

## SIGNIFICANT EVENTS DURING 1997

n Result after financial income and expense was SEK 537 M (345), corresponding to an increase of 55%.

n Sales for the year totaled SEK 6,968 M (4,958), representing an increase of 41%.

n Organic growth was 8.2% (7.6).

n Cash flow after tax amounted to SEK 841 M (469)

n Vachette Group with the Belgian company Litto and JPM Chauvat were acquired during the spring of 1997, providing a leading position in France and Belgium.

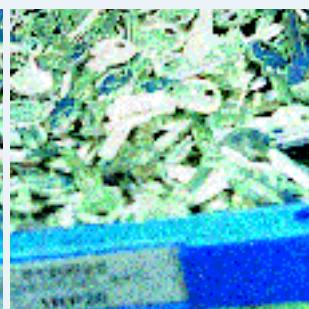
n FAB, the leading lock company in the Czech Republic, was acquired in summer 1997.

n In July 1997, VingCard acquired Elsafe, the world's leading supplier of digital safes for hotel rooms.

n A new issue to ASSA ABLOY's shareholders amounting to SEK 642 M was implemented as part of the financing of the acquisitions.

n A new five-year loan facility totaling USD 500 M was signed in June with a syndicate comprising 14 international banks.

n A convertible debenture loan amounting to SEK 250 M was issued to employees within the ASSA ABLOY Group during autumn 1997. A total of 1,400 persons subscribed.



## This is ASSA ABLOY



### Background

ASSA ABLOY is the world's largest lock group, with projected annual sales in 1998 exceeding SEK 8 billion.

The market share is 5 percent on a highly fragmented global market.

The Nordic region constitutes the Group's base, with market-leading positions in Sweden, Finland, Denmark and Norway. The Group is also the market leader in Belgium, France, the Czech Republic and Germany and is the second largest player in the U.S. ASSA ABLOY also holds a leading position in Great Britain.

Through VingCard, the Group is at the forefront of the worldwide market for electronic hotel locks.

ASSA ABLOY is active in the product segments construction locks, industrial locks, door and window hardware and other accessories and electromechanical locks including hotel locks. ASSA ABLOY is also active in the security doors product segment in the U.S. and in automobile locks in the Czech Republic.

Securitas AB's shareholders received the Assa Group as a dividend in 1994, after which Abloy was acquired from Metra Oy Ab through a new issue. As a result, Metra Oy Ab became the largest owner in ASSA ABLOY.

### Market

Globally, the lock market comprises many small and medium-sized companies, many of which have very strong positions in their local markets, with long histories. 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 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, Vachette and

JPM-France, FAB-Czech Republic, IKON-Germany, Sargent and Curries-U.S. as well as VingCard and Elsafe in hotel security.

### Growth factors

Trend towards higher security

Due to the general trend towards higher security consciousness, the lock market is displaying growth, a few percentage points above GDP.

Electronic element

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.

New markets

Many new, growing markets, such as Russia, The Baltic States, Asia and Latin America, are developing increasingly more rapidly and the need for security is rising in pace with buying power. This has created a demand for lock products more advanced than those manufactured locally.

### Competitive situation

The lock industry is becoming successively more harmonized and, like many other industries, increasingly internationalized. The long life of the products and the number of installed locks extend the time period during which the transformation is occurring. With increased internationalization and rising costs to develop products in the electronic area, the demand for increasingly larger units grows. A restructuring of the industry which began in recent years, is showing trends towards the formation of large corporate groups.

The major international players comprise the American Ingersoll Rand (including Schlage in the U.S. and Newman Tonks in England), whose locks division has annual sales of about SEK 7 billion, and the British William's Holdings (including Yale in the U.S. and Chubb in England), with annual sales of approximately SEK 5 billion in the lock segment.

Other major players are the American Black & Decker's locks division (with Kwickset in the U.S. and Dom in Germany), with sales of SEK 4 billion, and the Swiss KABA, with annual sales of SEK 2 billion.

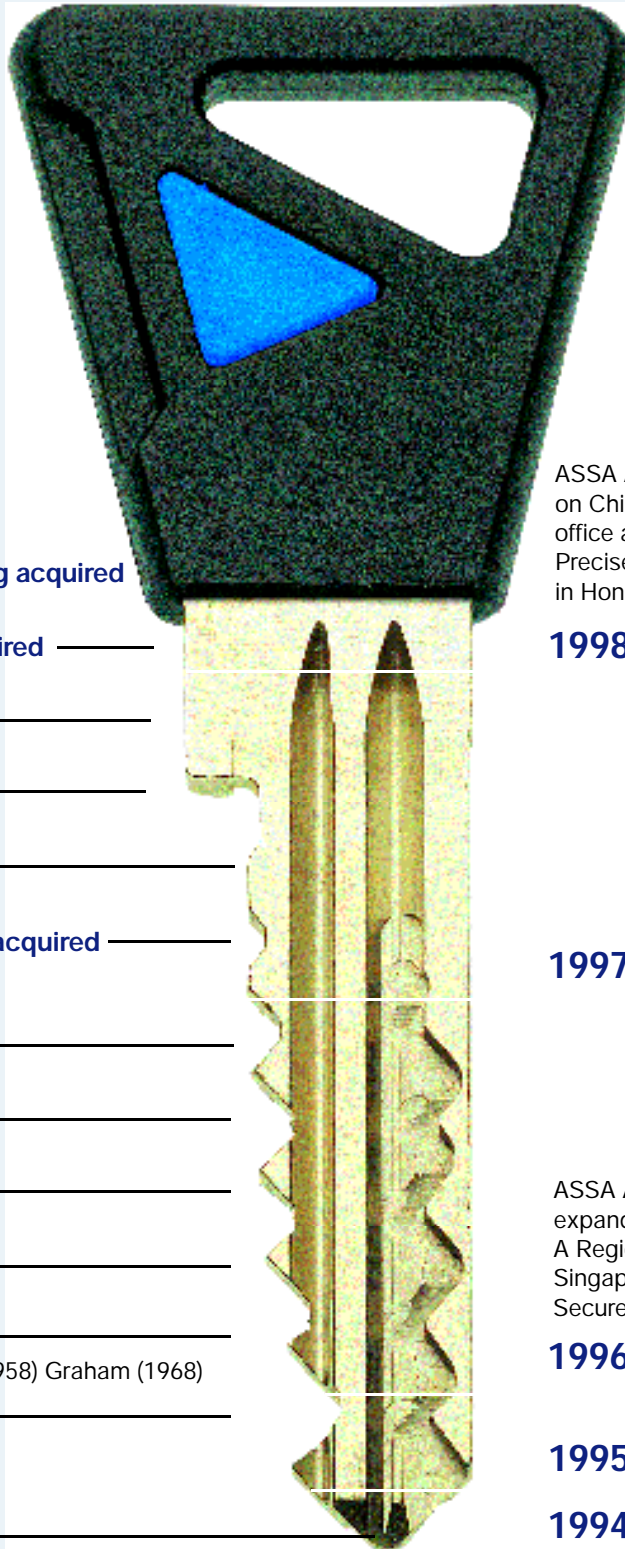
In addition, there are local players with prominent positions, such as Evva in Austria. In individual product segments, there are also players with strong positions, such as Medeco in the U.S., which is active in the area of high-security cylinders, and Canadian Ilco Unican, which is the world leader in key blanks.

In the hotel locks segment, where standards and products are global, VingCard has a leading position, with nearly half of the world market.

# ASSA ABLOY'S HISTORY

ASSA ABLOY was established on November 8, 1994, through a merger of the lock operations of Securitas AB and Metra Oy Ab.

During the four years since ASSA ABLOY was formed, the Group's sales have risen from SEK 3.5 billion to about SEK 7 billion, of which approximately SEK 2.5 billion was added through acquisitions and approximately SEK 1.0 billion through organic growth.



**Precise Security Supplies in Hong Kong acquired**

Precise Security Supplies (1993)

**Wilhelm Dörrenhaus in Germany acquired**

Wilhelm Dörrenhaus (1851)

**Elsafe in Norway acquired**

Elsafe (1979)

**FAB in the Czech Republic acquired**

FAB (1911)

**Abloy Security in Singapore acquired**

Abloy Security (1983)

**Vachette, JPM, with others in France acquired**

JPM Chauvat (1645) Laperche (1788)  
Vachette (1864) Bezault (1870) Litto (1924)

**Ambouw in the Netherlands acquired**

Ambouw (1934)

**Secureware in Singapore acquired**

Secureware (1995)

**Grorud in Norway acquired**

Grorud Industrier (1917)

**NT Møller Undall in Norway acquired**

NT Møller Undall (1947) Låsgruppen (1996)

**ESSEX in the U.S. acquired**

Sargent (1810) McKinney (1864) Curries (1958) Graham (1968)

**Cardkey in the U.S. divested**

Cardkey (1941)

**ASSA ABLOY established and listed in Stockholm**

ASSA ABLOY sets focus on China, opens a trading office and acquires Precise Security Supplies in Hong Kong.

**1998**

**1997**

ASSA ABLOY decides to expand its efforts in Asia. A Regional office in Singapore was opened and Secureware acquired.

