

ASSA ABLOY

ANNUAL REPORT 1995



Cover: Sjöberg Bildbyrå

Other pictures: Elisabeth Ohlsson, Mats Lundquist and Kjell Andersson etc.

Production: Lexivision/Strokirk-Landströms, 1996

Welcome to the Annual General Meeting

ASSA ABLOY AB will hold its Annual General Meeting on Monday, May 6, 1996, at 4 pm in the Assembly Hall, Stockholm Stock Exchange, Källargränd 2.

Who is entitled to participate in the Annual General Meeting?

The right to participate in the Annual General Meeting is limited to those shareholders who are listed in the printout of the share register on April 26, 1996, and who notify ASSA ABLOY AB of their intention to participate in the Annual General Meeting not later than 4 pm on Monday, April 29, 1996.

How to register in the share register

ASSA ABLOY AB's share register is maintained by the Swedish Securities Register Center (VPC AB). Only shareowner-registered holdings are reported under the name of the shareholder in the share register. To be entitled to participate in the Annual General Meeting, shareholders who have registered their shares in the name of a trustee must reregister the shares in their own names. Shareholders who have registered their shares in the name of a trustee, should request the bank or stockbroker acting as trustee to temporarily register the shares for voting-right registration a number of bank days prior to April 26, 1996.

How to submit notice of intention to participate

Notice of intention to participate in the Annual General Meeting may be done by mail to ASSA ABLOY AB, Box 70430, 107 23 Stockholm or by telephone: +46 8 698 85 70. Notification must include name, personal identity number (registration number), address and telephone number, as well as information regarding the number of shares. Shareholders wishing to participate in the Annual General Meeting must submit notification of their intention to participate not later than 4 pm on Monday, April 29, 1996, when the notification period expires.

Dividend

The Board of Directors and President propose that SEK 1.00 per share be paid as a dividend to shareholders for the 1995 financial year.

Financial information from ASSA ABLOY

Financial information is published as follows:

Interim reports: January 1 – March 31, May 6, 1996

January 1 – June 30, August 15, 1996

January 1 – September 30, November 7, 1996

Year-end report for 1996: February 7, 1997

Annual report for 1996: March 1997

Annual reports and other reports may be ordered from:

ASSA ABLOY AB

Box 703 40, S-107 23, Stockholm.

Tel: +46 8 698 85 70, Fax: +46 8 698 85 85

Contents

This is ASSA ABLOY	2
Statement by the President and CEO	4
Financial summary	6
The ASSA ABLOY share	8
ASSA ABLOY Group's organization	10
The trend towards higher security	11
ASSA ABLOY's products	13
Sweden	18
Finland	20
Norway	22
Denmark	24
Germany	26
Great Britain	28
United States	30
VingCard	32
Financial statements	
Report of the Board of Directors	33
Consolidated statement of income and cash flow analysis	36
Consolidated balance sheet	37
Parent Company statement of income and cash flow analysis	38
Parent Company balance sheet	39
Accounting principles and notes to the income statements and balance sheets	40
Auditors' report	45
Board of Directors	46
Group management	47
Addresses	48

This is ASSA ABLOY

Background

ASSA ABLOY is one of the world's largest lock groups. The Nordic region constitutes the Group's base, with market-leading positions in Sweden, Finland, Denmark and Norway. The Group also holds a leading market position in Germany and significant positions in Great Britain and the U.S. ASSA ABLOY is active in the product segments construction locks, industrial locks, fittings and other accessories, and electromechanical locks including hotel locks. The Group was established on November 8, 1994, through a merger of the lock operations of Securitas AB and Metra Oy Ab.

