabilities	**$ 13.8**		**$ 13.8**	

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Description	Total carrying amount in Consolidated Balance Sheet December 31, 2009	Fair Value Measurements at December 31, 2009 Using Level 1	Level 2	Level 3
Assets				
Derivatives	$ 17.3		$ 17.3	
Total Assets	**$ 17.3**		**$ 17.3**	
Liabilities				
Derivatives	$ 13.1		$ 13.1	
Total Liabilities	**$ 13.1**		**$ 13.1**	

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, 2010 and December 31, 2009.

Description	Nominal volume	Fair Value Measurements at September 30, 2010 Derivative asset	Derivative liability	Balance sheet location
Derivatives designated as hedging instruments				
Cross currency interest rate swaps, less than 1 year (cash flow hedge)	$ 54.1	$	$ 5.9	Other current liabilities
Interest rate swaps, less than 10 years (fair value hedge)	60.0	13.6		Other non current asset
Total derivatives designated as hedging instruments	**$ 114.1**	**$ 13.6**	**$ 5.9**	
Derivatives not designated as hedging instruments				
Cross currency interest rate swaps, less than 1 year	$ 20.3	$ 2.1	$	Other current assets
Cross currency interest rate swaps, less than 2 years	40.3	4.5		Other non-current assets
Foreign exchange swaps, less than 6 months	1,140.6	4.8	7.9	Other current assets/ liabilities
Total derivatives not designated as hedging instruments	**$ 1,201.2**	**$ 11.4**	**$ 7.9**	
Total derivatives	**$ 1,315.3**	**$ 25.0**	**$ 13.8**	

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Description	Nominal volume	Fair Value Measurements at December 31, 2009 Derivative asset	Derivative liability	Balance sheet location
Derivatives designated as hedging instruments				
Cross currency interest rate swaps, less than 1 year (cash flow hedge)	$ 52.5	$ 2.3	$ 4.5	Other current assets/ current liabilities
Interest rate swaps, less than 10 years (fair value hedge)	60.0	6.5		Other non-current asset
Total derivatives designated as hedging instruments	**$ 112.5**	**$ 8.8**	**$ 4.5**	
Derivatives not designated as hedging instruments				
Cross currency interest rate swaps, less than 1 year	$ 20.3	$ 0.5	$	Other current assets
Cross currency interest rate swaps, less than 2 years	40.3	1.1		Other non-current assets
Foreign exchange swaps, less than 6 months	1,379.3	6.9	8.6	Other current assets/ liabilities
Total derivatives not designated as hedging instruments	**$ 1,439.9**	**$ 8.5**	**$ 8.6**	
Total derivatives	**$ 1,552.4**	**$ 17.3**	**$ 13.1**	

Description	Nominal Volume	Amount gain (loss) recognized in Consolidated Statement of Operations July-September 2010 Other Financial Items, net	Interest Expense	Interest Income	Amount of gain (loss) recognized in OCI on derivative effective portion	Amount of gain (loss) reclassified from accumulated OCI into interest expense
Derivatives designated as hedging instruments						
Cross currency interest rate swaps, less than 1 year (cash flow hedge)	$ 54.1	$ 0.5	$	$	$ (0.2)	$
Interest rate swaps, less than 10 years (fair value hedge)	60.0		2.1			
Total derivatives designated as hedging instruments	**$ 114.1**					

The hedged item related to the fair value hedge consists of a $60 million debt note which matures in 2019. The fair value change related to this note of $(2.1) million has increased interest expense for the third quarter 2010 and thus fully off-sets the $2.1 million fair value change related to the hedging instrument disclosed in the table above.

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		Amount gain (loss) recognized in Consolidated Statement of Operations January-September 2010				
Description	**Nominal Volume**	**Other Financial Items, net**	**Interest Expense**	**Interest Income**	**Amount of gain (loss) recognized in OCI on derivative effective portion**	**Amount of gain (loss) reclassified from accumulated OCI into interest expense**
Derivatives designated as hedging instruments						
Cross currency interest rate swaps, less than 1 years (cash flow hedge)	$ 54.1	$ (4.0)	$	$	$ 0.2	$
Interest rate swaps, less than 10 years (fair value hedge)	60.0		7.1			
Total derivatives designated as hedging instruments	**$ 114.1**					

The hedged item related to the fair value hedge consists of a $60 million debt note which matures in 2019. The fair value change related to this note of $(7.1) million has increased interest expense for the first nine months 2010 and thus fully off-sets the $7.1 million fair value change related to the hedging instrument disclosed in the table above.

		Amount gain (loss) recognized in Consolidated Statement of Operations July-September 2009				
Description	**Nominal volume**	**Other financial items, net**	**Interest expense**	**Interest income**	**Amount of gain (loss) recognized in OCI on derivative effective portion**	**Amount of gain (loss) reclassified from accumulated OCI into interest expense**
Derivatives designated as hedging instruments						
Cross currency interest rate swaps, less than 1 year (cash flow hedge)	$	$	$	$	$	$
Cross currency interest rate swaps, less than 2 years (cash flow hedge)	53.5	(0.4)				(0.0)
Interest rate swaps, less than 11 years (fair value hedge)	60.0		0.9			
Total derivatives designated as hedging instruments	**$ 113.5**					

The hedged item related to the fair value hedge consists of a $60 million debt note which matures in 2019. The fair value change related to this note of $(0.9) million has increased interest expense for the third quarter 2009 and thus fully off-sets the $0.9 million fair value change related to the hedging instrument disclosed in the table above.

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		Amount gain (loss) recognized in Consolidated Statement of Operations January-September 2009				
Description	**Nominal volume**	**Other financial items, net**	**Interest expense**	**Interest income**	**Amount of gain (loss) recognized in OCI on derivative effective portion**	**Amount of gain (loss) reclassified from accumulated OCI into interest expense**
Derivatives designated as hedging instruments						
Cross currency interest rate swaps, less than 1 year (cash flow hedge)	$	$	$	$	$	$
Cross currency interest rate swaps, less than 2 years (cash flow hedge)	53.5	1.3				(0.2)
Interest rate swaps, less than 11 years (fair value hedge)	60.0		(6.7)			
Total derivatives designated as hedging instruments	**$ 113.5**					

The hedged item related to the fair value hedge consists of a $60 million debt note which matures in 2019. The fair value change related to this note of $6.7 million has decreased interest expense for the first nine months 2009 and thus fully off-sets the $(6.7) million fair value change related to the hedging instrument disclosed in the table above.

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

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

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Description	Nominal Volume	Amount gain (loss) recognized in Consolidated Statement of Operations July-September 2009		
		Other Financial Items, net	Interest Expense	Interest Income
Derivatives not designated as hedging instruments				
Cross currency interest rate swaps, less than 3 years	$ 60.6	$ 7.7	$ 0.2	$
Foreign exchange swaps, less than 6 months	1,414.4	6.1	(0.0)	
Total derivatives not designated as hedging instruments	**$ 1,475.0**			

Description	Nominal Volume	Amount gain (loss) recognized in Consolidated Statement of Operations January-September 2009		
		Other Financial Items, net	Interest Expense	Interest Income
Derivatives not designated as hedging instruments				
Cross currency interest rate swaps, less than 3 years	$ 60.6	$ 7.0	$ 0.3	$
Foreign exchange swaps, less than 6 months	1,414.4	36.1	(0.1)	
Total derivatives not designated as hedging instruments	**$ 1,475.0**			

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

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

Fair Value of Debt

Long-term debt	Sept 30, 2010 Carrying value1)	Sept 30, 2010 Fair value	Dec. 31, 2009 Carrying value1)	Dec. 31, 2009 Fair value
Commercial paper	$	$	$ 117.6	$ 117.6
U.S. Private placement	413.6	458.8	406.5	413.0
Medium-term notes	134.4	142.1	124.8	131.8
Notes2)	98.7	117.0	146.4	181.5

Other long-term debt	33.3	32.7	25.4	25.5
Total	**$ 680.0**	**$ 750.6**	**$ 820.7**	**$ 869.4**

Short-term debt				
Overdrafts and other short-term debt	$ 73.3	$ 73.3	$ 54.1	$ 54.1
Short-term portion of long-term debt	82.9[3)]	82.9[3)]	264.5	264.5
Total	**$ 156.2**	**$ 156.2**	**$ 318.6**	**$ 318.6**

1) Debt as reported in balance sheet.

