An introduction to ASSA ABLOY

Vivian Tse and Thomas Leung from ASSA ABLOY Opening Solutions Asia Pacific, two of ASSA ABLOY’s 48,500 employees.
Who are we?

The ASSA ABLOY Group is the global leader in access solutions. The offering covers products and services related to openings, such as locks, doors, gates and entrance automation solutions. The Group also has expertise in controlling identities, with keys, cards, tags, mobile and biometric identity verification systems as parts of the offering.

What do we do?

Every day, ASSA ABLOY helps billions of people experience a more open world through innovations that enable safe, secure and convenient access to physical and digital places.

For whom?

The ASSA ABLOY Group provides access solutions, trusted identities, entrance automation 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?

The Group has leading positions in most of Europe, North and South America, Asia and Oceania.

Share of Group sales by region 2018

<table>
<thead>
<tr>
<th>Region</th>
<th>Share (%)</th>
<th>Sales (M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>42%</td>
<td>40</td>
</tr>
<tr>
<td>South America</td>
<td>3%</td>
<td>3</td>
</tr>
<tr>
<td>Europe</td>
<td>38%</td>
<td>38</td>
</tr>
<tr>
<td>Asia</td>
<td>13%</td>
<td>14</td>
</tr>
<tr>
<td>Oceania</td>
<td>3%</td>
<td>4</td>
</tr>
<tr>
<td>Africa</td>
<td>1%</td>
<td>1</td>
</tr>
</tbody>
</table>

Our 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.

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

Our brands

The ASSA ABLOY Group has considerable value in its well-known brands. ASSA ABLOY is the Group’s master brand and is often combined with local brands that are well established in the local markets. Global brands offer additional markets that complement ASSA ABLOY’s main segments.
Financials in brief 2018

- Sales increased 10 percent during the year to SEK 84,048 M (76,137) driven by continued strong growth for electromechanical products.
- 19 acquisitions were completed during the year, contributing to net acquired growth of 2 percent for the year.
- Continued good earnings and strong cash flow achieved during the year. Operating margin excluding items affecting comparability was 15.4 percent (16.2).
- Investments in product development continued at a high pace. About 27 percent (28) of sales was generated by products launched during the last three years.

Key figures 2017 2018 Change

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales, SEK M</td>
<td>76,137</td>
<td>84,048</td>
<td>10%</td>
</tr>
<tr>
<td>of which: Organic growth</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>of which: Acquired growth</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>of which: Exchange rate effects</td>
<td>1</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Operating income (EBIT), SEK M</td>
<td>12,341</td>
<td>12,909</td>
<td>5%</td>
</tr>
<tr>
<td>Operating margin, %</td>
<td>16.2</td>
<td>15.4</td>
<td></td>
</tr>
<tr>
<td>Income before tax (EBT), SEK M</td>
<td>11,673</td>
<td>12,110</td>
<td>4%</td>
</tr>
<tr>
<td>Operating cash flow, SEK M</td>
<td>10,929</td>
<td>11,357</td>
<td>4%</td>
</tr>
<tr>
<td>Return on capital employed, %</td>
<td>16.6</td>
<td>16.2</td>
<td></td>
</tr>
</tbody>
</table>

Data per share 2017 2018 Change

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per share after tax and dilution (EPS), SEK/share</td>
<td>7.77</td>
<td>8.09</td>
<td>4%</td>
</tr>
<tr>
<td>Equity per share diluted, SEK/share</td>
<td>45.60</td>
<td>46.71</td>
<td>2%</td>
</tr>
<tr>
<td>Dividend, SEK/share</td>
<td>3.30</td>
<td>3.50</td>
<td>6%</td>
</tr>
<tr>
<td>Weighted average number of shares, diluted, thousands</td>
<td>1,110,551</td>
<td>1,110,776</td>
<td></td>
</tr>
</tbody>
</table>

1 Excluding impairment of goodwill and other intangible assets of SEK 5,595 M and restructuring costs of SEK 1,218 M in 2018.
2 Excluding restructuring payments.
3 As proposed by the Board of Directors.
4 Excluding items affecting comparability.
5 Reclassification has been made.

SALES AND OPERATING INCOME (EBIT)

<table>
<thead>
<tr>
<th>Sales, SEK M</th>
<th>Operating income (EBIT), SEK M</th>
</tr>
</thead>
<tbody>
<tr>
<td>90,000</td>
<td>15,000</td>
</tr>
<tr>
<td>75,000</td>
<td>12,500</td>
</tr>
<tr>
<td>60,000</td>
<td>10,000</td>
</tr>
<tr>
<td>45,000</td>
<td>7,500</td>
</tr>
<tr>
<td>30,000</td>
<td>5,000</td>
</tr>
</tbody>
</table>

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2018 was once again a good year for ASSA ABLOY. We strengthened our position as the market leader with strong growth for electromechanical products, new smart and sustainable access solutions and acquisition of 19 companies. We continued our operational efficiency initiatives and accelerated our innovation efforts. During the year we also launched our core values: Empowerment, Innovation and Integrity.

