An introduction to ASSA ABLOY 2019

Every day, we help people feel safe, secure and experience a more open world
ASSA ABLOY in brief

Who are we?
The ASSA ABLOY Group is the global leader in access solutions. Our offering covers products and services related to openings; such as locks, doors, gates and entrance automation solutions. We are also experts in trusted identities; with keys, cards, tags, mobile and biometric identity verification systems as parts of our offering.

What do we do?
Every day, we help billions of people to experience a more open world with innovative solutions that enable safe, secure and convenient access to physical and digital places.

For who?
We provide efficient door openings, trusted identities, entrance automation and service for institutional and commercial customers, as well as for the residential market. We have the largest installed base of locks and access solutions in the world, with a large share of sales in the stable aftermarket.

Where are we?
We have leading positions in most of Europe, North and South America, Asia and Oceania.

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.

Our brands
We have considerable value in our well-known brands. Our brands play an important role in creating trust, loyalty and differentiation. We use a multi-brand strategy to leverage on our global and local strengths and to address different market segments, customer segments and routes to market.

Contents

Highlights 2019 .................................................. 1
A word from the CEO ........................................... 2
Group key figures .................................................. 3
Market overview .................................................. 4
Targets and strategy .............................................. 5
Market growth ...................................................... 6
Cost efficiency .................................................... 10
People ............................................................. 12
ASSA ABLOY’s divisions ..................................... 14
Five years in summary ........................................ 16
The ASSA ABLOY share ...................................... 17
Achievements

Products

- 202 number of new patents were filed
- 395 increase in the number of R&D employees
- 27% of sales from new products launched in the last three years

Operational improvements

- SEK 710 M in efficiency savings from MFP programs
- 10% sales increase per employee
- 5 factories were closed

Sustainability

- Improved energy efficiency –10%
- Total greenhouse gas reduction1 –21%
- Water consumption decreased –8%
- Audited suppliers 1,175

Awards

- Secure Campus in the US for Attack Resistant Openings
- DIY Week UK 'Best Security Product’ for Sync Smart Alarm
- Gold winner in German Brand Award
- Govies Government Security Award

1 Intensity

• First important orders for a distress system solution to increase hotel personnel’s safety in the US.
• Clemson University ordered our mobile key solution from HID with ASSA ABLOY electronic locks to enable students to use their mobile phone on campus to open doors in Apple wallet, providing a more user-friendly experience.
• Together with other key industry players we established FiRa Consortium to drive the seamless user experiences using Ultra-Wideband Technology.
Investments in product development and people to drive future growth

I am pleased to report another successful year for ASSA ABLOY in which we generated good growth with record profits and cash flow. During the year, we strengthened our Group culture and launched our new core values and beliefs. We accelerated our investments in R&D, which is a key enabler for our sustainable and profitable growth. In the manufacturing footprint program we achieved our highest ever annual efficiency gains. The initiatives taken strengthen ASSA ABLOY’s leadership within access solutions and position us as an agile and strong company with significant profitable growth opportunities.

Together we grow
ASSA ABLOY’s decentralized organizational structure has been a key to our success. However, as more of our products and solutions become connected, we can realize more synergies between our different regions, business areas and divisions. The global rollout of our August software platform for our smart residential locks is a good example of how we can achieve more synergies through increased internal collaboration. A strong common culture is the cornerstone for successful internal collaboration. In 2019 we launched our common core values: Empowerment, Innovation and Integrity and strengthened our common culture with our ‘Together We’ program, encouraging further collaboration and realizing more synergies across the Group.

Our strategic objectives
We have fine-tuned our four strategic objectives: Growth through customer relevance; Product leadership through innovation; Cost-efficiency in everything we do; and Evolution through people. We further extended and strengthened our product portfolio and invested in our market presence in order to increase customer value. We invested in our different channels to market and grew our service and customer support organization in a significant way.

Innovation is an enabler for our sustainable and profitable growth where digitization provides many opportunities. We accelerated R&D investments in general and for Global Technologies in particular. Enhanced customer value at a lower cost and a reduced environmental footprint are basic principles for all our development projects. Our manufacturing footprint program, where we consolidate production facilities, sales offices and warehouses, is an important contributor to improvements in efficiency. In addition to the larger ongoing programs, smaller day-to-day lean improvements are equally important. Realizing cost efficiency is a journey that never ends and we continue to see potential to further reduce operational costs. These efficiency activities also contribute to our improved sustainability performance.

All these activities cannot happen and be successfully implemented without our talented and committed employees. Our people are our most important asset and our future depends on that we can continue to attract, retain and develop the right people and evolve with them. We work on many initiatives to strengthen what we do in this area. For example, we invest in external talent via graduate programs and we focus on providing our employees with development opportunities, with the aim to help them to grow into bigger roles within the organization. By enabling our people to develop continuously and by providing them with a varied, challenging and long-term career, we lay an important foundation for ASSA ABLOY’s future success.

Sustainability is an enabler for value creation
ASSA ABLOY is committed to reducing its environmental footprint and to help to mitigate climate change, to meet the needs of future generations. Our customers require our products to be produced in a sustainable way, while also helping to enable them to reduce their own environmental footprint. Importantly, our strategic objectives are well aligned with improving our sustainable solutions and we will stay focused on addressing these important challenges and opportunities.

