

AUTOLIV INC
Form 424B5
March 24, 2009
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The information in this preliminary prospectus supplement is not complete and may be changed. The registration statement filed with the Securities and Exchange Commission relating to these securities is effective. Neither the preliminary prospectus supplement nor the accompanying prospectus is an offer to sell these securities and neither is soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed pursuant to Rule 424(b)(5)

Registration Statement No. 333-158139

SUBJECT TO COMPLETION, DATED MARCH 24, 2009

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus dated March 23, 2009)

Shares

Common Stock

We are offering _____ shares of our common stock. Our common stock is traded on the New York Stock Exchange under the symbol ALV. A portion of our common stock may be delivered to a depository, which will then issue Swedish Depository Receipts, or SDRs, representing our common stock, with each SDR representing one share of our common stock. The SDRs trade on NASDAQ OMX Stockholm under the ticker symbol ALIV SDB. On March 23, 2009, the last sale price of our common stock as reported on the New York Stock Exchange was \$18.22 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page S-10 of this prospectus supplement before you make your investment decision.

	Per Share	Total
Price to public	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to Autoliv, Inc.	\$	\$

We have granted the underwriter a 30-day option to purchase up to _____ additional shares of common stock at the public offering price, less the underwriting discount, to cover over-allotments, if any.

In addition to the common stock offered by this prospectus supplement, we are concurrently offering, by means of a separate prospectus supplement, _____ equity units.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the

contrary is a criminal offense.

The underwriter expects to deliver the shares to purchasers on or before _____, 2009.

Morgan Stanley

The date of this prospectus supplement is _____, 2009.

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Notices to Investors

Notice to Investors in Sweden

This document is not a prospectus for the purposes of the Swedish Financial Instruments Trading Act (*Sw. lag (1991:980) om handel med finansiella instrument*) and does not constitute an offering of securities to the public in Sweden. Accordingly, this document has not been approved by the Swedish Financial Supervisory Authority and may not be published or otherwise distributed, in whole or in part, in Sweden.

This document has been prepared on the basis that all offers of securities within Sweden will be made pursuant to an exemption under the Swedish Financial Instruments Trading Act from the requirement to prepare and register a prospectus for offers of securities.

Accordingly, this document may not be made available, nor may the offering otherwise be marketed in Sweden, other than in circumstances which are deemed not to be an offer for which a prospectus is required to be prepared and registered pursuant to the Swedish Financial Instruments Trading Act.

Notice to Investors in the European Economic Area

This prospectus supplement has been prepared on the basis that all offers of shares in the Company's common stock sold in this offering, will be made pursuant to an exemption under the Prospectus Directive, as implemented in the member states of the European Economic Area (**EEA**) from the requirement to produce a prospectus for offers of shares in the Company's common stock. Accordingly, any person making or intending to make any offer within the EEA of shares in the Company's common stock should only do so in circumstances in which no obligation arises for the Company or the underwriter to produce a prospectus for such offer. Neither the Company nor the underwriter have authorized, nor do they authorize, the making of any offer of shares in the Company's common stock through any financial intermediary, other than offers made by the underwriter that constitute the final placement of shares in the Company's common stock contemplated in this prospectus supplement.

In relation to each EEA member state which has implemented the Prospectus Directive (each, a **Relevant Member State**), an offer to the public of any shares in the Company's common stock may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any of the shares in the Company's common stock may be made at any time under the following exemptions from the Prospectus Directive, if they have been implemented in that Relevant Member State:

1. to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
2. to any legal entity which has two or more of (A) an average of at least 250 employees during the last financial year; (B) a total balance sheet of more than EUR 43 million; and (C) an annual net turnover of more than EUR 50 million, as shown in its last annual or consolidated accounts;
3. to fewer than 100 natural or legal persons (other than qualified investors within the meaning of the Prospectus Directive) subject to obtaining the prior consent of the underwriter for any such offer; or
4. in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares in the Company's common stock shall result in a requirement for the publication by the Company or the underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes hereof, the expression an **offer to the public** in relation to any of the securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the common stock to be offered so as to enable an investor to decide to purchase any of the shares of common stock, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression **Prospectus Directive** includes any relevant implementing measure in each Relevant Member State.

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Notice to Investors in the United Kingdom

This communication is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The shares in the Company's common stock are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares in the Company's common stock will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any free writing prospectus prepared by us. We and the underwriter have not authorized anyone else to provide you with different or additional information. We are not, and the underwriter is not, making an offer of these shares in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained or incorporated by reference in this prospectus supplement or in the accompanying prospectus is accurate as of any date other than the date on the front of that document.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the U.S. Securities and Exchange Commission, or the SEC, using a shelf registration process. Under the shelf registration process, we may offer from time to time shares of common stock, shares of preferred stock, debt securities, depository shares (which may include Swedish Depository Receipts representing shares of common stock), warrants, stock purchase contracts, units or any combination of the foregoing securities of which this offering is a part. In the accompanying prospectus, we provide you with a general description of the securities we may offer from time to time under our shelf registration statement. In this prospectus supplement, we provide you with specific information about the shares of our common stock (including shares represented by Swedish Depository Receipts) that we are selling in this offering. Both this prospectus supplement and the accompanying prospectus include important information about us, our common stock (including shares represented by Swedish Depository Receipts) and other information you should know before investing. This prospectus supplement also adds, updates and changes information contained in the accompanying prospectus. You should read both this prospectus supplement and the accompanying prospectus as well as additional information described under **Incorporation of Certain Information by Reference** before investing in our common stock.