**1996**

**1995**

**1994**

**ASSA ABLOY**

Arrow (1949)	IKON (1926)
Ruko (1930)	Primo (1917)
SOLID (1915)	Abloy (1907)
Assa (1881)	TrioVing (1864)
FAS (1849)	Boda (1732)

Figures in brackets represent year of establishment



## EMPLOYEES' INVOLVEMENT KEY TO SUCCESS



President and CEO Carl-Henric Svanberg

Result increased by 55 percent, from SEK 345 M to SEK 537 M. Sales rose from SEK 4,958 M to SEK 6,968 M, or 41 percent.

The cash flow amounted to SEK 841 M, primarily due to our increasingly efficient use of capital. This is in line with our ambition to have a cash flow that is on a level with, or exceeding, earnings.

Excluding acquisitions, the Group's organic growth calculated in local currencies amounted to 8 percent. The companies' average organic growth was somewhat higher, 10 percent, due to greater coordination of production and increased use of Group products.

During the four years since ASSA ABLOY was formed, we have doubled sales, in part through a number of large and small acquisitions and in part through stable organic growth of approximately 8 percent. At the same time, we have increased income per share fivefold. A substantial effort from employees and managers throughout the Group has contributed to our success.

The growth in our principal markets varies. Sales in Finland have increased by an impressive 19 percent. New construction activity in Finland has picked up substantially after having been virtually nonexistent for several years, whilst the after-sales market is still strong. Exports account for approximately 40 percent of sales and show the same rate of increase. These figures include sales to Russia and the Baltic States. Factors underlying the 13 percent growth in sales in Sweden include strong demand from the after market, increased exports and

sales to other companies within the Group. The integration of Møller Undall, the Norwegian company acquired in 1996, is proceeding very smoothly. Growth amounts to 9 percent and the impact on earnings will exceed our initial expectations.

The German market continues to be weak. Our company, IKON, which manufactures and markets mainly lock cylinders, is now beginning to improve its shape and is expected to generate a double-digit operating margin next year. In line with ASSA ABLOY's strategy in other countries, we want to broaden our product program. As a first step, IKON acquired Dörrenhaus, the second-largest manufacturer of lock cases, in the beginning of January 1998. This company has annual sales of DEM 12 M and, like IKON, has approximately a 20 percent share of the market.

All units in the United States are continuing to grow well. Total sales increased by 11 percent. Motivation is high throughout the organization and we estimate that our growth was a few percentage points higher than that of the market as a whole. Substantial investments and rationalization measures are currently being implemented in the different companies. Moreover, from the beginning of this year Sargent's door closers, will be manufactured in Finland. These were formerly purchased from an external supplier. The integration of ESSEX has gone very well and the trend of earnings has exceeded the expectations we had when the acquisition was made. The potential for continuing increases is good.

Our new organic growth areas – Russia, the Baltic States and Asia – are expanding by about 50 percent for the third year in a row. Excluding VingCard, these markets are currently worth approximately SEK 120 M for ASSA ABLOY. The need for reliable lock products is obvious and growth is very largely a matter of our ability to recruit and develop employees, distributors and dealers.

In the case of VingCard, which focuses on the hotel market, growth levelled off as expected, following the accumulation of projects in the United States in 1996. The European market is continuing to increase strongly. Latin America is a relatively new area for VingCard. The market there is growing rapidly, from a low level.

The rate of growth in Asia is expected to diminish slightly as a result of the turbulence in the region. No levelling off has been noted to date, however.

Virtually all units are continuing to increase their earnings. The main reasons behind this success are organic growth, rationalization measures in the United States, Germany and Norway, and continuous internal benchmarking and steady improvements.

We are now approaching the 12 percent operating margin before goodwill charges that the Assa Group reported before the merger. However, there are still significant differences in the operating margins of the units, with good potential for further improvements.

We made a number of strategic acquisitions during the year – first and foremost the French Vachette Group with

the Belgian company Litto and JPM Chauvat.

Overall, the companies have a leading position on the French and the Belgian market. The companies have total sales of approximately FRF 1,100 M.

Up to now, the integration of the companies has surpassed expectations. This is due in part to the fact that all senior executives in the French units have international experience and a strong interest in our common learning process.

Our objective is to increase the company's net margin by two to three percent within the next couple of years. This target is well within reach.

We also acquired FAB, a Czech company with annual sales of CZK 650 M. FAB is the market leader in the Czech Republic and Slovakia. It is an exciting acquisition in an area with substantial growth and a need for increased security. Over the long term the company should also play an important role in our expansion into nearby countries.

Hotel guests need a simple and reliable way to safeguard tickets, money, passports and portable computers. During the summer VingCard purchased the Elsafe company. Elsafe, the world leader in the market for digital safes in hotel rooms, has annual sales of NOK 140 M. The synergies between the companies are substantial, notably in the sales and service organization.

The merger has aroused great enthusiasm in the companies and the integration is proceeding rapidly.

In ASSA ABLOY we assume that the Group's employees come to work with the ambition to do their best. My task, and that of other managers, is to ensure that each employee is provided with the optimal conditions for doing so. A primary requirement is that the managers must know their job and be able to communicate to their employees the expectations for results, as well as the importance of each work assignment. We therefore impose high requirements on both general and detailed knowledge at ASSA ABLOY.

Benchmarking is an exceptionally important tool in this context. Everyone is interested in learning from the best performers, and everyone has something to offer. The results and key ratios of all companies are compiled monthly and distributed to the various companies. It is a "hot" document, one that is studied carefully as soon as it has been sent out. ASSA ABLOY's management and the country managers meet monthly to discuss results and what they mean for future strategies.

Each year we conduct a management program for more than 25 managers. The entire program is carried out by ASSA ABLOY's Group management and is based on visits to four different companies within the Group that have been highly successful or are facing challenges. In this way we can learn at first hand what is happening and can create networks for continuing exchanges of experience. The companies that are hosts for the visits also have a special opportunity to discuss their own strategies.

Since the lock industry is largely local, we have adopted a simple geographical organization. There are, however, a

number of areas in which coordination is essential in order to create synergies and new growth potential for the companies. This coordination occurs within the framework of project work, another priority area within ASSA ABLOY.


A large number of project groups are currently active in coordinating product development, purchasing, information technology and production, for example.

These project groups contribute to the ongoing exchange of experience and speed up the integration of newly acquired companies. Our employees are also stimulated and motivated since, as participants in the project groups, they broaden their areas of expertise and become familiar with other companies in the Group.

The opportunity to become part-owners in the Company is important in creating a sense of involvement in our common growth. In 1995 we implemented a convertible debenture program for the 4,000 employees we had then. With the new acquisitions, the number of employees has increased to slightly more than 9,000 and it was therefore natural to carry out a new convertible debenture program during the autumn.

In all, nearly 20 percent of all the employees subscribed for the debentures. The percentage was nearly as large in the United States, in France and in the other newly acquired units as in the original portion of the Group. That was, of course, our objective, but it was equally gratifying to note that the debentures were so well received despite the fact that they were offered during a relatively turbulent period in the financial market.

In brief, the future outlook for ASSA ABLOY continues to be good. The need for better and more reliable locks is increasing throughout the world. The ongoing exchange of experience within the Group will continue to result in higher margins. The cash flow is expected to continue to grow in an orderly manner, parallel with earnings. In addition, the structural changes now under way within the lock industry should create new opportunities for growth.



Stockholm, February, 1998  
Carl-Henric Svanberg

## FINANCIAL SUMMARY

### Statements of income

SEK M	1997	1996	1995
Net sales	6,968	4,958	3,457
Cost of goods sold	-4,496	-3,259	-2,115
Gross profit	2,472	1,699	1,342
Expenses	-1,662	-1,183	-1,084
<b>Operating result before goodwill amortization</b>	<b>810</b>	<b>516</b>	<b>258</b>
Goodwill amortization	-103	-56	-8
<b>Operating result</b>	<b>707</b>	<b>460</b>	<b>250</b>
Net financial items	-179	-122	-47
Share in earnings of associated companies	9	7	10
<b>Result after financial income and expense</b>	<b>537</b>	<b>345</b>	<b>213</b>
Taxes	-183	-97	-69
Minority interest	-2	0	-
<b>Net result for the year</b>	<b>352</b>	<b>248</b>	<b>144</b>

### Balance sheets

SEK M	Dec. 31 1997	Dec. 31 1996	Dec. 31 1995
Intangible fixed assets	1,969	1,108	113
Tangible fixed assets	2,559	1,662	1,098
Financial fixed assets	419	100	51
Inventories	1,179	849	564
Accounts receivable	1,261	693	424
Other noninterest-bearing current assets	179	135	102
Liquid assets	126	137	118
<b>Total assets</b>	<b>7,692</b>	<b>4,684</b>	<b>2,470</b>
Shareholders' equity	2,317	1,408	928
Minority interests	24	9	9
Interest-bearing provisions	556	574	415
Interest-bearing long-term liabilities	2,924	1,626	235
Other noninterest-bearing long-term liabilities	421	160	101
Interest-bearing current liabilities	89	22	127
Other noninterest-bearing current liabilities	1,361	885	655
<b>Total shareholders' equity and liabilities</b>	<b>7,692</b>	<b>4,684</b>	<b>2,470</b>