2) Issued as part of the equity units offering (for further information, see Note 1.11).

3) Commercial paper of $23.9 million has been reclassified as short term due to the lack of intention to refinance the commercial paper as long term.

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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 1.7).

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 September 30, 2010 the Company had $64.8 million of restructuring reserves which were measured at fair value upon initial recognition of the associated liability (see Note 1.7). For the nine months ended September 30, 2010, in connection with restructuring activities in Japan and Australia, the Company has recorded impairment charges on certain of its long-lived assets, mainly machinery and equipment (for further information, see Note 1.7 Restructuring below). The impairment charges have reduced the carrying value of the assets to their fair value, as summarized in the table below.

		Fair Value Measurements Using			
Description	**Fair Value Period Ended September 30, 2010**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Losses**
Long-lived assets held for use	$ 0.0	$	$	$ 0.0	$ (1.0)
Total losses	**$ 0.0**	**$**	**$**	**$ 0.0**	**$ (1.0)**

Machinery and equipment with a carrying amount of $1.0 million was written down to its fair value of $0.0 million, resulting in an impairment charge of $1.0 million, which was included in the earnings for the nine month period ended September 30, 2010. There will be no future identifiable cash flows related to this group of impaired assets. No other significant impairment charges have been recorded during the nine month period ended September 30, 2010.

1.5 Income Taxes

For the first nine months of 2010 the effective tax rate was 27.5%, compared with an effective tax benefit rate of 44.8% in the first nine months of 2009. In the first nine months of 2010, the impact of discrete tax items caused a 1.7% decrease to the effective tax rate. The net impact of discrete tax items in the first nine months of 2009 caused a 3.2% decrease to the effective tax benefit rate. The net impact of discrete tax items in the third quarter of 2010 caused a 2.9% decrease to the effective tax rate for the quarter. The net impact of discrete tax items in the third quarter of 2009 caused a 21.8 percentage point increase to the effective tax rate for the third quarter 2009.

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The Company files income tax returns in the United States federal jurisdiction and various states and foreign jurisdictions. At any given time, the Company is undergoing tax audits in several tax jurisdictions covering multiple years. The Company is no longer subject to income tax examination by the U.S. Federal tax authorities for years prior to 2003. With few exceptions, the Company is also no longer subject to income tax examination by U.S. state or local tax authorities for tax years prior to 2003. In addition, with few exceptions, the Company is no longer subject to income tax examinations by non-U.S. tax authorities for years before 2003. The Internal Revenue Service (IRS) began an examination of the Company s 2003-2005 U.S. income tax returns in the second quarter of 2006. On March 31, 2009, the IRS field examination team issued an examination report in which the examination team proposed to increase the Company s U.S. taxable income due to alleged incorrect transfer pricing in transactions between a U.S. subsidiary and other subsidiaries during the period 2003 through 2005. The Company, after consultation with its tax counsel, filed a protest to the examination report to seek review of the examination report by the Appeals Office of the IRS. By letter dated June 1, 2010, the Appeals Office team assigned to review the examination report informed the Company that it had concluded that the IRS should withdraw all of the adjustments that would have increased the Company s taxable income due to alleged incorrect transfer pricing. Aspects of that decision are subject to review by the Appeals Technical Guidance Coordinator with responsibility for one of the principal transfer pricing issues that the examination report raised. In addition, the U.S. Congress Joint Committee on Taxation will review the proposed resolution in the context of its review of a refund the Company is claiming for this same period. The Company is neither able to estimate when these reviews will be completed nor assure their satisfactory outcome. In addition, the IRS began an examination of the Company s 2006-2008 U.S. income tax returns in the third quarter 2009. The Company is also undergoing tax audits in several non-U.S. jurisdictions covering multiple years. As of September 30, 2010, as a result of those tax examinations, the Company is not aware of any material proposed income tax adjustments.

The Company expects the completion of certain tax audits in the near term. If completed with satisfactory outcomes, which cannot be assured, it is reasonably possible that the completion of those audits and the determinations that could be made in other current audits would decrease by up to $22 million the unrecognized tax benefits in some future period or periods. In addition other audits could result in additional increases or decreases to the unrecognized tax benefits in some future period or periods.

During the third quarter 2010, the Company recorded a decrease of $1.1 million to income tax reserves for unrecognized tax benefits based on tax positions related to the current and prior years, net of an accrual for additional interest in 2010 related to unrecognized tax benefits of prior years. During the second quarter 2010, the Company recorded an increase of $0.5 million to income tax reserves for unrecognized tax benefits based on tax positions related to the current and prior years, including accruing additional interest in 2010 related to unrecognized tax benefits of prior years. During the first quarter 2010, the Company recorded an increase of $0.4 million to income tax reserves for unrecognized tax benefits based on tax positions related to the current and prior years, including accruing additional interest in 2010 related to unrecognized tax benefits of prior years. Of the total unrecognized tax benefits of $46.5 million recorded at September 30, 2010, $27.3 million is classified as current tax payable and $19.2 million is classified as non-current tax payable on the condensed consolidated balance sheet.

1.6 Inventories

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

	As of	
	September 30, 2010	**December 31, 2009**
Raw materials	$ 225.6	$ 194.9
Work in progress	209.6	189.5
Finished products	129.1	104.6

Total	**$ 564.3**	**$ 489.0**

1.7 Restructuring

Restructuring provisions are made on a case by case basis and primarily include severance costs incurred in connection with headcount reductions and plant consolidations. The Company expects to finance restructuring programs over the next several years through cash generated from its ongoing operations or through cash available under existing credit facilities. The Company does not expect that the execution of these activities will have an adverse impact on its liquidity position. The tables below summarize the change in the balance sheet position of the restructuring reserves from December 31, 2008 to September 30, 2010.

Third quarter 2010

The employee-related restructuring provisions in the third quarter 2010 mainly relate to headcount reductions in Europe. Reversals in the third quarter mainly relate to 2009 restructuring reserves in North America and were due to capacity reductions that were not as severe as originally communicated. In addition, final settlements of employee-related amounts in Europe were less than the initial restructuring plan estimates. The cash payments mainly relate to high-cost countries in Europe. The changes in the employee-related reserves were

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charged against Other income (expense), net in the Consolidated Statements of Operations. The fixed asset impairments were charged against Cost of Sales in the Consolidated Statements of Operations. The table below summarizes the change in the balance sheet position of the restructuring reserves from June 30, 2010 to September 30, 2010.

	June 30, 2010	Provision/ Charge	Provision/ Reversal	Cash payments	Non-cash	Translation difference	Sept 30, 2010
Restructuring employee-related	$ 71.1	$ 3.8	$ (2.0)	$ (14.6)	$	$ 6.2	$ 64.5
Fixed asset impairment		0.3			(0.3)		
Other	0.3						0.3
Total reserve	**$ 71.4**	**$ 4.1**	**$ (2.0)**	**$ (14.6)**	**$ (0.3)**	**$ 6.2**	**$ 64.8**

Second quarter 2010

The employee-related restructuring provisions in the second quarter 2010 mainly relate to headcount reductions in Europe. The cash payments mainly relate to high-cost countries in Europe. Reversals in the second quarter mainly relate to 2009 restructuring reserves in North America and were due to capacity reductions that were not as severe as originally communicated. In addition, final settlements of employee-related amounts in North America and Europe were less than initial restructuring plan estimates. The fixed asset impairment charges mainly relate to machinery and equipment in Japan and Australia. The changes in the employee-related reserves were charged against Other income (expense), net in the Consolidated Statements of Operations. The fixed asset impairments were charged against Cost of Sales in the Consolidated Statements of Operations. The table below summarizes the change in the balance sheet position of the restructuring reserves from March 31, 2010 to June 30, 2010.