Unless the context indicates otherwise, the terms **we**, **our**, **ours**, **us** and **the Company** in this prospectus supplement refer to Autoliv, Inc. and consolidated subsidiaries, except that in the discussion of the capital stock and related matters, these terms refer solely to Autoliv, Inc. and not to any of our subsidiaries.

AVAILABLE INFORMATION

We are required to file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any documents filed by us at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings with the SEC are also available to the public through the SEC's Internet site at <http://www.sec.gov> and through the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which our common stock is listed.

We have filed with the SEC a registration statement on Form S-3 relating to the securities covered by this prospectus and any prospectus supplement. This prospectus is a part of the registration statement and does not contain all the information in the registration statement. Whenever a reference is made in this prospectus or any prospectus supplement to a contract or other document, the reference is only a summary and you should refer to the exhibits that are a part of the registration statement for a copy of the contract or other document. You may review a copy of the registration statement at the SEC's public reference room in Washington, D.C., as well as through the SEC's Internet site.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC's rules allow us to incorporate by reference information into this prospectus supplement. This means that we can disclose important information to you by referring you to another document. Any information referred to in this way is considered part of this prospectus supplement from the date we file that document. Any reports filed by us with the SEC after the date of this prospectus supplement will automatically update and, where applicable, supersede any information contained in this prospectus supplement or incorporated by reference in this prospectus supplement.

We incorporate by reference into this prospectus supplement the following documents or information filed with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules):

our Annual Report on Form 10-K for the fiscal year ended December 31, 2008;

our Current Reports on Form 8-K filed with the SEC on February 2, 2009 and February 20, 2009;

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our Proxy Statement on Schedule 14A filed with the SEC on March 23, 2009;

the description of our common stock contained in our Registration Statement on Form S-4 filed on March 24, 1997; and

all documents filed by us under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, on or after the date of this prospectus and before the termination of the applicable offering (except for information furnished to the SEC that is not deemed to be filed for purposes of the Exchange Act).

We will provide without charge to each person, including any beneficial owner, to whom this prospectus supplement is delivered, upon his or her written or oral request, a copy of any or all of the information that has been incorporated by reference into this prospectus supplement, excluding exhibits to those documents, unless they are specifically incorporated by reference into those documents. These documents are available on our website at <http://www.autoliv.com>. You can also request those documents from our Vice President of Corporate Communications at the following address:

World Trade Center,

Klarabergsviadukten 70, SE-111 64

Stockholm, Sweden

+46 8 58 72 06 00

FORWARD LOOKING STATEMENTS

We have included or incorporated by reference herein forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements, other than statements of historical facts, included or incorporated herein regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as anticipates, believes, estimates, expects, intends, may, plans, projects, will, would, and similar expressions of the negative of these terms. Such statements are only predictions and, accordingly, are subject to substantial risks, uncertainties and assumptions.

All such forward-looking statements, including without limitation, management's examination of historical operating trends and data, are based upon our then-current expectations and various assumptions, data available from third parties and apply only as of the date of this prospectus supplement or as of the date of the document incorporated by reference. Our expectations and beliefs are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that such forward-looking statements will materialize or prove to be correct as these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control.

Because these forward-looking statements involve risks and uncertainties, the outcome could differ materially from those set out in the forward-looking statements for a variety of reasons, including without limitation, changes in and the successful execution of our restructuring efforts (our action program discussed in our Annual Report on Form 10-K for the year ended December 31, 2008) and the market reaction thereto, changes in general industry and market conditions, increased competition, higher raw material, fuel and energy costs, changes in consumer preferences for end products, customer losses and changes in regulatory conditions, customers' deteriorating financial condition, bankruptcies, consolidations or restructuring, divestiture of customer brands, the economic outlook for our markets, fluctuation of foreign currencies, fluctuation in vehicle production schedules for which we are a supplier, market acceptance of our new products, continued uncertainty in program awards and performance, the financial results of companies in which we have made technology

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investments, pricing negotiations with customers, increased costs, supply issues, product liability, warranty and recall claims and other litigation, possible adverse results of pending or future litigation or infringement claims, tax assessments by governmental authorities, legislative or regulatory changes, political conditions, dependence on customers and suppliers, as well the risks identified in Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, which is incorporated by reference.

Except for our ongoing obligation to disclose information under the U.S. federal securities laws, we undertake no obligation to update publicly or revise any forward-looking statements whether as a result of new information or future events. For any forward-looking statements contained in this or any other document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and we assume no obligation to update any such statements.

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PROSPECTUS SUPPLEMENT SUMMARY

This prospectus supplement summary contains basic information about us and this offering. Because it is a summary, it does not contain all the information that you should consider before investing. To understand this offering fully, you should carefully read this entire prospectus supplement, including the Risk Factors section, the accompanying prospectus and the information incorporated by reference in them, including our Consolidated Financial Statements and the accompanying Notes included in our Annual Report on Form 10-K for the year ended December 31, 2008. Unless otherwise indicated, all share information in this prospectus supplement assumes no exercise of the underwriter's over-allotment option.