Global leader in access solutions

2018 was once again a good year for ASSA ABLOY. We strengthened our position as the market leader with strong growth for electromechanical products, new smart and sustainable access solutions and acquisition of 19 companies. We continued our operational efficiency initiatives and accelerated our innovation efforts. During the year we also launched our core values: Empowerment, Innovation and Integrity.

Financial overview
Sales growth accelerated and total sales grew by 10 percent versus last year, including 5 percent organic growth, 2 percent net growth through acquisitions and divestments (4 percent gross) and 3 percent from currency fluctuations. The growth was particularly strong in Americas and Global Technologies and within electromechanical and smart locks, but was moderate in Asia Pacific due to the challenging situation in China.

The technology shift from mechanical to electromechanical and smart locks drives strong demand both in advanced mature markets as well as in many emerging markets. Digital door opening solutions have become mainstream in the commercial segment, but the mechanical locks business remains an important part of our overall business and a significant cash generator in which the Group continues to invest.

Our operating income for 2018 increased by 8 percent to SEK 13,309 M, and the operating margin was 15.8 percent. Our restructuring program continued to deliver according to plan, as did the Group-wide programs for more efficient processes at every stage in the value chain.

Innovation as an enabler
In 2018 ASSA ABLOY was for the fourth time ranked on Forbes’ list of the world’s 100 most innovative companies. Product innovation is an enabler, driving our organic growth and supporting our margin ambition. In 2018 we invested SEK 2,893 M in R&D and we have some 2,400 R&D engineers. We constantly update our existing product and solutions offering and complement this with break-through innovations. In 2018 sales of new products launched during the last three years accounted for 27 percent of total sales, or above the target of 25 percent.

People make the difference
During the year we launched our core values: Empowerment, Innovation and Integrity. The Group mission is to build sustainable shareholder value, but also to be an attractive company to our employees and to conduct business in an ethical, compliant and sustainable way. For me, the employees and the competence they possess are our most important asset. It is our employees who bring everything together and who make the difference!

Stockholm, 4 February 2019

Nico Delvaux
President and CEO
The Group’s strategic direction is to lead the trend towards the world’s most innovative and well-designed access solutions. Our purpose is to help people feel safe, secure and experience a more open world. Our core values, beliefs and strategic objectives help guide our way.

**Value creation strategy**

**Purpose**
To every day help people feel safe, secure and experience a more open world

**Vision**
To be the leader in providing innovative access solutions that help people feel safe and secure so that they can experience a more open world

**Mission**
- Building sustainable shareholder value
- Providing added value to our customers, partners and end-users
- Being a world leading organization where people succeed
- Conducting business in an ethical, compliant and sustainable way

**Financial targets**

- **Growth**
  - 5% organic
  - 5% acquired
  - = 10% total
  - EBIT 16–17%

**Strategic objectives**

- Growth through customer relevance
- Product leadership through innovation
- Cost-efficiency in everything we do
- Evolution through people

**Core values & beliefs**

- **Empowerment** We have trust in people
- **Innovation** We have the courage to change
- **Integrity** We stand up for what’s right
Value creation strategy #1
Growth through customer relevance

Market presence creates opportunities and gives possibilities to increase customer value. A world-leading market presence is achieved by expanding into new markets and segments organically and through acquisitions. ASSA ABLOY has a unique global reach with brands represented in all major regions, in both mature and emerging markets worldwide, and with leading positions in much of Europe and North America, Asia and the Pacific. Customer relevance is based on local presence, the strength of the brand portfolio and efficient segmentation of sales channels – while addressing the demands for safety, security, convenience and sustainability.

No. 1
Global leader in access solutions.

x5
23 percent of sales are in emerging markets, a five-fold increase in ten years.

57%
The percentage of electromechanical products and entrance automation has increased from 34 percent to 57 percent of sales in ten years.

Breakdown of ASSA ABLOY’s sales

<table>
<thead>
<tr>
<th>Working and shopping</th>
<th>Living</th>
<th>New construction</th>
<th>Aftermarket</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional and commercial market</td>
<td>Private customers and residential market</td>
<td>New buildings</td>
<td>Renovations, remodeling and additions, replacements and upgrades of existing access solutions, as well as ongoing service</td>
</tr>
<tr>
<td>– share of sales</td>
<td>– share of sales</td>
<td>– share of sales</td>
<td>– share of sales</td>
</tr>
<tr>
<td>75%</td>
<td>25%</td>
<td>33%</td>
<td>67%</td>
</tr>
</tbody>
</table>
Global market leader with growing demand

ASSA ABLOY’s strategies for a world-leading global market presence include leveraging the strength of its brand portfolio, increasing growth in the core business and expanding into new markets and segments. The strategies are based on constantly increasing customer relevance, through effective market and customer segmentation, specification, a strong brand portfolio and acquisitions. The Group has a unique global market reach with its own presence in over 70 countries.

ASSA ABLOY’s large installed base drives organic growth. Some 75 percent of ASSA ABLOY’s total sales derive from the institutional and commercial markets. Buildings related to education, health care, public administration, private offices, shopping centers, stores and warehouses – are all environments where ASSA ABLOY’s access solutions can be found.

The Group’s focused and segmented sales forces develop products for the multifaceted customer needs, while distribution and installation are largely handled by channel partners, installers, system integrators and locksmiths.

