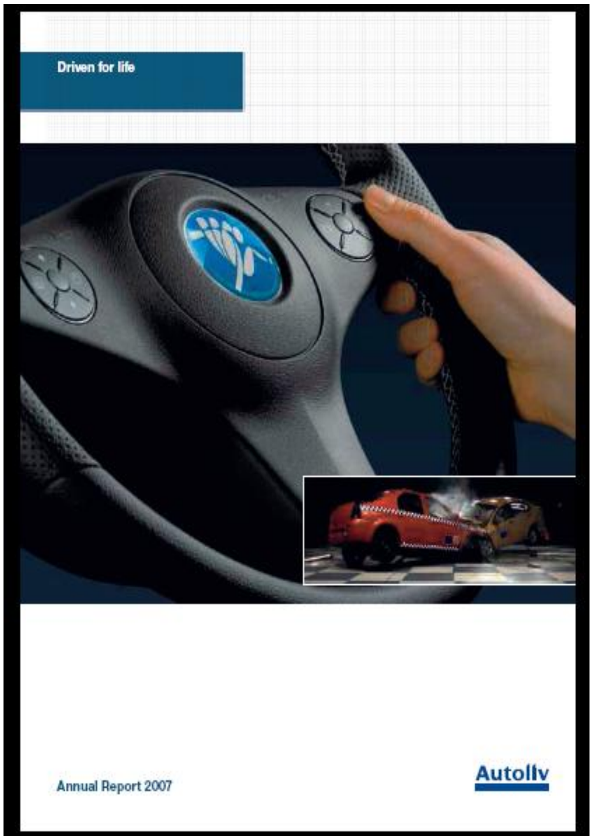
Report of the Month

ReportWatch e.com — **May 2008**

Autoliv

Stockholm, **Sweden** (+ Delaware, **U.S.A.**)



Report Facts

Company name: Autoliv Inc.

Fiscal year end: December 31, 2007

Report title: *Driven for life*

Chairman of the Board: Lars Westerberg

President and CEO: Jan Carlson

Number of books: 1

Report length: 66 pages + covers

Auditors: Ernst & Young AB

Design: N/A

E-mail: info@autoliv.com

Report Rating: ★★★★

(Rating scale below)

Profile-Mission (Excerpts, as from the report)

Autoliv's vision is to substantially reduce traffic accidents, fatalities and injuries Autoliv's sales have risen at an average rate of 7.6% per year (…) since 1997. Autoliv now accounts for more than one third of the global market for occupant restraints (i.e. airbags, seatbelts and related safety electronics).

(Annual Report p 6) (Italics are own company's words)

Key Figures

Sales: $ 6,769 million

Operating income: $ 502 million

Net income: $ 288 million

Earnings per share: $ 3.68

Dividend per share: $ 1.54

Return on equity: 12%

Return on capital employed: 15%

Debt to capital: 33%

(Source: figures sourced from the annual report)

Some Competitors

- **Delphi**
- **Denso**
- **Robert Bosch**
- **Visteon**
- **Valeo**
- **TRW Automotive**

Report Rating: ★★★★

Top gear

> Packs it economically -70 pages covers included put it among the shortest annuals. But never at the expense of quantity and quality of information.

> *A Quick Ride Through Autoliv* gives an immediate and diversified *Overview*: growth drivers, patents, customer mix, quality management, capital efficiency…

> Strong at the steering wheel: the new CEO sets his priority list, checks it out, and backs it up with no less than eleven charts (from move to low-cost countries to cash flows to shareholder returns).

> No so many reports disclose the percentage and name of major customers.

> Special chapter about *Value-Creating Cash Flow* including five targets and their achievement (see selected page).

Good drive

> An issue- and theme-driven book: *Global Presence*, *Value Systems Solutions*, *Service and Commitment*, *System Capabilities*, *Quality Excellence*: all going to the point in a plainly written style, under a title that sums up the mission: *Driven for life*.

> *Risks and Risk Management* fairly addresses most encountered factors, as well as specific problems faced on the road, such as *Light Vehicle Production*, *Component Costs*, *Dependence on Customers* and *Suppliers*, debt.

> *Selected Financial Data* include major key ratios, yet could be extended.

Reversing

> Sometimes tend to emulate U.S. bad (report) driving habits: successive year-on-year comparisons, balance sheet over two years, non-GAAP conformity text, critical accounting policies separated from the "main" ones, segments almost pushed into the trunk (note 19)…

> Governance matters much underdeveloped. Board portraits look like ID pictures left too long on the back seat.

> Design and layout are plainly functional.

Responsible driving?

> The safety issue -and solutions provided by the company- pervades the book and is not insulated, thanks to examples, facts, figures, charts. Still, clearer targets and a more formal "progress report" would do it further.

