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Autoliv Inc.

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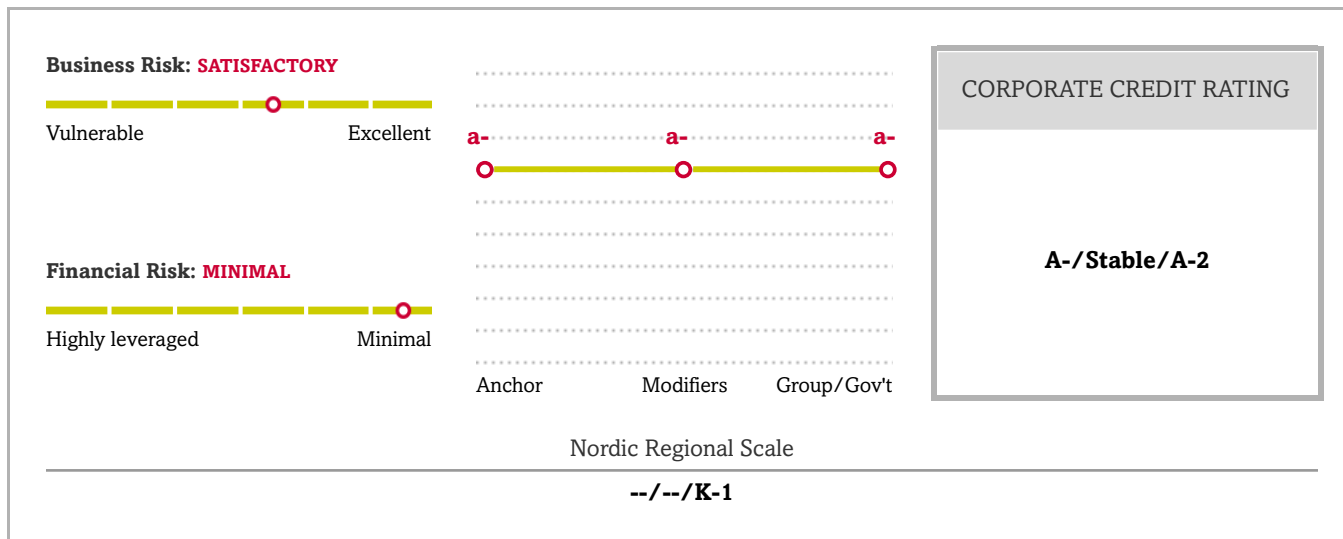
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Autoliv Inc.



Rationale

Business Risk: Satisfactory	Financial Risk: Minimal
<ul style="list-style-type: none"> • Leading global position in automotive passenger safety systems. • Good sales diversity across all major original equipment manufacturers (OEMs) and major geographic markets. • Diverse and cost-focused production footprint. • Exposure to the cyclical and competitive light vehicle component market. • Limited product diversity and no meaningful presence in aftermarket. • History of volatile profitability metrics during the financial crisis because of restructuring charges. 	<ul style="list-style-type: none"> • Strong liquidity. • Solid track record of cash generation. • Substantial shareholder remuneration, albeit compatible with the rating. • Risk of cash outflows coming from legal investigations.

Outlook: Stable

The stable outlook on Autoliv reflects Standard & Poor's Ratings Services' view that the company will post annual revenue growth of about 5% over the next two years and maintain stable profitability metrics, excluding the payment of possible fines caused by remaining legal proceedings. The outlook also factors in our opinion that shareholder remuneration, potential acquisitions, and the payment of any legal fine will not prevent the company from maintaining credit metrics commensurate with the rating over the cycle, namely a funds from operations (FFO)-to-debt ratio of more than 60% and a debt-to-EBITDA ratio of less than 1.5x.

Upside scenario

We currently see limited headroom for an upgrade. We would consider raising the rating if Autoliv achieved a track record of significantly stronger profitability metrics.

Downside scenario

A combination of adverse market conditions, legal penalties beyond \$500 million, very generous dividend payouts, or extremely high share buybacks might weaken the company's credit measures to a level that we see as no longer commensurate with the rating, leading to a negative rating action. In that case, we would revise the financial profile to "modest" from "minimal."

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none"> • Real global GDP growth of about 1.0% in 2014 and 1.5% in 2015 in Europe; 2.2% in 2014 and 3.0% in 2015 in the U.S.; and 7.4% in 2014 and 7.1% in 2015 in China. • An increase in global car sales of 1.1% in 2014 and 4.2% in 2015, of which 4.2% and 4.4% for Western Europe; 3.9% and 2.0% for the U.S.; and 9.3% and 7.9% for the China. • An annual increase in revenue growth of about 5% in the next two years, with Asia growing more quickly than Europe and Latin America. • A stable adjusted EBITDA margin, excluding the negative impact of litigation costs. • About \$400 million of capital expenditure (capex) per year. • Some bolt-on acquisitions and share buybacks that we assume will remain commensurate with the rating. • A \$500 million one-off cash payout in 2015 (potential antitrust fine). 		2013A	2014E	2015E
	Adjusted EBITDA margin (%)	12.6	11-12	7-12
	Debt/EBITDA(x)	0.1	0.4-0.8	0.4-1.7
	FFO/debt (%)	779.1	100-150	50-150
	FOCF/debt (%)	447.8	50-100	0-100
<p>*Fully Standard & Poor's-adjusted. A--Actual. E--Estimate. FOCF--Free operating cash flow. FFO--Funds from operations.</p>				