Market

The lock market is an international market with many small and medium-sized companies, many of which have very strong positions locally. There are only a few multinational players, with relatively small shares in the world market. The total size of the lock market is estimated at SEK 100 billion. A market characteristic is that a high proportion of sales, approximately 50 percent, derives from after-market sales. This limits the dependence on the cyclical construction sector. Strong trademarks, local standards, closeness to national distributors and customers, combined with the brand loyalty of various customers, also contribute to stability. There are a number of very strong trademarks in the Group: ASSA — Sweden, ABLOY — Finland, TrioVing — Norway, RUKO — Denmark, IKON — Germany, VingCard — hotel locks. Due to the general trend towards increased security awareness, the lock market is displaying favorable growth, a few percentage points above GDP. Electromechanical and electronic locks are steadily gaining greater importance in the overall lock market. These products are not replacing the traditional mechanical locks but instead perform a complementary function in the various high-security segments. Accordingly, increased electronic features contribute to market growth.

Competitive situation

In line with increased harmonization, competition — which to date has been local — is expected to intensify and become increasingly internationalized. A restructuring of the industry has begun in recent years, with a certain tendency towards the formation of larger corporate groups.

The major international players include Schlage, SEK 3,000 M in the U.S.; William Holding (including Yale), SEK 1,700 M; Chubb, SEK 1,300 M, and Newman Tonks, SEK 2,800 M, in Great Britain. The sales figures above are estimates for lock operations. Other major players are the Italian company CISA, as well as Vachette and Fichet Bauche in France. In addition, there are local players with prominent positions, such as the Swiss company Bauer-Kaba. In individual product segments

there are also players with strong positions, such as Medeco in the U.S., which is active in the area of high-security cylinders.

VingCard, in the hotel locks segment, has a leading position in its niche market, in which standards and products are global. In hotel locks, VingCard — with slightly more than 50 percent of the world market — is the leading player in an industry which includes a number of competitors with relatively smaller market shares.

OUR MANAGEMENT MODEL

- ASSA ABLOY culture, committed management
- Multi-domestic — strong trademarks and local units form the base
- Capitalize on synergies
- Development at each stage — step by step
 - internal structure and basic routines, dealing with unprofitable operations
 - efficiency, work flow, delivery times, quality, product range, benchmarking, profitability
 - external focus, market development, concepts

OUR EXPANSION STRATEGY

- Organic growth in existing and new markets, notably in the Far East, Russia and the Baltic States, and in other parts of former Eastern Europe.
- Acquisitions
 - to expand in existing and new markets
 - to strengthen the product portfolio
 - focus on earnings per share

FAVORABLE EARNINGS TREND

Financial targets

The financial target is to achieve a return on capital employed of more than 20 percent. An equity/assets ratio of about 25 percent is regarded as sufficient considering the market's relative stability.

SIGNIFICANT EVENTS DURING THE YEAR

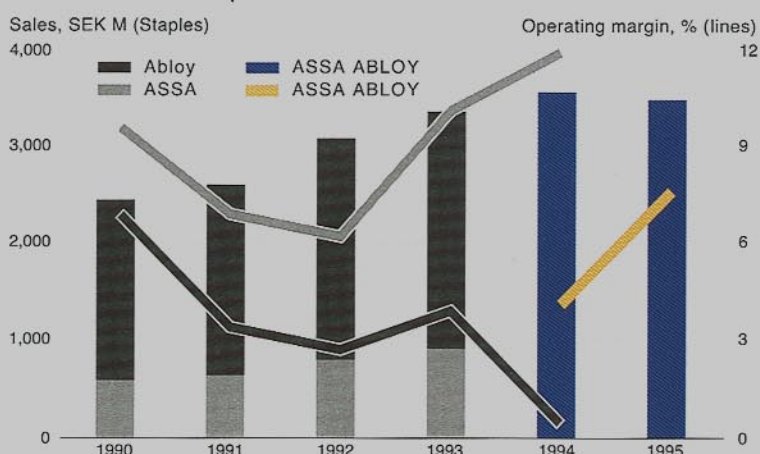
- Income after financial income and expense for the financial year was SEK 212 M (76).
- Sales for the financial year amounted to SEK 3,504 M (3,582), representing a growth of 10 percent for comparable units. The Group reported sales increases in all units, except those in Germany.
- Cash flow amounted to SEK 344 M (139).
- Coordination within ASSA ABLOY was highly satisfactory. The pace of change and improvement is high. Coordination of certain production operations in the Nordic units was achieved.
- During the year, extensive restructuring programs were conducted within the IKON Group.
- A convertible debenture loan amounting to about SEK 75 M was issued to personnel in the ASSA ABLOY Group to strengthen the commitment of personnel to the Group's future development.
- Cardkey was divested, effective July 31, 1995. The divested operations had sales of SEK 266 M during the period January 1 to July 31, 1995, and reported a loss. The number of employees amounted to 360. The purchase price was SEK 185 M, corresponding to the Group's book value.
- To streamline and create favorable potential for each unit's continued development, TrioVing and VingCard were divided into separate companies.
- The ASSA ABLOY share was registered on the A List of the Stockholm Stock Exchange on October 2, 1995.
- In December an agreement was concluded covering the acquisition of the U.S. lock Group ESSEX for a purchase price of USD 170 M. ESSEX reported sales of about USD 243 M in 1995. Through the acquisition, ASSA ABLOY gains a leading position in the U.S. market and assumes a leading global role. The acquisition is financed partly through a new share issue to ASSA ABLOY's shareholders of SEK 300 M.