Stockholm, February 2020

Nico Delvaux
President and CEO
The year in figures

- Sales increased by 12% to SEK 94,029 M (84,048) driven by continued strong growth for electromechanical products.
- Twelve acquisitions were completed, contributing to net acquired growth of 3% for the year.
- Continued good earnings and strong cash flow were achieved. Operating margin excluding items affecting comparability was 15.9% (15.4).
- Investments in product development continued at a fast pace. Sales generated by products launched during the last three years was 27% (27).

Key figures

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales, SEK M</td>
<td>84,048</td>
<td>94,029</td>
<td>12%</td>
</tr>
<tr>
<td>of which: Organic growth, %</td>
<td>5</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>of which: Acquired growth, net total, %</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>of which: Exchange rate effects, %</td>
<td>3</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Operating income (EBIT), SEK M 1</td>
<td>12,909</td>
<td>14,920</td>
<td>16%</td>
</tr>
<tr>
<td>Operating margin, % 1</td>
<td>15.4</td>
<td>15.9</td>
<td></td>
</tr>
<tr>
<td>Income before tax (EBT), SEK M 1</td>
<td>12,110</td>
<td>13,883</td>
<td>15%</td>
</tr>
<tr>
<td>Operating cash flow, SEK M 2</td>
<td>11,357</td>
<td>14,442</td>
<td>27%</td>
</tr>
<tr>
<td>Return on capital employed, % 1</td>
<td>16.2</td>
<td>17.0</td>
<td></td>
</tr>
<tr>
<td>Dividend, SEK/share 3</td>
<td>3.50</td>
<td>3.853</td>
<td>10%</td>
</tr>
</tbody>
</table>

1 Excluding impairment of goodwill and other intangible assets of SEK 5,595 M in 2018. Restructuring costs of SEK 1,218 M in 2018 and SEK 312 M in 2019.
2 Excluding restructuring payments.
3 As proposed by the Board of Directors.

Goals and outcomes

The financial and sustainability targets have been set at challenging but achievable levels. The financial targets have been set to balance growth with a return level that will bring substantial value creation. During the last ten years, ASSA ABLOY has grown more than 9% annually and achieved an adjusted operating margin of more than 16%. The sustainability targets were determined in 2015. New sustainability targets will be defined in 2020.

Total sales grew 12% with organic and acquired growth making up 6%. The organic growth decelerated during the year due to a slowdown in the global economy. We announced the acquisition of Agta record, which will be the largest acquisition since 2011 and add about 4% in acquired revenue. During the last ten years, our average annual growth has been more than 9%.

The adjusted operating margin was 15.9% in 2019. Significant investments in R&D that affected the margin negatively by 40 basis points were offset by lower raw material costs and effects of our efficiency initiatives. During the last ten years, our annual operating margin has been more than 16%.

The injury rate was down 16% in 2019 and is down by 55% since 2015, in line with the target. We have worked structurally with the working environment throughout the entire organization and in particular targeted business areas that have had higher incident rates. During the last five years, our injury rate has improved by 14% annually.

Our greenhouse gas intensity related to the Group’s energy consumption decreased by 7% in 2019 and is down 22% since 2015, above the target. This has been achieved through focused energy efficiency and productivity improvement initiatives. During the last four years, our total greenhouse gas intensity is down 47%.
The demand for convenient access solutions has long-term favorable drivers. ASSA ABLOY is well positioned to benefit from the industry and the megatrends that support our long-term growth in a sustainable and compliant way.

Market overview

The industry for access solutions has a lengthy history, with standards being developed over a long time. It has evolved from wooden mechanical locks into sophisticated access solutions, now also entailing different types of identification such as fingerprints and face recognition. The value of the global industry for access solutions and trusted identities is above USD 100 billion annually, with good underlying drivers.

Urbanization

People are moving from rural areas into urbanized areas. This transfer creates demand for new buildings and thereby also new access solutions. The trend is particularly evident in emerging markets, where an increased need for housing, workplaces and stores drives demand for access solutions.

Demand for security

To be safe and secure is a basic human need. In a world with a high perception of uncertainty, the demand and need for convenient and efficient access solutions is increasing – both in the residential and non-residential segments. The growth is further supported by the demand for additional time-efficient solutions, as time is a precious asset.

Sustainability

The focus and demand for sustainable, energy- and resource-efficient access solutions in buildings is increasing. This requires more transparency in relation to the environmental impact from the product, sustainable production and good working conditions. Also, there is an increasing amount of regulation of standards in an increasing number of countries for more energy-efficient buildings and access solutions.

New technologies

Emerging technologies and technical innovations enable the development of new convenient solutions for customers and provide new business opportunities. The proportion of electromechanical products that we sell has increased from 23% to 31% over the last five years. The change of the product mix to more electromechanical products will continue and provides many business opportunities, while supporting recurring revenues and software monetization.

Regulation

A changing regulatory environment, with local regulations, as well as applications and codes, results in an increasing demand for updated and compliant access solutions. Different standards in different countries require adaptation of products, which creates hurdles and complexity while preventing commoditization of these products.

Studies in the US and Sweden of crime perceptions confirm that the perception of uncertainty remains at unchanged levels. Property crimes have decreased in both countries in the past ten years while the number of assaults and other violent crimes has recently increased in Sweden.

Source: UN DESA 2018

A global study among architects, contractors and building owners indicates that the demand for green projects will continue to increase – 47% of the respondents believe that more than 60% of their projects will be green by 2021.

Source: Dodge Data and Analytics

The demand for new technology continues to be strong and our organic growth for electromechanical products has continued to be high, with an average organic growth of 9% during the last three years.

Source: ASSA ABLOY

Through continuous evolution, local standards have emerged, driven by local needs and lock companies. As a result, the market for access solutions is very fragmented, even more so in emerging markets.