Residential sales account for about 25 percent of total sales. The increased demand for security and the megatrends of urbanization, digitization and increased wealth drive demand for secure access solutions as well as for smart door locks. ASSA ABLOY is leading the development of smart door locks for the residential market, where demand is very strong. Depending on the geographic market, ASSA ABLOY cooperates with door and window manufacturers or specialist distribution channels such as home improvement stores and locksmiths – and is often developing residential products in partnership with suppliers of other smart residential products for the connected home.

For ASSA ABLOY the aftermarket accounts for two thirds of total sales and is therefore a significant contributor to sales both in the institutional as well as in the institutional and commercial markets. Renovations, remodeling and additions, replacements and upgrades of existing door opening installations as well as ongoing service provide a stable demand, enabling the Group to capitalize on the world’s largest installed base and its global market presence. New service concepts, based on longer-term contracts, including preventive maintenance and modernization efforts, strengthen customer relationships and provide further opportunities for the Group going forward.

ASSA ABLOY is a global player with local presence in all major markets. Although the Group’s ambition is to increase its market presence in emerging markets, mature markets account for most of ASSA ABLOY’s total sales.

The share of sales derived from emerging market customers has over the last ten years increased from 16 percent to 23 percent in 2018. With a large population, Asia Pacific has the greatest growth potential going forward as well.

As an important part of its strategy, ASSA ABLOY’s ambition is to achieve 5 percent acquired growth per year. The aim is to further increase its market presence, complement existing operations and increase its offering. In 2018, 19 acquisitions were consolidated and 2 were divested.

Distribution plays a key role in ASSA ABLOY’s value creation. ASSA ABLOY’s products and services reach the customers through many different distribution channels. The distribution channel depends on customer segment and if it is specifications based, sales to consumers, or sales based on OEM delivery. Supported by digitization and improved sales processes, the shift in resources to direct sales from indirect sales continues to increase.
Value creation strategy #2
Product leadership through innovation

ASSA ABLOY is a product-driven company where product leadership is achieved through a high rate of innovation and reliability. Product leadership enhances customer value and quality, and reduces product costs. The innovation process is carried out in close cooperation with end-users on a continuous base with the objective of exceeding customer expectations.

No. 1 57% 27%

The most innovative supplier of access solutions.
The percentage of electromechanical products and entrance automation has increased from 34 percent to 57 percent of sales in ten years.
Products launched in the past three years account for 27 percent of total sales.

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 principles and deep customer insight to product management and development.
3. Developing and using common modular platforms and common technologies.
4. Continuing to invest in our R&D competence centers.
ASSA ABLOY’s product leadership is based on the Group’s joint innovation process. Guiding principles are deep insights into customer and market needs, product development based on long-term planning and active portfolio management throughout the product life-cycle to enable innovative, sustainable and cost-efficient products. Shared Technologies, the Group’s joint development center, plays a key role to achieve this objective.

A constant flow of new, enhanced, innovative and sustainable products is an important driver for ASSA ABLOY’s target of 5 percent organic growth. Products launched during the last three years accounted for 27 percent of total sales in 2018, exceeding the Group target of at least 25 percent. The outcome reflects the Group’s product leadership, the high innovation rate, as well as the Group’s ability to meet the needs of the connected society for smart and connected access solutions.

ASSA ABLOY’s strategies for a high innovation rate form the Group’s vision to be the leader in providing innovative access solutions that help people feel safe and secure. The Group’s innovation process has its roots in a modular and sustainable approach to product development based on the Group-wide global technology platforms. Shared Technologies add skills and scale and develop the product platforms that the local engineering teams adapt to local standards, requirements and brands. The Group has 114 competence centers close to the customers, including product development, in all divisions. R&D investment amounted to SEK 2,893 M in 2018, representing some 3 percent of total sales. Some 2,400 employees are engaged in product development.

Together with the global mega trends, the main driver of innovation and product development is the rapid technology development. Sales of mechanical products continue to increase, but electromechanical products are growing considerably faster. Another important driver for product development is the sharply rising demand for sustainable solutions. There is strong growth in investment in sustainable buildings, 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. ASSA ABLOY offers a growing selection of products with environmental declarations, with focus on energy savings, as well as reduced consumption of materials and other resources used in production.

The technology shift for access solutions in the connected society is accelerating, providing ASSA ABLOY with major growth opportunities. Home services and other services that are logically connected to the Group’s products are experiencing strong demand. Broadening and deepening demand are boosting revenue with more value per product, faster replacements and upgrades, more recurrent revenues and new business opportunities. ASSA ABLOY’s products and technologies are well-positioned to grow with Internet of Things.

ASSA ABLOY’s brands

ASSA ABLOY has considerable value in its well-known brands. ASSA ABLOY is the Group’s master brand and is increasingly becoming the leading product brand for commercial door solutions. Approximately 70 percent of Group sales are under the ASSA ABLOY brand or a combination of ASSA ABLOY and local brands. The local brands are well established in the local markets and play an important role in creating trust, loyalty, value and differentiation.