### Sales per organizational unit <sup>1)</sup>

SEK M	1997	1996	1995
Sweden	847	752	745
Finland	744	620	627
Norway	531	346	235
Denmark	288	268	285
Germany	533	501	574
France	844	-	-
Great Britain	236	168	151
Czech Republic	68	-	-
United States	2,402	1,872	284
Hotel security, VingCard	794	681	521
Elimination for internal sales	-319	-250	-181
<b>Total</b>	<b>6,968</b>	<b>4,958</b>	<b>3,457<sup>2)</sup></b>

1) Including exports from each market

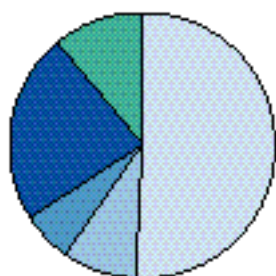
2) Total sales in 1995 included SEK 216 M for Cardkey. Cardkey was divested on July 31, 1995

### Sales per country <sup>1)</sup>

SEK M	1997	1996	1995
U.S.	2,652	2,113	690
France	735	30	24
Sweden	627	583	605
Norway	514	339	255
Germany	475	458	512
Finland	471	402	410
Denmark	287	254	260
Great Britain	273	214	218
Canada	122	100	22
Belgium	95	52	56
Asia, excl. China, Hong Kong and Japan	93	55	47
Netherlands	68	35	32
China and Hong Kong	62	65	59
Czech Republic	57	5	4
Italy	40	15	20
Spain	39	35	20
Africa	39	7	5
Australia	35	29	26
Middle East	34	11	13
Baltic states	29	19	17
Switzerland	28	25	30
Russia	27	17	15
Japan	24	14	18
Poland	17	13	7
Other countries	125	68	92
<b>Total</b>	<b>6,968</b>	<b>4,958</b>	<b>3,457</b>

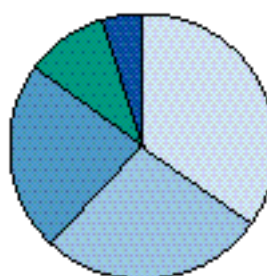
1) Sales to customers in each country.

Sales per product group, total SEK 6 968 M



- n Mechanical locks, lock systems and accessories, 51%
- n Electromechanical and electronic locks, 9%
- n Industrial locks, 6%
- n Door and window hardware and security doors etc., 23%
- n VingCard hotel locks and digital safes, 11%

Sales per geographical area, total SEK 6 968 M



- n North America 35%
- n Nordic region 27%
- n Europe 23%
- n VingCard 10%
- n Other 5%

## Key figures

SEK M	1997	1996	1995	1994 <sup>1)</sup>	1993 <sup>1)</sup>
Net sales, SEK M	6,968	4,958	3,457	3,540	3,333
Gross margin, %	16.8	14.6	12.6	10.0	11.6
Operating margin before goodwill amortization, %	11.6	10.4	7.5	4.9	6.6
Result after financial income and expense, SEK M	537	345	213	76	114
Profit margin, %	7.7	7.0	6.2	2.1	3.4
Cash flow after tax, SEK M	676	372	345	139	62
Net investments, SEK M	274	163	187	139	189
Total assets, SEK M	7,692	4,684	2,470	2,850	2,902
Shareholders' equity, SEK M	2,317	1,408	928	776	676
Net debt, SEK M	3,442	2,085	659	1,055	1,151
Capital employed, SEK M	5,909	3,640	1,714	2,047	1,990
Equity/assets ratio, %	30.4	30.3	37.9	27.7	23.8
Interest coverage, times	3.8	3.6	4.8	1.9	2.0
Debt/equity ratio	1.49	1.48	0.71	1.36	1.70
Return on shareholders' equity after tax, %	18.9	21.2	16.9	7.4 <sup>2)</sup>	12.4 <sup>2)</sup>
Return on capital employed					
before goodwill amortization, %	24.6	24.9	15.4	9.4	12.8
Return on capital employed, %	15.2	17.8	14.3	8.2	10.9
Earnings per share after tax and full conversion, SEK	5:09	3:86	2:34	0:87 <sup>2)</sup>	1:34 <sup>2)</sup>
Shareholders' equity per share, after full conversion, SEK	35:82	21:75	15:87	12:70	11:06
Number of shares, thousands	70,732	64,311	53,592	53,592	-
Number of shares after full conversion, thousands	73,862	66,349	55,421	53,592	-
Average number of employees	8,088	6,317	4,274	4,703	4,639

1) The comparative figures for 1993 and 1994 are reported pro forma

2) The comparative figures for 1993 and 1994 are calculated using standard tax

## Definitions

**Gross margin:** Operating result before depreciation as a percentage of sales.

**Operating margin before goodwill amortization:** Operating result before goodwill amortization as percentage of net sales.

**Profit margin:** Result after net financial items as a percentage of sales.

**Cash flow:** Based on the cash flow analysis, see page 44.

**Net debt:** Interest-bearing liabilities less interest-bearing investments.

**Capital employed:** Total assets reduced by noninterest-bearing current liabilities including deferred tax liability.

**Equity/assets ratio:** Shareholders' equity including minority as a percentage of total assets.

**Interest cover:** Result after net financial items in relation to financial expenses.

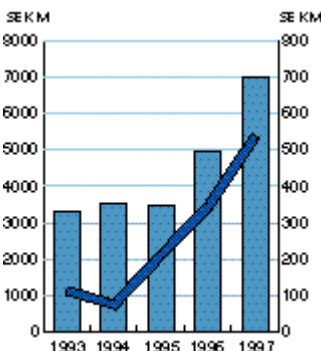
**Return on shareholders' equity after taxes:** Result after net financial items, less full tax, in relation to average shareholders' equity after full conversion.

**Return on capital employed before goodwill amortization:** Result after net financial items plus financial expenses and goodwill amortization in relation to average capital employed excluding goodwill.

**Return on capital employed:** Result after net financial items plus financial expenses in relation to average capital employed.

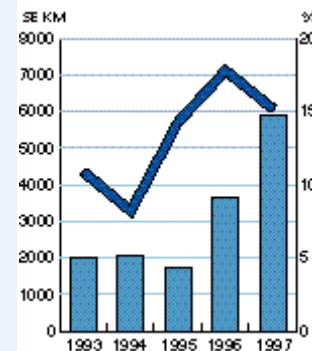
**Earnings per share after taxes:** Result after net financial items, less full tax, divided by the average number of shares after full conversion.

Sales and result after financial income and expense



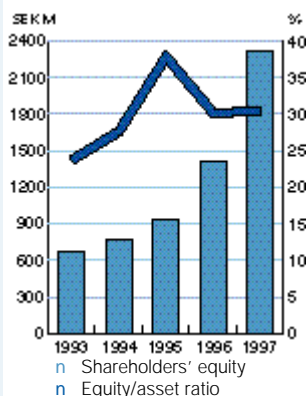
■ Sales  
■ Result after financial income and expense

Capital employed and return on capital employed



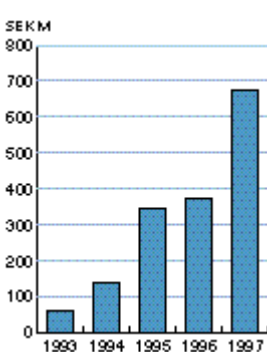
■ Capital employed  
■ Return on capital employed

Shareholders' equity and equity/asset ratio

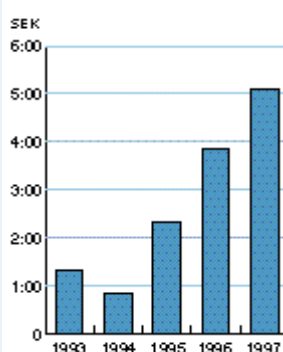


■ Shareholders' equity  
■ Equity/asset ratio

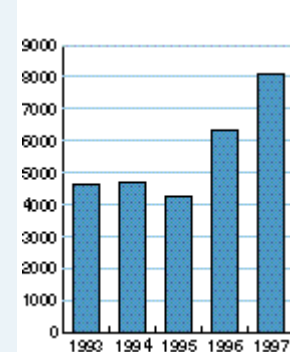
Cash flow



Earnings per share after tax



Average number of employees





## THE ASSA ABLOY SHARE

ASSA ABLOY AB has been listed on the Stockholm Stock Exchange since November 8, 1994. In October 1995, the share was moved to the A-list. On July 21, 1997, the share was moved to the O-list at the company's request due to the changes in wealth taxation rules. The price of the ASSA ABLOY share rose 69 percent in 1997. During the same period, the Stockholm Stock Exchange's general index rose 25 percent. The closing price at year-end was SEK 210, corresponding to market capitalization of SEK 14,854 M. The number of shareholders at year-end was approximately 8,300. Institutional investors, excluding the main shareholders, represent about 50 percent of the capital. Non-Swedish investors, including Metra Oy Ab, account for 69 percent of the capital.

During 1997, a total of 13 million shares were traded, corresponding to an average of about 53,200 shares for each trading day and 19 percent of the shares outstanding.

### Share capital

ASSA ABLOY's share capital amounts to SEK 70.7 M, distributed among 4,190,412 A-shares, 66,541,706 B-shares. All shares have a par value of SEK 1 and provide

the holders with equal rights to the Company's assets and earnings. Each A-share entitles a holder to 10 voting rights, while B-shares provide one voting right. Changes in share capital during the past nine years are shown in the table below.