	March 31, 2010	Provision/ Charge	Provision/ Reversal	Cash payments	Non-cash	Translation difference	June 30, 2010
Restructuring employee-related	$ 92.1	$ 4.6	$ (2.1)	$ (17.9)	$	$ (5.6)	$ 71.1
Fixed asset impairment		0.7			(0.7)		
Other	0.3						0.3
Total reserve	**$ 92.4**	**$ 5.3**	**$ (2.1)**	**$ (17.9)**	**$ (0.7)**	**$ (5.6)**	**$ 71.4**

First quarter 2010

The employee-related restructuring provisions in the first quarter 2010 mainly relate to headcount reductions in Europe. The cash payments mainly relate 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 Operations. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2009 to March 31, 2010.

	December 31, 2009	Provision/ Charge	Cash payments	Translation difference	March 31, 2010
Restructuring employee-related	$ 100.1	$ 15.0	$ (18.2)	$ (4.8)	$ 92.1
Other	0.2	0.2	(0.1)		0.3
Total reserve	**$ 100.3**	**$ 15.2**	**$ (18.3)**	**$ (4.8)**	**$ 92.4**

2009

In 2009, the employee-related restructuring provisions, made on a case by case basis, related mainly to headcount reductions throughout North America, South America, Europe, Japan and Australia. Reversals in 2009 mainly relate to 2008 restructuring reserves in North America and Europe. These reversals were due to customer program cancellations which were not as severe as originally communicated and final settlement of employee-related amounts were less than initial restructuring plan estimates. The cash payments mainly relate to high-cost countries in North America and Europe and in Japan. The changes in the employee-related reserves have been charged against Other income (expense), net in the Consolidated Statements of Operations. Impairment charges mainly relate to machinery and equipment impaired in connection with restructuring activities in North America. The fixed asset impairments have been charged against Cost of sales in the Consolidated Statements of Operations. The table below summarizes the change in the balance sheet position of the restructuring reserves from December 31, 2008 to December 31, 2009.

	December 31, 2008	Provision/ Charge	Provision/ Reversal	Cash payments	Non-cash	Translation difference	December 31, 2009
Restructuring employee-related	$ 55.3	$ 133.6	$ (5.7)	$ (85.1)	$	$ 2.0	$ 100.1
Fixed asset impairment		5.3			(5.3)		
Other	0.4			(0.2)			0.2
Total reserve	**$ 55.7**	**$ 138.9**	**$ (5.7)**	**$ (85.3)**	**$ (5.3)**	**$ 2.0**	**$ 100.3**

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Action Program

The action program initiated in July 2008 (the Action Program) was finalized as of December 31, 2008 and the remaining reserves at the end of 2008 have substantially been paid during 2009. The Company has not initiated additional restructuring activities under this comprehensive program. The table above includes the cash payments and remaining reserves associated with the Action Program and such payments and remaining reserve are also separately disclosed in the table below.

	December 31, 2008	Provision/ Charge	Provision/ Reversal	Cash payments	Non-cash	Translation difference	December 31, 2009
Restructuring employee-related	$ 46.4	$	$ (3.8)	$ (35.4)	$	$ 0.1	$ 7.3
Other	0.2			(0.2)			
Total reserve	**$ 46.6**	**$**	**$ (3.8)**	**$ (35.6)**	**$**	**$ 0.1**	**$ 7.3**

1.8 Product-Related Liabilities

The Company maintains reserves for product risks. Such reserves relate 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 the 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. Cash payments have been made, in the past, for recall and warranty-related issues in connection with a variety of different products and customers. For further explanation, see Note 1.13 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 and nine month periods ended September 30, 2010 mainly relate to recalls. In 2009 provisions mainly related to recalls and warranty issues and cash paid to warranty related issues.

	Three months ended		Nine months ended	
	Sept 30, 2010	Sept 30, 2009	Sept 30, 2010	Sept 30, 2009
Reserve at beginning of the period	**$ 25.7**	**$ 24.5**	**$ 30.6**	**$ 16.7**
Provision	10.6	5.6	15.2	16.3
Cash payments	(1.4)	(1.5)	(9.8)	(4.3)
Translation difference	1.8	0.8	0.7	0.7
Reserve at end of the period	**$ 36.7**	**$ 29.4**	**$ 36.7**	**$ 29.4**

1.9 Retirement Plans

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

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

employees hired as of April 30, 2003.

The Net Periodic Benefit Costs related to Other Post-retirement Benefits were not significant to the Consolidated Financial Statements of the Company for the three and nine month periods ended September 30, 2010 and September 30, 2009, respectively.

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, 2009.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

September 30, 2010

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

	Three months ended		Nine months ended	
	Sept 30, 2010	Sept 30, 2009	Sept 30, 2010	Sept 30, 2009
Service cost	$ 3.5	$ 3.5	$ 10.2	$ 10.8
Interest cost	3.9	3.8	11.6	11.2
Expected return on plan assets	(3.1)	(2.6)	(9.3)	(7.8)
Amortization prior service cost (credit)	(0.2)	(0.3)	(0.7)	(0.7)
Amortization of (gain) loss	1.1	1.5	3.5	4.5
Net Periodic Benefit Cost	**$ 5.2**	**$ 5.9**	**$ 15.3**	**$ 18.0**

1.10 Comprehensive Income (Loss)

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

	Three months ended		Nine months ended	
	Sept 30, 2010	Sept 30, 2009	Sept 30, 2010	Sept 30, 2009
Net income (loss)	**$ 141.1**	**$ 33.7**	**$ 416.7**	**$ (50.9)**
Pension liability	0.5	0.0	2.6	1.7
Net change in cash flow hedges	(0.2)	0.0	0.2	(0.2)
Translation of foreign operations	65.6	5.8	(7.9)	12.7
Other comprehensive income (loss)	**65.9**	**5.8**	**(5.1)**	**14.2**
Comprehensive income (loss)	**$ 207.0**	**$ 39.5**	**$ 411.6**	**$ (36.7)**
Less Comprehensive income (loss) attributable to non-controlling interest	1.2	2.9	3.8	1.7
Comprehensive income (loss) attributable to controlling interest	**$ 205.8**	**$ 36.6**	**$ 407.8**	**$ (38.4)**

1.11 Equity and Equity Units Offering

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

The Settlement Rate is based on the applicable market value of the Company s common stock on the settlement date. The minimum and maximum number of shares to be issued under the purchase contracts is approximately 5.6 million and 6.7 million, respectively (giving effect to the dividend paid in the third quarter 2010 and the exchange of Equity Units discussed below).

The Notes will be remarketed between January 12, 2012 and March 31, 2012 whereby the interest rate on the Senior Notes will be reset and certain other terms of the Senior Notes may be modified in order to generate sufficient remarketing proceeds to satisfy the Equity Unit holders obligations under the purchase contract. If the Senior Notes are not successfully remarketed, then a put right of holders of the notes will be automatically exercised unless such holders (a) notify the Company of their intent to settle their obligations under the purchase contracts in cash, and (b) deliver $25 in cash per purchase contract, by the applicable dates specified by the purchase contracts. Following such exercise and settlement, the Equity Unit holders obligations to purchase shares of Common Stock under the purchase contracts will be satisfied in full, and the Company will deliver the shares of Common Stock to such holders.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

September 30, 2010

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

In May and early June, pursuant to separately negotiated exchange agreements with holders representing an aggregate of approximately 2.3 million Equity Units, the Company issued an aggregate of approximately 3.1 million shares of Autoliv s common stock from the treasury and paid an aggregate of approximately $7.4 million in cash to these holders in exchange for their Equity Units. While the remaining aggregate interest coupons for each Equity Unit amounts to $4, the average cost in these transactions was $3.14 per unit, a discount of 22%. Each of the separately negotiated exchanges is exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 3(a)(9) thereof. Following the exchanges, approximately 4.3 million Equity Units remain outstanding.

