Annual Report 2016

ASSA ABLOY

The global leader in
door opening solutions

"Leading the development of digital and mobile door opening solutions that create value for customers."

Contents

COVER PHOTO

Leading the development of digital and mobile security solutions

The sliding doors that ASSA ABLOY delivered to Fotografiska museum in Stockholm help to reduce energy consumption in the building and provide a convenient entrance to museum visitors and employees. The door solution also contributes to a comfortable indoor climate. Photographer Pieter Ten Hoopen is one of the highly esteemed artists whose works have been exhibited at the museum during the year.

ASSA ABLOY in brief

WHO ARE WE?

ASSA ABLOY is the global leader in door opening solutions with sales of SEK 71 billion and 47,000 employees. The strategies for profitable growth are market presence, product leadership and cost-efficiency.

1 #

71 SEK bn

47,000 employees

WHAT DO WE DO?

ASSA ABLOY is the global leader in door opening solutions and offers mechanical and electromechanical locks, digital door locks, security doors, entrance automation, hotel security and secure identity solutions, primarily in identity and access management, as well as a number of other related products and services.

ASSA ABLOY's BRANDS

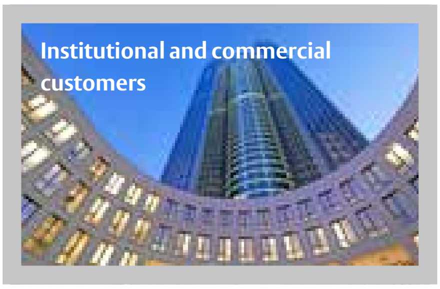
ASSA ABLOY has considerable value in its well-known brands, several of which have been acquired through the Group's many acquisitions. ASSA ABLOY is the global master brand and is often combined with individual brands well established in local knowledge, regulations and security standards. The Group thus increases the visibility of the ASSA ABLOY master brand, which unites the Group's sales departments and represents innovation, leading technology and total door opening solutions.

ASSA ABLOY

Approximately 70 percent of Group sales are under the ASSA ABLOY master brand or a combination of the master brand and local brands.

besam ASSA ABLOY | LOCKWOOD ASSA ABLOY | SARGENT ASSA ABLOY | Vachette ASSA ABLOY

FOR WHOM?



ASSA ABLOY covers all needs for door opening solutions and service for institutional and commercial customers, as well as for the residential market. The Group has the largest installed base of products in the world, with a large share of sales in the stable aftermarket.

WHERE ARE WE?

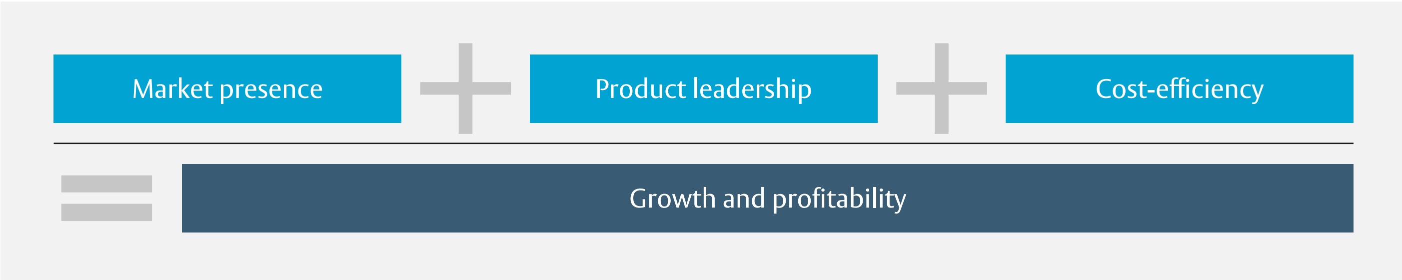
ASSA ABLOY has leading positions in most of Europe, North and South America, Asia and Oceania.

Share of Group sales by region 2016

EUROPE	38%	(37)
AFRICA	1%	(1)
NORTH AMERICA	40%	(39)
SOUTH AMERICA	3%	(2)
ASIA	15%	(17)
OCEANIA	3%	(4)

The master brand is complemented by global brands, which are all leaders in their respective market segments: Yale in the residential market, HID in access control, secure card issuance and identification technology, and ABLOY in high security locks. The Group also has product brands that are not associated with ASSA ABLOY, such as Entrematic in entrance automation.

STRATEGY



FINANCIALS IN BRIEF 2016

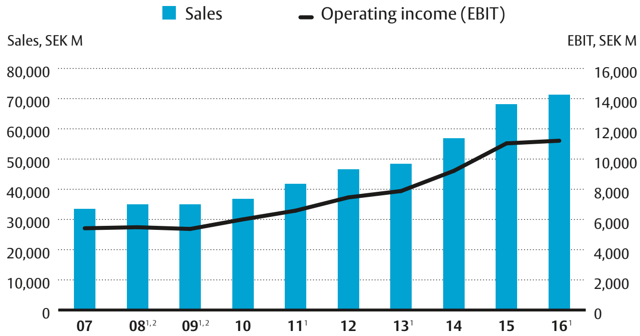
- Sales increased by 5 percent to SEK 71,293 M (68,099) driven by continued rapid growth for electromechanical products.
- 13 acquisitions were completed during the year, which contributed 3 percent growth for 2016, including divestments.
- Continued good earnings and strong cash flow achieved during the year. Operating margin excluding items affecting comparability was 15.8 percent (16.3).
- Investments in product development continued at a high pace and a number of new products were launched.

Key figures	2014	2015	2016	Change
Sales, SEK M	56,843	68,099	71,293	5%
of which: Organic growth, %	3	4	2	
of which: Acquired growth, %	9	3	3	
of which: Exchange rate effects, %	5	13	0	
Operating income (EBIT), SEK M	9,257	11,079	11,254[1]	2%
Operating margin, %	16.3	16.3	15.8[1]	
Income before tax (EBT), SEK M	8,698	10,382	10,549[1]	2%
Operating cash flow, SEK M[2]	8,238	9,952	10,467	5%
Return on capital employed, %	16.9	17.8	16.5	

Data per share	2014	2015	2016	Change
Earnings per share after tax and dilution (EPS), SEK/share	5.79[4]	6.93	7.09[1]	2%
Equity per share diluted, SEK/share	32.50[4]	37.43	42.51	14%
Dividend, SEK/share	2.17[4]	2.65	3.00[3]	13%
Weighted average number of shares, diluted, thousands	1,110,776[4]	1,110,776	1,110,776	

[1] Excluding items affecting comparability.
[2] Excluding restructuring payments
[3] As proposed by the Board of Directors.
[4] Key data have been restated due to the 3:1 share split in 2015.

SALES AND OPERATING INCOME (EBIT)



[1] Excluding items affecting comparability.
[2] Reclassification has been made.

"The Group's global market leadership, high rate of innovation and effective cost control strategy position us for continued profitable growth."

Johan Molin
President and CEO

Statement by the President and CEO

Innovation drives our market leadership

2016 was once again a good year for ASSA ABLOY and it was very encouraging to see good growth once again in the mature markets. The trend in the emerging markets, however, was weak. Digitization and sustainable products, where the Group is the market leader, are becoming increasingly important growth drivers. We are clearly strengthening our customer offering and gaining market share. Sales increased by 5 percent to SEK 71,293 million. The organic growth was 2 percent. Operating income increased by 2 percent to SEK 11,254 million[1]. The Group's global market leadership, high rate of innovation and effective cost control strategy position us for continued profitable growth.

THE GROUP

Global demand for door opening solutions continued to strengthen in 2016, though at a somewhat slower pace, in an environment of uneven economic development and political uncertainty. Sales growth was strong in the Americas division and solid in the Global Technologies, EMEA and Entrance System divisions with organic growth of 3–5 percent. However, sales dropped in Asia Pacific, due to a continued sharp decline in China following an extended period with an overheated construction market. The Group's growth during the year totaled 5 percent, of which 2 percent was organic. Acquired growth from 13 acquisitions was 4 percent while divested operations had an impact of minus 1 percent. ASSA ABLOY's sales have increased by about 130 percent over the past ten years, despite a challenging market development and a financial crisis.

The demand development reflects the problems experienced by the emerging economies associated with lower prices for export commodities and oil. In mature markets, low interest rates and measures to stimulate consumption contributed to increased investments in security. An important driver is also the technology shift toward electromechanics with more and more digital and mobile solutions, as well as demands for greater sustainability in both new construction and the aftermarket.

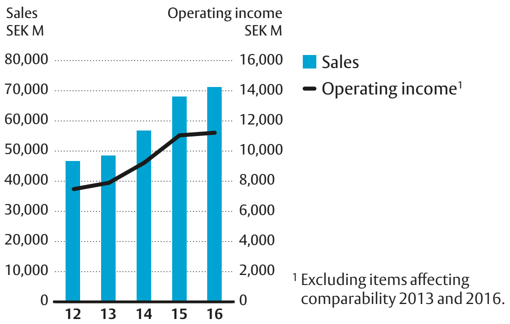
The Group's performance in 2016 is well in line with its long-term goals. The operating income of SEK 11,254 million, adjusted for restructuring costs, represents an improvement of 2 percent. The operating margin has remained stable around the Group target of 16–17 percent over the past five years. With equally strong development in operating cash flow and a good equity ratio, the financial freedom of movement and stability is reassuring.

[1] Excluding items affecting comparability.

Read more about profitability and growth ▶ p26

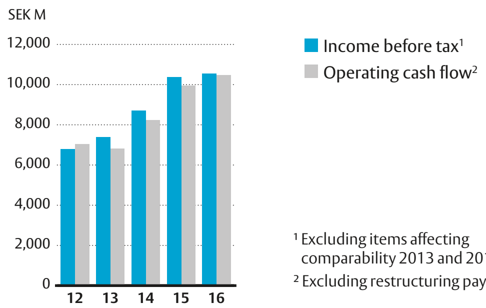
DEVELOPMENT OF KEY FIGURES

SALES AND OPERATING INCOME



[1] Excluding items affecting comparability 2013 and 2016.

INCOME BEFORE TAX AND OPERATING CASH FLOW



[1] Excluding items affecting comparability 2013 and 2016.
[2] Excluding restructuring payments.

"ASSA ABLOY is a product-driven company where innovation and product development are central to our target of 5 percent organic growth per year."

THE DIVISIONS

The geographically varied demand trend influenced the performance in our divisions.

The EMEA division, with 23 percent of the Group's total sales, has encountered a varied and subdued demand for several years, especially in southern Europe. Improvement was seen in 2016 with strong growth in Northern Europe and a recovery in Spain and parts of Eastern Europe. The UK and the Benelux countries also initiated a recovery during the year. In Africa, demand was good, while sales fell substantially in the Middle East. Organic growth of 3 percent (4) represents gains in market share. Five acquisitions contributed 4 percent (4) acquired growth and one divested operation had an effect of –4 percent. Demand for electromechanical solutions with ASSA ABLOY as market leader increased sharply.

The Americas division, with a share of 24 percent of the Group's total sales, has experienced strong demand in the US for several years. This demand continued in 2016 in both the residential and the commercial markets. Institutional demand also improved following some weak years. The technology shift is accelerating with a sharp increase in sales of digital door opening solutions. Growth was also very good in the door segment. Mexico and several other emerging markets in Central and South America continued to grow at a rapid pace. However, demand weakened in the major Brazilian market as a result of weak growth in the commodities sector and increased political instability. Organic growth in the division was 5 percent (7) and acquired 3 percent (2).

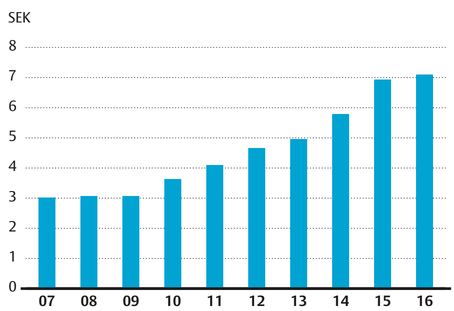
The Asia Pacific division, which accounts for 12 percent of the Group's total sales, had a weak development. The main explanation is the development in China, where the construction market is undergoing a sharp correction after years of overheating. Unfortunately, we also found accounting irregularities at some of our companies in China and we have made corrections in the accounting. The division is implementing substantial streamlining measures in China to adapt to lower demand. Sales growth continued to be good in most of the other Asian countries, especially in India where the Group is now building up broad market coverage. In Australia and New Zealand sales increased sharply. The division's organic growth was –9 percent (–3), and –5 percent if adjusted for overstated sales in 2015. The acquired growth was 1 percent (9).

Global Technologies, which accounted for 13 percent of the Group's total sales, is the Group's global division for products and solutions in identity and access management. Growth was strong in access control, GovID and Quantum Secure, lower in identification technology, though with improved demand from the institutional segment. The division plays a key role in the technology shift towards digital and mobile technologies, with cutting edge expertise and a strong focus on innovation and product development. Hospitality, which gathers together the division's products and solutions for hotels and cruise ships, continued to show strong growth and profitability, delivering complete digital system solutions to several global hotel chains. Organic growth in the division was 3 percent (7) and acquired 3 percent (2).

Entrance Systems, which accounted for 28 percent of the Group's total sales, is the Group's division for complete entrance automation solutions. Entrance Systems continued to see strong sales growth in most segments in the US and in several emerging markets with the exception of China, where the decline continued during

Read more about the divisions ▶ p28

DEVELOPMENT OF EARNINGS PER SHARE[1,2]



Earnings per share has increased by almost 170 percent since 2006.

[1] Excluding items affecting comparability.
[2] Earnings per share has been restated due to the 3:1 share split in 2015.

STRATEGIES

the year. The improved demand in Europe from 2015 continued following several years of subdued growth, though not in the European residential market where the trend was once again negative. Growth was high in entrance automation, industrial and high-performance doors, and good for garage doors and warehouse and logistics solutions. The division's new service concept has been highly successful. Organic growth in the division was 4 percent (5) and acquired 6 percent (1).

This year's good growth and profitability show once again that the Group's strategies work well under a variety of market conditions and that they are well supported in the global development trends that define the future of ASSA ABLOY. These trends point to good prospects for continued profitable growth:

Urbanization and demographic changes will continue to provide long-term growth, especially in emerging markets, but most likely with temporary slowdowns. Billions of people will continue to seek prosperity with increased security needs at home and at work in the urban environment.

Digitization is rapidly shifting demand toward more electronic and mobile security solutions. ASSA ABLOY is leading this trend, which is accelerating in both new construction and the aftermarket, where the Group's installed base of locks and doors is the largest in the world.

Sustainable and climate-smart solutions are a significant global demand trend. Locks, doors and door opening solutions play an important role in reducing operating costs and achieving energy and other sustainability targets that apply to a growing number of buildings.

Automation and robotics are increasingly important for quality, security, sustainability and efficiency. ASSA ABLOY is running several Group projects to digitize and automate more and more production and information flows throughout the value chain.

Clearly digitization is an increasingly important force in the transformation of the security industry. Developments in information technology and the networked and connected society are revolutionizing the way we pass through doors, how we identify ourselves to enter buildings where we live, work and shop, and how we gain access to computers, tools and information in order to live our lives safely and securely. This is ASSA ABLOY's business and for years we have been the leading force in these developments, thanks to our long-term focus on innovation and product development.

Digitization also permeates everything we do in the Group today, from the strategic decisions to the hands-on and concrete working day at every level of our value chain. From having first focused on cost-efficiency strategies, digitization has increasingly become a broader strategic tool to streamline innovation, product development and production. And now we are in the middle of the next strategic step – strengthening our market presence and customer offering by digitally integrating our relevant information flows and relationships with customers and other market participants. The result is a significant shift of resources throughout the Group to marketing, sales, service and greater customer benefit.

Market presence

Over the past ten years the strategy for market presence has been dominated by the focus on emerging markets. Its share of the Group's total sales has increased from 12 percent in 2006 to 24 percent in 2016. We will continue to pursue this initiative, which largely relies on new construction and is subject to greater fluctuations in demand, such as the current slowdown in China. However, as we build up this growing base, demand will shift to renovations and upgrades with an increased content of digital solutions, a much more stable business usually accompanied by higher profitability.

An essential aspect of our market success is a clear segmentation of the market in order to increase our customer focus. We support customers and other market participants with increasingly sophisticated digital tools for drawings and specifications. Demand is growing for sustainable and total door opening solutions, where the Group offers a world-leading product line. The number of specifiers continues to sharply increase, especially in the emerging markets. The number of projects requiring specifications is increasing at a rate of about 10 percent per year. The market is shifting toward more sales directly to end-customers. ASSA ABLOY is focusing on sales excellence procedures and its range of services, thereby strengthening its offering to the important aftermarket.

We continue to develop the ASSA ABLOY Group brand for a more cohesive offer, at the expense of the vast flora of local and regional brands. At the same time we are building up the Yale profile as the unifying brand for locks and doors for the private residential market, where interest in digital solutions is rapidly growing. The potential is very large, as electronic locks currently account for only a few percent of residential locks.

The digital trend is central to the Group's efforts to be relevant and convenient for doing business. Our Seamless Flow group-wide project for automated information flows allows a steadily increasing proportion of the staff to work directly providing customers with consulting, sales and service.

Finally, an essential component of the market presence strategy is acquisitions. Through our global presence and our wide product range we can often offer the best synergies with a proven model for integration. In 2016 we completed 13 acquisitions and acquired growth added SEK 2,592 million to Group sales, or 4 percent, excluding divested operations.

Product leadership

ASSA ABLOY is a product-driven company where innovation and product development are central to our target of 5 percent organic growth per year. Over the past ten years the Group has greatly increased investments to double the pace of innovation and reduce costs. The goal of having at least 25 percent of total sales from products less than three years old has been exceeded for several years. In 2016 this figure was 30 percent for the Group.

Read more about the strategies ▶ p10 p16 p22

We engage in dialogue at an early stage with customers and other partners in development and competence centers worldwide to understand the development of needs and requirements. The Group's common structured process with its modular approach provides good synergies for the innovation initiative.

Digitization and mobility have been strong drivers for many years. Important initiatives include the Group-wide development platforms for products and solutions. One such initiative is Seos, a complete ecosystem for digital keys and smart mobile devices. Another is the wireless Aperio technology for cost-effective connection of several doors in an existing access control system.

The same drivers underlie the Group's development of standardized and open software combined with physical lock solutions, which provide the functions customers want. Selling digital-based functionality, software, licenses and virtual keys opens up a large aftermarket with shorter life cycles and good profitability potential. As "digital homes" become increasingly common, the Group is working on development under the Yale brand on initiatives together with Google Nest and AT&T.

Sustainability is integrated into our product development from the concept stage to materials recycling. Customer demand is strong for climate-smart security solutions ranging from intelligent and sustainable doors to large systems solutions for buildings. The Group is developing entire eco-product ranges that focus on energy consumption and provide substantial materials and operational savings.

ASSA ABLOY's innovation and product development was recognized once again this year by the US business magazine Forbes with a ranking on the list of the 100 most innovative companies.

Cost-efficiency

The strategy to increase cost-efficiency involves radically reducing break-even costs through increased efficiency in all process and production stages. One ongoing basic activity involves the programs to streamline production at the many companies that the Group acquires each year. The aim is to have assembly plants close to customers in high-cost countries and to relocate component production to low-cost countries with an increased share of component sourcing. Since this initiative began in 2006, the Group has closed 76 plants, converted more than 100 plants to assembly and reduced staff by 12,162 people.

In 2016 the sixth such program began with the goal of closing 50 plants and offices over three years. The cost of the restructuring program is SEK 1,597 million with a payback period of less than three years. Another important strategy for reducing costs involves increasing sourcing based on long-term agreements and integration with subcontractors. Professional purchasing teams manage supplier relationships in accordance with our code of conduct and environmental certification. With this approach the Group continues to create increasingly efficient and sustainable production processes and to free up resources for marketing close to customers.

The cost-efficiency initiative is expanded and deepened using lean practices and VA/VE analyses to simplify material flows and avoid wasting materials. A new initiative began in 2016 to streamline logistics and transportation services to customers and from suppliers. Substantial savings are possible, in part through the use of digital information technology.

Initiatives such as Seamless Flow, automation and digitization of information flows throughout the Group offer great potential. The aim is to reduce costs and resources in indirect support functions, where over 40 percent of employees work, by streamlining systems for product data management, orders and invoicing, purchasing, warehouse-logistics, payroll and e-commerce. The savings will allow us to invest more resources in revenue-generating product development, marketing activities and the initiative to move staff close to the customers.

ASSA ABLOY's Executive Team Lower row from left to right: Juan Varges, Head of Entrance Systems division, Johan Molin, President and CEO, Carolina Dybeck Happe, Chief Financial Officer. Middle row: Stefan Widing, Head of HID Global business unit, Magnus Kagevik, Head of Asia Pacific division, Tzachi Wiesenfeld, Head of EMEA division. Upper row: Thanasis Molokotos, Head of Americas division, Christophe Sut, Head of ASSA ABLOY Hospitality business unit, Ulf Södergren, Chief Technology Officer.

■ OUTLOOK

Outlook

My judgment is that the global economic trend remains weak. While the trend is favorable in North and South America as well as in parts of Europe, it is weak in many markets in Asia and the Middle East.

However, our strategy of expanding our market presence, including in the emerging markets, remains unchanged. We are also continuing our investments in new products, especially in the growth area of electromechanics.

Our continued focus on good cost control provides us with good prospects for profitable growth in a challenging global market. In closing I would like to warmly thank all of the employees who strive every day to make ASSA ABLOY the global leader in door opening solutions.

Stockholm February 1, 2017

Johan Molin
President and CEO

Global trends driving demand in the industry

Demand for ASSA ABLOY's products is driven by the increasing need for safety and security as prosperity rises and urbanization continues. In addition, the demand for sustainable door opening solutions is growing, at the same time that technological developments increase the demand for digital and mobile security solutions.

OVERALL TRENDS


SECURITY NEEDS

The global economy continues to grow, and the need for safety and security is steadily increasing. Current demand for security reflects the fundamental need for security that has been growing at a faster pace than the global economy for a long time and is predicted to continue to do so.


URBANIZATION

Prosperity is largely created in the cities, where the new service jobs are created and where young people migrate for a better future. Estimates suggest that a billion people will become new city dwellers through 2025. At that point, 60 percent of the world's population will be living in cities.

HOW THIS AFFECTS ASSA ABLOY

The prospects for the Group's long-term growth are good, as global prosperity continues to increase. The market for ASSA ABLOY products is growing with a strong trend in the emerging markets where an increased need for new homes, workplaces and stores is driving demand for secure door opening solutions.

Migration to cities increases the need for housing, offices and other workplaces, as well as commercial space for shopping and institutional facilities for education and health care. Demand is becoming increasingly advanced and digitized for both individual door locks and large security systems for buildings.

ASSA ABLOY's RESPONSE

ASSA ABLOY has a well-established strategy for increasing its market presence in those countries and segments where demand for safety and security is growing fastest. This strategy goes hand in hand with the Group's product leadership strategy. ASSA ABLOY has become established as the largest supplier of innovative total door opening solutions.

ASSA ABLOY has built up a leading position in the emerging markets for both new construction of housing and for the needs of the institutional and commercial markets. With the largest installed base of locks in the world, the increased demand for upgrades, replacements and repairs provides conditions for good growth and stability.

SUSTAINABILITY AND ENVIRONMENT

Demand is sharply rising for sustainable and resource-efficient solutions for doors and gates that are important for energy consumption in buildings. The drivers are lower construction and operating costs as well as the increasing regulation of standards in more and more countries for more energy efficient buildings and door solutions, known as Green Buildings.

Growing customer demand for sustainable door opening solutions places greater demand on innovation and product development to create new products with high and competitive sustainability performance. Lock and door manufacturers' production processes must be adapted to increased sustainability requirements.

For many years ASSA ABLOY has invested heavily in developing products that reduce the user's energy consumption, create a better indoor environment and higher security, and reduce total operating costs account. All strategic product groups have environmental product declarations. In-house production is becoming increasingly lean in accordance with a long-term and ambitious sustainability program.

DIGITIZATION

The global market for door opening solutions is undergoing a technology shift from mechanical to electromechanical solutions with growing demand for digital and mobile solutions. The sales potential is enormous since less than 10 percent of the world's doors are estimated to have digital technology.

Digitization leads to shorter life cycles with more frequent additions, replacements and upgrades. The service content of the digital solutions is growing and the trend toward complete, multifunctional and intelligent systems is creating new business opportunities. The Group's own processes are becoming faster and more efficient.

The Group is leading the global development of digital and mobile door opening solutions for the next generation of smart, connected security systems as a result of its long-term focus on product leadership. Electromechanical products have increased significantly from 31 percent of sales in 2006 to 54 percent in 2016. Apart from the security provided by the lock, new digital technology is about secure identification, one of the Group's strongest technology areas.

Value creation strategy

Vision

To be the true world leader, most successful and innovative provider of total door opening solutions,

to lead in innovation and provide well-designed, safe, secure and convenient solutions that give true added value to our customers and

to offer an attractive company for our employees.

Strategy for growth and profitability

The Group's overall strategic direction is to spearhead the trend toward increased security with a product-driven offering centered on the customer. The strategic action plans are focused on three areas: market presence, product leadership and cost-efficiency.

Market presence

Increasing growth in the core business and expanding into new markets and segments.

Product leadership

Continuously developing innovative products offering enhanced customer value and lower product costs.

Cost-efficiency

Reducing the cost base through improved processes, flexible final assembly close to the customer and production in low-cost countries.

Employees

Continuing professional development, capabilities and beliefs are the basis for the Group's success.

Beliefs

Based on accountability, diversity and commitment for a focused, results-driven company with high business ethics.

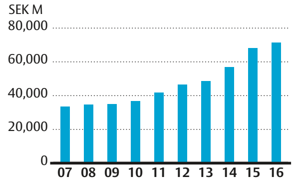
Sustainability

Is integrated in all Group processes: innovation, product development, manufacturing, logistics and sales.

Goals and outcomes

GROWTH AND PROFITABILITY

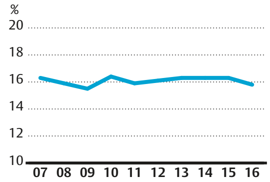
10% annual growth through a combination of organic and acquired growth[1]



Average annual growth over the past ten years has been 9 percent. The Group's growth in 2016 was 5 percent, including 2 percent organic growth and 3 percent from acquisitions.

16–17% operating margin[1]

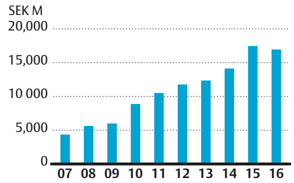
[1] Long-term target as an average over a business cycle



Average operating margin over the past ten years was about 16 percent, excluding items affecting comparability.

MARKET PRESENCE

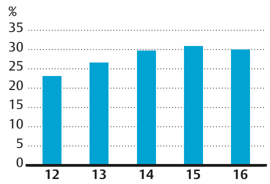
+ increased sales on emerging markets



Group sales on emerging markets increased sharply and the annual growth rate over the past ten years was nearly 20 percent. In 2016, however, sales declined in the emerging markets.

PRODUCT LEADERSHIP

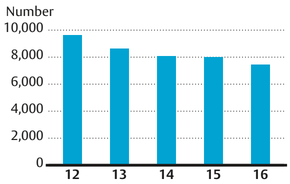
25% of sales from new products



The goal of having at least 25 percent of total sales from products less than three years old has been exceeded in recent years. In 2016 the share was 30 percent.

COST-EFFICIENCY

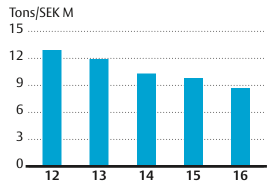
–29% reduction in number of suppliers



Reducing the number of suppliers is important for reducing costs and improving quality. Active efforts have reduced the total number of suppliers by 29 percent over the past five years.

ENVIRONMENT

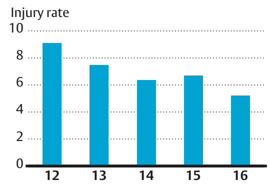
–20% greenhouse gas emissions



The target is to reduce the intensity of greenhouse gas emissions related to the Group's energy consumption by 20 percent from 2015 to 2020.

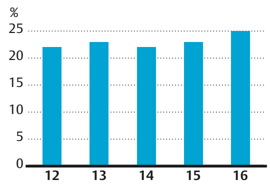
SOCIAL KPI

–40% injury rate



The target is to reduce the injury rate with 40 percent from 2015 to 2020. In 2016 the injury rate was reduced with 22 percent and amounted to 5,2 injuries per million hours worked.

30% women in management positions



The target is to have 30 percent of management positions held by women by 2020. In 2016 the share was 25 percent.

Value creation strategy #1

A world-leading market presence is achieved by increasing customer value and expanding into new markets and segments through organic growth and acquisitions. Customer value is supported by efficient segmentation of sales channels and the strength of the brand portfolio, which includes the global master brand ASSA ABLOY and many of the industry's strongest brands.

Market presence

No. 1

Global leader
in door opening solutions

×5

24 percent of sales are on emerging markets,
a fivefold increase in ten years

54%

Electromechanical solutions account for
54 percent of sales

Global market leader with steadily growing demand

The basic human need for safety and security increases with rising prosperity, urbanization and technological development. This gives a stable and growing demand for ASSA ABLOY's door opening solutions that is at least in line with GDP growth.

MARKET SEGMENTATION

Working and shopping

75%

Institutional and commercial market – share of sales

Institutional and commercial markets – complex, demanding projects

About 75 percent of ASSA ABLOY's sales go to buildings in the institutional and commercial markets like education, health care, public administration, private offices, shopping centers, stores and warehouses. These are examples on environments where people work, shop and seek out services. The growth rate, which reflects the global urbanization trend with a growing middle class in emerging markets, is predicted to be high for a long time to come.

Customers are knowledgeable with high demand, and procurement takes place in large, complex projects. This segment has a higher profit potential for ASSA ABLOY, in part because of a growing offering of services and professional advice. Demand is growing particularly strongly for complete electromechanical and advanced door opening solutions with digital and mobile technologies, where ASSA ABLOY is the world-leading supplier. The Group's focused and segmented sales forces have contact with many stakeholders in the value chain to develop optimal solutions for the multifaceted needs of the customers. Distribution and installation are largely handled by installers, system integrators and locksmiths.

Living

25%

Private customers and residential market – share of sales

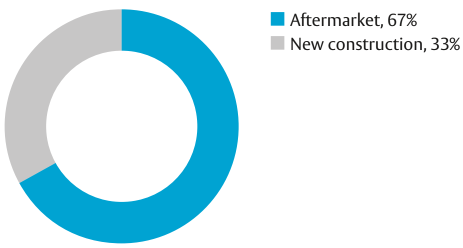
Residential market – replacement and upgrade with advice and installation

About 25 percent of sales go to residential buildings. Housing construction is increasing sharply in emerging markets cities. ASSA ABLOY has the largest base of installed residential door solutions in the market. Replacement and upgrading of existing locks is the primary business, with strong and stable profitability. Demand for electromechanical products is growing strongly in the residential market, driven by the home automation trend, in which ASSA ABLOY is leading the development of digital and mobile door opening solutions for private homes in partnership with suppliers of ancillary products. Private customers have a great need for advice and installation assistance. Depending on the geographic market, ASSA ABLOY cooperates with door and window manufacturers or specialist distribution channels such as home improvement stores and locksmiths.

Aftermarket – stability and profitability

New construction accounts for about 33 percent of total sales while the aftermarket accounts for 67 percent. This segment consists of renovations, remodeling and additions, as well as replacements and upgrades of existing door opening solutions. The aftermarket provides stability and good profitability thanks to the Group's unique global market coverage and the world's largest installed base of door opening solutions. The transition to digital and mobile door openings and access control solutions with shorter technology life cycles is driving a higher growth. ASSA ABLOY's software platforms for flexible solutions enable customers to constantly upgrade their security with more and new features.

STABILITY IN THE AFTERMARKET



Market strategies

ASSA ABLOY's strategies for a world-leading, global market presence and profitable growth are based on ever-increasing customer relevance. Growth is increased through effective market and customer segmentation, specification and the strength of the brand portfolio, as well as through acquisitions.

MARKET STRATEGY

ASSA ABLOY's world-leading market presence is based on three strategies:

- Leveraging the strength of the brand portfolio,
- Increasing growth in the core business and
- Expanding into new markets and segments.

Increasing growth by segmentation and specification

Over the past seven years ASSA ABLOY has made a significant global strategic shift to an increasingly market-oriented organization, in close collaboration with architects, security consultants, major end-users and distributors. Digital applications are used for a substantial portion of business processes such as product information, construction and configuration, orders, deliveries and payments.

The Group focuses on increased customer relevance through market and customer segmentation and an increased share of distributors' market share. Sales teams focus on different customer segments to gain the industry's best understanding of customer needs, build relationships and generate demand, thereby becoming the end-user's door opening solutions expert. ASSA ABLOY supports customers and their advisers with advanced digital tools for 3D modeling such as BIM (Building Information Modeling), which simplify planning processes and strengthen customer relationships.

Creating customer value aims at total door opening solutions customized to the applications. They handle security and convenience aspects, sustainability, special local requirements and standards, as well as the need for integration into new or existing security systems. Customers will find that doing business with ASSA ABLOY is simpler and that their purchasing journey is more convenient as a result of the Group's digital business processes and Seamless Flow initiatives.

Growth through acquisitions

Acquisitions are an important part of the strategy to increase market presence. The ambition is 5 percent acquired growth per year. Over the past ten years the Group has made 148 acquisitions, with a focus on expanding in emerging markets, complementing existing operations, and increasing technological breadth and depth. In 2016, 13 acquisitions were carried out and Group sales increased by SEK 2,592 million from acquisitions, or 4 percent, excluding divested operations.

Exploiting the strength of the brands and the sales force

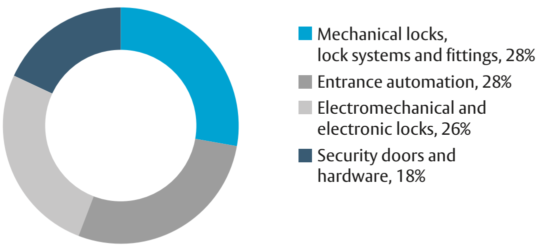
ASSA ABLOY has considerable value in its leading and well-known brands, several of which have been added through the Group's many acquisitions. To achieve optimal leverage and cross-fertilization on the brand portfolio globally, regionally and locally, the brands are being consolidated in line with market and customer segmentation.

ASSA ABLOY is the global master brand and is often combined with individual brands, which are well established in local knowledge, regulations and security standards. The Group thus capitalizes on its large global installed base, while increasing the visibility of the ASSA ABLOY master brand, which unites the Group's sales departments and represents innovation, leading technology and total door opening solutions. The ASSA ABLOY brands account for around 70 percent of Group sales.

The ASSA ABLOY master brand is complemented by global brands, which are all leaders in their respective market segments: HID in access control, secure card issuance and identification technology, Yale in the residential market, and ABLOY in high security locks. These brands account for around 20 percent of Group sales.

The Group also has non-endorsed product brands that are not directly associated with ASSA ABLOY, such as Entrematic, Flexiforce and Certego. These brands represent leading expertise in specialty products and service, and with their unique market positioning they are important to leverage. They account for around 10 percent of sales.

SALES BY PRODUCT GROUP



There is a fast growing demand for electromechanical products and electronic and digital solutions. Since 2006 these have sharply increased from 31 percent to 54 percent of Group sales. Mechanical products continue to increase, but electromechanical products are growing considerably faster.

Markets

The global market trend for door opening solutions is growing more rapidly than global GDP. ASSA ABLOY is the world-leading supplier with operations in over 70 countries and sales worldwide. Global expansion takes place through organic growth and acquisitions. For several years the Group has focused on increasing its market presence in emerging markets.

Group sales trend by region 2016 in local currencies

NORTH AMERICA	+7%
SOUTH AMERICA	+37%
EUROPE	+7%
ASIA	–6%
OCEANIA	0%
AFRICA	+15%

Geographical expansion is mainly achieved through acquisitions of leading local companies with well-known brands, in order to build a strong platform on emerging markets in Asia, eastern Europe, the Middle East, Africa and South America. Emerging markets have increased their share of Group sales from 12 percent in 2006 to 24 percent in 2016.

Globalization benefits ASSA ABLOY

The difference in demand for door opening solutions between countries is significant due to different climates, development level, regulations and standards. As the most global player with a local presence on all major markets, this gives ASSA ABLOY competitive advantages. The same applies to the globalization trend that promotes group-wide smart and cost-effective-solutions on a large scale at more and more global companies.

The mature markets in North America, Europe and Australia account for three-quarters of ASSA ABLOY's sales, with demand growth around or just above GDP growth. Demand is now shifting increasingly towards electromechanical technology, with rapid growth in higher value digital and mobile solutions.

Large potential in emerging markets

The emerging markets offer high growth potential. Since 2006, Group sales to customers in eastern Europe, Africa, Latin America and Asia increased from SEK 3.7 billion to SEK 17 billion, or from 12 percent of total sales to 24 percent. Demand for mechanical locks is higher in the emerging markets than in mature markets, but the growth figures for electromechanical solutions are high due to increased prosperity and the rapid spread of technology. The global shift toward more electromechanical products is mainly in the commercial segment. However, sharply increased demand for digital and mobile security solutions has also been seen in the consumer market over the past two years, in line with increased prosperity and a growing middle class.

Asia is the main growth region, with sales growth of about 800 percent since 2006 to a total of SEK 10.6 billion. The large Chinese market remains an important expansion area for the Group although the demand has been weak in recent years. As a result of organic growth and more than ten acquisitions since 2006, ASSA ABLOY's sales in China have increased to SEK 5.3 billion. Today the Group is China's largest manufacturer and supplier of door opening solutions. The profitable aftermarket for maintenance and upgrades already accounts for around one-third of sales.

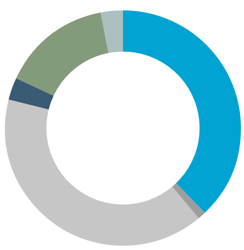
Africa and Middle East have great growth potential. The Group is concentrating its market presence to the largest cities in Africa, which account for 90 percent of the continent's GDP. The growth rate has been about 170 percent since 2006 to SEK 2.4 billion in 2016. In Latin America, sales increased by almost 150 percent since 2006 to SEK 3 billion in 2016.

Fragmented competition – continued consolidation

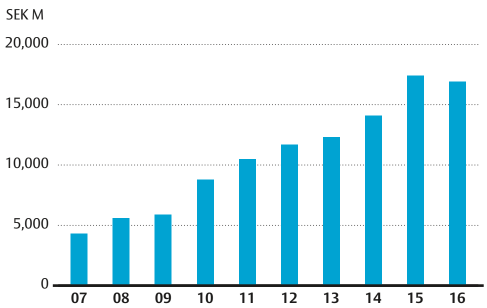
The global door opening solutions market remains fragmented, with a large number of smaller regional and local businesses, particularly in emerging markets and Europe. Consolidation has been in progress for the past 20 years, with ASSA ABLOY as a driving force. In emerging markets, established lock standards and brands are less common and markets are even more fragmented, such as in Asia where the largest players have a very limited market share.

ASSA ABLOY is the global market leader and considerably larger than its closest competitor, Dormakaba (Switzerland), that during 2016 announced its plan to aquire the Mechanical Security businesses from Stanley Black & Decker. Other important competitors with operations in ASSA ABLOY's segments are: Allegion (USA) and Hörmann (Germany).

SALES BY REGION



SALES ON EMERGING MARKETS[1]



[1] Emerging markets are Africa, Asia, the Middle East, South America and eastern Europe.

Distribution

Distribution is an important part of ASSA ABLOY's value creation for the customers. The Group reaches its end-customers through a variety of distribution channels at various stages in the supply chain. The number of employees who work with value-creating sales has been substantially growing for many years, thanks to digitization and streamlining provided by the Group's Seamless Flow processes. One example is the growing number of specifiers tasked with increasing knowledge and demand by offering expertise and digital tools as early as possible in the planning, specification and design of door opening solutions.

Value creation in distribution

ASSA ABLOY is increasingly becoming a supplier of integrated concepts for total door opening solutions. This takes place in close collaboration with the end customers and their advisers in distribution, creating good customer relations, market demand and entry barriers for competitors. Distributors also play a key role in providing service and support after installation.

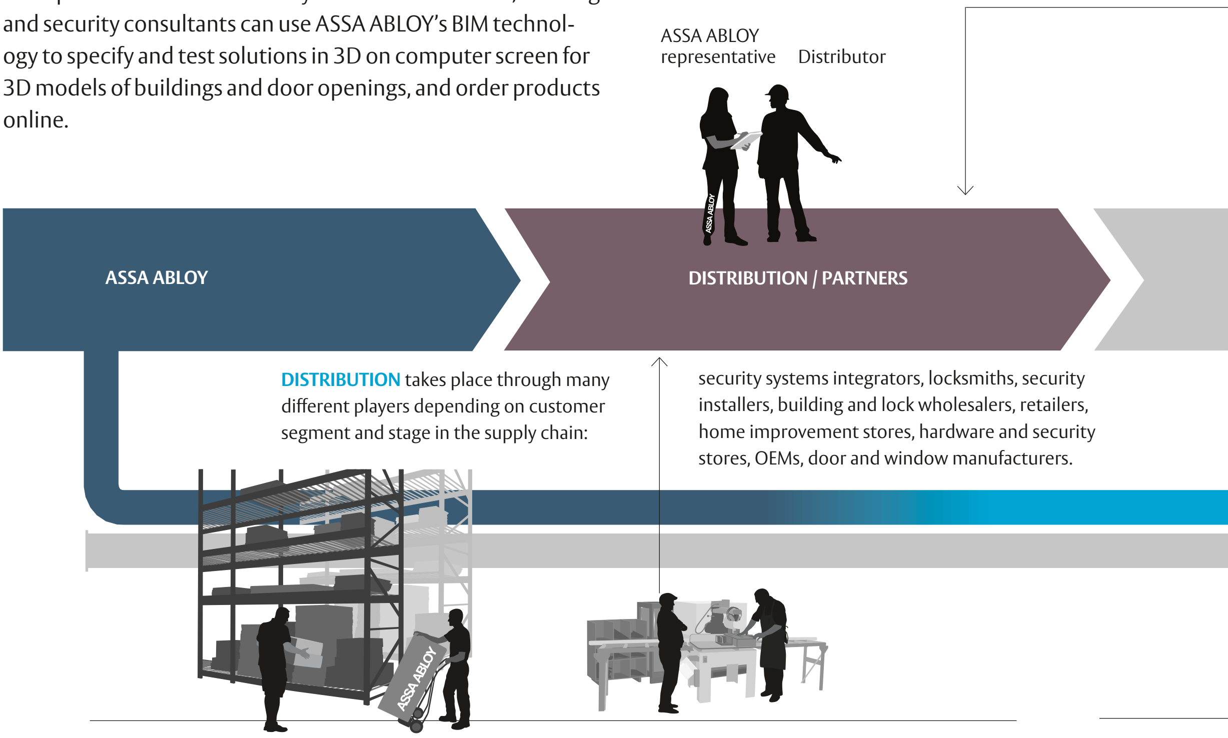
In the commercial segment, distributors in some markets act as advisers and project managers to create good security solutions. They have a good knowledge of customer needs and ensure that the products comply with local regulations. Electromechanical security products go from manufacturer to end-user through security installers and specialist distributors. These products are also sold through security systems integrators, who offer a total solution for the installation of perimeter protection, access control, and access to computers and other connected devices.

Specification – advice and digital tools

Rapid technological development and the growing number of requirements and standards, especially in the area of sustainability, are constantly increasing complexity for builders and other end-customers. The trend is from component order to prefabricated door openings and

Distribution channels for the security market

ASSA ABLOY creates considerable value for customers in the distribution process. The Group's advisers, the specifiers, provide specialist advice on security solutions. Architects, building and security consultants can use ASSA ABLOY's BIM technology to specify and test solutions in 3D on computer screen for 3D models of buildings and door openings, and order products online.



Building and lock wholesalers, security consultants and locksmiths have a key role in delivering and installing the products specified for various construction projects.

advanced total door opening solutions. This is also increasing the competence required by distributors. A central role in marketing is therefore played by ASSA ABLOY's specifiers, who have increased sharply over the past few years and continue to increase rapidly, especially in emerging markets.