### Convertible debentures for personnel

In 1995, convertible debentures were offered to employees in the ASSA ABLOY Group. About 400 employees participated in the issue. The debenture loan amounts to SEK 75,004,375 and extends from June 29, 1995, to June 30, 2000. The debentures can be converted into B-shares from July 1, 1998, through June 15, 2000. On full conversion at an exercise price of SEK 35:70, and taking into account new issues, an additional 2,100,962 shares will be created, entailing a dilution of about 2.9 percent of the number of shares and about 1.9 percent of the voting rights.

Another convertible debenture loan was issued to the employees of the ASSA ABLOY Group during 1997. A total of 1,400 persons participated in the offering and there was a 100 percent oversubscription. The debenture loan amounts to SEK 250,000,000 and extends from December 8, 1997 through December 2, 2002. Conversion can be exercised for B-shares between December 1, 2000 through November 15, 2002. At full conversion, at an exercise price of SEK 243, an additional 1,028,806 shares arise, representing a dilution of about 1.4 percent of the number of shares and about 0.9 percent of the number of votes. Combined, the two convertible debenture loans result in a dilution of 4.2 percent of the number of shares and 2.8 percent of the number of voting rights.

### New share issue

In conjunction with the acquisition of the French units, the Board of ASSA ABLOY decided to propose a new share issue with preferential subscription

### Data per share

SEK/share	1997	1996	1995 <sup>2)</sup>	1994 <sup>1,2)</sup>
Earnings after 28% standard tax	5:56	3:88	2:47	0:87
Earnings after full tax method	5:09	3:86	2:34	-
Dividend <sup>3)</sup>	1:75	1:21	0:87	-
Dividend, % <sup>4)</sup>	31.5	31.2	35.2	-
Direct yield, % <sup>5)</sup>	0.8	1.0	1.6	-
Share price at end of period	210:00	124:00	56:05	23:05
Highest share price	217:00	126:50	64:18	30:74
Lowest share price	121:50	52:40	22:15	18:98
Shareholders' equity	35:82	21:75	15:87	12:70
Number of shares (1,000s) <sup>6)</sup>	73,862	66,349	55,421	53,592

- 1) 1994 has been calculated for the purpose of comparison using pro forma accounts and the number of shares in 1994.
- 2) 1995 and 1994 adjusted for new issues.
- 3) Proposed dividend.
- 4) Dividend as a percentage of earnings per share after 28% standard tax.
- 5) Dividend as a percentage of the share price at the end of the period.
- 6) After full conversion.

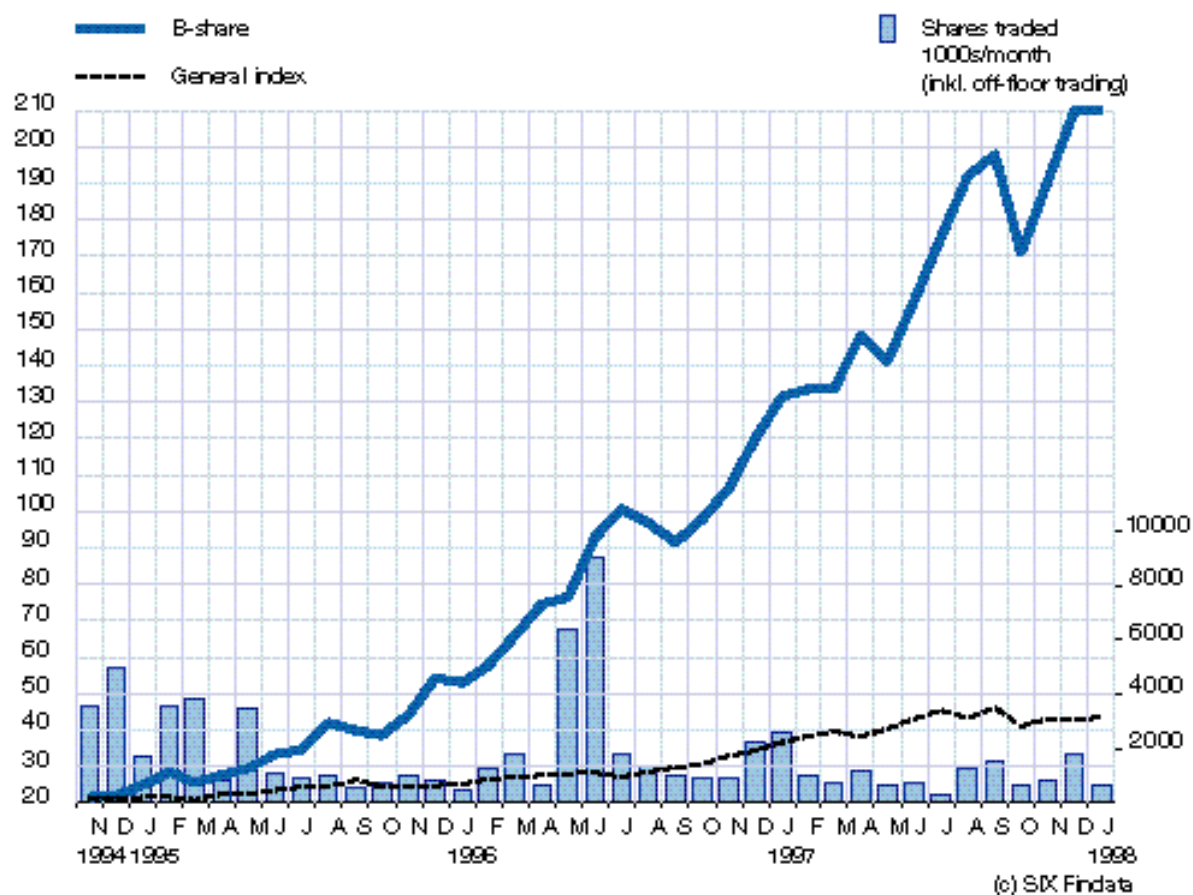
### Share capital

Year	Transaction	A-shares	C-shares	B-shares	Share capital SEK
1989			20,000		2,000,000
1994	100:1 split			2,000,000	2,000,000
1994 <sup>1)</sup>	Bonus issue		1,428,550	22,687,900	24,116,450
1994 <sup>2)</sup>	Non-cash issue	1,746,005	1,428,550	50,417,555	53,592,110
1996 <sup>3)</sup>	New share issue	2,095,206	1,714,260	60,501,066	64,310,532
1996	Conversion of C-shares into A-shares	3,809,466		60,501,066	64,310,532
1997 <sup>4)</sup>	New share issue	4,190,412		66,541,706	70,732,118
2000 <sup>5)</sup>	Unconverted debentures			2,100,962	72,833,080
2002 <sup>6)</sup>	Unconverted debentures			1,028,806	73,861,886

- 1) The split and bonus issue were conducted in September 1994 prior to the distribution of the shares to shareholders in Securitas AB.
- 2) The non-cash issue was conducted in November 1994 in conjunction with the acquisition of Abloy Security Group from Metra Oy Ab.
- 3) A new share issue was decided in February 1996 and conducted during March and April 1996.
- 4) A new share issue was decided in April 1997 and conducted during May and June 1997.
- 5) 2,100,962 new B-shares are expected to arise after full conversion
- 6) 1,028,806 new shares are expected to arise after full conversion



## ASSA ABLOY AB's share trend



rights for ASSA ABLOY's shareholders totaling SEK 642 M, by which ten old shares would entitle the holder to subscribe for one new share at a price of SEK 100. The Annual General Meeting on May 7, 1997, approved the new issue in accordance with the Board's proposal. The new shares were issued in May and June, and the issue was subscribed to 99,8 percent.

### Dividend and dividend policy

The Board of Directors and President propose that SEK 1:75 per share be paid as a dividend to shareholders for the 1997 financial year, corresponding to a direct yield on the B-share price at December 30, 1997, of 0.8 percent. The objective is for the dividend in the long term to correspond to approximately one-third of ASSA ABLOY's average earnings after net financial items and standard tax, based always, however, on ASSA ABLOY's long-term financial requirements.

### Ownership structure

Data is based on the share register as of December 30, 1997 and subsequent changes known to the company.

