

ASSA ABLOY

# Annual Report 2006



# Contents

|                                  |    |                                       |    |
|----------------------------------|----|---------------------------------------|----|
| ASSA ABLOY in brief              | 1  | Results by division                   | 47 |
| CEO's statement                  | 2  | Financial position                    | 48 |
| Vision and strategy              | 6  | Balance sheet – Group                 | 49 |
| The Market                       | 8  | Cash flow                             | 50 |
| ASSA ABLOY's products            | 12 | Cash flow statement – Group           | 51 |
| Sustainable development          | 16 | Changes in equity – Group             | 52 |
| Our employees                    | 18 | Parent company's financial statements | 53 |
| EMEA division                    | 20 | Financial risk management             | 55 |
| Americas division                | 22 | Notes                                 | 58 |
| Asia Pacific division            | 24 | Five years in summary                 | 78 |
| Global Technologies division     | 26 | Quarterly information                 | 80 |
| Entrance Systems division        | 28 | Definitions of key data terms         | 81 |
| Report of the Board of Directors | 32 | Proposed disposition of earnings      | 82 |
| Corporate governance report      | 34 | Audit report                          | 83 |
| Sales and earnings               | 44 | The ASSA ABLOY share                  | 84 |
| Income statement – Group         | 45 | Information for shareholders          | 87 |
| Comments by division             | 46 |                                       |    |



# 2006 in brief

## Important events

- Sales increased to SEK 31,137 M (27,802), with 9 percent organic growth.
- Operating income (EBIT) excluding restructuring costs amounted to SEK 4,771 M (4,078), an increase of 17 percent.
- Earnings per share excluding restructuring costs amounted to SEK 7.99 (6.97).
- Operating cash flow amounted to SEK 3,528 M (3,702).
- A three-year restructuring program to realize synergies in the Group's production was initiated during the year. Savings are expected to amount to SEK 600 M a year from 2009.
- The pace of acquisition increased this year. Acquisitions included Fargo Electronics, which is a world leader in the fast-growing segment of secure issuance of cards.

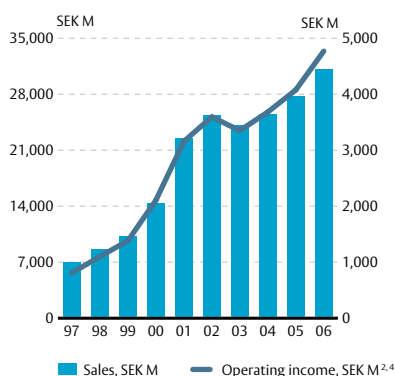
## Financials in brief

| Key figures                                                  | 2006               | 2005    | Change, % |
|--------------------------------------------------------------|--------------------|---------|-----------|
| Sales, SEK M                                                 | 31,137             | 27,802  | 12        |
| of which: Organic growth, %                                  | 9                  | 5       |           |
| Acquired growth, %                                           | 3                  | 1       |           |
| Foreign exchange effects, %                                  | 0                  | 3       |           |
| Operating income (EBIT), SEK M                               | 4,771 <sup>2</sup> | 4,078   | 17        |
| Operating margin (EBIT), %                                   | 15.3 <sup>2</sup>  | 14.7    |           |
| Income before tax (EBT), SEK M                               | 4,100 <sup>2</sup> | 3,556   | 15        |
| Operating cash flow, SEK M                                   | 3,528 <sup>2</sup> | 3,702   | -5        |
| Return on capital employed, %                                | 17.1 <sup>2</sup>  | 15.9    |           |
| Data per share (SEK/share)                                   | 2006               | 2005    | Change, % |
| Earnings per share after tax and dilution (EPS)              | 4.72               | 6.97    | -33       |
| Earnings per share after tax and dilution (EPS) <sup>2</sup> | 7.99               | 6.97    | 15        |
| Shareholders' equity after dilution                          | 39.13              | 42.85   | -9        |
| Dividend                                                     | 3.25 <sup>1</sup>  | 3.25    | 0         |
| Number of shares after full dilution (thousands)             | 376,033            | 378,718 |           |

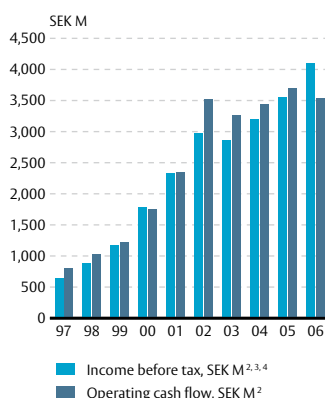
<sup>1</sup> Proposed dividend.