The master brand is complemented by global brands, which are all leaders in their respective market segments, some examples are: 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, to further drive sales.
Value creation strategy #3
Cost-efficiency in everything we do

ASSA ABLOY aims to continuously increase its cost-efficiency through the implementation of operational improvements and sustainable operations. Rigid cost control is achieved by streamlining manufacturing, professional sourcing and processes. The increased focus on professional sourcing adds competitiveness through quality and cost efficiency.

48%
Share of total purchases in low-cost countries.

−27%
The number of suppliers has been reduced by 27 percent over the past five years.

7th
manufacturing footprint program launched in 2018 with an expected payback time of less than three years.
Increased efficiency through automation and digitization

In 2018, the Group launched its seventh manufacturing footprint program (MFP), which will further improve efficiency going forward. In parallel, ASSA ABLOY also, on an ongoing basis, implements other efficiency measures such as professional sourcing to offset price pressure, including raw material prices. Initiatives to improve efficiency through digitization of processes and automation of production also remain top priority.

ASSA ABLOY’s production structure and overall efficiency continues to evolve through recurring multi-year structural programs. A significant part of synergy effects in acquisitions is related to the streamlining of manufacturing sites as well as efficient integration. In addition, reducing the number of offices to increase efficiency in the organizational structure is also an important element in the ambition to drive profitable growth and enhance performance. Improved global logistics result in lower costs, increased flexibility, improved added value for customers and a better work environment.

The goal is to concentrate product assemblies to sophisticated plants close to customers, primarily in mature markets. Production of the more strategic components, is concentrated in the Group's own production plants in low-cost countries, while other components are increasingly sourced from production partners.

Since the first MFP in 2006, 88 production plants have been closed, more than 143 plants have been remodeled into assembly plants, and about 60 offices have closed. In 2018, the restructuring programs have proceeded according to plan and led to efficiency improvements and a reduction of 1,798 employees. Including acquisitions, the number of employees in low-cost countries was about 21,000 in 2018, representing 44 percent of the total workforce compared with 38 percent in 2008.

Since the MFP’s were launched back in 2006, the number of employees has been reduced by 15,362, largely related to production in high-cost countries.

In 2018 the seventh Group-wide MFP was launched. The program will have an expected payback time of less than three years and includes the closure of 15 production plants and about 30 offices.

The Group’s purchasing processes are gaining in importance, mainly driven by an increased share of sourced standard components for final assembly and customization, but also as a significant tool for cost efficiency. The aim of the Group’s purchasing process is to ensure high quality at a lowest cost. The Group’s ambition is to decrease the number of suppliers and increase the number of partner suppliers and this entails significant cost reductions. The ambition is to have an increasingly limited number of larger, high-quality partner suppliers for more of the Group’s divisions, mainly in low-cost countries. Over the past five years, the number of suppliers has been reduced by 27 percent to around 8,000 worldwide, with a majority in low-cost countries. The goal is to continue to reduce the number of suppliers and in 2018 the number of suppliers decreased by 6 percent on Group level.
Value creation strategy #4
Evolution through people

Employee commitment and expertise are crucial for the Group’s success. In 2018, ASSA ABLOY developed core values and beliefs to support a common ASSA ABLOY Group culture. A global workforce also requires digital platforms and tools to provide innovative and efficient ways of working seamlessly.

- 28 different nationalities in senior management positions.
- 87% of the employees participated in the employee survey 2018.
- 3.6 injuries per million hours worked. Since 2015 injury rate decreased with 46 percent.

The human resources framework is based on three foundations:
- Increase diversity and inclusion
- Improve talent management
- Improve health and safety
Employees lead the way

During the year, ASSA ABLOY launched core values and beliefs that will be activated throughout the Group in 2019. They form the base for the human resources vision, strategy and framework that were updated during the year. This will support the work toward being the Employer of Choice. The business-oriented strategy with a clear focus on people creates an environment that enables employees to make a difference and to act with authority. ASSA ABLOY believes that the right people in the right place is the driving force for growth. By improving the Group’s processes and structures, ASSA ABLOY’s aim is to create a culture that adds value to the business and encourages internal mobility, diversity and knowledge sharing.

Increasing diversity and inclusion
ASSA ABLOY’s 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. ASSA ABLOY has a performance culture based on the diversity of perspectives and is set to lead by example.

Diversity of perspectives is an important aspiration for ASSA ABLOY, contributing to more dynamic structures – promoting creativity and an open exchange of ideas. ASSA ABLOY’s extensive experience of working with more diverse teams has shown that they often provide a more holistic approach and better results, particularly in terms of innovation and business process.

The participants of ASSA ABLOY’s executive management program consists of a diverse group of employees to promote multiple perspectives.

The Group’s target is to have 30 percent of management positions held by women. In 2018 the share was 24 percent and currently there are 28 different nationalities in senior management positions. During 2018 several female appointments to executive positions were made.

Improving talent management
ASSA ABLOY believes that people can achieve great things. Combined with the opportunity to work together and an environment with diverse perspectives, ASSA ABLOY has the ability to innovate the business, the products and the industry. The Group actively invests in opportunities to learn, grow and achieve results that make a positive impact.

Every other year ASSA ABLOY conducts a Group-wide Employee Survey: an important tool to understand how employees feel about their workplace and role. The survey for 2018 had a response rate of 87 percent and with overall positive results, specifically concerning innovation, employee development and work processes.