Our Company

We are the world's leading supplier of automotive safety systems, with a broad range of product offerings, including modules and components for passenger and driver-side airbags, side-impact airbag protection systems, seatbelts, steering wheels, safety electronics, whiplash protection systems and child seats, as well as night vision systems, radar and other active safety systems. We have production facilities in 29 countries and include the world's largest car manufacturers among our customers. Autoliv's sales in 2008 were \$6.5 billion, approximately 64% of which consisted of airbags and associated products and approximately 36% of which consisted of seatbelts and associated products. Our most important markets are in Europe, United States, Japan and Asia-Pacific.

Our subsidiary Autoliv AB (AAB) is a leading developer, manufacturer and supplier to the automotive industry of automotive safety systems. Starting with seatbelts in 1956, AAB expanded its product lines to include seatbelt pretensioners (1989), frontal airbags (1991), side-impact airbags (1994), steering wheels (1995) and seat sub-systems (1996).

Our subsidiary Autoliv ASP, Inc. (ASP) 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 modules, inflators, airbag cushions, seatbelts, and steering wheels. ASP sells inflators and modules for use in driver, passenger, side-impact, and knee bolster airbag systems for worldwide automotive markets.

Autoliv was created from the merger of AAB and ASP's predecessor, the automotive safety products business of Morton International, Inc. in 1997. Autoliv is a Delaware corporation with its principal executive offices in Stockholm, Sweden and functions as a holding company for AAB and ASP, our principal subsidiaries.

Shares of Autoliv common stock are traded on the New York Stock Exchange under the symbol ALV and Swedish Depository Receipts representing shares of Autoliv common stock trade on NASDAQ OMX Stockholm under the symbol ALIV SDB. Options in Autoliv shares are listed on the Chicago Board Options Exchange under the symbol ALIV. Our fiscal year ends on December 31.

Our head office is located at World Trade Center, Klarabergsviadukten 70, Box 70381, SE-107 24 Stockholm, Sweden. The telephone number there is +46 8 58 72 06 00. We had approximately 34,000 employees at December 31, 2008, and a total headcount, including temporary employees, of 37,300. Our website is www.autoliv.com. Information on our website is not incorporated herein by reference and is not a part of this prospectus supplement.

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Recent Developments

Although global light vehicle production increased in the period from 2005-2008, as a result of the credit crunch, this trend suddenly changed during the middle of 2008 and since the beginning of 2009, global light vehicle production has continued to decrease significantly. In order to adapt, we accelerated the pace of our rationalization efforts significantly and have reduced headcount by 3,000 during the first two months this year, resulting in a headcount reduction of 20% or almost 9,000 since June 2008. Of the reductions this year, 2,600 were permanent employees and 400 temporary personnel.

In our annual report on Form 10-K, we stated that we expected capital expenditures, net to decline from \$279 million in 2008 to a range of \$200-\$250 million in 2009. Since then capital expenditures have been adjusted to the lower vehicle production and the estimated annualized run rate is approximately \$160 million during the first quarter.

Upcoming capital market debt maturities during the remainder of 2009 amount to \$279 million compared to \$892 million in cash and in unutilized long-term credit facilities on February 28, 2009. There are no financial covenants (i.e. performance related restrictions) for these credit facilities. As planned, we drew an additional \$300 million in March from our revolving credit facility primarily for debt maturing in March and April.

At the end of February 2009, our accounts receivable in North America with General Motors and Chrysler were approximately \$20 million each.

The Offering

Common stock offered by us	shares
Common stock to be outstanding after the offering	shares
Net proceeds	The net proceeds from this offering, after deducting underwriter's discounts and estimated expenses of the offering, are expected to be approximately \$ million (or approximately if the underwriter's over-allotment option is exercised in full).
Use of proceeds	We plan to use the net proceeds from this offering for general corporate purposes. We may also use the net proceeds to finance possible acquisitions. See Use of Proceeds.
New York Stock Exchange Symbol	ALV
The number of shares of common stock that will be outstanding after this offering includes shares outstanding as of March 20, 2009. The number of shares of common stock offered and to be outstanding after this offering does not include:	

up to additional shares of common stock that the underwriter has a right to purchase from us upon exercise of the underwriter's option within 30 days of this prospectus supplement;

up to shares issuable upon settlement of the contracts underlying the equity units that we are concurrently offering under a separate prospectus supplement, assuming no exercise of the underwriter's option to purchase additional equity units;

as of December 31, 2008, approximately 1,448,236 shares issuable upon the exercise of outstanding stock options having a weighted average exercise price of \$45.05 per share, or the conversion of outstanding restricted stock units; and

as of March 9, 2009, 333,350 additional shares available for issuance under our stock incentive plans.

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A portion of our common stock may be delivered to a depository, which will then issue Swedish Depository Receipts, or SDRs, representing our common stock, with each SDR representing one share of our common stock.

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In addition to the common stock offered by this prospectus supplement, we are concurrently offering, by means of a separate prospectus supplement, equity units for an aggregate offering price of \$ million, plus up to an additional equity units for an aggregate offering price of \$ million, if the underwriter for that offering exercises its option to purchase additional equity units. The completion of this offering of common stock is subject to the completion of the equity units offering.

Risk Factors

Before investing, you should carefully consider the matters set forth under Risk Factors beginning on page S-10 of this prospectus supplement for a discussion of risks related to an investment in our common stock.