<sup>2</sup> Excluding restructuring items.

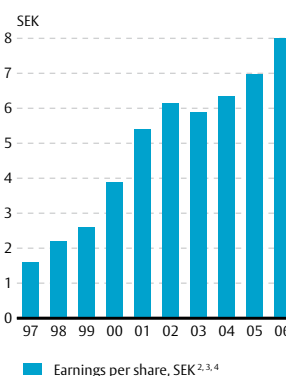
Group sales and Operating income



Income before tax / Operating cash flow



Earnings per share



<sup>2</sup> Excluding restructuring items.

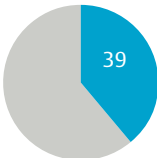
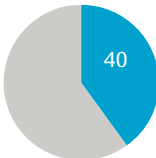
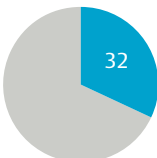
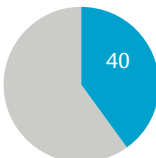
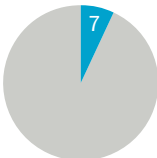
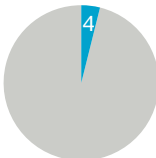
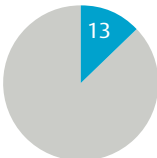
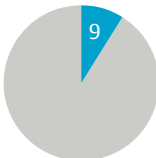
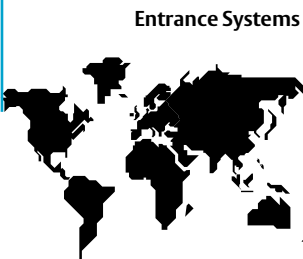
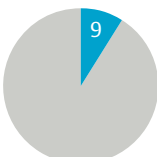
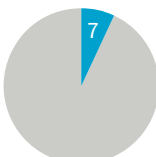
<sup>3</sup> Data for 2001 and 2003 excludes non-recurring items.

<sup>4</sup> 1997–2003 have not been adjusted for IFRS but amortization of goodwill has been excluded.

# ASSA ABLOY's divisions

## Divisions

## Share of Group total

|                                                                                    |                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                   |                                                                                                                                  |
|------------------------------------------------------------------------------------|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
|   | <b>EMEA</b>                | <p>ASSA ABLOY's EMEA division includes companies in Europe, the Middle East and Africa. During 2006, the division achieved an organic growth of 8 percent, sales of SEK 12,509 M and an operating income excluding restructuring costs of SEK 1,972 M. The EMEA division employs 12,283 people and its head office is located in London, England. Its most important markets are Scandinavia and France. Some of the leading companies in the division are Abloy, Assa, Tesa and Vachette.</p>                                                                              | <p>Sales</p>    | <p>Operating income (EBIT)<sup>1</sup></p>    |
|   | <b>Americas</b>            | <p>ASSA ABLOY's Americas division consists of companies in North and South America. During 2006, the division achieved an organic growth of 10 percent, sales of SEK 10,142 M and an operating income excluding restructuring costs of SEK 1,945 M. The Americas division employs 9,641 people and its head office is located in New Haven, Connecticut, USA. Its primary markets are the USA, Canada and Mexico. Some of the leading companies in the division are Corbin Russwin, Curries, Emtek, Medeco, Phillips and SARGENT.</p>                                       | <p>Sales</p>   | <p>Operating income (EBIT)<sup>1</sup></p>   |
|  | <b>Asia Pacific</b>        | <p>ASSA ABLOY's Asia Pacific division includes companies in Australia, New Zealand, China and the rest of Asia. During 2006, the division achieved an organic growth of 4 percent, sales of SEK 2,309 M and an operating income excluding restructuring costs of SEK 213 M. The Asia Pacific division employs 5,099 people and its head office is located in Hong Kong. Its largest markets are Australia, New Zealand and China. The largest companies in the division are ASSA ABLOY Australia, ASSA ABLOY New Zealand, Guli Security Products and ASSA ABLOY Wangli.</p> | <p>Sales</p>  | <p>Operating income (EBIT)<sup>1</sup></p>  |
|  | <b>Global Technologies</b> | <p>Global Technologies is the Group's worldwide organization focusing mainly on the product sectors of access control, secure issuance of cards, RFID identification technology and hotel security. During 2006, the division achieved an organic growth of 12 percent, sales of SEK 4,220 M and an operating income excluding restructuring costs of SEK 612 M. The Global Technologies division employs 2,183 people and its head office is located in Providence, Rhode Island, USA. The division's most important brands are HID, Fargo Electronics and VingCard.</p>   | <p>Sales</p>  | <p>Operating income (EBIT)<sup>1</sup></p>  |
|  | <b>Entrance Systems</b>    | <p>Entrance Systems is ASSA ABLOY's worldwide supplier of complete solutions for automatic doors. The division also has a complete range of services for the after-sales market. During 2006, the division achieved an organic growth of 11 percent, sales of SEK 2,715 M and an operating income excluding restructuring costs of SEK 368 M. The Entrance Systems division employs 1,926 people and its head office is located in Landskrona, Sweden. Entrance Systems includes well-known brands such as Besam and EntreMatic.</p>                                        | <p>Sales</p>  | <p>Operating income (EBIT)<sup>1</sup></p>  |