Key data in brief

	1995	1994 ¹
Sales, SEK M	3,504	3,582
of which, international, %	82.3	83.9
Income after financial income and expense, SEK M	212	76
Cash flow, SEK M	344	139
Earnings per share, SEK	2.67	1.00
Shareholders' equity, SEK M	928	776
Return on capital employed, %	15.6	8.2
Average number of employees	4,274	4,703

1) The comparative figures for 1994 are reported pro forma

ASSA ABLOY's development



Statement by the President and CEO

The foundation laid for continued success



President and Chief Executive Officer Carl-Henric Svanberg

In conjunction with the formation of ASSA ABLOY, we established a strategy for the merger process. In brief this consisted of:

- creating profitability in IKON and Cardkey
- creating an ASSA ABLOY culture in all units
- capitalizing on the synergies in the Nordic area
- expanding through acquisitions, primarily in existing markets in Europe and the U.S.

In summing up the past year, we can conclude that we have made relatively considerable progress in these efforts. Cardkey was divested during the summer. IKON is well on the way to turning around and is expected to show a small profit in 1996. The merger has been completed with favorable results and we now have a well-functioning Group in which all transactions are conducted locally under strong trademarks, but in our operations we share objectives and values and use our joint strength as a Group.

An important part of our joint strength is the learning process which is based on continued benchmarking between units. All companies have something to learn and something to teach. Group management usually meets in the companies, which

offers direct contact with employees and customers. The pace of development in the various companies is favorable and there is still room for improvement.

In addition, we are coordinating development work and production when this is justified. For example, lock case manufacturing is being concentrated to one unit. Also concerning other fittings similar projects are taking place. As regards cylinder products, we are coordinating new development while production continues largely at the local level since closeness to the customer is a decisive factor.

The volume for all companies is in line with expectations. Income for the year amounted to SEK 212 M and is proof that we are on the right track. All units contributed positively to Group development. Cash flow, excluding nonrecurring items, is operationally well in line with earnings, which is also our goal in the future. The return on capital employed, perhaps our most important key figure, amounted to 15.6 percent.

In brief, 1995 was a successful year for ASSA ABLOY. Our success has been achieved through the praiseworthy efforts of our skilled and motivated employees.

Our product program

Our product program can be divided into three main logically related groups:

- fittings
- cylinders
- electromechanical products

A strong fittings program, with high quality and good design, is of major importance for new project sales and for attracting the attention of architects. The cylinder creates the large after-market sales while electromechanical products carry intelligence to the door. In all our product development the trend towards higher security is an important driving factor. The probability of a burglary has increased dramatically in the past 20 years and people must carefully consider their need for security today. Accordingly, our customers are looking for more and better lock products and this creates total industry growth of a few percent above GDP over time.