Summary Consolidated Financial Data

The following table sets forth summary historical consolidated financial data and other information at and for the periods indicated. You should read this data in conjunction with our Consolidated Financial Statements and Notes thereto incorporated by reference into this prospectus supplement and the accompanying prospectus from our Annual Report on Form 10-K for the year ended December 31, 2008. See Management's Discussion and Analysis on page S-27 in this prospectus supplement and Where You Can Find Additional Information and Incorporation of Certain Information by Reference on pages 3 and 13 of the accompanying prospectus. The financial information presented in the table below is not necessarily indicative of the financial condition or results of operations of any other period.

(Dollars in millions, except as indicated)	2008⁽¹⁾	2007^(1,2)	2006^(1,3)
Net sales	\$ 6,473	\$ 6,769	\$ 6,188
Operating income	306	502	520
Income before taxes	249	446	481
Net income	165	288	402
Earnings per share in \$(⁴)	2.28	3.68	4.88
Operating margin (%)	4.7	7.4	8.4
Cash flow from operations	614	781	560
Return on shareholders' equity (%)	7.1	12.0	17.1
Dividends paid	115	121	112
Share repurchases	\$ 174	\$ 380	\$ 221

- (1) In 2008, 2007 and 2006, severance and restructuring costs reduced operating income by \$80, \$24 and \$13 million and net income by \$55, \$16 and \$9 million. This corresponds to 1.2%, 0.4% and 0.2% on operating margins and 0.8%, 0.2% and 0.1% on net margins. The impact on earnings per share was \$0.76, \$0.21 and \$0.11, while return on equity was reduced by 2.3%, 0.6% and 0.4% for the same three-year period (see Note 10 to the Consolidated Financial Statements).
- (2) In 2007, a court ruling reduced operating income by \$30 million, net income by \$20 million, operating margin by 0.5%, net margin by 0.3%, earnings per share by \$0.26 and return on equity by 0.8% (see page S-31 in this prospectus supplement).
- (3) In 2006 a release of tax reserves and other discrete tax items boosted net income by \$95 million, net margin by 1.5%, earnings per share by \$1.15 and return on equity by 3.9% (see page S-31 in this prospectus supplement).
- (4) Assuming dilution.

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RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. You should also refer to the other information in this prospectus supplement and the accompanying prospectus, including our financial statements and the related notes incorporated by reference in them. The risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could suffer. In that event, the trading price of our common stock could decline, and you may lose all or part of your investment in our common stock. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

Risks Related to Our Industry

The cyclical nature of automotive sales and production can adversely affect our business

Our business is directly related to automotive sales and automotive vehicle production by our customers. Automotive sales and production are highly cyclical and depend on general economic conditions as well as other factors, including consumer spending and preferences and changes in interest rate levels and credit availability, consumer confidence and fuel costs. In addition, automotive sales and production can be affected by our customers' labor relations issues, regulatory requirements, trade agreements and other factors. Any significant (adverse) change in any of these factors, including general economic conditions, may result in a reduction in automotive sales and production by our customers, and thus have a material adverse effect on our business, results of operations and financial condition.

Our sales are also affected by inventory levels and our customers' production levels. We cannot predict when our customers will decide to either increase or reduce inventory levels or whether new inventory levels will approximate historical inventory levels. This may result in variability in our sales and financial condition. Uncertainty regarding inventory levels may be exacerbated by consumer financing programs initiated or terminated by our customers or governments as such changes may affect the timing of their sales.

Again, any significant reduction in automotive sales and/or production by our customers, whether due to general economic conditions or any other fact(s) relevant to automotive production, will likely have a material adverse effect on our business, results of operations and financial condition.

Change in consumer trends and political decisions affecting vehicle sales could adversely affect our results in the future

While global light vehicle production increased between 2005 and 2008, global production of premium cars and light vehicles declined. This mix shift had a negative impact on our market as the value of safety systems in premium vehicles is often more than twice as high as in an average vehicle for the markets in North America and Western Europe. In vehicles for the emerging markets the difference is even more significant. Car consumer trends such as this could accelerate in the future, especially as a result of political initiatives aimed at (or having the effect of) directing demand more towards smaller cars. Should the current trends continue, the average value of safety systems per vehicle could decline and negatively affect our sales and margins.

The discontinuation of, the loss of business with respect to, or a lack of commercial success of, a particular vehicle model for which we are a significant supplier could reduce our sales and harm our profitability

Although we have frame contracts with many of our customers, these frame contracts generally provide for the supply of a customer's annual requirements for a particular model and assembly plant, renewable on a year-to-year basis, rather than for the purchase of a specific quantity of products. Therefore, the discontinuation

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of, the loss of business with respect to, or a lack of commercial success of a particular vehicle model for which we are a significant supplier could reduce our sales and harm our profitability. While we believe this risk is mitigated by the fact that our sales are split over several hundred contracts covering at least as many vehicle platforms or vehicle models, a significant disruption in the industry, a significant decline in overall demand, or a dramatic change in vehicle preferences, could have a material adverse effect on our sales.