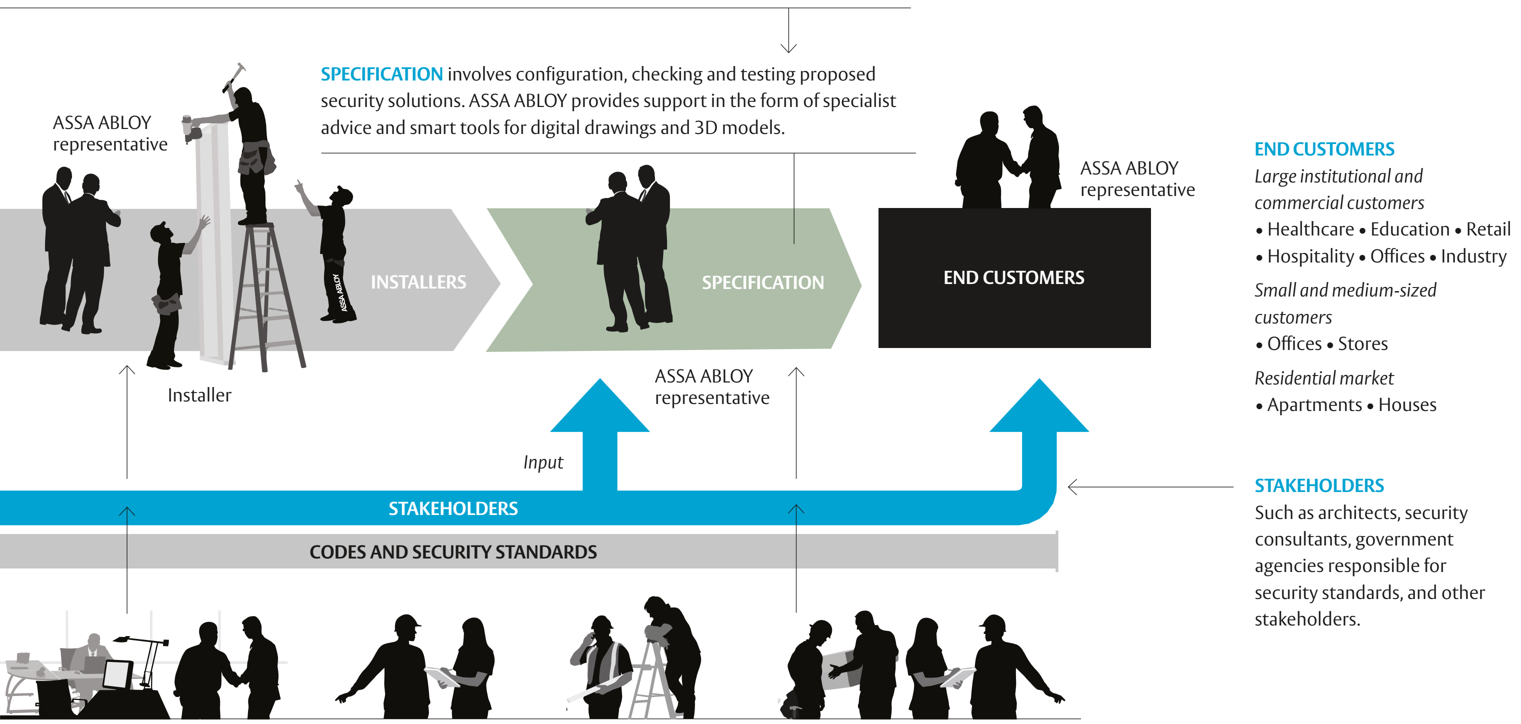
Specification teams work as specialist advisers to customers, helping them specify products that provide total, well-functioning and economical security solutions. They also collaborate with other key groups early in the order chain, such as building consultants, architects, security consultants and building standards agencies, to "introduce" new, innovative security solutions and to create demand with their business-driving competence.

The Group is leading the industry trend for product configurations and 3D modeling using BIM (Building Information Modeling), which facilitates the work of architects and building consultants. BIM technology makes it possible to create digital models of buildings into which ASSA ABLOY products can be applied in 3D. A door design can then be checked and tested on the computer screen, and the solution's products can be ordered online. Distributors have constant access to the Group's advice.

The complex information in BIM creates good opportunities for repeat business, since the customer can quickly see exactly which products are installed in the building, along with their location. This simplifies the upgrade and repair processes.

Building and lock wholesalers, security consultants and locksmiths have a key role in delivering the products specified for different construction projects. Many door and window manufacturers install lockcases and hardware in their products before delivery to customers. ASSA ABLOY also shares competence with locksmiths, a key distributor of mechanical and electromechanical security products in many markets. Locksmiths buy direct from ASSA ABLOY or through wholesalers and provide advice, delivery, installation and service. Some locksmiths have an increased focus on electronics, while IT integrators are increasingly offering physical security solutions.

More advanced electronic and digital security solutions mainly reach the end-user through security installers and specialist distributors. These products and solutions are also sold through systems integrators, who often offer total solutions for the installation of perimeter protection, access control and computer security.



ASSA ABLOY has developed close cooperation with customers, architects and security consultants to specify appropriate products and a well-functioning security solution. Many door and window manufacturers install lockcases, hardware and other fittings in their products before delivery to customers.

Value creation strategy #2

Product leadership is achieved through innovation and continuous product development to enhance customer value, quality, and reduced product costs. Customer benefits are developed in close cooperation with end-users in a constant process of many small steps. The goal is to meet or exceed customer expectations.

Product leadership

No. 1

The most innovative supplier of total door opening solutions

54%

The share of electromechanical products and entrance automation has **increased from 31 percent to 54 percent of total sales in ten years**

30%

Products launched in the past three years account for **30 percent** of total sales

Innovative leader of digital and mobile solutions

A constant flow of new, innovative and sustainable products is the most important driver for ASSA ABLOY's target of 5 percent organic growth. Substantial investments have pushed the proportion of sales from products less than three years old to 30 percent, compared with 14 percent ten years ago. The Group is leading the trend toward the digital and mobile world's solutions comprising intelligent, connected and networked door opening products.

Product leadership

Strategies for a high innovation rate

Today ASSA ABLOY is well established as the global product leader in mechanical, electromechanical and electronic locks and door opening solutions. R&D investment has increased almost 200 percent since 2006, reaching a new record level of SEK 2.2 billion in 2016.

The Group's vision is to be the global leading, most successful and innovative provider of total door opening solutions in order to deliver trouble-free, secure and well-designed security solutions that give true added value to customers. The ambition is to double the innovation rate through a Group-wide innovation process, lean practices, common platforms and focused competence centers for development in all divisions.

New technologies

The main driver for innovation and product development is the development of digital and mobile technologies with fast-growing demand for electromechanical products, as well as electronic and digital solutions. Since 2006 these have sharply increased from 31 percent to 54 percent of Group sales. Mechanical products continue to increase, but electromechanical products are growing considerably faster.

More electronics mean an increase in sales value per door, as well as in the recurring revenue from service and upgrades. The share of installed doors fitted with some form of electronic/digital solution is estimated at around 5 percent and is predicted to multiply in the coming years, representing a growing market for upgrades and new sales.

Expertise related to identification and authentication – how people prove their right to access – is a key part of technology development. ASSA ABLOY's Global Technologies division is the global market leader for products and solutions that provide secure identification and control of physical access to buildings and areas, as well as logical access to computers and other connected devices. The products include components such as cards, card readers and printers and complex systems management services for identity management. The division is driving developments toward virtual identification via cloud services, such as in mobile phones for access, ID documents and secure transactions.

Sustainable solutions

Another important driver for product development is the sharply rising demand for sustainable solutions. Investments in sustainable buildings are increasing worldwide, with requirements for energy savings, lower materials consumption, and renewable or recycled materials becoming increasingly important. The various openings of a building can account for up to 20 percent of energy consumption by leakage of heat or cold. ASSA ABLOY has a rapidly growing number of Environmental Product Declarations (EPD) that have now become a prerequisite for taking part in much of the market. As a result, the product's environmental impact has to be documented for the whole chain from materials choice, manufacturing processes and transportation to use and recycling.

The strategy for product leadership is based on four points:

1. developing and exploiting the advantages of a Group-wide, structured innovation process.
2. applying Lean technologies in product development based on product management and customer insight.
3. developing and using common technology platforms and common technologies.
4. continuing to expand the number of R&D competence centers close to customers.

Future security solutions – Convenient, secure, digital

The global market for door opening solutions is undergoing a technology shift from mechanical to electromechanical and electronic products. With digital and mobile technology, ASSA ABLOY is leading this trend toward third generation door opening solutions. These intelligent connected and networked products and solutions controlled by in-house developed software and cloud-based systems solutions provide further growth opportunities while strengthening competitiveness. Demand is growing rapidly in all segments in new buildings, as well as in supplementing and upgrading old installations.

The global shift in technology for door opening solutions is accelerating. Sales of mechanical solutions continues to grow, but its percentage of the Group's total sales is declining. Electromechanical products account for 54 percent of ASSA ABLOY's sales, compared with 31 percent in 2006. This increase is partly an effect of urbanization in emerging markets, where demand is moving directly to digital and mobile solutions.

Mechanical components will, however, always be needed because they provide the necessary base function in the protection solution: a bolt that locks a door to a wall. However, electronic technology makes it possible to digitally control the bolt, door and the entire entrance environment for more efficient and convenient operation, at a lower operating cost and in large systems with a variety of functions. Opening remotely, controlling product status and controlling openings for enhanced security and energy savings are functions that create new values and satisfied customers.

Global technology leader

More and more people today are "online and connected" and are looking for total security solutions and convenient door environments based on digital and mobile technologies. ASSA ABLOY is the global technology leader, offering a broad diversity ranging from traditional products to hi-tech solutions with which a variety of door environments can be built, constantly developed and customized. This trend is supported by the increased technical standardization that is driving integration of various components in the security solution.

Technology development takes place in stages:

- from a good base product,
- to a smart product that can be remotely controlled,
- to a system of products with several security functions in one building,
- to a complete, intelligent ecosystem, which coordinates multidimensional security solutions for whole complexes of buildings, with user identification and preventive and acute indicators of security risks.

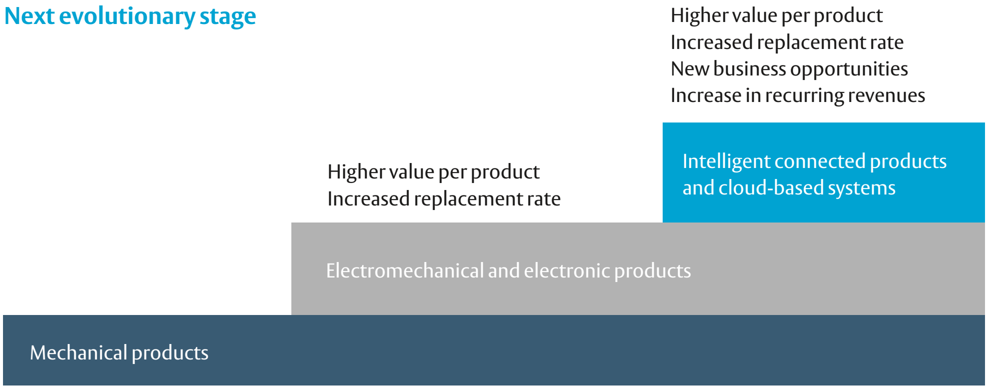
E-commerce, home care, sharing economy

Digital technology provides new solutions to old problems and creates new needs that are directly linked to ASSA ABLOY's expertise and products for convenient and secure access to the home and workplace. Increased e-commerce, more home care and a growing sharing economy are just three examples of such needs.

E-commerce is rapidly expanding worldwide and the physical delivery of goods requires access to the home, along with the ability for trusted suppliers to open doors even when the recipient is not at home. An aging population means an increased need for home care, where caregivers and home care providers need to be able to visit the home to provide their services. The new sharing economy, in which people share their homes, vacation homes, vehicles and equipment, will also require an "exchange of keys" for easy access to the home, house, garage and other spaces.

This means an increased need for access control systems with the technology to create digital identities, which are represented in mechanical systems by holding a key that fits a lock. This identity can be a code: a digital

Next evolutionary stage



Today mechanical and electromechanical door opening solutions are predominant worldwide. But development is now entering a third technology phase, the digital and connected phase. This means that the necessary basic function of a mechanical lock cylinder, door and entrance environment can be digitally controlled for more effective and convenient function, and lower operating costs in large multifunctional systems. Shorter life cycles with more frequent additions of new technology solutions create business opportunities for ASSA ABLOY.

signal that is programmed to apply for a certain person to access a certain door during a certain period. It can be given to a supplier, a care assistant or someone who shares a vacation home. "The key" will be sent to the cell phone, which is rapidly becoming people's main identity carrier.

Internet of Things

ASSA ABLOY has a broad offering in secure digital and mobile identity and authentication for access management, with various layers of security and control. ASSA ABLOY's Seos is a flexible and modular technology platform that serves as an eco-system of products and services. The Seos platform is also a growing integral part of solutions for the future world of the "Internet of Things" and "Digital Homes," where people have connected devices in the home and at work. Estimates indicate about 25 billion connected devices today, or about 3.5 per person. This figure is projected to double by 2020 to a total of 50 billion connected devices.

This means a strongly growing demand for ASSA ABLOY's security expertise, products and solutions. The Group has been working for several years in close partnership with a number of suppliers and launched groundbreaking collaborations with AT&T and Google Nest in the area of Home Automation. Several new segment-specific solutions were launched, such as Accentra for apartment buildings and new applications for the CLIQ system.

More services

As ASSA ABLOY's product portfolio contains more electronics and software, the share of service content is increasing in the Group's offering, such as upgrades and licenses which results in increased recurring revenue streams based on long-term contracts for supply and service collaborations, cloud services, and subscription agreements.

Improved function and more value from operational cost savings create increased value for the customer and a better price for ASSA ABLOY. Rapid technological development and stronger demand for convenience lead to shorter life cycles with more frequent additions and replacements. The trend toward complete multifunctional and complex systems is creating new business opportunities and ASSA ABLOY strives to achieve open standards to facilitate integration with the customer's other security and administrative systems. The solutions tie the customer closer and create a stronger recurring revenue stream.

Entrance automation

A fast-growing market for the new electronic technologies is entrance automation, in which ASSA ABLOY has gained global market leadership with its Entrance Systems division through acquisitions, innovation and organic growth. Typical areas are warehouses with large gates and entrances in the retail and manufacturing industries. The total market for entrance automation is estimated at EUR 20 billion, with a growth rate above global GDP. The market remains very fragmented. The largest potential is in retail, transportation, logistics and manufacturing in the wake of continued globalization. ASSA ABLOY has a unique offering of total automatic entrance solutions, rapid product development and a comprehensive service concept.

ASSA ABLOY is leading the development of digital and mobile security solutions. Shared Technologies, the Group's joint development center, plays a major role in this initiative.

Continuously efficient innovation process

ASSA ABLOY's product leadership is based on the Group's joint innovation process. Guiding principles are understanding customer needs, a long-term product development plan, active portfolio management, and cost-effectiveness. Shared Technologies, the Group's joint development center, plays a major role.

Value creation with customer insight

Each new product and product solution should create as much customer value as possible through improved function and lower costs. All new projects aim to solve an identified customer need and are based on insight into underlying customer needs and requirements. Broad monitoring and collection of market data and surveys of different customer segments are conducted on an ongoing basis, which also include efforts to understand unspoken customer needs. Cost-savings are achieved through improved designs, new materials and components, as well as continuous improvement of the development and production process.

Sustainability

ASSA ABLOY's sustainability program is integrated into the development process from the concept stage to recycling of worn-out products. Specifications for the development of new products and customer solutions may be based on life cycle analyses and a reduction in energy consumption in buildings, as well as concrete savings in materials consumption, packaging and transport solutions. ASSA ABLOY can standardize materials, reduce the number of components, constantly improve quality, and considerably reduce the costs of each new product by developing common technology platforms and modular systems.

Product platforms

CLIQ

CLIQ is a secure locking system with advanced microelectronics in programmable keys and cylinders. The system offers a large number of combinations of mechanical and electronic products, which satisfy various requirements for secure, flexible access control. Most types of locks can be fitted with CLIQ technology, which together with various software programs provides the global market with customized, flexible access control solutions.

Seos

Seos is an identification technology solution that allows the customer to use various devices, from smart cards to cell phones, for secure access to applications. Seos' applications range from building access control, computer login and cashless payments to IoT (Internet of Things) applications, time and attendance reporting, and secure printing.

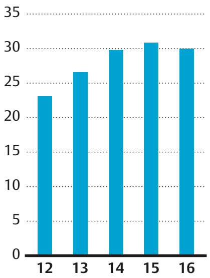
Aperio

Aperio is a technology developed as a complement to existing electronic access control systems. It is a convenient solution for end-users to improve the security and control of their premises. Central to Aperio is a wireless communications protocol, which functions at short distances and can connect an online access control system to an Aperio-compatible mechanical lock.

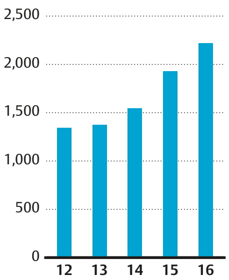
Hi-O

Hi-O (Highly intelligent Opening) is a concept that simplifies installation, service and maintenance of connected doors thanks to advanced technology and the plug-and-play principle. Hi-O is a standardized technology for control and security of door environments. The technology enables communication between all the components included in a door opening solution.

PERCENTAGE OF SALES OF PRODUCTS LAUNCHED IN PAST THREE YEARS



INVESTMENTS IN RESEARCH AND DEVELOPMENT



Design and design language

The Group has established a unit for development of industrial design and a common design language. A Group-wide design center is one step in the development, to create an even clearer expression of ASSA ABLOY's basic values and the physical experience of products with common guidelines for design, location of brand names, colors and visuals.

Product management and product development

Product management ensures that each product group has a vision-based long-term plan founded on market insight, technology development, customer value and the strengths of each product. These plans form the basis for the portfolio balancing that take place across all product groups within each unit. Projects are planned and run according to Lean principles, where a clear vision and a visual presentation are important components.

Product development is continuous and has three phases: pre-development projects, new product development and development of products already on the market. Successful development builds on knowledge and reuse. A modular approach provides an opportunity to reuse designs, make improvements and substitute parts of a product or solution. Shared Technologies, the Group's joint development center for global product platforms, plays a key role in the innovation process. A modular approach to both hardware and software is the basis for the joint solutions. The Group continually invests in improvements to make the innovation process more efficient by expanding its IT support with common platforms for collaboration, project management and product data management.

New products

With Yale Conexis L1 Smart Door Lock, users can configure, monitor and unlock doors with their smartphone via a secure app. Users can create temporary mobile keys for guests and keep track of who comes and goes.

CLIQ is a versatile mechatronic locking system that is suitable for small to very large systems. With CLIQ Connect it is possible to remotely manage and update permissions for a Bluetooth-enabled CLIQ key. Keys can also be updated using the programming device that is connected to the mobile device.

The new Vingcard Essence hotel lock provides technology in a clean, minimalist design that blends in with the hotel's decor. The solution is now included in ASSA ABLOY Hospitality Mobile Access and wireless online features.

HID goID is a mobile identification platform that allows driving licenses and other identification documents to be stored on smartphones. The smartphone becomes a device for receiving, presenting and authenticating mobile ID documents with the highest level of privacy protection.

The next-generation entrance solution from ASSA ABLOY Entrance Systems opens and closes with maximum speed and minimum energy loss. The solution combines superior thermal performance in a sectional door with the high speed of a high-performance door. The 50-mm thick insulated door panel keeps the indoor climate stable and allows in only a minimum of cold air.

Yale's new digital door locks for the residential market in China, Southeast Asia, Hong Kong and Latin America can be opened using biometrics, RFID card or PIN code, as well as with an ordinary key. The lock can be easily integrated with other Home Automation solutions.

Value creation strategy #3

ASSA ABLOY aims to radically reduce the cost base through cost-efficiency and sustainable operations. This is achieved by applying Lean methods in manufacturing, professional sourcing and outsourcing. Production combines final assembly close to the customer with the transfer of standard production to low-cost countries.

Cost-efficiency

€$

Price management for **price leadership**

-29%

The number of suppliers has been reduced by 29 percent over the past five years

+

Restructuring program providing significant results

Cost efficiency in all parts of the value chain

ASSA ABLOY aims to radically reduce the cost base through cost-efficiency in all parts of the value chain. Work continued successfully on professional sourcing, Lean production methods, and Seamless Flow, i.e. streamlining and automating administrative flows. Investments in increased automation of production accelerated during the year. A new Group program was launched in 2016 to continue streamlining the production structure through 2018.

Production structure

Production structure

Streamlining initiatives make significant contributions to achieving the target of an operating margin of 16–17 percent and to the Group being a price leader and contributing to sustainable development.

The recurrent multi-year programs to concentrate product assembly to sophisticated plants close to customers in mature markets comprise a cornerstone of this effort. The more strategic components, such as cylinders, door closers and some electromechanical products, are concentrated to the Group's own production plants in low-cost countries, while standard components and other products are increasingly sourced from suppliers.

The programs may be seen as ongoing activities, although they are basically structural, as a result of the Group's acquisition strategy with an average of one acquisition per month. A significant part of the synergy effects on acquisition are the restructuring of manufacturing and modernization of production, efficiencies in the organization, and global logistics with substantial gains in the work environment and sustainability.

Since 2006, 76 production plants have closed, more than 100 plants have been converted into assembly plants, and about fifty office units have closed. The majority of the remaining production units in high-cost countries have switched to mainly final assembly and customization. In all, 12,162 employees have left the Group in connection with these changes. As a result of these initiatives and along with acquisitions, the number of employees in low-cost countries has nearly doubled since 2006 to 20,537, and the share has increased from 34 percent in 2006 to 44 percent in 2016.

In 2016 the sixth Group-wide manufacturing footprint program was launched for the period through 2018. Since the launch of the latest program, 50 more companies were acquired. The goal is to close ten production plants and about 40 offices. The cost of the program is SEK 1,597 million. A review of ASSA ABLOY's logistics structure was also initiated during the year. The aim is to consolidate freight and other logistics providers, while creating a more efficient structure for warehouse and logistics centers with a high degree of standardization of materials and products and a seamless flow-based, digital IT infrastructure for fast, efficient and secure solutions.

PLANTS IN LOW-COST COUNTRIES

Professional sourcing

One important long-term change in the Group's cost structure is the switch from manufacturing standard components in-house to an increased share of sourcing, as well as final assembly and customization. The Group's professional sourcing should ensure maximum quality at minimum cost and is a prerequisite for increasingly efficient operations. Sourcing has increased sharply over the past ten years, with a 230 percent increase in the value of sourced materials to SEK 25.6 billion and with a gradual concentration to fewer, more qualified suppliers.

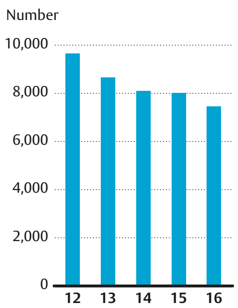
Professional sourcing is growing in importance as ASSA ABLOY switches from its own production toward assembly and customization close to the customer, and becomes a more market-oriented problem solver. The Group's suppliers are strategic partners who are increasingly involved in the development process and in close collaboration grow to be able to deliver not only components but entire subsystems and entire products. ASSA ABLOY contributes competence transfer and its production and quality expertise.

The ambition is to have an increasingly limited number of large, high-quality suppliers, mainly in low-cost countries, as strategic partners who collaborate in production and even in product development, based on supplier agreements and category and quality management. Over the past five years, the number of suppliers has been reduced by 29 percent to around 7,500 worldwide, with a substantial majority in low-cost countries. The target is to halve this number over the next few years.

The driving force is the Group's sourcing organization, which has been strongly professionalized over the past ten years. It categorizes and segments suppliers based on the strategic needs identified by the Group. The divisions have specialized purchasing managers for each component category. Value analyses and comparative costing, with clear identification of cost distribution, are increasingly important methods for managing the actual costs and pricing of the products. The Group has trained over 200 employees in should-cost methods, which provide the knowledge to conduct cost reduction negotiations.

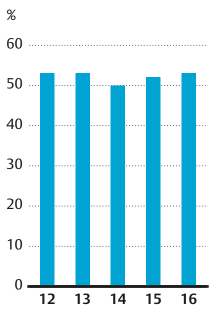
ASSA ABLOY's Business Partner Code of Conduct is the foundation for collaboration and often results in a long-term improvement in suppliers' sustainability efforts, with regard to the physical environment, employees' working environment and conditions, and conduct in other sustainability-related issues. In case of non-compliance, collaboration is terminated with the supplier. Monitoring takes place through audit programs, which include over 2,000 suppliers in Latin America, Asia, Africa and eastern Europe.

NUMBER OF SUPPLIERS



Reducing the number of suppliers is important for reducing costs and improving quality. Active efforts have reduced the total number of suppliers by 29 percent over the past five years.

SHARE OF TOTAL PURCHASES IN LOW-COST COUNTRIES



Raw materials, components and finished goods from low-cost countries accounted for 53 percent of the Group's total purchases in 2016.

Process development

A constant effort is underway to apply and develop methods and processes in all stages of the value chain to improve cost efficiency. Lean methodology encompasses all processes in all divisions. The same applies to Seamless Flow, referring to the automation of all of the Group's administrative flows, which allows the Group's resources to be moved closer to the customer.

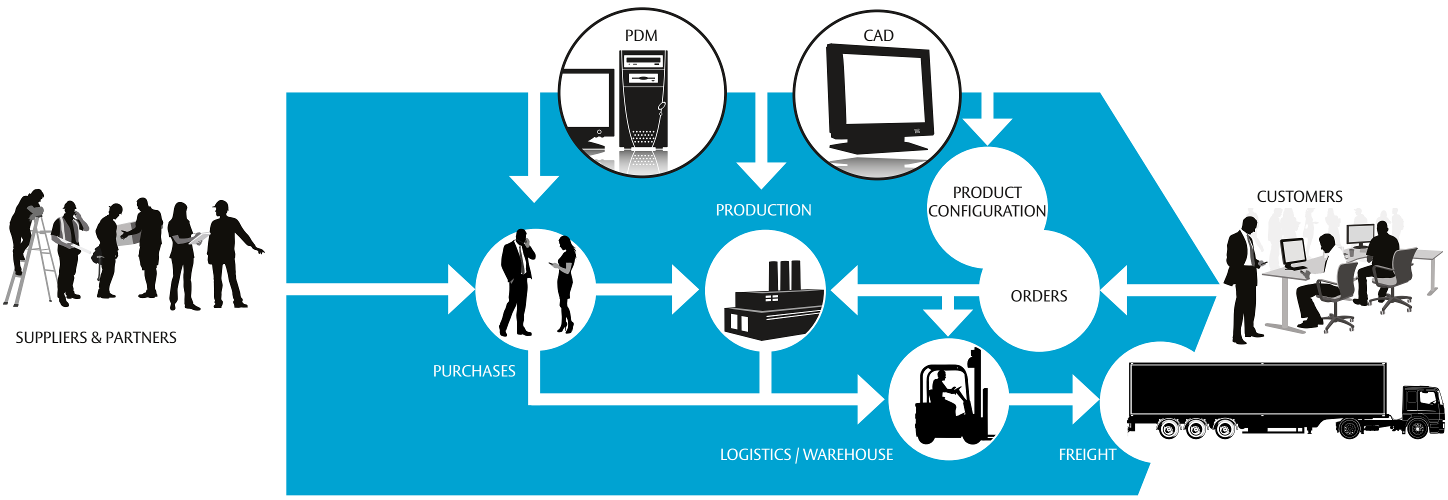
ASSA ABLOY focuses on constantly streamlining all key processes to enhance customer value. Lean methods are central in achieving on-demand flow manufacturing, in which testing and packing have been integrated into the flows. Production becomes transparent, with better material cost control, improved decision-making procedures, shorter development times, and increased collaboration with the marketing and sales organization. Today Lean projects are being conducted in all of the Group units and the number is increasing each year.

Seamless Flow is a prioritized activity across the Group and originates in efforts to streamline administrative work, especially in sales support and indirect production, where a large percentage of the Group's personnel costs can be found. By standardizing flows and processes using digital technology and increased automation, freed-up resources can be redirected to activities that create value for customers. This trend makes it easier to be an ASSA ABLOY customer and adds value to the relationship as more resources become available to customers through streamlined and coordinated support functions. The implementation of Seamless Flow and optimization of the IT infrastructure will enable more efficient coordination of an increasing number of support functions.

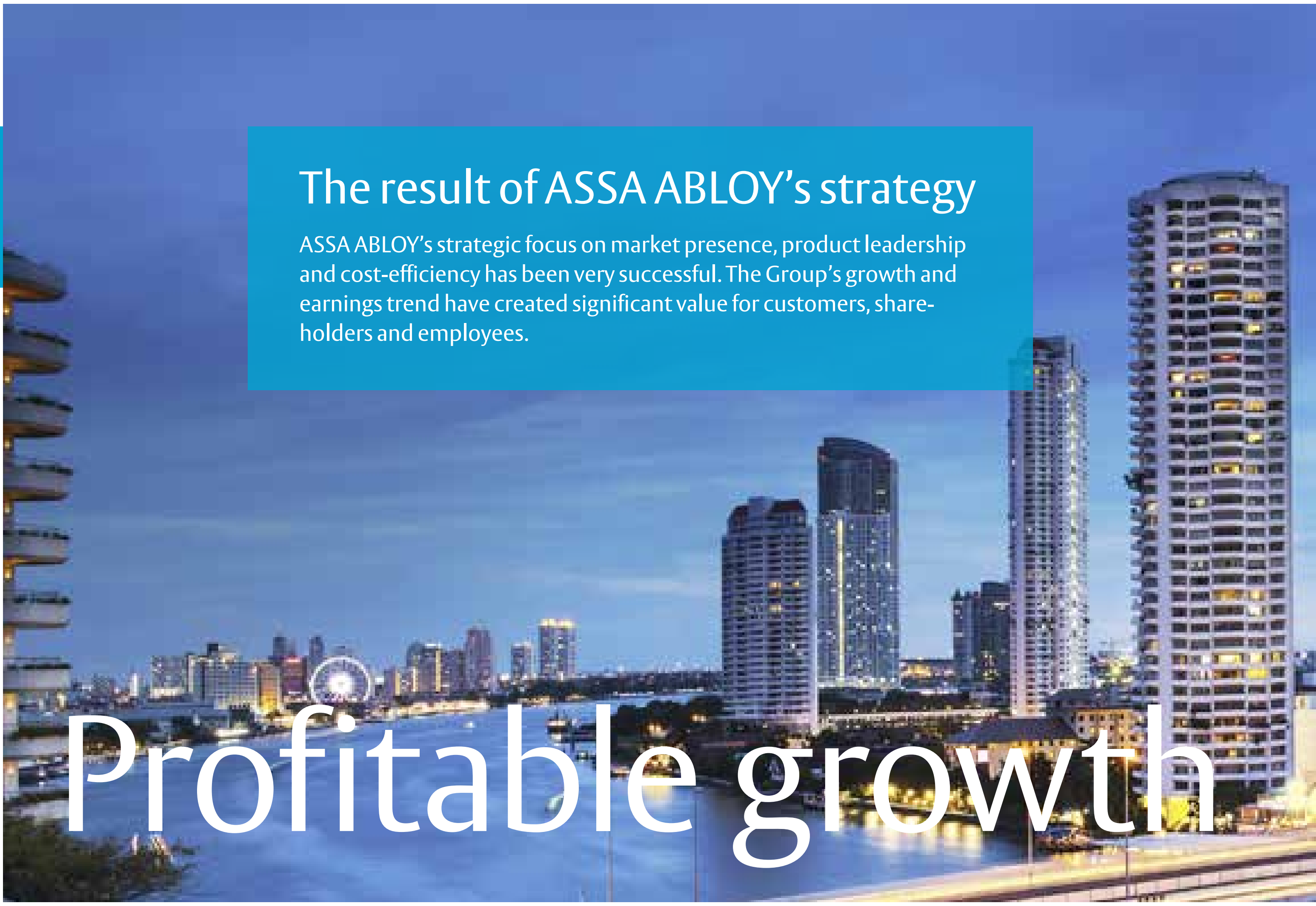
Value Analysis (VA) is a structured process for optimizing cost and customer value in existing products. The same applies to Value Engineering (VE), which is part of the product development process. VA/VE include an in-depth analysis of the product's design, components and production methods, which systematically reduces production costs and enhances customer value with improved quality. Cost savings may amount to 20–40 percent. Since the methodology was introduced in 2007, the Group has made cost savings of SEK 1.2 billion through VA/VE.

Investments in increased automation of production flows have accelerated in recent years. The number of robots has doubled every year since 2013 and the use of 3D printers is increasing for low-volume products and efficient customization of individual products, which shortens lead times and improves quality.

Seamless Flow



ASSA ABLOY's Seamless Flow objective is to achieve an efficient flow in all support functions, an automated flow of information and products across the whole value chain.



The result of ASSA ABLOY's strategy

ASSA ABLOY's strategic focus on market presence, product leadership and cost-efficiency has been very successful. The Group's growth and earnings trend have created significant value for customers, shareholders and employees.

Profitable growth

Focus on long-term and profitable growth

ASSA ABLOY was founded in 1994 and since then it has grown into the largest global supplier of door opening solutions, with sales of SEK more than 71 billion. Long-term value-creation continues to be the focus of its shareholders, Board of Directors and management. Annual sales growth has averaged 9 percent since 2006. The annual growth rate for operating income has been an average of 9 percent during the same period. Consequently the Group has reached its target an operating margin of 16–17 percent over a business cycle.

ASSA ABLOY grew rapidly during its first decade – mainly through acquisitions – from being a regional lock company in the Nordic countries into the leading global player. With a new management team, in 2006 the Group entered a new phase of growth based on three main strategies for market presence, product leadership and cost-efficiency. With a focus on profitable growth, great value has been created for shareholders and other stakeholders.

Market presence and growth

The fundamental growth driver is strong and long-term: the constantly growing need for security, safety and convenient solutions for locks and doors. This trend follows the development of prosperity, for which reason ASSA ABLOY has greatly expanded in emerging markets since 2006. This segment now accounts for 24 percent of total sales, compared with 12 percent in 2006. The Group is now represented in more than 70 countries. In addition to these drivers is the rapid switch in customer demand to electromechanical products and increasingly sustainable and energy-saving products and solutions.

Organic growth is supplemented by an acquisition strategy. An average of over 5 percent of annual growth comes from acquisitions, which strengthen geographical market coverage, expand the product range and add new technologies in expansive areas. Since 2006 ASSA ABLOY has completed 148 acquisitions. In 2016 the Group made 13 acquisitions, which are expected to contribute around SEK 2 billion to annual sales. The Group's strate-

gic decision in 2006 to build a world-leading position in entrance automation was another major growth factor. As a result of several major acquisitions within doors for industries, warehouses, garages, and entrance automation, ASSA ABLOY has created a new division, Entrance Systems. This has grown very rapidly into the Group's largest division with annual sales of SEK 19.8 billion and a 28 percent share of Group sales. Total growth for the division has been about 600 percent since 2006.

Growth-driving product leadership

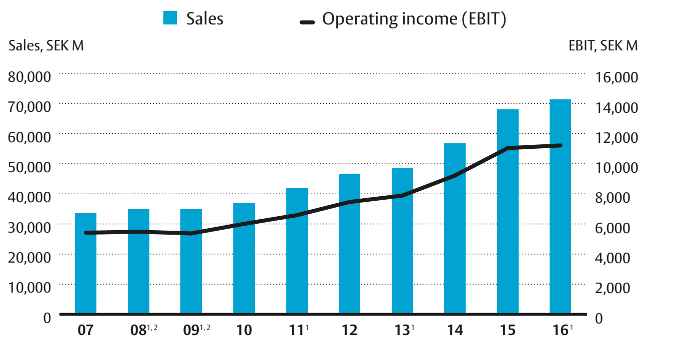
ASSA ABLOY is the leading innovator and product developer in the technology shift toward increasingly electromechanical, digital and mobile technology. The aim has been to double the pace of innovation. Today 30 percent of the Group's total sales come from products less than three years old. The growing investment in product development is the main driver for achieving the target of 5 percent annual organic growth. Electromechanical solutions are rapidly growing and now account for 54 percent of Group sales, compared with 31 percent in 2006.

Cost-efficiency for profitability

Constant efficiency improvements and cost reductions are the foundation of good profitability and sustainable products and businesses. The Group has fundamentally changed the global production structure over the past ten years through five completed multi-year programs – and one that is still ongoing – to concentrate assembly close to major customer markets and to relocate component production to low-cost countries. By year-end, 76 production plants had been closed, about 100 were converted into assembly plants, and about 50 offices were closed since 2006. The programs reduced the number of employees by 12,162 people. At the same time, sourcing has increased substantially and been concentrated to fewer, larger and better suppliers. The number of suppliers has been reduced by 29 percent over the past five years.

Additional activities are underway to reduce costs while improving efficiency and customer benefit. All units operate based on Lean processes with professional teams for smarter production flows. VA/VE methods in product development have reduced material use and contribute to improved products that benefit both customers and the environment. Seamless Flow is a top-priority, Group-wide initiative that promotes more efficient digital processes for information flows. It focuses on the administration, which accounts for a large percentage of personnel costs, and moves resources closer to the market and customer. The Group is making major investments in common IT systems, as well as in the use of automation and robotics in production processes.

SALES AND OPERATING INCOME (EBIT)



[1] Excluding items affecting comparability.
[2] Reclassification has been made.

ASSA ABLOY's divisions

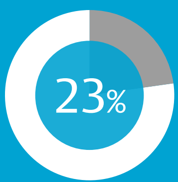
ASSA ABLOY is divided into three regional and two global divisions.

Regional divisions

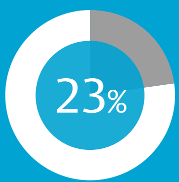
The regional divisions manufacture and sell mechanical and electromechanical locks, digital door locks, cylinders and security doors adapted to the local market's standards and security requirements.

EMEA

Share of sales



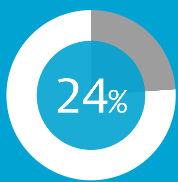
Share of operating income



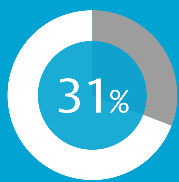
Read more on page 29

Americas

Share of sales



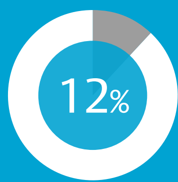
Share of operating income



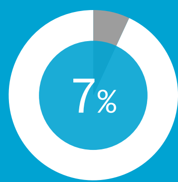
Read more on page 30

Asia Pacific

Share of sales



Share of operating income



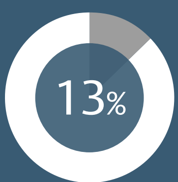
Read more on page 31

Global divisions

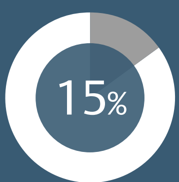
The global divisions manufacture and sell electronic access control, identification products and entrance automation on the global market.

Global Technologies

Share of sales



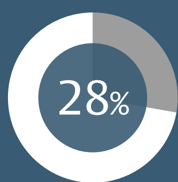
Share of operating income



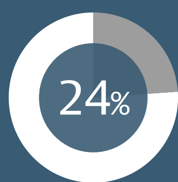
Read more on page 32

Entrance Systems

Share of sales



Share of operating income



Read more on page 33

Continued strong growth for electromechanical solutions

Demand continued to increase in 2016 and sales grew organically by 3 percent. Sales of electromechanical locks and solutions increased sharply. Product development continued at a high pace and efficiency and streamlining programs produced good results.

Market development

Demand growth in the division continued to be varied in 2016. Sales increased strongly in Scandinavia, Germany and Spain, were good in the UK, Benelux, Italy, Eastern Europe and Africa, while sales were stable or slightly negative in France and Finland, and strongly negative in the Middle East. The strong demand for electromechanical products seen in recent years accelerated further, with strong interest for digital and mobile solutions in the residential market, especially in northern Europe. Another strong demand trend is sustainable solutions, where EMEA has a market-leading range of products and solutions that meet ever-increasing demands, for example from environmental classification of buildings in the EU.

The division is shifting more and more resources to marketing initiatives. Under the Group's Seamless Flow project, administrative information flows, processes and operations are being automated, freeing staff to develop direct customer relationships. Nearly 60 percent of the sales staff are now working in direct sales, and the proportion has grown by more than 10 percentage points over the past five years. The division's e-commerce initiative was further expanded, with about 40 percent of external orders now handled electronically and seamlessly. Digital support is offered to architects and security consultants in the specification process with Openings Studio, a BIM-enabled tool (Building Information Modeling). The division now has over 200 specifiers of its own.

Acquisitions are part of the growth strategy. Acquisitions during the year included Mauer, a leading manufacturer of cylinders and locks in Bulgaria, Trojan Holdings, a leading supplier of fittings for doors and windows in the UK, and Seawing, Hungary's leading access control company. The Car Lock business, with sales of SEK 550 million, was divested.

Product leadership

The high pace of product development continued during the year. The share of new products introduced over the past three years was 28 percent of total sales. More than 200 product development projects are expected to result in new products that reach the market over the next few years. The digital products have been highly successful. The CLIQ system, with programmable keys and cylinders, is being expanded to new segments with great success. The same applies for new Bluetooth-based applications and ASSA ABLOY's Seos mobile keys. "Close Motion," a new and innovative door closer, was introduced during the year. It has a unique and patented solution for noise-free closing. The division's High Impact products continued to be successful. They have been developed with the purpose of being sold in large volumes in all markets in the division.

Cost-efficiency

The division's restructuring program to reduce the number of plants and to concentrate on assembly close to customers continued according to plan. As a result, component production was moved to low-cost countries with consolidation of sub-contractors, leaving fewer and larger partners. The number of direct suppliers decreased by 12 percent during the year. Streamlining of production continued at a high pace with lean projects and increased investment in robots. The Seamless Flow initiative is producing significant results, and the division is well on the way to consolidating 60 enterprise resource planning systems into a single application over the next few years. Integration of the Group's various PDM (Product Data Management) systems is approaching completion. More than 70 percent of users are now on the same platform.

FACTS ON EMEA

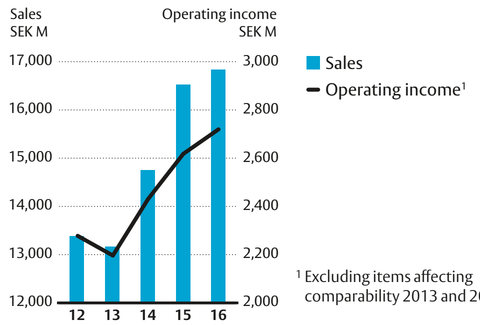
Financials in brief 2016

- Sales: SEK 16,837 million (16,524) with 3 percent organic growth.
- Operating income (EBIT): SEK 2,722 million (2,620).[1]
- Operating margin: 16.2 percent (15.9).[1]

[1] Excluding items affecting comparability 2016.

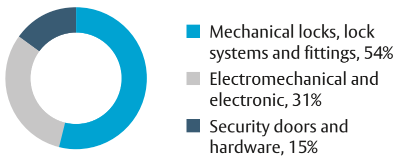
See key figures for EMEA ▶ p59

SALES AND OPERATING INCOME



[1] Excluding items affecting comparability 2013 and 2016.

SALES BY PRODUCT GROUP



Offering: Mechanical and electromechanical locks, digital door locks, security and fire doors, and fittings.

Markets: EMEA is the leader in its product areas in Europe, the Middle East and Africa. The commercial segment accounts for around 60 percent of sales and the residential segment for 40 percent. EMEA comprises a large number of Group companies with a good knowledge of their local and in many respects diverse markets. Products are sold primarily through a number of distribution channels, but also directly to end-users.

Acquisitions 2016: Mauer in Bulgaria, Trojan in the UK and Seawing in Hungary.

Good growth and strong operating income

Sales continued to increase at a good rate in 2016, with 5 percent organic growth. Growth was good in the US and Canada and very good in South America, with the exception of Brazil. The sales trend for electromechanical products was particularly strong. Continuing streamlining and efficiency initiatives contributed to an increase in operating income and a very good operating margin.

Market development

The division's largest market, the US, showed a positive trend in the commercial and institutional markets, which together account for about three-quarters of the division's sales. The residential market was stable, with growth for the sixth consecutive year. Sales increased in Canada despite weaker demand. Latin American countries showed good growth, with particularly strong performance in Mexico, Colombia and Peru. The ongoing recession in Brazil led to lower sales.

The demand for advanced electromechanical solutions continues to grow rapidly in all markets and segments. Sales of digital door locks under the Yale brand increased rapidly in both North and South America. The strong trend towards wireless lock solutions and increased sustainability through energy savings is an important feature of future demand growth.

One small acquisition was completed during the year of ADAEZ in the US. It is a fast-growing innovative company specialized in energy efficient door closer/operator hybrid.

Product leadership

The division has a very competitive offering of new products due to its high innovation rate. Investments in innovation and product development have increased by 363 percent since 2006. New products launched in the past three years accounted for 25 percent of total sales in 2016. In all, 100 new products were launched during the year and an additional 172 products are heading for the market.

Demand for products with high sustainability performance is strong. In recent years the division has introduced a large number of products that cover a broad spectrum from frames, doors and locks to access control and home control systems. They are made of recycled materials, using less natural resources in the manufacturing process all while assisting building owners to reduce their own operating costs, decrease energy consumption and help them meet their sustainability goals. The division is the market leader for smart home connected locks, where Yale has been positioned with a range of innovative wireless digital lock products that may be integrated with products from partners. During the year the first solar-powered access control lock was introduced for the commercial market.

Cost-efficiency

The division continues with a strong focus on efficiency improvements, an important component of which are the Group-wide restructuring programs. In recent years, significant portions of component production have been moved to low-cost countries, while customized final assembly, meeting complex demands has been concentrated close to customers. The number of plants has been reduced from 47 to 26 since 2006. The number of employees in direct production has been reduced to 4,533 (–39 percent). Sourcing has increased sharply and the number of suppliers has been cut by 41 percent since 2006.