As a result of these transactions, the Company recognized approximately $12 million of debt extinguishment costs within its Consolidated Statement of Operations for the nine months ended September 30, 2010.

1.12 Non-Controlling Interest

	Parent	Equity attributable to Non-controlling interest	Total
Balance at December 31, 2009	**$ 2,388.2**	**$ 47.8**	**$ 2,436.0**
Total Comprehensive Income:			
Net income	413.1	3.6	416.7
Net change in cash flow hedges	0.2		0.2
Foreign currency translation	(8.1)	0.2	(7.9)
Pension liability	2.6		2.6
Total Comprehensive Income	407.8	3.8	411.6
Purchase of non-controlling interest by parent	(12.0)	(42.5)	(54.5)
Common Stock incentives	14.4		14.4
Cash dividends declared	(57.6)		(57.6)
Common stock Issue	57.2		57.2
Balance at September 30, 2010	**$ 2,798.0**	**$ 9.1**	**$ 2,807.1**

1.13 Contingent Liabilities

Legal Proceedings

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

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

In 1997, Autoliv AB (a wholly-owned subsidiary of Autoliv, Inc.) acquired Marling Industries plc (Marling). At that time, Marling was involved in a litigation relating to the sale in 1992 of a French subsidiary. In the litigation, the plaintiff has sought damages of 40 million (approximately $55 million) from Marling, claiming that Marling and another entity then part of the Marling group, had failed to disclose certain facts in connection with the 1992 sale

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

September 30, 2010

and that such failure was the proximate cause of losses in the amount of the damages sought. In May 2006, a French court ruled that Marling (now named Autoliv Holding Limited) and the other entity had failed to disclose certain facts in connection with the 1992 sale and appointed an expert to assess the losses suffered by the plaintiff. Autoliv has appealed the May 2006 court decision and believes it has meritorious grounds for such appeal. While the appeal is pending, the financial expert appointed by the lower court has delivered his report. The report does not address the issue of the proximate cause of the losses, but assessed the losses to a maximum of 10 million (approximately $14 million). The parties have engaged in discussions to settle the matter at an amount significantly below the value of the maximum potential loss assessed by the financial expert. Autoliv has accrued an amount with respect to this litigation that it believes is appropriate given the on-going settlement discussions. However, there is no assurance that a settlement will actually occur or, if it does, what the amount of such settlement may be.

In 2009, Autoliv initiated a voluntary closure due to economical reasons of our Normandy Precision Components (NPC) plant located in France. In September 2010, most of the dismissed employees filed a claim in French court for damages for unfair dismissal of approximately 10.5 million (approximately $14 million) which will amount to 11.5 million (approximately $16 million) in the event all dismissed employees file a claim. While we intend to vigorously defend this action, the outcome is difficult to predict. We do not believe that these former employees will recover the full amount sought in their complaint. However, French labor law is complex and grants significant discretionary authority to French courts. It is possible that a French court will award some of the damages sought in the lawsuit and in such event, we may be required to record an expense with respect to the NPC employees.

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 appropriateness of these reserves, and adjusts them when appropriate. However, the final amounts determined to be due related to these matters could differ materially from the Company s recorded estimates.

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

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

On April 19, 2010, SEVA Technologies SA (SEVA) initiated actions against several employees and wholly-owned subsidiaries of Autoliv, Inc. in a French Court. In the actions, SEVA alleges that following preliminary acquisition discussions with SEVA starting in 2006, Autoliv s subsidiaries misappropriated SEVA s confidential information disclosed to such subsidiaries under a non-disclosure agreement in order to obtain a patent. SEVA is principally seeking to have SEVA declared the owner of the patent and certain former SEVA employees declared the inventors of the patent. SEVA has also alleged injuries of 22 million (approximately $30 million). Autoliv is investigating the matter but, to date, has not found any basis for any of SEVA s claims.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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In August 2010, Takata-Petri AG (Takata-Petri) filed a complaint against Autoliv, ASP (ASP), a wholly-owned subsidiary of Autoliv, alleging that ASP supplied defective inflators to Takata-Petri and seeking damages in the amount of 18.5 million (approximately $25 million). Takata-Petri used the inflators in a driver airbag module designed and sold by Takata-Petri to an OEM. The OEM installed Takata-Petri s airbag module in a vehicle that the OEM subsequently recalled due to the vehicle s failure to meet all relevant specifications. The OEM believed that Takata-Petri s airbag module caused such failure. In its complaint, Takata-Petri argues on various grounds that Autoliv s inflator caused Takata-Petri s airbag module to fail to meet all relevant specifications of the OEM or those applicable to the vehicle in which Takata-Petri s airbag module was installed. ASP has rejected the claim and we intend to vigorously contest Takata-Petri s allegations.

The table in Note 1.8 Product-Related Liabilities above summarizes the change in the balance sheet position of the product related liabilities for the three and six month periods ended September 30, 2010 and September 30, 2009, respectively.

1.14 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 common shares outstanding for the period (net of treasury shares). When it would not be antidilutive (such as during periods of net loss), the diluted EPS also reflects the potential dilution that could occur if common stock were issued for awards under the Stock Incentive Plan and for common stock issued upon conversion of the equity units.

For the three and nine month periods ended September 30, 2010, 3.7 million and 4.5 million shares, respectively, were included in the dilutive weighted average share amount related to the equity units. The potential number of shares which will be converted in the future related to the equity units varies between 5.6 million, if the Autoliv share price is $19.20 or higher, and 6.7 million, if the price is $16.00 or less, giving effect to the exchange of Equity Units discussed in Note 1.11 and the dividend of $0.30 paid on September 2, 2010 for the third quarter.

Approximately 0.2 million and 0.4 million common shares related to the Company s Stock Incentive Plan, that could potentially dilute basic EPS in the future, are not included in the computation of the diluted EPS for the three and nine month periods ended September 30, 2010, respectively. These numbers were 0.9 million and 2.0 million for the three and nine month periods respectively in 2009.

During the first nine months of 2010 and 2009 approximately 0.5 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 (losses) per share were:

(In millions)	**Three months ended**		**Nine months ended**	
	Sept 30, 2010	**Sept 30, 2009**	**Sept 30, 2010**	**Sept 30, 2009**
Weighted average shares basic	88.6	85.1	86.8	80.2
Effect of dilutive securities:				
- stock options/share awards	0.5	0.5	0.5	
- equity units	3.7	3.5	4.5	
Weighted average shares diluted	92.8	89.1	91.8	80.2[1)]

1) No dilution for the nine month period ended September 30, 2009 due to net loss position.

1.15 Subsequent Events

There are no subsequent events noted.

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

The following discussion should be read in conjunction with our Consolidated Financial Statements and accompanying Notes thereto included elsewhere herein and with our 2009 Annual Report on Form 10-K filed with the SEC on February 19, 2010. Unless otherwise noted, all dollar amounts are in millions.

Autoliv is the world s largest automotive safety system supplier with sales to all the leading vehicle manufacturers in the world. Autoliv develops, markets and manufactures airbags, seatbelts, safety electronics, steering wheels, anti-whiplash systems, child safety systems as well as night vision systems and other active safety systems. Autoliv accounts for more than one third of its market. Autoliv has manufacturing facilities in 29 vehicle-producing countries.