At ASSA ABLOY, we secure buildings from the perimeter to their shell and core. We are the largest provider of access solutions, but due to the fragmentation of the market our global market share is still low, meaning that we still have significant potential to grow.

Trends

There are several trends that drive increased demand for access solutions, including meeting the individual’s most basic need for safety and security. These trends are expected to contribute to a continued growing demand for security solutions at a faster pace than the average growth of the global economy.
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.

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

**Vision**
To be the global 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

**ASSA ABLOY’s brands**
- **Group brand and employer brand**
  - ASSA ABLOY
  - HID
  - Yale
  - + more brands

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

**Vision**
To be the global 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

**ASSA ABLOY’s brands**
- **Group brand and employer brand**
  - ASSA ABLOY
  - HID
  - Yale
  - + more brands

The ASSA ABLOY Group has considerable value in its well-known brands. ASSA ABLOY is the Group brand and employer brand and is increasingly becoming the leading master brand for our commercial business. We build multiple strong master brands: ASSA ABLOY for commercial openings and entrance automation, Yale for the residential market and HID for secure identity and access management. About 70% of our total sales are under the ASSA ABLOY master brand while 20% are under the HID or Yale brands. In addition, the Group has brands that are not associated with ASSA ABLOY. These brands, representing some 10% of our total sales, have leading expertise in specialty products and services, and are important complements to our market presence and positioning. These brands are usually sold through distributors and installers.
ASSA ABLOY is a global company with local presence. We have achieved this position through successful acquisitions, our leading brands, strongly-positioned sales channels and a large installed base of products which we actively and constantly upgrade. We believe that continued growth starts with understanding our customers and being relevant to their needs. Our ambition is to maintain our leadership, meeting the demands for safety, security, convenience and sustainability.

How can ASSA ABLOY accelerate growth?
Underlying market conditions continue to offer many opportunities in general. Sources that have delivered growth for us in the last few years, such as expanding around our core business, upgrading from mechanical to electromechanical, expansion into secure identities, will continue to be highly attractive, sources of growth in the future. Despite the uncertain nature of emerging markets, these also offer good potential. With many growth opportunities available, the most important aspect of accelerated growth is prioritizing and focusing on the right opportunities and not spread ourselves too thin across everything at the same time.

What are the greatest opportunities?
The greatest opportunities are in the electromechanical, connected and smart products and more specifically the commercial and institutional verticals where high requirements for quality, performance and security are combined with local market standards. Here, our understanding of customer needs in combination with good product knowledge is highly needed in the sales process, which is an important reason why we have achieved such a leading position in the installed base. A large installed base also allows further growth in the aftermarket for sales of software services, such as mobile keys and field service contracts.

Björn Lidefelt  
Chief Commercial Officer

No. 1
Global leader in access solutions.

x3
17% of sales are in emerging markets, a threefold increase in last ten years.

58%
The percentage of electromechanical products and entrance automation has increased from 35% to 58% of sales in ten years.
The Group sees fast-growing demand for electromechanical products, as well as electronic and digital solutions. Since 2009 these have sharply increased from 24% to 31% of Group sales. Mechanical products continue to increase, but electromechanical products are growing considerably faster.

Market insights and segmentation
Insights into our markets, competitors and customers are important to identify and prioritize opportunities. Using these insights, we segment our markets into industry verticals and develop our offering and skills to serve specific verticals in the best way. Our ambition is to increase our market position through increased customer relevance. This is achieved by delivering differentiated products and solutions that address specific customer needs, including local requirements, regulations and standards, as well as the need for integration into new or existing security systems. We aim to be an expert in total access solutions in each customer segment and to increase the focus on new and existing verticals such as logistics, elderly care and hospitality. At the same time we continue to develop more innovative mechanical products and drive the conversion to electromechanical solutions.

Customer experience
Customer experience is at the center of everything we do. Our performance has never been more transparent than it is now, with the growth of e-commerce and social media. To consistently deliver in accordance or above the customer’s expectation, we start by understanding what their requirements are. Customers have different expectations on product features, lead time for delivery, and after-market services. Many things influence customer experience such as price, quality, delivery, design and brand image. We use Net Promoter Score (NPS) to measure our customer experience. Our goal is to achieve the top NPS score in our industry.

Branding
The ASSA ABLOY Group has considerable value in its well-known brands. They play an important role in creating trust, loyalty and differentiation. We use a multi-brand strategy to make the most of our global and local strengths and to address different markets, customer segments and routes to market. The products are designed in a smart way to achieve an optimal balance between different features, value to the customers and cost. We have been recognized for this and won several design awards during the year; for example, the German Brand Award, the Design Value Award, and Red Dot Brand Award.

Commercial excellence
A structured sales process enables us to go beyond the natural development of our skilled sales force. Recognizing that not all sales is done the same way, we differentiate our sales approaches, such as specification-driven sales and retail sales, to design the right processes, tools and benchmark cases for a specific way of selling. We also aim to be involved in the decision making process early in a customer’s purchase process phase. We apply value-based pricing, which means that products should be priced based on the value to the customer. Price is differentiated, by how and who we sell to, in a structured, efficient and compliant way, using solid discount and rebates governed by approval thresholds and escalations.

With e-business, we are able to serve our customers in a better and more efficient way by making it easier to buy from us. We have a target to significantly grow our online sales and we will do this both through our own e-shop and through third-party e-commerce sites. Customers demand more sustainable products, including environmental and material transparency, which is fueled by the strong growth in certified ‘green buildings’. By staying relevant and developing more products that improve the sustainability as well as being produced sustainably, we can further strengthen our competitiveness.