The division has a long tradition of lean practices, which provide significant efficiency gains each year. Seamless Flow initiatives cover the entire administrative information flow, with a focus on the customer-oriented processes to strengthen and deepen customer relationships. The transition to a common business system is proceeding according to plan. A large number of products have been updated and processes simplified using VA/VE methods. Investments in robots accelerated during the year with 70 new robots for a total of 248.

FACTS ON AMERICAS

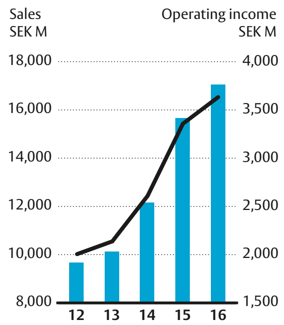
Financials in brief 2016

- Sales SEK 17,044 M (15,665) with 5 percent organic growth.
- Operating income (EBIT) SEK 3,640 M (3,363).[1]
- Operating margin: 21.4 percent (21.5).[1]

[1] Excluding items affecting comparability 2016.

See key figures for Americas p59

SALES AND OPERATING INCOME



[1] Excluding items affecting comparability 2013 and 2016.

SALES BY PRODUCT GROUP

Offering: Mechanical and electromechanical locks, digital door locks, cylinders, door fittings, security doors, door frames, and industrial high-security fencing and gates.

Markets: US, Canada, Mexico, Central America and South America. The majority of sales are in the US and Canada, where ASSA ABLOY has an extensive sales organization and sells its products through distributors. Institutional and commercial customers are the largest end-customer segments. These segments account for 85 percent of sales, while the residential segment accounts for 15 percent of sales.

Sales in South America and Mexico take place mainly through distributors, wholesalers and home improvement stores. Sales in these markets are more evenly distributed between the non-residential and residential segments.

Acquisitions 2016: ADAEZ in the US.

Weak development in China weighed on Asia

The division's sales declined due to the sharp decline in China, despite a good performance in most other markets in the region. Product development continued at a record-breaking pace. Major streamlining measures are being implemented in China, which accounts for nearly half of the division's sales.

Market development

Demand in China continued to weaken, primarily in the residential segment, which accounts for most of the division's sales in the country. The commercial segment grew, but is still a smaller part of the business. Sales in China decreased sharply and, unfortunately, accounting irregularities were also found at some companies. Growth was strong in India, where the division is now building up a leading market position. Demand was good in New Zealand, Thailand, Singapore, the Philippines and Japan. The trend was favorable in South Korea, stable in the rest of Southeast Asia and somewhat weaker in Australia.

Strong market trends in the entire region are digital and mobile solutions, where South Korea is leading the way as a global pioneer. Digital door locks are a very popular product that continued to show good growth. Demand for sustainable and climate-smart solutions go hand in hand with the digital trend and increased sharply from a low level, especially in China where the desire to address environmental problems has now become an important driver. Efforts associated with market segmentation and increasing resources at the market level are producing good results. ASSA ABLOY is taking over as sole master brand for a growing range of products for the commercial market and Yale is concentrating on the residential market. No acquisitions were completed during the year.

Product leadership

The division has clear product leadership in its markets, with several years of increased investments in innovation and new products. The number of development engineers continues to increase in the division's 15 development centers, including in China, where products are also developed for the entire region. The initiative is in response to advanced demand from a large, young and tech-savvy consumer generation. Products introduced over the past three years accounted for 37 percent of total sales, substantially higher than the Group target of 25 percent. Interest in sustainable rated products is rapidly growing, especially in China, Australia and New Zealand. The division has the widest range of products with high sustainability performance and a rapidly growing number of environmental product declarations.

Cost-efficiency

The division is dealing with the sharp slowdown in Chinese demand through measures that include a substantial reduction of staff. The number decreased during the year by about 1,500 to a total of 11,700. As a result the number of employees in the division declined by 21 percent in three years. This reduction is supported in part by the continued streamlining of the division's plant structure in accordance with the Group's restructuring program. Other measures include increasing the pace of outsourcing with more purchasing, improving efficiency in production by investing in more robots and expanding the lean program for smarter production flows.

The Seamless Flow initiative also continued successfully during the year and the transition to a common business system continued at a good pace. Streamlining of administrative information flows broadened to include more processes such as product data, order and billing systems, as well as marketing with the expansion of e-commerce. This initiative allowed more resources to be transferred to direct customer relationships.

FACTS ON ASIA PACIFIC

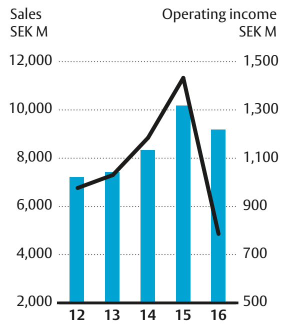
Financials in brief 2016

- Sales SEK 9,189 M (10,171), an organic decline with 9 percent and with 5 percent adjusted for overstated sales in 2015.
- Operating income (EBIT) SEK 787 M (1,436).[1]
- Operating margin: 8.6 percent (14.1).[1]

[1] Excluding items affecting comparability and including SEK 300 M write-down of working capital 2016.

See key figures for Asia Pacific p59

SALES AND OPERATING INCOME



[1] Excluding items affecting comparability 2013 and 2016.

SALES BY PRODUCT GROUP

Offering: Mechanical and electromechanical locks, digital door locks, high-security doors, fire doors and hardware.

Markets: The Asian countries are emerging markets without established security standards. New construction accounts for around three-quarters of sales. In China, the same types of lock, handle and hardware are often used in both homes and workplaces. The production units in China also produce for ASSA ABLOY's other divisions. Australia and New Zealand are mature markets with established lock standards. Renovations and upgrades account for the majority of sales.

Global Technologies

High rate of development and strong earnings growth

Global Technologies, which consists of HID Global and ASSA ABLOY Hospitality, continued to have good sales growth of 3 percent organically. Demand was good in most of HID Global's product segments in mature markets. ASSA ABLOY Hospitality also continued to grow.

HID GLOBAL

Underlying global demand continues to be strong with growing security needs and upgrades to electromechanical technology with digital and mobile solutions. The year showed good sales growth in the mature markets, especially in Europe and North America. Emerging markets showed a mixed picture with very good sales in Africa, good sales in China, while the rest of Asia, South America and the Middle East had a negative development.

The commercial segment is spearheading the rapid development toward digital and mobile solutions with a high growth rate. In the institutional segment demand increased after several years of relatively weak growth. Physical access control and identification technology both reported a year of good growth in most markets, while printer products, with a large proportion of sales in emerging markets, were weaker. The software company Quantum Secure, acquired in 2015, had a strong increase in sales, while authentication solutions remained unchanged. The great success of the division's mobile access control solutions with a significant increase in the number of customers was particularly gratifying.

HID Global has global product leadership with a continued high pace of product development. New products launched in the past three years account for almost 40 percent of sales, compared with the Group average of approximately 30 percent. One strong driver is the technology shift to digital and mobile solutions with increased software content that requires regular updates.

The business unit's access control products, with global leadership, undergo constant development with new features and adaptations to different mobile platforms. In the field of printers, new products were launched with better sustainability performance, lower operating costs and higher resolution. HID Global has seen a rapid increase in the number of new products based on the Seos platform, including readers and cards. One important launch was the first solution for ID cards and driver's licenses in the mobile phone. The solution has great potential for the future as legislation is adapted to this technology. The US is in the lead here with legislation in the individual states. Similarly, HID Global has developed new authentication techniques that permit logging in to online banking on the mobile phone.

Cost-efficiency improvements continued at a good pace during the year, with positive effects. Within the Group-wide restructuring program, certain operations in access control and ID cards are now being moved from Ireland to Malaysia. The number of development centers has been consolidated. The aim is to create fewer units with larger critical mass for product development, while increasing engineering capacity in emerging markets. The division also continued to consolidate its supplier base, resulting in lower costs while improving sustainability. Work on the Seamless Flow initiative intensified with major advances, especially in marketing and sales.

ASSA ABLOY HOSPITALITY

ASSA ABLOY Hospitality continued growth from last year with high operating income and strong margin growth. The main driver is the continued rapid growth of demand for electromechanical door opening solutions using digital and mobile technology. Once again, demand growth is better in mature markets than in emerging markets, where China remains weak with a low growth rate in the new construction market. Several large global hotel chains are now customers for installation of advanced electromechanical systems with both hardware and software. Demand remains high for renovations and upgrades as a result of strongly increased investments in new technological solutions in recent years.

FACTS ON GLOBAL TECHNOLOGIES

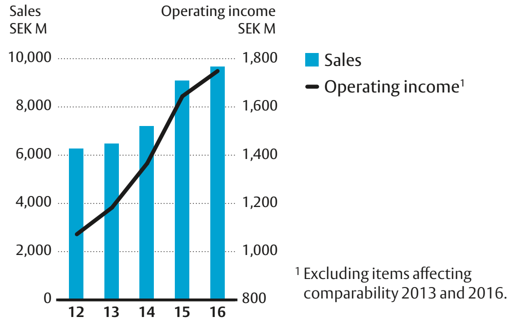
Financials in brief 2016

- Sales SEK 9,697 M (9,100) with 3 percent organic growth.
- Operating income (EBIT) SEK 1,752 M (1,647), a 6 percent increase.[1]
- Operating margin (EBIT) 18.1 percent (18.1).[1]

[1] Excluding items affecting comparability 2016.

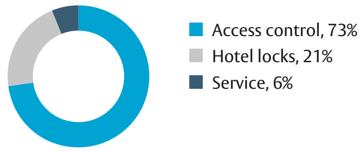
See key figures for Global Technologies ▶ p59

SALES AND OPERATING INCOME



[1] Excluding items affecting comparability 2013 and 2016.

SALES BY PRODUCT GROUP



Offering: HID Global is a global leader in trusted identity solutions, primarily in identity and access management, and in contactless identification technology solutions. Customers comprise companies, healthcare, education, financial, government and state institutions.

ASSA ABLOY Hospitality manufactures and sells electronic lock systems, safes, energy management systems and minibars for hotels and cruise ships under the VingCard and Elsafe product brands. It is the world's best-known brands for lock systems and in-room safes, with products installed in over seven million hotel rooms in more than 42,000 hotels worldwide.

Markets: Customers are mainly in the institutional and commercial sectors worldwide.

Acquisitions 2016: Demoteller and Bluvision in the US.

Entrance Systems

Increased sales and higher margin

In 2016 demand developed well with strong sales growth in North America, Pacific and western Europe, while growth in emerging markets was subdued. The pace of product development was high with many new product launches. The division is leading the development toward more sustainable and energy-efficient solutions. The restructuring programs are proceeding according to plan with reduced costs.

Market development

The division's positive organic growth continued during the year with an increase of 4 percent. It was particularly strong in North America in all market segments. In northern and central Europe, demand was good, while it improved from low levels in southern Europe. Growth in emerging markets was slower, in part because of weak growth in China, a market that accounts for a minor portion of the division's sales. The division continues to invest in emerging markets with the aim of increasing their share of sales from 11 percent to 25 percent.

In the various segments, sales increased strongly for automatic doors, industrial doors and high-performance doors. Growth was good in garage doors and warehouse and logistics solutions, while it was negative in the European residential segment.

The service offering, which accounts for almost one third of the division's sales continued to perform well. New service concepts based on long-term contracts, preventive maintenance and modernization strengthen customer relationships and provide good opportunities for upselling.

Acquisitions are an important part of the growth. During the year four companies were acquired: Nassau in Denmark, which holds a strong position in Europe in industrial overhead sectional doors, Lighthouse and Greenville in the US, two regional distributors of overhead sectional doors and loading docks, and Construction Specialties, a leader in sales and installation of docking products, overhead sectional doors and high-performance doors in Mexico.

Product leadership

The launch rate for new products continued at a high pace. New products launched in the past three years accounted for 32 percent of sales, clearly above the Group target of 25 percent. The product development organization is functioning well with new and modular development platforms that reduce complexity and provide significant efficiency gains in the use of resources. Product launches included a new range of overhead sectional doors for the North American and European markets, new solutions for loading docks, high-performance doors for specific industry applications and sliding doors for emerging markets.

The Group is spearheading developments toward more energy-saving and sustainable solutions. The division has a large and growing range of energy-efficient solutions, such as products that can be quickly opened and closed, that have good insulation, or with various intelligent sensors and digital technology to control energy consumption.

Cost-efficiency

Consolidation of the production structure proceeded according to plan. During the year, production in Italy was moved to the division's plants in the Czech Republic. The strategy is to place customized final assembly close to the customer and to move component production to low-cost countries, while concentrating purchases to fewer and larger suppliers. Streamlining is facilitated by investments in robotics, as well as the use of Lean practices and VA/VE for resource efficiency at every level. The Seamless Flow project during the year included the continued implementation of a common business system for the division. In addition, it covered more and more aspects of the division's information flows, including increased digitization of marketing and customer relations, as well as implementation of more effective digital solutions in the service organization.

FACTS ON ENTRANCE SYSTEMS

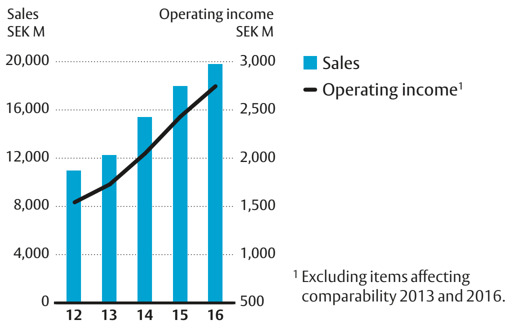
Financials in brief 2016

- Sales SEK 19,789 M (17,957) with 4 percent organic growth.
- Operating income (EBIT) SEK 2,753 M (2,436).[1]
- Operating margin: 13.9 percent (13.6).[1]

[1] Excluding items affecting comparability 2016.

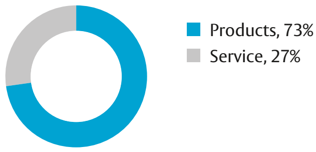
See key figures for Entrance Systems ▶ p59

SALES AND OPERATING INCOME



[1] Excluding items affecting comparability 2013 and 2016.

SALES BY PRODUCT GROUP



Offering: Entrance automation products, components and service. The product range includes automatic swing, sliding and revolving doors, industrial doors, garage doors, high-performance doors, docking solutions, hangar doors, gate automation, hardware for overhead sectional doors and sensors.

Markets: Entrance Systems is a global leader with sales worldwide. It has sales companies in 35 countries and distributors in 90 countries. Service operations account for nearly one-third of sales. The products are sold through three channels. In the direct channel, new equipment and comprehensive service are sold direct to end-customers under the ASSA ABLOY brand. The indirect channel mainly targets large and medium-sized distributors under the Entrematic brand. The third channel, Cardo, sells components and hardware for doors in the industrial and residential segments and sensors for the door and elevator industry.

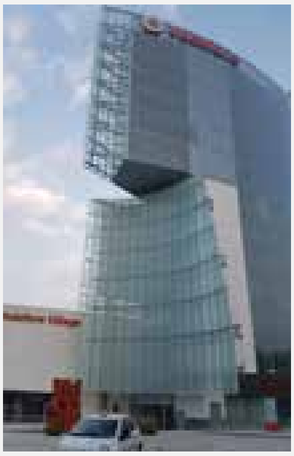
Acquisitions 2016: Nassau in Denmark, Lighthouse and Greenville in the US and Construction Specialties in Mexico.

Practical examples of ASSA ABLOY's security solutions

Mobile access control for Vodafone Italy's employees

CUSTOMER: Vodafone Italy wanted to update the physical access control system at its headquarters, Vodafone Village in Milan.

CHALLENGE: Initially a pilot project was carried out in which a group of employees were able to use their smartphones to open the doors at Vodafone Village. The phones could also be used to make cashless payments and report time and attendance.



SOLUTION: The choice fell to HID Mobile Access. The system is used with iCLASS SE readers that works with both the old access cards and the new mobile ID cards, which allows users to switch to mobile access control at their own pace. HID Global collaborated with Digitronica.IT and Honeywell Building Solutions (HBS) to install the solution.

HID Global's mobile access solution was integrated into the customer's existing identification platform. The readers are easy to configure and support several different applications, making it possible to quickly install the new system. The users appreciate the increased ease of use when they move between different departments and use their phones in various ways. In addition, it is very easy to issue, manage and lock mobile ID cards, which saves both time and money. Vodafone Italy implemented the new system in 2016, and the plan is to initially issue 8,000 mobile ID cards.

CLIQ ensures power supply in North West England

CUSTOMER: Electricity North West, a British power company responsible for management and maintenance of the power grid that supplies about 5 million people in North West England.

CHALLENGE: The customer wanted an access solution for its facilities in urban and rural areas. They needed locks that meet the industry standard to protect against vandalism in order to ensure a continuous and reliable supply of electricity. They also wanted custom-made padlocks and better key control, as well as the ability upon request to track events and identify when the keys and locks were used.

SOLUTION: ASSA ABLOY provided security for the electricity company using the CLIQ locking system, a flexible solution that combines mechanical cylinders, certified padlocks and electromechanical devices. Approximately 15,000 cylinders and padlocks have been installed, along with over 40 CLIQ programming devices for remote updating of key authorization. Almost 2,000 programmable CLIQ keys are now used in the system. By updating these keys, authorization can be granted for a specific door at a certain time. The dynamic software, CLIQ Web Manager, eliminates any potential security risks, by activating and changing the keys' authorization.

Spectacular building for car dealers

CUSTOMER: Rioja Motor is the authorized dealer for Volkswagen Group, with sales and repair shops all over Spain. The company has built a new facility, with an ultra-modern showroom and a shop for repairing mechanical and electronic components.

CHALLENGE: Rioja Motor wanted the building to have a spectacular full-height glass facade, since it is important for the cars on display to be visible from outside. They also had ambitious sustainability goals for the building, which ASSA ABLOY Entrance Systems had to take into account when developing an entrance solution for the project.

SOLUTION: In order to present a complete solution that met the customer's requirements for design and sustainability, ASSA ABLOY worked in close collaboration with both the architect and the construction company. By installing the fully glazed overhead sectional doors, the natural lighting was maximized and met Rioja Motors' requirements for high visibility. Transparent doors that opened and closed quickly were installed to increase the energy savings, and attractive sliding doors were installed at the main entrance. These intelligent doors adjust the size of the opening to the number of people entering and exiting the building, and they are not open any longer than necessary, which reduces energy consumption.

Sheraton Dubrovnik Riviera Hotel

■ **CUSTOMER**: Sheraton Dubrovnik Riviera Hotel, a newly built Starwood hotel and Croatia's largest hotel and conference facility, with 239 rooms and 11 luxury suites.

■ **CHALLENGE**: The Sheraton Dubrovnik Riviera Hotel wanted to give guests the same secure and relaxing experience that they have come to expect when staying at a Sheraton hotel. In addition to the high standard associated with the Sheraton brand, the hotel management also needed to take into account Starwood's requirements to use the latest security and access control solutions.

■ **SOLUTION**: Following Starwood's recommendation, The Sheraton Dubrovnik chose to install VingCard Classic RFID locks combined with the Visionline software, and Elsafe Sentinel II digital in-room safes. Designed for enhanced guest satisfaction, the VingCard Classic RFID locks are extremely user-friendly for guests of all ages, since keycards do not have to be inserted into the lock. This simple and convenient access is paired with high security for both guests and staff, thanks to encrypted technology that prevents unauthorized key card copying. The software was installed and integrated with the hotel's booking system within one business day, with ASSA ABLOY Hospitality's local partners helping to integrate the hotel's additional online systems. As a result, the hotel has experienced more convenient and efficient operations and security procedures.

ASSA ABLOY secures modern landmark in Suzhou

■ **CUSTOMER**: Modern Media Plaza in Suzhou, China – which was completed in 2016 and is owned by the Suzhou Broadcasting System – consists of two spectacular L-shaped buildings with a total area of 328,000 square meters. The 47-storey building complex was designed by Hiroshi Miyakawa and includes a 2,000-square meter television and newspaper office, an office building, hotel, and retail space.

■ **CHALLENGE**: The Suzhou Broadcasting System set high standards for both products and services. The door solutions must protect users and their property, and also be affordable, flexible, easy to handle and used in many different applications.

■ **SOLUTION**: ASSA ABLOY China collaborated with the owner and architect for over a year. The Group's project managers, salespeople and technicians worked together to formulate bids for the different phases of the project and fine-tuned the cost-effective solution: a combination of products that meet ANSI and EN standards. ASSA ABLOY developed separate master key systems for the real estate company CBRE and the hotel, as well as custom fittings for the aesthetic design of the buildings.

Cooperation and BIM software were the key to the successful project for the University of Houston's new stadium

■ **CUSTOMER**: John O'Quinn Field at TDECU Stadium, with 40,000 seats is the home stadium for the University of Houston's Cougars football team. It includes a football stadium with concourses, an ultra-modern dressing room of almost 500 square meters, four party plazas, a more than 1,000-square-foot club section and 26 VIP suites.

■ **CHALLENGE**: The project involved three architectural firms, which were responsible for various parts of the facility, including playing fields, concourses and office space. The 600 doorways required a number of special doors, such as acoustic doors to the dressing room and press box to block out the sound of the spectators.

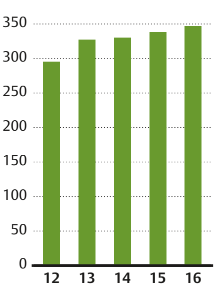
■ **SOLUTION**: ASSA ABLOY used its proprietary software, Openings Studio, including BIM (Building Information Modeling) tools that make it possible to create, visualize and modify doors, frames and hardware in 3D. In Openings Studio everyone has access to the same information simultaneously and can make immediate changes, resulting in better cooperation and transparency while reducing the risk of expensive and time-consuming changes. ASSA ABLOY installed doors, door frames, accessories and mechanical and electromechanical access control at the stadium.

Good progress in sustainability

ASSA ABLOY's sustainability initiatives continued to make good progress in 2016. The new five-year sustainability plan is in line with the objectives. A Group-wide strategy will provide a stronger safety culture throughout the organization. Efforts to reduce energy consumption continue, with an increased focus on transportation and logistics, as well as renewable energy.

Read more about ASSA ABLOY's sustainability initiatives in the 2016 Sustainability Report.

THE GROUP'S REPORTING UNITS



The number of reporting units in the Group amounts to 347 (338).

Commercial driver

Customers are increasingly asking for sustainable products and solutions. Sustainability initiatives are integrated into the Group's strategies for increased market presence, product leadership and cost-efficiency. The divisions have operational responsibility, but governance is based on the Group-wide Code of Conduct that applies to all employees and the Group-wide Business Partner Code of Conduct. ASSA ABLOY reports the results of the sustainability initiatives in greater detail in a separate sustainability report, and applies the sustainability reporting framework, the Global Reporting Initiative (GRI).

Clearer performance monitoring

In 2016 ASSA ABLOY began working based on a new sustainability program for the period until 2020. The program includes several key figures and provides faster and more detailed monitoring. The results from the first year are positive and in line with the plan.

One important area of focus involves reducing energy consumption throughout the operation through more efficient processes and intelligent control systems. ASSA ABLOY is working to increase the proportion of renewable energy with the target of obtaining 20 percent of total energy consumption from renewable sources by 2020. A focused approach to energy will enable ASSA ABLOY to reduce the Group's total carbon emissions.

The Group's water consumption is largely related to surface treatment processes. Increasing the degree of water purification will make it possible to reuse water multiple times, which reduces consumption.

Good results have been achieved in the effort to reduce the use of chlorinated organic solvents. They are primarily used for painting products and more and more plants are now using alternatives with lower environmental impact, such as water-based varnish.

The Group's units are actively working to reduce waste generation, through measures such as intelligent manufacturing processes and packaging. The goal is to separate an increasing proportion of waste to the greatest extent possible for reuse in order to minimize the amount of waste going to the landfill.

The Group's streamlining program for the production structure combined with other efficiency activities such as Seamless Flow and smarter IT systems provide reduced resource consumption and thereby reduced environmental impact.

The Group's goal is for all units with significant environmental impact to have an environmental management system to comply with ISO 14001. As new companies are acquired such systems are gradually introduced, if they are not already in place. A total of 124 units had environmental management systems at the end of the year, which means that the system covers approximately 76 percent of employees in the Group's factories.

ASSA ABLOY is working systematically with its suppliers to improve sustainability performance across the supply chain. Evaluation and improvement of the supplier base is a continuous process, with a special focus on audits of suppliers in low-cost countries. To verify the quality of the audits, external auditors have assessed the work processes and confirmed the audit outcomes.

Sustainable products

ASSA ABLOY is the global leader in innovation, product development and sales of environmentally certified products, which are products that comply with various standards and certified by a third party. The Group has an increased proportion of products with industry-leading sustainability characteristics, several of which are certified by a third party, such as the "Green Circle."

In 2016, the Group initiated an internal reporting system to monitor sales of sustainable and environmentally certified products.

Strong safety culture

An important initiative involves a safer working environment, an area where the Group aims to reduce the injury rate and improve the safety culture. A Group-wide safety manual has been formulated and is the basis for structured safety initiatives within the Group's units. Key features include education, risk identification and promoting a good safety culture. The Group has introduced an in-depth reporting system for accidents and incidents, as well as key figures for detailed analyzes.

Continued focus on development

Employee commitment and expertise are crucial for delivering results based on the strategy's three components, increased market presence, product leadership and cost-efficiency. ASSA ABLOY's basic values of transparency, accountability and valuing results and performance along with a clear innovation culture shape the Group's employer brand. ASSA ABLOY is actively working to offer stimulating work tasks with clarity and development opportunities, where the contributions of every employee are visible.

Internal mobility and development

ASSA ABLOY's recruitment policy gives priority to internal candidates provided they have equal qualifications to external applicants. All job vacancies are advertised on the Group's global intranet to encourage internal mobility. The Group has a system through which employees are offered opportunities to switch jobs with coworkers, or to work together during periods, which increases productivity and contributes to mobility. Development to meet the requirements of the future organization, especially the digital conversion, is a priority. During the year a new version of the digital and interactive training program "Entrance to ASSA ABLOY" was initiated.

Diversity and gender equality

The Code of Conduct states that gender, nationality, social or ethnic origin, age, religion, physical disability, sexual orientation and political opinion must not be the basis for negative discrimination. The Group operates at all levels in order to achieve good diversity, which contributes to more dynamic structures and perspectives. One target is to have 30 percent of management positions held by women by 2020. They held 25 percent of management positions in 2016. Managers are expected to prioritize the underrepresented gender in the recruitment process, provided that they have equal qualifications, to ensure compliance with local legislation, and to have at least one person from the underrepresented gender among the final candidates. The Group currently has 28 different nationalities in the senior management structure.

Employee survey

ASSA ABLOY conducts an employee survey every two years. Areas covered include how employees view the work situation, ASSA ABLOY as an employer, occupational health and safety, conditions and equal opportunities for professional development. The results are broken down into over 300 units in the Group and form the basis for concrete action plans. The 2016 survey had a very high response rate of 92 percent. The responses showed improvements on a number of points compared with the 2014 survey, as well as the need for increased efforts. One such area is health and safety, where the Group is now implementing an extensive Group-wide program to improve the working environment and strengthen the safety culture.

Development and career

Annual performance reviews are important tools for monitoring and planning employees' professional development. Another is the internal labor market with rotation across borders and disciplines. This approach spreads knowledge, experience and values in the Group.

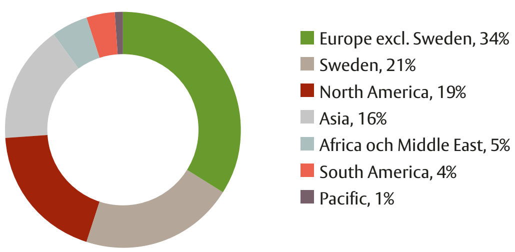
Leadership development is aimed at promoting active leadership based on continuous feedback, with the motto "know your people," where each employee is seen as an individual. The Group has a well-established global development process for senior managers, the Talent Management Process, which is aimed at ensuring that the Group has the expertise it needs to meet the demands of the future. The foundation consists of two development programs for senior managers: ASSA ABLOY MMT and ASSA ABLOY IMD "Leading the future." MMT has three modules based on the Group's three basic strategies: market presence, product leadership and cost-efficiency. About 430 of the Group's senior managers from 30 countries have participated in the IMD training program, which is conducted in cooperation with the world-famous Swiss management school IMD in Lausanne. The collaborative effort also includes the customized IMD program with about 30 participants per session. Its aim is to support the implementation of the Group's strategies, with a focus on problem solving and activities based on an analysis of various case studies.

WOMEN AT DIFFERENT LEVELS OF THE ORGANIZATION

	Share of women, %				
Level	2012[1]	2013[1]	2014	2015	2016
2 – reports to CEO	18	27	27	27	27
3 – reports to level 2	16	12	16	17	21
4 – reports to level 3	18	19	17	16	17
5 – reports to level 4	23	24	24	25	27
Levels 2–5	22	22	22	23	25
All employees	35	31	31	31	31

[1] The definition of management positions was revised in 2014. 2012 and 2013 have been restated for comparability with 2014.

NATIONALITIES – ASSA ABLOY'S MANAGEMENT TEAMS



Report of the Board of Directors and Financial statements
Contents

Report of the Board of Directors

The Annual Report of ASSA ABLOY AB (publ.), corporate identity number 556059-3575, contains the consolidated financial statements for the financial year 1 January through 31 December 2016. ASSA ABLOY is the global leader in door opening solutions, dedicated to satisfying end-user needs for security, safety and convenience.

Significant events

Sales and income

Sales for the year totaled SEK 71,293 M (68,099), with organic growth of 2 percent (4) and acquired growth of 3 percent (3). The exchange rate impact on sales was 0 percent (13).

Operating income (EBIT) excluding items affecting comparability increased by 2 percent to SEK 11,254 M (11,079), equivalent to an operating margin of 15.8 percent (16.3). Items affecting comparability consists of costs for the new restructuring program launched during the year.

Impairment of operating assets and correction of past incorrect reporting in China resulted in one-off costs of approximately SEK 700 M. Taking into account the reversal of deferred acquisition payments in China, the total negative impact on operating income for these items is SEK 300 M. Net financial items were SEK –705 M (–697). Income before tax excluding items affecting comparability totaled SEK 10,549 M (10,382).

Operating cash flow increased by 5 percent to SEK 10,467 M (9,952). Earnings per share after full dilution, excluding items affecting comparability, increased 2 percent to SEK 7.09 (6.93).

Restructuring

A new restructuring program that covers all divisions was launched in 2016. About fifty closures of plants and offices are planned and some production will be outsourced. The program affects approximately 2,500 people. The total restructuring cost is estimated at SEK 1,597 M before tax and was fully expensed in 2016. The payback period for the program is expected to be less than three years.

A number of activities were also implemented in 2016 within the framework of previously launched restructuring programs aimed at generating further efficiencies and savings. The most recently launched program from 2013 is still active, but was largely implemented by year-end 2016.

At year-end 2016, 12,162 employees had left the Group, of which 1,412 employees during the year, as a result of the changes in the production structure since the programs began in 2006. A total of 76 plant closures have been implemented, including three closures during the year. A large number of plants in high-cost countries have switched from production to final assembly.

The Group's production is increasingly concentrated in its own plants in China, central and eastern Europe and to external suppliers in low-cost countries.

Payments for the restructuring programs totaled SEK 442 M (375) for the year. At year-end 2016, the remaining provisions for restructuring measures amounted to SEK 1,572 M (551).

Acquisitions and divestments

In February 2016, ASSA ABLOY acquired 100 percent of the share capital of the Swiss company CEDES, a leading supplier of sensor technology to the door and elevator industry. The acquisition forms part of the strategy of providing more intelligence in entrance automation to create new innovative, integrated customer solutions. CEDES is headquartered in Landquart, Switzerland.

In March 2016 ASSA ABLOY acquired 100 percent of the share capital of Lighthouse, a US distributor of industrial doors and docking systems. The acquisition of Lighthouse represents another important step in the strategy of expanding the Group's market presence in the US in the area of entrance automation. The operation is headquartered in Charlotte, North Carolina, USA.

In October 2016, ASSA ABLOY acquired 100 percent of the share capital of Trojan, a leading British supplier of fittings for doors and windows. The acquisition is a good complement to ASSA ABLOY's product offering in the UK. Trojan is headquartered in Walsall, UK.

In November 2016 ASSA ABLOY acquired 100 percent of the share capital in Nassau, a major European supplier of industrial overhead sectional doors. The acquisition provides good coverage and expanded service in the product area for a number of European markets. Nassau is headquartered in Ringe, Denmark.

In December 2016 ASSA ABLOY acquired 100 percent of the share capital of Bluvision, a leading US supplier of solutions in the market for the Internet of Things (IoT). Bluvision is headquartered in Fort Lauderdale, Florida, USA.

Other acquisitions during the year included Construction Specialties (Mexico), which strengthens the leading position in entrance automation, and Mauer (Bulgaria), which strengthens ASSA ABLOY's presence in the emerging markets.

A total of 13 businesses, including minor acquisitions, were consolidated during the year. The total purchase price of these acquisitions was SEK 3,023 M on a debt-free basis, and acquisition analyses indicate that goodwill and other intangible assets with an indefinite useful life amounted to SEK 2,395 M. No additional acquisitions of non-controlling interests occurred during the year (990).

In September 2016 the Group sold its car locks business to the Japanese company, ALPHA Corporation. The car locks operation, headquartered in Tyniste, Czech Republic, had sales of about SEK 570 M in 2015. The disposal resulted in a small capital gain and will have a positive impact on ASSA ABLOY's operating margin moving forward, all else being equal.

Research and development

ASSA ABLOY's expenditure on research and development during the year totaled SEK 2,218 M (1,932), equivalent to 3.1 percent (2.8) of sales.

The pace of innovation remained high throughout the year, including in areas such as digital door opening solutions, products with increased sustainability and energy-saving products. New products launched in the past three years accounted for 30 percent of sales for the year.

Sustainable development

ASSA ABLOY's operations in Sweden carry on licensable and notifiable activities under the Swedish Environmental Code in Entrance Systems division in Gothenburg.

Several units outside Sweden carry on licensable activities and hold equivalent licenses under local legislation. ASSA ABLOY's units worldwide are working systematically and purposefully to reduce their environmental impact.

The 2016 Sustainability Report, reporting on the Group's prioritized environmental activities and providing other information on sustainable development, is available on the company's website: www.assaabloy.com.

Internal control and financial reporting

During the year, weaknesses in internal control and misstatements in financial reporting were discovered for parts of the Chinese operation in the Asia Pacific division. Work continued during the year to correct the financial reporting and to strengthen internal control and compliance.

Tax matters

In 2015 the Administrative Court in Sweden decided not to allow tax deductions for interest expenses relating to one of the Group's subsidiaries for the years 2008–2012 on the grounds that the deductions were misallocated. The decision was appealed to the Administrative Court of Appeal during the year. The total tax exposure amounts to just over SEK 800 M.

In 2015 the Finnish Tax Administration decided not to allow tax deductions for interest expenses in the Finnish operations for the years 2008–2012. The decision was appealed to a higher court during the year. The total tax exposure amounts to around SEK 750 M.

ASSA ABLOY's assessment is that the decisions will not have an impact on the Group's earnings.

Transactions with related parties

No transactions occurred between ASSA ABLOY and related parties that significantly affected the company's financial position and performance.

Significant events after the financial year-end

No significant events occurred after the financial year-end and up to the date of adoption of the Annual Report for ASSA ABLOY AB.

Outlook

Long-term outlook

ASSA ABLOY anticipates an increase in demand for security solutions in the long term. A focus on customer value and innovations as well as leverage on the Group's strong position will accelerate growth and increase profitability.

Organic sales growth is expected to continue at a good rate. The operating margin (EBIT) and operating cash flow are expected to develop well.

Significant risks and risk management

Risk management

Uncertainty about future developments and the course of events is a natural risk for any business. Risk-taking in itself provides opportunities for continued economic growth, but naturally the risks may also have a negative impact on business operations and company goals. It is therefore essential to have a systematic and efficient risk assessment process and an effective risk management program in general. The purpose of risk management at ASSA ABLOY is not to avoid risks, but to take a controlled approach to identifying, managing and minimizing the effects of these risks. This work is based on an assessment of the probability of the risks and their potential impact on the Group.

ASSA ABLOY is an international group with a wide geographical spread, involving exposure to various forms of strategic, operational and financial risks. Strategic risks refer to changes in the business environment with potentially significant effects on ASSA ABLOY's operations and business objectives. Operational risks comprise risks directly attributable to business operations, entailing a potential impact on the Group's financial position and performance. Financial risks mainly comprise financing risk, currency risk, interest rate risk, credit risk, and risks associated with the Group's pension obligations.

Organization

ASSA ABLOY's Board of Directors has overall responsibility for risk management within the Group and determines the Group's strategic focus based on recommendations from the Executive Team. In view of the decentralized structure of the Group, and to keep risk analysis and risk management as close as possible to the actual risks, a large proportion of operational risk management takes place at division and business unit levels.

Responsibility

ASSA ABLOY's Board of Directors has overall responsibility for the Group's strategic direction in close consultation with the Executive Team. Divisions and business units have overall responsibility for management of operational risks, in accordance with the Group's decentralized approach to organization, responsibility and authority. In the case of financial risks, allocation of responsibilities and control of the Group's financing activities are regulated in a financial policy adopted by the Board of Directors. Group Treasury then has the main responsibility for financial risks within the framework established in the financial policy, with the exception of credit risks relating to operational business activities, which are managed locally at company level and monitored at division level.

Review

Strategic risks, such as competitors, brand positioning and so on, are regularly reviewed at ASSA ABLOY AB's board meetings. The Group's operational risk management is continuously monitored by the Executive Team through divisional reporting and divisional board meetings. For further information on monitoring and management of operational risks, see page 43.

ASSA ABLOY's Group Treasury monitors the Group's short and long-term financing, financial cash management, currency risk and other financial risk management. Financial operations are centralized in a Treasury function, which manages most financial transactions as well as financial risks with a Group-wide focus.

Significant risks and risk management

ASSA ABLOY's risks

STRATEGIC RISKS	OPERATIONAL RISKS	FINANCIAL RISKS
Changes in the business environment with potentially significant effects on operations and business objectives.	Risks directly attributable to business operations with a potential impact on financial position and performance.	Financial risks with a potential impact on financial position and performance.
• Country-specific risks etc. • Customer behavior • Competitors • Brand positioning • Reputational risk	• Legal risks • Environmental risks • Tax risks • Acquisition of new businesses • Restructuring measures • Price fluctuation and availability of raw materials • Credit losses • Insurance risks • Risks relating to internal control	• Financing risk • Currency risk • Interest rate risk • Credit risk • Risks associated with pension obligations

Strategic risks

The risks of this nature encountered by ASSA ABLOY include various forms of business environment risks with an impact on the security market in general, mainly changes in customer behavior, competitors and brand positioning. In addition, there are country-specific risks.

Country-specific risks etc.

ASSA ABLOY has global market penetration, with sales and production in a large number of countries. The emphasis is on western Europe and North America, but the proportion of sales in Asia and in central and eastern Europe has increased in recent years. The Group is therefore naturally exposed to both general business environment risks and country-specific risks, including political decisions and comprehensive changes in the regulatory framework.

Customer behavior

Changes in customer behavior in general and the actions of competitors affect demand for different products and their profitability. Customers and suppliers, including the Group's relationships with them, are subject to continuous local review.

Competitors

As regards competitors, risk analyses are carried out both centrally and locally.

Brand positioning

The Group owns a number of the strongest brands in the industry, including several global brands that complement the ASSA ABLOY master brand. Local product brands are gradually being linked increasingly to the master brand.

Reputational risk

Activities to maintain and further strengthen ASSA ABLOY's good reputation are constantly ongoing. These include ensuring compliance with ASSA ABLOY's Code of Conduct for employees as well as ASSA ABLOY's Business Partner Code of Conduct. These Codes define the Group's values with regard to business ethics, human rights and labor standards, environment, health and safety.

Operational risks

Operational risks comprise risks directly attributable to business operations, with a potential impact on the Group's financial position and performance. They include legal and environmental risks, tax risks, acquisition of new businesses, restructuring measures, availability and price fluctuations of raw materials, and customer dependence. Risks relating to compliance with laws and regulations and to internal control and financial reporting are also included in this category.

The table on page 43 describes in more detail the management of these risks.

ASSA ABLOY's operational risks and risk management

Operational risks	Risk management	Comments
Legal risks	The Group continuously monitors anticipated and implemented changes in legislation in the countries in which it operates. Ongoing and potential disputes and other legal matters are reported regularly to the Group's central legal function. Policies and guidelines on compliance with current competition, export control and anti-corruption legislation have been implemented.	At year-end 2016, there are considered to be no outstanding legal disputes that may lead to significant costs for the Group.
Environmental risks	Ongoing and potential environmental risks are regularly monitored in the operations. External expertise is brought in for environmental assessments when necessary.	Prioritized environmental activities and other information on sustainable development are reported in the Group's Sustainability Report.
Tax risks	Ongoing and potential tax cases are regularly reported to the Group's central tax function.	At year-end 2016, there are considered to be no ongoing tax cases with a significant impact on the Group's earnings. Two tax cases in Sweden and Finland have been appealed to a higher court. For further information see the Report of the Board of Directors.
Acquisition of new businesses	Acquisitions are carried out by a number of people with considerable acquisition experience and with the support of, for example, legal and financial consultants. Acquisitions are carried out according to a uniform and predefined Group-wide process. This consists of four documented phases: strategy, evaluation, implementation and integration.	During the year ASSA ABLOY acquired 13 businesses. The Group's acquisitions in 2016 are reported in the Report of the Board of Directors and in Note 30, Business combinations.
Restructuring measures The restructuring programs mainly entail some production units changing direction principally to final assembly, while certain units are closed.	The restructuring programs are carried on as a series of projects with stipulated activities and schedules. The various projects in the respective restructuring program are systematically monitored on a regular basis.	At year-end 2016 a new restructuring program entailing closure of around fifty plants and offices was launched. The scope, costs and savings of the restructuring programs are presented in more detail in the Report of the Board of Directors.
Price fluctuations and availability of raw materials	Raw materials are purchased and handled primarily at division and business unit level. Regional committees coordinate these activities with the help of senior coordinators for selected material components.	For further information about procurement of materials, see Note 7, Expenses by nature.
Credit losses	Trade receivables are spread across a large number of customers in many markets. No individual customer in the Group accounts for more than 1 percent of sales. Commercial credit risks are managed locally at company level and monitored at division level.	Receivables from each customer are relatively small in relation to total trade receivables. The risk of significant credit losses for the Group is considered to be limited, but has increased somewhat in pace with the Group's increased share of operations in emerging markets, mainly with respect to China.
Insurance risks	A Group-wide insurance program is in place, mainly relating to property, business interruption and liability risks. This program covers all business units. The Group's exposure to the risk areas listed above is regulated by means of its own captive insurance company.	The Group's insurance cover is considered to be generally adequate, providing a reasonable balance between assessed risk exposure and insurance costs.
Risks relating to internal control	The organization is considered to be relatively transparent, with a clear allocation of responsibilities. A well-established Controller organization at both division and Group level monitors financial reporting quality. Instructions about the allocation of responsibilities, authorization and procedures for ordering, sourcing and plant management are laid down in an internal control manual. Compliance is evaluated annually for all operating companies, combined with an action plan for concrete improvements. An annual internal audit of financial reporting is performed for selected Group companies on a rotating basis.	During the year a special review of both financial reporting and internal controls were made for the Chinese operation because of misstatements discovered in financial reporting. Internal control and other related issues are reported in more detail in the Report of the Board of Directors, section on Corporate governance. Further information on risk management relating to financial reporting can be found in the Report of the Board of Directors, section on Corporate governance. See also the section 'Basis of preparation' in Note 1.

Significant risks and risk management

Financial risks

The Group's financial risks mainly comprise financing risk, currency risk, interest rate risk, credit risk, and risks associated with the Group's pension obligations. A large number of financial instruments are used to manage these risks. Accounting principles, risk management and risk exposure are described in more detail in Notes 1 and 34, as well as Note 24, Post-employment employee benefits.

Financing risk

Financing risk refers to the risk that financing the Group's capital requirements and refinancing outstanding loans become more difficult or more expensive. It can be reduced by maintaining an even maturity profile for borrowing and a solid credit rating. The risk is further reduced by substantial unutilized confirmed credit facilities.

Currency risk

Since ASSA ABLOY sells its products in countries worldwide and has companies in a large number of countries, the Group is exposed to the effects of exchange rate fluctuations. These fluctuations affect Group earnings when the income statements of foreign subsidiaries are translated to Swedish kronor (translation exposure), and when products are exported and sold in countries outside the country of production (transaction exposure). Translation exposure is primarily related to earnings in USD and EUR. This type of exposure is not hedged. Currency risk in the form of transaction exposure, i.e. the relative values of exports and imports of goods, is expected to increase over time due to rationalization of production and sourcing. In accordance with financial policy, the Group only hedged a very limited part of current currency flows in 2016. As a result, exchange rate fluctuations had a direct impact on business operations.

Exchange rate fluctuations also affect the Group's debt-equity ratio and equity. The difference between the assets and liabilities of foreign subsidiaries in the respective foreign currency is affected by exchange rate fluctuations and causes a translation difference, which affects the Group's comprehensive income. A general weakening of the Swedish krona leads to an increase in net debt, but at the same time increases the Group's equity. At year-end, the largest foreign net assets were denominated in USD and EUR.