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

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

Non-GAAP financial measures

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

RESULTS OF OPERATIONS

Overview

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

KEY RATIOS

(Dollars in millions)

	Three months ended or as of Sept 30	Nine months ended or as of Sept 30

	2010	2009	2010	2009
Operating working capital [1)]	$ 467	$ 465	$ 467	$ 465
Capital employed [7)]	$ 3,145	$ 3,243	$ 3,145	$ 3,243
Net debt [1)]	$ 338	$ 878	$ 338	$ 878
Net debt to capitalization, % [1, 2)]	11	27	11	27
Gross margin, % [3)]	21.5	18.0	22.2	14.7
Operating margin, % [4)]	11.6	4.5	11.9	(1.2)
Return on total equity, % [8)]	20.8	5.8	21.4	(3.0)
Return on capital employed, % [9)]	26.4	7.6	27.0	(1.5)
No. of employees at period-end [10)]	33,222	30,603	33,222	30,603
Headcount at period-end [11)]	42,801	36,192	42,801	36,192
Days receivables outstanding [5)]	74	71	73	80
Days inventory outstanding [6)]	33	37	33	42

1) See tabular presentation reconciling this non-GAAP measure to GAAP below under the heading Liquidity and Sources of Capital
2) Net debt in relation to net debt and total equity (including non-controlling interest)
3) Gross profit relative to sales
4) Operating income (loss) relative to sales
5) Outstanding receivables relative to average daily sales
6) Outstanding inventory relative to average daily sales
7) Total equity and net debt
8) Net income (loss) relative to average total equity
9) Operating income (loss) and equity in earnings of affiliates, relative to average capital employed
10) Employees with a continuous employment agreement, recalculated to full time equivalent heads
11) Employees plus temporary, hourly workers

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THREE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED WITH THREE MONTHS

ENDED SEPTEMBER 30, 2009

Market overview

During the three-month period July - September 2010, global light vehicle production (LVP) is estimated by IHS (CSM) to have increased by 13% compared to the same quarter 2009. This was 6 percentage points better than expected at the beginning of the quarter. LVP in the Triad (i.e. North America, Europe and Japan), where Autoliv generates slightly more than 75% of its consolidated sales, is estimated to have risen by 11%.

In Europe, where Autoliv derives approximately 35% of its revenues, LVP reached the same level as in the third quarter 2009 compared to an expected decline of 7% due to large governmental vehicle scrapping incentives that increased LVP last year. In Western Europe, LVP decreased by 6%, while LVP in Eastern Europe rose by 16%.

In North America, which accounts for approximately 30% of revenues, LVP recovered by 26% from a very low level in 2009. The increase was 3 percentage points higher than expected. Production of passenger cars recovered by 17% and production of light trucks by 35%. Chrysler, General Motors (GM) and Ford increased their production by 41%, 32% and 20%, respectively. Asian and European vehicle manufacturers increased their production in the region by an average rate of 23%.

In Japan, which accounts for slightly more than 10% of Autoliv s sales, LVP recovered by 15%, partially due to governmental eco-car incentives . The recovery was especially strong for vehicles for export to markets in North America and Western Europe.

In the Rest of the World (RoW), which accounts for close to 25% of sales, LVP grew by 15%, which was 8 percentage points higher than expected. In India the increase was 32%, in South Korea 4% and in China 10% (instead of an expected decline of 2%).

Consolidated Sales

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

Reconciliation of the change in Organic sales to GAAP financial measure

Components of net sales increase (decrease)

Three months ended September 30, 2010
(Dollars in millions)

	Europe		North America		Japan		RoW		Total	
	%	$	%	$	%	$	%	$	%	$
Organic sales change	1.6	9.9	54.6	169.4	47.9	65.3	25.9	63.5	23.2	308.1
Effect of exchange rates	(7.7)	(48.0)	1.0	3.2	8.4	11.5	3.6	9.0	(1.8)	(24.3)
Impact of acquisitions/divestments	0.6	3.5	14.8	45.8			33.4	81.9	9.9	131.2
Reported net sales change	**(5.5)**	**(34.6)**	**70.4**	**218.4**	**56.3**	**76.8**	**62.9**	**154.4**	**31.3**	**415.0**

Consolidated net sales amounted to $1,741 million, a third-quarter record, and increased compared to the same quarter in 2009 by 31%. Acquisitions added 10% (see Significant Events). Currency effects had a negative impact of 2%. Consequently, organic sales (non-U.S. GAAP measure, see enclosed table) increased by 23%.

In July, organic sales were expected to grow by at least 20%. However, the recovery in global LVP was 6 percentage points higher than expected.

Sales to GM, Honda, Nissan, and Ford contributed the most to the growth in the Company s revenues. The highest organic sales growth rates were recorded in sales to Mitsubishi, Honda, and Hyundai/KIA.

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Sales by Product

Sales of airbag products (including steering wheels and electronics) rose by 37% to $1,173 million. Acquisitions increased sales by 12%, while currency effects had a negative impact of 2%. Consequently, organic sales of airbag products grew by 27%, which was 16 percentage points higher than the increase in LVP in the Triad (i.e. the main market for airbags). Autoliv s strong performance was due to new business with GM, Hyundai/KIA, Ford and Chrysler, as well as to a strong sales recovery in Japan, especially with Nissan, Honda and Mitsubishi.

Sales of seatbelt products (including seat sub-systems) increased by 21% to $568 million. Acquisitions added 6%, while currency effects reduced sales by 2%. Consequently, organic sales of seatbelt products rose by almost 17% compared to the 13% increase in global LVP. Autoliv s sales were driven by a positive LVP mix, new business with Hyundai/KIA and GM, sales recoveries with Honda, Nissan, Mitsubishi and Autovaz, and strong sales growth with Chinese vehicle manufacturers.

Sales by Region

Sales from Autoliv s European companies decreased by 6% to $600 million due to negative currency effects of nearly 8%. Acquisitions increased sales by less than 1%. Organic sales growth of 2% compares favorably with the flat European LVP. Autoliv s better-than-the-market performance in Europe was due to a favorable vehicle mix with strong demand for vehicles with high safety content such as Mercedes s E-class and C-class; BMW s 5-Series and Nissan s Qashqai.

Sales from Autoliv s North American companies increased by slightly more than 70% to $528 million due to strong recovery in LVP and a favorable LVP mix. Acquisitions added slightly less than 15%. Currency effects added 1% due to a stronger Mexican peso. Organic sales growth of nearly 55% was more than twice as strong as the 26% increase in North American LVP. Autoliv s better-than-the-market performance was due to a favorable mix. Significant contributors to Autoliv s sales performance were Chevrolet s Silverado and Malibu; GMC s Sierra; Cadillac s SRX; Buick s Enclave; Ford s Edge, E-series and F-series Super Duty; Honda s Pilot, and Odyssey; Acura s MDX; Hyundai s Sonata; and Kia s Sorento.

Sales from Autoliv s companies in Japan increased by 56% to $213 million, including positive currency effects of 8%. Organic sales growth of 48% was more than three times higher than the 15% recovery in Japanese LVP. This was mainly due to the strong recovery in the production of vehicles with high safety content. These were premium cars, SUVs and other vehicles, especially for the North American and West European markets. Autoliv benefited particularly from strong recoveries for Mitsubishi s Outlander and the launch of Mitsubishi s new RVR/ASX and strong sales recoveries for Honda s CRV, StepWagon, CRZ and Accord; for Nissan s Rogue, Safari and X-Trail; for Toyota s larger SUVs such as the Hilux Surf; and the Lexus LX. Sales were also driven by the launch of Infiniti s new M/Fuga and Lexus new GX.

Sales from Autoliv s companies in the Rest of the World (RoW) increased by 63% to $400 million. Acquisitions added 33% and currency effects 4%. The organic sales increase of 26% was 11 percentage points higher than the increase in the region s LVP. Autoliv s strong performance reflects organic sales increases of 45% in China where LVP grew by 10%. Autoliv s organic growth was driven by business for Geely s Emgrand EC7; Great Wall s CoolBear; Volkswagen s Golf; Nissan s Qashqai and Juke; Hyundai s Tucson ix(35) and Verna; and Kia s Forte. In India, Autoliv s growth was spearheaded by strong demand for Nissan s March/Micra; Ford s new Figo and several Tata models.

Earnings for the Three-Month Period Ended September 30, 2010

For the third quarter 2010, Autoliv reported the highest quarterly gross profit, operating income, operating margin, income before taxes, net income and earnings per share for a third quarter. These record results reflect our ongoing restructuring efforts, and our rapid growth in emerging markets.