Company Description

Incorporated in the U.S., but headquartered in Stockholm, Autoliv Inc. is the world's largest supplier of automotive occupant restraint systems. The company develops, markets, and manufactures integrated safety systems, including airbags, seat belts, safety electronics, steering wheels, and seat components. Autoliv is also one of the early leaders in the relatively small, but rapidly expanding active safety systems segment, based on radar, vision, and infrared technologies.

Business Risk: Satisfactory

Strong market shares in automotive safety, along with good geographic and customer diversity, support Autoliv's business profile. It is the leader in passive safety, with a market share of about 37%. It is also number two in the fast growing active safety market, behind Continental. Additionally, the company is one of the most geographically diversified auto suppliers in EMEA, with about two thirds of its revenues generated outside Europe. Finally, it enjoys a relatively wide customer base: Its top-three customers accounted for only 37% of its sales in 2013.

These strengths are partly offset by the company's relatively small size, its limited product diversity, and its historically volatile EBITDA margin during the financial crisis. The company is smaller than many lower-rated auto suppliers, such as Continental, Michelin, or Valeo. It is also a pure player in safety solutions, while many of its peers operate in several

segments. In addition, Autoliv's earnings have been volatile during the financial crisis--its adjusted EBITDA declined by 39% in 2009, partly due to restructuring charges. However, the company has since increased the flexibility of its cost structure and moved part of its factories to low cost countries in emerging markets.

S&P Base-Case Operating Scenario

- Real global GDP growth of about 1.0% in 2014 and 1.5% in 2015 in Europe; 2.2% in 2014 and 3.0% in 2015 in the U.S.; and 7.4% in 2014 and 7.1% in 2015 in China.
- An increase in global car sales of 1.1% in 2014 and 4.2% in 2015, of which 4.2% and 4.4% for Western Europe; 3.9% and 2.0% for the U.S.; and 9.3% and 7.9% for China.
- Adjusted EBITDA growth of about 5% annually in the next two years, excluding the impact of possible litigation costs.

Peer comparison

Table 1

Autoliv Inc. -- Peer Comparison

Industry Sector: Automotive - Parts Producers & Suppliers

	Autoliv Inc.	Knorr-Bremse AG	Continental AG	Schaeffler AG	Valeo S.A.
Rating on Oct. 31, 2014	A-/Stable/A-2	A-/Stable/--	BBB/Stable/A-2	BB-/Stable/--	BBB/Stable/A-2
(Mil. \$)	--Fiscal year ended Dec. 31, 2013--				
Revenues	8,803	5,930	45,933	15,442	16,689
EBITDA	1,109	975	7,374	3,112	1,446
Funds from operations (FFO)	847	719	5,646	1,494	1,032
Net income from cont. oper.	486	436	2,650	1,322	605
Cash flow from operations	872	710	5,178	1,774	1,343
Capital expenditures	386	220	2,733	788	860
Free operating cash flow	487	491	2,446	985	483
Discretionary cash flow	293	226	1,739	985	305
Debt	109	0	11,189	14,366	2,131
Equity	4,000	1,525	12,662	2,137	3,491
Adjusted ratios					
EBITDA margin (%)	12.6	16.5	16.1	20.2	8.7
Return on capital (%)	19.5	54.6	19.4	20.5	15.9
EBITDA interest coverage (x)	21.5	47.1	8.9	2.6	7.4
FFO cash int. cov. (X)	27.2	108.6	8.3	2.8	8.0
Debt/EBITDA (x)	0.1	0.0	1.5	4.6	1.5
FFO/debt (%)	779.1	N.M.	50.5	10.4	48.5
Cash flow from operations/debt (%)	802.4	N.M.	46.3	12.4	63.1
Free operating cash flow/debt (%)	447.8	N.M.	21.9	6.9	22.7
Discretionary cash flow/debt (%)	269.1	N.M.	15.6	6.9	14.4

N.M.--Not meaningful.

Financial Risk: Minimal

Autoliv enjoys very strong credit ratios. The company generates healthy free operating cash flows and is often cash rich. However, it intends to return to a net debt position and targets a leverage ratio (reported net debt to EBITDA adjusted for pensions) of about 1x, with a possible deviation of about 0.5x above or below this target. While we believe that a leverage ratio close to 1.5x could weaken the rating, we think that the company has currently enough flexibility to accommodate share buybacks and possible targeted acquisitions, since its leverage ratio was close to zero on Sept. 30, 2014.