We operate in highly competitive markets

The markets in which we operate are highly competitive. We compete with a number of other manufacturers that produce and sell similar products. Our products primarily compete on the basis of price, manufacturing and distribution capability, product design, product quality, product delivery and product service. Some of our competitors are subsidiaries (or divisions, units or similar) of companies that are larger and have greater financial and other resources than we do. Some of our competitors may also have a preferred status as a result of special relationships with certain customers. Our products may not be able to compete successfully with the products of our competitors. In addition, our competitors may foresee the course of market development more accurately than we do, develop products that are superior to our products, have the ability to produce similar products at a lower cost than we can, or adapt more quickly than we do to new technologies or evolving regulatory, industry or customer requirements. We may also encounter increased competition in the future from existing competitors or new competitors. As a result, our products may not be able to compete successfully with their products. Should this happen, we will suffer material adverse effects on our business, results of operations and financial condition.

Risks Related to Our Business

Escalating pricing pressures from our customers may adversely affect our business

The automotive industry has been characterized by very tough pricing pressure from customers for many years. This trend is partly attributable to the major automobile manufacturers' strong purchasing power. As other automotive component manufacturers, we are often expected to quote fixed prices or are forced to accept prices with annual price reduction commitments for long-term sales arrangements. Our future profitability will depend upon, among other things, our ability to continuously reduce our cost per unit and maintaining a cost structure, enabling us to remain cost-competitive.

Our profitability is also influenced by our success in designing and marketing technological improvements in automotive safety systems. If we are unable to offset continued price reductions through improved operating efficiencies and reduced expenditures, these price reductions may have a material adverse effect on our business, results of operations and financial condition. For further information on pricing pressures, see Management's Discussion and Analysis - Risks and Risk Management - Operational Risks.

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

As with other component manufacturers in the automotive industry, we 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, the 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, such as closures of one of our or our suppliers' plants or critical manufacturing lines due to strikes, mechanical breakdowns, electrical outages, fires, explosions, as well as logistical complications due to weather, mechanical failures, delayed customs processing and more. 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. Similarly, a potential quality issue could force us to halt deliveries while we validate the products. Even where products are ready to be shipped, or have been shipped, delays may arise before they reach our customer.

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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. We must also carry the costs associated with catching up, such as over-time and premium freight.

Additionally, if we are unable to deliver our components to our customers, it could force our customers to cease production in which case the customer may seek to recoup all of its losses from us. These losses could be very significant, and may include consequential losses such as lost profits. Thus, any supply-chain disruption, however small, could potentially cause the complete shutdown of an assembly line of one of our customers, and any such shutdown could expose us to material claims of compensation. For further information on supply chain disruptions, see Management's Discussion and Analysis Risks and Risk Management Strategic Risks.

Changes in the source, cost and availability of raw materials and components may adversely affect our profit margins

Our business uses a broad range of raw materials and components in the manufacture of our products, nearly all of which are generally available from a number of qualified suppliers. Strong worldwide demand for certain raw materials has had a significant impact on raw material prices and availability in recent years. Our business has not generally experienced significant or long-term difficulty in obtaining raw materials but increases in the price of the raw materials and components in our products could materially increase our operating costs, and materially and adversely affect our profit margin, as direct materials amounted to approximately 52% of our net sales in 2008.

We have developed and implemented strategies to mitigate or partially offset the impact of higher raw material, energy and commodity costs. However, these strategies, together with commercial negotiations with our customers and suppliers, could not always offset all of the adverse impact. In addition, no assurances can be given that the magnitude and duration of such cost increases or any future cost increases could not have a larger adverse impact on our profitability and consolidated financial position than currently anticipated.

Adverse developments affecting one or more of our major suppliers could harm our profitability

Certain of our suppliers are financially distressed or may become financially distressed. Any significant disruption in our supplier relationships, including certain relationships with sole-source suppliers, could harm our profitability. Furthermore, our suppliers may not be able to handle the commodity cost increases and/or sharply declining volumes while still performing as we expect. The unstable condition of some of our suppliers or their failure to perform has led to higher costs for us and to an increased risk of delivery delays and production issues. The overall condition of our supply base increases the risk for delivery delays, production issues or delivery of non-conforming products by our suppliers. Even where these risks do not materialize, we may incur costs as we try to make contingency plans for such risks. For further information on developments that could affect our suppliers, see Management's Discussion and Analysis Risks and Risk Management Strategic Risks.

Our business could be materially and adversely affected if we lost any of our largest customers

We are dependent on a relatively small number of automobile manufacturers with strong purchasing power, as a result of high market concentration, that has developed due to customer consolidation during the last couple of decades. Our five largest customers represented 54% of our combined sales for 2008. Our largest contract accounted for 5% of our total fiscal 2008 sales. Although business with any given customer is typically split into several contracts (usually one contract per vehicle model), the loss of all of the business of any of our primary customers could have a material adverse effect on our business, results of operations and financial condition. For further information on our dependence on customers, see Management's Discussion and Analysis Risks and Risk Management Strategic Risks.

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We are involved from time to time in legal proceedings and commercial or contractual disputes, which could have an adverse impact on our profitability and consolidated financial position

We are involved in legal proceedings and commercial or contractual disputes that, from time to time, are significant. These are typically claims that arise in the normal course of business including, without limitation, commercial or contractual disputes, including disputes with our suppliers, intellectual property matters, personal injury claims, environmental issues, tax matters and employment matters. No assurances can be given that such proceedings and claims will not have a material adverse impact on our profitability and consolidated financial position or that reserves or insurance will mitigate such impact. For further information on tax matters, see Management's Discussion and Analysis Liquidity, Resources and Financial Position Income Taxes.