<sup>1</sup>Excluding restructuring costs.

# ASSA ABLOY in brief

ASSA ABLOY is the world's leading manufacturer and supplier of door opening solutions, meeting tough end-user demands for safety, security and convenience. With over 150 companies operating in more than 40 countries and over 10 percent of the world market, the Group is the strongest global player in the lock industry.

ASSA ABLOY is represented in all major regions, on both mature and emerging markets, with leading positions in much of Europe and North America and in Australia. In the rapidly growing electromechanical security

sector, the Group has a leading position in fields such as access control, identification technology, automatic doors and hotel security.

Since ASSA ABLOY was founded in 1994, the Group has grown from a regional company to an international group with over 30,000 employees and sales of over SEK 31 billion.

As the world's leading lock group, ASSA ABLOY offers a more complete range of door opening solutions than any other company on the market.



# Security



John Votri  
President and CEO of ASSA ABLOY

# A Group with good prospects ahead

## Growth and synergies

### Report on the year

I am delighted to report that 2006 was a very good year for ASSA ABLOY, with the highest organic growth in the company's history and a strong improvement in profitability. A number of complementary acquisitions have contributed an additional 3 percent to sales, which totaled SEK 31,137 M, an increase of 12 percent compared with 2005. Operating income excluding restructuring costs increased by 17 percent and totaled SEK 4,771 M (4,078).

ASSA ABLOY's strong performance is based on good economic growth in our most important markets in Europe and North America together with success in fast-growing segments such as electromechanical locks, access control, automatic doors and identification technology. Acquisitions such as those of Fargo Electronics and Adams Rite illustrate the great potential for acquisitions that still exists on the market. This applies both to acquisitions of technology and to complementary acquisitions.

A three-year restructuring program intended to exploit synergies and increase efficiency in the Group's manufacturing units was launched during the year and consists of some 50 individual restructuring measures. The program means that large parts of production will change their function from full production to focus mainly on final assembly. Parts of production will be transferred to low-cost countries, which will mean the closing of a number of production units. The total cost of the restructuring program is SEK 1,274 M, and it is estimated to produce SEK 600 M of annual savings when the full effect is felt in 2009. In addition, the closing of car-lock manufacture in the UK has burdened results with a further SEK 200 M.

Sales volume growth, acquisitions and the restructuring measures carried out have contributed to the strong increase in operating income. During the year we have made a number of price increases which have largely compensated for the substantial rise in raw-material costs.

During the year we have made several changes to the Executive Team. Tomas Eliasson took up the post of Chief Financial Officer (CFO) and brings broad industrial and financial experience from other global companies. Ulf Södergren as Chief Technology Officer (CTO), Tzachi Wiesenfeld as Head of EMEA division and Martin Brandt as Head of Asia Pacific division were all three recruited internally as a result of their outstanding performance.

### Report on the divisions

EMEA division made very good progress during the year, with strong organic growth of 8 percent and substantially improved profitability. The project to combine the sales organizations under the ASSA ABLOY brand name has achieved good results and produced stronger sales. Towards the end of the year a project to create competence groups in Research & Development was initiated, with the aim of increasing efficiency. A large proportion of the restructuring program concerns EMEA and means that important products such as cylinders and lock cases are being moved progressively to our specialized production plants in eastern Europe and China. A strengthening of the purchasing function has been carried out to manage the increased level of outsourcing, especially of components.

Americas division had a highly successful year with organic growth of 10 percent, which is significantly better than our main competitors on the US market. Our investments in a common sales organization and more specification work to stimulate demand have proved to be very successful. The project to implement Lean methods in all the Group's production has come a very long way in Americas and contributed strongly to the improved operating margin of 19.2 percent. The integration of the acquired companies Adams Rite and Baron Metal was successful and produced growth of both sales and earnings.