Interest rate risk

With respect to interest rate risks, interest rate changes have a direct impact on ASSA ABLOY's net interest expense. The net interest expense is also impacted by the size of the Group's net debt and its currency composition. Net debt was SEK 23,127 M (22,269) at year-end 2016. Debt was mainly denominated in USD and EUR. Group Treasury analyzes the Group's interest rate exposure and calculates the impact on income of interest rate changes on a rolling 12-month basis. In addition to raising variable-rate and fixed-rate loans, various interest rate derivatives are used to adjust interest rate sensitivity.

Credit risk

Credit risk arises in ordinary business activities and as a result of financial transactions. Trade receivables are spread across a large number of customers, which reduces credit risk. Credit risks relating to operational business activities are managed locally at company level and monitored at division level.

Financial risk management exposes ASSA ABLOY to certain counterparty risks. Such exposure may arise, for example, as a result of the placement of surplus cash, borrowings and derivative financial instruments. Counterparty limits are set for each financial counterparty and are continuously monitored.

Pension obligations

At year-end 2016, ASSA ABLOY had obligations for pensions and other post-employment benefits of SEK 8,184 M (7,421). The Group manages pension assets valued at SEK 5,063 M (4,660). Provisions in the balance sheet for defined benefit and defined contribution plans and post-employment medical benefits totaled SEK 3,121 M (2,761). Changes in the value of assets and liabilities from year to year are due partly to the development of equity and debt capital markets and partly to the actuarial assumptions made. Significant remeasurement of obligations and plan assets is recognized on a current basis in the balance sheet and in other comprehensive income. The assumptions made include discount rates and anticipated inflation and salary increases.

Solutions from ASSA ABLOY Entrance Systems have helped a building in Stockholm gain top marks in sustainability

■ **CUSTOMER**: When creating the specifications for a new building in Stockholm's city center, developer NCC set ambitious sustainability targets. The resulting construction is one of very few buildings in the world to have ever achieved "Outstanding" certification from the Building Research Establishment Environmental Assessment Method (BREEAM).

■ **CHALLENGE**: To meet the requirements for BREEAM Outstanding certification, NCC had to choose its building materials with great care, and only work with suppliers that could live up to BREEAM's high standards. NCC wanted the best possible entrance solutions for reducing energy consumption in the new building.

■ **SOLUTION**: ASSA ABLOY Entrance Systems solution consists of a high-performance door and several sliding door systems and swing door operators, equipped with ECO radar and safety sensors. After an analysis of the flow of people in and out of the building, the swing door operators, which meet the European safety standard EN16005, were set so that the door only opens wide enough for the right number of people to pass through. The door also opens and closes at the right moment to ensure a good user experience for the people entering, while preventing unnecessary energy loss. Moreover, the solution contributes to the building's superior sustainability performance.

The Minnesota Vikings Kicked Off 2016 Season With New $1.1B U.S. Bank Stadium

■ **CUSTOMER**: The new $1.1 billion U.S. Bank Stadium encompasses 1.5 million square feet and 65,000 seats that will provide fans with the ultimate game experience. The stadium was uniquely designed to protect visitors from different weather elements, while maintaining a connection to the outdoors. Its most striking feature is a transparent roof that covers 60% of the facility.

■ **CHALLENGE**: The project required a very compressed time line by all vendors. The project was completed in just 30 months, six weeks ahead of schedule. In comparison, the project of Target Field where the Minnesota Twins play, was a project half the size, yet it took longer time to complete. With 1,500 workers on site at the peak of construction, it was vital that ASSA ABLOY make its solutions turnkey.

■ **SOLUTION**: A key success factor was the pre-assembly of hardware on more than 1,000 hollow metal doors and frame openings at one of ASSA ABLOY's factories. ASSA ABLOY's competence to bring finished product to the site reduced the potential for incurring damage or lost goods around the busy construction site, where the delivery of different components would not have been beneficial.

Pre-assembly of the components allowed the team to resolve issues before arriving at the site. The installation went almost flawlessly, which was impressive due to the size of the project.

Photo © U.S. Bank Stadium

Corporate governance

ASSA ABLOY is a Swedish public limited liability company with registered office in Stockholm, Sweden, whose Series B share is listed on the Nasdaq Stockholm.

The Group's corporate governance is based on the Swedish Companies Act, the Annual Accounts Act, the Nasdaq Stockholm Rule Book for Issuers and the Swedish Code of Corporate Governance, as well as other applicable external laws, regulations and recommendations, and internal rules and regulations.

This Corporate Governance Report has been prepared as part of ASSA ABLOY's application of the Swedish Code of Corporate Governance. The report is audited by ASSA ABLOY's auditor.

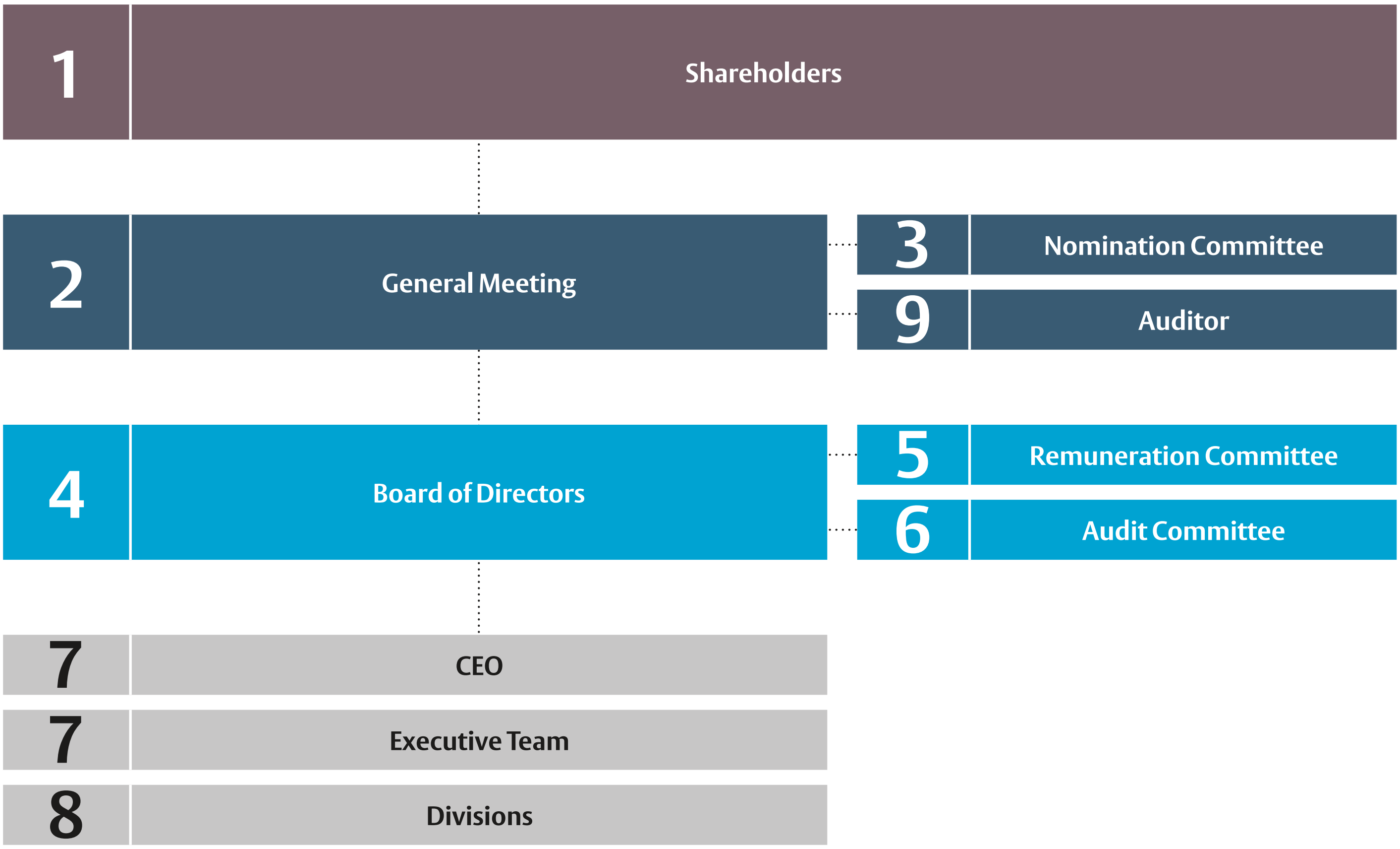
ASSA ABLOY's objective is that its activities should generate good long-term returns for its shareholders and other stakeholders. An effective scheme of corporate governance for ASSA ABLOY can be summarized in a number of interacting components, which are described below.

1 Shareholders

At year-end, ASSA ABLOY had 27,638 shareholders (22,232). The principal shareholders are Investment AB Latour (9.5 percent of the share capital and 29.5 percent of the votes) and Melker Schörling AB (3.9 percent of the share capital and 11.4 percent of the votes). Foreign shareholders accounted for around 64 percent (64) of the share capital and around 44 percent (44) of the votes. The ten largest shareholders accounted for around 40 percent (38) of the share capital and 59 percent (58) of the votes. For further information on shareholders, see page 105.

A shareholders' agreement exists between Gustaf Douglas, Melker Schörling and related companies and includes an agreement on right of first refusal if any party disposes of Series A shares. The Board of Directors of ASSA ABLOY is not aware of any other shareholders' agreements or other agreements between shareholders in ASSA ABLOY.

Corporate governance structure



Important external rules and regulations

- Swedish Companies Act
- Annual Accounts Act
- Nasdaq Stockholm Rule Book for Issuers
- Swedish Code of Corporate Governance (www.bolagsstyrning.se)

Important internal rules and regulations

- Articles of Association
- Board of Directors' rules of procedure
- Financial Policy
- Accounting Manual
- Communication Policy
- Insider Policy
- Internal control procedures
- Code of Conduct and Anti-Corruption Policy

Share capital and voting rights
ASSA ABLOY's share capital amounted at year-end to SEK 370,858,778 distributed among 57,525,969 Series A shares and 1,055,050,365 Series B shares. The total number of votes was 1,630,310,055. Each Series A share carries ten votes and each Series B share one vote. All shares have a par value of around SEK 0.33 and give shareholders equal rights to the company's assets and earnings.

Repurchase of own shares
Since 2010, the Board of Directors has requested and received a mandate from the Annual General Meeting to repurchase and transfer ASSA ABLOY Series B shares. The aim has been, among other things, to secure the company's undertakings in connection with its long-term incentive programs (LTI). The 2016 Annual General Meeting authorized the Board of Directors to acquire, during the period until the next Annual General Meeting, a maximum number of Series B shares so that after each repurchase ASSA ABLOY holds a maximum 10 percent of the total number of shares in the company.

ASSA ABLOY holds a total of 1,800,000 (1,800,000) Series B shares after repurchase. These shares account for around 0.2 percent (0.2) of the share capital and each share has a par value of around SEK 0.33. The purchase consideration amounted to SEK 103 M (103). No shares were repurchased in 2016.

Share and dividend policy
ASSA ABLOY's Series B share is listed on the Nasdaq Stockholm Large Cap list. At year-end, ASSA ABLOY's market capitalization amounted to SEK 187,832 M. The Board of Directors' objective is that, in the long term, the dividend should be equivalent to 33–50 percent of income after standard tax, but always taking into account ASSA ABLOY's long-term financing requirements.

2 General Meeting

Shareholders' rights to decide on the affairs of ASSA ABLOY are exercised at the General Meeting. Shareholders who are registered in the share register on the record date and have duly notified their intent to attend are entitled to take part in the General Meeting, either in person or by proxy. Resolutions at the General Meeting are normally passed by simple majority. For certain matters, however, the Swedish Companies Act prescribes that a proposal should be supported by a higher majority. Individual shareholders who wish to submit a matter for consideration at the General Meeting can send such request to ASSA ABLOY's Board of Directors at a special address published on the company's website well before the Meeting.

The Annual General Meeting should be held within six months of the end of the company's financial year. Matters considered at the Annual General Meeting include: dividend; adoption of the income statement and balance sheet; discharge of the Board of Directors and the CEO from liability; election of members of the Board of Directors and Chairman of the Board of Directors; election of the Nomination Committee and auditors; and determination of remuneration guidelines for senior management and fees for the Board of Directors and auditors. An Extraordinary General Meeting may be held if the Board of Directors considers this necessary or if ASSA ABLOY's auditors or shareholders holding at least 10 percent of the shares so request.

2016 Annual General Meeting
The Annual General Meeting in April 2016 was attended by shareholders representing 55.9 percent of the share capital and 70 percent of the votes.

At the Annual General Meeting, Lars Renström, Carl Douglas, Eva Karlsson, Birgitta Klasén, Eva Lindqvist, Johan Molin, Jan Svensson and Ulrik Svensson were re-elected as members of the Board of Directors. Ulf Ewaldsson was elected a new member of the Board of Directors. Further, Lars Renström was re-elected as Chairman of the Board of Directors, and Carl Douglas as Vice Chairman. The Annual General Meeting re-elected PricewaterhouseCoopers AB (PwC) as the company's auditor up to the end of the 2017 Annual General Meeting.

The Annual General Meeting approved a dividend of SEK 2.65 per share, in accordance with the proposal of the Board of Directors. In addition, the Annual General Meeting passed resolutions on fees payable to the Board of Directors, remuneration guidelines for senior management, authorization of the Board of Directors regarding repurchase and transfers of own Series B shares, implementation of a long-term incentive program for senior management and other key staff in the Group (LTI 2016), as well as elected members of the Nomination Committee up to and including the 2017 Annual General Meeting.

3 Nomination Committee

Up to and including the 2017 Annual General Meeting, the Nomination Committee comprises Carl Douglas (Investment AB Latour), Mikael Ekdahl (Melker Schörling AB), Liselott Ledin (Alecta), Marianne Nilsson (Swedbank Robur fonder) and Anders Oscarsson (AMF and AMF fonder).Carl Douglas is Chairman of the Nomination Committee. Carl Douglas is also Vice Chairman of ASSA ABLOY's Board of Directors. The Nomination Committee thus deviates from the Swedish Code of Corporate Governance in that the Vice Chairman of the Board of Directors is Chairman of the Nomination Committee. The reason for this deviation is that the Nomination Committee considers it important to have the representative from the largest shareholder as Chairman of the Nomination Committee.

If a shareholder represented by one of the members of the Nomination Committee ceases to be among the major shareholders in ASSA ABLOY, the Committee has the right to appoint another representative of one of the major shareholders to replace such a member. The same applies if a member of the Nomination Committee ceases to be employed by such a shareholder or leaves the Nomination Committee before the 2017 Annual General Meeting.

The Nomination Committee has the task of, on behalf of the shareholders, preparing and submitting proposals for; election of Chairman of the Annual General Meeting, election of Chairman, Vice Chairman and other members of the Board of Directors, election of auditor, determination of fees to the auditor and the Board of Directors (including distribution of fees among the Chairman, Vice Chairman and the other members of the Board of Directors and remuneration for committee work) as well as election of members of the Nomination Committee and determination of the assignment of the Nomination Committee.

Prior to the 2017 Annual General Meeting, the Nomination Committee makes an assessment of whether the current Board of Directors is appropriately composed and fulfills the demands made on the Board of Directors by the company's present situation and future direction. The annual evaluation of the Board of Directors and its work is part of the basis for this assessment. The search for suitable board members is carried on throughout the year and proposals for new board members are based in each individual case on a profile of requirements established by the Nomination Committee.

Shareholders wishing to submit proposals to the Nomination Committee can do so by e-mailing: nominationcommittee@assaabloy.com.

Corporate governance

The Nomination Committee's proposals for the 2017 Annual General Meeting are published at the latest in conjunction with the formal notification of the Annual General Meeting, which is expected to be published around 22 March 2017.

4 Board of Directors

In accordance with the Swedish Companies Act, the Board of Directors is responsible for the organization and administration of the Group and for ensuring satisfactory control of bookkeeping, asset management and other financial circumstances. The Board of Directors decides on the Group's overall objectives, strategies, significant policies, acquisitions and divestments as well as investments of major importance. Acquisitions and divestments with a value (on a debt-free basis) exceeding SEK 200 M are decided by the Board of Directors. This amount presumes that the matter relates to acquisitions or divestments in accordance with the strategy agreed by the Board of Directors. The Board of Directors approves the Annual Report and Interim Reports, proposes dividend and remuneration guidelines for senior management to the Annual General Meeting, and makes decisions concerning the Group's financial structure.

The Board of Directors' other ongoing duties include:

- appointing, evaluating and if necessary dismissing the CEO,
- approving the CEO's significant assignments outside the company,
- establishing appropriate guidelines to govern the company's conduct in society with the aim of ensuring long-term value-creating capability.
- ensuring that appropriate systems are in place for monitoring and control of the company's operations and the risks for the company associated with its operations,
- ensuring that there is satisfactory control of the company's compliance with laws and other regulations relevant to the company's operations, and its compliance with internal guidelines, and
- ensuring that external information provided by the company is transparent, accurate, relevant and reliable.

The Board of Directors' rules of procedure, including instructions for the CEO and instructions relating to financial reporting and internal control, are updated and adopted at least once a year.

In addition to organising and leading the work of the Board of Directors, the Chairman's duties include maintaining contact with the CEO to continuously monitor the Group's operations and development. The Chairman should consult the CEO on strategic issues and represent the company in matters concerning the ownership structure. The Chairman should also, when necessary, take part in particularly important external discussions and, in consultation with the CEO, in other matters of particular significance. The Chairman should ensure that the Board receives satisfactory information and documentation to enable it to conduct its work, and ensure that Board decisions are implemented. In addition, the Chairman should ensure that the work of the Board of Directors is evaluated annually, and that new members of the Board of Directors receive appropriate training.

The Board of Directors has at least four scheduled meetings and one statutory meeting per year. A scheduled meeting is always held in connection with the company's publication of its Year-end Report and Interim Reports. At least once a year the Board of Directors visits one of the Group's businesses, combined with a board meeting. In addition, extraordinary board meetings are held when necessary. All meetings follow an approved agenda. Prior to each meeting, a draft agenda, including documentation, is provided to all members of the Board of Directors.

The Board of Directors has a Remuneration Committee and an Audit Committee. The purpose of these Committees is to deepen and streamline the work of the Board of Directors and to prepare matters in these areas. The members of the Committees are appointed annually by the Board of Directors at the statutory board meeting. Instructions for the Committees are included in the Board of Directors' rules of procedure.

Board of Directors' composition

The Board of Directors is elected annually at the Annual General Meeting for the period until the end of the next Annual General Meeting and shall, according to the Articles of Association, comprise a minimum of six and a maximum of ten members elected by the Meeting. Two of the members are appointed by the employee organizations in accordance with Swedish law. The employee organizations also appoint two deputies. In 2016 the Board of Directors consisted of nine elected members and two employee representatives[1]. With the exception of the CEO, none of the board members are members of the Executive Team. The CEO has no significant shareholdings or partnerships in companies with significant business relationships with ASSA ABLOY.

Board of Directors' work in 2016

During the year the Board of Directors held nine meetings (seven scheduled meetings, one statutory meeting and one extraordinary meeting). At the scheduled board meetings the CEO reported on the Group's performance and financial

[1] Ulrik Svensson left his position as board member of ASSA ABLOY AB at year-end 2016 in connection with his resignation as CEO of Melker Schörling AB.

SUMMARY OF BOARD OF DIRECTORS' WORK AND COMMITTEE MEETINGS IN 2016

January	February	March	April	May	June
	Scheduled board meeting Year-end results Proposed distribution of earnings Approval Annual Report Final audit report Proposals to Annual General Meeting Evaluation Executive Team Acquisitions		**Scheduled board meeting** Interim Report Q1 Acquisitions Presentation Entrance Systems		
Remuneration committee meeting	**Audit committee meeting**	**Extraordinary board meeting** Notice Annual General Meeting	**Audit committee meeting** **Statutory board meeting** Appointment committee members Adoption Board of Directors' rules of procedure and significant policies Signatory powers		

At the scheduled board meetings the CEO also reported on the Group's performance and financial position, including the outlook for the coming quarters.

position, including the outlook for the coming quarters. Acquisitions and divestments were also discussed to the extent they arose.

More important matters dealt with by the Board of Directors during the year comprised divestment of the car locks business to Japanese ALPHA Corporation, as well as a number of acquisitions, including Trojan, Lighthouse and Bluvision During the year, the Board of Directors conducted in-depth reviews of the Group's operations in the Entrance Systems division, APAC division, and Global Technologies division's Hospitality business unit, and visited the Americas division's operations in New Haven, Connecticut, in the US. The Board of Directors' work is summarized in the timeline on pages 48–49.

An evaluation of the Board of Directors' work is conducted annually in the form of a web-based survey, which each board member responds to individually. A summary of the results is reported to the Board of Directors at the board meeting in November. Board members who wish can access the complete results of the evaluation. The Secretary to the Board of Directors presents the complete results of the evaluation to the Nomination Committee.

5 *Remuneration Committee*

In 2016 the Remuneration Committee comprised Lars Renström (Chairman), Jan Svensson and Ulrik Svensson.

The Remuneration Committee has the task of drawing up remuneration guidelines for senior management, which the Board of Directors proposes to the Annual General Meeting for resolution. The Board of Directors' proposal for guidelines prior to the 2017 Annual General Meeting is set out on page 55.

The Remuneration Committee also prepares, negotiates and evaluates matters regarding salaries, bonus, pension, severance pay and incentive programs for the CEO and other senior executives. The Committee has no decision-making powers.

The Committee held two meetings in 2016. Its work included preparing a proposal for the remuneration of the Executive Team, evaluating existing incentive programs, and preparing a proposal for a long-term incentive program for 2017. Committee meetings are minuted and a verbal report is given at board meetings.

6 *Audit Committee*

In 2016 the Audit Committee comprised Ulrik Svensson (Chairman), Birgitta Klasén and Jan Svensson. The duties of the Audit Committee include continuous monitoring and quality assurance of ASSA ABLOY's financial reporting. Regular communication is maintained with the company's auditor on matters including the focus and scope of the audit. The Audit Committee is also responsible for evaluating the audit assignment and informing the Board of Directors and the Nomination Committee of the results, as well as continuously monitoring the current risk status of legal risks in the operations. The Audit Committee also has the task of supporting the Nomination Committee by providing proposals for the appointment of auditors and auditor fees. The Audit Committee sets guidelines for procurement of services other than audit services from the company's auditor, but otherwise, the Committee has no decision-making powers.

The Audit Committee held four meetings in 2016, which were attended by committee members, the company's auditor and representatives of senior management. More important matters dealt with by the Audit Committee during the year included internal control, financial statements and valuation matters, tax matters, insurance and risk management matters, IT security, and legal risk areas. Committee meetings are minuted and a verbal report is given at board meetings.

Remuneration of the Board of Directors

The Annual General Meeting passes a resolution on the remuneration to be paid to board members. The 2016 Annual General Meeting passed a resolution on board fees at a total of SEK 5,950,000 (excluding remuneration for committee work) to be allocated between the members as follows: SEK 1,850,000 to the Chairman, SEK 800,000 to the Vice Chairman, and SEK 550,000 to each of the other members elected by the Annual General Meeting and not employed by the company. As remuneration for committee work, the Chairman of the Audit Committee is to receive SEK 250,000, the Chairman of the Remuneration Committee SEK 150,000, members of the Audit Committee (except the Chairman) SEK 125,000 each, and members of the Remuneration Committee (except the Chairman) SEK 75,000 each.

The Chairman and other board members have no pension benefits or severance pay agreements. The CEO and employee representatives do not receive board fees. For further information on the remuneration of board members in 2016, see Note 33.

Attendance 2016, Board of Directors and Committees

Name	Board of Directors	Audit Committee	Remuneration Committee
Lars Renström	9/9		2/2
Carl Douglas	7/9		
Ulf Ewaldsson	6/6		
Eva Karlsson	9/9		
Birgitta Klasén	9/9	4/4	
Eva Lindqvist	9/9		
Johan Molin	9/9		
Jan Svensson	9/9	4/4	2/2
Ulrik Svensson	8/9	4/4	2/2
Bert Arleros	8/9		
Mats Persson	9/9		

The maximum number of meetings varies due to appointment in 2016.

July	August	September	October	November	December
Scheduled board meeting Interim Report Q2 Acquisitions	**Scheduled board meeting** Presentation APAC Acquisitions	**Scheduled board meeting and visit to operations** Visit Americas Acquisitions	**Scheduled board meeting** Interim Report Q3	**Scheduled board meeting** Presentation Hospitality Acquisitions	
Audit committee meeting	**Remuneration committee meeting**		**Audit committee meeting**		

Board of Directors

Elected by the 2016 Annual General Meeting


Lars Renström


Carl Douglas


Ulf Ewaldsson


Eva Karlsson


Birgitta Klasén


Eva Lindqvist


Johan Molin

Lars Renström
Chairman.
Board member since 2008.
Born 1951.
Master of Science in Engineering and Master of Science in Business and Economics.
President and CEO of Alfa Laval AB 2004–2016. President and CEO of Seco Tools AB 2000–2004. President and Head of Division of Atlas Copco Rock Drilling Tools 1997–2000. Previously a number of senior positions at ABB and Ericsson.
Other appointments: Chairman of Tetra Laval Group.
Shareholdings (including through companies and related natural parties): 30,000 Series B shares.

Carl Douglas
Vice Chairman.
Board member since 2004.
Born 1965.
BA (Bachelor of Arts) and D. Litt (h.c.) (Doctor of Letters).
Self-employed.
Other appointments: Vice Chairman of Securitas AB. Board member of Investment AB Latour.
Shareholdings (including through companies and related natural parties): 41,595,729 Series A shares and 63,900,000 Series B shares through Investment AB Latour.

Ulf Ewaldsson
Board member since 2016.
Born 1965.
Master of Science in Engineering and Business Management.
Senior Vice President and Chief Technology Officer at Ericsson Group since 2012 as well as of 2016 Head of Strategy. Various managerial positions within the Ericsson Group since 1990, including Head of Product Area Radio. Ulf has worked internationally for over 11 years (China, Japan and Eastern Europe).
Other appointments: Board member of KTH Royal Institute of Technology and Telecom Management Forum. Various telecom advisory assignments within EU, member of the Royal Swedish Academy of Engineering Sciences (IVA).
Shareholdings (including through companies and related natural parties): –

Eva Karlsson
Board member since 2015.
Born 1966.
Master of Science in Engineering.
President and CEO of Armatec AB since 2014. CEO of SKF Sverige AB and Global Manufacturing Manager 2011–2013, Director of Industrial Marketing & Product Development Industrial Market AB SKF 2005–2010, various positions in the SKF Group mainly in Manufacturing Management.
Other appointments: Board member of Bräcke diakoni.
Shareholdings (including through companies and related natural parties): –

Birgitta Klasén
Board member since 2008.
Born 1949.
Master of Science in Engineering.
Independent IT consultant (Senior IT Advisor). CIO and Head of Information Management at EADS (European Aeronautics Defence and Space Company) 2004–2005. CIO and Senior Vice President at Pharmacia 1996–2001 and previously CIO at Telia. Various positions at IBM 1976–1994.
Other appointments: Board member of Avanza AB.
Shareholdings (including through companies and related natural parties): 21,000 Series B shares.

Eva Lindqvist
Board member since 2008.
Born 1958.
Master of Science in Engineering and Master of Science in Business and Economics.
Senior Vice President of Mobile Business at TeliaSonera AB 2006–2007. Previously several senior positions at TeliaSonera AB, including President and Head of Business Operation International Carrier, and various positions in the Ericsson Group 1981–1999.
Other appointments: Board member of companies including Caverion Oy, Sweco AB and Bodycote plc. Member of the Royal Swedish Academy of Engineering Sciences (IVA).
Shareholdings (including through companies and related natural parties): 7,650 Series B shares.

Johan Molin
Board member since 2006.
Born 1959.
Master of Science in Business and Economics.
President and CEO of ASSA ABLOY AB since 2005. CEO of Nilfisk-Advance 2001–2005. Various positions mainly in Finance and Marketing, later divisional head in the Atlas Copco Group 1983–2001.
Other appointments: Chairman of Sandvik AB.
Shareholdings (including through companies and related natural parties): 1,932,382 Series B shares.

Appointments and shareholdings as at 31 December 2016. This information is updated regularly at *www.assaabloy.com*.

Appointed by employee organizations

Jan Svensson

Ulrik Svensson

Bert Arleros

Mats Persson

Rune Hjälm

Bjarne Johansson

Jan Svensson
Board member since 2012.
Born 1956.
Degree in Mechanical Engineering and Master of Science in Business and Economics.
President and CEO of Investment AB Latour since 2003.
Previously CEO of AB Sigfrid Stenberg 1986–2002.
Other appointments: Chairman of AB Fagerhult, Nederman Holding AB, Oxeon AB, Tomra Systems ASA, and Troax Group AB. Board member of Loomis AB and Investment AB Latour.
Shareholdings (including through companies and related natural parties): 6,000 Series B shares.

Ulrik Svensson[1]
Board member since 2008.
Born 1961.
Master of Science in Business and Economics.
CEO of Melker Schörling AB 2006–2016. CFO of Swiss International Airlines Ltd. 2003–2006. CFO of Esselte AB 2000–2003, and Controller/CFO of the Stenbeck Group's foreign telecom ventures 1992–2000.
Other appointments: Board member of AAK AB, Loomis AB, Hexagon AB, Hexpol AB, Flughafen Zurich AG and Absolent Group AB.
Shareholdings (including through companies and related natural parties): 9,000 Series B shares.

Bert Arleros
Board member since 2015.
Born 1954.
Employee representative, IF Metall.
Shareholdings (including through companies and related natural parties): –

Mats Persson
Board member since 1994.
Born 1955.
Employee representative, IF Metall.
Shareholdings (including through companies and related natural parties): –

Rune Hjälm
Deputy board member since 2005.
Born 1964.
Employee representative, IF Metall. Chairman of European Works Council (EWC) in the ASSA ABLOY Group.
Shareholdings (including through companies and related natural parties): –

Bjarne Johansson
Deputy board member since 2015.
Born 1966.
Employee representative, IF Metall.
Shareholdings (including through companies and related natural parties): –

ASSA ABLOY's Board of Directors fulfills the requirements for independence in accordance with the Swedish Code of Corporate Governance.

Independence of the Board of Directors

Name	Position	Independent of the company and its management	Independent of the company's major shareholders
Lars Renström	Chairman	Yes	Yes
Carl Douglas	Vice Chairman	Yes	No
Ulf Ewaldsson	Board member	Yes	Yes
Eva Karlsson	Board member	Yes	Yes
Birgitta Klasén	Board member	Yes	Yes
Eva Lindqvist	Board member	Yes	Yes
Johan Molin	Board member, President and CEO	No	–
Jan Svensson	Board member	Yes	No
Ulrik Svensson[1]	Board member	Yes	No

The Board of Directors' composition and shareholdings

Name	Position	Elected	Born	Remuneration Committee	Audit Committee	Series A shares[2]	Series B shares[2]
Lars Renström	Chairman	2008	1951	Chairman	–	–	30,000
Carl Douglas	Vice Chairman	2004	1965	–	–	41,595,729	63,900,000
Ulf Ewaldsson	Board member	2016	1965	–	–	–	–
Eva Karlsson	Board member	2015	1966	–	–	–	–
Birgitta Klasén	Board member	2008	1949	–	Board member	–	21,000
Eva Lindqvist	Board member	2008	1958	–	–	–	7,650
Johan Molin	Board member, President and CEO	2006	1959	–	–	–	1,932,382
Jan Svensson	Board member	2012	1956	Board member	Board member	–	6,000
Ulrik Svensson[1]	Board member	2008	1961	Board member	Chairman	–	9,000
Bert Arleros	Board member, employee representative	2015	1954	–	–	–	–
Mats Persson	Board member, employee representative	1994	1955	–	–	–	–
Rune Hjälm	Deputy, employee representative	2005	1964	–	–	–	–
Bjarne Johansson	Deputy, employee representative	2015	1966	–	–	–	–

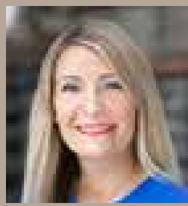
[1] Ulrik Svensson left his position as board member of ASSA ABLOY AB at year-end 2016 in connection with his resignation as CEO of Melker Schörling AB.
[2] Shareholdings through companies and related natural parties.

Appointments and shareholdings as at 31 December 2016. This information is updated regularly at *www.assaabloy.com*.

Executive Team

Executive Team


Johan Molin


Carolina Dybeck Happe


Magnus Kagevik


Thanasis Molokotos

Johan Molin
President and CEO since 2005 and Head of Global Technologies division since 2007.
Born 1959.
Master of Science in Business and Economics.
Previous positions: CEO of Nilfisk-Advance 2001–2005. Various positions mainly in Finance and Marketing, later divisional head in the Atlas Copco Group 1983–2001.
Other appointments: Chairman of Sandvik AB.
Shareholdings (including through companies and related natural parties): 1,932,382 Series B shares.

Carolina Dybeck Happe
Executive Vice President and Chief Financial Officer (CFO) since 2012.
Born 1972.
Master of Science in Business and Economics.
Previous positions: CFO of Trelleborg AB 2011–2012. Previously various positions in the ASSA ABLOY Group, including CFO of ASSA ABLOY EMEA 2007–2011 and ASSA ABLOY Central Europe 2002–2006. Previous to that various positions in finance at EF Education First.
Other appointments: Member of the Supervisory Board of E.ON.
Shareholdings: 17,550 Series B shares.

Magnus Kagevik
Executive Vice President and Head of Asia Pacific division since 2014.
Born 1967.
Master of Science in Mechanical Engineering.
Previous positions: Various positions in the ASSA ABLOY Group, including Head of East Europe EMEA 2011–2014 and Vice President Operations EMEA 2007–2011. Previously various positions in Whirlpool Corporation.
Shareholdings: 48,741 Series B shares.

Thanasis Molokotos
Executive Vice President and Head of Americas division since 2004.
Born 1958.
Master of Science in Engineering.
Previous positions: President of ASSA ABLOY Architectural Hardware 2001–2004. Previously various positions and later President of Sargent Manufacturing 1993–2001.
Shareholdings: 143,571 Series B shares.

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7 **Organization**

CEO and Executive Team

The Executive Team consists of the CEO, the Heads of the Group's divisions, the Chief Financial Officer and the Chief Technology Officer. For a presentation of the CEO and the other members of the Executive Team, see pages 52–53.

8 *Divisions – decentralized organization*

ASSA ABLOY's operations are decentralized. Operations are organizationally divided into five divisions: EMEA, Americas, Asia Pacific, Global Technologies and Entrance Systems. The fundamental principle is that the divisions should be responsible, as far as possible, for business operations, while various functions at ASSA ABLOY's headquarters are responsible for coordination, monitoring, policies and guidelines at an overall level. Decentralization is a deliberate strategic choice based on the industry's local nature and a conviction of the benefits of a divisional control model. The Group's structure results in a geographical and strategic spread of responsibility ensuring short decision-making paths.

ASSA ABLOY's operating structure is designed to create maximum transparency, to facilitate financial and operational monitoring, and to promote the flow of information and communication across the Group. The five divisions are divided into around 50 business units. These consist in turn of a large number of sales and production units, depending on the structure of the business unit concerned. Apart from monitoring by unit, monitoring of products and markets is also carried out.

Policies and guidelines

Significant policies and guidelines in the Group include financial control, communication issues, insider issues, the Group's brands, environmental issues, business ethics and export control. ASSA ABLOY's financial policy and accounting manual provide the framework for financial control and monitoring. The Group's communication policy aims to ensure that information is provided at the right time and in compliance with applicable rules and regulations. ASSA ABLOY has adopted an insider policy to complement applicable insider legislation. This policy applies to individuals in

Christophe Sut

Ulf Södergren

Juan Vargues

Stefan Widing

Tzachi Wiesenfeld

Christophe Sut
Executive Vice President and Head of Global Technologies business unit ASSA ABLOY Hospitality since 2016.
Born 1973.
Master of Science in Business and Marketing, Bachelor of Science in Language and Mathematics.
Previous positions: Various positions in the ASSA ABLOY Group, 2001–2010 and 2012–2014, including CTO and Vice President Business Development ASSA ABLOY Hospitality and Platform Director for ASSA ABLOY AB. Niscayah Group 2010–2012. SPIT France (ITW group) 1999–2001 and SAM Outillage 1997–1999.
Shareholdings: 1,539 Series B shares.

Ulf Södergren
Executive Vice President and Chief Technology Officer (CTO) since 2006.
Born 1953.
Master of Science in Engineering and Master of Science in Business and Economics.
Previous positions: Various positions in the ASSA ABLOY Group, including Regional Manager of ASSA ABLOY Scandinavia 2003–2006 and COO and Senior Vice President ASSA ABLOY 2000–2003. Previously various senior positions in Electrolux 1984–2000.
Shareholdings: 112,567 Series B shares.

Juan Vargues
Executive Vice President and Head of Entrance Systems division since 2006.
Born 1959.
Degree in Mechanical Engineering, MBA.
Previous positions: Various positions in the Besam Group, including President and CEO of Besam 2004–2005, Executive Vice President and Head of Besam EMEA 1998–2003, and CEO of Besam Ibérica 1992–1997. Previously various positions in the SKF Group 1982–1991.
Shareholdings: 232,926 Series B shares.

Stefan Widing
Executive Vice President and Head of Global Technologies business unit HID Global since 2015.
Born 1977.
Master of Science in Applied Physics and Electrical Engineering and Bachelor of Social Science in Business Administration.
Previous positions: Various positions in the ASSA ABLOY Group, including Director of Product Management and General Manager of Shared Technologies Unit 2006–2015. Previously various positions in the Saab Group 2001–2006.
Shareholdings: 4,776 Series B shares.

Tzachi Wiesenfeld
Executive Vice President and Head of EMEA division since 2006.
Born 1958.
Bachelor of Science in Industrial Engineering, MBA.
Previous positions: Various positions in the ASSA ABLOY Group, including Market Region Manager and Managing Director ASSA ABLOY UK 2004–2006, and President and CEO of Mul-T-Lock Ltd. 2000–2003. Previously various senior positions in Mul-T-Lock 1990–2000.
Shareholdings: 20,694 Series B shares.

Appointments and shareholdings as at 31 December 2016. This information is updated regularly at *www.assaabloy.com*.

leading positions at ASSA ABLOY AB (including subsidiaries) as well as certain other categories of employees. Brand guidelines aim to protect and develop the major assets that the Group's brands represent.

In 2016 ASSA ABLOY's Code of Conduct for employees was revised and a separate ASSA ABLOY Code of Conduct for business partners was adopted. The Codes, which are based on a set of internationally accepted conventions, define the values and guidelines that should apply both within the Group and for ASSA ABLOY's business partners with regard to business ethics, human rights and labor standards, environment, as well as health and safety. ASSA ABLOY has also adopted an anti-corruption policy and an export control policy that apply to the whole Group.

9 Auditor

At the 2016 Annual General Meeting, PricewaterhouseCoopers (PwC) was re-elected as the company's external auditor up to the end of the 2017 Annual General Meeting. In connection with the 2016 Annual General Meeting, PwC notified that the authorized public accountant Bo Karlsson would remain the auditor in charge. In addition to ASSA ABLOY, Bo Karlsson, born 1966, is responsible for auditing SKF, Scania and Investment AB Latour.

PwC has been the Group's auditor since its formation in 1994. PwC submits the audit report for ASSA ABLOY AB, the Group and a large majority of the subsidiaries worldwide. The audit of ASSA ABLOY AB also includes the administration by the Board of Directors and the CEO. The auditor in charge attends all Audit Committee meetings as well as the February board meeting, at which he reports his observations and recommendations concerning the Group audit for the year.

The external audit is conducted in accordance with International Standards in Auditing (ISA), which has been good auditing practice in Sweden since 2011. The audit of the financial statements for legal entities outside Sweden is conducted in accordance with statutory requirements and other applicable rules in each country. For information about the fees paid to auditors and other assignments carried out in the Group in the past three financial years, see Note 3 and the Annual Report for 2015, Note 3.

Internal control – financial reporting

ASSA ABLOY's internal control process for financial reporting is designed to provide reasonable assurance of reliable financial reporting, which is in compliance with generally accepted accounting principles, applicable laws and regulations, and other requirements for listed companies. The process is inspired by the internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Control environment

The Board of Directors is responsible for effective internal control and has therefore established fundamental documents of significance for financial reporting. These documents include the Board of Directors' rules of procedure and instructions to the CEO, the Code of Conduct, financial policy, and an annual financial evaluation plan. Regular meetings are held with the Audit Committee. The Group has an internal audit function whose primary objective is ensuring reliable financial reporting and good internal control.

All units in the Group apply uniform accounting and reporting instructions. Internal control guidelines have been established and are reviewed annually for all operating companies. These Group-wide guidelines have a relatively broad scope and concern various processes such as ordering, sourcing, financial statements, plant management, compliance with various policies, legal matters, and HR matters.

The Code of Conduct was most recently reviewed and updated in 2016, and compliance is monitored systematically in operations.

Risk assessment

Risk assessment includes identifying and evaluating the risk of material errors in accounting and financial reporting at Group, division and local levels. A number of previously established documents govern the procedures to be used for accounting, finalizing accounts, financial reporting and review. The entire Group uses a financial reporting system with pre-defined report templates.

Control activities

The Group's controller and accounting organization at both central and division levels plays a significant role in ensuring reliable financial information. It is responsible for complete, accurate and timely financial reporting.

A global financial internal audit function has been established and carries out annual financial evaluations in accordance with the plan annually adopted by the Audit Committee. The results of the financial evaluations are submitted to the Audit Committee and the auditors.

In 2016 a special review of financial reporting and internal control was conducted for parts of the Chinese operation in the Asia Pacific division due to deficiencies discovered in compliance and internal controls, as well as errors in financial reporting.

Information and communication

Reporting and accounting manuals as well as other financial reporting guidelines are available to all employees concerned on the Group's intranet. A regular review and analysis of financial outcomes is carried out at both business unit and division levels and as part of the Board of Directors' established operating structure. The Group also has established procedures for external communication of financial information, in accordance with the rules and regulations for listed companies.

Review process

The Board of Directors and the Audit Committee evaluate and review the Annual Report and Interim Reports prior to publication. The Audit Committee monitors the financial reporting and other related issues, and regularly discusses these issues with the external auditors. All business units report their financial results monthly in accordance with the Group's accounting principles. This reporting serves as the basis for quarterly reports and a monthly legal and operating review. Operating reviews conform to a structure in which sales, earnings, cash flow, capital employed and other important key figures and trends for the Group are compiled, and form the basis for analysis and actions by management and controllers at different levels.

Financial reviews take place quarterly at divisional board meetings, monthly in the form of performance reviews and through more informal analysis. Other important Group-wide components of internal control are the annual business planning process and monthly and quarterly forecasts.

The Group-wide internal control guidelines are reviewed during the year in all operating companies through self-assessments and in some cases a second opinion from external auditors. An action plan was implemented in 2015 to further improve basic processes with an impact on the company's financial position.

Remuneration guidelines for senior management

The Board of Directors' proposal for remuneration guidelines for senior management

The Board of Directors of ASSA ABLOY proposes that the Annual General Meeting adopts the following guidelines for the remuneration and other employment conditions of the President and CEO and the other members of the ASSA ABLOY Executive Team. The proposed guidelines below do not involve any material change, compared with the guidelines adopted by the 2016 Annual General Meeting. The basic principle is that remuneration and other employment conditions should be in line with market conditions and competitive. ASSA ABLOY takes into account both global remuneration practice and practice in the home country of each member of the Executive Team. The total remuneration of the Executive Team should consist of basic salary, variable components in the form of annual and long-term variable remuneration, other benefits and pension.

The total remuneration of the Executive Team, including previous commitments not yet due for payment, is reported in Note 33.

Fixed and variable remuneration

The basic salary should be competitive and reflect responsibility and performance. The variable part consists of remuneration paid partly in cash and partly in the form of shares. The Executive Team should have the opportunity to receive variable cash remuneration, based on the outcome in relation to financial targets and, when applicable, individual targets. This remuneration should be equivalent to a maximum of 75 percent of the basic salary (excluding social security costs).

In addition, the Executive Team should, within the framework of the Board of Directors' proposal for a long-term incentive program, be able to receive variable remuneration in the form of shares, based on the outcome in relation to a range determined by the Board of Directors for the performance of the company's earnings per share in 2017. This remuneration model also includes the right, when purchasing shares under certain conditions, to receive free matching shares from the company. This remuneration should, if the share price is unchanged, be equivalent to a maximum of 75 percent of the basic salary (excluding social security costs).

The company's annual cost of variable remuneration for the Executive Team as above, assuming maximum outcome, totals around SEK 66 M (excluding social security costs and financing cost). This calculation is made on the basis of the current members of the Executive Team.

Other benefits and pension

Other benefits, such as company car, extra health insurance or occupational healthcare, should be payable to the extent this is considered to be in line with market conditions in the market concerned. All members of the Executive Team should be covered by defined contribution pension plans, for which pension premiums are allocated from the executive's total remuneration and paid by the company during the period of employment.

Notice and severance pay

If the CEO is given notice, the company is liable to pay the equivalent of 24 months' basic salary and other employment benefits. If one of the other members of the Executive Team is given notice, the company is liable to pay a maximum of six months' basic salary and other employment benefits plus an additional 12 months' basic salary.