Emerging markets
The market for access solutions has grown rapidly in emerging markets over the last ten years. During the same period we have more than tripled our sales, both through acquisitions and organic growth. Our share of sales in the emerging markets is now 17% of total sales. Our emerging market strategy focuses on key markets in Asia, South America and Africa.
Product leadership is one of the most important drivers for organic growth. We achieve this through innovation, which is at the core of everything we do. Our innovation capacity is reflected in our high innovation rate, and our ability to develop mechanical, electromechanical and digital products that meet or exceed our customers’ expectations.

How can ASSA ABLOY maintain its product leadership?
This starts by understanding the customers’ needs and providing added value to our customers, partners and end-users. We will continue to focus on security and safety, and to always be right the first time. Product leadership can also be achieved through continuous improvement in how we work, as well as harnessing the potential of new technologies.

What innovation trends do you see?
The emergence of new technologies will be important to our industry in the years to come. Connected products, wireless solutions and sustainable products that harvest their own energy are just a few examples of new technologies that allow us to create new business models or enhance existing ones.

How does digitalization affect our innovation work?
Digitalization offers the possibility to add customer value to traditional products and also opens the door to completely new products and services. It provides a huge opportunity, both for our customers and for us. For example, the performance of existing products can be enhanced to foresee maintenance needs, thus solving issues before they arise. The use of modern digital tools in product development has started already, and will continue to make ASSA ABLOY more efficient, particularly in more complex projects.

Johan Warnström
Chief Technology Officer

No. 1
The most innovative supplier of access solutions.

31%
The percentage of electromechanical products has increased from 24% to 31% of sales in ten years.

27%
Products launched in the past three years account for 27% of total sales.
The constant flow of new, enhanced, innovative and sustainable products is an essential driver for our target of 5% organic growth and our margin development. Products less than three years old accounted for 27% of total sales in 2019, exceeding our target of at least 25% of total sales and building on a high level of our innovation rate and capacity over the last decade. During the year, we expensed SEK 3,565 M in R&D and we had 2,794 R&D employees, including product development, in all divisions.

Innovation processes
Our overall objective with our innovation process is to exceed customers’ expectations. In pre-product innovation, we explore and learn from new technologies with a long-term perspective. New product innovation brings new products to market and can be defined as the transformation of an opportunity into a product available for sale. Continuous product innovation is the management of products already in the market.

Product management has a central role and functions as the dynamic force in the innovation system. Product management results in the transformation of insights from the market and visions from executive leadership into real concepts and guides a product from cradle to grave. In addition to divisional R&D competence centers, our Shared Technologies organization is the Group’s development center for global technology platforms.

We continuously invest in developing our extensive portfolio of intellectual property (IP) to protect our investment in state-of-the-art and industry-leading products. By capitalizing, sharing and controlling the IP portfolio we can achieve full value from our product innovation. Our portfolio includes some 9,000 patents, trademarks and designs.

Sustainable innovation
Our sustainability program has the ambition to decrease our, and our customers’ impact on the environment by reducing the resources we use in our operations, such as materials, energy and water, as well as reducing the impact of the product when it is used and ultimately disposed of. We are also committed to working towards an injury-free workplace.

Sustainability is a key driver and an integral part of product innovation and is therefore integrated into the product development process from the concept stage to end of life. Through sustainable innovation we aim to develop products that are efficient and have less impact on the environment.

We do this by creating products that, for example, harvest energy, are easier to recycle, reduce the energy consumption of buildings or have ‘green attributes’ that have positive effects on the environment and our competitive offering.

Digital factory
As the product portfolio contains an increasing share of digital solutions, software and data, revenues will shift toward more recurring services. Subscription-based agreements for upgrades, data and analysis, as well as software licenses, are increasing. The trend toward complex, multifunctional systems creates new business opportunities, promotes close customer relationships, and generates stronger recurring revenue streams. To support and provide service to customers who use our digital solutions, we have a digital service organization whose primary objective is to deliver a world-class customer experience that is always available, with no downtime and no service windows.

Our sustainability compass directs us towards a lifecycle approach and raises the profile of sustainability-related design criteria during the development of new products. The compass is used to outline the sustainability vision for individual products and is divided into three main areas: reduce, reuse and recycle.

Our innovation process starts with the identification of opportunities. Once an opportunity has been identified, a pre-study is undertaken. In the next phase, we carry out a feasibility study to specify the requirements for the development of the product. During the product and process design phase, the plans resulting from the studies are executed and the product is developed. The next phase is the validation of the product, production and customer acceptance. Finally, the product launch is the culmination of the product having passed through all these phases.

ASSA ABLOY’s product leadership is achieved through:
• Developing and exploiting the advantages of a Group-wide, structured innovation process.
• Applying lean principles and deep customer insight.
• Developing and using common modular platforms and common technologies.

For all our products we ensure that they meet the highest demands for quality and design as well as safety and security. We also conduct product failure analysis to secure a high level of quality throughout the lifecycle of a product. Design to value enables us to focus our innovation work on what our customers are willing to pay for. By designing to value we balance features against cost. Design to value is a cross-functional approach where fact-based trade-off decisions are made based on insight from customers, competitors and suppliers.

Product Leadership
Product leadership is achieved through:

1. Developing and using common modular platforms and common technologies.
2. Applying lean principles and deep customer insight.
3. Developing and exploiting the advantages of a Group-wide, structured innovation process.

