



ASSA ABLOY
A N N U A L R E P O R T

1 9 9 6

CONTENTS

<u>Significant events during 1996</u>	<u>1</u>
<u>This is ASSA ABLOY</u>	<u>2</u>
<u>ASSA ABLOY's history</u>	<u>3</u>
<u>Statement by the CEO</u>	<u>4</u>
<u>Financial summary</u>	<u>6</u>
<u>The ASSA ABLOY share</u>	<u>8</u>
<u>ASSA ABLOY Group's organization</u>	<u>10</u>
<u>ASSA ABLOY's personnel</u>	<u>11</u>
<u>ASSA ABLOY and environmental management</u>	<u>11</u>
<u>The trend towards higher security</u>	<u>12</u>
<u>ASSA ABLOY's products</u>	<u>13</u>
<u>Sweden</u>	<u>22</u>
<u>Finland</u>	<u>24</u>
<u>Norway</u>	<u>26</u>
<u>Denmark</u>	<u>28</u>
<u>Germany</u>	<u>30</u>
<u>Great Britain</u>	<u>32</u>
<u>United States</u>	<u>34</u>
<u>VingCard</u>	<u>38</u>
<u>Financial statements</u>	
Report of the Board of Directors	40
Consolidated statement of income and cash flow analysis	44
Consolidated balance sheet	45
Parent Company statement of income and cash flow analysis	46
Parent Company balance sheet	47
Accounting principles and notes to the income statements and balance sheets	48
Auditors' report	53
<u>Board of Directors</u>	<u>54</u>
<u>Group management</u>	<u>55</u>
<u>Addresses</u>	<u>56</u>

FINANCIAL INFORMATION FROM ASSA ABLOY

Financial information is published as follows:

Interim reports:

January 1–March 31; May 7, 1997

January 1–June 30; August 7, 1997

January 1–September 30; November 4, 1997

Year-end report for 1997: February 5, 1998

Annual report for 1997: March 1998

Annual reports and other reports may be ordered from:

ASSA ABLOY AB

P. O. Box 703 40, S-107 23 Stockholm, Sweden

Tel: +46-8-698 85 70. Fax: +46-8-698 85 85

Welcome to the Annual General Meeting

ASSA ABLOY AB (publ) org.no. 556059-3575 will hold its Annual General Meeting on Wednesday, May 7, 1997, at 2:00 p.m. in the Assembly Hall, Stockholm Stock Exchange, Källargränd 2, Stockholm.

Who is entitled to participate in the Annual General Meeting?

The right to participate in the Annual General Meeting is limited to those shareholders who are listed in the printout of the share register on April 25, 1997, and who notify ASSA ABLOY AB of their intention to participate in the Annual General Meeting not later than 4:00 p.m. on Tuesday, April 29, 1997.

How to register in the share register

ASSA ABLOY AB's share register is maintained by the Swedish Securities Register Center (VPC AB). Only owner-registered holdings are reported under the name of the shareholder in the share register. To be entitled to participate in the Annual General Meeting, shareholders who have registered their shares in the name of a trustee must reregister the shares in their own names. Shareholders who have registered their shares in the name of a trustee, should request the bank or stockbroker acting as trustee to temporarily register the shares for voting-right registration a number of bank days prior to April 25, 1997.

How to submit notice of intention to participate

Notice of intention to participate in the Annual

General Meeting may be done by mail to:

ASSA ABLOY AB, Box 70430, S-107 23 Stockholm, Sweden

or by telephone: +46-8-698 85 70.

Notification must include name, personal identity number (registration number), address and telephone number, as well as information regarding the number of shares. Shareholders wishing to participate in the Annual General Meeting must submit notification of their intention to participate not later than 4:00 p.m. on Tuesday, April 29, 1997, when the notification period expires.

Dividend

The Board of Directors and President propose that SEK 1.25 per share be paid as a dividend to shareholders for the 1996 financial year.



The ASSA ABLOY corporate name is mounted on the ESSEX headquarters in New Haven.



In June, VingCard received an order for 85,000 electronic cardlocks from the US Motel 6 chain.