We may incur material losses and costs as a result of product liability and warranty and recall claims that may be brought against us

We face an inherent business risk of exposure to product liability and warranty claims in the event that our products actually or allegedly fail to perform as expected or the use of our products results, or is alleged to result, in bodily injury and/or property damage. Accordingly, we could experience material warranty or product liability losses in the future and incur significant costs to defend these claims.

In addition, if any of our products are, or are alleged to be, defective, we may be required to participate in a recall involving such products. Every 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 recall claim or a product liability claim brought against us in excess of our available insurance may have a material adverse effect on our 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 us responsible for some or the entire repair or replacement costs of defective products under new vehicle warranties, when the product supplied did not perform as represented. Accordingly, the future costs of warranty claims by our customers may be material. However, we believe our established reserves are adequate to cover potential warranty settlements. Our warranty reserves are based upon our best estimates of amounts necessary to settle future and existing claims. Although we regularly evaluate the appropriateness of these reserves, and adjust them when appropriate, the final amounts determined to be due related to these matters could differ materially from our recorded estimates. For further information on product warranty and recall claims, see Management's Discussion and Analysis Risks and Risk Management Operational Risks.

Work stoppages or other labor issues at our customers' facilities or at our facilities could adversely affect our operations

The severe conditions in the automotive industry and actions taken by our customers and other suppliers to address negative industry trends may have the side effect of causing labor relations problems at those companies. If any of our customers experience a material work stoppage, that customer may halt or limit the purchase of our products. Similarly, a work stoppage at another supplier could interrupt production at one of our customers' plants which would have the same effect. This could cause us to shut down production facilities supplying these products, which could have a material adverse effect on our business, results of operations and financial condition. While labor contract negotiations at our locations historically have rarely resulted in work stoppages, we cannot assure you that we will be able to negotiate acceptable contracts with these unions or that our failure to do so will not result in work stoppages. A work stoppage at one or more of our plants, or our customers' facilities could have a material adverse effect on our business.

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Our ability to operate our company effectively could be impaired if we fail to attract and retain key personnel

Our ability to operate our business and implement our strategies effectively depends, in part, on the efforts of our executive officers and other key employees. In addition, our future success will depend on, among other factors, our ability to attract and retain other qualified personnel, particularly engineers and other employees with electronics and software expertise. The loss of the services of any of our key employees or the failure to attract or retain other qualified personnel could have a material adverse effect on our business.

Although we instituted an action program to manage the current upheaval in the automotive and financial industry, we cannot assure the successful implementation and results of our action program and additional steps may be necessary

In July of 2008, we announced an action program to address the dramatic change in the markets and its effects on the demand for our products. The Action Program includes efforts to adjust our manufacturing capacity, including plant closures, accelerate the move of sourcing to low-cost countries, consolidate our supplier base and standardization of products, and to reduce our overhead costs, including consolidation of tech centers. The successful implementation of the Action Program will require us to involve sourcing, logistics, technology and employment arrangements. While we continue to evaluate individual components of the Action Program, the complex nature of our Action Program could cause difficulties or delays in the implementation of the program or it may not be immediately effective, resulting in an adverse material impact on our performance. In addition, the Action Program may be extended to mitigate the effects of further production cuts by our customers. This would likely result in additional costs, the amount of which cannot currently be calculated. Moreover, if these actions are insufficient to mitigate the effects of our customers' production cuts, further restructuring efforts may be required resulting in additional costs. If additional actions are required, our earnings could decrease and if we cannot respond to a changing market fast enough our earnings could be adversely effected. For further information on our action program, see Management's Discussion and Analysis Liquidity, Resources and Financial Position Personnel.

A prolonged recession could result in us having insufficient funds to continue our operations without additional financing activities

Our ability to generate cash from our operations is highly dependent on sales and therefore on light vehicle production and the global economy. If light vehicle production would remain on current levels for an extended period of time, or fall even more, this would result in a significantly higher negative cash flow than we are currently projecting. Similarly, if cash losses for customer defaults rise sharply this would also result in a significantly higher negative cash flow than we are currently projecting. Any such higher negative cash flow could result in us having insufficient funds to continue our operations unless we can procure external financing, which may not be possible. For further information on our sales dependence, see Management's Discussion and Analysis Risks and Risk Management Operational Risks.

A prolonged recession and/or a continued downturn in our industry could result in external financing not being available to us or on materially different terms than what has historically been available

Traditionally, we have had access to the capital markets for financing our operations. Our existing credit facilities have no covenants (i.e. performance-related clauses), and our long term credit rating from Standard and Poor's was lowered from BBB+ to BBB- on February 19,

The lower credit rating will affect our ability to issue commercial paper or otherwise procure financing. Our current credit rating could also be lowered further as a result of us experiencing significant negative cash flows, or a worsening financial outlook. This may further affect our ability to procure financing. We may also for the same, or other reasons, find it difficult or even impossible to secure new long-term credit facilities, at reasonable terms or at all, when the existing facility expires in 2012. Further, even our existing unutilized credit facilities

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may not be available to us as agreed, or only at additional cost, if participating banks are unable to raise the necessary funds, for instance where financial markets are not functioning properly or one or more banks in our revolving credit facility syndicate were to default. Thus, for various reasons, external financing may not be available to us if and when necessary, and we may as a result have insufficient funds to continue our operations. For further information on external financing, see Management's Discussion and Analysis Risks and Risk Management Financial Risks.