The Group operates on all levels to strengthen internal mobility and cross-level development opportunities. ASSA ABLOY’s recruitment policy gives priority to internal candidates provided they have equal qualifications to external applicants. Job vacancies are published on the Group’s intranet to encourage internal mobility and there are several common programs for increased commitment and personal growth.

The Group has a global development process for senior managers, which is aimed at ensuring that the Group has the expertise it needs to meet future demands. Its foundation consists of two development programs for senior managers: ASSA ABLOY MMT and ASSA ABLOY IMD, “Leading the future.” About 620 of the Group’s senior managers from 35 countries have participated in the IMD training program. It includes a customized IMD program in collaboration with the Swiss management school, the International Institute for Management Development (IMD) in Lausanne, with 30 participants per session.

Improving health and safety
ASSA ABLOY works for a workplace free of injuries in all its operations. With a Group-wide safety culture that promotes safe behavior, workplace hazards and risk taking are reduced. The objective is to have zero accidents in the workplace.

Digital workplace
With a global workforce that requires working from anywhere at any time requires a robust, secure and allowing IT infrastructure. To provide innovative and more efficient ways to work as well as effective access to information in a secure and compliant way, ASSA ABLOY invests in digital platforms, identity & access management and self-service tools. For example, cloud computing presents opportunities for ASSA ABLOY to realize tangible benefits including scalability, reliability, resilience and a more agile organization. It also offers multiple benefits to ASSA ABLOY by leveraging economies of scale, commoditizing IT infrastructure, and a paying per-use model.

Our core values and beliefs

<table>
<thead>
<tr>
<th>Empowerment</th>
<th>Innovation</th>
<th>Integrity</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have trust in people</td>
<td>We have the courage to change</td>
<td>We stand up for what’s right</td>
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</table>
The result of ASSA ABLOY’s strategy
Profitable growth

ASSA ABLOY’s strategic objectives are customer relevance, product leadership through innovation, cost-efficiency in everything we do and evolution through people. This has resulted in strong growth and earnings trends that have created significant value for customers, shareholders and employees.

141% Sales growth since 2008.

164% Increase in earnings per share since 2008.

134% Increase in operating income since 2008.
Focus on long-term value-creation

ASSA ABLOY’s focus is on long-term value-creation. Average annual sales growth over the last ten years has been over 9 percent, while operating income grew by an average of 9 percent per year during the same period. The Group targets to grow over a business cycle by 5 percent organically and 5 percent through acquisitions remains firm as well as the operating margin target of 16–17 percent.

ASSA ABLOY was formed in 1994 through the merger of Swedish ASSA and Finnish ABLOY. The Group grew rapidly during its first decade – mainly through acquisitions – from being a regional lock company in the Nordic countries into a leading global player.

Market presence through customer relevance
ASSA ABLOY’s growth rests on a strong long-term trend: the growing human need for safety, security and convenient solutions for locks and doors. The Group is currently represented in over 70 countries and has rapidly expanded in the emerging markets, which represented some 23 percent of total sales in 2018. The market drivers, including urbanization, digitalization and sustainability, contribute to growing demand for mechanical, electromechanical, digital and smart access and identification solutions, as well as increasingly sustainable and energy-saving products and solutions. Electromechanical solutions are rapidly growing with a growth in 2018 of 20 percent and now account for 30 percent of Group sales.

Another significant factor for ASSA ABLOY’s stable growth is the Group’s installed base of locks and doors, and a product range which is the largest in the world. It provides a continuous flow of profitable and recurring business. Organic growth is supplemented with an acquisition strategy to strengthen the Group’s market presence geographically, and to expand with more access solutions and new technology in selected areas. Over the past decade, ASSA ABLOY has completed 146 acquisitions that have contributed with an average of 6 percent growth annually. In 2018, acquisitions contributed a net 2 percent growth. As a result of several major acquisitions in entrance automation and in industrial, warehouse and garage doors, ASSA ABLOY’s Entrance Systems division has become the market leader and the Group’s largest division with sales of SEK 23,762 M, representing 28 percent of total sales.

Product leadership through innovation
ASSA ABLOY is an innovative product leader and spends annually about 3 percent of the Group’s sales on Research & Development. This is becoming more important as part of the move to more electromechanical, digital and mobile solutions. Products that are less than three years old accounted for 27 percent of the Group’s total sales in 2018 compared with the Group target of 25 percent. The continuous investments in product development and innovation is a main driver for achieving the target of 5 percent annual organic growth.

Cost-efficiency in everything we do
Constant efficiency enhancements are essential for good and stable profitability, as well as a sustainable business and products. The Group continually streamlines the global production structure through recurring multiyear restructuring programs. An effect of this is that the Group’s external sourcing has increased substantially and been concentrated to fewer and larger partner suppliers. The purpose of the manufacturing footprint programs is to concentrate assembly lines while keeping customization close to the major customer markets and to relocate component production to low-cost countries. A seventh program was launched in 2018. The ongoing programs resulted during 2018 in efficiency improvements and a reduction of 1,798 employees.