During 1996, an internal leadership development programme was started – The ASSA ABLOY Management Programme.



ASSA Security Master was launched at the Swedish Security Fair, Skydd -96.

SIGNIFICANT EVENTS DURING 1996

- Income after financial income and expense was SEK 345 M (212).
- Sales for the year totaled SEK 5,007 M (3,504), an increase of 43 percent. For comparable units the increase is 7.6 percent.
- Cash flow after tax amounted to SEK 372 M (344).
- Coordination within ASSA ABLOY continues to progress smoothly. The pace of change and improvement remains high.
- The acquisition of ESSEX, for USD 170 M, was completed in January 1996. In 1995, ESSEX reported sales of USD 243 M. Through the acquisition ASSA ABLOY gains a leading role in the U.S. market and assumes position as one of the world's leading lock companies.
- The acquisition of ESSEX has been partly financed through a SEK 300 M issue of new shares to ASSA ABLOY's shareholders.
- A five-year loan facility totaling USD 250 M was signed in April with a syndicate comprising 11 international banks.
- The integration and development of ESSEX has proceeded highly satisfactorily. ESSEX's unit for electronic hotel locks, System 45, was transferred to and incorporated in VingCard. ESSEX's unit for bathroom accessories, McKinney/Parker, was divested as of July 1. The divested unit contributed annual sales of USD 12 M and had reported a minor loss. Efforts to rationalize ESSEX and to realize the opportunities for cross sales continue according to plan.
- During the year the extensive rationalization programme continued in the IKON group. IKON is expected to reach profits in line with other Group companies within a couple of years.
- The Group acquired the Norwegian company Newman Tonks a.s, which reported sales of NOK 192 M in 1995. The company was acquired as of July 1 and is mainly active in the distribution of locks and door fittings, reinforcing ASSA ABLOY's product program in Norway.
- The Group also acquired Grorud Förvaltning a.s, of Norway, which reported sales of NOK 125 M in 1995. Two-thirds of the company was purchased as of July 1, the remaining third December 31. The company manufactures and markets door and window fittings.
- ASSA ABLOY's organization in the Far East was strengthened with the acquisition of Secureware International Pte Ltd, of Singapore.
- ASSA ABLOY's position in the Netherlands was reinforced by the acquisition of the sales company Amersfoortse Bowbeslagindustrie Ambouw B.V (Ambouw), which reported sales of SEK 50 M in 1995.

THIS IS ASSA ABLOY

Background

ASSA ABLOY is one of the world's largest lock groups. The Nordic region constitutes the Group's base, with market-leading positions in Sweden, Finland, Denmark and Norway. The Group also holds a leading market position in Germany and the U.S. and a significant position in Great Britain. Through VingCard, the company is the global market leader for electronic hotel locks. ASSA ABLOY is active in the product segments construction locks, industrial locks, fittings and other accessories and electromechanical locks including hotel locks. In the U.S., ASSA ABLOY is also active in the product segment for security doors. 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 in their local markets. There are only a few multinational players, with relatively small shares in the world market. The total size of the lock market is estimated at SEK 100 -150 billion. One characteristic of the market is that a high proportion of sales (approximately 50 percent) derives from the after-sales market. This limits the dependence on the cyclical construction industry. Strong brand names, local standards, closeness to national distributors and customers, combined with the brand loyalty of various customers, also contribute to stability. There are a number of very strong brand names in the Group, for example ASSA-Sweden, ABLOY-Finland, TrioVing-Norway, RUKO-Denmark, IKON-Germany, Sargent and Curries-U.S. and VingCard-hotel locks. Due to the general trend towards increased security awareness, the lock market is displaying favorable growth, a few percentage points above GDP in real terms. Electromechanical and electronic locks are steadily gaining greater importance in the overall lock market. These products are not replacing the traditional mechanical products but instead add complementary 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 showing trends towards the formation of larger corporate groups. The major international players comprise Ingersoll Rand (including Schlage), over SEK 3 billion in the U.S.; William Holding (including Yale), just under SEK 3 billion in Great Britain; and Bauer-Kaba, just under SEK 2 billion in Switzerland. These sales figures are estimates for lock operations. Other major players are the Italian company CISA and Vachette in France. In addition, there are local players with prominent positions, such as the English company Chubb and Evva in Austria. In individual product segments, there are also players with strong positions, such as Medeco in the U.S., which is active in the area of high-security cylinders. VingCard, in the hotel locks segment, has a leading position in its niche market, where standards and products are global. VingCard, holding more than half of the world market, is encountering a number of competitors with relatively smaller market shares.