We are now focusing our efforts on improving our performance in the fittings area. Naturally, product quality is important but the role of design is gaining ground and an increasing number of people are willing to pay extra for an attractive design. Our starting point is in-house development but complementary acquisitions may occur.

Our product program in the cylinder area is very strong. In this case, it is a matter of increasing the awareness of the risks that decision-makers and users are exposed to and how these can be reduced with good lock products.

Electromechanical products are growing in importance. Traditional products are provided with certain intelligence. A cylinder can be equipped with an electronically regulated blocking function so as to function only during certain periods, register inward and outward access and so forth; a lock case can be operated by motors and time-controlled; an industrial cylinder in a telephone or gambling machine can be blocked for emptying until it receives a signal from a central monitoring unit.

Sales of electromechanical products, apart from VingCard, are not yet very large. However, the area is expanding rapidly and the products are also important in certain cases if we are at all to be considered as a supplier for larger projects. Development costs are substantial in this area and the Group's combined strength is of decisive importance.

Our expansion strategy

Organic growth

We can expand organically in the lock industry in markets in which we are well established. In addition, there are highly exciting opportunities in the Far East, primarily Southeast Asia where economic growth is strong and sections of the population are emerging with considerable purchasing power who need high quality lock products.

These requirements are primarily met by imported products from Europe and the U.S. and thus at year-end we established a presence in the form of our own office in Singapore. We have, of course, been active in the area for the past 20 years through various distributors, with sales of approx. SEK 100 M, and our trademarks ASSA, ABLOY and VingCard are well known. We are increasing our efforts by deploying our own personnel, making the necessary adjustments, and complementing our product program.

Russia, the Baltic States and other eastern European countries are other areas in which we are strengthening our efforts. In these countries there is also a rapidly growing need for lock products but frequently a lack of local manufacturers. Our sales to Russia and the Baltic States amount to about SEK 40 M per year. We have our own personnel focusing on the development of each market in Moscow, St. Petersburg and Tallinn.

VingCard continues to report substantial growth. Sales of hotel locks increased by 25 percent and VingCard continues to retain its position as the world's leading supplier of electromechanical hotel locks.

Acquisitions

In Europe and the U.S., expansion through acquisition is essentially the only path to growth. Access to local trademarks and products based on local traditions and standards are important.

In addition, we should probably be able to complement our product program in the fittings area through acquisitions.

Against the background of the stability and pace of development in our operations, not least after the sale of Cardkey, we felt ready to make a major acquisition, namely, that of ESSEX. The U.S. is a priority area, partly because it is an attractive market and partly because U.S. products are important for our global expansion.

Acquisition of ESSEX

The acquisition of ESSEX makes us the second largest player in the U.S. Moreover, we will gain access to its nationwide sales force. This is of particular strategic value since an own sales force is a key condition for participation in the development of a market.

Although ESSEX is performing well, it nevertheless offers favorable profit potential. Certain units are loss makers. There is coordination potential with our own operations in the U.S. and we can also offer a strong cylinder program, plus our own door-closer program, and in exchange gain access to Sargent's strong exit devices program outside the U.S. In addition, the acquisition substantially strengthens our position in the Far East since both U.S. and European products are frequently required in these markets.

Consequently, we generally expect that ESSEX will provide a considerable boost to earnings in the long term, but it will not, however, contribute to earnings per share before 1997.

For ASSA ABLOY as a whole we have a strong Nordic basis which is continuing to develop, IKON in Germany is well on the way to turning around, VingCard is continuing to grow strongly, and we have exciting growth projects in new markets such as Asia and Russia. We have acquired ESSEX in the USA with all its opportunities and risks. The product portfolio is strong, the trend towards higher security is clear in all our markets, and in spite of the weaker economic cycle, we expect a further increase in volumes. On the whole, we expect a continued good profit development for ASSA ABLOY during 1996.



Stockholm, February 1996
Carl-Henric Svanberg