Owner	A-shares	B-shares	Capital %	Voting rights %
Metra Oy Ab	2,304,726	18,305,234	29.1	38.1
Janus Capital Funds	0	7,519,514	10.6	6.9
Investment AB Latour	0	5,680,440	8.0	5.2
SPP	0	3,394,990	4.8	3.1
Melker Schörling + family and companies	330,000	2,876,966	4.5	5.7
FöreningsSparbanken Unit Trusts	0	1,686,500	2.4	1.6
Säkl	1,555,686	75,000	2.3	14.4
Carl-Henric Svanberg + family and companies	0	1,162,640	1.6	1.1
National Pension Insurance Fund, Fifth Board	0	1,018,000	1.4	0.9
Nordbanken Unit Trusts	0	590,800	0.8	0.5
Other shareholders with more than 50,000 shares		19,857,613	28.3	18.5
Shareholders with 501–50,000 shares		3,607,415	5.1	3.3
Shareholders with up to 500 shares		766,594	1.1	0.7
<b>Total number</b>	<b>4,190,412</b>	<b>66,541,706</b>	<b>100.0</b>	<b>100.0</b>

## ASSA ABLOYs ORGANISATION

### Sweden

AB FAS Låsfabrik  
Assa AB  
ASSA Industri AB  
Assa Säkerhetsgruppen AB  
FIX AB  
SOLID AB  
ASSA ABLOY Romania Srl  
Assa Balt Ltd  
Assa Portuguesa LDA

### Finland

Abloy Oy  
Abloy Oy Eesti Filiaal, Estonia  
Abloy Security Pty Ltd,  
Australia  
OOO ASSA ABLOY, Russia

### Norway

Gorud Industrier a.s  
Låsgruppen a.s  
TrioVing a.s

### Denmark

A/S Ruko  
FIX A/S  
Ruko Service A/S  
ASSA-Ruko Sicherheitssysteme  
GmbH, Germany

### Germany

BAB-IKON GmbH  
IKON AG  
Wilhelm Dörrenhaus GmbH  
Ambouw B.V, The Netherlands  
Dupéray S.A, Belgium  
IKON Cully S.A, Switzerland

### Great Britain

Abloy Security Ltd  
ASSA Ltd  
Gorud Industries Ltd  
Abloy Security Ltd, Ireland

### France

Bezault S.A  
JPM Chauvat S.A  
Laperche S.A  
Vachette S.A  
Litto S.A, Belgium

### Czech Republic

FAB a.s  
FAB SLOVAKIA s.r.o, Slovakia

### Far East

ASSA ABLOY Ltd, Hong Kong  
ASSA ABLOY Pte Ltd,  
Singapore

## ASSA ABLOY GROUPS' STRATEGY AND FINANCIAL GOALS

### STRATEGY

#### Our products and markets

##### Focus on lock segment

An important element of ASSA ABLOY's strategy is to maintain focus on the lock segment – lock cylinders, door and window hardware and electromechanical lock products – in order to maximize the efficiency of market, product and production development.

##### Focus on trend towards higher security

In an increasingly unsafe world, people's need for security grows. Ever better lock products are being demanded. Within ASSA ABLOY, special emphasis is focused on product development in close cooperation with the customers, the police and insurance companies. Extensive efforts are also made aimed at informing and educating the various players in the market about the Group's products and security solutions. Examples of important target groups are retailers, architects, security officers and end-users.'

The trend towards higher security, which means increased demand for even better lock products, is projected to result in an annual growth in the lock industry of 2-3 percent above the GDP.

#### Our management model

##### Multi-domestic

ASSA ABLOY is the largest producer of locks in the world in that the Group is the single largest player on the market. However, it is proximity to the customer, awareness

about local needs, businesses and distribution patterns that are the fundamental conditions for success in the lock industry. Consequently, responsibility is clearly decentralized to one manager per country, with each country as a natural building block in the Group's operations.

Due to its global market coverage, VingCard is organized separately since the operations in many respects offer other possibilities and threats to manage, compared with the other lock companies in the Group.

##### Executive management

The country managers and the president of VingCard are included in Group Management. The most experienced managers in Group Management, Group Vice Presidents, are responsible for several countries and, consequently, contribute to spreading ASSA ABLOY's management model and work methods.

##### Active internal benchmarking and inter-company learning processes

The Company strives for a flat and flexible organization, with active internal benchmarking and inter-company learning.

All country managers meet on a regular basis and compare their operations. Substantial efficiency improvements have been attained since all have something to learn from one another. Despite large variations in profitability between units, the basic attitude is that even the best has something to learn from the others.

##### Group strengths

There is substantial coordination in areas in which global competition prevails, such as the electronics and electro-

## United States

Abloy Security Inc.  
Arrow Lock Manufacturing Co  
Inc.  
ASSA Inc.  
Curries Co  
ESSEX Industries Inc.  
Graham Manufacturing Corp  
McKinney Products Co  
Sargent Manufacturing Co  
Sargent of Canada Ltd, Canada

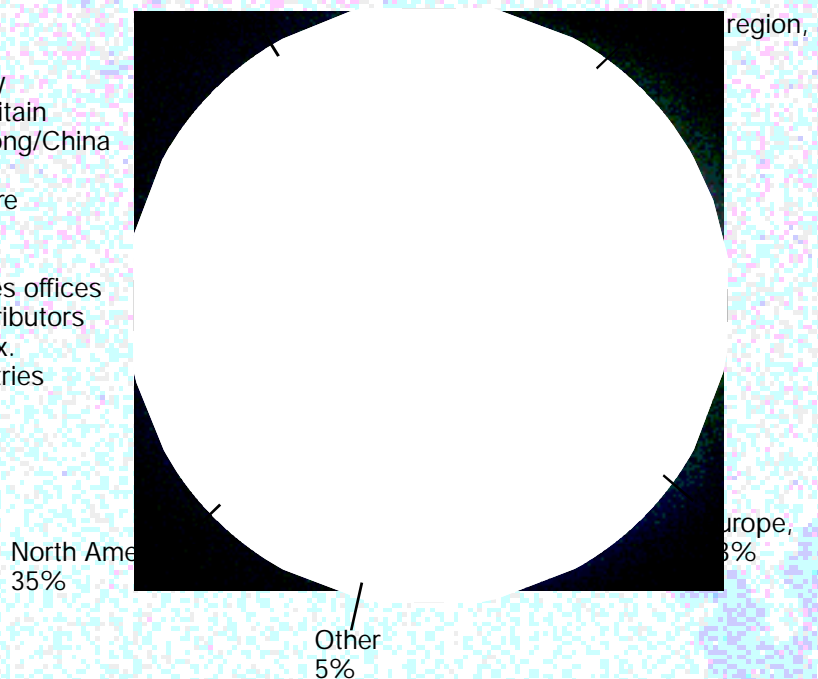
## VingCard

Elsafe a.s.  
Elsafe Inc., U.S.  
VingCard a.s  
VingCard Inc., U.S.

## VingCard companies

Brazil  
Canada  
France  
Germany  
Great Britain  
Hong Kong/China  
Japan  
Singapore  
Spain  
Thailand  
plus sales offices  
and distributors  
in approx.  
70 countries

## Sales per geographical region



mechanical segments. The degree of coordination varies within other areas.

In order to create an effective financing and efficient management of financial transactions and to minimize financial risk, the Group's finance function is centralized.

### Broadened ownership participation

ASSA ABLOY seeks the greatest possible ownership participation among employees and management. Another convertible debenture loan to employees was issued during the year which combined with the 1995 convertibles broadened ownership from approximately 400 to 1,600 of the Group's 9,500 employees. The Group's management owns substantial shareholdings.

### Group information

In a rapidly growing Group, the need for a regular flow of information is great. The Group newsletter, ASSA ABLOY News, focuses particularly on the Group's strategy and growth. The newsletter presents Group-wide news items, successful projects, new units and acquisitions in several languages.

### Our expansion strategy

#### Organic growth

ASSA ABLOY's ability to continually create organic growth is decisive for future success. This is achieved through intensive development of mature as well as new markets.

In mature markets in which ASSA ABLOY is already established, this involves first and foremost active product

development in cooperation with customers and insurance companies and the training of architects, distributors and retailers. Cross-selling between Group units reduces development costs and creates conditions for more rapid market development.

In growth markets where locally strong players and brands are lacking, new establishments are created, with own subsidiaries. These markets often demand products of varying standards, from Europe as well as the U.S. ASSA ABLOY has a strategic advantage due to its comprehensive product program.

### Acquisitions in mature markets

In mature markets, brand names, installed base, local standards and traditions form barriers to entry. Accordingly, in these markets the acquisition of market-leading companies is a significant element in ASSA ABLOY's strategy.

## FINANCIAL GOALS

The above points comprise ASSA ABLOY's strategy to achieve a sustained, favourable earnings trend, with focus on earnings per share.

The financial goal is a return on capital employed exceeding 20 percent. As a result of acquisitions and the goodwill items arising, maintaining this goal in practice is a demanding target. 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 EMPLOYEES AND MANAGEMENT PHILOSOPHY

ASSA ABLOY is characterized by a positive philosophy towards its employees. Each individual is able and willing to do good work and management is responsible for creating the conditions that make this possible. Realism, vision, courage and ethics are the cornerstones of the management philosophy that characterizes ASSA ABLOY.

**Realism** means that decisions, actions and leadership should always be based on thorough knowledge of the various parts of the business. It is of course essential for a manager to have an overview of things, but the answers to many important questions are often to be found in knowledge of the details.

**The Vision** that drives the Group forward is that ASSA ABLOY is to be the leading lock company in the world. "Leading" does not only mean being the largest, but also the player that clearly leads developments within the industry.

**Courage** and energy are required to be able to deal with rapid and major changes both within ASSA ABLOY and in the lock industry generally. But courage must be based on solid knowledge and a clear vision.

**Ethics** within the Company, reflected in both attitudes and actions, determine the degree of confidence, creativity, ambition and commitment shown by employees. A high ethical standard, with emphasis on the power of example, is essential if the Company is to be able to attract and retain the best employees.