Our customers may be unable to pay our invoices

There is a significant risk that one or more of our major customers will be unable to pay our invoices as they become due, or that a customer will simply refuse to make such payments given its financial difficulties. The probability that this will occur has dramatically increased during the last year as more customers have (ever increasingly) faced significant financial difficulties.

We seek to limit our customer payment risks through several means, including by invoicing major customers through their local subsidiaries in each country, even for global contracts. We thus try to avoid having all of our receivables with a single multinational customer group exposed to the risk that a bankruptcy or similar event in one country puts all receivables with the customer group at risk. In each country, we also monitor invoices becoming overdue and take legal action to enforce such obligations where possible and prudent.

Even so, if a major customer would enter into bankruptcy proceedings or similar proceedings whereby contractual commitments are subject to stay of execution and the possibility of legal or other modification; or if a major customer otherwise successfully procure protection against us legally enforcing its obligations, it is likely that we will be forced to record a substantial loss. For further information on customer inability to make payments, see Management's Discussion and Analysis Risks and Risk Management Strategic Risks.

Governmental restrictions may impact our business adversely

Several of our major customers have recently sought, and some have received, various forms of governmental aid or support. Such aid may come with restrictions, for instance requiring the recipient only to procure components from local suppliers or prohibiting the use of such aid to make payments to foreign suppliers. The aid or support may also come with protections, for instance against enforcement of obligations. The nature and form of any such restrictions or protections, whatever their basis, is very difficult to predict as is their potential impact. However, if introduced, they are likely to be based on political rather than economic or operational considerations, and may severely impact the global automotive industry, and its suppliers, and thus our business. The implementation of such restrictions or protections could cause us to suffer material losses.

We periodically review the carrying value of our goodwill and other intangible assets for possible impairment; if future circumstances indicate that goodwill or other intangible assets are impaired, we could be required to write down amounts of goodwill or other intangible assets and record impairment charges

We monitor the various factors that impact the valuation of our goodwill and other intangible assets, including expected future cash flow levels, global economic conditions, market price for our stock, and trends with our customers. Impairment of goodwill and other identifiable intangible assets may result from, among other things, deterioration in our performance and especially the cash-flow performance of these goodwill assets, adverse market conditions, and adverse changes in applicable laws or regulations. It is possible that if there are changes in these circumstances, or the other variables associated with the estimates, judgments and assumptions relating to the assessment of the correct evaluation of goodwill, in assessing the valuation of our goodwill items, we may determine that it is appropriate to write down a portion of our goodwill or intangible assets and record related non-cash impairment charges. In the event that we determine that we were required to write-down a portion of our goodwill items and other intangible assets, and thereby record related non-cash impairment charges, our financial position and results of operations would be adversely affected. For further information on goodwill impairment, see Management's Discussion and Analysis Accounting Policies Goodwill Impairment.

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We may be forced to make additional funding of our U.S. defined benefit pension plan

In light of recent market developments, our underfunded U.S. defined benefit pension plan may require additional funding which, in some circumstances, could amount to material amounts. For further information on our U.S. defined benefit pension plans, see Management's Discussion and Analysis Liquidity, Resources and Financial Position Pension Arrangements or Accounting Policies Defined Benefit Pension Plans.

Risks Related to International Operations

Our business is exposed to risks inherent in global operations

Due to our global operations, we are subject to many laws governing international relations (including but not limited to the Foreign Corrupt Practices Act and the U.S. Export Administration Act), which prohibit improper payments to government officials and restrict where and how we can do business, what information or products we can supply to certain countries, and what information we can provide to a non-U.S. government.

Although we have procedures and policies in place that should mitigate the risk of violations of these laws, there is no guarantee that they will be sufficiently effective. If and when we acquire new businesses we may not be able to ensure that the pre-existing controls and procedures meant to prevent violations of the rules and laws were effective and we may not be able to implement effective controls and procedures to prevent violations quickly enough when integrating newly acquired businesses.

We also have manufacturing and distribution facilities in many countries. Some of these countries are emerging markets. International operations, especially in emerging markets, are subject to certain risks inherent in doing business abroad, including:

Exposure to local economic conditions;

Expropriation and nationalization;

Withholding and other taxes on remittances and other payments by subsidiaries;

Investment restrictions or requirements; and

Export and import restrictions.

Increasing our manufacturing footprint in the emerging markets and our business relationships with automotive manufacturers in these markets are particularly important elements of our strategy. As a result, our exposure to the risks described above may be greater in the future. The likelihood of such occurrences and their potential impact on us vary from country to country and are unpredictable.

Global integration may result in additional risks

Because of our efforts to integrate our operations globally to manage cost, we face the additional risk that should any of the other risks discussed herein materialize, the negative effects could be more pronounced. For example, while supply delays of a component historically typically only affect a few customer models, such a delay could now affect several models of several customers in several geographic areas. Similarly, should we face a recall or warranty issue due to a defective product, such a recall or warranty issue is now more likely to involve a larger number of units in several geographic areas.