Our overall objective with our innovation process is to exceed customers’ expectations. In pre-product innovation, we explore and learn from new technologies with a long-term perspective. New product innovation brings new products to market and can be defined as the transformation of an opportunity into a product available for sale. Continuous product innovation is the management of products already in the market.

Product management has a central role and functions as the dynamic force in the innovation system. Product management results in the transformation of insights from the market and visions from executive leadership into real concepts and guides a product from cradle to grave. In addition to divisional R&D competence centers, our Shared Technologies organization is the Group’s development center for global technology platforms.

We continuously invest in developing our extensive portfolio of intellectual property (IP) to protect our investment in state-of-the-art and industry-leading products. By capitalizing, sharing and controlling the IP portfolio we can achieve full value from our product innovation. Our portfolio includes some 9,000 patents, trademarks and designs.

Sustainable innovation
Our sustainability program has the ambition to decrease our, and our customers’ impact on the environment by reducing the resources we use in our operations, such as materials, energy and water, as well as reducing the impact of the product when it is used and ultimately disposed of. We are also committed to working towards an injury-free workplace.

Sustainability is a key driver and an integral part of product innovation and is therefore integrated into the product development process from the concept stage to end of life. Through sustainable innovation we aim to develop products that are efficient and have less impact on the environment.

We do this by creating products that, for example, harvest energy, are easier to recycle, reduce the energy consumption of buildings or have ‘green attributes’ that have positive effects on the environment and our competitive offering.

Digital factory
As the product portfolio contains an increasing share of digital solutions, software and data, revenues will shift toward more recurring services. Subscription-based agreements for upgrades, data and analysis, as well as software licenses, are increasing. The trend toward complex, multifunctional systems creates new business opportunities, promotes close customer relationships, and generates stronger recurring revenue streams. To support and provide service to customers who use our digital solutions, we have a digital service organization whose primary objective is to deliver a world-class customer experience that is always available, with no downtime and no service windows.
Strategic objective #3
Cost-efficiency in everything we do

ASSA ABLOY continues to improve cost efficiency and quality through the implementation of operational excellence and sustainable operations. We do this through an increasingly holistic approach to operations – including cross-divisional cooperation and continuous streamlining of manufacturing, professional sourcing and processes. All activities must translate to improved efficiency for the Group that can be used for value-creating activities.

You joined ASSA ABLOY in early 2019. What have you focused on in your first year?
I’ve focused on getting to know our widespread operations organization and highly competent teams across the globe. In the spirit of our ‘Together we’ strategy, we have also commenced a set of Group-wide and joint operations initiatives related to sourcing, the supply chain and manufacturing.

What are the main opportunities to increase efficiency further?
We can further intensify our sourcing efforts and, in particular, work closer in partnerships with our largest suppliers and share them between several divisions. The footprint of the end-to-end supply chain can also be further optimized. We will include a logistics network, offices, shared services and continue our factory optimization efforts in the footprint program.

How will increasing environmental requirements affect the operations?
My fundamental belief is that truly lean operations – end-to-end lean – contribute positively to the environment. These cause less waste at the same time as we minimize quality problems and over-processing, and reduce energy. Smart and innovative product designs use less material, which also contributes positively.

David Simonsson
Chief Operating Officer

50% Share of total purchases in low-cost countries.

–24% The number of direct material suppliers has been reduced by 24% over the past five years.

SEK 710 M Efficiency savings from MFP programs in 2019.
Efficient manufacturing footprint and outsourcing
To consolidate and improve our production structure and overall manufacturing efficiency, we are reducing the number of factories we have through multi-year structural programs. In addition, we are reducing the amount of other sites we have, such as offices and warehouses, to increase efficiency in the organizational structure and to enhance performance. The goal is to concentrate product assemblies to sophisticated plants close to customers, primarily in mature markets. Since the first Manufacturing Footprint Program (MFP) in 2006, 93 production plants have been closed and about 70 offices. We are also investing in automation and robotics, where suitable, to improve manufacturing efficiency. In 2018 we launched a MFP covering a period of three years. In 2019, the restructuring programs proceeded well and led to efficiency improvements of SEK 710 M and a reduction of 1,367 employees. The number of employees in low-cost countries was about 20,500 in 2019, representing 42% of the total workforce.

Professional sourcing
Professional sourcing ensures competitiveness through improved quality, better delivery times and cost reductions. This includes the application of traditional sourcing practices such as multi-tendering, benchmarking, and group-wide contracts, to validate competitiveness, as well as process and product optimizations. We apply ‘should-cost’ analysis and e-auctions to ensure the best total cost, quality and performance of our supplier base. To ensure correct execution across the Group, we have initiated the implementation of a new sourcing policy in 2019, aimed at hardwiring professional sourcing principles in our organization.

The total number of suppliers is expected to decrease when volumes can be allocated to fewer strategic suppliers. Over the past five years, the number of direct material suppliers has been reduced by 24% to around 7,900 worldwide, with a majority in low-cost countries. In 2019, the number of direct material suppliers decreased by 5% on Group level.

Operational excellence
Operational excellence is where problem-solving, teamwork and leadership results in the ongoing improvement in the organization. The process involves focusing on the customers’ needs, keeping the employees empowered, and continually improving the current activities. To improve operational excellence, we use lean principles to increase productivity in all processes, across all divisions, including automation, robotizing and digitization. In parallel we are also running a seamless flow program to improve and automate our administrative flows. Quality is an integral part of lean principles, impacting every stage of the value chain from innovation to purchasing, across production and administration to sales and service. An increased focus on sustainability, improved purchase processes to ensure high quality at best cost and enhancing product quality with smarter designs are all underpinning quality performance. Material choice with the aim to, for example, eliminate waste, does not only reduce product cost but it also improves quality, while reducing manual processing in support functions also improves operational quality.