In addition to the manufacturing footprint programs, ASSA ABLOY runs several other efficiency improvement and customer benefit initiatives. All units operate based on Lean processes with professional teams for smarter production flows, and Seamless Flow covers the entire Group. The Group is making major investments in common IT systems, standardized databases as well as in automation and robotics in production processes, all with the aim to improve efficiency and allow for further profitable organic growth and growth through acquisitions.

Evolution through people
The employees are the most important asset and the development of their expertise is crucial for the ASSA ABLOY Group’s future success. In 2018, ASSA ABLOY developed core values to support a common culture that unites the Group across geographies, divisions, brands and companies. The values are: Empowerment, Innovation and Integrity.
ASSA ABLOY’s 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.

Opening Solutions
EMEA

Share of sales
Share of operating income

24%
24%

Opening Solutions
Americas

Share of sales
Share of operating income

23%
29%

Opening Solutions
Asia Pacific

Share of sales
Share of operating income

11%
4%

FINANCIALS IN BRIEF 2018
- Sales: SEK 20,201 M (18,081) with 2 percent organic growth.
- Operating income (EBIT): SEK 3,256 M (2,990).\(^1\)
- Operating margin: 16.1 percent (16.5).\(^1\)

FINANCIALS IN BRIEF 2018
- Sales: SEK 19,817 M (17,940) with 9 percent organic growth.
- Operating income (EBIT): SEK 3,941 M (3,815).\(^1\)
- Operating margin: 19.9 percent (21.3).\(^1\)

FINANCIALS IN BRIEF 2018
- Sales: SEK 9,949 M (9,211) with 4 percent organic growth.
- Operating income (EBIT): SEK 492 M (934).\(^1\)
- Operating margin: 4.9 percent (10.1).\(^1\)

\(^1\) Excluding items affecting comparability.

SALES BY PRODUCT GROUP
- Mechanical locks, lock systems and fittings, 50%
- Electromechanical and electronic, 35%
- Security doors and hardware, 15%

SALES BY PRODUCT GROUP
- Mechanical locks, lock systems and fittings, 39%
- Electromechanical and electronic, 20%
- Security doors and hardware, 41%

SALES BY PRODUCT GROUP
- Mechanical locks, lock systems and fittings, 50%
- Electromechanical and electronic, 24%
- Security doors and hardware, 26%
Global divisions
The global divisions manufacture and sell electronic access management, identification products and entrance automation on the global market.

**Global Technologies**

- Share of sales: 14%
- Share of operating income: 18%

**Entrance Systems**

- Share of sales: 28%
- Share of operating income: 25%

**FINANCIALS IN BRIEF 2018**

- Sales: SEK 11,951 M (10,373) with 8 percent organic growth.
- Operating income (EBIT): SEK 2,387 M (1,946).1
- Operating margin: 20.0 percent (18.8).1

**FINANCIALS IN BRIEF 2018**

- Sales: SEK 23,762 M (21,781) with 4 percent organic growth.
- Operating income (EBIT): SEK 3,358 M (3,087).1
- Operating margin: 14.1 percent (14.2).1

1 Excluding items affecting comparability.
## Five years in summary

### Amounts in SEK M unless stated otherwise

<table>
<thead>
<tr>
<th>Sales and income</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>56,843</td>
<td>68,099</td>
<td>71,293</td>
<td>76,137</td>
<td>84,048</td>
</tr>
<tr>
<td>Organic growth, %</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Acquisitions and disposals, %</td>
<td>9</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Operating income before depreciation and amortization (EBITDA)¹</td>
<td>10,419</td>
<td>12,512</td>
<td>12,833</td>
<td>14,029</td>
<td>14,872</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>−1,163</td>
<td>−1,433</td>
<td>−1,580</td>
<td>−1,688</td>
<td>−1,963</td>
</tr>
<tr>
<td>Operating income (EBIT)¹</td>
<td>9,257</td>
<td>11,079</td>
<td>11,254</td>
<td>12,341</td>
<td>12,909</td>
</tr>
<tr>
<td>Income before tax (EBT)</td>
<td>8,698</td>
<td>10,382</td>
<td>8,952</td>
<td>11,673</td>
<td>5,297</td>
</tr>
<tr>
<td>Net income</td>
<td>6,436</td>
<td>7,693</td>
<td>6,653</td>
<td>8,635</td>
<td>2,755</td>
</tr>
</tbody>
</table>

### Cash flow

<table>
<thead>
<tr>
<th>Cash flow</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow from operating activities</td>
<td>6,679</td>
<td>8,572</td>
<td>8,757</td>
<td>9,248</td>
<td>9,225</td>
</tr>
<tr>
<td>Cash flow from investing activities</td>
<td>−3,524</td>
<td>−4,412</td>
<td>−4,063</td>
<td>−8,661</td>
<td>−6,427</td>
</tr>
<tr>
<td>Cash flow from financing activities</td>
<td>−2,908</td>
<td>−4,335</td>
<td>−4,271</td>
<td>−861</td>
<td>−2,728</td>
</tr>
<tr>
<td>Cash flow</td>
<td>247</td>
<td>−175</td>
<td>240</td>
<td>−274</td>
<td>70</td>
</tr>
<tr>
<td>Operating cash flow³</td>
<td>8,238</td>
<td>9,952</td>
<td>10,467</td>
<td>10,929</td>
<td>11,357</td>
</tr>
</tbody>
</table>