Rating Scale

★★★★★: First-rate ★★★★(★): Excellent ★★★★: Very good ★★★(★): Sound ★★★: Average
★★(★): Uneven ★★: Common ★(★): Substandard ★: Poor (★): Uncompetitive
The rating is based on ReportWatch internal desk research and does not take into account the independent Rating Panel's judgment. It may therefore differ from ratings (to be) published in the ***Annual Report on Annual Reports***.

Selected Page **(p 24 of Autoliv *Annual Report 2007*)**

Value-Creating Cash Flow

By creating customer satisfaction, maintaining tight cost control, developing new products and having dedicated and motivated employees (as described on page 14–23) we generate cash flow that can be used for creating shareholder value.

Cash Flow Generating Capability and Capital Efficiency

Autoliv's growing business and capital efficiency gives the Company the potential to continue to generate strong cash flow.

From 2003, it has been possible to grow sales by 38% and operating income by 55% (on a comparable basis), and still only increase capital employed by 11% (see graph). This improvement in capital efficiency reflects a number of initiatives, such as plant consolidations, outsourcing, simplification of manufacturing processes by product redesign and moving to low-cost countries where less capital-intensive manufacturing processes can be utilized. Furthermore, growth in sales and profits has been achieved without any major acquisitions. As a result, goodwill and other intangibles, net now correspond to 28% of sales compared to 33% in 2003.

At the end of 2007, operating working capital at 8.1% of sales was well in line with our target of not more than 10%. We expect to meet this target also for the next few years, although it may fluctuate between quarters.

Our Cash Flow Model

Since our market is expected to grow at a rate of at least 4% per year through 2010 (based on external forecasts of vehicle production), it should be possible to continue to grow business organically i.e. even without major acquisitions. As a result and given the cost containment programs we have introduced, we should be able to grow earnings faster than capital employed and thereby continue to generate a strong cash flow.

When analyzing how to best use our operating cash flow (of $741 million in 2007), the Autoliv Board uses the model depicted below to create shareholder value.

The model takes all important variables into account such as the cost of marginal borrowing, the return on marginal investments and the price of the Autoliv share.

Investing in Operations

To create long-term value for shareholders, cash flow from operations should only be used to finance investments in operations to the point when the return on investments still exceeds the cost of capital. Autoliv's returns on capital employed have for a number of years met or exceeded 15% and therefore the Company's cost of capital.

In 2007, we therefore reinvested a net of $435 million in our business, including acquisitions. Of this amount, capital expenditures, net were $314 million, or 4.6% of sales.

During the next few years, we believe that capital expenditures will remain at this 5% level and continue to be in line with depreciation (including amortization). The need for additional manufacturing capacity could, however, increase following the recently issued, tougher regulations on side-impact protection in the United States.

Acquisitions

Autoliv also invests in operations through acquisitions. In 2007, the Company paid $121 million for shares in companies.

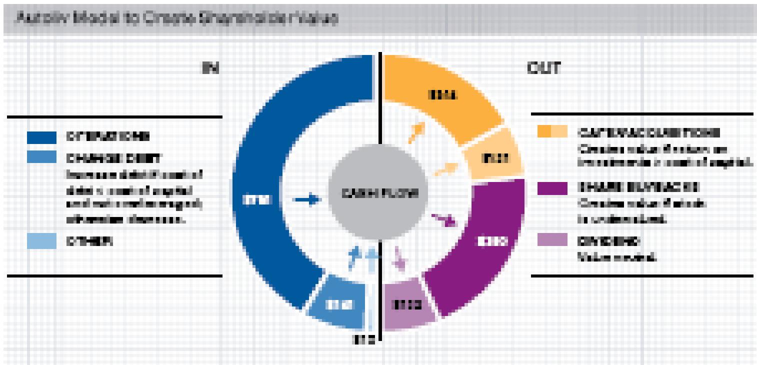
In recent years, our focus has been on acquisitions in Asia to take full advantage of the rapid growth in these emerging markets. During 2007, Autoliv therefore acquired the remaining shares of its joint ventures in Korea (Autoliv-Mando), India (Autoliv IFB Private Limited) and in Changchun in Northern China.

Targets and Achievements

	Long-term target	Performance in 2007	Target achieved?
Organic sales	Better than market	4.0%[1]	–
Operating working capital	<10% of sales	8.1%	✓
Leverage ratio[2]	<3 times	1.8	✓
Interest coverage[2]	>2.75 times	8.8	✓
Operating cash flow	>$600 million/yr	$741 million	✓

[1] Compared to 6% growth for our market. [2] For definitions, see page 88.

Autoliv Model to Create Shareholder Value



Capital Efficiency