Logistics provides a competitive advantage: improved global logistics result in lower costs, increased flexibility, improved delivery performance and quality for customers and a better work environment as well as a lowered environmental footprint. Through increasing the cross-divisional collaboration and realizing the full potential in logistics and warehousing, we can improve our operational performance.

Reducing our environmental footprint
Improving resource efficiency by reducing the consumption of materials, energy, water, waste and greenhouse gases (GHGs) in our production processes, are some of the focus areas within our cost efficiency initiatives. Improving sustainability and environmental performance is organically integrated into all operations’ focus areas and processes. Supplier sustainability audits are a core part of supply management and sourcing. Improving health and safety performance is a key part of our operations and sustainability objectives, working towards an injury-free workplace. The health and safety culture has resulted in a substantial reduction in lost time injury rate of 55% between 2015 and 2019 and thereby supported improvements in operational performance.
ASSA ABLOY has about 49,000 employees in more than 70 countries around the world. Developing our people, and growing their careers within ASSA ABLOY, is how we secure the Group’s future success and growth. Our ambition is to create a culture that adds value to the business and encourages internal mobility, diversity and knowledge sharing, while supporting our ambition to be an employer of choice. To align our people across the world to focus on the right things and working together, we have during 2018–2019 launched and activated our shared values, – empowerment, innovation and integrity, which will guide us in our daily work.

What has been your focus in 2019?
'Evolution through people' was added to our strategic objectives and we have focused on what that means for us and our people. We have put together a plan that will transform what we do to add even more value to our business. An important starting point is our common identity – Together we – which has come to life through our common core values in a series of workshops across the Group.

How do you work with empowering all employees?
This goes hand in hand with being a supportive manager who is able to set a clear vision. With the power to act comes not only responsibility, but accountability. Our leaders have to ensure that our people have what they need to take on challenging work. Empowerment is also important when it comes to career development. We value initiative, that the employee put themselves in the driving seat, show motivation, passion and that they are ready for the next step.

How are you working with attracting the best talent?
Our diverse organization and multiple brands are unique, and candidates looking for a place to grow and develop have great opportunities to do so with us. ASSA ABLOY is a big job market itself, and we are proud of that. Many organizations claim they are special, but they haven’t worked for ASSA ABLOY! There is ‘special’ and then there is us, and our uniqueness is what make us come together and drive our business forward. That’s Together we for you.

Maria Romberg Ewerth
Executive Vice President and Chief Human Resources Officer
AN INTRODUCTION TO ASSA ABLOY

Common culture
ASSA ABLOY is a diverse Group with a shared purpose and vision that unites us across geographies, and our divisions, brands and companies. This is underpinned by our three shared values: empowerment, innovation and integrity. These values are central to us as an organization, with the ambition to be always growing, never boring and leading right. A strong identity and inclusive culture helps us to work together and ensure that we are all heading in the same direction.

In 2019, the Group identity ‘Together we’ was launched. The ambition is to, in our decentralized structure, work more closely together cross-divisionally to create synergies and work as one Group heading in the same direction. With a holistic approach, we can better address our customers and make ASSA ABLOY stronger.

Employee experience
Our aim is to always improve the employee experience and enable a personalized development journey. It should be tailored to everyone’s individual needs and choices, from recruitment and onboarding to development and growth.

We strive to support agile working methods by providing collaboration tools and equipment to enable people to work flexibly. Simplicity and agility are valued and we believe in an inclusive working environment, clear feedback and having a workplace that encourages engagement, experimentation and efficiency in everything that we do.

Talent management
To be a competitive employer, we aim to give people the opportunity to grow in their career and develop their talent within the organization. We encourage an environment where it is easy to move between roles, functions, businesses, divisions and countries. A continuous dialogue between managers and employees, focusing on development and growth is also encouraged. We strive to offer interesting roles in which employees can make a meaningful contribution to the business, relevant to the employees’ experience, capabilities and interests.

Talent management also involves attracting the right people to our organization. With the aim to develop our own talent, we also run several graduate and trainee programs, with the EMEA program being the most developed and longest running.

Leadership
Our culture needs supportive, trusting and engaging managers. This requires managers who are driven and motivated leaders and who can inspire others to share our business vision and goals. Good leaders can lead without formal authority and have the ability to encourage working together within teams and across the Group.

We have leadership programs for our managers both at Group and divisional level. The development agenda is built on a leadership framework that guides our shared approach. Its foundation consists of two development programs for senior managers: ASSA ABLOY MMT and ASSA ABLOY IMD. About 620 of the Group’s senior managers from 35 countries have participated in the IMD program since 2005. It includes a customized program, developed in collaboration with the Swiss management school, the International Institute for Management Development (IMD) in Lausanne, with 30 participants per intake.

Ethical and social responsibility
As an ethical and socially responsible employer, ASSA ABLOY promotes diversity and inclusion.

We bring people together to harness diverse perspectives and resources. We are good corporate citizens, act ethically and with integrity, and always comply with laws and regulations. Any form of discrimination or harassment in the workplace such as in terms of race, ethnicity, sexual orientation, gender, religion, age, disability, political opinion, and nationality, is not tolerated. We work with non-governmental organizations and trade unions, as well as initiating and supporting employee-volunteer activities. Underlying our ethical and social responsibility practices is a culture of visibility and transparency.