Gross profit improved by $135 million or 57% to $374 million from $239 million in the third quarter 2009 despite an $11 million negative impact from higher raw material prices. Gross margin improved to 21.5% from 18.0%. The margin improvement reflects higher sales (especially of products with higher value-added), as well as the positive result of our restructuring efforts.

Operating income improved by $142 million to $202 million due to the gross profit increase of $135 million and $12 million lower restructuring charges. These positive effects were partially offset by $6 million higher Research, Development and Engineering (RD&E) expense, net, mainly due to higher investments in active safety. Selling, General & Administrative (SG&A) expense was unchanged despite higher sales. Operating margin improved to 11.6% from 4.5%, which included a 1.0 percentage point negative impact from restructuring costs of $14 million in 2009.

Income before taxes improved by $150 million to $190 million primarily due to the $142 million improvement in operating income. Additionally, interest expense, net was $5 million less than during the same period 2009 as a reflection of the fact that net debt is roughly half of its level one year ago. The lower interest expense also reflects the benefits of the accelerated exchange of 36% of outstanding equity units that was executed in the second quarter 2010.

Net income attributable to controlling interest improved by $107 million to $140 million from the third quarter 2009. Income tax expense was $48 million, which resulted in an effective tax rate of 25.5%. Discrete tax items and a favorable catch-up effect reduced the effective tax rate by 3.7 percentage points. In the third quarter 2009, income tax expense was $6 million with an effective tax rate of 14%.

Earnings per share rose by $1.14 to $1.51 assuming dilution due to higher pre-tax income, partially offset by a higher effective tax rate and more shares outstanding. The weighted average number of shares outstanding, assuming dilution, increased by 4% to 92.8 million from 89.1 million for the same quarter 2009.

NINE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2009

Market overview

During the nine-month period January - September 2010, light vehicle production (LVP) increased by 30%, both globally and in the Triad.

In Europe, LVP increased by 17%. In Western Europe, the increase was 15% and in Eastern Europe 24%.

In North America, light vehicle production recovered from the same period 2009 by 54%, primarily due to GM, Ford and Chrysler increasing their LVP by 60%. Asian and European vehicle manufacturers increased their LVP in North America by 47%.

In Japan, light vehicle production increased by 32% compared to the same nine-month period 2009.

In the Rest of the World (RoW) light vehicle production increased by 31%.

Consolidated Sales

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

Reconciliation of the change in Organic sales to GAAP financial measure

Components of net sales increase (decrease)

Nine months ended September 30, 2010

(Dollars in millions)

	Europe		North America		Japan		RoW		Total	
	%	$	%	$	%	$	%	$	%	$
Organic sales change	13.5	239.7	75.5	581.1	75.7	240.3	54.5	319.9	40.1	1,381.0
Effect of Production days	2.4	42.5	2.4	18.5	2.4	7.6	2.4	14.1	2.4	82.7
Effect of exchange rates	(2.4)	(42.7)	1.8	13.6	6.2	19.5	6.0	35.4	0.7	25.8

Impact of acquisitions/ divestments	0.7	12.0	19.4	149.7			28.3	166.0	9.5	327.7
Reported net sales change	**14.2**	**251.5**	**99.1**	**762.9**	**84.3**	**267.4**	**91.2**	**535.4**	**52.7**	**1,817.2**

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For the year s first nine months, consolidated sales increased by 53% to $5,263 million. Currency effects added 1% and acquisitions 10%. Additionally, three more production days in the first quarter added 2% (the production day effect). Consequently, organic sales increased by 40%, which was 10 percentage points higher than the increase in global LVP.

Sales by Product

Sales of airbag products jumped by 60% to $3,526 million. Currency effects added less than 1%, the production day effect added 2% and acquisitions 12%. The organic sales increase of 45% was 15 percentage points higher than the LVP increase in the Triad.

Sales of seatbelt products rose by 39% to $1,737 million including the production day effect of 2%. Currency effects added 1% and acquisitions 5%. Organic sales growth of 31% was 1 percentage point more than the 30% increase in global LVP.

Sales by Region

Sales from Autoliv s European companies increased by 14% to $2,023 million. Currency effects had a negative impact of more than 2%, while the production day effect and acquisitions had a favorable impact of 2% and less than 1%, respectively. Therefore, organic sales increased by nearly 14% which was virtually in line with West European LVP.

Sales from Autoliv s North American companies increased by 99% to $1,533 million. Both currency effects and the production day effect added 2%, while acquisitions added 19%. The organic sales increase of 76% was 22 percentage points higher than the increase in North American LVP. This was mainly due to new business for Ford, Chrysler and Chevrolet.

Sales from Autoliv s companies in Japan increased by 84% to $585 million including favorable currency effects of 6% and the production day effect of 2%. Organic sales growth of 76% was 44 percentage points higher than the Japanese LVP increase thanks to higher market share and a sharper recovery in the production of vehicles with higher safety content than for low-end vehicles.

Sales from Autoliv s companies in the RoW increased by 91% to $1,122 million including the production day effect of 2%, favorable currency effects of 6% and acquisitions of 28%. The organic sales increase of 55% was 24 percentage points higher than the growth in the region s LVP, mainly due to the Chinese market and a favorable LVP mix, primarily as a result of recent launches.

Earnings for the Nine-Month Period Ended September 30, 2010

Gross profit increased by $664 million to $1,169 million and gross margin to 22.2% from 14.7% due to higher sales and savings effects from our restructuring activities.

Operating income improved by $668 million to $627 million from a loss of $41 million. Operating margin improved to 11.9% from negative 1.2%. The nine-month period in 2009 included restructuring charges totaling $62 million (i.e. 1.8% of sales) compared to $19 million (i.e. 0.4% of sales) this year.

Income before taxes increased by $667 million to $575 million due to the $668 million improvement in operating income. This improvement not only reflects significantly lower restructuring charges but a few other items, including $11 million lower interest expense, net due to lower net debt and the accelerated exchange of equity units in the second quarter. These favorable effects were partially offset by $12 million in debt extinguishment costs related to the equity unit exchange in the second quarter.

Net income attributable to controlling interest improved by $464 million to $413 million from a loss of $51 million. Income tax expense was $158 million, net of discrete items of $10 million, resulting in an effective tax rate of 27.5%. For the nine-month period 2009, income taxes were a benefit of $41 million including a cost of $3 million for discrete items.

Earnings per share improved by $5.14 to $4.50, assuming dilution. In 2009, there was no dilution due to the loss during the first nine months. The average number of shares outstanding increased by 14% to 91.8 million, primarily as a result of the sale of treasury shares in March 2009 and an increased dilutive effect from the equity units. The higher number of shares outstanding had a 65 cent negative effect on earnings per share.

LIQUIDITY AND SOURCES OF CAPITAL

Cash flow from operations amounted to $198 million, which was the highest level ever for a third quarter, despite a $29 million negative impact from less factoring than in the previous quarter and $15 million for restructuring payments. Cash-flow increased by $8 million from an insurance reimbursement. During the third quarter 2009, cash flow was $130 million. During the first nine months 2010 operations generated $598 million in cash compared to $248 million during the same period 2009.

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Acquisitions and other, net was $5 million, the same level as in the third quarter 2009. Capital expenditures, net of $59 million were $35 million more than during the same quarter 2009, but $10 million less than depreciation and amortization in the third quarter. For the nine month period capital expenditures, net amounted to $142 million and depreciation and amortization to $214 million compared to $90 million and $228 million, respectively, last year.

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

Reconciliation of Operating working capital to GAAP financial measure

(Dollars in millions)

	September 30, 2010	June 30, 2010	December 31, 2009	September 30, 2009
Total current assets	$ 2,671.5	$ 2,455.5	$ 2,179.6	$ 2,115.3
Total current liabilities	(1,911.4)	(1,793.7)	(1,693.5)	(1,368.5)
Working capital	**760.1**	**661.8**	**486.1**	**746.8**
Cash and cash equivalents	(487.2)	(459.4)	(472.7)	(429.6)
Short-term debt	156.2	169.6	318.6	145.3
Derivative (asset) and liability, current	6.9	7.7	3.4	2.5
Dividends payable	31.0	25.6		
Operating working capital	**$ 467.0**	**$ 405.3**	**$ 335.4**	**$ 465.0**

The Company has the policy that operating working capital (non-GAAP measure, see table above) in relation to last 12-month sales should not exceed 10%. This ratio increased slightly to 6.7% from 6.2% on June 30. Of this 0.5 percentage point increase (pp), 0.4 pp were due to the $29 million reduction in factoring. The impact of the remaining factoring programs was $42 million at the end of the quarter.