Deviation from guidelines

The Board of Directors should have the right to deviate from the remuneration guidelines for senior management adopted by the Annual General Meeting, if there are particular reasons for doing so in an individual case.

Sales and income

- Net sales increased by 5 percent to SEK 71,293 M (68,099). Organic growth was 2 percent (4), while acquired growth was 3 percent (3).
- Operating income (EBIT) excluding items affecting comparability increased by 2 percent to SEK 11,254 M (11,079), equivalent to an operating margin of 15.8 percent (16.3).
- Earnings per share after dilution and excluding items affecting comparability increased by 2 percent to SEK 7.09 (6.93).

Sales

The Group's sales totaled SEK 71,293 M (68,099), equivalent to an increase by 5 percent.

Change in sales

%	2015	2016
Organic growth	4	2
Acquisitions and divestments	3	3
Exchange rate effects	13	0
Total	**20**	**5**

The total change in sales for 2016 was 5 percent (20). Organic growth was 2 percent (4) and acquired and divested units made a contribution of 4 percent (3) and –1 (–).

Sales by product group

Mechanical locks, lock systems and fittings accounted for 28 percent (29) of total sales. Electromechanical and electronic locks increased to 54 percent (51) of sales, of which entrance automation accounted for 28 percentage points (26). Security doors and hardware accounted for 18 percent (20) of sales.

Cost structure

Total wage costs, including social security expenses and pension expenses, amounted to SEK 21,231 M (18,995), equivalent to 30 percent (28) of sales. The average number of employees was 46,928 (45,994).

The Group's material costs amounted to SEK 26,067 M (25,128), equivalent to 37 percent (37) of sales.

Other purchasing costs totaled SEK 12,675 M (11,588), equivalent to 18 percent (17) of sales.

Depreciation and amortization of non-current assets amounted to SEK 1,580 M (1,433), equivalent to 2 percent (2) of sales.

Operating income

Operating income (EBIT) excluding items affecting comparability increased by 2 percent to SEK 11,254 M (11,079), mainly due to continued good growth in operations and efficiency savings. The operating margin was 15.8 percent (16.3). Exchange rate effects in operating income amounted to SEK –12 M (881).

Operating income before depreciation and amortization (EBITDA) totaled SEK 12,833 M (12,512). The corresponding margin was 18.0 percent (18.4).

Items affecting comparability

A restructuring program was launched during the year for a cost of SEK 1,597 M (–) before tax. The program involves the closure of about fifty plants and offices over a three-year period.

Income before tax

Income before tax excluding items affecting comparability totaled SEK 10,549 M (10,382). The exchange rate effect amounted to SEK –2 M (796). Net financial items was SEK –705 M (–697). The profit margin, defined as income before tax in relation to sales, was 14.8 percent (15.2).

The Parent company's income before tax was SEK 4,191 M (3,142). The improvement in income compared with previous years is mainly due to increased revenue from subsidiaries and lower financial expenses.

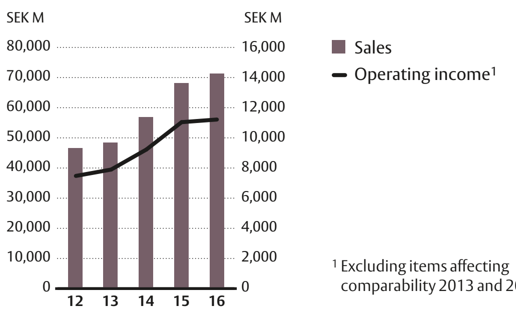
Tax

The Group's tax expense totaled SEK 2,328 M (2,689), equivalent to an effective tax rate of 26 percent (26).

Earnings per share

Earnings per share before and after full dilution excluding items affecting comparability amounted to SEK 7.09 (6.93), an increase of 2 percent.

SALES AND OPERATING INCOME



[1] Excluding items affecting comparability 2013 and 2016.

Consolidated income statement and Statement of comprehensive income

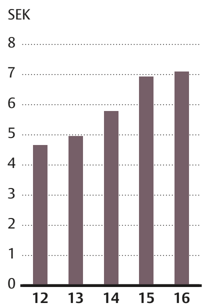
Income statement, SEK M	Note	2015	2016
Sales	2	68,099	71,293
Cost of goods sold		–41,704	–44,319
Gross income		**26,395**	**26,974**
Selling expenses		–10,441	–11,543
Administrative expenses	3	–3,066	–3,473
Research and development costs		–1,932	–2,218
Other operating income and expenses	4	–10	–210
Share of earnings in associates	5	134	127
Operating income	6–9, 24, 33	**11,079**	**9,657**
Financial income	10	22	9
Financial expenses	9, 11, 24	–719	–714
Income before tax		**10,382**	**8,952**
Tax on income	12	–2,689	–2,328
Net income from continuing operations		**7,693**	**6,625**
Profit from discontinued operations	31	–	28
Net income		**7,693**	**6,653**
Net income attributable to:			
Parent company's shareholders		7,693	6,651
Non-controlling interest		0	1
Earnings per share			
Before and after dilution, SEK	13	6.93	5.99
Before and after dilution and excluding items affecting comparability, SEK	13	6.93	7.09

Statement of comprehensive income, SEK M	Note	2015	2016
Net income		**7,693**	**6,653**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial gain/loss on post employment benefit obligations	24	150	–138
Deferred tax from actuarial gain/loss on post-employment benefit obligations		–33	36
Total		**117**	**–102**
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive income of associates		–28	126
Cashflow hedges		8	7
Net investment hedges		89	–31
Other hedges		–	18
Exchange rate differences		75	1,955
Total		**143**	**2,077**
Total comprehensive income		**7,953**	**8,627**
Total comprehensive income attributable to:			
Parent company's shareholders		7,953	8,627
Non-controlling interest		0	1

SALES BY PRODUCT GROUP, 2016

- Mechanical locks, lock systems and fittings, 28% (29)
- Entrance automation, 28% (26)
- Electromechanical and electronic locks, 26% (25)
- Security doors and hardware, 18% (20)

EARNINGS PER SHARE AFTER TAX AND DILUTION



- Earnings per share before and after dilution[1]

[1] Excluding items affecting comparability 2013 and 2016.

Comments by division

ASSA ABLOY is organized into five divisions. EMEA (Europe, Middle East and Africa) division, Americas (North and South America) division and Asia Pacific (Asia and Pacific) division manufacture and sell mechanical and electromechanical locks, security doors and hardware in their respective geographical markets. Global Technologies division operates worldwide in the product areas of access control systems, secure card issuance, identification technology and hotel locks. Entrance Systems division is a global supplier of entrance automation products and service.

EMEA

Sales totaled SEK 16,837 M (16,524), with organic growth of 3 percent (4). Acquired units contributed 0 percent (4) to sales. Operating income excluding items affecting comparability amounted to SEK 2,722 M (2,620), with an operating margin (EBIT) of 16.2 percent (15.9). Return on capital employed was 19.9 percent (20.4). Operating cash flow before interest paid was SEK 2,577 M (2,622).

Growth in Europe was good but was unevenly distributed across the different regions. Demand for electromechanical solutions was very strong during the year with great success for digital products. A continuing focus on innovation and new products, increased marketing campaigns and streamlining initiatives contributed to EMEA's good growth and high operating margin.

Americas

Sales totaled SEK 17,044 M (15,665), with organic growth of 5 percent (7). Acquired units contributed 3 percent (2) to sales. Operating income excluding items affecting comparability amounted to SEK 3,640 M (3,363), with an operating margin (EBIT) of 21.4 percent (21.5). Return on capital employed was 25.0 percent (24.1). Operating cash flow before interest paid was SEK 3,447 M (3,217).

Growth was good in the US and South America, with the exception of Brazil. The trend was positive in the important commercial and institutional customer segments in the US, in part due to the high pace of innovation and new product launches. Stronger demand for digital door opening solutions and increased sustainability represent a clear trend. Profitability remained good due to strong growth in key customer segments and continuous rationalizations.

Asia Pacific

Sales totaled SEK 9,189 M (10,171), with organic growth of –9 percent (–3). Acquired units contributed 1 percent (9) to sales. Operating income excluding items affecting comparability amounted to SEK 787 M (1,436), with an operating margin (EBIT) of 8.6 percent (14.1). Impairment of operating assets and the reversal of deferred acquisition payments affected operating income by a total of SEK –300 M. Return on capital employed was 6.6 percent (12.6). Operating cash flow before interest paid was SEK 1,564 M (1,235).

Demand remained weak in China during the year, especially regarding the residential segment. Growth was seen in the majority of the rest of Asia and was stable in the Pacific. The operating margin decreased during the year because of weak sales and impairment losses, but the effect was offset by continued streamlining initiatives and improved efficiency.

Global Technologies

Sales totaled SEK 9,697 M (9,100), with organic growth of 3 percent (7). Acquired units contributed 3 percent (2) to sales. Operating income excluding items affecting comparability amounted to SEK 1,752 M (1,647), with an operating margin (EBIT) of 18.1 percent (18.1). Return on capital employed was 16.6 percent (18.8). Operating cash flow before interest paid was SEK 1,724 M (1,557).

Growth was generally good for Europe and the US, but the trend for emerging markets was mixed. Strong growth was seen in Access management and Identification technology for the HID Global business unit. ASSA ABLOY Hospitality showed growth and good profitability, driven by continued increased demand for door opening solutions with digital and mobile technology.

Entrance Systems

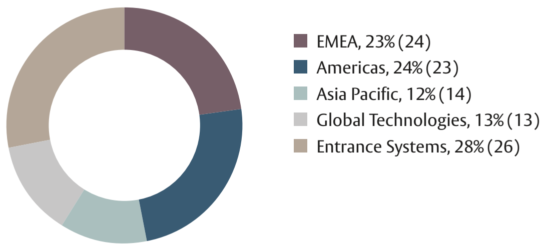
Sales totaled SEK 19,789 M (17,957), with organic growth of 4 percent (5). Acquired units contributed 6 percent (1) to sales. Operating income excluding items affecting comparability amounted to SEK 2,753 M (2,436), with an operating margin (EBIT) of 13.9 percent (13.6). Return on capital employed was 15.7 percent (14.9). Operating cash flow before interest paid was SEK 2,713 M (2,637).

All market segments in North America reported strong growth. Growth in North and Central Europe was strong, though generally weaker in the emerging markets. New product launches, a strong service offering and consolidation of the production structure were strong contributing factors to the trend of continued strong growth, cash flow and increasing operating margins.

Other

The costs of Group-wide functions, such as corporate management, accounting and finance, supply management and Group-wide product development, totaled SEK 401 M (422). Elimination of sales between the Group's segments is included in 'Other'.

EXTERNAL SALES, 2016



Results by division

	EMEA		Americas		Asia Pacific		Global Technologies		Entrance Systems		Other		Total	
SEK M	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Sales, external	16,220	16,535	15,588	16,963	9,401	8,491	9,031	9,619	17,858	19,685	0	0	68,099	71,293
Sales, internal	304	302	76	81	770	698	69	78	98	104	–1,317[3]	–1,262[3]	–	–
Sales	**16,524**	**16,837**	**15,665**	**17,044**	**10,171**	**9,189**	**9,100**	**9,697**	**17,957**	**19,789**	**–1,317**	**–1,262**	**68,099**	**71,293**
Organic growth	4%	3%	7%	5%	–3%	–9%	7%	3%	5%	4%	–	–	4%	2%
Share of earnings in associates	–	–	–	–	16	23	–	–	118	104	–	–	134	127
Operating income (EBIT) excluding items affecting comparability	**2,620**	**2,722**	**3,363**	**3,640**	**1,436**	**787**	**1,647**	**1,752**	**2,436**	**2,753**	**–422**	**–401**	**11,079**	**11,254**
Operating margin (EBIT) excluding items affecting comparability	15.9%	16.2%	21.5%	21.4%	14.1%	8.6%	18.1%	18.1%	13.6%	13.9%	–	–	16.3%	15.8%
Items affecting comparability[1]	–	–781	–	–34	–	–258	–	–148	–	–207	–	–168	–	–1,597
Operating income (EBIT)	**2,620**	**1,942**	**3,363**	**3,606**	**1,436**	**529**	**1,647**	**1,603**	**2,436**	**2,546**	**–422**	**–569**	**11,079**	**9,657**
Operating margin (EBIT)	15.9%	11.5%	21.5%	21.2%	14.1%	5.8%	18.1%	16.5%	13.6%	12.9%	–	–	16.3%	13.5%
Net financial items													–697	–705
Tax on income													–2,689	–2,328
Profit from discontinued operations													–	28
Net income													**7,693**	**6,653**
Capital employed	12,916	13,275	13,908	15,749	11,689	11,803	9,815	11,331	16,030	18,291	–509	–98	63,848	70,351
– of which goodwill	7,857	8,348	9,903	11,012	7,690	7,920	7,437	8,784	9,891	11,480	–	–	42,777	47,544
– of which other intangible assets and property, plant and equipment	3,210	3,296	3,184	3,516	3,908	3,900	2,300	2,499	3,939	4,282	107	125	16,649	17,618
– of which investments in associates	8	9	0	–	452	496	–	–	1,450	1,605	–	–	1,910	2,109
Return on capital employed excluding items affecting comparability	20.4%	19.9%	24.1%	25.0%	12.6%	6.6%	18.8%	16.6%	14.9%	15.7%	–	–	17.8%	16.5%
Operating income (EBIT)	2,620	1,942	3,363	3,606	1,436	529	1,647	1,603	2,436	2,546	–422	–569	11,079	9,657
Restructuring costs	–	781	–	34	–	258	–	148	–	207	–	168	–	1,597
Depreciation and amortization	398	402	300	330	268	283	232	296	231	257	4	11	1,433	1,580
Investments in property, plant and equipment and intangible assets	–555	–480	–346	–385	–251	–221	–219	–239	–161	–222	–24	–28	–1,555	–1,575
Sales of property, plant and equipment and intangible assets	206	8	21	13	13	9	8	1	67	65	–	0	314	97
Change in working capital	–47	–75	–120	–152	–231	705	–110	–86	63	–141	–57	–188	–502	62
Cash flow[2]	**2,622**	**2,577**	**3,217**	**3,447**	**1,235**	**1,564**	**1,557**	**1,724**	**2,637**	**2,713**	**–499**	**–607**	**10,770**	**11,418**
Non-cash items											–269	–354	–269	–354
Interest paid and received											–548	–597	–548	–597
Operating cash flow[2]													**9,952**	**10,467**
Average number of employees	10,886	10,835	7,957	8,961	13,651	12,481	3,583	3,907	9,686	10,505	231	240	45,994	46,928

[1] Items affecting comparability consist of restructuring costs.
[2] Excluding restructuring payments.
[3] Of which eliminations SEK –1,262 M (–1,317).

The segments have been determined on the basis of reporting to the CEO, who monitors the overall performance and makes decisions on resource allocation.

The different segments generate their revenue from the manufacture and the sale of mechanical, electromechanical and electronic locks, lock systems and fittings, and security doors and hardware.

The breakdown of sales is based on customer sales in the respective country. Sales between segments are carried out at arm's length.

For further information on sales, see Note 2.

OPERATING INCOME, 2016[1, 2]

- EMEA, 23% (23)
- Americas, 31% (29)
- Asia Pacific, 7% (13)
- Global Technologies, 15% (14)
- Entrance Systems, 24% (21)

[1] "Other" is not included in the calculation. See section Comments by division for what is included in "Other".
[2] Excluding items affecting comparability.

AVERAGE NUMBER OF EMPLOYEES, 2016

- EMEA, 23% (24)
- Americas, 19% (17)
- Asia Pacific, 27% (30)
- Global Technologies, 8% (8)
- Entrance Systems, 22% (21)

Financial position

- Capital employed amounted to SEK 70,351 M (63,848).
- Return on capital employed remained high at 16.5 percent (17.8).
- The net debt/equity ratio was 0.49 (0.54).

SEK M	2015	2016
Capital employed	63,848	70,351
– of which goodwill	42,777	47,544
Net debt	22,269	23,127
Equity	41,579	47,224
– of which non-controlling interests	4	5

Capital employed

Capital employed in the Group, defined as total assets less interest-bearing assets and non-interest-bearing liabilities including deferred tax liabilities, amounted to SEK 70,351 M (63,848). The return on capital employed excluding items affecting comparability was 16.5 percent (17.8).

Intangible assets amounted to SEK 57,096 M (51,863). The increase is mainly due to the effects of completed acquisitions. During the year, goodwill and other intangible assets with an indefinite useful life have arisen to a preliminary value of SEK 2,451 M as a result of completed acquisitions and adjustments of acquisitions made in previous years. A valuation model, based on discounted future cash flows, is used for impairment testing of goodwill and other intangible assets with an indefinite useful life.

Property, plant and equipment amounted to SEK 8,066 M (7,562). Capital expenditure on property, plant and equipment and intangible assets, less sales of property, plant and equipment and intangible assets, totaled SEK 1,478 M (1,241). Depreciation and amortization amounted to SEK 1,580 M (1,433).

Trade receivables amounted to SEK 12,648 M (11,775) and inventories totaled SEK 9,565 M (8,348). The average collection period for trade receivables was 56 days (56). Material throughput time was 95 days (90). The Group is making systematic efforts to increase capital efficiency.

Net debt

Net debt amounted to SEK 23,127 M (22,269), of which pension commitments and other post-employment benefits accounted for SEK 3,121 M (2,761).

Net debt was increased by acquisitions, exchange rate effects and the dividend to shareholders during the year, while it was reduced by a continued strong positive operating cash flow. Over the whole period net debt changed marginally although it fluctuated during the year.

External financing

The Group's long-term loan financing mainly consists of a Private Placement Program in the US totaling USD 542 M, of which USD 442 M (542) is long-term, a GMTN program of SEK 9,915 M (9,111), of which SEK 8,524 M (7,886) is long-term, as well as loans from financial institutions such as the European Investment Bank (EIB) of EUR 73 M (92) and USD 154 M (0) and the Nordic Investment Bank of EUR 110 M (110). During the year, four new issues were made under the GMTN program for a total amount of SEK 1,635 M. In addition, a new loan was obtained from the EIB for USD 154 M. Other changes in long-term loans are mainly due to some of the originally long-term loans now having less than 1 year to maturity. The size of the loans has also increased by currency fluctuations, in particular the strengthening of the USD against SEK. A total of SEK 2,876 M was raised in new long-term loans, while SEK 2,223 M in originally long-term loans matured during the year.

The Group's short-term loan financing mainly consists of two Commercial Paper Programs for a maximum USD 1,000 M (1,000) and SEK 5,000 M (5,000) respectively. At year-end, SEK 455 M (1,240) of the Commercial Paper Programs had been utilized. In addition, substantial credit facilities are available, mainly in the form of a Multi-Currency Revolving Credit Facility of EUR 900 M (900), which was wholly unutilized at year-end. The interest coverage ratio, defined as income before tax plus net interest, divided by net interest, was 14.1 (16.7). Fixed interest terms increased during the year, with an average term of 28 months (26) at year-end.

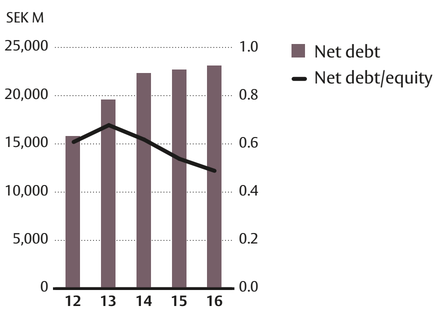
Cash and cash equivalents amounted to SEK 750 M (501) and are invested in banks with high credit ratings.

Some of the Group's main financing agreements contain a customary Change of Control clause. This clause means that lenders have the right in certain circumstances to demand the renegotiation of conditions or to terminate the agreements should control of the company change.

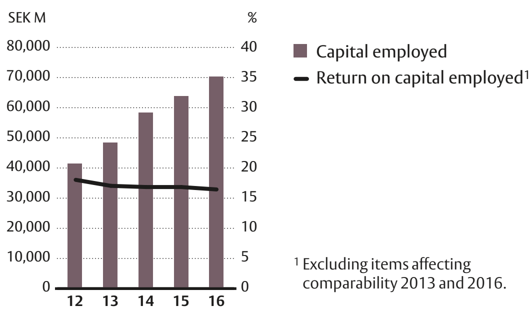
Equity

The Group's equity totaled SEK 47,224 M (41,579) at year-end. The return on equity was 15.0 percent (19.8). The equity ratio was 49.6 percent (48.2). The debt/equity ratio, defined as net debt divided by equity, was 0.49 (0.54).

NET DEBT



CAPITAL EMPLOYED AND RETURN ON CAPITAL EMPLOYED



[1] Excluding items affecting comparability 2013 and 2016.

Consolidated balance sheet

SEK M	Note	2015	2016
ASSETS			
Non-current assets			
Intangible assets	14	51,863	57,096
Property, plant and equipment	15	7,562	8,066
Investments in associates	17	1,910	2,109
Other financial assets	19	77	86
Deferred tax assets	18	1,434	1,899
Total non-current assets		**62,847**	**69,257**
Current assets			
Inventories	20	8,348	9,565
Trade receivables	21	11,775	12,648
Current tax receivables		416	497
Other current receivables		1,139	1,273
Prepaid expenses and accrued income		970	1,123
Derivative financial instruments	34	148	167
Short-term investments	34	34	2
Cash and cash equivalents	34	501	750
Total current assets		**23,330**	**26,025**
TOTAL ASSETS		**86,177**	**95,282**
EQUITY AND LIABILITIES			
Equity			
Parent company's shareholders			
Share capital	23	371	371
Other contributed capital		9,675	9,675
Reserves		2,642	2,540
Retained earnings		28,888	34,634
Equity attributable to Parent company's shareholders		**41,575**	**47,220**
Non-controlling interest		4	5
Total equity		**41,579**	**47,224**
Non-current liabilities			
Long-term loans	34	15,568	16,901
Deferred tax liabilities	18	2,031	2,344
Pension provisions	24	2,761	3,121
Other non-current provisions	25	1,717	1,945
Other non-current liabilities		2,089	1,634
Total non-current liabilities		**24,166**	**25,945**
Current liabilities			
Short-term loans	34	4,574	3,929
Derivative financial instruments	34	80	137
Trade payables		6,553	7,443
Current tax liabilities		1,145	1,142
Current provisions	25	607	797
Other current liabilities	26	2,847	3,190
Accrued expenses and deferred income	27	4,626	5,474
Total current liabilities		**20,432**	**22,112**
TOTAL EQUITY AND LIABILITIES		**86,177**	**95,282**

Cash flow

- Operating cash flow remained strong and amounted to SEK 10,467 M (9,952).
- Net capital expenditure totaled SEK 1,478 M (1,241).

Operating cash flow

SEK M	2015	2016
Operating income (EBIT)	11,079	9,657
Restructuring costs	–	1,597
Depreciation and amortization	1,433	1,580
Net capital expenditure	–1,241	–1,478
Change in working capital	–502	62
Interest paid and received	–548	–597
Non-cash items	–269	–354
Operating cash flow[1]	**9,952**	**10,467**
Operating cash flow/ Income before tax	0.96	0.99[2]

[1] Excluding restructuring payments.
[2] Excluding restructuring costs.

The Group's operating cash flow amounted to SEK 10,467 M (9,952), equivalent to 99 percent (96) of income before tax excluding restructuring costs.

Net capital expenditure

Net capital expenditure on intangible assets and property, plant and equipment totaled SEK 1,478 M (1,241), equivalent to 94 percent (87) of amortization and depreciation on intangible assets and property, plant and equipment. Net capital expenditure was higher than the previous year mainly because 2015 net capital expenditure included the purchase price received for the sale of properties of SEK 176 M.

Change in working capital

SEK M	2015	2016
Inventories	–147	–551
Trade receivables	–713	–61
Trade payables	549	461
Other working capital	–189	213
Change in working capital	**–502**	**62**

The material throughput time was 95 days (90) at year-end. Capital tied up in working capital decreased somewhat during the year, which had an impact on cash flow of SEK 62 M (–502) overall.

Relationship between cash flow from operating activities and operating cash flow

SEK M	2015	2016
Cash flow from operating activities	8,572	8,575
Restructuring payments	375	442
Net capital expenditure	–1,241	–1,478
Reversal of tax paid	2,247	2,928
Operating cash flow	**9,952**	**10,467**

Investments in subsidiaries

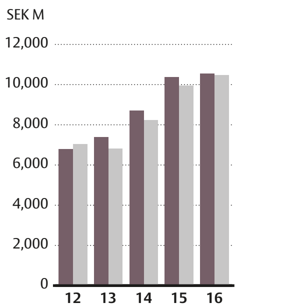
The total purchase price of investments in subsidiaries amounted to SEK 2,866 M (3,835), of which the cash flow effect was SEK 2,640 M (3,171). Acquired cash and cash equivalents totaled SEK 263 M (155).

Change in net debt

Net debt was mainly affected by the strong positive operating cash flow, the dividend to shareholders, acquisitions and exchange rate differences.

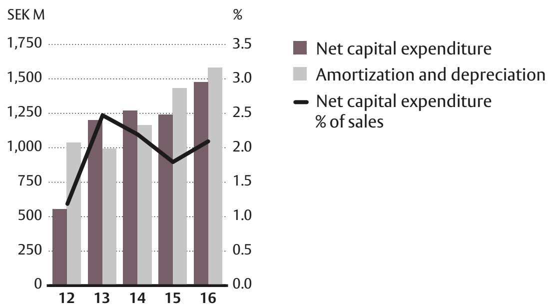
SEK M	2015	2016
Net debt at 1 January	22,327	22,269
Operating cash flow	–9,952	–10,467
Restructuring payments	375	442
Tax paid	2,247	2,928
Acquisitions/Disposals	4,161	3,037
Dividend	2,407	2,944
Actuarial gain/loss on post-employment benefit obligations	–150	138
Exchange rate differences and others	855	1,836
Net debt at 31 December	**22,269**	**23,127**

INCOME BEFORE TAX AND OPERATING CASH FLOW



[1] Excluding items affecting comparability 2013 and 2016.
[2] Excluding restructuring payments.

CAPITAL EXPENDITURE



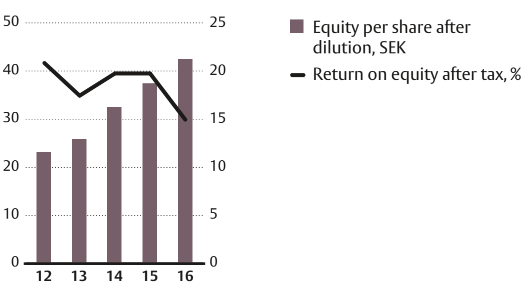
Consolidated cash flow statement

SEK M	Note	2015	2016
OPERATING ACTIVITIES			
Operating income		11,079	9,657
Depreciation and amortization	8	1,433	1,580
Reversal of restructuring costs		–	1,597
Restructuring payments		–375	–442
Other non-cash items	32	–269	–354
Cash flow before interest and tax		**11,869**	**12,037**
Interest paid		–574	–613
Interest received		25	16
Tax paid on income		–2,247	–2,928
Cash flow before changes in working capital		**9,073**	**8,512**
Changes in working capital	32	–502	62
Cash flow from operating activities		**8,572**	**8,575**
INVESTING ACTIVITIES			
Investments in property, plant and equipment and intangible assets	14, 15	–1,555	–1,575
Sales of property, plant and equipment and intangible assets	14, 15	314	97
Investments in subsidiaries	30	–3,171	–2,640
Investments in associates		–1	–1
Disposals of subsidiaries	32	–	55
Other investments		0	0
Cash flow from investing activities		**–4,412**	**–4,063**
FINANCING ACTIVITES			
Dividends		–2,407	–2,944
Long-term loans raised		2,092	2,876
Long-term loans repaid		–2,425	–2,223
Purchase of shares in subsidiaries from non-controlling interest		–990	–40
Stock purchase plans		–121	–80
Net cash effect of changes in other borrowings		–484	–1,859
Cash flow from financing activities		**–4,335**	**–4,271**
CASH FLOW		**–175**	**240**
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		**667**	**501**
Cash flow		–175	240
Effect of exchange rate differences		9	9
Cash and cash equivalents at 31 December	34	**501**	**750**

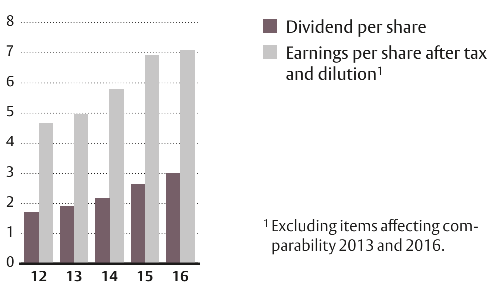
Changes in consolidated equity

MSEK	Note	Parent company's shareholders: Share capital	Other contributed capital	Reserves	Retained earnings	Non-controlling interest	Total
Opening balance 1 January 2015		**371**	**9,675**	**2,498**	**23,553**	**2**	**36,098**
Net income					7,693	0	7,693
Other comprehensive income				144	117	0	260
Total comprehensive income				**144**	**7,810**	**0**	**7,953**
Dividend for 2014	23				–2,407	–	–2,407
Stock purchase plans					–82	–	–82
Total contributions by and distributions to Parent company's shareholders					**–2,489**	**–**	**–2,489**
Change in non-controlling interest					15	1	17
Total transactions with Parent company's shareholders					**–2,474**	**1**	**–2,472**
Closing balance 31 December 2015	23	**371**	**9,675**	**2,642**	**28,888**	**4**	**41,579**
Opening balance 1 January 2016		**371**	**9,675**	**2,642**	**28,888**	**4**	**41,579**
Net income					6,651	1	6,653
Other comprehensive income				–102	2,077	0	1,975
Total comprehensive income				**–102**	**8,729**	**1**	**8,627**
Dividend for 2015	23				–2,944	–	–2,944
Stock purchase plans					–39	–	–39
Total contributions by and distributions to Parent company's shareholders					**–2,982**	**–**	**–2,982**
Change in non-controlling interest					–	–	–
Total transactions with Parent company's shareholders					**–2,982**	**–**	**–2,982**
Closing balance 31 December 2016	23	**371**	**9,675**	**2,540**	**34,634**	**5**	**47,224**

EQUITY PER SHARE AFTER DILUTION AND RETURN ON EQUITY AFTER TAX



DIVIDEND



1 Excluding items affecting comparability 2013 and 2016.

Securing top aviation hub in China

CUSTOMER: Zhengzhou Xinzheng International Airport, owned by the Henan Airport Group, will become China's second-largest integrated transport hub and will be serving Zhengzhou the capital of Henan province.

CHALLENGE: The goal was to devise a comprehensive door-opening solution for a project that includes the construction of two more terminals and two more runways by 2020. The passenger flow is expected to rise to 29 million travelers per year, 0.2 million passenger aircraft and half a million cargo jets will travel to the airport annually.

SOLUTION: ASSA ABLOY China's complete, optimized, flexible, cost-efficient security solution impressed the customers and the architects (China Northeast Architectural Design and Research Institute – particularly given the current economic situation in China and the durability requirements). We offered a mix of ANSI (US) and EN (European) standard products, The customer was equally satisfied with our team's responsive communication efforts.

Some 2,000 fire and steel doors and 4,000 sets of hardware secure the terminals, with 49 2.8m-high super-size ASSA ABLOY branded fire doors for the huge entranceways. Products include Yale ANSI standard locksets, door closers and exit devices, and Doormax EN standard floor springs and door accessories. The project will promote the use of our high-end brands for other significant commercial projects.

Saint-Gobain & CertainTeed's new state-of-the-art headquarters in North America earns LEED 2009 Platinum certification by utilizing sustainable products

CUSTOMER: Saint-Gobain, a French company which prides itself as "the reference in sustainable habitat," remains eager to partner with other international companies which have also identified sustainability as a priority. This emphasis came into particular focus as Saint-Gobain spent several years planning its new headquarters for North America, a building which would house 800 employees of Saint-Gobain and one of its subsidiaries, CertainTeed.

CHALLENGE: The previous North American headquarters for Saint-Gobain was a structure suffering from "sick building syndrome" at the same time as the company was selling its customers on leading edge construction materials designed to make their buildings healthier for employees. The new facility was also targeted for a 2015 opening as part of Saint-Gobain's 350th anniversary – and was intended to reinforce the company commitment to sustainability.

SOLUTION: ASSA ABLOY collaborated with Saint-Gobain to provide six distinct door opening solutions, each of which had obtained an Environmental Product Declaration (EPD) for sustainability. Because the ASSA ABLOY Group provides such a wide range of products, it was able to combine them to provide the project with complete and integrated door opening solutions. Using the ASSA ABLOY products, along with 15 other permanent building products from multiple companies, Saint-Gobain was able to meet and even surpass the requirements for LEED 2009 Platinum certification.

Photo © Jeffrey Totaro, 2015

Parent company financial statements

Income statement – Parent company

SEK M	Note	2015	2016
Administrative expenses	3, 6, 8, 9	–1,312	–1,464
Research and development costs	6, 8, 9	–729	–872
Other operating income and expenses	4	3,392	4,023
Operating income	9, 33	**1,351**	**1,687**
Financial income	10	1,691	1,697
Financial expenses	9, 11	–849	–433
Income before appropriations and tax		**2,193**	**2,952**
Appropriations – Group contributions		949	1,240
Tax on income	12	–416	–573
Net income		**2,725**	**3,619**

Statement of comprehensive income – Parent company

SEK M	2015	2016
Net income	**2,725**	**3,619**
Other comprehensive income		
Changes in value of financial instruments	273	–
Total comprehensive income	**2,998**	**3,619**

Balance sheet – Parent company

SEK M	Note	2015	2016
ASSETS			
Non-current assets			
Intangible assets	14	657	408
Property, plant and equipment	15	5	30
Shares in subsidiaries	16	32,855	33,611
Other financial assets	19	1,621	1,621
Total non-current assets		**35,138**	**35,670**
Current assets			
Receivables from subsidiaries		9,371	10,329
Other current receivables		11	44
Prepaid expenses and accrued income		28	175
Cash and cash equivalents		0	0
Total current assets		**9,410**	**10,548**
TOTAL ASSETS		**44,548**	**46,218**
EQUITY AND LIABILITIES			
Equity	22		
Restricted equity			
Share capital	23	371	371
Revaluation reserve		275	275
Statutory reserve		8,905	8,905
Non-restricted equity			
Share premium reserve		787	787
Retained earnings incl. net income for the year		10,215	10,852
Total equity		**20,553**	**21,190**
Non-current liabilities			
Long-term loans	34	8,153	8,786
Other non-current liabilities		–	108
Total non-current liabilities		**8,153**	**8,894**
Current liabilities			
Short-term loans	34	1,224	1,404
Trade payables		77	91
Current liabilities to subsidiaries		14,141	14,144
Current tax liabilities		108	170
Other current liabilities		4	5
Accrued expenses and deferred income	27	288	319
Total current liabilities		**15,842**	**16,134**
TOTAL EQUITY AND LIABILITIES		**44,548**	**46,218**

Cash flow statement – Parent company

SEK M	Note	2015	2016
OPERATING ACTIVITIES			
Operating income		1,351	1,687
Depreciation and amortization	8	442	448
Cash flow before interest and tax		**1,793**	**2,135**
Interest paid and received		–262	–279
Dividends received		1,583	1,601
Tax paid and received		–391	–541
Cash flow before changes in working capital		**2,723**	**2,916**
Changes in working capital		–2,435	–263
Cash flow from operating activities		**288**	**2,653**
INVESTING ACTIVITIES			
Investments in property, plant and equipment and intangible assets		–41	–203
Investments in subsidiaries		–109	–669
Other investments		–1	–1
Cash flow from investing activities		**–151**	**–873**
FINANCING ACTIVITIES			
Dividends		–2,407	–2,944
Loans raised		4,434	2,637
Loans repaid		–2,164	–1,473
Cash flow from financing activities		**–137**	**–1,780**
CASH FLOW		**0**	**0**
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		**0**	**0**
Cash flow		0	0
Cash and cash equivalents at 31 December		**0**	**0**

Change in equity – Parent company

	Restricted equity				Non-restricted equity		
SEK M	**Share capital**	**Revaluation reserve**	**Statutory reserve**	**Fair value reserve**	**Share premium reserve**	**Retained earnings**	**Total**
Opening balance 1 January 2015	**371**	**275**	**8,905**	**–273**	**787**	**9,979**	**20,044**
Net income						2,725	2,725
Hedge accounting				273			273
Total comprehensive income				**273**		**2,725**	**2,998**
Dividend for 2014						–2,407	–2,407
Stock purchase plans						–82	–82
Total transactions with Parent company's shareholders						**–2,489**	**–2,489**
Closing balance 31 December 2015	**371**	**275**	**8,905**	**–**	**787**	**10,215**	**20,553**
Opening balance 1 January 2016	**371**	**275**	**8,905**	**–**	**787**	**10,215**	**20,553**
Net income						3,619	3,619
Hedge accounting				–			–
Total comprehensive income				**–**		**3,619**	**3,619**
Dividend for 2015						–2,944	–2,944
Stock purchase plans						–39	–39
Total transactions with Parent company's shareholders				**–**		**–2,982**	**–2,982**
Closing balance 31 December 2016	**371**	**275**	**8,905**	**–**	**787**	**10,852**	**21,190**

Notes

Note 1 Significant accounting and valuation principles

The Group

ASSA ABLOY applies International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's RFR 1 Supplementary Accounting Rules for Corporate Groups. The accounting principles are based on IFRS as endorsed by 31 December 2016 and have been applied to all years presented, unless stated otherwise. This Note describes the most significant accounting principles that have been applied in the preparation of the financial statements, which comprise the information provided on pages 39–98.

Basis of preparation

ASSA ABLOY's consolidated financial statements have been prepared in accordance with IFRS as endorsed by the EU. The consolidated financial statements have been prepared in accordance with the cost method, except for financial assets and liabilities (including derivatives) measured at fair value through profit or loss and available-for-sale financial assets.

Totals quoted in tables and statements may not always be the exact sum of the indivudual items because of rounding differences. The aim is that each line item should correspond to its source, and rounding differences may therefore arise.

Key estimates and assessments for accounting purposes

The preparation of financial statements requires estimates and assessments to be made for accounting purposes. The management also makes assessments when applying the Group's accounting principles. Estimates and assessments may affect the income statement and balance sheet as well as the supplementary information provided in the financial statements. Consequently changes in estimates and assessments may lead to changes in the financial statements.

Estimates and assessments play an important part in the measurement of items such as identifiable assets and liabilities in acquisitions, in impairment testing of goodwill and other assets, in determining actuarial assumptions for calculating employee benefits, as well as in the valutation of deferred taxes. Estimates and assessments are continually evaluated and are based on both historical experience and reasonable expectations about the future.

The Group considers that estimates and assessments relating to impairment testing of goodwill and other intangible assets with indefinite useful life are of material importance to the consolidated financial statements. The Group tests carrying amounts for impairment on an annual basis. The recoverable amounts of cash generating units are determined by calculating their values in use. The calculations are based on certain assumptions about the future which, for the Group, are associated with the risk of material adjustments in carrying amounts during the next financial year. Material assumptions and the effects of reasonable changes in them are described in Note 14.

The actuarial assumptions made when calculating post-employment employee benefits also have material importance for the consolidated financial statements. For information on these actuarial assumptions, see Note 24.

New and revised standards applied by the Group

None of the standards and interpretations to be applied for the first time for the financial year beginning 1 January 2016 had a significant impact on the consolidated financial statements.

New and revised IFRS not yet effective

The following IFRS have been published but are not yet effective, and have not been applied in the preparation of the financial statements.

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contract with Customers
- IFRS 16 Leases

Of the above new standards, IFRS 9 and IFRS 15 are to be applied from the financial year beginning 1 January 2018, while IFRS 16 takes effect on 1 January 2019. Earlier application is allowed for all standards.

During the year a major project was initiated relating to the implementation of IFRS 15. Although the impact of the new standard as of the closing date has not yet been fully investigated, the Group's current assessment is that the standard will not have a material impact on the consolidated financial statements. IFRS 9 is deemed not to have any significant impact on the consolidated financial statements either, while the Group has not yet evaluated the effects of implementation of IFRS 16.

Consolidated financial statements

The consolidated financial statements include ASSA ABLOY AB (the Parent company) and all companies over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Companies acquired during the year are included in the consolidated financial statements with effect from the date when a controlling interest arose. Companies divested during the year are included in the consolidated financial statements up to the date when a controlling interest ceased.

The consolidated financial statements have been prepared in accordance with the purchase method, which means that the cost of shares in subsidiaries was eliminated against their equity at the acquisition date. In this context, equity in subsidiaries is determined on the basis of the fair value of assets, liabilities and contingent liabilities at the acquisition date. Consequently only that part of the equity in subsidiaries that has arisen after the acquisition date is included in consolidated equity. The Group determines on an individual basis for each acquisition whether a non-controlling interest in the acquired company shall be recognized at fair value or at the interest's proportional share of the acquired company's net assets. Any negative difference, negative goodwill, is recognized as revenue immediately after determination.

Deferred considerations are classified as financial liabilities and revalued through profit or loss in operating income. Significant deferred considerations are discounted to present value. Acquisition-related transaction costs are expensed as incurred.

Intra-Group transactions and balance sheet items, and unrealized profits on transactions between Group companies are eliminated in the consolidated financial statements.

Non-controlling interests

Non-controlling interests are based on the subsidiaries' accounts with application of fair value adjustments resulting from a completed acquisition analysis. Non-controlling interests' share in subsidiaries' earnings is recognized in the income statement, in which net income is attributed to the Parent company's shareholders and to non-controlling interests. Non-controlling interests' share in subsidiaries' equity is recognized separately in consolidated equity. Transactions with non-controlling interests are recognized as transactions with the Group's shareholders in equity.

Note 1 cont.

Associates

Associates are defined as companies which are not subsidiaries but in which the Group has a significant (but not a controlling) interest. This generally refers to companies in which the Group's shareholding represents between 20 and 50 percent of the voting rights.

Investments in associates are accounted for in accordance with the equity method. In the consolidated balance sheet, shareholdings in associates are recognized at cost, and the carrying amount is adjusted for the share of associates' earnings after the acquisition date. Dividends from associates are recognized as a reduction in the carrying amount of the holdings. The share of associates' earnings is recognized in the consolidated income statement in operating income as the holdings are related to business operations.

Segment reporting

Operating segments are reported in accordance with internal reporting to the chief operating decision maker. Chief operating decision maker is the function that is responsible for allocation of resources and assessing performance of the operating segments. The divisions form the operational structure for internal control and reporting and also constitute the Group's segments for external financial reporting. The Group's business is divided into five divisions. Three divisions are based on products sold in local markets in the respective division: EMEA, Americas and Asia Pacific. Global Technologies and Entrance Systems consist of products sold worldwide.

Foreign currency translation

Functional currency corresponds to local currency in each country where Group companies operate. Transactions in foreign currencies are translated to functional currency by application of the exchange rates prevailing on the transaction date. Foreign exchange gains and losses arising from the settlement of such transactions are normally recognized in the income statement, as are those arising from translation of monetary balance sheet items in foreign currencies at the year-end rate. Exceptions are transactions relating to qualifying cash flow hedges, which are recognized in other comprehensive income. Receivables and liabilities are measured at the year-end rate.

In translating the accounts of foreign subsidiaries prepared in functional currencies other than the Group's presentation currency, all balance sheet items except net income are translated at the year-end rate and net income is translated at the average rate. The income statement is translated at the average rate for the period. Exchange differences arising from the translation of foreign subsidiaries are recognized as translation differences in other comprehensive income.

The table below shows the weighted average rate and the closing rate for important currencies used in the Group, relative to the Group's presentation currency (SEK).

		Average rate		Closing rate	
Country	**Currency**	**2015**	**2016**	**2015**	**2016**
Argentina	ARS	0.91	0.58	0.65	0.57
Australia	AUD	6.31	6.36	6.09	6.58
Brazil	BRL	2.57	2.47	2.16	2.80
Canada	CAD	6.58	6.46	6.04	6.75
Switzerland	CHF	8.70	8.67	8.43	8.91
Chile	CLP	0.013	0.013	0.012	0.014
China	CNY	1.34	1.29	1.29	1.31
Colombia	COP	0.0031	0.0028	0.0026	0.0030
Czech Republic	CZK	0.34	0.35	0.34	0.35
Denmark	DKK	1.25	1.27	1.23	1.29
Euro zone	EUR	9.35	9.44	9.14	9.58
United Kingdom	GBP	12.84	11.60	12.39	11.19
Hong Kong	HKD	1.08	1.11	1.08	1.17
Hungary	HUF	0.030	0.030	0.029	0.031
Israel	ILS	2.16	2.24	2.15	2.37
India	INR	0.131	0.127	0.126	0.134
Kenya	KES	0.086	0.084	0.082	0.089
South Korea	KRW	0.0074	0.0074	0.0071	0.0076
Mexico	MXN	0.53	0.46	0.48	0.44
Malaysia	MYR	2.17	2.06	1.95	2.03
Norway	NOK	1.04	1.02	0.96	1.05
New Zealand	NZD	5.89	5.97	5.72	6.33
Poland	PLN	2.23	2.16	2.16	2.17
Romania	RON	2.10	2.10	2.02	2.11
Russia	RUB	0.14	0.13	0.11	0.15
Singapore	SGD	6.12	6.19	5.91	6.30
Thailand	THB	0.25	0.24	0.23	0.25
Turkey	TRY	3.11	2.84	2.87	2.58
USA	USD	8.41	8.58	8.36	9.11
South Africa	ZAR	0.66	0.59	0.54	0.67

Revenue

Revenue comprises the fair value of goods sold, excluding VAT and discounts, and after eliminating intra-Group sales. The Group's sales revenue mainly consists of product sales. Service related to products sold represents a limited share of revenue. Revenue from sales of the Group's products is recognized when all significant risks and benefits associated with ownership have been transferred to the purchaser in accordance with applicable terms of sale, which is normally upon delivery. If the product requires installation at the customer's premises, revenue is recognized when installation has been completed. Revenue from service contracts is recognized on a continuous basis over the contract period. In the case of installations over a longer period of time, the percentage of completion method is used.