The skills and commitment of employees and managers

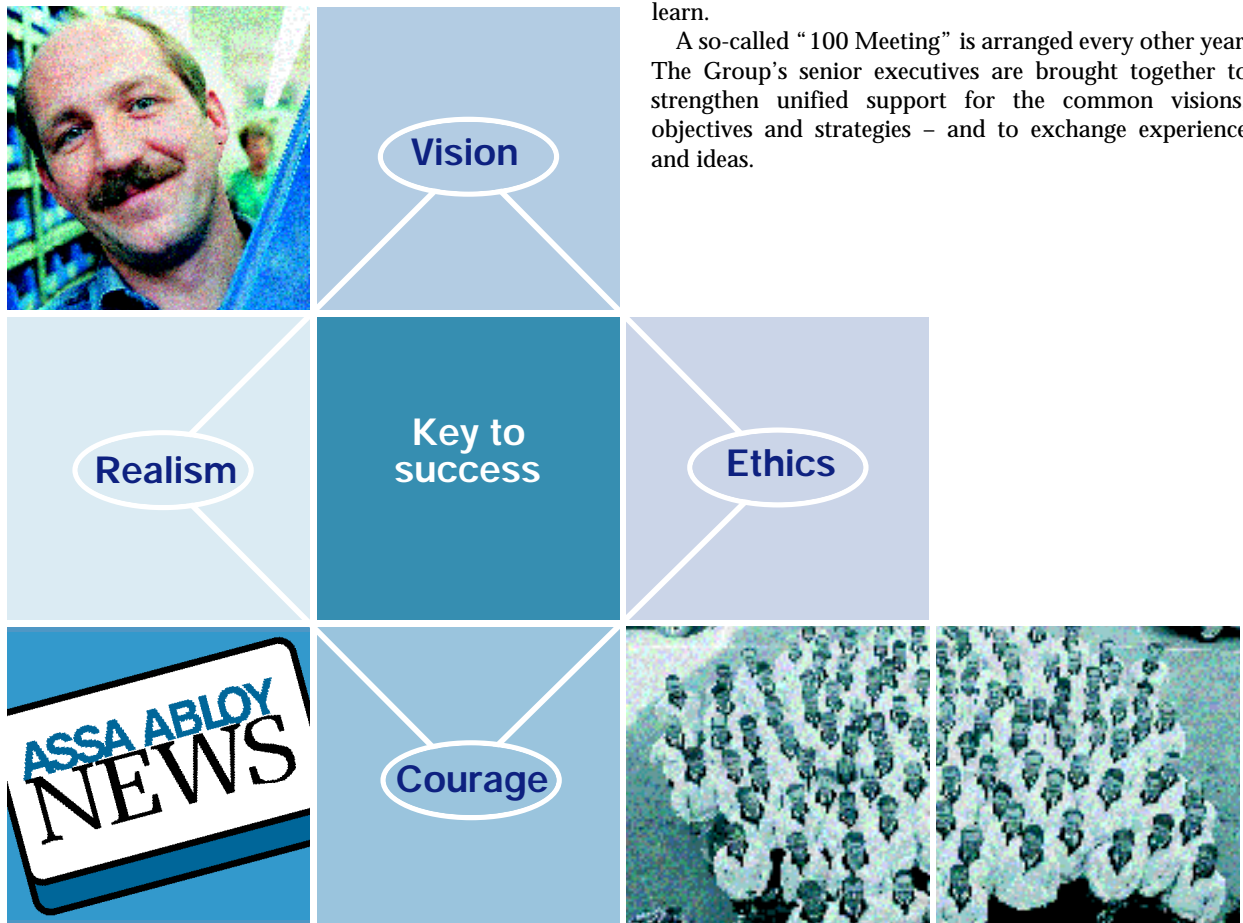
are important factors for ASSA ABLOY's continued success and growth. Accordingly, skill-enhancing measures – job rotation and training programs, for example – are conducted at all levels of the Group. The sharp focus on the lock market, as well as the active benchmarking, are creating favourable conditions for exchanges of experience between employees and units within ASSA ABLOY. As part of this activity, for example, the Company each year conducts the "ASSA ABLOY Management Program" in which approximately 25 employees have an opportunity to further develop their leadership skills. The entire program is carried out by Group Management and is based on case studies from ASSA ABLOY.

During the year, to promote share ownership on the part of both employees and managers, as well as the long-term growth of the Company, ASSA ABLOY issued another convertible debenture loan to the Group's employees. Slightly more than 1,400 participated in the issue. A large number were employees of the newly acquired companies in France, the Czech Republic and the United States.

Communication is important at all levels. "ASSA ABLOY News" is issued four times a year, in several languages, to distribute knowledge on a continuing basis and keep all 9,500 employees up-to-date on what is happening within the Group.

This publication provides an opportunity to introduce newly acquired units and to describe important organizational changes and successful projects, from which all can learn.

A so-called "100 Meeting" is arranged every other year. The Group's senior executives are brought together to strengthen unified support for the common visions, objectives and strategies – and to exchange experience and ideas.



## TREND TOWARDS HIGHER SECURITY – PRODUCT DEVELOPMENT

The trend towards higher security permeates all of ASSA ABLOY's work related to product development and marketing.

In an increasingly unsafe world, with a growing amount of crime, people have a greater need to protect themselves and their property. This is imposing demands for ever better lock products. Overall, it is estimated that the increasing need for security is creating annual growth in the market for the lock industry that exceeds the GDP by 2 to 3 percent.

Development work is being conducted continuously within ASSA ABLOY, often in cooperation with police authorities, insurance companies and end-users. In addition to safety aspects, our products have to satisfy a number of customer demands that are, or will be, equally important; these include user friendliness, suitability and aesthetic design, as well as fire safety. ASSA ABLOY

therefore places great emphasis on creating products that satisfy very high safety demands in terms of their mechanics, but which are also rugged and simple in their design and configuration.

The use of electronics is increasing as a means of satisfying a large number of different and complex customer demands. A relatively large percentage of ASSA ABLOY's sales are already based on products with an electromechanical or electronic content. The steady growth in the electronics field is making it possible to develop new applications where the Group can focus on common development projects. This will continue to be a priority area.

Product development within ASSA ABLOY takes place both in the local companies and via joint development projects. Common definitions for the product development process, plus continuous benchmarking, ensure short lead times and maximum efficiency in the development of products.

**Increasing criminality – higher demand for security**

**Product development in cooperation with police authorities, insurance companies and users**

**Information and training about risks and security solutions**

**Growing number of people are buying more and better lock products, increased growth 2–3% per year**

## ASSA ABLOY AND ENVIRONMENTAL MANAGEMENT

Environmental matters have a high priority within ASSA ABLOY. They are managed systematically and with a long-term perspective. Maintaining the high functional requirements of security products while using resources in an optimal manner in all phases of operations poses a major challenge in a life-cycle perspective.

From an environmental viewpoint, ASSA ABLOY's products represent a favorable relationship between the consumption of resources in production and use and technical functionality. ASSA ABLOY's operations are vertically integrated to a high degree; the Group purchases basic raw materials such as steel and brass and refines them internally all the way to finished products. This gives ASSA ABLOY full control and the possibility to optimize recycling throughout the production process. At the same time, there is room for further improvement.

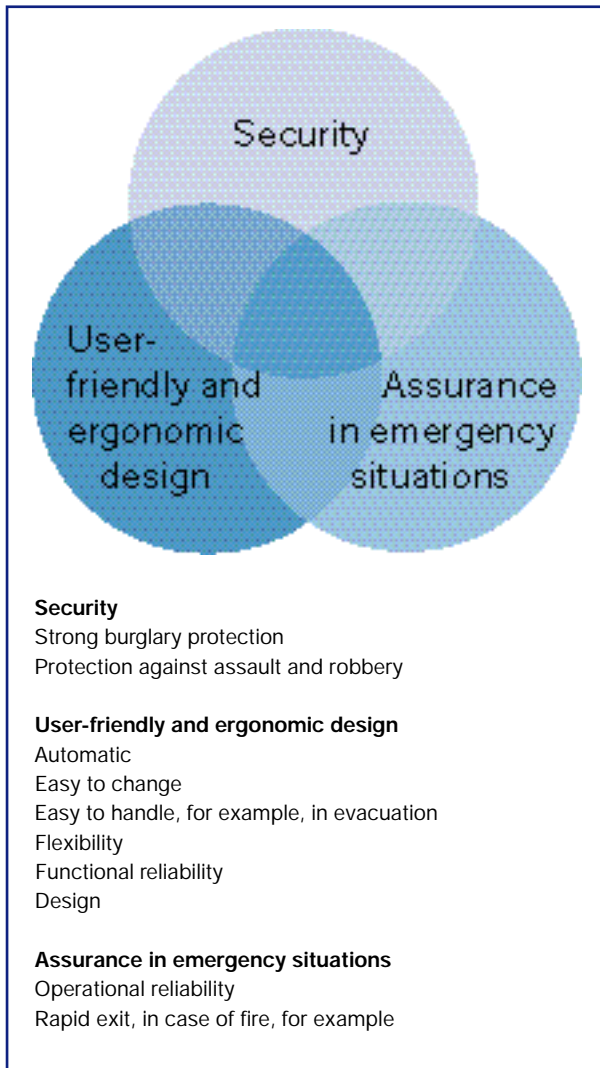
Environmental management involves a systematic program of improvement regarding the use of resources and the generation of waste. In the case of ASSA ABLOY's companies, this means a further refinement of existing principles and procedures for dealing with priority

aspects of environmental management that are associated with the production, distribution and use of the companies' products.