### Capital employed and financing

<table>
<thead>
<tr>
<th>Capital employed and financing</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital employed</td>
<td>58,425</td>
<td>63,848</td>
<td>70,351</td>
<td>75,932</td>
<td>81,146</td>
</tr>
<tr>
<td>– of which goodwill</td>
<td>39,778</td>
<td>42,777</td>
<td>47,544</td>
<td>50,330</td>
<td>53,413</td>
</tr>
<tr>
<td>– of which other intangible assets and property, plant and equipment</td>
<td>14,990</td>
<td>16,649</td>
<td>17,618</td>
<td>19,144</td>
<td>19,637</td>
</tr>
<tr>
<td>– of which shares and interests in associates</td>
<td>1,861</td>
<td>1,910</td>
<td>2,109</td>
<td>2,243</td>
<td>2,434</td>
</tr>
<tr>
<td>Net debt</td>
<td>22,327</td>
<td>22,269</td>
<td>23,127</td>
<td>25,275</td>
<td>29,246</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Shareholders’ equity, excluding non-controlling interest</td>
<td>36,096</td>
<td>41,575</td>
<td>47,220</td>
<td>50,648</td>
<td>51,890</td>
</tr>
</tbody>
</table>

### Data per share, SEK

<table>
<thead>
<tr>
<th>Data per share, SEK</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per share before and after dilution</td>
<td>5.79</td>
<td>6.93</td>
<td>5.99</td>
<td>7.77</td>
<td>2.48</td>
</tr>
<tr>
<td>Earnings per share before and after dilution and excluding items affecting comparability¹</td>
<td>5.79</td>
<td>6.93</td>
<td>7.09</td>
<td>7.77</td>
<td>8.09</td>
</tr>
<tr>
<td>Shareholders’ equity per share after dilution</td>
<td>32.50</td>
<td>37.43</td>
<td>42.51</td>
<td>45.60</td>
<td>46.71</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>2.17</td>
<td>2.65</td>
<td>3.00</td>
<td>3.30</td>
<td>3.50²</td>
</tr>
<tr>
<td>Price of Series B share at year-end</td>
<td>138.27</td>
<td>178.00</td>
<td>169.10</td>
<td>170.40</td>
<td>156.55</td>
</tr>
</tbody>
</table>

### Key figures

<table>
<thead>
<tr>
<th>Key figures</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating margin (EBITDA), %¹</td>
<td>18.3</td>
<td>18.4</td>
<td>18.0</td>
<td>18.4</td>
<td>17.7</td>
</tr>
<tr>
<td>Operating margin (EBIT), %¹</td>
<td>16.3</td>
<td>16.3</td>
<td>15.8</td>
<td>16.2</td>
<td>15.4</td>
</tr>
<tr>
<td>Profit margin (EBT), %</td>
<td>15.3</td>
<td>15.2</td>
<td>12.6</td>
<td>15.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Return on capital employed, %</td>
<td>16.9</td>
<td>17.8</td>
<td>14.1</td>
<td>16.6</td>
<td>7.8</td>
</tr>
<tr>
<td>Return on capital employed excluding items affecting comparability, %</td>
<td>16.9</td>
<td>17.8</td>
<td>16.5</td>
<td>16.6</td>
<td>16.2</td>
</tr>
<tr>
<td>Return on shareholders’ equity, %</td>
<td>19.8</td>
<td>19.8</td>
<td>15.0</td>
<td>17.6</td>
<td>5.4</td>
</tr>
<tr>
<td>Equity ratio, %</td>
<td>45.1</td>
<td>48.2</td>
<td>49.6</td>
<td>50.9</td>
<td>48.7</td>
</tr>
<tr>
<td>Net debt/equity ratio</td>
<td>0.62</td>
<td>0.54</td>
<td>0.49</td>
<td>0.50</td>
<td>0.56</td>
</tr>
<tr>
<td>Interest coverage ratio, times</td>
<td>17.4</td>
<td>16.7</td>
<td>14.1</td>
<td>19.1</td>
<td>8.0</td>
</tr>
<tr>
<td>Total number of shares, thousands⁴</td>
<td>1,112,576</td>
<td>1,112,576</td>
<td>1,112,576</td>
<td>1,112,576</td>
<td>1,112,576</td>
</tr>
<tr>
<td>Number of outstanding shares, thousands⁴</td>
<td>1,110,776</td>
<td>1,110,776</td>
<td>1,110,776</td>
<td>1,110,776</td>
<td>1,110,776</td>
</tr>
<tr>
<td>Weighted average number of shares issued, before and after dilution, thousands⁴</td>
<td>1,110,776</td>
<td>1,110,776</td>
<td>1,110,776</td>
<td>1,110,776</td>
<td>1,110,776</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>44,269</td>
<td>45,994</td>
<td>46,928</td>
<td>47,426</td>
<td>48,353</td>
</tr>
</tbody>
</table>

1 Excluding items affecting comparability 2016 and 2018.
2 Dividend proposed by the Board of Directors.
3 Excluding restructuring payments.
4 Comparatives have been recalculated for all historical periods prior to 2015 reflecting the stock split (3:1) in 2015.