Intra-Group sales

Transactions between Group companies are carried out at arm's length and thus at market prices. Intra-Group sales are eliminated from the consolidated income statement, and profits on such transactions have been eliminated in their entirety.

Government grants

Grants and support from governments, public authorities and the like are recognized when there is reasonable assurance that the company will comply with the conditions attaching to the grant and that the grant will be received. Grants relating to assets are recognized after reducing the carrying amount of the asset by the amount of the grant.

Research and development

Research expenditure is expensed as incurred. Development expenditure is recognized in the balance sheet to the extent that it is expected to generate future economic benefits for the Group and provided such benefits can be reliably measured.

Capitalized development expenditure is amortized over the expected useful life. Such intangible assets, which are not yet in use, are tested annually for impairment. Expenditure on the further development of existing products is expensed as incurred.

Note 1 cont.

Borrowing costs

Borrowing costs are interest expenses and other expenses directly related to borrowing. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are included in the cost of the asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Tax on income

The income statement includes all tax that is to be paid or received for the current year, adjustments relating to tax due for previous years, and changes in deferred tax. These taxes have been calculated at nominal amounts, in accordance with the tax regulations in each country, and in accordance with tax rates that have either been decided or have been notified and can confidently be expected to be confirmed. For items recognized in the income statement, associated tax effects are also recognized in the income statement. The tax effects of items recognized directly against equity or in other comprehensive income are themselves recognized against equity or in other comprehensive income. The liability method is used in accounting for deferred tax. This means that deferred tax is recognized on all temporary differences between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets relating to tax losses carried forward or other future tax allowances are recognized to the extent that it is probable that the allowance can be offset against taxable income in future taxation. Deferred tax liabilities for temporary differences relating to investments in subsidiaries are not recognized in the consolidated financial statements, since the Parent company can control the time at which the temporary differences are reversed, and it is not considered likely that such reversal will occur in the foreseeable future. Deferred tax assets and deferred tax liabilities are offset when there is a legal right to do so and when deferred taxes relate to the same tax authority.

Cash flow statement

The cash flow statement has been prepared according to the indirect method. The recognized cash flow includes only transactions involving cash payments.

Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, and short-term financial investments that mature within three months of the acquisition date.

Goodwill and acquisition-related intangible assets

Goodwill represents the positive difference between the acquisition cost and the fair value of the Group's share of the acquired company's identifiable net assets at the acquisition date, and is recognized at cost less accumulated impairment losses. Goodwill is allocated to cash generating units (CGU) and is tested annually to identify any impairment loss. Cash generating units are subject to systematic annual impairment testing using a valuation model based on discounted future cash flows. Deferred tax assets based on local tax rates are recognized in terms of tax-deductible goodwill (with corresponding reduction of the goodwill value). Such deferred tax assets are expensed as the tax deduction is utilized. Other acquisition-related intangible assets consist chiefly of various types of intellectual property rights, such as brands, technology and customer relationships. Identifiable acquisition-related intellectual property rights are initially recognized at fair value at the acquisition date and subsequently at cost less accumulated amortization and impairment losses. Amortization is on a straight-line basis over the estimated useful life. Acquisition-related intangible assets with an indefinite useful life are tested for impairment annually in the same way as goodwill.

Other intangible assets

An intangible asset that is not acquisition-related is recognized only if it is likely that the future economic benefits associated with the asset will flow to the Group, and if the cost of the asset can be reliably measured. Such an asset is initially recognized at cost and is amortized over its estimated useful life, usually between three and five years. The carrying amount is the cost less accumulated amortization and impairment losses.

Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to acquisition of the asset. Subsequent expenditure is capitalized if it is probable that economic benefits associated with the asset will flow to the Group, and if the cost can be reliably measured. Expenditure on repairs and maintenance is expensed as incurred. Depreciable amount is the cost of an asset less its estimated residual value. Land is not depreciated. For other assets, cost is depreciated over the estimated useful life, which for the Group results in the following average depreciation periods:

- Buildings 25–50 years.
- Land improvements 10–25 years.
- Machinery 7–10 years.
- Equipment 3–6 years.

The residual value and useful life of assets are reviewed at each reporting date and adjusted when necessary. Gain or loss on the disposal of property, plant and equipment is recognized in the income statement as 'Other operating income' or 'Other operating expenses', and consists of the difference between the selling price and the carrying amount.

Leasing

The Group's leasing is chiefly operating leasing. The lease payments are expensed on a straight-line basis over the term of the lease and are recognized as operating expenses.

Impairment

Assets with an indefinite useful life are not amortized but are tested for impairment on an annual basis. For impairment testing purposes, assets are grouped at the lowest organizational level where there are separate identifiable cash flows, so-called cash generating units (CGU).

For assets that are depreciated/amortized, impairment testing is carried out when events or circumstances indicate that the carrying amount many not be recoverable.

Impairment losses are recognized in the amount by which the carrying amount of the asset exceeds the recoverable amount, which is the higher of the asset's fair value, less selling expenses, and value in use.

Inventories

Inventories are valued in accordance with the 'first in, first out' principle at the lower of cost and net realizable value at the reporting date. Deductions are made for internal profits arising from deliveries between Group companies. Work in progress and finished goods include both direct costs incurred and a fair allocation of indirect production costs.

Trade receivables
Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. A provision is recognized when there is objective evidence that the Group will not be able to collect recorded amounts. The year's change in such a provision is recognized in the income statement as selling expenses.

Financial assets
Financial assets include cash and cash equivalents, trade receivables, short-term investments and derivatives, and are classified in the following categories: financial assets at fair value through profit and loss, available-for-sale financial assets, and loans and receivables. Management determines the classification of financial assets at initial recognition.

Financial assets at fair value through the income statement
This category is divided into two sub-categories: financial assets held for trading, and those classified on acquisition as financial assets at fair value through profit and loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if classified as such by management. Derivatives are also classified as held for trading provided they are not defined as hedges. Assets in this category are classified as current assets.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative assets that have been identified as available for sale or assets that have not been classified in any other category. They are included in non-current assets, unless management intends to sell the asset within 12 months of the end of the reporting period. Changes in fair value are recognized in Other comprehensive income.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payment streams, which are not quoted in an active market. They are recognized in current assets, except for receivables maturing more than 12 months after the reporting date, which are classified as non-current assets.

Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

Financial liabilities
Financial liabilities include deferred considerations, loan liabilities, trade payables and derivative instruments. Recognition depends on how the liability is classified.

Financial liabilities at fair value through the income statement
This category includes derivatives with negative fair value that are not used for hedging, deferred considerations, and financial liabilities held for trading. Liabilities are measured at fair value on a continuous basis and changes in value are recognized in the income statement as a financial item.

Loan liabilities
Loan liabilities are initially valued at fair value, net of transaction costs, and subsequently at amortized cost. Amortized cost is determined based on the effective interest rate calculated when the loan was raised. Accordingly, surplus values and negative surplus values as well as direct issue expenses are allocated over the term of the loan. Non-current loan liabilities have an anticipated term of more than one year, while current loan liabilities have a term of less than one year.

Trade payables
Trade payables are initially valued at fair value, and subsequently at amortized cost using the effective interest method.

Recognition and measurement of financial assets and liabilities
Acquisitions and sales of financial assets are recognized on the trade date, the date on which the Group commits to purchase or sell the asset. Transaction costs are initially included in fair value for all financial instruments, except for those recognized at fair value through profit and loss where the transaction cost is recognized through profit and loss. The fair value of quoted investments is based on current bid prices. In the absence of an active market for an investment, the Group applies various measurement techniques to determine fair value. These include use of available information on current arm's length transactions, comparison with equivalent assets and analysis of discounted cash flows. The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is derecognized from the balance sheet when the right to receive cash flows from the asset expires or is transferred to another party through the transfer of all the risks and benefits associated with the asset to the other party. A financial liability is derecognized from the balance sheet when the obligation is fulfilled, cancelled or expires, see above.

Derivative instruments and hedging
Derivative instruments are recognized in the balance sheet at the transaction date and are measured at fair value, both initially and in subsequent revaluations. The method for recognizing profit or loss depends on whether the derivative instrument is designated as a hedging instrument, and if so, the nature of the hedged item. For derivatives not designated as hedging instruments, changes in value are recognized on a continuous basis through profit or loss under financial items, either as income or expense.

The Group designates derivatives as follows:
i) Fair value hedge: a hedge of the fair value of an identified liability;
ii) Cash flow hedge: a hedge of a certain risk associated with a forecast cash flow for a certain transaction; or
iii) Net investment hedge: a hedge of a net investment in a foreign subsidiary.

When entering into the hedge transaction, the Group documents the relationship between the hedging instrument and hedged items, as well as its risk management strategy for the hedge. The Group also documents its assessment, both on inception and on a regular basis, of whether the derivative instruments used in hedge transactions are effective in offsetting changes in fair value attributable to the hedged items.

The fair value of forward exchange contracts is calculated at net present value based on prevailing forward rates on the reporting date, while interest rate swaps are measured by estimating future discounted cash flows.

For information on the fair value of derivative instruments, see Note 34, 'Financial risk management and

Note 1 cont.

financial instruments'. Derivatives at fair value, with a maturity of more than 12 months, are classified as non-current interest-bearing liabilities or receivables. Other derivatives are classified as current interest-bearing liabilities and investments respectively.

Fair value hedges
For derivatives that are designated and qualify as fair value hedges, changes in value of both the hedged item and the hedging instrument are recognized on a continuous basis in the income statement (under financial items). Fair value hedges are used to hedge interest rate risk in borrowing linked to fixed interest terms. If the hedge would no longer qualify for hedge accounting, the fair value adjustment of the carrying amount is dissolved through profit or loss over the remaining term using the effective interest method.

Cash flow hedges
For derivatives that are designated and qualify as cash flow hedges, changes in value of the hedging instrument are recognized on a continuous basis in other comprehensive income for the part relating to the effective portion of the hedges. Gain or loss arising from ineffective portions of derivatives is recognized directly in the income statement under financial items. When a hedging instrument expires, is sold or no longer qualifies for hedge accounting, and accumulated gains or losses relating to the hedge are recognized in equity, these gains/losses remain in equity and are taken to income, while the forecast transaction is finally recognized in the income statement. When a forecast transaction is no longer expected to occur, the accumulated gain or loss recognized in equity is immediately transferred to Other comprehensive income in the income statement. When a forecast transaction is no longer expected to occur, the gain or loss recognized in Other comprehensive income is recognized directly under financial items.

Net investment hedges
For derivatives that are designated and qualify as net investment hedges, the portion of value changes in fair value designated as effective is recognized in other comprehensive income. The ineffective portion of the gain or loss is recognized directly in profit or loss for the period under financial items. Accumulated gain or loss in other comprehensive income is recognized in the income statement when the foreign operation, or part thereof, is sold.

Provisions
A provision is recognized when the Group has a legal or constructive obligation resulting from a past event and it is probable that an outflow of resources will be required to settle the obligation, and that a reliable estimate of the amount can be made. Provisions are recognized at a value equivalent to the outflow of resources that will probably be required to settle the obligation. The amount of a provision is discounted to present value where the effect of time value is considered material.

Assets and liabilities of a disposal group classified as held for sale
Assets and liabilities are classified as held for sale when their carrying amounts will principally be recovered through a sale and when such a sale is considered highly probable. They are recognized at the lower of carrying amount and fair value less selling expenses.

Employee benefits
The Group operates both defined contribution and defined benefit pension plans. Comprehensive defined benefit plans are found chiefly in the US, the UK and Germany. Post-employment medical benefits are also provided, mainly in the US, and are reported in the same way as defined benefit pension plans. Calculations relating to the Group's defined benefit plans are performed by independent actuaries and are based on a number of actuarial assumptions such as discount rate, future inflation and salary increases. Obligations are valued on the reporting date at their discounted value. For funded plans, obligations are reduced by the fair value of the plan assets. Actuarial gains and losses resulting from experience-based adjustments and changes in actuarial assumptions are recognized in other comprehensive income during the period they arise. The pension expense for defined benefit plans is spread over the employee's service period. The Group's payments relating to defined contribution pension plans are recognized as an expense in the period to which they relate, based on the services performed by the employee. Swedish Group companies calculate tax on pension costs on the difference between pension expense determined in accordance with IAS 19 and pension expense determined in accordance with the regulations applicable in the legal entity.

Equity-based incentive programs
The Group has equity-based remuneration plans in the form of ASSA ABLOY's long-term incentive program presented for the first time at the 2010 Annual General Meeting. For the long-term incentive program, personnel costs during the vesting period are recognized based on the shares' fair value on the allotment date, that is, when the company and the employees entered into an agreement on the terms and conditions for the program. The long-term incentive program comprises two parts: a matching part where the employee receives one share for every share the latter invests during the term of the program, and a performance-based part where the outcome is based on the company's financial results (EPS target) during the period. The program requires that the employee continues to invest in the long-term incentive program and that the latter remains employed in the ASSA ABLOY Group.

Fair value is based on the share price on the allotment date; a reduction in fair value relating to the anticipated dividend has not been made as the participants are compensated for this. The employees pay a price equivalent to the share price on the investment date. The vesting terms are not stock market based and affect the number of shares that ASSA ABLOY will give to the employee when matching. If an employee stops investing in the program, all remaining personnel costs are immediately recognized in the income statement. Personnel costs for shares relating to the performance-based program are calculated on each accounting date based on an assessment of the probability of the performance targets being achieved. The costs are calculated based on the number of shares that ASSA ABLOY expects to need to settle at the end of the vesting period. When matching shares, social security contributions must be paid in some countries to the value of the employee's benefit. This value is based on fair value on each accounting date and recognized as a provision for social security contributions.

The long-term incentive programs are essentially equity settled and an amount equivalent to the personnel cost is recognized against retained earnings in equity. In the income statement, the personnel cost is allocated to the respective function.

Note 1 cont.

Earnings per share

Earnings per share before dilution is calculated by dividing the net income attributable to the Parent company's shareholders by the weighted average number of outstanding shares (less treasury shares). Earnings per share after dilution is calculated by dividing the net income attributable to the Parent company's shareholders by the sum of the weighted average number of ordinary shares and potential ordinary shares that may give rise to a dilutive effect. The dilutive effect of potential ordinary shares is only recognized if their conversion to ordinary shares would lead to a reduction in earnings per share after dilution.

Dividend

Dividend is recognized as a liability after the Annual General Meeting has approved the dividend.

The Parent company

The Group's Parent company, ASSA ABLOY AB, is responsible for Group management and provides Group-wide functions. The Parent company's revenue consists of intra-Group franchise and royalty revenues. The significant balance sheet items consist of shares in subsidiaries, intra-Group recei-vables and liabilities, and external borrowing. The Parent company has prepared its annual accounts in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's RFR 2 Accounting for Legal Entities. RFR 2 requires the Parent company, in its annual accounts, to apply all the International Financial Reporting Standards (IFRS) endorsed by the EU in so far as this is possible within the framework of the Annual Accounts Act and with regard to the relationship between accounting and taxation. The recommendation states which exceptions from and additions to IFRS should be made.

Revenue

The Parent company's revenue consists of intra-Group franchise and royalty revenues. These are recognized in the income statement as 'Other operating income' to make clear that the Parent company has no product sales like other Group companies with external operations.

Pension obligations

The Parent company's pension obligations are accounted for in accordance with FAR RedR 4 and are covered by taking out insurance with an insurance company.

Dividend

Dividend revenue is recognized when the right to receive payment is considered certain.

Research and development costs

Research and development costs are expensed as incurred.

Intangible assets

Intangible assets comprise patented technology and other intangible assets. They are amortized over 4–5 years.

Tangible assets

Tangible assets owned by the Parent company are recognized at cost less accumulated depreciation and any impairment losses in the same way as for the Group. They are depreciated over their estimated useful life, which is 5–10 years for equipment and 4 years for IT equipment.

Leasing

In the Parent company all lease agreements are classified as rental agreements (operating leases) irrespective of whether they are financial or operating leases.

Shares in subsidiaries

Shares in subsidiaries are recognized at cost less impairment losses. When there is an indication that the value of shares and interests in subsidiaries or associates has fallen, the recoverable amount is calculated. If this is lower than the carrying amount, an impairment loss is recognized. Impairment losses are recognized in Financial expenses in the income statement.

Financial instruments

Derivative instruments are recognized at fair value. Changes in the value of derivatives are recognized in profit or loss.

Group contributions

The Parent company recognizes Group contributions in accordance with RFR 2. Group contributions received and paid are recognized under appropriations in the income statement. The tax effect of Group contributions is recognized in accordance with IAS 12 in the income statement.

Contingent liabilities

The Parent company has guarantees on behalf of its subsidiaries. Such an obligation is classified as a financial guarantee in accordance with IFRS. For these guarantees, the Parent company applies the alternative rule in RFR 2, reporting these guarantees as a contingent liability.

Note 2 Sales

Customer sales by country

	Group	
SEK M	2015	2016
USA	23,039	25,276
China	6,471	5,308
Sweden	3,579	3,895
France	3,261	3,510
United Kingdom	3,019	2,961
Germany	2,886	2,949
Canada	2,238	2,194
Australia	2,010	1,974
Netherlands	1,606	1,747
Finland	1,429	1,674
Norway	1,541	1,568
South Korea	1,317	1,395
Belgium	1,070	1,240
Denmark	1,043	1,066
Spain	874	997
Mexico	1,054	956
Switzerland	775	829
Brazil	526	822
Italy	718	762
Poland	629	639
Austria	582	596
United Arab Emirates	556	572
India	482	521
New Zealand	442	498
Czech Republic	518	425
Saudi Arabia	509	420
South Africa	335	384
Turkey	341	338
Chile	315	328
Hong Kong	257	282
Malaysia	224	274
Singapore	235	261
Israel	240	258
Thailand	210	244
Russia	216	242
Colombia	193	210
Philippines	139	199
Japan	145	194
Ireland	164	181
Romania	134	163
Portugal	170	159
Indonesia	181	137
Estonia	141	136
Hungary	126	129
Slovakia	166	121
Croatia	95	106
Macao	114	93
Taiwan	78	85
Kenya	90	80
Qatar	57	80
Other countries	1,558	1,819
Total	**68,099**	**71,293**

Sales by continent

	Group	
MSEK	2015	2016
Europe	25,443	26,869
North America	26,331	28,427
Central and South America	1,524	2,012
Africa	846	923
Asia	11,484	10,573
Pacific	2,470	2,490
Total	**68,099**	**71,293**

Sales by product group

	Group	
SEK M	2015	2016
Mechanical locks, lock systems and fittings	19,516	20,228
Entrance automation	17,992	19,693
Electromechanical and electronic locks	17,143	18,545
Security doors and hardware	13,448	12,828
Total	**68,099**	**71,293**

Note 3 Auditors' fees

	Group		Parent company	
SEK M	2015	2016	2015	2016
Audit assignment				
PwC	43	47	4	4
Other	12	13	–	–
Audit-related services in addition to audit assignment				
PwC	1	1	1	1
Tax advice				
PwC	13	9	1	1
Other	2	5	0	0
Other services				
PwC	14	20	1	1
Other	1	10	1	1
Total	**86**	**106**	**8**	**8**

Note 4 Other operating income and expenses

	Group	
SEK M	2015	2016
Rental income	7	12
Business-related taxes	–38	–33
Profit on sales of non-current assets	38	29
Transaction expenses from acquisitions	–80	–82
Exchange rate differences	–27	–30
Impairment operating assets etc., in China	–193	–708
Revaluated Earnout	284	440
Other, net	–1	162
Total	**–10**	**–210**

Parent company

Other operating income in the Parent company consists mainly of franchise and royalty revenues from subsidiaries.

Note 5 Share of earnings in associates

	Group	
SEK M	2015	2016
Agta Record AG	107	95
Goal Co., Ltd	16	23
SARA Loading Bay Ltd	1	–2
Saudi Crawford Doors Factory Ltd	10	10
Other	–	1
Total	**134**	**127**

The share of earnings in Agta Record AG has been estimated on the basis of the associated company's latest available financial report, which is the published Interim Report for the first half of 2016.

Note 6 Operating leases

	Group		Parent company	
SEK M	2015	2016	2015	2016
Lease payments during the year	891	895	12	14
Total	**891**	**895**	**12**	**14**
Nominal value of agreed future lease payments:				
Due for payment in:				
(2016) 2017	714	822	16	17
(2017) 2018	621	646	16	17
(2018) 2019	446	481	17	18
(2019) 2020	321	334	17	18
(2020) 2021	218	236	18	19
(2021) 2022 or later	245	316	18	19
Total	**2,565**	**2,835**	**103**	**107**

Lease payments during the year consist of fees for assets that are held as operating leases such as rented premises, machinery, and computer equipment. The Group has no single substantial operating leases since the lease agreements are spread over a large number of subsidiaries.

Note 7 Expenses by nature

In the income statement costs are broken down by function. Below, these same costs are broken down by nature:

	Group	
SEK M	2015	2016
Remuneration of employees (Note 33)	18,995	21,231
Direct material costs	25,128	26,067
Depreciation and amortization (Note 8, 14, 15)	1,433	1,580
Other purchase expenses	11,588	12,675
Total	**57,144**	**61,553**

Note 8 Depreciation and amortization

	Group		Parent company	
SEK M	2015	2016	2015	2016
Intangible assets	404	483	441	445
Machinery	529	534	–	–
Equipment	274	322	1	3
Buildings	219	235	–	–
Land improvements	6	7	–	–
Total	**1,433**	**1,580**	**442**	**448**

Note 9 Exchange differences in the income statement

	Group		Parent company	
SEK M	2015	2016	2015	2016
Exchange differences recognized in operating income	–27	–29	–6	–22
Exchange differences recognized in financial expenses (Note 11)	5	26	–245	–33
Total	**–22**	**–4**	**–251**	**–55**

Note 10 Financial income

	Group		Parent company	
SEK M	2015	2016	2015	2016
Earnings from investments in subsidiaries	–	–	1,538	1,556
Earnings from investments in associates	–	–	45	45
Intra-Group interest income	–	–	109	96
Other financial income	5	1	–	–
External interest income and similar items	17	8	0	–
Total	**22**	**9**	**1,691**	**1,697**

Note 11 Financial expenses

	Group		Parent company	
SEK M	2015	2016	2015	2016
Intra-Group interest expenses	–	–	–233	–251
Interest expenses, other liabilities[1]	–590	–598	–134	–120
Interest expenses, interest rate swaps	40	25	–	–
Interest expenses, foreign exchange forwards	–127	–120	–	–
Exchange rate differences on financial instruments	5	26	–245	–33
Fair value adjustments on shares and interests	–	–	–207	1
Other financial expenses	–47	–47	–29	–30
Total	**–719**	**–714**	**–849**	**–433**

[1] Of which –14 (164) is fair value adjustments on derivatives, non-hedge accounting, for the Group.

Note 12 Tax on income

	Group		Parent company	
SEK M	2015	2016	2015	2016
Current tax	–2,489	–2,570	–463	–573
Tax attributable to prior years	114	119	37	0
Foreign Coupon Tax	–4	–28	9	–
Deferred tax	–309	152	–	–
Total	**–2,689**	**–2,328**	**–416**	**–573**

Explanation for the difference between nominal Swedish tax rate and effective tax rate based on income before tax:

	Group		Parent company	
Percent	2015	2016	2015	2016
Swedish rate of tax on income	22	22	22	22
Effect of foreign tax rates	8	8	–	–
Non-taxable income/non-deductible expenses, net	–1	–1	–9	–8
Utilized loss carry-forward not recognized in prior period	–1	–1	–	–
Other	–2	–2	–	–
Effective tax rate in income statement	**26**	**26**	**13**	**14**

Note 13 Earnings per share

Earnings per share before and after dilution

	Group	
SEK M	2015	2016
Earnings attributable to the Parent company's shareholders	7,693	6,651
Net profit	7,693	6,651
Weighted average number of shares issued (thousands)	1,110,776	1,110,776
Earnings per share (SEK per share)	**6.93**	**5.99**
of which from continuing operations	*6.93*	*5.96*
of which from discontinued operations	*–*	*0.03*

None of the Group's outstanding long-term incentive programs are expected to result in significant dilution in the future.

Earnings per share before and after dilution excluding items affecting comparability

	Group	
SEK M	2015	2016
Earnings attributable to the Parent company's shareholders	7,693	6,651
Items affecting comparability, after tax[1]	–	1,221
Net profit	7,693	7,872
Weighted average number of shares issued (thousands)	1,110,776	1,110,776
Earnings per share excluding items affecting comparability (SEK per share)	**6.93**	**7.09**
of which from continuing operations	*6.93*	*7.06*
of which from discontinued operations	*–*	*0.03*

[1] Items affecting comparability consist of restructuring costs.

Note 14 Intangible assets

2016, SEK M	Group: Goodwill	Group: Brands	Group: Other intangible assets	Group: Total	Parent company: Intangible assets
Opening accumulated acquisition cost	**42,838**	**6,201**	**5,847**	**54,885**	**3,161**
Purchases	–	2	416	419	196
Acquisitions of subsidiaries	2,451	0	69	2,520	–
Sales, disposals and adjustments	–	–	–30	–30	–
Reclassifications	–	0	90	90	–
Exchange rate differences	2,321	247	352	2,920	–
Closing accumulated acquisition cost	**47,609**	**6,451**	**6,743**	**60,804**	**3,357**
Opening accumulated amortization/impairment	**–61**	**–98**	**–2,864**	**–3,022**	**–2,504**
Sales, disposals and adjustments	–	–	28	28	–
Reclassifications	–	–	–5	–5	–
Amortization	–	0	–482	–483	–445
Exchange rate differences	–5	0	–221	–227	–
Closing accumulated amortization/impairment	**–65**	**–98**	**–3,544**	**–3,708**	**–2,949**
Carrying amount	**47,544**	**6,353**	**3,199**	**57,096**	**408**

2015, SEK M	Group: Goodwill	Group: Brands	Group: Other intangible assets	Group: Total	Parent company: Intangible assets
Opening accumulated acquisition cost	**39,842**	**5,497**	**4,238**	**49,577**	**3,125**
Purchases	–	0	365	365	37
Acquisitions of subsidiaries	2,485	518	787	3,790	–
Sales, disposals and adjustments	–	–	44	44	–
Reclassifications	–	92	350	442	–
Exchange rate differences	511	94	61	667	–
Closing accumulated acquisition cost	**42,838**	**6,201**	**5,847**	**54,886**	**3,161**
Opening accumulated amortization/impairment	**–63**	**–33**	**–2,424**	**–2,520**	**–2,063**
Sales, disposals and adjustments	–	–	–47	–47	–
Reclassifications	–	–62	57	–5	–
Amortization	–	–3	–402	–404	–441
Exchange rate differences	3	–1	–48	–46	–
Closing accumulated amortization/impairment	**–61**	**–98**	**–2,864**	**–3,022**	**–2,504**
Carrying amount	**42,777**	**6,103**	**2,983**	**51,863**	**657**

Other intangible assets consist mainly of customer relations and technology. The carrying amount of intangible assets with an indefinite useful life, excluding goodwill, amounts to SEK 6,305 M (6,060) and relates to brands.

Useful life has been defined as indefinite where the time period, during which an asset is deemed to contribute economic benefits, cannot be determined.

Amortization and impairment of intangible assets are mainly recognized as cost of goods sold in the income statement.

Impairment testing of goodwill and intangible assets with indefinite useful life

Goodwill and intangible assets with an indefinite useful life are allocated to the Group's Cash Generating Units (CGUs), which consist of the Group's five divisions.

For each cash-generating unit, the Group annually tests goodwill and intangible assets with an indefinite useful life for impairment, in accordance with the accounting principle described in Note 1. Recoverable amounts for Cash Generating Units have been determined by calculating value in use. These calculations are based on estimated future cash flows, which in turn are based on financial budgets for a three-year period approved by management. Cash flows beyond the three-year period are extrapolated using estimated growth rates according to the information below.

Material assumptions used to calculate values in use:

- Budgeted operating margin.
- Growth rate for extrapolating cash flows beyond the budget period.
- Discount rate after tax used for estimated future cash flows.

Management has determined the budgeted operating margin based on previous results and expectations of future market development. A growth rate of 3 percent (3) has been used for all CGUs to extrapolate cash flows beyond the budget period. This growth rate is considered to be a conservative estimate. Further, an average discount rate in local currency after tax has been used in the calculations. The difference in value compared with using a discount rate before tax is not deemed to be material. The discount rate has been determined by calculating the weighted average cost of capital (WACC) for each division.

Note 14 cont.

2016

Overall, the discount rate after tax used varied between 8.0 and 9.0 percent (EMEA 8.0 percent, Americas 8.0 percent, Asia Pacific 9.0 percent, Global Technologies 8.0 percent and Entrance Systems 8.0 percent).

Goodwill and intangible assets with an indefinite useful life were allocated to the Cash Generating Units as summarized in the following table:

2016, SEK M	EMEA	Americas	Asia Pacific	Global Technologies	Entrance Systems	Total
Goodwill	8,348	11,012	7,920	8,784	11,480	47,544
Intangible assets with indefinite useful life	218	809	1,862	623	2,793	6,305
Total	**8,566**	**11,821**	**9,782**	**9,407**	**14,273**	**53,849**

2015

Overall, the discount rate after tax used varied between 9.0 and 10.0 percent (EMEA 9.0 percent, Americas 9.0 percent, Asia Pacific 10.0 percent, Global Technologies 10.0 percent and Entrance Systems 9.0 percent).

Goodwill and intangible assets with an indefinite useful life were allocated to the Cash Generating Units as summarized in the following table:

2015, SEK M	EMEA	Americas	Asia Pacific	Global Technologies	Entrance Systems	Total
Goodwill	7,857	9,903	7,690	7,437	9,891	42,777
Intangible assets with indefinite useful life	213	741	1,825	572	2,708	6,060
Total	**8,070**	**10,644**	**9,515**	**8,009**	**12,599**	**48,837**

Sensitivity analysis

A sensitivity analysis has been carried out for each cash-generating unit. The results of this analysis are summarized below.

2016

If the estimated operating margin after the end of the budget period had been one percentage point lower than the management's estimate, the total recoverable amount would be 6 percent lower (EMEA 6 percent, Americas 4 percent, Asia Pacific 7 percent, Global Technologies 5 percent, and Entrance Systems 7 percent).

If the estimated growth rate used to extrapolate cash flows beyond the budget period had been one percentage point lower than the basic assumption of 3 percent, the total recoverable amount would be 15 percent lower (EMEA 15 percent, Americas 15 percent, Asia Pacific 13 percent, Global Technologies 15 percent, and Entrance Systems 15 percent).

If the estimated weighted capital cost used for the Group's discounted cash flows had been one percentage point higher than the basic assumption of 8.0 to 9.0 percent, the total recoverable amount would be 17 percent lower (EMEA 17 percent, Americas 17 percent, Asia Pacific 15 percent, Global Technologies 17 percent, and Entrance Systems 17 percent).

These calculations are hypothetical and should not be viewed as an indication that these factors are any more or less likely to change. The sensitivity analysis should therefore be interpreted with caution.

None of the hypothetical cases above would lead to an impairment of goodwill in an individual Cash Generating Unit.

2015

If the estimated operating margin after the end of the budget period had been one percentage point lower than the management's estimate, the total recoverable amount would be 6 percent lower (EMEA 6 percent, Americas 4 percent, Asia Pacific 6 percent, Global Technologies 5 percent, and Entrance Systems 7 percent).

If the estimated growth rate used to extrapolate cash flows beyond the budget period had been one percentage point lower than the basic assumption of 3 percent, the total recoverable amount would be 13 percent lower (EMEA 13 percent, Americas 13 percent, Asia Pacific 11 percent, Global Technologies 11 percent, and Entrance Systems 13 percent).

If the estimated weighted capital cost used for the Group's discounted cash flows had been one percentage point higher than the basic assumption of 9.0 to 10.0 percent, the total recoverable amount would be 14 percent lower (EMEA 14 percent, Americas 14 percent, Asia Pacific 12 percent, Global Technologies 13 percent, and Entrance Systems 14 percent).

These calculations are hypothetical and should not be viewed as an indication that these factors are any more or less likely to change. The sensitivity analysis should therefore be interpreted with caution.

None of the hypothetical cases above would lead to an impairment of goodwill in an individual Cash Generating Unit.

Note 15 Property, plant and equipment

2016, SEK M	Group: Buildings	Land and land improve-ments	Machinery	Equipment	Construc-tion in progress	Total	Parent company: Equipment
Opening accumulated acquisition cost	**5,326**	**1,106**	**8,578**	**3,168**	**636**	**18,814**	**23**
Purchases	90	3	188	210	665	1,156	28
Acquisitions of subsidiaries	248	17	53	33	5	355	–
Disposals of subsidiaries	–4	–0	–82	–38	–11	–135	–
Sales and disposals	–63	–16	–36	–77	–17	–209	–
Reclassifications	186	40	333	104	–752	–89	–
Exchange rate differences	360	66	732	262	37	1,459	–
Closing accumulated acquisition cost	**6,143**	**1,215**	**9,766**	**3,663**	**564**	**21,351**	**51**
Opening accumulated depreciation and impairment	**–2,441**	**–135**	**–6,348**	**–2,327**	**–**	**–11,252**	**–18**
Sales and disposals	41	10	28	65	–	144	–
Disposals of subsidiaries	0	–	47	22	–	69	–
Impairment	–17	–	–94	–53	–	–165	–
Depreciation	–235	–7	–534	–322	–	–1,097	–3
Reclassifications	–102	0	85	21	–	4	–
Exchange rate differences	–183	–6	–583	–217	–	–989	–
Closing accumulated depreciation and impairment	**–2,937**	**–138**	**–7,399**	**–2,811**	**–**	**–13,286**	**–21**
Carrying amount	**3,205**	**1,078**	**2,366**	**853**	**564**	**8,066**	**30**

2015, SEK M	Group: Buildings	Land and land improve-ments	Machinery	Equipment	Construc-tion in progress	Total	Parent company: Equipment
Opening accumulated acquisition cost	**5,210**	**1,210**	**8,039**	**2,833**	**903**	**18,195**	**19**
Purchases	43	3	232	228	684	1,190	4
Acquisitions of subsidiaries	61	31	101	35	1	229	–
Sales and disposals	–77	–119	–133	–22	–6	–357	–
Reclassifications	67	–	330	125	–970	–448	–
Exchange rate differences	22	–19	9	–31	24	5	–
Closing accumulated acquisition cost	**5,326**	**1,106**	**8,578**	**3,168**	**636**	**18,814**	**23**
Opening accumulated depreciation and impairment	**–2,286**	**–211**	**–5,877**	**–2,110**	**–**	**–10,484**	**–17**
Sales and disposals	46	83	65	22	–	216	–
Impairment	6	–6	–7	1	–	–6	–
Depreciation	–219	–6	–529	–274	–	–1,029	–1
Reclassifications	3	–	–2	4	–	5	–
Exchange rate differences	9	5	2	30	–	46	–
Closing accumulated depreciation and impairment	**–2,441**	**–135**	**–6,348**	**–2,327**	**–**	**–11,252**	**–18**
Carrying amount	**2,885**	**971**	**2,230**	**841**	**636**	**7,562**	**5**

Impairment losses for the year totaled SEK 165 M, of which SEK 151 M related to the restructuring program initiated during the year.

Note 16 Shares in subsidiaries

Company name	Corporate identity number, Registered office	Parent company: Number of shares	Share of equity, %	Carrying amount, SEK M
ASSA Sverige AB	556061-8455, Eskilstuna	70	100	197
ASSA ABLOY Entrance Systems AB	556204-8511, Landskrona	1,000	100	192
ASSA ABLOY Kredit AB	556047-9148, Stockholm	400	100	6,036
ASSA ABLOY Försäkrings AB	516406-0740, Stockholm	60,000	100	145
ASSA ABLOY Asia Holding AB	556602-4500, Stockholm	1,000	100	189
ASSA ABLOY OY	1094741-7, Joensuu	800,000	100	4,257
ASSA ABLOY Norge A/S	979207476, Moss	150,000	100	538
ASSA ABLOY Danmark A/S	CVR 10050316, Herlev	60,500	100	376
ASSA ABLOY Deutschland GmbH	HR B 66227, Berlin	1	100	1,086
ASSA ABLOY Nederland Holding B.V.	52153924, Raamsdonksveer	180	100	771
Pan Pan DOOR Co LTD	210800004058002, Dashiqiao	–	66[1]	2,228
ASSA ABLOY France SAS	412140907, R.C.S. Versailles	15,184,271	100	1,964
Interlock Holding AG	CH-020.3.913.588-8, Zürich	211,000	98[1]	0
HID Global Switzerland S.A.	CH-232-0730018-2, Granges	2,500	100	47
ASSA ABLOY Holding GmbH	FN 273601f, A-6175, Kematen	1	100	109
ASSA ABLOY Ltd	2096505, Willenhall	1,330,000	100	3,077
HID Global Ireland Teoranta	364896, Galway	501,000	100	293
Mul-T-Lock Ltd	520036583, Yavne	13,787,856	90[1]	901
ASSA ABLOY Holdings (SA) Ltd	1948/030356/06, Roodepoort	100,220	100	184
ASSA ABLOY Inc	039347-83, Oregon	100	100	2,237
Fleming Door Products, Ltd	147126, Ontario	25,846,600	100	0
ABLOY Canada Inc.	1148165260, Montreal	1	100	0
ASSA ABLOY Door Group ,Inc.	814406948 RC0001, Ontario	1	100	17
ASSA ABLOY Australia Pacific Pty Ltd	ACN 095354582, Oakleigh, Victoria	48,190,000	100	242
Cerramex, S.A de C.V	CER8805099Y6, Mexico	4	0	0
ASSA ABLOY Mexico, S.A de CV	AAM961204CI1, Mexico	50,108,549	100	762
Cerraduras y Candados Phillips S.A de C.V	CCP910506LK2, Mexico	112	0	0
Cerraduras de Colombia S.A.	860009826-8, Bogota	2,201,670	71[1]	142
WHAIG Limited	EC21330, Bermuda	100,100	100	303
ASSA ABLOY Asia Pacific Ltd	53451, Hong Kong	1,000,000	100	72
Cardo AB	556026-8517, Malmö	27,000,000	100	5,093
ASSA ABLOY Portugal, Unipessoal, Lda (Portugal)	PT500243700, Alfragide	1	100	0
ASSA ABLOY Mobile Services AB	556909-5929, Stockholm	50,000	100	25
ASSA ABLOY Holding Italia S.p.A.	IT01254420597, Rome	650,000	100	974
HID SA (Argentina)	CUIT 30-61783980-2, Buenos Aires	2,400	2[1]	0
HID Global SAS	FR21341213411, Nanterre	1,000,000	100	82
Dynaco US Inc	2979272, Illinois	850	100	309
CEDES Holding AG	CHE-101.321-677, Landquart	300,000	100	673
ASSA ABLOY East Africa Ltd	C.20402, Nairobi	13,500	100	90
Total				**33,611**

[1] The Group's holdings amount to 100 percent.

Note 17 Investments in associates

2016 Company name	Country of registration	Group: Number of shares	Share of equity, %	Carrying amount, SEK M
Agta Record AG	Switzerland	5,166,945	39	1,586
Goal Co., Ltd	Japan	2,778,790	46	496
SARA Loading Bay Ltd	United Kingdom	4,990	50	14
Talleres Agui S.A.	Spain	4,800	40	8
Saudi Crawford Doors Ltd	Saudi Arabia	800	40	5
Other				1
Total				**2,109**

The share of equity in Agta Record AG has been estimated on the basis of the associated company's latest available financial report, which is the published Interim Report for the first half of 2016. For the period January to June, the company's revenue totaled SEK 1,542 M (1,391) and income after tax was SEK 78 M (65). The company's assets totaled SEK 3,127 M (2,736) and total liabilities amounted to SEK 1,148 M (850).

2015 Company name	Country of registration	Group: Number of shares	Share of equity, %	Carrying amount, SEK M
Agta Record AG	Switzerland	5,166,945	39	1,430
Goal Co., Ltd	Japan	2,778,790	46	452
SARA Loading Bay Ltd	United Kingdom	4,990	50	14
Talleres Agui S.A.	Spain	4,800	40	8
Saudi Crawford Doors Ltd	Saudi Arabia	800	40	5
Other				1
Total				**1,910**

Note 18 Deferred tax

SEK M	Group 2015	Group 2016
Deferred tax assets		
Property, plant and equipment and intangible assets	203	120
Pensions	514	550
Tax losses and other tax credits	356	378
Other deferred tax assets	361	851
Deferred tax assets	1,434	1,899
Deferred tax liabilities		
Property, plant and equipment and intangible assets	1,566	1,660
Other deferred tax liabilities	465	684
Deferred tax liabilities	2,031	2,344
Deferred tax assets, net	**–597**	**–445**

Change in deferred tax		
Opening balance	93	–597
Acquisitions of subsidiaries, net	–365	15
Recognized in income statement	–309	152
Deferred tax from actuarial gain/loss on post-employment benefit obligations	–33	36
Exchange rate differences	17	–51
Closing balance	**–597**	**–445**

The Group has tax loss carryforwards of SEK 1,291 M (1,626) for which deferred tax assets have not been recognized, as it is uncertain whether they can be offset against taxable income in future taxation.

Note 19 Other financial assets

SEK M	Group 2015	Group 2016	Parent company 2015	Parent company 2016
Investments in associates	–	–	1,621	1,621
Other shares and interests	11	11	–	–
Interest-bearing non-current receivables	30	41	–	–
Other non-current receivables	36	34	–	–
Total	**77**	**86**	**1,621**	**1,621**

Note 20 Inventories

SEK M	Group 2015	Group 2016
Materials and supplies	2,430	2,744
Work in progress	1,723	1,959
Finished goods	3,874	4,531
Advances paid	320	331
Total	**8,348**	**9,565**

Impairment of inventories amounted to SEK 278 M (139).

Note 21 Trade receivables

SEK M	Group 2015	Group 2016
Trade receivables	12,532	13,608
Provision for bad debts	–758	–959
Total	**11,775**	**12,648**

Maturity analysis		
Trade receivables not due	**8,308**	**8,916**
Trade receivables due not impaired:		
< 3 months	2,982	3,024
3–12 months	660	898
> 12 months	582	769
	4,224	**4,691**
Impaired trade receivables:		
< 3 months	–78	–111
3–12 months	–121	–171
> 12 months	–558	–677
	–758	**–959**
Total	**11,775**	**12,648**

Trade receivables per currency	**2015**	**2016**
USD	3,644	4,320
EUR	2,669	2,979
CNY	2,060	1,480
SEK	493	595
GBP	509	514
CAD	287	324
AUD	305	219
Other currencies	1,808	2,217
Total	**11,775**	**12,648**

Current year change in provision for bad debts	**2015**	**2016**
Opening balance	620	758
Acquisitions and disposals	54	18
Receivables written off	–89	–84
Reversal of unused amounts	–37	–80
Provision for bad debts	212	299
Exchange rate differences	–2	49
Closing balance	**758**	**959**

Note 22 Parent company's equity

The Parent company's equity is split between restricted and non-restricted equity. Restricted equity consists of share capital, revaluation reserve, statutory reserve and the fair value reserve. The statutory reserve contains premiums (amounts received from share issues that exceed the nominal value of the shares) relating to shares issued up to 2005.

Non-restricted equity consists of share premium reserves, retained earnings and net income for the year.

Note 23 Share capital, number of shares and dividend per share

	Number of shares (thousands) Series A	Series B	Total	Share capital, SEK K
Opening balance at 1 January 2015	19,175	351,684	370,859	370,859
Stock split	38,350	703,368	741,718	
Closing balance at 31 December 2015	**57,525**	**1,055,052**	**1,112,576**	**370,859**
Number of votes, thousands	575,259	1,055,052	1,630,311	
Opening balance at 1 January 2016	57,525	1,055,052	1,112,576	370,859
Closing balance at 31 December 2016	**57,525**	**1,055,052**	**1,112,576**	**370,859**
Number of votes, thousands	575,259	1,055,052	1,630,311	

All shares have a par value of around SEK 0.33 (0.33) and give shareholders equal rights to the company's assets and earnings. All shares are entitled to dividends subsequently determined. Each Series A share carries ten votes and each Series B share one vote. All issued shares are fully paid.

The weighted average number of shares was 1,110,776 (1,110,776) during the year. None of the Group's outstanding long-term incentive programs are expected to result in significant dilution in the future.

The total number of treasury shares as at 31 December 2016 amounted to 1,800,000. No shares have been repurchased during the year.