Within ASSA ABLOY, the ISO 14001 international standard for environmental management systems has been deemed to be an appropriate tool to support the Group's internal process of improvement with respect to the impact of operations on the environment. In addition, external communications about environment issues are simplified through independent certification procedures.

It was decided in 1996 that all Group companies are to be certified in accordance with the ISO 14001 standard within the next few years. The Danish, Finnish and German companies were certified in 1997.

## ASSA ABLOY'S PRODUCTS



The ASSA ABLOY Group offers a complete system of lock products designed to make it possible to control access to and passage to and from various apparatus, premises and areas. A guiding principle for ASSA ABLOY is to develop lock products which satisfy the increasing demand for personal and material security in virtually all markets worldwide. Our philosophy is that increased security should go hand-in-hand with increased user-friendliness and functional design as well as assurance in emergency situations. Our products are developed to fulfill these demands concurrently to the greatest possible degree.

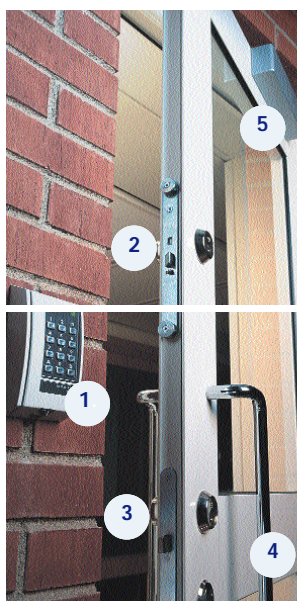
The Group focuses primarily on lock security for doors and windows. Lock security for various industrial products, such as parking meters, pay telephones and gambling machines and radio base stations for cellular phones, is a rapidly growing area for ASSA ABLOY.

Attaining high security, for example, for a door, requires a lock with a high-security cylinder, lock case and fittings, as well as a heavy door, door frame and secure hinges. ASSA ABLOY's ambition is to deliver a complete and smooth-functioning security package and solutions for doors and windows which contain all of these necessary components in a common design philosophy. ASSA ABLOY often supplies complete lock systems to large office complexes and institutions, such as hospitals, schools and museums, where the locks in the various doors are part of a system, in which different keys provide authorized entry into specific areas and rooms, a so-called master-key system.

In addition to the physical lock products, the Group offers services and information systems, such as security consultation, EDP software for planning and maintenance of large lock systems in office complexes as well as guidance for security planning and installation in various types of buildings using, for example, CD-ROM or the Internet.

### Striving for higher security

The ASSA ABLOY security pyramid is one of many tools used to increase the relative security level on each market. The security pyramid is one way of illustrating the various lock systems from the viewpoint of security. ASSA ABLOY is the world's largest manufacturer of lock



1. SOLID card reader/key pad – daytime convenience with night security.

2. ASSA deadlocking latch – working with SOLID's electric strike gives controlled, reliable daytime access.

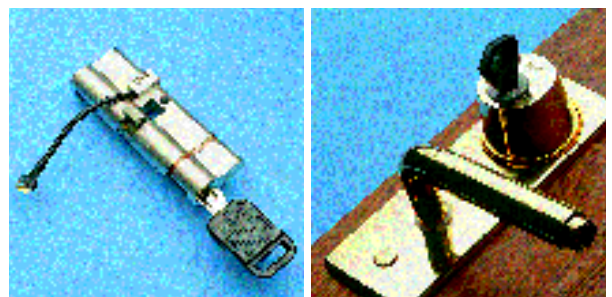
3. ASSA motorlock – for the highest night time security.

4. ABLOY – PRIMO door pulls – easy to use, even by the elderly and disabled.

5. ABLOY door closer – ensuring the door closes reliably, every time.

### Absolute key control

IKON IKOTRON and ABLOY EXEC ID are products that link electronics and mechanical locking to obtain the highest security solutions.

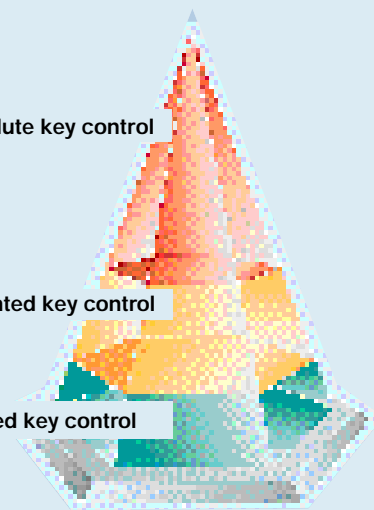




**Absolute key control**

**Patented key control**

**Limited key control**



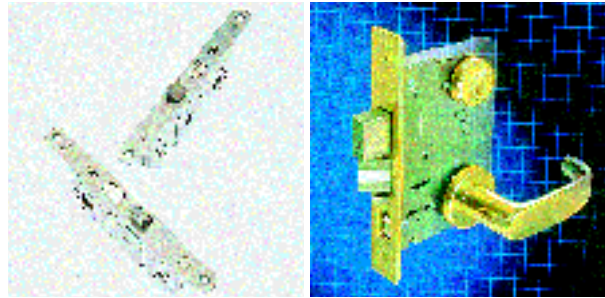
**Absolute key control** requires an approved and registered service agreement between the system owner and a licensed service station, and that the key has a unique electronic code and a patented mechanical code. Examples of cylinders based on this technology are ASSA Twintronic, IKON IKOTRON and ABLOY EXEC ID.

**Patented key control** means that extra keys are manufactured only from patented and design-protected key blanks and require an approved and registered service agreement for follow-up orders for keys and service. Examples of cylinders that use this technology are the ASSA Twin Combi, Ruko Combi II, IKON Sperrwelle, ABLOY DISK-LOCK PRO, TrioVing Twin and Vachette Radial.

**Limited key control** means that the keys can be copied if the customer has a sample key and proper identification.

**Patented key control**

Vachette Radial and TrioVing Twin are key cylinders with patented key control to prevent unauthorized duplication of keys.



The ASSA 2000 offers convenience when at home and security when away whilst the Sargent 8200 is designed to handle very tough demands on durability and security in the US institutional market.

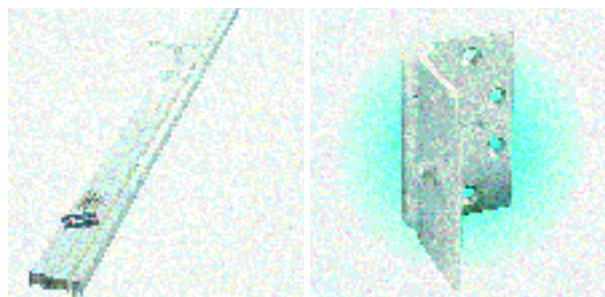
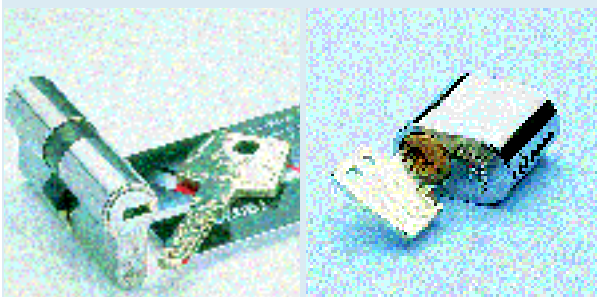
cylinders. Lock cylinders constitute the core of the lock and the lock company's product range and represent a crucial part of the lock manufacturer's technical expertise. The lock cylinders have various security levels, in terms of the degree of key control and security against picking, drilling and breaking.

In line with the development of cylinders, lock cases and accessories have been adapted to satisfy tougher demands on security. Lock cases represent an important part of the lock function. To meet increasing security requirements imposed on entrance doors, for example, a number of functions have been introduced: a reinforced replaceable door post which can easily be changed for right-hand or left-hand doors; steel hook bolts, which fortify security between the door and frame; and a "Safety at home/Security when away" function for locking entrance doors in the residential sector, by which the door is locked with a key from the outside and with a key or knob from the inside. This makes it more difficult for an intruder to carry out objects.

On a number of markets, the use of multi-point locking is increasing as a method of increasing security through additional locking points and to provide additional reinforcement for the door.

Hinges constitute an important component in security solutions for doors and windows. Hinges without a security function are relatively easy to manipulate and the

Vachette's multi-point locking products where doors need increased rigidity. High security hinges from McKinney are designed to complement the security of the lock and other security components on the door.



entire door or window can then be lifted out, for example, in a burglary. Accordingly, the ASSA ABLOY Group offers a complete product line to cover all requirements, ranging from conventional bolt hinges, back-flap and butt hinges, to security-classified ball-bearing and journal-supported hinges for heavy security doors with high opening frequency.

Security doors and frames are manufactured and marketed by ASSA ABLOY for the U.S. market only and are components in an integrated package that includes the lock, fittings and door which has gained a strong market position in the U.S.