Days receivables outstanding increased to 74 days on September 30 from 70 days at the end of June, partially due to the $29 million factoring reduction. Days inventory outstanding increased during the quarter to 33 days from 30 at the end of June, but declined from 37 days a year ago.

The Company uses the non-GAAP measure Net debt as defined in the table below in its communication with investors regarding its capital structure and as the relevant metric monitoring its overall debt management. The reconciling items used to derive this measure are managed as part of overall debt management. This non-GAAP measure is a supplemental measure to the GAAP measure of total debt.

In addition, as part of efficiently managing the Company s overall cost of funds, we routinely enter into debt-related derivatives (DRD) as part of our debt management. The most notable DRD s were entered into in connection with the 2007 issue of U.S. Private Placements (see page 38 of the Company s 2009 Annual Report on Form 10-K filed with the SEC on February 19, 2010). Creditors and credit rating agencies use net debt adjusted for DRD s in their analyses of the Company s debt and therefore we provide this non-GAAP measure. By adjusting for DRD s, the total economic liability of net debt is disclosed without grossing it up with currency or interest fair market values that are offset by DRD s reported in other balance sheet captions.

Reconciliation of Net debt to GAAP financial measure

(Dollars in millions)

	September 30, 2010	June 30, 2010	December 31, 2009	September 30, 2009
Short-term debt	$ 156.2	$ 169.6	$ 318.6	$ 145.3
Long-term debt	680.0	708.8	820.7	1,187.8
Total debt	**836.2**	**878.4**	**1,139.3**	**1,333.1**
Cash and cash equivalents	(487.2)	(459.4)	(472.7)	(429.6)
Debt-related derivatives	(11.2)	(2.2)	(4.5)	(25.4)
Net debt	**$ 337.8**	**$ 416.8**	**$ 662.1**	**$ 878.1**

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The Company s net debt (non-GAAP measure, see table above) declined during the third quarter by $79 million to $338 million at the end of the quarter despite the $29 million from less factoring, dividend payments of $27 million, restructuring payments of $15 million, and total acquisition payments of $4 million. Gross interest-bearing debt was reduced by $42 million during the third quarter to $836 million.

Thanks to the strong cash flow and the exchange of equity units in the second quarter 2010, net debt has been reduced by 49% or $324 million to $338 million from the beginning of the year despite total acquisition payments of $141 million, restructuring payments of $51 million and dividend payments of $27 million. Gross interest-bearing debt decreased by $303 million during the nine month period. Net debt to capitalization was 11% compared to 21% at the beginning of the year.

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

Reconciliation of Leverage ratio to GAAP financial measure

(Dollars in millions)

	September 30, 2010	September 30, 2009	December 31, 2009
Net debt [2]	$ 337.8	$ 878.1	$ 662.1
Senior notes [3]	(98.7)	(144.3)	(146.4)
Pension liabilities	118.3	112.5	109.2
Net debt per the policy	**$ 357.4**	**$ 846.3**	**$ 624.9**
Income before income taxes [4]	$ 672.4	$ (138.8)	$ 5.5
Plus: Interest expense, net [1, 4, 5]	63.4	67.5	62.2
Depreciation and amortization of intangibles (incl. impairment write-offs) [4]	300.2	318.2	314.3
EBITDA per the Policy [4]	**$ 1,036.0**	**$ 246.9**	**$ 382.0**
Net debt to EBITDA ratio	**0.3**	**3.4**	**1.6**

1) *Interest expense, net, is interest expense less interest income.*
2) *Net debt is short- and long-term debt and debt-related derivatives less cash and cash equivalents.*
3) *Debt portion of the equity units offering (for further information see Note 1.11).*
4) *Latest 12-months.*
5) *Includes loss on extinguishment of debt in 2010.*

Reconciliation of Interest coverage ratio to GAAP financial measure

(Dollars in millions)

	September 30, 2010	September 30, 2009	December 31, 2009
Operating income [2]	$ 736.5	$ (68.3)	$ 68.9
Amortization of intangibles (incl. impairment write-offs) [2]	19.6	23.2	23.1
Operating profit per the Policy [2]	**$ 756.1**	**$ (45.1)**	**$ 92.0**
Interest expense, net [1, 2, 3]	**63.4**	**67.5**	**62.2**
Interest coverage ratio	**11.9**	**(0.7)**	**1.5**

1) *Interest expense, net, is interest expense less interest income.*
2) *Latest 12-months.*
3) *Includes loss on extinguishment of debt in 2010.*

Autoliv s policy is to maintain a leverage ratio significantly below 3.0 times and an interest-coverage ratio significantly above 2.75 times. The Company s leverage ratio was 0.3 times on September 30, while interest coverage ratio was 11.9 times. Leverage ratio is measured as adjusted net debt in relation to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). Interest coverage is defined as operating income (excluding amortization of intangibles) in relation to interest expense, net (including cost for extinguishment of debt). Adjusted net debt includes pension liabilities but excludes the debt from equity units since these funds are regarded as equity by Standard & Poor s due to the fact that the purchase contracts of the equity units are binding and not revocable. The net debt to capitalization ratio declined to 11% from 14% at the end of the previous quarter.

Total equity improved by $186 million to $2,807 million during the third quarter mainly due to net income of $141 million, favorable currency effects of $65 million, common stock incentives of $7 million and a $4 million increase in non-controlling interest. This was partially offset by a $31 million accrual for the declared dividend to be paid in the fourth quarter. Total parent shareholders equity was $2,798 million corresponding to $31.54 per share.

Total equity increased by $371 million during the nine month period mainly as a result of the $417 million net income, a $57 million effect of the equity unit exchange and $14 million for stock incentives. Equity was reduced primarily by $58 million for dividends, $54 million from acquiring non-controlling interests and $8 million for negative currency effects.

Return on total equity was 21% and return on capital employed 27% for the nine month period.

OFF-BALANCE SHEET ARRANGEMENTS

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

Headcount

Total headcount (permanent employees and temporary personnel) increased by 1,700 during the quarter to 42,800 and by 4,900 during the first nine months. Of the increases, 200 during the quarter and 800 during the nine-month period are due to acquisitions. Excluding acquisitions, headcount declined during the quarter in high-cost countries by 800 (virtually all permanent employees), despite the sharp sales recoveries in North America, Europe and Japan.

Of total headcount, 62% are in low-cost countries, 70% are direct workers in manufacturing and 22% are temporary personnel, which increases our flexibility in the cyclical automotive industry. A year ago, these figures were 57%, 67% and 15%, respectively.

Outlook

The latest forecasts from IHS (CSM) indicate an unchanged global LVP in the fourth quarter compared to the same quarter 2009. LVP in the Rest of the World (RoW) is expected to increase by 4% and in North America by 3%, while West European LVP is expected to decline by 8%. For the full year 2010, this would imply a 21% increase in global LVP.

Based on IHS s forecast and the Company s customer call-offs, Autoliv s organic sales for the fourth quarter are expected to continue to outperform global LVP and grow by nearly 12%. Acquisitions are expected to add 8% and currency effects 1%, provided that current exchange rates prevail. The positive production day effect in the first quarter will result in a corresponding negative effect in the fourth quarter. This negative effect is estimated to reduce sales by 6%. Consequently, consolidated sales are expected to increase by approximately 15% in the fourth quarter. This would lead to a consolidated sales increase of approximately 40% for the full year 2010 with the organic sales portion growing by at least 30%. Acquisitions are expected to add 9% and currency effects 1%.