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### Graphs

- **RETURN ON CAPITAL EMPLOYED¹**: Values from 2014 to 2018, showing a general increase over the years.
- **OPERATING MARGIN (EBIT)¹**: Values from 2014 to 2018, illustrating a slight decrease after 2016.
- **AVERAGE NUMBER OF EMPLOYEES**: Values from 2014 to 2018, indicating a steady increase over the years.

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¹ Excluding items affecting comparability 2016 and 2018.
The ASSA ABLOY share

**SHARE PRICE TREND AND TURNOVER 2009–2018**

![Graph showing share price trend from 2009 to 2018.]

**DIVIDEND PER SHARE 2008–2017**

![Graph showing dividend per share from 2008 to 2017.]

**MARKETS FOR THE SHARE**

![Graph showing market share distribution.]

**DATA PER SHARE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Earnings after tax and dilution</th>
<th>Dividend</th>
<th>Dividend yield (%)</th>
<th>Share price at year-end</th>
<th>Highest share price</th>
<th>Lowest share price</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>3.07</td>
<td>1.20</td>
<td>2.6</td>
<td>45.93</td>
<td>47.50</td>
<td>23.83</td>
<td>18.25</td>
</tr>
<tr>
<td>2010</td>
<td>3.63</td>
<td>1.33</td>
<td>2.1</td>
<td>63.17</td>
<td>66.40</td>
<td>42.20</td>
<td>19.55</td>
</tr>
<tr>
<td>2011</td>
<td>4.10</td>
<td>1.50</td>
<td>2.6</td>
<td>57.53</td>
<td>64.97</td>
<td>44.50</td>
<td>21.85</td>
</tr>
<tr>
<td>2012</td>
<td>4.66</td>
<td>1.70</td>
<td>2.1</td>
<td>80.97</td>
<td>81.60</td>
<td>57.23</td>
<td>23.95</td>
</tr>
<tr>
<td>2013</td>
<td>4.95</td>
<td>1.90</td>
<td>1.7</td>
<td>113.27</td>
<td>114.07</td>
<td>79.33</td>
<td>32.50</td>
</tr>
<tr>
<td>2014</td>
<td>5.79</td>
<td>2.17</td>
<td>1.6</td>
<td>138.27</td>
<td>139.17</td>
<td>105.63</td>
<td>37.43</td>
</tr>
<tr>
<td>2015</td>
<td>6.93</td>
<td>2.65</td>
<td>1.5</td>
<td>178.00</td>
<td>189.00</td>
<td>135.00</td>
<td>42.35</td>
</tr>
<tr>
<td>2016</td>
<td>7.09</td>
<td>3.00</td>
<td>1.8</td>
<td>169.10</td>
<td>190.10</td>
<td>148.40</td>
<td>42.50</td>
</tr>
<tr>
<td>2017</td>
<td>7.77</td>
<td>3.30</td>
<td>1.9</td>
<td>170.40</td>
<td>197.10</td>
<td>163.80</td>
<td>42.71</td>
</tr>
<tr>
<td>2018</td>
<td>8.09</td>
<td>3.30</td>
<td>2.2</td>
<td>158.15</td>
<td>193.90</td>
<td>155.85</td>
<td>46.71</td>
</tr>
</tbody>
</table>

**OWNERSHIP STRUCTURE (SHARE CAPITAL)**

- Latour, 9.5%
- Government of Singapore, 4.6%
- Capital Group, 3.8%
- Melker Schörling AB, 3.1%
- BlackRock, 3.3%
- Fidelity Investments, 3.0%
- Vanguard, 2.7%
- Norges Bank, 2.1%
- Swedbank Robur Funds, 2.1%
- Alecta Pension Insurance, 2.1%
- Other shareholders, 63.1%

**OWNERSHIP STRUCTURE (VOTES)**

- Latour, 29.5%
- Melker Schörling AB, 11.1%
- Government of Singapore, 3.1%
- Capital Group, 2.6%
- BlackRock, 2.2%
- Fidelity Investments, 2.0%
- Vanguard, 1.8%
- Norges Bank, 1.6%
- Swedbank Robur Funds, 1.5%
- Alecta Pension Insurance, 1.5%
- Other shareholders, 43.1%

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1 Comparatives have been recalculated for all historical periods prior to 2015 reflecting the stock split (3:1) in 2015.


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.
Good progress in sustainability

ASSA ABLOY’s sustainability initiatives continued to make good progress in 2018, with a positive development across a majority of the reporting areas - many new sustainable products, improved water and energy efficiency, more sustainability audits of suppliers and a decrease of the injury rate.

- The Group’s materiality analysis was updated during the year with input from employees, customers and suppliers. The result confirms that the Group is working with the right priorities.
- The increased focus on Health and Safety has paid off and led to a decrease of the injury rate by 11 percent.
- The water intensity has decreased by 10 percent during the year.
- The energy intensity has decreased by 5 percent during the year.
- By the end of 2018 the Group had 332 Environmental Product Declarations verified and published.
- The Group carried out 1,055 sustainability audits of suppliers in low cost countries.
- The Code of Conduct was updated with the Group’s global Data protection compliance program. The Code of Conduct will be rolled out in 28 languages.