S&P Base-Case Cash Flow And Capital Structure Scenario

- We assume that Autoliv's shareholder remuneration and possible bolt-on acquisitions will remain commensurate with the rating.
- Capex-to-revenue ratio of about 4.5%, in line with historical trends.
- A \$500 million one-off cash payout in 2015 (potential antitrust fine).

Financial summary

Table 2

Autoliv Inc. -- Financial Summary

Industry Sector: Automotive - Parts Producers & Suppliers

(Mil. \$)	--Fiscal year ended 31--				
	2013	2012	2011	2010	2009
Revenues	8,803	8,267	8,232	7,167	5,121
EBITDA	1,109	1,034	1,209	1,188	428
Funds from operations (FFO)	847	767	954	949	312
Net income from continuing operations	486	483	623	591	10
Cash flow from operations	872	693	780	965	563
Capital expenditures	386	365	367	236	140
Free operating cash flow	487	328	413	729	423
Discretionary cash flow	293	149	242	653	389
Debt	109	275	316	446	892
Equity	4,000	3,776	3,456	3,039	2,582
Adjusted ratios					
EBITDA margin (%)	12.6	12.5	14.7	16.6	8.4
Return on capital (%)	19.5	18.9	25.4	25.6	2.8
EBITDA interest coverage (x)	21.5	17.1	19.4	22.7	6.4
FFO cash int. cov. (x)	27.2	20.7	14.9	15.9	5.1
Debt/EBITDA (x)	0.1	0.3	0.3	0.4	2.1
FFO/debt (%)	779.1	278.6	301.9	212.8	35.0
Cash flow from operations/debt (%)	802.4	251.9	246.9	216.4	63.1
Free operating cash flow/debt (%)	447.8	119.1	130.7	163.4	47.5
Discretionary cash flow/debt (%)	269.1	54.3	76.6	146.4	43.7

Liquidity: Strong

We assess Autoliv's liquidity as "strong," based on our criteria. We estimate the ratio of sources to uses at more than 1.5x in 2014 and 2015.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> • \$1.4 billion of cash and cash equivalents on Sept. 30, 2014, after applying a haircut of 25%. • \$1.1 billion of undrawn credit facilities, most of which matures in 2016 and 2018. • About \$0.7 billion of reported FFO. 	<ul style="list-style-type: none"> • \$156 million of short-term debt. • About \$400 million of capex. • About \$200 million of dividends.

Debt maturities

- September 2015: \$0.2 billion
- Beyond: \$1.5 billion

Ratings Score Snapshot

Corporate Credit Rating

A-/Stable/A-2

Business risk: Satisfactory

- **Country risk:** Low
- **Industry risk:** Moderately high
- **Competitive position:** Satisfactory

Financial risk: Minimal

- **Cash flow/Leverage:** Minimal

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Reconciliation

Table 3

Reconciliation Of Autoliv Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. \$)

--Fiscal year ended Dec. 31, 2013--

Autoliv Inc. reported amounts

	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	EBITDA	Cash flow from operations	Dividends paid	Capital expenditures
Reported	619	3,981	8,803	1,047	761	33	1,047	838	194	386

Standard & Poor's adjustments

Interest expense (reported)	--	--	--	--	--	--	(33)	--	--	--
Interest income (reported)	--	--	--	--	--	--	4	--	--	--
Current tax expense (reported)	--	--	--	--	--	--	(209)	--	--	--
Trade receivables securitizations	100	--	--	--	--	2	(2)	(5)	--	--
Operating leases	97	--	--	36	7	7	29	29	--	--
Postretirement benefit obligations/deferred compensation	132	--	--	18	18	10	2	11	--	--
Surplus cash	(839)	--	--	--	--	--	--	--	--	--
Share-based compensation expense	--	--	--	8	--	--	8	--	--	--
Non-operating income (expense)	--	--	--	--	11	--	--	--	--	--
Non-controlling Interest/Minority interest	--	19	--	--	--	--	--	--	--	--
Total adjustments	(510)	19	0	62	36	19	(200)	35	0	0

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditures
Adjusted	109	4,000	8,803	1,109	797	52	847	872	194	386

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Key Credit Factors For The Auto Suppliers Industry, Nov. 19, 2013

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of October 31, 2014)

Autoliv Inc.

Corporate Credit Rating	A-/Stable/A-2
<i>Nordic Regional Scale</i>	--/--/K-1
Commercial Paper	
<i>Foreign Currency</i>	A-2
Senior Unsecured	A-

Corporate Credit Ratings History

09-Dec-2013	A-/Stable/A-2
26-Nov-2013	BBB+/Watch Pos/A-2
30-May-2013	BBB+/Positive/A-2
27-Jul-2010	BBB+/Stable/A-2
26-Nov-2009	BBB/Stable/A-2
29-Oct-2010 <i>Nordic Regional Scale</i>	--/--/K-1
26-Nov-2009	--/--/K-2
19-Feb-2009	--/--/K-3

Related Entities

Autoliv ASP Inc.

Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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