An operating margin of approximately 12% is expected for both the fourth quarter and for the full year 2010.

The projected effective tax rate is estimated to be close to 30% for the fourth quarter.

OTHER RECENT EVENTS

Launches in the 3rd quarter 2010

Audi s new A7; Steering wheel, driver airbag, passenger airbag, driver and passenger knee airbags and night vision system.

Chery s new A3; Driver airbag, passenger airbag, side airbags, inflatable curtains and seatbelts with pretensioners.

Ford s new C-Max and Grand C-Max; Passenger airbag, side airbags, inflatable curtains and seatbelts with pretensioners.

Great Wall s new Tengyi C30; Frontal airbags, steering wheel, seatbelts with pretensioners and safety electronics

Honda s new Odyssey; Side airbags, inflatable curtains, seatbelts with pretensioners and safety electronics.

Mini s new Countryman; Steering wheel, driver airbag, passenger airbag, passenger knee airbag, seatbelts with pretensioners and safety electronics.

Other Significant Events

The quarter has been favorably impacted by the acquisition of 51% of the shares in the Chinese seatbelt company Beijing Delphi Automotive Safety Product Co. Ltd. (BDS) from Delphi Inc. BDS has annual sales of approximately $30 million. The transaction completes the acquisitions of Delphi s Occupant Protection Systems (OPS) business. These acquisitions add total annualized sales of approximately $550 million.

In the third quarter, Autoliv also acquired Delphi s Pyrotechnic Safety Switch business, which has annualized sales of $8 million.

Standard and Poor s has upgraded Autoliv s long-term credit rating to BBB+ with stable outlook from BBB .

In response to the rapid growth in Asian vehicle production, Autoliv has begun the construction of India s first seatbelt weaving plant for seatbelt webbing. The plant will increase Autoliv s global weaving capacity for seatbelt webbing by 20% to half a billion meters (approximately 12 laps around the earth).

The first results of a crash-test rating program in Latin America for new vehicle models was announced in October. This Latin NCAP is linked to the global NCAP organization that includes Europe, North America, Japan, Australia and China. At the start, the Latin NCAP only performs a frontal impact test based on the Euro NCAP test program but new test criteria will gradually be added.

Dividend

As already announced, the Company has decided to increase the quarterly dividend to shareholders by 17% to 35 cents per share for the fourth quarter 2010. The dividend will be payable on Thursday, December 9, 2010 to shareholders of record on November 4, 2010. The ex-date, when the shares will trade without the right to the dividend, will be November 2, 2010.

Next Report

Autoliv intends to publish its results for the fourth quarter 2010 on Tuesday February 1, 2011.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of September 30, 2010, the Company s future contractual obligations have not changed materially from the amounts reported in the 2009 Annual Report on Form 10-K filed with SEC on February 19, 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of September 30, 2010, there have been no material changes to the information related to quantitative and qualitative disclosures about market risk that was provided in the Company s 2009 Annual Report on Form 10-K filed with the SEC on February 19, 2010.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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

ITEM 4T. CONTROLS AND PROCEDURES
Not applicable.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
Various claims, lawsuits and proceedings are pending or threatened against the Company or its subsidiaries, covering a range of matters that arise in the ordinary course of its business activities with respect to commercial, product liability and other matters.

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

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

For further discussion of legal proceedings, see Note 1.13 Contingent Liabilities to the Unaudited Consolidated Financial Statements Legal Proceedings included in this quarterly report on Form 10-Q.

ITEM 1A. RISK FACTORS
The risk factor set forth below is in addition to the risk factors previously disclosed in Part I, Item 1A. Risk Factors in our annual report on Form 10-K for the year ended December 31, 2009, filed with the SEC on February 19, 2010, which includes a detailed discussion of risk factors that could materially affect our business, financial condition or results of operations, and is herein incorporated by reference.

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

We, as most other component manufactures in the automotive industry, ship products to the vehicle assembly plants so they are delivered on a just in time basis in order to maintain low inventory levels. Our suppliers also use a similar method. However, this just in time method makes the logistics supply chain in our industry very vulnerable to disruptions. Such disruptions could be caused by any one of a myriad of potential problems, including, but not limited to logistical complications due to natural disasters. The lack of even a small single subcomponent necessary to manufacture one of our products, for whatever reason, could force us to cease production, even for a prolonged period; our customers may halt their production for the same reason. When we cease timely deliveries, we have to carry our own costs for identifying and solving the root cause problem as well as expeditiously producing replacement components or products. Generally, we must also carry the costs associated with catching up , such as over-time and premium freight. Additionally, if we are the cause for a customer being forced to halt production, the

customer may seek to recoup all of its losses and expenses from us. These losses could be very significant, and may include consequential losses such as lost profits. Where a customer halts production because of another supplier failing to deliver on time, we may not be fully compensated, if at all.

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For example, in April, Mount Eyjafjöll, a volcano in Iceland, erupted causing widespread and unprecedented delays in air travel. Such disruptions, whether caused by a volcano or some other natural disaster, were they to resume or otherwise occur, could cause significant delays and complications to our ability to ship our products to customers, as well as receive shipments from our suppliers. Also, similar difficulties for other suppliers may force our customers to halt production which may in turn impact our sales shipments to such customers. It is impossible for us to predict if and when disruptions of air transport will occur again and, if so, what impact such disruptions will have. While we are taking precautions and will seek to mitigate the impact of any such disruptions, they could very severely impact our operations and/or those of our customers and force us to halt production for prolonged periods of time and/or to absorb very significant costs to avoid disruption of our customers operations.

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

Stock repurchase program

During the third quarter of 2010, Autoliv made no stock repurchases. Since the repurchasing program was adopted in 2000, Autoliv has bought back 34.3 million shares at an average cost of $42.93 per share. Under the existing authorizations, another 3.2 million shares may be repurchased. We have suspended our share repurchases since we believe it is prudent to preserve cash in order to maintain a strong cash position in the current uncertain financial and business environment as well as to possibly take advantage of potential market opportunities.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. [REMOVED AND RESERVED]

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

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ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Autoliv s Restated Certificate of Incorporation incorporated herein by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q, filed on May 14, 1997.
3.2	Autoliv s Restated By-Laws incorporated herein by reference to Exhibit 3.2 to the Quarterly Report on form 10-Q, filed on May 14, 1997.
4.1	Senior Indenture, dated March 30, 2009, between Autoliv and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 to Autoliv s Registration Statement on Form 8-A (File No. 001-12933, filing date March 30, 2009).
4.2	First Supplemental Indenture, dated March 30, 2009, between Autoliv and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.2 to Autoliv s Registration Statement on Form 8-A (File No. 001-12933).
4.3	Purchase Contract and Pledge Agreement, dated March 30, 2009, among Autoliv and U.S. Bank National Association, as Stock Purchase Contract Agent, and U.S. Bank National Association, as Collateral Agent, Custodial Agent and Securities Intermediary, incorporated herein by reference to Exhibit 4.3 to Autoliv s Registration Statement on Form 8-A (File No. 001-12933).
10.21	Facility Agreement, dated June 22, 2010, between Autoliv AB, a wholly owned Swedish subsidiary of Autoliv, Inc., and Nordea.
10.22	Facility Agreement, dated June 22, 2010, between Autoliv AB, a wholly owned Swedish subsidiary of Autoliv, Inc., and Swedish Export Credit Corporation and SEB.
31.1*	Certification of the Chief Executive Officer of Autoliv, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of the Chief Financial Officer of Autoliv, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1*	Certification of the Chief Executive Officer of Autoliv, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer of Autoliv, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information from the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2010, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Statements of Operations; (ii) the Consolidated Balance Sheets; (iii) the Consolidated Statements of Cash Flows; and (iv) the Notes to the Consolidated Financial Statements, tagged as blocks of text.

* Filed herewith.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: October 26, 2010

AUTOLIV, INC.

(Registrant)

By: /s/ MATS WALLIN

Mats Wallin

Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)