

ANNUAL REPORT 1994

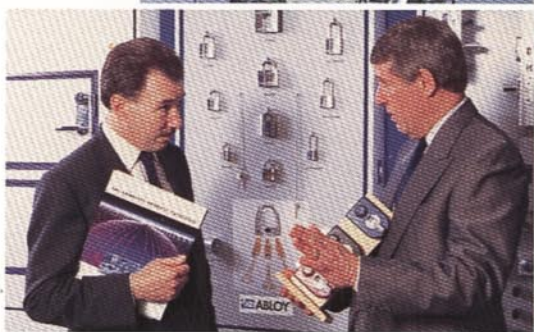
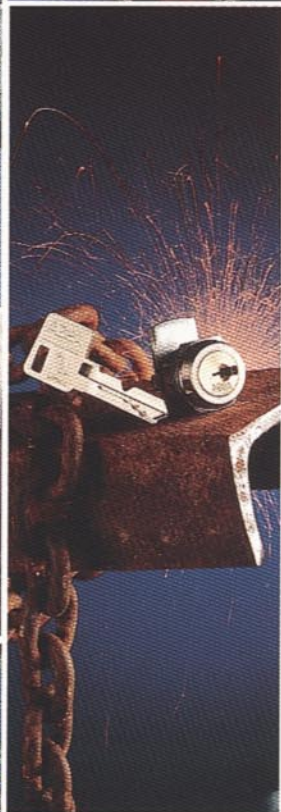
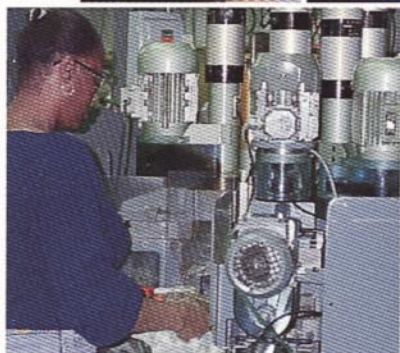
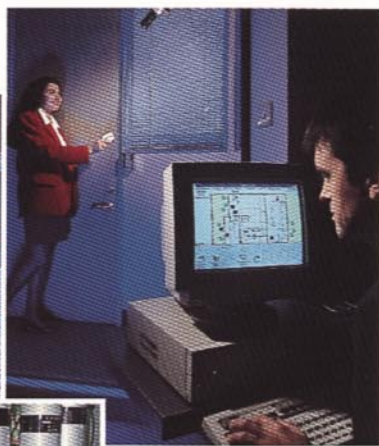
# ASSA ABLOY











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# THIS IS ASSA ABLOY

## Background

ASSA ABLOY is one of the world's largest lock groups. The Nordic region comprises the Group's base, with market-leading positions in Sweden, Finland, Denmark and Norway. The Group has also a leading market position in Germany and significant positions in Great Britain and in the United States. ASSA ABLOY is active in the product segments construction locks, industrial locks, fittings and other accessories, electro-mechanical locks, access control and hotel locks. The Group was established on November 8, 1994 through a merger of the lock operations of Securitas AB and Metra Oy Ab.

## Market

The lock market is an international market with many small and medium-sized companies, many of which have very strong positions locally. There are only a few multinational companies, with relatively small shares in the world market. The lock market is estimated to be worth about SEK 100 billion. A market characteristic is that a high proportion of sales, approx. 50 percent is attributable to the after market sales, which limits the dependence on the cyclic building sector. Strong trademarks, local standards, closeness to national distributors and customers and various customer group's brand loyalty also contribute to stability. There are a number of very strong trademarks in the Group: ASSA – Sweden, ABLOY – Finland, TrioVing – Norway, RUKO – Denmark, IKON – Germany, VingCard – hotel locks, and Cardkey – access control. Due to the general trend toward increased security awareness, the lock market is growing at a few percentage points above GNP. Electromechanical and electronic locks are steadily gaining increasing importance in the overall lock market. These products are not replacing the traditional mechanical locks but are instead adding supplementary functions in the various high-security segments. Accordingly, increased electronic features contribute to market growth.

## Competitive situation

In line with increased harmonization, competition – which to date has been local – is expected to intensify and become increasingly internationalized. A restructuring of the industry has begun in recent years, with a certain tendency towards concentration into larger corporate groups. Cardkey, in the area of access control, and VingCard, in the hotel locks segments, have leading positions in their niche markets, in which standards and products are similar in many countries. The market is fragmented in the area of access control. In hotel locks, VingCard is the leading player with approximately 50 percent of the global market, with a number of competitors with relatively smaller market shares.

## OUR STRATEGY

ASSA ABLOY's strategy for the next two to three years to ensure a favorable trend in earnings can be summarized in three stages.

Create profitability in IKON and Cardkey, parallel with consolidation, continued organic growth and development of the Group units,

capitalize on synergies in the Nordic area and – when favorable, sustained profitability is attained

utilize the Group's size and strength to grow and expand through acquisitions primarily in existing markets in Europe and the U.S., as well as in other countries.

## Favorable earnings trend

### Financial targets

The financial target is to achieve a return on capital employed of more than 20 percent. An equity/assets ratio of about 25 percent is regarded as sufficient, considering the market's relative stability.