The level of security in a building is also determined by the locking of windows, patio, terrace and balcony doors, which are the most common means of access in burglaries. Security can be increased with an espagnolette that has one or more hook bolts made of tempered steel which lock into a security striking plate in the frame.

Industrial locks are often customer specific products made for users and manufacturers of safety deposit boxes, gambling machines, pay telephones and mobile radio base stations. Since high security is an increasingly important requirement in these applications, ASSA ABLOY manufactures products for this segment with patented key control.

Padlocks have also advanced towards substantially higher security and in the Nordic market, for example, a security classification system has been developed in co-operation with the police and insurance companies which

indicate the correct application of approved locks.

### Create user-friendliness and comfort

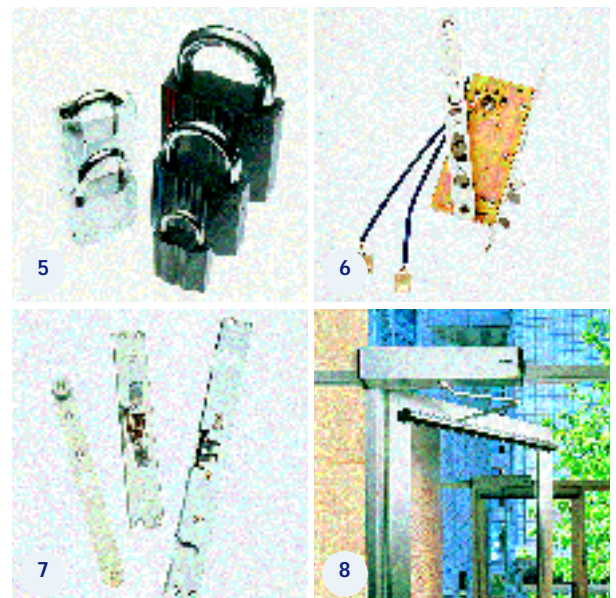
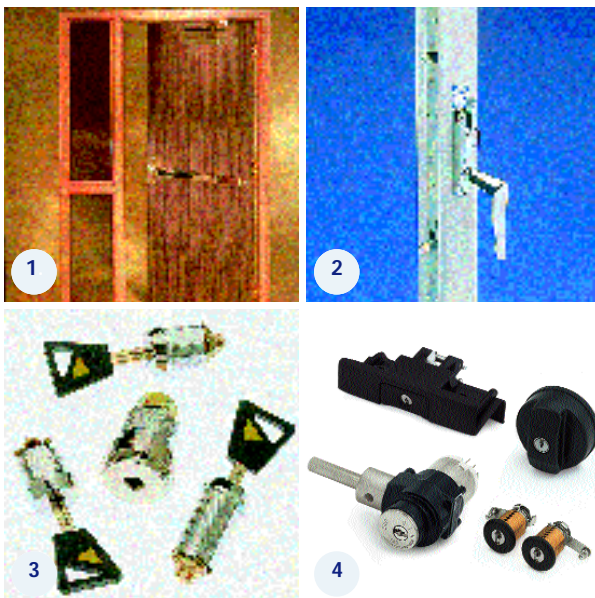
Electromechanical and electronic technology is growing in importance and has influenced rapid technological development towards increased security. Electronics supplement the mechanical technology in a lock by increasing user-friendliness and convenience through new functions and a higher degree of flexibility. The lock system in a large office complex, for example, can easily be changed with the aid of electronics in pace with changes in the organization, thereby enabling access and passage to appropriate premises. In addition to increased user-friendliness, this also improves security by ensuring that misplaced and lost keys do not provide access to unauthorized persons.

Various electromechanical lock products, for example, constitute a basic component in all access control systems. Access control systems permit easy control of the flow of people, door monitoring and lock system security. ASSA ABLOY has a complete range of motor-driven sash locks, electric striking plates, code locks and card reader systems, compatible with all types of access control systems and lock standards. In certain markets, for example in Scandinavia and France, the access control system software is also developed and marketed.

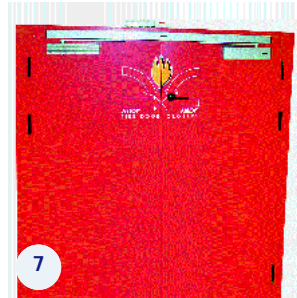
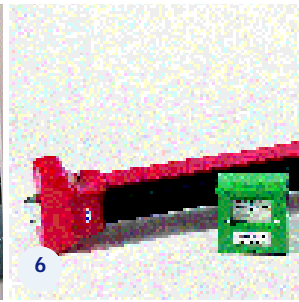
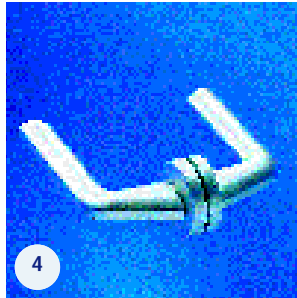
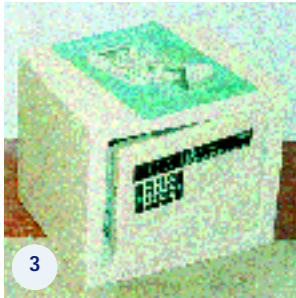
The automatic door operator offers easy and secure control of door functions and is often included in systems with electromechanical locking. Automatic door

1. Graham's wooden security door, steel door frame from Curries and door hardware from Sargent.
2. FIX high security espagnolettes.
3. FAB car locks offer security with convenience for the car owner.
4. ASSA DESMO and ABLOY DISKLOCK PRO have many different applications but typically fit into equipment such as deposit boxes, gaming machines, pay phones and mobile telephone transmission stations.

5. ASSA/Ruko and ABLOY padlocks.
- 6-7 Access control systems can only be as secure as the products that keep the door closed against forced entry. ABLOY motorlocks (6) and SOLID's electric strikes (7) for highest performance where reliability is critical.
8. Automatic opening and closing of doors is becoming a necessity in many environments used by the general public. The ABLOY automatic door operators are designed to offer the perfect solution.







1. The ABLOY 1430 door closer which incorporates a number of new functions applicable to the American market is produced in our new door closer factory in Joensuu, Finland.
2. VingCard's check-in-station Vision.
3. The Elsafe hotel room safes remove the guests' concerns about the security of their valuables in the room.
4. Bezault door handles incorporate aesthetics together with functionality – the essence of good design.

5. ASSA/Sargent/JPM panic devices offer fast, simple exit in an emergency.
6. Electronics are used in the Sargent Electroguard and JPM "push control" to ensure that panic devices are operated only when required in a real emergency.
7. The ABLOY fire door closer operates automatically in a fire situation.
8. Fire doors from Curries and Graham restrict the spread of fire, giving time for safe evacuation.

operators are also a valuable aid for the handicapped. Legislation is continually increasing the focus on safety, convenience and security for the handicapped, in Europe and the U.S.

Mechanical door closers are an important complementary product in achieving secure closing of the door in access control systems with electromechanical locks. Accordingly, ASSA ABLOY has built a new plant for the manufacture of mechanical door closers in Finland which will supply the U.S. market and others.

Complementary systems to add user-friendliness and functionality of lock systems are continually increasing in value. For example, VingCard Vision, with its touch-screen function, is a new generation of check-in-stations for hotels, which is sold with VingCard's card-based hotel locks. VingCard Vision increases user-friendliness and efficiency of the registration procedure.

Another example is Elsafe, with digital safes for hotel rooms, which offer an easier solution for guests to secure their valuables in the room.

Finally, ergonomically and aesthetically designed push/pull bars and door handles are an obvious element in most user-friendly lock systems.

As the importance of design increases in society, ASSA ABLOY focuses on a complete security package with a common design to suit doors or windows.

### Demands increase for safety in emergency situations

In many markets, the demand for safety in emergency situations is constantly increasing. This is particularly the case in public buildings, such as hotels, cinemas and theaters, hypermarkets, hospitals and schools. These requirements can involve functional and operational reliability and rapid evacuation in the event of a fire or smoke, or

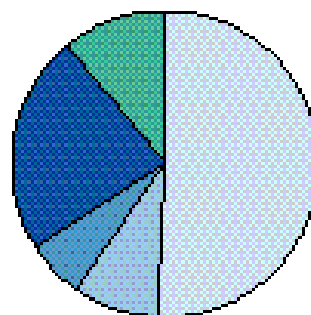
demands for special fire doors to prevent the spread of fire.

Accordingly, panic bars and emergency exit devices are important ASSA ABLOY products. They facilitate fast and effective opening of doors in an emergency while maintaining favourable resistance to intrusion from the outside. To exit through a door fitted with a panic bar, a person needs only press the bar for the door to open.

Panic bars can also be equipped with electronics, integrated in a system with fire alarms and feature functions such as delayed door opening, which provide higher theft protection while maintaining the facility for safe evacuation.

Automatic fire door closers are an example of other important products to ensure and control closing of special fire resisting doors. Fire resisting doors are also an important product for ASSA ABLOY on the American market.

Sales per product group, total SEK 6 968 M



- n Mechanical locks, lock systems and accessories, 51%
- n Elektromechanical and electronic locks, 9%
- n Industrial locks, 6%
- n Door and window hardware and security doors, 23%
- n VingCard hotel locks and digital safes, 11%