Health and safety
Health and safety is part of our DNA. ASSA ABLOY is committed to provide a safe work environment, which we have worked systematically with for a long time. The Group-wide safety agenda promotes safe behavior, reduces workplace hazards and risk taking, and supports the development of a workplace free of injuries across all operations. Safety training and audits are routine.

In 2019, we have continued our progress on key performance indicators of injury rate and lost days per injury. We have also implemented a safety dialogue workshop globally, focusing on safe behavior in the workplace and our approach to risk taking, which about 30,000 employees participated in during 2019.

Digital workplace
The digital workplace is our personal productivity tool. It enables employees to organize their work and to have all the workflows and information they need at their fingertips. Its purpose is to make it easy for our people to collaborate with each other as well as with their business partners regardless of where they are in the world.

We strive to provide our employees with the best available tools, based on common standards, functionality, performance and cost, with the aim to seamlessly support their choice of communication channel, such as voice, video, chat or plain exchange of information. The digital workplace must also safeguard the integrity of the data, data storage and the user, and that it follows applicable rules and laws on how to collaborate and store data.
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

Opening Solutions

Americas

Opening Solutions

Asia Pacific

Financials in brief 2019
• Sales: SEK 21,144 M (20,201) with 2% organic growth.
• Operating income (EBIT): SEK 3,396 M (3,256).1
• Operating margin: 16.1% (16.1).1

Financials in brief 2019
• Sales: SEK 23,172 M (19,817) with 7% organic growth.
• Operating income (EBIT): SEK 4,673 M (3,941).1
• Operating margin: 20.2% (19.9).1

Financials in brief 2019
• Sales: SEK 10,689 M (9,949) with –1% organic growth.
• Operating income (EBIT): SEK 879 M (492).1
• Operating margin: 8.2% (4.9).1

Share of sales
Share of operating income

22% 22%

25% 30%

10% 6%

Sales by product group

Mechanical locks, lock systems and fittings, 48%
Electromechanical and electronic, 34%
Security doors and hardware, 18%

Mechanical locks, lock systems and fittings, 38%
Electromechanical and electronic, 22%
Security doors and hardware, 30%

Mechanical locks, lock systems and fittings, 47%
Electromechanical and electronic, 24%
Security doors and hardware, 29%

1 Excluding items affecting comparability.

AN INTRODUCTION TO ASSA ABLOY
Global divisions
The global divisions manufacture and sell access solutions, identification products and entrance automation on the global market.

Financials in brief 2019
- Sales: SEK 15,423 M (11,951) with 5% organic growth.
- Operating income (EBIT): SEK 2,890 M (2,387).¹
- Operating margin: 18.7% (20.0).¹

Financials in brief 2019
- Sales: SEK 25,553 M (23,762) with 2% organic growth.
- Operating income (EBIT): SEK 3,652 M (3,358).¹
- Operating margin: 14.3% (14.1).¹