1

Our Products and Markets

- Lock cylinders, door hardware and electromechanics complementing
- Focus on the trend towards higher security

2

Our Management Model

- Multi-domestic—strong brand names and local units form the base
- Capitalize on synergies
- Development at each stage—step by step—active internal benchmarking

3

Our Expansion Strategy

- Organic growth
- Acquisitions with a focus on earnings per share

4

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 and the Group's strong cash flow.

ASSA ABLOY'S HISTORY

1996

ESSEX is acquired
 NT Møller Undall is acquired
 Grorud is acquired
 Secureware is acquired
 Ambouw is acquired

1995

Cardkey is divested

ASSA ABLOY is
 established and
 listed in Stockholm

1994

Securitas acquires Arrow **1991**

Securitas acquires SOLID och FAS **1990**

Securitas acquires Assa **1988**

Ruko starts in Germany **1984**

Assa acquires Ruko **1951**

Ruko is founded **1930**

Assa is founded **1881**

FAS is founded **1849**

The development of Assa

1991 Abloy Security acquires FIX
 IKON acquires BAB

1989 Wärtsilä och Lohja merge into Metra
 Wärtsilä acquires IKON and Cardkey

1988 Wärtsilä acquires Primo

1983 Wärtsilä acquires TrioVing

1936 Wärtsilä acquires Ab Lukko Oy

1904 Trio is founded

1732 Boda is founded

The development of Abloy

A SUCCESSFUL YEAR WITH MORE TO COME

Income increased by more than 60 percent in 1996, from SEK 212 M to SEK 345 M. The strong cash flow, SEK 372 M, is another indication that we are on the right track. Sales expanded from SEK 3,504 M, to SEK 5,007 M, an increase of 43 percent.

This past year has been characterized by continued work in line with our main strategy:

- Concentrating on locks and door hardware products
- Developing existing units, capitalizing on synergies and enhancing cooperation within the Group
- Expanding organically and through acquisitions

On the whole, European markets were weak in fiscal 1996, while the U.S. market showed healthier growth. The hotel segment expanded strongly, in particular owing to programs conducted by several major hotel chains to upgrade to electro-magnetic locks.

Despite weak business conditions in our main European markets, we achieved overall growth of 7.6 percent for comparable units. The trend towards higher security was a key contributing factor, as was the fact that the after-sales market represents a major portion of the Group's total sales.

Most of the units reported stronger earnings. Efforts to boost efficiency were inspired to a considerable extent by internal benchmarking, in which everyone learns from the best practitioner in each area, and by making the most of synergies. The learning process has been simplified by our clearly defined focus.

To further stimulate the learning process and to develop leaders for continued expansion, we conducted a comprehensive management development program during the year for new and young managers. The program, which we will repeat annually, was led by group management and company presidents. The program was arranged at the various units and focused on actual issues facing each company.

All Nordic units defended their positions well. Volumes expanded despite weak new construction, mainly in Sweden and Finland. These volumes were attributable chiefly to more projects from the retrofit market. The trend towards higher security also played a vital role as did our steadily improved products.

We have more or less completed the coordination of products and production among the various units and are now shifting to a phase of more intensive product development. An interesting example of such development is the panic bar produced by Assa in Sweden in close cooperation with its sister company Sargent, the market leader in the U.S. in this product area. The panic bar is adapted to standards in Scandinavian countries, where it is now being launched.



President and CEO Carl-Henric Svanberg

IKON, our German unit, turned a loss last year to a small but encouraging profit in 1996 and is expected to report profits in line with the Group average within a couple of years. The company is moving forward with its far-reaching rationalization program. The number of employees at the Berlin unit, which was roughly 700 when Assa and Abloy merged in 1994, will be well below 500 by year-end 1997. Product flows have been streamlined, and the far too large number of products has been cut almost in half. Delivery times have been reduced from several months to a week or two.