## Key data in brief<sup>1)</sup>

	1994	1993
Sales, SEK M	3,582	3,372
of which non-Swedish, %	83.9	84.0
Income after financial income and expense, SEK M	76	117
Cash flow, SEK M	139	62
Earnings per share, SEK	1.00	1.53
Shareholders' equity, SEK M	776	676
Return on capital employed, %	8.2	10.9
Average number of employees	4,703	4,639

1) Pro forma data

## Principles underlying the preparation of the annual report

ASSA ABLOY AB's annual report contains both pro forma financial statements for the Group for the entire 1994 financial year and the legal consolidated financial statements for the financial year July 1 to December 31, 1994. The legal financial statements include Securitas AB's lock operations for the financial year July 1 to December 31, 1994 as well as Metra Oy Ab's lock operations as of the date of acquisition, November 8, 1994. As a result, the financial statements have only a limited analytical value. Consequently, in preparing the financial statements, pro forma financial statements for the entire 1994 financial year have constituted the basis for the presentation of the ASSA ABLOY Group. Legal financial statements are presented, in addition to the Parent Company in the administration report, balance sheet, statement of income, cash analysis and notes to the financial statements.

## SIGNIFICANT EVENTS DURING THE YEAR

- Income after financial income and expense for the full financial year, pro forma, amounted to SEK 76 M (117).
- Sales for the full financial year, pro forma, totaled SEK 3,582 M (3,372). The Group noted substantial sales increases in the Nordic units, Great Britain and in VingCard.
- Cash flow amounted to SEK 139 M.
- The merger process has proceeded smoothly and was facilitated by the establishment of a joint management, corporate culture and financial control system. A new legal structure was introduced. This structure complies well with the Group's operational organization. Coordination of manufacturing of Nordic products has commenced.



Abloy Garcia	+0.3	19	18.5	19	19
Active A	-0.2	4.4	4.4	4.58	4.4
Active B	-0.2	4.6	4.55	4.65	4.8
Assa Abloy	-0.2	29.7	29	29.9	30
Assidoman	-0.5	162	162	162.5	165
	-0.1	33.2	33	33.2	33
	-0.5	200	200	200	200

- ASSA ABLOY AB's B-shares were listed on the O-list of the Stockholm Stock Exchange on November 8, 1994, as scheduled.

- A multi currency revolving credit agreement for USD 100 M was signed in November 1994, with a small group of international banks. The credit facility has a three-year maturity.
- The production unit for lock cases in Björkboda was divested, effective January 1, 1995, in accordance with a decision made in consultation with the Swedish Competition Authority. The buyer was a Finnish consortium consisting of the company's management and a group of Finnish companies.



Statement by the President

## The merger process has been smooth



*President and Chief Executive Officer  
Carl-Henric Svanberg*

**1994 was, to say the least, an eventful year for all of us in the newly established ASSA ABLOY Group. During the financial year, we conducted a major merger, refinanced the company and gained a listing on the Stockholm Stock Exchange.**

The success is due to the motivated efforts of all our employees. The development potential offered by an international, independent lock company is obvious. The possibility to participate in the creation of a lead-

ing lock group has inspired everybody and made the merger process easier than anticipated.

The market response to the share listing in September was favorable. Our focus on a core-business has been appreciated. The underlying stable growth in the industry is another positive factor. An important objective for ASSA ABLOY is to build further on the foundation of Swedish and international institutional owners which we gained through the share issue from Securitas AB.

In consultation with the Swedish Competition Authority, the lock case production unit in Björkboda, Finland, was divested. The company has gained new professional owners, which include the company's management. Even if we would rather have retained the company as part of the Group, we feel that we



have reached a reasonable solution and wish the company every success in the future.

Uniting the Group's various cultures has proceeded more smoothly than expected and I feel that any risks that may have existed in this respect have been eliminated. Accordingly, efforts can now be focused on developing our various operations and utilizing all of our new potential. There is a great deal of consensus and support for our objectives, the "benchmarking" is in full swing and the desire to learn from each other is evident. We expect to finalize the coordination of manufacturing operations for Nordic products during 1995.

Work in our new organization is proceeding well. The new legal structure is essentially in line with the operational organization.

#### **Growing demand**

Following several weak years with substantial rationalization, we can now enjoy growing demand in all markets. The retrofit sector is expanding noticeably, not least in Scandinavia. The trend towards higher security requirements in the market also favors our strong product program.

However, new construction is not yet showing any sign of recovery. Combined, these factors mean, among other things, that the Nordic units, ASSA, Ruko, Abloy and TrioVing, are displaying larger volumes and higher profitability.

VingCard, which makes mechanical and electromechanical hotel locks, continues to display a highly satisfactory growth. About one million hotel rooms in 2,800 cities worldwide now have VingCard locks. Thanks to VingCard's strong organization, with facilities and distributors in more than 60 countries – for more than a decade in many cases – we are strengthening our market leadership step-by-step. During the past few years, the U.S. market has expanded rapidly due to the focus on hotel security in that country. We also note substantial growth in the markets in Europe and the Far East during the past year.

#### **Restructuring of Cardkey and IKON**

The restructuring of the German company IKON is proceeding in line with plans. Measures have been taken to reduce the product program, delegate responsibility in the organization, simplify flows and, in particular, to reduce costs. Delivery times have begun to decrease, which is probably one of the reasons for an increase in order bookings.

Cardkey has closed down its inhouse manufacturing, which is now conducted by a more cost-efficient subcontractor. Accordingly, efforts can now focus on systems development, and sales via the company's own sales organization and through dealers. A down-sizing of the headquarters is now in progress to bring it more into line with the focused strategy. However, we are still running high costs as part of our efforts to further develop the product program.

#### **Proposal for employee participation**

Work is currently under way to prepare an offer to employees concerning ownership participation in the form of convertible debentures. The proposal will be completed in time for the Annual General Meeting and, in my opinion, will represent an attractive factor in motivating employees and ensuring their interest in the Group's long-term development.

In brief, we look optimistically to the future. During the autumn we were strengthened in our opinion of the industry's profitability and growth – and of our potential to lead its development. We regard our objective of attaining a 20-percent return on the Group's capital employed as very realistic, and in 1995 we should be able to report a significant improvement in earnings.