Dividend per share

The dividend paid during the financial year totaled SEK 2,944 M (2,407), equivalent to SEK 2.65 (2.17) per share. A dividend for 2016 of SEK 3.00 per share, a total of SEK 3,332 M, will be proposed at the Annual General Meeting on Wednesday, 26 April 2017.

Note 24 Post-employment employee benefits

Post-employment employee benefits include pensions and medical benefits. Pension plans are classified as either defined benefit plans or defined contribution plans. Pension obligations in the balance sheet mainly relate to defined benefit plans. ASSA ABLOY has defined benefit pension plans in a number of countries, with those in the US, the UK and Germany being the most significant.

The defined benefit plans in the US and the UK are secured by assets in pension funds, while the plans in Germany are chiefly unfunded. In the US, there are also unfunded plans for post-employment medical benefits.

The operations of pension funds are regulated by national regulations and practice. The responsibility for monitoring the pension plans and their assets rests mainly with the boards of the pension funds, but can also rest more directly with the company. The Group has an overall policy for the limits within which asset allocation should be made. Each pension fund adjusts its local asset allocation according to the nature of the local pension obligation, particularly the remaining term and the breakdown between active members and pensioners. The Group has not changed the processes used for managing these risks compared with previous periods.

The investments are well diversified so that depreciation of an individual investment should not have any material impact on the plan assets. The majority of assets are invested in shares as the Group considers that shares produce the best long-term return at an acceptable risk level. The total allocation to shares should not, however, exceed 60 percent of total assets. Fixed income assets are invested in a combination of ordinary government bonds and corporate bonds but also in inflation-indexed bonds. The average term of these is normally somewhat shorter than the term of the underlying liability. Bonds should not account for less than 30 percent of assets. A small proportion of assets is also invested in real estate and alternative investments, mainly hedge funds.

As at 31 December 2016, shares accounted for 44 percent (45) and fixed income securities for 33 percent (34) of plan assets, while other assets accounted for 23 percent (22). The actual return on plan assets in 2016 was SEK 544 M (40).

Amounts recognized in the income statement

Pension costs, SEK M	2015	2016
Defined contribution pension plans	479	576
Defined benefit pension plans	164	168
Post-employment medical benefit plans	31	32
Total	**674**	**777**
of which, included in:		
Operating income	577	685
Net financial items	96	92

Amounts recognized in the balance sheet

Pension provisions, SEK M	2015	2016
Provisions for defined benefit pension plans	2,163	2,497
Provisions for post-employment medical benefits	582	610
Provisions for defined contribution pension plans	16	14
Total	**2,761**	**3,121**

Pensions with Alecta

Commitments for old-age pensions and family pensions for salaried employees in Sweden are secured in part through insurance with Alecta. According to UFR 10, this is a defined benefit plan that covers many employers. For the 2016 financial year, the company has not had access to information making it possible to report this plan as a defined benefit plan. Pension plans in accordance with ITP secured through insurance with Alecta are therefore reported as defined contribution plans. The year's pension contributions that are contracted to Alecta total SEK 31 M (27), of which SEK 11 M (11) relates to the Parent company. Pension contributions are expected to remain largely unchanged in 2017.

Alecta's surplus can be distributed to policyholders and/or the insured. As at 30 September 2016, Alecta's surplus expressed as the collective consolidation level amounted preliminarily to 142 percent (153 percent as at 30 December 2015). The collective consolidation level consists of the market value of Alecta's assets as a percentage of its insurance commitments calculated according to Alecta's actuarial calculation assumptions, which do not comply with IAS 19. The collective consolidation level is normally allowed to vary between 125 and 155 percent. If the consolidation level deviates from this range, measures in the form of an adjustment of the premium level should be taken to return to the normal range.

Specification of defined benefit pension plans, post-employment medical benefits and plan assets by country

	United Kingdom		Germany		USA		Other countries		Total	
Specification of defined benefits, SEK M	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Present value of funded obligations	2,617	2,859	89	103	1,998	2,166	980	1,268	5,684	6,397
Fair value of plan assets	–2,370	–2,543	–23	–23	–1,577	–1,629	–690	–870	–4,660	–5,063
Net value of funded plans	*247*	*317*	*67*	*81*	*421*	*538*	*290*	*398*	*1,024*	*1,333*
Present value of unfunded obligations	–	–	643	680	–	–	496	484	1,138	1,164
Present value of unfunded medical benefits	–	–	–	–	578	606	4	5	582	610
Net value of defined benefit pension plans	**247**	**317**	**709**	**761**	**999**	**1,143**	**790**	**886**	**2,745**	**3,107**
Provisions for defined contribution pension plans	–	–	–	–	–	–	16	14	16	14
Total	**247**	**317**	**709**	**761**	**999**	**1,143**	**806**	**900**	**2,761**	**3,121**

Note 24 cont.

Movement in obligations

2016, SEK M	Post-employ-ment medical benefits	Defined benefit pension plans	Plan assets	Total
Opening balance at 1 January 2016	**582**	**6,823**	**–4,660**	**2,745**
Acquisitions/disposals	–	166	–115	51
Reclassifications	–	27	–	27
Recognized in the income statement:				
Current service cost	6	115	–	121
Past service cost	0	–4	–	–3
Impairment/reversal of pension receivables	–	–9	–	–9
Interest expense/income	26	227	–161	92
Total recognized in the income statement	**32**	**329**	**–161**	**201**
Recognized in other comprehensive income:				
Return on plan assets, excluding amounts included above	–	–	–383	–383
Gain/loss from change in demographic assumptions	–19	–26	–	–45
Gain/loss from change in financial assumptions	–	663	–	663
Experience-based gains/losses	–	–97	–	–97
Remeasurement of net pension obligations	**–19**	**539**	**–383**	**138**
Exchange rate differences	51	24	50	125
Total recognized in other comprehensive income	**51**	**24**	**50**	**125**
Contributions and payments:				
Employer contributions	–	–	–66	–66
Employee contributions	0	17	–23	–5
Payments	–37	–352	281	–108
Controls	–	–13	13	–
Total payments	**–37**	**–347**	**205**	**–179**
Closing balance at 31 December 2016	**610**	**7,560**	**–5,063**	**3,107**

2015, SEK M	Post-employ-ment medical benefits	Defined benefit pension plans	Plan assets	Total
Opening balance at 1 January 2015	**554**	**6,427**	**–4,103**	**2,877**
Acquisitions/disposals	–	148	–123	25
Reclassifications	–	347	–301	47
Recognized in the income statement:				
Current service cost	7	98	–	106
Past service cost	–	–8	–	–8
Interest expense/income	23	233	–160	96
Total recognized in the income statement	**31**	**324**	**–160**	**194**
Recognized in other comprehensive income:				
Return on plan assets, excluding amounts included above	–	–	121	121
Gain/loss from change in demographic assumptions	–	–38	–	–38
Gain/loss from change in financial assumptions	–10	–207	–	–217
Experience-based gains/losses	–	–16	–	–16
Remeasurement of net pension obligations	**–10**	**–261**	**121**	**–150**
Exchange rate differences	36	127	–133	30
Total recognized in other comprehensive income	**26**	**–134**	**–12**	**–120**
Contributions and payments:				
Employer contributions	–	–	–203	–203
Employee contributions	0	12	–17	–4
Payments	–28	–302	258	–72
Total payments	**–28**	**–290**	**39**	**–279**
Closing balance at 31 December 2015	**582**	**6,823**	**–4,660**	**2,745**

Plan assets allocation

Plan assets	2015	2016
Publicly traded shares	2,077	2,237
Government bonds	659	630
Corporate bonds	689	719
Inflation-linked bonds	228	297
Property	314	319
Cash and cash equivalents	32	40
Alternative investments	93	101
Other assets	568	720
Total	**4,660**	**5,063**

Note 24 cont.

Key actuarial assumptions

Key actuarial assumptions (weighted average), %	United Kingdom 2015	United Kingdom 2016	Germany 2015	Germany 2016	USA 2015	USA 2016
Discount rate	3.8	2.7	2.2	1.6	4.4	4.2
Expected annual salary increases	n/a	n/a	2.8	2.8	n/a	n/a
Expected annual pension increases	1.9	2.1	1.3	1.3	2.0	2.0
Expected annual medical benefit increases	n/a	n/a	n/a	n/a	6.9	6.6
Expected annual inflation	2.0	2.4	1.3	1.3	3.0	3.0

Sensitivity analysis of defined benefit obligations and post-employment medical benefits

The effect on defined benefit obligations and post-employment medical benefits of a 1 percentage change in some actuarial assumptions, change in percent	+1.0%	–1.0%
Discount rate	–16.1%	14.5%
Expected annual medical benefit increases	10.9%	–9.1%

Note 25 Other provisions

SEK M	Group: Restructuring reserve	Group: Other	Group: Total
Opening balance at 1 January 2015	**941**	**2,012**	**2,952**
Provisions for the year	–	262	262
Acquisitions of subsidiaries	–	88	88
Reversal of non-utilized amounts	–	–123	–123
Payments	–375	–458	–832
Utilized during the year, without cash flow impact	–12	–	–12
Exchange rate differences	–3	–7	–10
Closing balance at 31 December 2015	**551**	**1,773**	**2,324**

SEK M	Group: Restructuring reserve	Group: Other	Group: Total
Opening balance at 1 January 2016	**551**	**1,773**	**2,324**
Provisions for the year	1,597	103	1,700
Reclassifications	–	–30	–30
Acquisitions of subsidiaries	–	–47	–47
Disposals of subsidiaries	–17	–24	–41
Reversal of non-utilized amounts	–	–214	–214
Payments	–442	–405	–847
Utilized during the year, without cash flow impact	–151	–	–151
Exchange rate differences	34	17	51
Closing balance at 31 December 2016	**1,572**	**1,170**	**2,742**

Balance sheet breakdown:	Group 2015	Group 2016
Other non-current provisions	1,717	1,945
Other current provisions	607	797
Total	**2,324**	**2,742**

The restructuring reserve at year-end relates mainly to the ongoing restructuring program launched during the year. The cost of this program amounts to SEK 1,597 M and mainly relates to payments in connection with staff cutbacks. The breakdown of costs in the consolidated income statement is as follows: Cost of goods sold (SEK 1,151 M), Selling expenses (SEK 241 M), Administrative expenses (SEK 112 M) and Research and development costs (SEK 93 M). The restructuring reserve is expected to be used over the next two years. The non-current part of the reserve totaled SEK 815 M. For further information on the restructuring programs, see the Report of the Board of Directors.

Other provisions mainly relate to taxes and legal obligations including future environment-related measures.

Note 26 Other current liabilities

SEK M	Group 2015	Group 2016
VAT and excise duties	567	559
Employee withholding tax	92	100
Advances received	562	776
Social security contributions and other taxes	58	72
Deferred considerations	952	1,083
Other current liabilities	615	599
Total	**2,847**	**3,190**

Note 27 Accrued expenses and deferred income

SEK M	Group 2015	Group 2016	Parent company 2015	Parent company 2016
Personnel-related expenses	2,335	2,585	200	226
Customer-related expenses	678	992	–	–
Deferred income	345	439	–	–
Accrued interest expenses	108	107	61	51
Other	1,161	1,352	27	42
Total	**4,626**	**5,474**	**288**	**319**

Note 28 Contingent liabilities

SEK M	Group 2015	Group 2016	Parent company 2015	Parent company 2016
Guarantees	100	102	–	–
Guarantees on behalf of subsidiaries	–	–	11,249	12,048
Total	**100**	**102**	**11,249**	**12,048**

In addition to the guarantees shown in the table above, the Group has a large number of minor bank guarantees for performance of obligations in operating activities. No material liabilities are expected as a result of these guarantees.

Maturity profile – guarantees, SEK M	Group 2015	Group 2016
<1 year	31	44
>1<2 years	5	7
>2<5 years	42	35
>5 years	22	17
Total	**100**	**102**

Note 29 Assets pledged against liabilities to credit institutions

SEK M	Group 2015	Group 2016	Parent company 2015	Parent company 2016
Real estate mortgages	18	148	–	–
Other mortgages	63	113	–	–
Total	**81**	**261**	**–**	**–**

Note 30 Business combinations

SEK M	2015	2016
Purchase prices		
Cash paid for acquisitions during the year	2,690	2,388
Deferred considerations for acquisitions during the year	1,155	568
Adjustment of purchase prices for acquisitions in prior years	–10	–91
Total	**3,835**	**2,866**
Acquired assets and liabilities at fair value		
Intangible assets	1,305	69
Property, plant and equipment	229	355
Deferred tax assets	43	77
Other financial assets	1	6
Inventories	385	251
Current receivables and investments	673	291
Cash and cash equivalents	155	263
Non-controlling interest	–3	–
Deferred tax liabilities	–409	–46
Pension provisions	–25	–51
Other non-current liabilities	–109	–136
Current liabilities	–895	–665
Total	**1,350**	**415**
Goodwill	**2,485**	**2,451**
Cash paid for acquisitions during the year	2,690	2,388
Cash and cash equivalents in acquired subsidiaries	–155	–263
Paid deferred considerations for acquisitions in previous years	635	515
Change in cash and cash equivalents due to acquisitions	**3,171**	**2,640**
Net sales from acquisition date	908	1,067
EBIT from acquisition date	51	104
Net income from acquisition date	30	86

The table above includes fair value adjustments of acquired net assets from acquisitions made in previous years.

Acquisition analyses have been prepared for all acquisitions in 2016. The net sales of acquired units for 2016 totaled SEK 2,373 M (2,586) and net income amounted to SEK 186 M (85). Acquisition-related costs for 2016 totaled SEK 82 M (80) and have been reported as other operating expenses in the income statement.

See below for an account of some acquisitions completed in 2016 and 2015. No single acquisition is significant in terms of size and separate acquisition details are therefore not provided.

2016

CEDES

On 10 February 2016 the Group acquired 100 per cent of the share capital of the Swiss company CEDES, a leading company in sensor technology for the door and elevator industry.

The acquisition represents an important step in the strategy of adding more intelligence within entrance automation. Through the combination of different technologies this will lead to highly innovative and integrated solutions for the customers. The company is headquartered in Landquart, Switzerland.

Goodwill from the acquisition is mainly attributable to synergies and other intangible assets that do not fulfill the criteria for separate reporting.

Bluvision

On 30 November 2016 the Group acquired 100 per cent of the share capital of the Bluvision, a leading US Bluetooth Low Energy ("BLE") provider in the enterprise Internet of Things (IoT) market.

The company reinforces the current offering within identification technologies. The acquisition considerably enhances the Group's position within the enterprise IoT market and will provide complementary growth opportunities. The company is headquartered in Fort Lauderdale, Florida.

As at the balance sheet date the purchase price allocation is preliminary in terms of valuation of separately acquired intangible assets.

Other acquisitions

Other notable acquisitions during the year comprised Lighthouse (USA), Trojan (United Kingdom) and Construction Specialties (USA and Mexico).

2015

Quantum Secure

On 25 March 2015 the Group acquired 100 per cent of the share capital of Quantum Secure, the leading provider of solutions to help enterprises manage identities and meet compliance requirements in highly-regulated industries.

The acquisition reinforces the strategy of being the world leader in secure identity solutions. Quantum Secure takes ASSA ABLOY one step further in being able to provide the customers with an end to end identity management system. The company is headquartered in San Jose, California.

Intangible assets in the form of brand, customer relationship and technology have been disclosed. Residual goodwill is mainly attributable to synergies and other intangible assets that do not fulfill the criteria for separate reporting.

Other acquisitions

Other notable acquisitions during the year comprised Prometal (United Arab Emirates), Teamware (Malaysia), Flexim (Finland) and Papaiz and Udineze (Brazil).

Note 31 Profit from discontinued operations

	Group	
MSEK	**2015**	**2016**
Profit from discontinued operations		
Sales	–	449
Costs	–	–436
Profit from discontinued operations – before tax	**–**	**14**
Tax on income	–	–0
Profit from discontinued operations – after tax	**–**	**14**
Net income of disposal group classified as held for sale	–	14
Profit from discontinued operations	**–**	**28**
Cashflow from discontinued operations		
Cashflow from operating activities	–	5
Cashflow from investing activities	–	–10
Cashflow from financing activities	–	35
Cashflow from discontinued operations	**–**	**30**

In September the Group sold its car locks business (Car Locks). The car locks business was an independent operation within ASSA ABLOY, clearly distinguishable from the rest of the Group. In external reports during the year the business was classified as held for sale and reported in the Annual Report as a discontinued operation.

Note 32 Cash flow

	Group	
SEK M	**2015**	**2016**
Adjustments for non-cash items		
Profit on sales of non-current assets	–38	–29
Profit on sales of subsidiaries	–	33
Change in pension provision	98	109
Share of earnings in associates	–134	–127
Dividend from associates	52	45
Remeasurement of earn out provisions related to acquisitions	–284	–440
Other	37	54
Adjustments for non-cash items	**–269**	**–354**
Change in working capital		
Inventories increase/decrease (–/+)	–147	–551
Trade receivables increase/decrease (–/+)	–713	–61
Trade payables increase/decrease (+/–)	549	461
Other working capital increase/ decrease (–/+)	–189	213
Change in working capital	**–502**	**62**
Disposals of subsidiaries		
Purchase prices received, net	–	83
Cash and cash equivalents in acquired subsidiaries	–	–28
Change in consolidated cash and cash equivalents due to divestments	**–**	**55**

Note 33 Employees

Salaries, wages, other remuneration and social security costs

	Group		Parent company	
SEK M	**2015**	**2016**	**2015**	**2016**
Salaries, wages and other remuneration	14,805	16,536	192	204
Social security costs	4,190	4,694	117	115
– of which pensions	577	685	29	33
Total	**18,995**	**21,231**	**309**	**319**

Fees to Board members in 2016 (including committee work), SEK thousand

Name and post	Board	Remuneration Committee	Audit Committee	Total
Lars Renström, Chairman	1,850	150	–	2,000
Carl Douglas, Vice Chairman	800	–	–	800
Ulf Ewaldsson, Member	550	–	–	550
Eva Karlsson, Member	550	–	–	550
Birgitta Klasén, Member	550	–	–	550
Eva Lindqvist, Member	550	–	125	675
Johan Molin, President and CEO	–	–	–	–
Ulrik Svensson, Member	550	75	250	875
Jan Svensson, Member	550	75	125	750
Employee representatives (4)	–	–	–	–
Total	**5,950**	**300**	**500**	**6,750**

Total fees to Board members amounted to SEK 5.8 M in 2015.

Remuneration and other benefits of the Executive Team in 2016, SEK thousands

Name	Fixed salary	Variable salary	Stock-related benefits	Other benefits	Pension costs
Johan Molin, President and CEO	16,788	8,784	8,553	129	6,896
Other members of the Executive Team (8)	47,196	19,062	14,420	4,349	10,659
Total remuneration and benefits	**63,984**	**27,846**	**22,973**	**4,478**	**17,555**

Total remuneration and other benefits of the Executive Team amounted to SEK 133 M in 2015.

Salaries and remuneration for the Board of Directors and the Parent company's Executive Team

Salaries and remuneration for the Board of Directors and the Parent company's Executive Team totaled SEK 56 M (55), excluding pension costs and social security costs. Pension costs amounted to SEK 10 M (9). Pension obligations for several senior executives are secured through pledged endowment insurances.

Long-term incentive programs[1]

At the 2010 Annual General Meeting, it was decided to launch a long-term incentive program (LTI 2010) for senior executives and other key staff in the Group. The aim of LTI 2010 is to create the prerequisites for retaining and recruiting competent staff for the Group, providing competitive remuneration and uniting the interests of shareholders, senior executives and key staff.

At the 2011 to 2016 Annual General Meetings, it was decided to implement further long-term incentive programs for senior executives and other key staff in the Group. The new long-term incentive programs, named LTI 2011 to LTI 2016 have been drawn up with similar terms to LTI 2010.

For each Series B share acquired by the CEO within the framework of LTI 2014, LTI 2015 and LTI 2016, the company awards one matching stock option and four performance-based stock options. For each Series B share acquired by other members of the Executive Team, the company awards one matching stock option and three performance-based stock options. For other participants, the company awards one matching stock option and one performance-based stock option. In accordance with the terms of the incentive programs, employees have acquired a total of 413,406 shares in ASSA ABLOY AB, of which 127,884 shares were acquired in 2016 within the framework of LTI 2016.

Each matching stock option entitles the holder to receive one free Series B share in the company after three years, provided that the holder, with certain exceptions, is still employed in the Group when the interim report for Q1 2017, 2018 and 2019 for the respective program (LTI 2014–LTI 2016) is published, and has retained the shares acquired within the framework of the long-term incentive programs. Each performance-based stock option entitles the holder to receive one free Series B share in the company three years after allotment, provided that the above conditions have been fulfilled. In addition, the maximum level in a range determined by the Board of Directors for the performance of the company's earnings per share must have been fulfilled. The performance-based condition was 100 percent fulfilled for LTI 2014 and LTI 2015 and 67 percent for LTI 2016.

Outstanding matching and performance-based stock options for LTI 2016 total 363,482. The total number of outstanding matching and performance-based stock options for LTI 2014, LTI 2015 and LTI 2016 amounted to 1,072,307 on the reporting date of 31 December 2016.

Fair value is based on the share price on the allotment date. The present value calculation is based on data from an external party. Fair value is adjusted for participants who do not retain their holding of shares for the duration of the program. In the case of performance-based shares, the company assesses the probability of the performance targets being met when calculating the compensation expense.

The fair value of ASSA ABLOY's Series B share on the allotment date for LTI 2016 of 26 May 2016 was SEK 171.24. The fair value of ASSA ABLOY's Series B share on the allotment date for LTI 2015 of 28 May 2015 was SEK 169.50. The equivalent value on the allotment date for LTI 2014 of 21 May 2014 was SEK 112.86.

The total cost of the Group's long-term incentive programs (LTI 2013–LTI 2016) excluding social security costs amounted

[1] Number of shares and fair values have been recalculated for all historical periods reflecting the stock split in 2015.

Note 33 cont.

to SEK 42 M (39) in 2016. In April 2016 a redemption of LTI 2013 took place and 481,558 shares (703,782) at a total market value of SEK 80 M (121) were transferred to the participants of the program. Parts of the redemption of LTI 2013 were settled through endowment insurances. The payment for the transferred shares was recognized in equity.

Other equity-based incentive programs

ASSA ABLOY has previously issued a number of convertible debentures to employees in the Group. At year-end 2016, there were no outstanding convertible debentures issued to employees in the Group.

Notice and severance pay

If the CEO is given notice, the company is liable to pay the equivalent of 24 months' basic salary and other employment benefits. If one of the other members of the Executive Team is given notice, the company is liable to pay a maximum six months' basic salary and other employment benefits plus an additional 12 months' basic salary.

Average number of employees per country, broken down by gender

	Group					
	2015			2016		
	Total	of which women	of which men	**Total**	of which women	of which men
China	12,591	5,085	7,506	11,439	5,399	6,040
USA	9,202	2,563	6,639	9,711	2,567	7,143
Sweden	2,065	495	1,570	2,100	512	1,588
France	1,971	614	1,357	1,998	604	1,394
Brazil	792	205	588	1,648	519	1,130
Germany	1,612	467	1,145	1,623	473	1,150
United Kingdom	1,571	515	1,055	1,577	510	1,067
Mexico	1,360	417	943	1,394	428	966
Finland	1,147	368	779	1,278	368	910
Netherlands	1,029	155	875	997	147	850
Czech Republic	1,315	540	775	986	350	637
Malaysia	756	339	417	847	385	462
Romania	793	304	489	845	340	505
Canada	826	193	633	819	188	631
Norway	750	145	605	717	132	585
Australia	748	237	511	712	211	500
South Korea	681	231	450	712	267	445
Poland	561	115	446	589	119	470
Belgium	501	106	394	584	118	466
Switzerland	378	102	276	563	182	381
Spain	534	124	410	531	167	365
United Arab Emirates	253	17	236	475	34	441
Denmark	454	117	337	471	118	353
Italy	515	131	383	467	129	338
South Africa	398	168	230	461	208	253
India	379	33	346	423	37	385
Chile	352	96	256	357	98	259
Israel	308	95	214	304	88	216
New Zealand	304	102	202	289	98	191
Hungary	205	21	184	248	39	209
Colombia	213	49	164	204	52	152
Austria	190	36	154	179	34	145
Other	1,239	336	903	1,385	370	1,015
Total	**45,994**	**14,520**	**31,473**	**46,928**	**15,290**	**31,638**

	Parent company					
	2015			2016		
	Total	of which women	of which men	**Total**	of which women	of which men
Sweden	180	47	133	183	42	141
Total	**180**	**47**	**133**	**183**	**42**	**141**

Gender distribution of Board of Directors and Executive Team

	2015			2016		
	Total	of which women	of which men	**Total**	of which women	of which men
Board of Directors[1]	8	3	5	9	3	6
Executive Team	9	1	8	9	1	8
– of which Parent company's Executive Team	3	1	2	3	1	2
Total	**17**	**4**	**13**	**18**	**4**	**14**

[1] Excluding employee representatives.

Note 34 Financial risk management and financial instruments

Financial risk management

ASSA ABLOY is exposed to a variety of financial risks due to its international business operations. Financial risk management for ASSA ABLOY's units has been implemented in accordance with the Group's financial policy. The principles for financial risk management are described below.

Organization and activities

ASSA ABLOY's financial policy, which is determined by the Board of Directors, provides a framework of guidelines and regulations for the management of financial risks and financial activities.

ASSA ABLOY's financial activities are coordinated centrally and the majority of financial transactions are conducted by the subsidiary ASSA ABLOY Financial Services AB, which is the Group's internal bank. External financial transactions are conducted by Treasury. Treasury achieves significant economies of scale when negotiating borrowing agreements, using interest rate derivatives and managing currency flows.

Capital structure

The objective of the Group's capital structure is to safeguard its ability to continue as a going concern, and to generate good returns for shareholders and benefits for other stakeholders. Maintaining an optimal capital structure enables the Group to keep capital costs as low as possible. The Group can adjust the capital structure based on the requirements that arise by varying the dividend paid to shareholders, returning capital to shareholders, issuing new shares or selling assets to reduce debt. The capital requirement is assessed on the basis of factors such as the net debt/equity ratio.

Net debt is defined as interest-bearing liabilities, including negative market values of derivatives, plus pension provisions, less cash and cash equivalents, and other interest-bearing investments including positive market values of derivatives. The table 'Net debt and equity' shows the position as at 31 December.

Net debt and equity

	Group	
SEK M	**2015**	**2016**
Non-current interest-bearing receivables	–30	–41
Short-term interest-bearing investments incl. positive market values of derivatives	–182	–230
Cash and bank balances	–501	–689
Pension provisions	2,761	3,121
Non-current interest-bearing liabilities	15,568	16,901
Current interest-bearing liabilities incl. negative market values of derivatives	4,653	4,065
Total	**22,269**	**23,127**
Equity	**41,579**	**47,224**
Net debt/equity ratio	**0.54**	**0.49**

Another important variable in the assessment of the Group's capital structure is the credit rating assigned by credit rating agencies to the Group's debt. It is essential to maintain a solid credit rating in order to have access to both long-term and short-term financing from the capital markets when needed. ASSA ABLOY maintains both long-term and short-term credit ratings from Standard & Poor's and a short-term rating from Moody's.

Maturity profile – financial instruments[1]

	31 December 2015				31 December 2016			
SEK M[2]	**<1 year**	**>1<2 years**	**>2<5 years**	**>5 years**	**<1 year**	**>1<2 years**	**>2<5 years**	**>5 years**
Long-term bank loans	–249	–464	–1,500	–1,130	–459	–452	–3,093	–856
Long-term capital market loans	–2,213	–2,455	–6,073	–5,168	–2,626	–2,765	–4,745	–6,287
Short-term bank loans	–1,325	–	–	–	–790	–	–	–
Commercial papers and short-term capital market loans	–1,240	–	–	–	–455	–	–	–
Derivatives (outflow)	–8,649	–26	–567	–29	–8,032	–569	–54	–54
Total by period	**–13,675**	**–2,944**	**–8,141**	**–6,327**	**–12,363**	**–3,787**	**–7,892**	**–7,198**
Cash and cash equivalents incl. interest-bearing receivables	683	–	–	–	919	–	–	–
Non-current interest-bearing receivables	31	–	–	–	41	–	–	–
Derivatives (inflow)	8,659	48	631	90	8,013	547	121	110
Deferred considerations	–952	–966	–684	–39	–1,083	–1,023	–93	–50
Trade receivables	11,775	–	–	–	12,648	–	–	–
Trade payables	–6,553	–	–	–	–7,443	–	–	–
Net total	**–33**	**–3,862**	**–8,194**	**–6,276**	**732**	**–4,264**	**–7,864**	**–7,138**
Confirmed credit facilities	8,229	–	–8,229	–	8,620	–	–8,620	–
Credit facilities maturing < 1 year	–685	–	–	–	–715	–	–	–
Adjusted maturity profile[1]	**7,510**	**–3,862**	**–16,422**	**–6,276**	**8,638**	**–4,264**	**–16,484**	**–7,138**

[1] For maturity structure of guarantees, see Note 28.

[2] The amounts in the table are undiscounted and include future known interest payments. The exact amounts are therefore not found in the balance sheet.

Note 34 cont.

External financing/net debt

Credit lines/facilities	Amount, SEK M	Maturity	Carrying amount, SEK M	Currency	Amount 2015	Amount 2016	Of which Parent company, SEK M
US Private Placement Program	1,111	Dec 2018	1,111	USD	122	122	
US Private Placement Program	228	Aug 2019	228	USD	25	25	
US Private Placement Program	637	May 2020	637	USD	70	70	
US Private Placement Program	456	Aug 2022	494	USD	50	50	
US Private Placement Program	911	Aug 2022	911	USD	100	100	
US Private Placement Program	683	Aug 2024	683	USD	75	75	
Multi–Currency RCF	8,620	Jun 2020		EUR	900	900	
Bank loan EIB	702	May 2020[2]	702	EUR	92	73	
Bank loan EIB	1,406	Apr 2022[2]	1,406	USD	0	154	
Bank loan NIB	526	Dec 2019	526	EUR	55	55	
	526	Dec 2021	526	EUR	55	55	
Global MTN Program	17,765	Mar 2018	479	EUR	50	50	479
		Jun 2018	500	SEK	500	500	500
		Sep 2018	91	USD	10	10	91
		Oct 2018	287	EUR	30	30	287
		Jan 2019	91	USD	10	10	91
		Aug 2019	456	USD	50	50	456
		Sep 2019	182	USD	20	20	182
		Feb 2020	479	EUR	50	50	479
		Jun 2020	132	AUD	0	20	132
		Sep 2020	669	EUR	70	70	669
		Nov 2020	355[1]	EUR	35	35	
		Dec 2020	302[1]	EUR	30	30	286
		Feb 2021	455	USD	50	50	455
		Aug 2021	91	USD	0	10	91
		Oct 2021	144	EUR	15	15	144
		Mar 2022	478	EUR	50	50	478
		Nov 2023	238[1]	USD	25	25	
		Sep 2024	952	EUR	0	100	952
		Feb 2025	478	EUR	50	50	478
		Mar 2025	326[1]	EUR	30	30	287
		Dec 2025	450[1]	USD	0	50	456
		Feb 2027	287	EUR	30	30	287
		Apr 2030	664	EUR	70	70	664
Other long-term loans	1,093		1,093				842
Total long-term loans/facilities	**34,663**		**16,901**				**8,786**
Global MTN Program	1,391	May 2017	500	SEK	500	500	500
		Sep 2017	891	CHF	100	100	891
US Private Placement Program	455	Apr 2017	455	USD	50	50	
	455	May 2017	455	USD	50	50	
Global CP Program	9,112		455	USD	50	50	
			0	EUR	68	0	
Swedish CP Program	5,000		0	SEK	200	0	
Other bank loans	692		692				
Overdraft facility	2,108		508				14
Total short-term loans/facilities	**19,186**		**3,929**				**1,404**
Total loans/facilities	**53,849**		**20,829**				**10,191**
Cash and bank balances			–689				
Short-term interest-bearing investments			–63				
Long-term interest-bearing investments			–41				
Market value of derivatives			–30				
Pensions			3,121				
Net debt			**23,127**				**10,191**

[1] The loans are subject to hedge accounting.
[2] The loan amortizes starting November 2016. In the table the average date of maturity of the loan has been stated.

Rating

Agency	Short-term	Outlook	Long-term	Credit outlook
Standard & Poor's	A2	Stable	A –	Stable
Moody's	P2	Stable	n/a	

The Group's credit rating remained unchanged during the year.

Financing risk and maturity profile

Financing risk is defined as the risk of being unable to meet payment obligations as a result of inadequate liquidity or difficulties in obtaining external financing. ASSA ABLOY manages financing risk at Group level. Treasury is responsible for external borrowings and external investments. ASSA ABLOY strives to have access on every occasion to both short-term and long-term loan facilities. In accordance with financial policy, the available loan facilities, including available cash and cash equivalents, should include a reserve (facilities available but not utilized) equivalent to 10 percent of the Group's total annual sales.

Note 34 cont.

Maturity profile

The table 'Maturity profile' on page 88 shows the maturities for ASSA ABLOY's financial instruments, including confirmed credit facilities. The maturities are not concentrated to a particular date in the immediate future. An important component of liquidity planning is the Group's Multi-Currency Revolving Credit Facility, which matures in June 2020. This credit facility was wholly unutilized at year-end. Moreover, existing financial assets are also taken into account. The table shows undiscounted cash flows relating to the Group's financial instruments at the reporting date, and these amounts are therefore not found in the balance sheet.

Interest-bearing liabilities

The Group's long-term loan financing mainly consists of a Private Placement Program in the US totaling USD 542 M, of which USD 442 M (542) is long-term, a GMTN program of SEK 9,976 M (9,111), of which SEK 8,585 M (7,886) is long-term, loans from financial institutes as the European Investment Bank (EIB) of EUR 73 M (92) and 154 (0), and a loan from the Nordic Investment Bank of EUR 110 M (110). During the year, four new issues were made under the GMTN program for a total amount of around SEK 1,635 M. In addition, a new loan was obtained from the EIB for USD 154 M. Other changes in long-term loans are mainly due to some of the originally long-term loans now having less than 1 year to maturity. The size of the loans has also been affected by currency fluctuations, in particular the strengthening of the USD against SEK. In total SEK 2,876 M was raised in new long-term loans while SEK 2,223 M of originally long-term loans were repaid during the year.

The Group's short-term loan financing mainly consists of two Commercial Paper Programs for a maximum USD 1,000 M (1,000) and SEK 5,000 M (5,000) respectively. At year-end, SEK 455 M (1,240) of the Commercial Paper Programs had been utilized. In addition, substantial credit facilities are available, mainly in the form of a Multi-Currency Revolving Credit Facility of EUR 900 M (900). At year-end the average time to maturity for the Group's interest-bearing liabilities, excluding the pension provision, was 49 months (46).

Some of the Group's main financing agreements contain a customary Change of Control clause. This clause means that lenders have the right in certain circumstances to demand the renegotiation of conditions or to terminate the agreements should control of the company change.

Currency composition

The currency composition of ASSA ABLOY's borrowing depends on the currency composition of the Group's assets and other liabilities. Currency swaps are used to achieve the desired currency composition. See the table 'Net debt by currency' below.

Cash and cash equivalents and other interest-bearing receivables

Short-term interest-bearing investments totaled SEK 2 M (34) at year-end. In addition, ASSA ABLOY has non-current interest-bearing receivables of SEK 41 M (30) and financial derivatives with a positive market value of SEK 167 M (148) which, in addition to cash and cash equivalents, are included in the definition of net financial debt. Cash and cash equivalents are mainly invested in bank accounts or interest-bearing instruments with high liquidity from issuers with a credit rating of at least A–, according to Standard & Poor's or similar rating agency. The average term for cash and cash equivalents was 1 day (1) at year-end 2016.

The Parent company's cash and cash equivalents are held in a sub-account to the Group account.

	Group		Parent company	
SEK M	**2015**	**2016**	**2015**	**2016**
Cash and bank balances	404	689	–	–
Short-term investments with maturity less than 3 months	97	61	–	–
Cash and cash equivalents	**501**	**750**	**–**	**–**
Short-term investments with maturity more than 3 months	34	2	–	–
Long-term interest-bearing receivables	30	41	–	–
Positive market value of derivatives	148	167	–	–
Total	**713**	**960**	**–**	**–**

Net debt by currency

	31 December 2015		31 December 2016	
SEK M	**Net debt excluding currency swaps**	**Net debt including currency swaps**	**Net debt excluding currency swaps**	**Net debt including currency swaps**
USD	8,036	11,620	9,907	12,277
EUR	9,993	5,807	9,728	6,616
CNY	74	1,975	–199	928
AUD	1	557	146	524
NOK	407	510	71	640
KRW	369	369	369	534
PLN	24	329	38	299
CZK	21	314	12	340
CHF	986	199	1,171	653
DKK	31	197	8	456
SEK	1,731	147	1,315	–493
Other	596	244	562	352
Total	**22,269**	**22,269**	**23,127**	**23,127**

Interest rate risks in interest-bearing assets

Treasury manages interest rate risk in interest-bearing assets. Derivative instruments such as interest rate swaps and FRAs (forward rate agreements) may be used to manage interest rate risk. These investments are mostly short-term. The term for the majority of these investments is three months or less. The fixed interest term for these short-term investments was 113 days (45) at year-end 2016. A downward change in the yield curve of one percentage point would reduce the Group's interest income by around SEK 1 M (1) and consolidated equity by SEK 1 M (1).

Note 34 cont.

Interest rate risks in borrowing

Changes in interest rates have a direct impact on ASSA ABLOY's net interest expense. Treasury is responsible for identifying and managing the Group's interest rate exposure. Treasury analyzes the Group's interest rate exposure and calculates the impact on income of changes in interest rates on a rolling 12-month basis. The Group strives for a mix of fixed rate and variable rate borrowings, and uses interest rate swaps to adjust the fixed interest term. The financial policy stipulates that the average fixed interest term should normally be 24 months. At year-end, the average fixed interest term on gross debt, excluding pension liabilities, was around 28 months (26). An upward change in the yield curve of one percentage point would increase the Group's interest expense by around SEK 102 M (97) and reduce consolidated equity by SEK 75 M (72).

Currency risk

Currency risk affects ASSA ABLOY mainly through translation of capital employed and net debt, translation of the income of foreign subsidiaries, and the impact on income of flows of goods between countries with different currencies.

Transaction exposure

Currency risk in the form of transaction exposure, or exports and imports of goods respectively, is relatively limited in the Group, even though it can be significant for individual business units. The main principle is to allow currency fluctuations to have an impact on the business as quickly as possible. As a result of this strategy, current currency flows are not normally hedged.

Transaction flows relating to major currencies (import + and export –)

	Currency exposure	
Currency, SEK M	**2015**	**2016**
AUD	484	522
CAD	531	764
CNY	–1,123	–1,255
DKK	276	267
EUR	1,590	1,833
GBP	190	565
RON	–299	–321
SEK	–1,952	–2,194
USD	293	291

Translation exposure in income

The table below shows the impact on the Group's income before tax of a 10 percent weakening of the Swedish krona (SEK) in relation to the major currencies, with all other variables constant.

Impact on income before tax of a 10 percent weakening of SEK

Currency, SEK M	2015	2016
AUD	37	36
CHF	22	27
CNY	95	18
EUR	139	131
GBP	28	19
HKD	55	59
KRW	17	20
NOK	14	14
USD	460	528

Translation exposure in the balance sheet

The impact of translation of equity is limited by the fact that a large part of financing is in local currency.

The capital structure in each country is optimized based on local legislation. Whenever possible, according to local conditions, gearing per currency should generally aim to be the same as for the Group as a whole to limit the impact of fluctuations in individual currencies. Treasury uses currency derivatives and loans to achieve appropriate financing and to eliminate undesirable currency exposure.

The table 'Net debt by currency' on page 90 shows the use of forward exchange contracts in relation to financing in major currencies. Forward exchange contracts are used to neutralize the exposure arising between external debt and internal requirements.

Financial credit risk

Financial risk management exposes ASSA ABLOY to certain counterparty risks. Such exposure may arise from the investment of surplus cash as well as from investment in debt instruments and derivative instruments.

ASSA ABLOY's policy is to minimize the potential credit risk relating to surplus cash by using cash flow from subsidiaries to repay the Group's loans. This is primarily achieved through cash pools put in place by Treasury. Around 91 percent (88) of the Group's sales were settled through cash pools in 2016. However, the Group can in the short term invest surplus cash in banks to match borrowing and cash flow.

Derivative instruments are allocated between banks based on risk levels defined in the financial policy, in order to limit counterparty risk. Treasury only enters into derivative contracts with banks that have a good credit rating.

ISDA agreements (full netting of transactions in case of counterparty default) have been entered into with respect to interest rate and currency derivatives. The table on page 92 shows the impact of this netting.

Commercial credit risk

The Group's trade receivables are distributed across a large number of customers who are spread globally. No single customer accounts for more than 1 percent of the Group's sales. The concentration of credit risk associated with accounts receivable is considered limited, but increased slightly in pace with increased activity in emerging markets, mainly with respect to China. The fair value of trade receivables is equivalent to the carrying amount. Credit risks relating to operating activities are managed locally at company level and monitored at division level.

Commodity risk

The Group is exposed to price risks relating to purchases of certain commodities (primarily metals) used in production. Forward contracts are not used to hedge commodity purchases.

Fair value of financial instruments

Derivative financial instruments such as forward exchange contracts and forward rate agreements are used to the extent necessary. The use of derivative instruments is limited to reducing exposure to financial risks.

The positive and negative fair values in the table 'Outstanding derivative financial instruments' on page 92 show the fair values of outstanding instruments at year-end, based on available fair values, and are the same as the carrying amounts in the balance sheet. The nominal value is equivalent to the gross value of the contracts.

For accounting purposes, financial instruments are classified into measurement categories in accordance with IAS 39. The table 'Financial instruments' on page 92 provides an overview of financial assets and liabilities, measurement category, and carrying amount and fair value per item.

Note 34 cont.

Disclosures of offsetting of financial assets and liabilities

SEK M	2015 Gross amount	2015 Amounts netted in the balance sheet	2015 Net amounts in the balance sheet	2015 Amount covered by netting agreement but not offset	2015 Net amount	2016 Gross amount	2016 Amounts netted in the balance sheet	2016 Net amounts in the balance sheet	2016 Amount covered by netting agreement but not offset	2016 Net amount
Financial assets	148	–	148	38	110	167	–	167	76	91
Financial liabilities	80	–	80	38	42	137	–	137	76	61

Netted financial assets and financial liabilities only consist of derivative instruments.

Outstanding derivative financial instruments at 31 December

Instrument, SEK M	31 December 2015 Positive fair value	31 December 2015 Negative fair value	31 December 2015 Nominal value	31 December 2016 Positive fair value	31 December 2016 Negative fair value	31 December 2016 Nominal value
Foreign exchange forwards, funding	26	–31	7,389	78	–78	6,034
Interest rate swaps[1]	122	–25	2,883	88	–21	2,113
Cross currency swaps	–	–24	507	–	–38	519
Total	**148**	**–80**	**10,779**	**167**	**–137**	**8,666**

[1] For interest rate swaps, only one leg is included in nominal value.

Financial instruments: carrying amounts and fair values by measurement category

SEK M	IAS 39 category*	2015 Carrying amount	2015 Fair value	2016 Carrying amount	2016 Fair value
Financial assets					
Other shares and interests	3	11	11	11	11
Other financial assets	1	67	67	75	75
Trade receivables	1	11,775	11,775	12,648	12,648
Derivative instruments – hedge accounting	5	121	121	88	88
Derivative instruments – held for trading	2	27	27	78	78
Short-term investments	1	34	34	2	2
Cash and cash equivalents	1	501	501	750	750
Financial liabilities					
Long-term loans – hedge accounting	4	1,606	1,606	1,671	1,671
Long-term loans – not hedge accounting	4	13,962	14,157	15,230	15,336
Long-term loans, total		**15,568**	**15,763**	**16,901**	**17,010**
Short-term loans – hedge accounting	4	244	244	–	–
Short-term loans – not hedge accounting	4	4,330	4,330	3,929	3,929
Derivative instruments – hedge accounting	5	25	25	21	21
Derivative instruments – held for trading	2	55	55	116	116
Trade payables	4	6,553	6,553	7,443	7,443
Deferred considerations	2	2,640	2,640	2,250	2,250

* Applicable IAS 39 categories:
1 = Loans and receivables.
2 = Financial instruments at fair value through profit or loss.
3 = Available-for-sale financial assets.
4 = Financial liabilities at amortized cost.
5 = Derivative hedge accounting.

The fair value of long-term borrowing is based on observable data by discounting cash flows to market rate, while the fair value of current receivables and current liabilities is considered to correspond to the carrying amount.

Financial instruments: measured at fair value

SEK M	2015 Carrying amounts	2015 Quoted prices	2015 Observable data	2015 Non-observable data	2016 Carrying amounts	2016 Quoted prices	2016 Observable data	2016 Non-observable data
Financial assets								
Derivative instruments	148	–	148	–	167	–	167	–
Financial liabilities								
Derivative instruments	80	–	80	–	137	–	137	–
Deferred considerations[1]	2,640	–	–	2,640	2,250	–	–	2,250

[1] Deferred considerations often depend on the earnings trend of an acquired business over a certain period. Measurement of the deferred consideration is based on the management's best judgment. Discounting to present value takes place in the case of significant amounts.