Some of the old customers of IKON, who had excluded the company from new construction projects in recent years, have been able to notice the steady and remarkable improvement at IKON through replenishment orders for existing systems. It is pleasing to see how a growing number of these customers are returning.

IKON is now ready to begin acting aggressively in its market. One example of this is IKON's acquisition of Ambouw, which has imported IKON's products to the Netherlands for many years. Ambouw has annual sales of roughly SEK 50 M, of which about two-thirds are IKON products and to some extent other Group products. This acquisition has built a solid platform for expansion in the Netherlands.

The hotel segment continued to grow rapidly in 1996, and VingCard expanded its share of the huge U.S. market, resulting in strong expansion. During the year, a number of hotel chains in the U.S. finished upgrading their facilities. Even if European and Asian markets continue developing at their current pace, however, the total market is unlikely to grow as strongly in 1997.

In January, the Group acquired ESSEX, the second largest lock group in the U.S. The acquisition represented a major expansion for ASSA ABLOY and naturally entailed various risks.

We can assert that the integration has gone well so far. Growth for the year was roughly 6 percent, well in line with the market.

ESSEX contained three loss-making units at the time of the acquisition. Sales by the System 45 hotel lock division were insufficient to cover overhead, so the division was integrated into VingCard. The Group divested Parker, a manufacturer of bathroom accessories, while Graham, a producer of wooden doors is now reporting a profit and is continuing its rationalization program.

A programme to increase efficiency was launched at Sargent and McKinney, which manufacture lock products, and we believe the program will yield favorable results. Curries, which produces steel doors, continues to show healthy growth and profitability. On the whole, we now feel certain that, during the next few years, we will reach our target of USD 10 M annually in contribution to profits in excess of acquisition costs.

During the summer, the Group acquired Møller Undall, with sales around NOK 200 M which makes it Norway's largest locks and fittings distributor. During VingCard's brisk expansion, the previous joint group management of TrioVing and VingCard lost its focus on the Norwegian market. During that time, Møller Undall developed and, in some cases, took over functions from TrioVing that a successful lock company normally performs, such as sales support to architects, specification and assembly of lock-systems as well as marketing complementary lock products. Through this acquisition, we create a unit with the same position in Norway as we have in the other Nordic countries.

The merger of these two highly competent companies has largely progressed more smoothly than expected. The new joint unit, which has adopted the TrioVing name, will contribute to the profit development of the Group in 1997.

During the autumn, the Group also acquired Grorud, a Norwegian manufacturer of door and window fittings which has reported losses the past few years. Our estimate of the situation was that the company's products are of high quality and their prices satisfactory, but that operations were in need of greater efficiency. This acquisition is also developing as planned and should contribute to the Group in 1997.

Our efforts in Asia continue. We are working diverse markets from sales companies in Singapore and Bangkok and supplying products based on European and U.S. standards. This is important, because no standard dominates the region, and products of various standards are combined in many projects. In the autumn, we purchased Secureware of Singapore, a sales company that is agent for Sargent. We were thus able to quickly take on qualified local personnel for logistics and marketing aimed at architects.

The countries of Eastern Europe represent another growing market, which we are serving from sales companies in Moscow, St. Petersburg and Tallinn.

On the whole, we can look back on an exhilarating year of hard work on all fronts and a number of key acquisitions. The Group, including its new acquisitions, is now developing steadily, and our cash flow is well in line with profits, which is vital for creating the prerequisites for further expansion.

We look forward to continued good profit development in 1997, not the least because of the trend towards higher security and our projects for development and rationalization now underway.

Today ASSA ABLOY is one of the world's largest lock companies. Our market share is only 3 percent, though, which indicates how fragmented the market is and how huge the potential for growth.

Our vision is to become the world's leading lock company, in other words, to achieve such a strong position that we can effectively influence trends and lead in the development of new products and systems.

We have great confidence that, in 1997, we will move further along the path towards this vision.



Stockholm, February 1997

Carl-Henric Svanberg