We face exchange rate risks in connection with our international operations

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In addition, as a result of our global presence, a significant portion of our revenues and expenses are denominated in currencies other than the U.S. dollar. We are therefore subject to foreign currency risks and foreign exchange exposure. For further information on exchange rate risks, see Management's Discussion and Analysis Risks and Risk Management Financial Risks.

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Risks Related to Acquisitions

We face risks in connection with completed or potential acquisitions

Our growth has been enhanced through acquisitions of businesses, products and technologies that we believe will complement our business. We regularly evaluate acquisition opportunities, frequently engage in acquisition discussions, conduct due diligence activities in connection with possible acquisitions, and, where appropriate, engage in acquisition negotiations. We may not be able to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired operations into our existing operations or expand into new markets.

In addition, we compete for acquisitions and expansion opportunities with companies that have substantially greater resources, and competition with these companies for acquisition targets could result in increased prices for possible targets. Acquisitions also involve numerous additional risks to us and our investors, including:

risk in retaining acquired management and employees;

difficulties in the assimilation of the operations, services, and personnel of the acquired company;

diversion of our management's attention from other business concerns;

assumption of known and unknown or contingent liabilities;

adverse financial impact from the amortization of expenses related to intangible assets;

incurrence of indebtedness;

potential adverse financial impact from failure of acquisitions to meet internal revenue and earnings expectations;

integration of internal controls;

entry into markets in which we have little or no direct prior experience; and

potentially dilutive issuances of equity securities.

If we fail to adequately manage these acquisition risks, the acquisitions may not result in revenue growth, operational synergies or service or technology enhancements, which could adversely affect our financial results. For further information on acquisitions, see Management's Discussion and Analysis—Liquidity, Resources and Financial Position—Acquisitions.

Risks Related to Intellectual Property

If our patents are declared invalid or our technology infringes on the proprietary rights of others, our ability to compete may be impaired

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We have developed a considerable amount of proprietary technology related to automotive safety systems and rely on a number of patents to protect such technology. At present, we hold approximately 4,800 patents covering a large number of innovations and product ideas, mainly in the fields of seatbelt and airbag technologies. We utilize, and have access to, the patents of our joint ventures. Our patents expire on various dates during the period 2009 to 2028. We do not expect the expiration of any single patent to have a material adverse effect on our business, results of operations and financial condition. Although we believe that our products and technology do not infringe the proprietary rights of others, third parties may assert infringement claims against us in the future. Also, any patents now owned by us may not afford protection against competitors that develop similar technology.

We primarily protect our innovations with patents, and vigorously protect and defend our patents, trademarks and know-how against infringement and unauthorized use. If we are not able to protect our

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intellectual property and our proprietary rights and technology, we could lose those rights and incur substantial costs policing and defending those rights. Our means of protecting our intellectual property, proprietary rights and technology may not be adequate, and our competitors may independently develop similar or competitive technologies. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as the laws of the U.S. We may not be able to protect our proprietary technology and intellectual property rights, which could result in the loss of our rights or increased costs. If claims alleging patent, copyright or trademark infringement are brought against us and successfully prosecuted against us, they could result in substantial costs. If a successful claim is made against us and we fail to develop non-infringing technology, our business, financial condition and results of operation could be materially adversely affected. For further information on patents and proprietary technology, see Management's Discussion and Analysis Risks and Risk Management Strategic Risks.

We may not be able to respond quickly enough to changes in technology and technological risks, and to develop our intellectual property into commercially viable products

Changes in legislative, regulatory or industry requirements or in competitive technologies may render certain of our products obsolete or less attractive. Our ability to anticipate changes in technology and regulatory standards and to successfully develop and introduce new and enhanced products on a timely basis will be a significant factor in our ability to remain competitive. We cannot provide assurance that we will be able to achieve the technological advances that may be necessary for us to remain competitive or that certain of our products will not become obsolete. We are also subject to the risks generally associated with new product introductions and applications, including lack of market acceptance, delays in product development and failure of products to operate properly.

To compete effectively in the automotive supply industry, we must be able to launch new products to meet our customers' demand in a timely manner. We cannot provide assurance, however, that we will be able to install and certify the equipment needed to produce products for new product programs in time for the start of production, or that the transitioning of our manufacturing facilities and resources to full production under new product programs will not impact production rates or other operational efficiency measures at our facilities. In addition, we cannot provide assurance that our customers will execute on schedule the launch of their new product programs, for which we might supply products. Our failure to successfully launch new products, a delay by our customers in introducing our new products, or a failure by our customers to successfully launch new programs, could adversely affect our results.

Risks Related to Government Regulations

Our business may be adversely affected by environmental and occupational health regulations or concerns

We are subject to the requirements of environmental and occupational safety and health laws and regulations in the United States and other countries.

Although we have no known pending material environmental related issues, we have made and will continue to make capital and other expenditures to comply with environmental requirements. To reduce our exposure to environmental risk, we implemented an environmental plan in 1996 based on our environmental policy. According to the plan, we sought to certify according to ISO 14001, an international standard for environmental management systems, all our plants and units. To date, 65 of our facilities, representing almost 100% of our consolidated sales, have been certified according to ISO 14001. However, we cannot assure you that we have been or will be at all times in complete compliance with all of these requirements, or that we will not incur material costs or liabilities in connection with these requirements in excess of amounts that we, at each time, m