University of East Anglia boosts security with Aperio

CUSTOMER: The University of East Anglia (UEA), one of the UK's leading public research and teaching establishments.

CHALLENGE: To provide an access control system to secure Crome Court, the on-campus student accommodation completed in 2015. Since the building was designed to create minimal environmental impact, the solution was expected to help fulfill that aim. Divided into flats for eight to 13 people, the building has 231 suite rooms rented out to postgraduates.

SOLUTION: In collaboration with our security partner Gallagher, ASSA ABLOY fulfilled the customer's need for a stylish and secure electronic locking system according to the environmentally friendly profile of the housing block. The solution had to be affordable yet reliable, and ASSA ABLOY was required to provide on-site training to assist with lock installation.

UEA used Gallagher's access control systems for over a decade, UEA adopted their Aperio solution for Crome Court. The system provides an online audit trail and allow real-time monitoring. The battery-powered energy-efficient E100 Online escutcheons are activated only when a user's credentials are presented to the reader, and UEA staff can control the doors from a web-based interface or mobile phone.

Gallagher and Aperio devices may be operated with the same data on the user's card, which allow easy integration and cost savings. Further doors can be added when needed and the hope is that Aperio will be rolled out across all residential estate at UEA.

A combination of entrance solutions at the biggest fish shop in the Netherlands

CUSTOMER: After nearly a hundred years of being situated in the city center, Schmidt Zeevis decided to move their shop and storage to an industrial zone, where ASSA ABLOY Entrance Systems has installed multiple automatic entrance solutions: automatic pedestrian doors, overhead sectional doors and docking solutions. ASSA ABLOY managed to execute the project versus a tight schedule to move the entire company in one day, and to be operational immediately.

CHALLENGE: The entrance solution needed to provide not only sufficient passage but ability to preserve the cool temperature in the shop where fishes are showcased with ice and need to be kept at the right temperature. The climate of the expedition area was another major challenge and needed to bridge an inside temperature of 2 degrees against a possible occurring outside temperature of above 20 degrees. It also needed to be possible to easily load and unload various types of trucks.

SOLUTION: For their main entrance, Schmidt Zeevis selected a revolving door inclusive automatic sliding doors to provide an entrance with separation between the indoor and outdoor climate, as well as disabled access. The revolving door was included in the six meters façade to create an open and inviting environment. The biggest part of the building consists of storage and processing areas, where industrial sectional doors with 70 mm thick insulation panels and docking systems with telescopic features made it possible to drive in and out easily with both large and heavy truck traffic, and smaller vans. The solution incorporated both mechanical curtain dock shelters with aluminum frames for similar trolleys, as well as inflatable dock shelters with extra sealing for incoming of various types of trucks; hereby the climate control is maintained optimally.

Comments on five years in summary

2012
Organic growth was 2 percent, despite the continued weak market conditions globally. The share of sales on emerging markets continued to increase to over 25 percent of total sales. The major investments in product development in recent years have been fruitful. This can be seen from the share of products launched in the past three years, which has increased considerably and currently accounts for around 25 percent of total sales.

Operating income excluding items affecting comparability increased by 13 percent during the year and operating cash flow remained very strong. Earnings per share after full dilution, excluding items affecting comparability, increased by 13 percent, compared with 2011.

A total of 13 acquisitions were completed during the year, which mainly strengthened the position in entrance automation for high-performance doors and docking systems. These acquisitions increase annual sales by a total of around SEK 4,500 M and provide important products and technology.

Activities in the ongoing restructuring programs remained at a high level during the year. More than 6,700 employees have left the Group, as a result of these activities since the programs began in 2006.

2013
Demand remained weak in Europe but leveled off during the year, combined with a continuing recovery in the USA and strong sales growth in emerging markets. Continued substantial investment in innovative new products further consolidated market leadership, with products launched in the past three years accounting for a record 27 percent of sales.

Operating income, excluding items affecting comparability, increased by 6 percent compared with 2012, and cash flow showed a positive trend. Earnings per share after full dilution, excluding items affecting comparability, increased 6 percent. A total of 10 acquisitions were consolidated during the year, which mainly strengthened the position in entrance automation for overhead sectional doors and in high-security fencing and gates for the North American market. These acquisitions increase annual sales by a total of around SEK 3,700 M and provide important products and technology.

A new restructuring program was launched during the year for the purpose of continuing to increase the cost-efficiency of all divisions. Some 30 production plants and offices are set to close with an estimated payback period of just over three years. At year-end 2013, more than 8,500 employees had left the Group as a result of restructuring activities since the programs began in 2006.

2014
ASSA ABLOY continued to grow rapidly during the year, with total sales growth of 17 percent. Demand was strong in the USA, while growth in Europe was more unevenly distributed between the different regions. Emerging markets showed a slowdown, partly due to a credit crunch.

The Group's continued focus on market presence and innovation during the year took the form of a strengthened sales force and the launch of many new products. Integration of acquisitions made and continued efficiencies contributed to maintaining good earning capacity.

Operating income, excluding items affecting comparability, increased by 17 percent compared with 2013, and cash flow remained strong. Earnings per share after full dilution, excluding items affecting comparability, increased by 17 percent.

A total of 20 acquisitions were consolidated during the year, which both strengthened the market position in key emerging markets such as China, India and Brazil, and complemented the customer offering in fast-growing new segments such as biometrics.

2015
ASSA ABLOY's good performance continued during the year despite challenging market conditions and relatively weak underlying growth worldwide. The Group's growth remained strong during the year, with total sales growth of 7 per cent excluding exchange rate effects. The global market showed a divided picture with strong demand in the USA and much of Asia, while growth in Europe was more unevenly distributed. Emerging markets showed a slowdown, particularly China.

The focus in recent years on product development, innovation and sustainability yielded positive results during the year. ASSA ABLOY has established leadership in the ongoing industry shift from mechanical solutions to electronics, digitization and mobile. Growth remained strong for electromechanical products and entrance automation, whose share of sales exceeded 50 percent. Integration of acquisitions, efficiencies and rationalizations strengthened the Group's flexibility and financial strength.

Operating income increased by 20 percent compared with 2014, and cash flow remained very strong. Earnings per share after full dilution increased by 20 percent.

A total of 16 acquisitions were consolidated during the year, which strengthened the market position in important emerging markets such as Brazil, and complemented the customer offering in key areas for the Group such as entrance automation and secure identity solutions.

2016
Demand for door opening solutions was relatively good during the year despite the weakened global economy. The Group's growth remained strong during the year, with total sales growth of 5 percent excluding exchange rate effects. The mature markets, primarily in Europe and the US, showed robust growth, while the trend in the emerging markets in Asia, Africa, the Middle East and parts of South America was more subdued in general, affected by factors such as the low prices for oil and other commodities. For ASSA ABLOY, the weak demand in these markets was most pronounced in China.

A new restructuring program was launched during the year. About fifty production plants and offices are set to close over a three-year period, with an estimated payback period of less than three years.

The focus in recent years on product development, innovation and sustainability continued at a high level during 2016. The ongoing technology shift toward an increased share of electromechanics with more digital and mobile solutions is expected to benefit ASSA ABLOY in the long term, and the proportion of sales of electromechanical products exceeded 50 percent.

Operating income for the year, excluding items affecting comparability, increased by 2 percent compared with 2015, and cash flow continued to be very strong. Earnings per share after full dilution, excluding items affecting comparability, increased 2 percent.

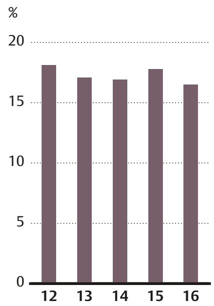
A total of 13 acquisitions were consolidated during the year, which strengthened the market position for the Group in key areas such as entrance automation and secure identity solutions. ASSA ABLOY's car locks operation was sold.

Five years in summary

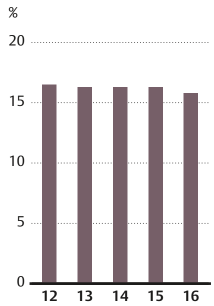
Amounts in SEK M unless stated otherwise	2012	2013	2014	2015	2016
Sales and income					
Sales	46,619	48,481	56,843	68,099	71,293
Organic growth, %	2	2	3	4	2
Acquired growth, %	9	4	9	3	3
Operating income before depreciation/amortization (EBITDA)[1]	8,536	8,917	10,419	12,512	12,833
Depreciation and amortization	–1,034	–993	–1,163	–1,433	–1,580
Operating income (EBIT)[1]	7,501	7,923	9,257	11,079	11,254
Income before tax (EBT)[4]	6,784	6,381	8,698	10,382	8,952
Net income[4]	5,172	4,775	6,436	7,693	6,653
Cash flow					
Cash flow from operating activities	5,990	6,224	6,679	8,572	8,575
Cash flow from investing activities	–4,738	–6,030	–3,524	–4,412	–4,063
Cash flow from financing activities	–1,564	–731	–2,908	–4,335	–4,271
Cash flow	–312	–537	247	–175	240
Operating cash flow[3]	7,044	6,803	8,238	9,952	10,467
Capital employed and financing					
Capital employed[4]	41,422	48,408	58,425	63,848	70,351
– of which goodwill	28,932	31,817	39,778	42,777	47,544
– of which other intangible assets and property, plant and equipment	11,093	12,854	14,990	16,649	17,618
– of which investments in associates	1,519	1,675	1,861	1,910	2,109
Assets and liabilities of disposal group classified as held for sale	385	–	–	–	–
Net debt[4]	15,805	19,595	22,327	22,269	23,127
Non-controlling interest	183	0	2	4	5
Shareholders' equity, excluding non-controlling interest[4]	25,819	28,812	36,096	41,575	47,220
Data per share, SEK[5]					
Earnings per share before and after dilution[4]	4.66	4.30	5.79	6.93	5.99
Earnings per share before and after dilution and excluding items affecting comparability[1, 4]	4.66	4.95	5.79	6.93	7.09
Shareholders' equity per share after dilution[4]	23.29	25.94	32.50	37.43	42.51
Dividend per share	1.70	1.90	2.17	2.65	3.00[2]
Price of Series B share at year-end	80.97	113.27	138.27	178.00	169.10
Key ratios					
Operating margin (EBITDA), %[1]	18.3	18.4	18.3	18.4	18.0
Operating margin (EBIT), %[1]	16.1	16.3	16.3	16.3	15.8
Profit margin (EBT), %[4]	14.6	13.2	15.3	15.2	12.6
Return on capital employed, %[4]	18.1	14.9	16.9	17.8	14.1
Return on capital employed excluding items affecting comparability, %[4]	18.1	17.1	16.9	17.8	16.5
Return on shareholders' equity, %[4]	20.9	17.5	19.8	19.8	15.0
Equity ratio, %[4]	43.2	43.8	45.1	48.2	49.6
Net debt/equity ratio, times[4]	0.61	0.68	0.62	0.54	0.49
Interest coverage ratio, times[4]	11.1	13.5	17.4	16.7	14.1
Interest on convertible debentures net after tax	3.9	–	–	–	–
Total number of shares, thousands[5]	1,112,576	1,112,576	1,112,576	1,112,576	1,112,576
Number of shares outstanding, thousands[5]	1,108,776	1,110,776	1,110,776	1,110,776	1,110,776
Weighted average number of outstanding shares before and after dilution, thousands[5]	1,108,776	1,110,776	1,110,776	1,110,776	1,110,776
Average number of employees	42,762	42,556	44,269	45,994	46,928

[1] Excluding items affecting comparability in 2013 and 2016.
[2] Dividend proposed by the Board of Directors.
[3] Excluding restructuring payments.
[4] 2012 has been adjusted due to a change in accounting principles for defined benefit pension plans.
[5] Comparatives has been recalculated for all historical periods before 2015 reflecting the stock split (3:1) in 2015.

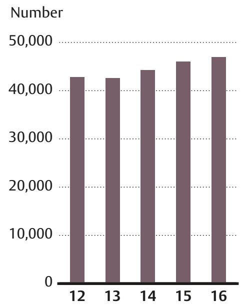
RETURN ON CAPITAL EMPLOYED[1]



OPERATING MARGIN (EBIT)[1]



AVERAGE NUMBER OF EMPLOYEES



[1] Excluding items affecting comparability 2013 and 2016.

Quarterly information

THE GROUP IN SUMMARY Amounts in SEK M unless stated otherwise	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Full year 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Full year 2016
Sales	15,252	17,082	17,465	18,301	68,099	15,891	17,894	18,025	19,484	71,293
Organic growth	5%	4%	3%	5%	4%	3%	4%	2%	1%	2%
Gross income excluding items affecting comparability	**5,969**	**6,623**	**6,758**	**7,046**	**26,395**	**6,295**	**7,031**	**7,139**	**7,660**	**28,125**
Gross margin excluding items affecting comparability	39.1%	38.8%	38.7%	38.5%	38.8%	39.6%	39.3%	39.6%	39.3%	39.5%
Operating income before depr. & amort. (EBITDA) excluding items affecting comparability	**2,659**	**3,117**	**3,330**	**3,406**	**12,512**	**2,787**	**3,305**	**3,425**	**3,316**	**12,833**
Operating margin (EBITDA)	17.4%	18.2%	19.1%	18.6%	18.4%	17.5%	18.5%	19.0%	17.0%	18.0%
Depreciation and amortization	–331	–374	–360	–368	–1,433	–376	–395	–406	–403	–1,580
Operating income (EBIT) excluding items affecting comparability	**2,329**	**2,742**	**2,970**	**3,038**	**11,079**	**2,411**	**2,910**	**3,020**	**2,913**	**11,254**
Operating margin (EBIT)	15.3%	16.1%	17.0%	16.6%	16.3%	15.2%	16.3%	16.8%	15.0%	15.8%
Items affecting comparability[2]	–	–	–	–	–	–	–	–	–1,597	–1,597
Operating income (EBIT)	**2,329**	**2,742**	**2,970**	**3,038**	**11,079**	**2,411**	**2,910**	**3,020**	**1,316**	**9,657**
Operating margin (EBIT)	15.3%	16.1%	17.0%	16.6%	16.3%	15.2%	16.3%	16.8%	6.8%	13.5%
Net financial items	–145	–191	–174	–187	–697	–201	–181	–175	–146	–705
Income before tax (EBT)	**2,184**	**2,551**	**2,796**	**2,851**	**10,382**	**2,209**	**2,729**	**2,844**	**1,170**	**8,952**
Profit margin (EBT)	14.3%	14.9%	16.0%	15.6%	15.2%	13.9%	15.2%	15.8%	6.0%	12.6%
Tax on income	–568	–663	–727	–731	–2,689	–574	–709	–739	–304	–2,328
Profit from discontinued operations	–	–	–	–	–	3	7	17	1	28
Net income	**1,616**	**1,888**	**2,069**	**2,120**	**7,693**	**1,638**	**2,026**	**2,122**	**867**	**6,653**
Net income attributable to:										
Parent company shareholders	1,616	1,888	2,069	2,120	7,693	1,638	2,026	2,122	866	6,651
Non-controlling interests	0	0	0	0	0	0	0	0	1	1

OPERATING CASH FLOW	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Full year 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Full year 2016
Operating income (EBIT)	2,329	2,742	2,970	3,038	11,079	2,411	2,910	3,020	1,316	9,657
Restructuring costs	–	–	–	–	–	–	–	–	1,597	1,597
Depreciation and amortization	331	374	360	368	1,433	376	395	406	403	1,580
Net capital expenditure	–344	–327	–344	–227	–1,241	–342	–394	–331	–411	–1,478
Change in working capital	–1,722	–526	–115	1,861	–502	–1,836	–139	98	1,939	62
Interest paid and received	–71	–200	–84	–195	–548	–94	–228	–96	–179	–597
Non-cash items	–2	–74	28	–221	–269	–17	–26	–266	–45	–354
Operating cash flow[1]	**520**	**1,991**	**2,816**	**4,625**	**9,952**	**498**	**2,519**	**2,830**	**4,620**	**10,467**
Operating cash flow / Income before tax excluding items affecting comparability[2]	0.24	0.78	1.01	1.62	0.96	0.23	0.92	0.99	1.67	0.99

CHANGE IN NET DEBT	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Full year 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Full year 2016
Net debt at beginning of period	22,327	25,184	26,579	25,131	22,327	22,269	24,681	27,122	25,571	22,269
Operating cash flow	–520	–1,991	–2,816	–4,625	–9,952	–498	–2,519	–2,830	–4,620	–10,467
Restructuring payments	90	60	80	145	375	95	50	61	235	442
Tax paid	711	371	217	948	2,247	1,298	478	523	629	2,928
Acquisitions/disposals	978	1,536	688	959	4,161	1,345	556	145	991	3,037
Dividend	–	2,407	–	–	2,407	–	2,944	–	–	2,944
Actuarial gain/loss on post-employment benefit obligations	206	–274	70	–152	–150	221	186	105	–374	138
Net debt of disposal group classified as held for sale	–	–	–	–	–	0	0	0	–	–
Exchange rate differences and other	1,392	–713	313	–136	855	–49	746	444	695	1,836
Net debt at end of period	**25,184**	**26,579**	**25,131**	**22,269**	**22,269**	**24,681**	**27,122**	**25,571**	**23,127**	**23,127**
Net debt / Equity ratio	0.64	0.70	0.63	0.54	0.54	0.58	0.64	0.57	0.49	0.49

NET DEBT	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Non-current interest-bearing receivables	–31	–29	–32	–30	–34	–36	–41	–41
Current interest-bearing investments including derivatives	–263	–217	–265	–182	–270	–222	–168	–169
Cash and cash equivalents	–515	–646	–648	–501	–578	–564	–604	–750
Pension provisions	3,260	2,984	2,954	2,761	3,002	3,258	3,406	3,121
Other non-current interest-bearing liabilities	16,497	16,495	17,453	15,568	15,668	15,805	16,205	16,901
Current interest-bearing liabilities including derivatives	6,235	7,992	5,669	4,653	6,893	8,881	6,773	4,065
Total	**25,184**	**26,579**	**25,131**	**22,269**	**24,681**	**27,122**	**25,571**	**23,127**

CAPITAL EMPLOYED AND FINANCING	Q 1 2015	Q 2 2015	Q 3 2015	Q 4 2015	Q 1 2016	Q 2 2016	Q 3 2016	Q 4 2016
Capital employed	64,699	64,689	65,070	63,848	67,124	69,449	70,555	70,351
– of which goodwill	43,092	41,818	42,404	42,777	43,098	44,387	45,077	47,544
– of which other intangible assets and property, plant and equipment	16,324	16,512	16,693	16,649	16,613	17,036	17,264	17,618
– of which investments in associates	1,890	1,901	1,934	1,910	1,970	2,037	2,095	2,109
Assets and liabilities of disposal group classified as held for sale	–	–	–	–	111	126	–	–
Net debt	25,184	26,579	25,131	22,269	24,681	27,122	25,571	23,127
Non-controlling interests	2	4	4	4	4	3	4	5
Equity attributable to Parent company's shareholders	39,513	38,105	39,935	41,575	42,551	42,449	44,981	47,220

DATA PER SHARE, SEK	Q 1 2015	Q 2 2015	Q 3 2015	Q 4 2015	Full year 2015	Q 1 2016	Q 2 2016	Q 3 2016	Q 4 2016	Full year 2016
Earnings per share before and after dilution	1.45	1.70	1.86	1.91	6.93	1.47	1.82	1.91	0.78	5.99
Earnings per share before and after dilution and excluding items affecting comparability[2]	1.45	1.70	1.86	1.91	6.93	1.47	1.82	1.91	1.88	7.09
Shareholders' equity per share after dilution	35.57	34.31	35.95	37.43	37.43	38.31	38.22	40.50	42.51	42.51

NUMBER OF SHARES	Q 1 2015	Q 2 2015	Q 3 2015	Q 4 2015	Full year 2015	Q 1 2016	Q 2 2016	Q 3 2016	Q 4 2016	Full year 2016
Total number of shares, millions	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6
Weighted average number of outstanding shares before and after dilution, millions	1,110.8	1,110.8	1,110.8	1,110.8	1,110.8	1,110.8	1,110.8	1,110.8	1,110.8	1,110.8

[1] Excluding restructuring payments.

[2] Items affecting comparability consist of restructuring costs.

Definitions of key ratios

Organic growth
Change in sales for comparable units after adjustments for acquisitions and exchange rate effects.

Operating margin (EBITDA)
Operating income before depreciation and amortization as a percentage of sales.

Operating margin (EBIT)
Operating income as a percentage of sales.

Profit margin (EBT)
Income before tax as a percentage of sales.

Operating cash flow
See the table on operating cash flow for detailed information.

Net capital expenditure
Investments in tangible and intangible assets less disposals of tangible and intangible assets.

Depreciation
Depreciation/amortization of intangible and tangible assets.

Net debt
Interest-bearing liabilities less interest-bearing assets.

Capital employed
Total assets less interest-bearing assets and non-interest-bearing liabilities including deferred tax liability.

Equity ratio
Shareholders' equity as a percentage of total assets.

Interest coverage ratio
Income before tax plus net interest divided by net interest.

Return on shareholders' equity
Net income excluding non-controlling interests as a percentage of average shareholders' equity (excluding non-controlling interests) after any potential dilution.

Return on capital employed
Income before tax plus net interest as a percentage of average capital employed.

Earnings per share after tax and before dilution
Net income excluding non-controlling interests divided by weighted average number of shares before dilution.

Earnings per share after tax and dilution
Net income excluding non-controlling interests divided by weighted average number of shares after any potential dilution.

Shareholders' equity per share after dilution
Equity excluding non-controlling interests divided by number of shares after any potential dilution.

Proposed distribution of earnings

The following earnings are at the disposal of the Annual General Meeting:

Share premium reserve: SEK 787 M
Retained earnings brought forward: SEK 7,233 M
Net income for the year: SEK 3,619 M
TOTAL: SEK 11,639 M

The Board of Directors and the President and CEO propose that a dividend of SEK 3.00 per share, a total of SEK 3,332 M, be distributed to shareholders and that the remainder, SEK 8,307 M, be carried forward to the new financial year. The dividend amount is calculated on the number of outstanding shares as per 1 February 2017.

No dividend is payable on ASSA ABLOY AB's holding of treasury shares, the exact number of which is determined on the record date for payment of dividend. ASSA ABLOY AB held 1,800,000 treasury shares as at 1 February 2017.

Friday, 28 April 2017 has been proposed as the record date for dividends. If the Annual General Meeting approves this proposal, dividends are expected to be distributed by Euroclear Sweden AB on Thursday, 4 May 2017.

The Board of Directors and the President and CEO declare that the consolidated accounts have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU and give a true and fair view of the Group's financial position and results. The Parent company's annual accounts have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent company's financial position and results.

The Report of the Board of Directors for the Group and the Parent company gives a true and fair view of the development of the Group's and the Parent company's business operations, financial position and results, and describes material risks and uncertainties to which the Parent company and the other companies in the Group are exposed.

Stockholm, 1 February 2017

Lars Renström
Chairman of the Board

Carl Douglas
Vice Chairman of the Board

Ulf Ewaldsson
Board member

Eva Karlsson
Board member

Birgitta Klasén
Board member

Eva Lindqvist
Board member

Johan Molin
Board member and
President and CEO

Jan Svensson
Board member

Bert Arleros
Board member
Employee representative

Mats Persson
Board member
Employee representative

Our audit report was issued on 1 February 2017

PricewaterhouseCoopers AB

Bo Karlsson
Authorized Public Accountant
Auditor in charge

Linda Corneliusson
Authorized Public Accountant

Auditor's report

To the general meeting of the shareholders of ASSA ABLOY AB (publ), corporate identity number 556059-3575

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of ASSA ABLOY AB (publ) for the year 2016, except for the corporate governance statement on pages 46–54. The annual accounts and consolidated accounts of the company are included on pages 39–98 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 46–54. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the Parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

The ASSA ABLOY Group is comprised of a large number of companies. None of these companies have, individually, been deemed to be of major significance in the audit of the group. For the group audit, we have selected the Parent company and treasury company and some 70 companies spread across the group's five divisions, which are audited according to a group-wide audit program. The audit program includes the assessment of the design and operating effectiveness of selected controls in processes significant to the financial reporting and also includes audit procedures in the form of test of details supplemented with analytical procedures applied to the group's significant income statement and balance sheet items. The majority of the subsidiaries in the group are also the subject of statutory audits according to local requirements.

During 2016, the Auditor-in-Charge and co-signing auditor visited the audit teams in China and the US to participate, on site, in the audit, and to take part in the meetings with representatives from ASSA ABLOY's local companies and ASSA ABLOY's head office. The operations in China and the US have been selected as they are the countries with the largest external sales. In addition, the Chinese operations represent an increased risk exposure in the form of weak compliance with regulatory requirements and deviations from ASSA ABLOY's internal control framework for financial reporting. As stated in the Report of the Board of Directors, such deviations have resulted in corrections of errors.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Goodwill and intangible assets with indefinite useful lives *Goodwill and acquisition-related intangible assets are described in the annual report in Note 14 and in the accounting principles in Note 1.* ASSA ABLOY is an acquisition-intensive company that has an established and structured acquisition process. During the 2016 financial year, a total of 13 acquisitions were consolidated. ASSA ABLOYs goodwill of SEK 47.5 billion and intangible assets with indefinite useful lives of SEK 6.3 billion, are allocated to the group's five cash-generating units which are equivalent to the group's five divisions. In our audit, we have focused on the valuation of goodwill and intangible assets with indefinite useful lives as these items involve a large degree of judgement on behalf of management in assessing future cash flows.	ASSA ABLOY's annual test of goodwill and other intangible assets with indefinite useful lives can be traced to observable market data and to the company's own business plans and forecasts on future development. Through test of details we have examined whether ASSA ABLOY's assessment of whether there is any indication that an asset may be impaired, is based on the company's financial budgets approved by management. We have also assessed the growth rate that the company has used to forecast cash flows beyond the first three-year period. In conjunction with this, we have compared management's assumptions regarding the sustainable growth rate and the operating margin against actual growth and the actual operating margin during recent years. Our assessment of the discount rate applied in management's calculations reflects the specific risks found in the cash generating units. We have reconciled the data in the calculations and checked it against external sources and have found that the determination of the discount rate is based on established theory. In this part of the audit, we have utilized PwC's valuation experts. We have evaluated the company's sensitivity analysis of the valuation to changes in significant parameters, which, individually or on a collective basis, could imply the existence of an impairment requirement.

Key audit matter	How our audit addressed the Key audit matter
Provisions– restructuring program *The restructuring program is described in the Report of the Board of Directors in the annual report and in Note 25.* A restructuring program was launched during the current financial year and total restructuring costs are expected to amount to SEK 1,597 million. In our audit, we have focused on the restructuring program and determined whether the program is qualified to be reported as a provision as the program is based on management's estimates of future costs.	We have examined the company's process for identifying projects and the estimated costs of these projects. Our audit measures include an evaluation of whether the restructuring program complies, in all significant aspects, with the group's accounting principles for reporting provisions. Furthermore, we have challenged management's assumptions that are the basis for the restructuring provision with the aim of assessing the reasonability of the provision. Based on risk and materiality, we have reconciled the parameters in the calculations against supporting documentation. This includes, amongst other things, the examination of minutes, agreements, calculations and communication with employees.

Key audit matter	How our audit addressed the Key audit matter
Financial reporting – Chinese operations *Corrected errors in China are described in the Report of the Board of Directors.* As seen in the annual report, weaknesses in regulatory compliance and internal control, as well as errors in the financial reporting of parts of the Chinese operations within the Asia Pacific division, have been identified during the year. With the help of external expertise, ASSA ABLOY has undertaken special investigations in response to the identified errors in the financial reporting. Our audit has had a special focus on these corrected errors. As portions of these errors refer to revenue, we have had a special focus on revenue recognition in China.	In order to ensure the accuracy of the adjusted errors, we have studied the company's investigation. We have also met with the investigation experts contracted by the company. Furthermore, we have performed tests on a selection of revenue items, whereby we have reconciled the revenue against the price agreed in the contract or with the purchase order. Where possible, we have checked the delivery documents signed by third parties. For instances where the third party had not signed the document, we have checked the warehouse delivery note. We have also checked the quantity on the delivery note to the quantity recorded as sales. In order to examine the correct cut-off of revenue, we have reconciled, for a selection of items, the recorded sales value against goods delivered, invoice date and reporting date. For the period after closing date, we have obtained lists of goods delivery notes and have traced these to the dates on the delivery documents and related invoices. We have contacted a selection of customers to obtain independent confirmations of the existence of outstanding accounts receivable. For instances where we did not receive an answer, we have performed tests that invoices have been paid after the balance sheet date, or tested the delivery of goods against delivery documents.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found in the sections Report on operations and Divisions. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of ASSA ABLOY AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the Parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 46–54 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm 1 February 2017

PricewaterhouseCoopers AB

Bo Karlsson
Authorised Public Accountant
Auditor in charge

Linda Corneliusson
Authorised Public Accountant

The ASSA ABLOY share

Share price trend

2016 was a volatile year for the Stockholm Stock Exchange, with a sharp downturn in the first half. But thanks to a strong end of year, OMX Stockholm closed with a gain of 5.8 percent. ASSA ABLOY's Series B share fell slightly from the 2015 closing price of SEK 178.00 to the 2016 closing price of SEK 169.10. The highest closing price during the year of SEK 190.10 was recorded on 9 August 2016 and the lowest of SEK 148.40 was recorded on 11 February 2016.

At year-end, market capitalization amounted to SEK 187,832 M (197,718), calculated on both Series A and Series B shares.

Listing and trading[1]

ASSA ABLOY's Series B share has been listed on Nasdaq Stockholm, Large Cap since 8 November 1994 under the code ASSA-B.ST.

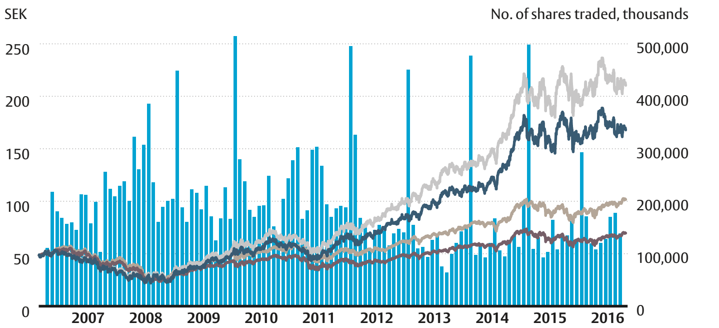
Total turnover of the Series B share on all markets amounted to 1,859 million shares (1,911) in 2016, equivalent to a turnover rate of 167 percent (172). Turnover of the Series B share on Nasdaq Stockholm amounted to 564 million shares (585), equivalent to a turnover rate of 51 percent (52).

The trend of a slight decline in turnover for trading on Nasdaq Stockholm continued in 2016. Over the past few years, turnover on Nasdaq Stockholm has gradually declined from 78 percent in 2012 to 67 percent in 2016. The average turnover rate on Nasdaq Stockholm fell in 2016 to 67 percent (72). The average turnover rate was unchanged at 70 percent (70) on the Large Cap list.

Since the implementation of the EU's Markets in Financial Instruments Directive (MiFID) in late 2007 the structure of equity trading in Europe has totally changed. Share trading now takes place on both regulated markets and other trading platforms, and has thus become more fragmented. Consequently, an ever-increasing proportion of trading in shares in Swedish companies now takes place on markets other than Nasdaq Stockholm.

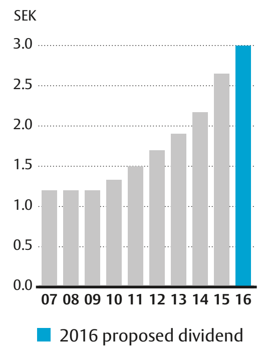
In 2016 the ASSA ABLOY share was traded on more than ten different markets, with trading on Nasdaq Stockholm accounting for only around 30 percent of share turnover, compared with 65 percent in 2009. The diagram below shows the trend and distribution of trading in ASSA ABLOY's Series B share on various markets over the past five years.

SHARE PRICE TREND AND TURNOVER 2007–2016[1]

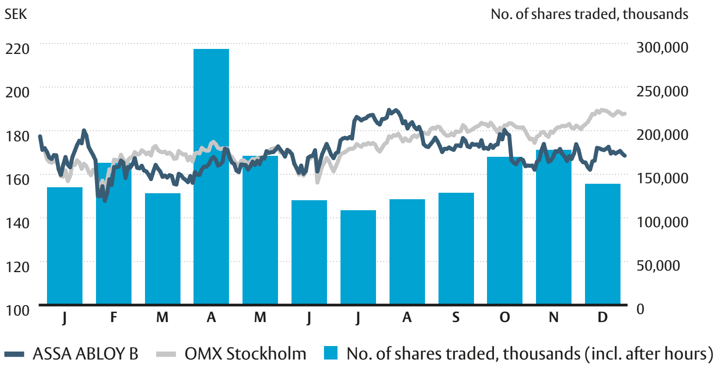


Source: Fidessa and Six Trust

DIVIDEND PER SHARE 2007–2016

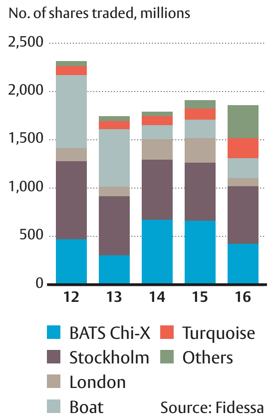


SHARE PRICE AND TURNOVER 2016



Source: Fidessa och Six Trust

MARKETS FOR THE SHARE[1]



Source: Fidessa

[1] Comparatives have been recalculated for all historical periods prior to 2015 reflecting the stock split (3:1) in 2015.

Data per share

SEK/share [1]	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Earnings after tax and dilution	3.00	3.07[2]	3.07[2]	3.63	4.10[2]	4.66	4.95[2]	5.79	6.93	7.09[2]
Dividends	1.20	1.20	1.20	1.33	1.50	1.70	1.90	2.17	2.65	3.00[3]
Dividend yield, % [4]	2.8	4.1	2.6	2.1	2.6	2.1	1.7	1.6	1.5	1.8
Dividend, % [5]	40.5	52.3	47.8	37.0	36.6	36.8	38.4	37.4	38.2	42.3
Share price at year-end	43.25	29.50	45.93	63.17	57.53	80.97	113.27	138.27	178.00	169.10
Highest share price	54.67	42.00	47.50	66.40	64.97	81.60	114.07	139.17	189.00	190.10
Lowest share price	41.67	23.25	23.83	42.20	44.50	57.23	79.33	105.63	135.00	148.40
Equity	15.58	18.64	18.25	19.55	21.85	23.29	25.94	32.50	37.43	42.51
Number of shares, millions [6]	1,142.1	1,142.1	1,118.8	1,118.2	1,113.6	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6

[1] Adjustments made for new issues and stock split (3:1) in 2015 for all historical periods prior to 2015.
[2] Excluding items affecting comparability 2008, 2009, 2011, 2013 and 2016.
[3] Dividend proposed by the Board of Directors.
[4] Dividend as percentage of share price at year-end.
[5] Dividend as percentage of earnings per share after tax and dilution, excluding items affecting comparability.
[6] After full dilution.

Ownership structure

The number of shareholders at the end of 2016 was 27,638 (22,232) and the ten largest shareholders accounted for around 40 percent (38) of the share capital and 59 percent (58) of the votes. Shareholders with more than 50,000 shares, a total of 614 shareholders, accounted for 97 percent (97) of the share capital and 98 percent (98) of the votes.

Investors outside Sweden accounted for around 64 percent (64) of the share capital and around 44 percent (44) of the votes, and were mainly in the US and the UK.

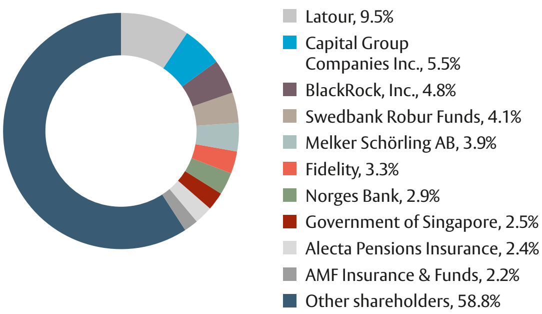
ASSA ABLOY's ten largest shareholders

Based on the share register at 30 December 2016.

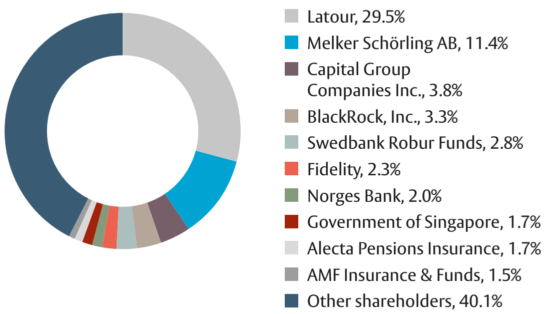
Shareholders	Series A shares	Series B shares	Total number of shares	Share capital[1], %	Votes[1], %
Latour	41,595,729	63,900,000	105,495,729	9.5	29.5
Melker Schörling AB	15,930,240	26,882,608	42,812,848	3.9	11.4
Capital Group Companies Inc		61,102,175	61,102,175	5.5	3.8
BlackRock, Inc.		53,719,714	53,719,714	4.8	3.3
Swedbank Robur Fonder		45,090,491	45,090,491	4.1	2.8
Fidelity		36,676,468	36,676,468	3.3	2.3
Norges Bank		32,476,549	32,476,549	2.9	2.0
Government of Singapore		27,958,806	27,958,806	2.5	1.7
Alecta Pensionsförsäkring		27,145,000	27,145,000	2.4	1.7
AMF Försäkring & Fonder		24,827,571	24,827,571	2.2	1.5
Other shareholders		655,270,983	655,270,983	58.8	40.1
Total number	**57,525,969**	**1,055,050,365**	**1,112,576,334**	**100.0**	**100.0**

[1] Based on the number of outstanding shares and votes of 1,110,776,334 and 1,628,510,055 respectively, excluding shares held by ASSA ABLOY.
Source: Modular Finance AB and Euroclear Sweden AB.

OWNERSHIP STRUCTURE (SHARE CAPITAL)



OWNERSHIP STRUCTURE (VOTES)



Share capital and voting rights

At 31 December 2016, the share capital amounted to SEK 370,858,778 at year-end, distributed among a total of 1,112,576,334 shares, comprising 57,525,969 Series A shares and 1,055,050,365 Series B shares. All shares have a par value of around SEK 0.33 and give shareholders equal rights to the company's assets and earnings. The total number of votes amounts to 1,630,310,055. Each Series A share carries ten votes and each Series B share one vote.

Repurchase of own shares

Since 2010, the Board of Directors has requested and received a mandate from the Annual General Meeting to repurchase and transfer ASSA ABLOY shares. The aim has been, among other things, to secure the company's undertakings in connection with its long-term incentive programs (LTI).

The 2016 Annual General Meeting authorized the Board of Directors to acquire, during the period until the next Annual General Meeting, a maximum number of Series B shares so that after each repurchase ASSA ABLOY holds a maximum 10 percent of the total number of shares in the company. ASSA ABLOY holds a total of 1,800,000 (1,800,000) Series B shares after repurchase. These shares account for around 0.2 percent (0.2) of the share capital and each share has a par value of around SEK 0.33. The purchase consideration amounted to SEK 103 M.

No shares were repurchased in 2016.

Dividend and dividend policy

The objective of the dividend policy is that, in the long term, the dividend should be equivalent to 33–50 percent of income after standard tax, but always taking into account ASSA ABLOY's long-term financing requirements.

The Board of Directors and the President and CEO propose that the dividend to shareholders be raised by 13 percent to SEK 3.00 per share (2.65) for the 2016 financial year, equivalent to a dividend yield on the Series B share of 1.8 percent (1.5).

In 2016 the total return on the ASSA ABLOY share, defined as market price movement plus reinvested dividends, was –3.5 percent, compared with the reinvested SIX Return Index, which was up 9.6 percent. Over the ten-year period 2007–2016, the total return on ASSA ABLOY's Series B share was 326 percent, compared with a 107 percent rise in the SIX Return Index and a 43 percent rise in OMX Stockholm.

Changes in share capital

Year	Transaction	Series A shares	Series C shares	Series B shares	Share capital, SEK*
1989			20,000		2,000,000
1994	Split 100:1			2,000,000	2,000,000
1994	Bonus issue				
1994	Non-cash issue	1,746,005	1,428,550	50,417,555	53,592,110
1996	New share issue	2,095,206	1,714,260	60,501,066	64,310,532
1996	Conversion of Series C shares into Series A shares	3,809,466		60,501,066	64,310,532
1997	New share issue	4,190,412		66,541,706	70,732,118
1998	Converted debentures	4,190,412		66,885,571	71,075,983
1999	Converted debentures before split	4,190,412		67,179,562	71,369,974
1999	Bonus issue				
1999	Split 4:1	16,761,648		268,718,248	285,479,896
1999	New share issue	18,437,812		295,564,487	314,002,299
1999	Converted debentures after split and new share issues	18,437,812		295,970,830	314,408,642
2000	Converted debentures	18,437,812		301,598,383	320,036,195
2000	New share issue	19,175,323		313,512,880	332,688,203
2000	Non-cash issue	19,175,323		333,277,912	352,453,235
2001	Converted debentures	19,175,323		334,576,089	353,751,412
2002	New share issue	19,175,323		344,576,089	363,751,412
2002	Converted debentures	19,175,323		346,742,711	365,918,034
2010	Converted debentures	19,175,323		347,001,871	366,177,194
2011	Converted debentures	19,175,323		349,075,055	368,250,378
2012	Converted debentures	19,175,323		351,683,455	370,858,778
2015	Split 3:1	57,525,969		1,055,050,365	370,858,778

* SEK 1 per share before split in 2015 – number of shares at the end of the period and around SEK 0.33 per share after split in 2015. Number of shares at the end of the period 1,112,576,334 (including repurchase of own shares).

Analysts who cover ASSA ABLOY

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UBS	Guillermo Peigneux-Lojo	+46 8 453 73 08	guillermo.peigneux-lojo@ubs.com

Information for shareholders

Annual General Meeting

The Annual General Meeting of ASSA ABLOY AB will be held at Moderna Museet (Museum of Modern Art), Skeppsholmen, Stockholm at 15.30 on Wednesday, 26 April 2017. Shareholders wishing to attend the Annual General Meeting should:

- Be recorded in the share register kept by Euroclear Sweden AB by Thursday, 20 April 2017.
- Notify ASSA ABLOY AB of their intent to attend no later than Thursday, 20 April 2017.

Nominee-registered shares

In addition of giving notice to attend, shareholders whose shares are nominee-registered must be temporarily registered in their own name in the share register (so-called voting right registration) to be able to attend the Annual General Meeting. Such registration must be effected by Thursday, 20 April 2017, and shareholders should contact their bank or nominee well in advance of this date.

Notice of attendance

- Website www.assaabloy.com
- Telephone +46 (0)8 506 485 14
- Address ASSA ABLOY AB, Annual General Meeting Box 7842, SE-103 98 Stockholm, Sweden

The notice of attendance should state:

- Name
- Personal or corporate identity number
- Address and daytime telephone number
- Number of shares
- Any assistants attending

If participation is by proxy, the proxy should be submitted in connection with the notice of attendance and the proxy must be presented in original at the latest at the Annual General Meeting. Proxy form is available at: www. assaabloy.com.

Nomination Committee

The Nomination Committee has the task of, on behalf of the shareholders, preparing and submitting proposals for; election of Chairman of the Annual General Meeting, election of Chairman, Vice Chairman and other members of the Board of Directors, election of auditor, determination of fees to the auditor and the Board of Directors (including distribution of fees among the Chairman, Vice Chairman and the other members of the Board of Directors and remuneration for committee work) as well as election of members of the Nomination Committee and determination of the assignment of the Nomination Committee.

Up to and including the 2017 Annual General Meeting, the Nomination Committee comprises Carl Douglas (Investment AB Latour), Mikael Ekdahl (Melker Schörling AB), Liselott Ledin (Alecta), Marianne Nilsson (Swedbank Robur fonder) and Anders Oscarsson (AMF and AMF fonder). Carl Douglas is Chairman of the Nomination Committee.

Dividends

Friday, 28 April 2017 has been proposed as the record date for dividends. If the Annual General Meeting approves the proposal, dividend is expected to be distributed by Euroclear Sweden AB on Thursday, 4 May 2017.

Further information

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Financial reporting

First quarter: 26 April 2017
Second quarter: 19 July 2017
Third quarter: 20 October 2017
Fourth quarter and Year-end report: February 2018
Annual Report 2017: March 2018

As the global leader in door opening solutions ASSA ABLOY is using the latest technologies to open doors to events, education, hospitals, homes, hotels, airports and businesses all over the world. Since its formation in 1994, ASSA ABLOY has grown successfully through a combination of organic growth and over 200 acquisitions.

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ASSA ABLOY is the global leader in door opening solutions, dedicated to satisfying end-user needs for security, safety and convenience

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"Future shareholder value is based on organic and acquired growth and a continuing process of rationalization and synergies across the Group."

Johan Molin, President and CEO