¹ Excluding items affecting comparability.
**Amounts in SEK M unless stated otherwise**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales and income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>68,099</td>
<td>71,293</td>
<td>76,137</td>
<td>84,048</td>
<td>94,029</td>
</tr>
<tr>
<td>Organic growth, %</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Acquisitions and divestments, %</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Operating income (EBIT) excluding items affecting comparability</td>
<td>11,079</td>
<td>11,254</td>
<td>12,341</td>
<td>12,909</td>
<td>14,920</td>
</tr>
<tr>
<td>Operating income (EBIT)</td>
<td>11,079</td>
<td>9,657</td>
<td>12,341</td>
<td>6,096</td>
<td>14,608</td>
</tr>
<tr>
<td>Income before tax (EBT)</td>
<td>10,382</td>
<td>8,952</td>
<td>11,673</td>
<td>5,297</td>
<td>13,571</td>
</tr>
<tr>
<td>Net income</td>
<td>7,693</td>
<td>6,653</td>
<td>8,635</td>
<td>2,755</td>
<td>9,997</td>
</tr>
<tr>
<td><strong>Cash flow</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flow from operating activities</td>
<td>8,572</td>
<td>8,575</td>
<td>9,248</td>
<td>9,225</td>
<td>12,665</td>
</tr>
<tr>
<td>Cash flow from investing activities</td>
<td>-4,412</td>
<td>-4,063</td>
<td>-8,661</td>
<td>-6,427</td>
<td>-5,464</td>
</tr>
<tr>
<td>Cash flow from financing activities</td>
<td>-4,335</td>
<td>-4,271</td>
<td>-861</td>
<td>-2,728</td>
<td>-7,301</td>
</tr>
<tr>
<td>Cash flow</td>
<td>-175</td>
<td>240</td>
<td>-274</td>
<td>70</td>
<td>-100</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>9,952</td>
<td>10,467</td>
<td>10,929</td>
<td>11,357</td>
<td>14,442</td>
</tr>
<tr>
<td><strong>Capital employed and financing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital employed</td>
<td>63,848</td>
<td>70,351</td>
<td>75,932</td>
<td>81,146</td>
<td>92,204</td>
</tr>
<tr>
<td>– of which goodwill</td>
<td>42,777</td>
<td>47,544</td>
<td>50,330</td>
<td>53,413</td>
<td>57,662</td>
</tr>
<tr>
<td>– of which other intangible assets and property, plant and equipment</td>
<td>16,649</td>
<td>17,618</td>
<td>19,144</td>
<td>19,518</td>
<td>21,191</td>
</tr>
<tr>
<td>– of which right-of-use assets</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>119</td>
<td>3,731</td>
</tr>
<tr>
<td>– of which shares and interests in associates</td>
<td>1,910</td>
<td>2,109</td>
<td>2,243</td>
<td>2,434</td>
<td>2,595</td>
</tr>
<tr>
<td>Net debt</td>
<td>22,269</td>
<td>23,127</td>
<td>25,275</td>
<td>29,246</td>
<td>33,050</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>4</td>
<td>5</td>
<td>9</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Shareholders’ equity, excluding non-controlling interest</td>
<td>41,575</td>
<td>47,220</td>
<td>50,648</td>
<td>51,890</td>
<td>59,143</td>
</tr>
<tr>
<td><strong>Data per share, SEK</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings per share before and after dilution</td>
<td>6.93</td>
<td>5.99</td>
<td>7.77</td>
<td>2.48</td>
<td>9.00</td>
</tr>
<tr>
<td>Earnings per share before and after dilution and excluding items affecting comparability</td>
<td>6.93</td>
<td>7.09</td>
<td>7.77</td>
<td>8.09</td>
<td>9.22</td>
</tr>
<tr>
<td>Shareholders’ equity per share after dilution</td>
<td>37.43</td>
<td>42.51</td>
<td>45.60</td>
<td>46.71</td>
<td>53.25</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>2.65</td>
<td>3.00</td>
<td>3.30</td>
<td>3.50</td>
<td>3.85</td>
</tr>
<tr>
<td>Price of Series B share at year-end</td>
<td>178.00</td>
<td>169.10</td>
<td>170.40</td>
<td>158.15</td>
<td>219.00</td>
</tr>
<tr>
<td><strong>Key figures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating margin (EBIT), % excluding items affecting comparability</td>
<td>16.3</td>
<td>15.8</td>
<td>16.2</td>
<td>15.4</td>
<td>15.9</td>
</tr>
<tr>
<td>Operating margin (EBIT), %</td>
<td>16.3</td>
<td>13.5</td>
<td>16.2</td>
<td>7.3</td>
<td>15.5</td>
</tr>
<tr>
<td>Profit margin (EBT), %</td>
<td>15.2</td>
<td>12.6</td>
<td>15.3</td>
<td>6.3</td>
<td>14.4</td>
</tr>
<tr>
<td>Return on capital employed, %</td>
<td>17.8</td>
<td>14.1</td>
<td>16.6</td>
<td>7.6</td>
<td>16.6</td>
</tr>
<tr>
<td>Return on capital employed excluding items affecting comparability, %</td>
<td>17.8</td>
<td>16.5</td>
<td>16.6</td>
<td>16.2</td>
<td>17.0</td>
</tr>
<tr>
<td>Return on shareholders’ equity, %</td>
<td>19.8</td>
<td>15.0</td>
<td>17.6</td>
<td>5.4</td>
<td>18.0</td>
</tr>
<tr>
<td>Equity ratio, %</td>
<td>48.2</td>
<td>49.6</td>
<td>50.9</td>
<td>48.7</td>
<td>50.1</td>
</tr>
<tr>
<td>Net debt/equity ratio</td>
<td>0.54</td>
<td>0.49</td>
<td>0.50</td>
<td>0.56</td>
<td>0.56</td>
</tr>
<tr>
<td>Interest coverage ratio, times</td>
<td>16.7</td>
<td>14.1</td>
<td>19.1</td>
<td>8.0</td>
<td>14.9</td>
</tr>
<tr>
<td>Total number of shares, thousands</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, thousands</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, thousands</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>45,994</td>
<td>46,928</td>
<td>47,426</td>
<td>48,353</td>
<td>48,992</td>
</tr>
</tbody>
</table>

1 Excluding items affecting comparability 2016, 2018 and 2019.
2 Dividend proposed by the Board of Directors.
The ASSA ABLOY share

Share price trend and turnover 2010–2019

Dividend per share 2010–2019

Markets for the share

Data per share

Ownership structure (share capital)

Ownership structure (votes)

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.

Earnings after tax and dilution

Dividend

Dividend yield, %

Share price at year-end

Highest share price

Lowest share price

Equity

Number of shares, millions

Adjusted for new issues and stock split (3:1) in 2015 for all historical periods prior to 2015.

Adjustments made for new issues and stock split (3:1) in 2015 for all historical periods prior to 2015.


Dividend proposed by the Board of Directors.

Dividend as percentage of earnings per share after tax and dilution, excluding items affecting comparability.

After full dilution.

Ownership structure (share capital)

Ownership structure (votes)
The ASSA ABLOY Group is the global leader in access solutions. Every day we help people feel safe, secure and experience a more open world.

Good progress in sustainability

| Environmental KPI's | Energy intensity | CO₂ intensity
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>–10%</td>
<td>–55%</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>(Industrial processes)</em></td>
</tr>
<tr>
<td></td>
<td>Water intensity</td>
<td>–8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Social KPI's</th>
<th>Injury rate</th>
<th>Injury lost day rate</th>
<th>Gender equality: Portion of females in management positions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>–16%</td>
<td>–8%</td>
<td>25%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Supply Chain KPI's</th>
<th>Portion of spend in low-cost countries represented by sustainability audited direct material suppliers</th>
<th>Number of sustainability audits of direct material suppliers in low-cost countries</th>
<th>Portion of spend in all countries represented by direct material suppliers who have signed the Business Partner Code of Conduct</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>97%</td>
<td>1,175</td>
<td>93%</td>
</tr>
</tbody>
</table>