Asia Pacific division made only weak progress during the year, with 4 percent organic growth and reduced profitability. Sales in Asia developed well, with strong growth on the Chinese market. But demand was weak on the important residential markets of Australia and New Zealand. The division's profitability was impaired by the substantial rise in raw-material prices. However, the operating margin improved gradually and reached 12.0 percent in the fourth quarter. Ongoing structural changes involving transfer of production out of Australia and New Zealand, together with further price increases, are expected to improve profits.

2006 was a highly successful year for Global Technologies division, with continuing strong organic growth of 12 percent. Major investments in market and product development were made, with several important new products and an expanded presence in China, India and Brazil. These actions are expected to contribute to continuing rapid growth in 2007. In the ASSA ABLOY ITG business unit, a reorganization directed at increased focus on customer segments was carried out.

A comprehensive transfer of production to China and Malaysia was initiated during the year. The division also acquired VisionCard and Fargo Electronics. Fargo gives the Group a leading world position in the fast-growing segment of secure issuance of cards, which is an area expected to continue to grow rapidly in coming years.

## “New products are the most important source of organic growth”

Organic growth for Entrance Systems division amounted to 11 percent and was allied to increased market shares. Growth in the US and Asian markets was particularly strong. The division continues to make acquisitions of complementary service companies. Profitability fell back a little during the year, partly as a result of dilution from acquisitions and partly because of increased aluminum prices. Development of new products accelerated during the year and several exciting new products will be launched in 2007.

### Future prospects

The Group's fastest-growing businesses in electromechanics, access control, identification technology and automatic doors currently account for some 30 percent of sales. By their nature, these businesses are of a more global character, which means that investment in ASSA ABLOY as a universal brand will be intensified at the same time as the sales organization is consolidated.

The pace of acquisition was stepped up during the year, and by the second half of the year acquired sales reached about 5 percent of the total. We intend to continue acquiring companies in order to add new technology, strengthen our geographical presence, for example in Asia, and complement our existing operations.

New products are the most important source of organic growth, and product development was therefore intensified during the year, with an increase in the number of electronic engineers and the expansion of development resources in low-cost countries. Group-wide product development was further strengthened in the areas of electronic cylinders, Radio-Frequency Identification (RFID) technology and Hi-O. ASSA ABLOY's Hi-O initiative is an open standard based on the Internet communications protocol TCP/IP which simplifies lock installations and allows simple connection of the door's lock components to other security systems. Hi-O will be launched widely towards the end of 2007.

Through close collaboration with our customers we are striving to develop products that create increased added

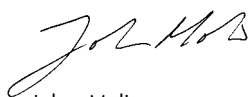
value in different customer segments. One example of this is Futurelab, through which we conduct customer surveys on the Internet. This has proved an effective way of rapidly recording customer preferences and thereby increasing the targeting accuracy of our new products.

During the past year ASSA ABLOY has achieved great successes and strong growth on the market and has gained market share in many areas. This progress has been made possible by our employees' high levels of expertise, their willingness to develop and their ability to adapt themselves to market changes. I want to thank everyone working on the restructuring program and I retain great confidence that we will succeed in reshaping the organization in accordance with our plans.

Since ASSA ABLOY was formed in 1994 the Group has quickly established a world-leading position. Despite its rapid expansion, the Group still has very good opportunities for growth, partly in new markets that have rising needs for safety and security, and partly in the fastest-growing segments such as electronic cylinders, access control, automatic doors and identification technology. Our prospects for increased profitability are great thanks to the Group's market-leading position, its continued growth and the ongoing restructuring program.

Future shareholder value will be created through a combination of profitable organic growth based on innovative products and services; improved efficiency; and selective acquisitions.

Stockholm, 13 February 2007



Johan Molin  
President and CEO







# Vision and strategy

Since Securitas and Wärtsilä merged their lock divisions in 1994, creating ASSA ABLOY, the Group's sales have grown from SEK 3 billion to SEK 31 billion, through both organic growth and acquisitions. Profitability has also steadily improved. Today ASSA ABLOY is the world's leading lock group, employing over 30,000 people in 150 companies active in over 40 countries.

## Vision

ASSA ABLOY's vision is:

- To be the true world leader, most successful and innovative provider of door opening solutions.
- To lead in innovation and provide well-designed, convenient, safe and secure solutions that give true added value to our customers.
- To offer an attractive company to our employees.

## Financial objectives

ASSA ABLOY's primary financial objective is a return on capital employed (ROCE) in excess of 20 percent. The Group's stated goal is to achieve its financial objective by 2008 at the latest.

- Sales should increase organically by an average of about 5 percent a year over a business cycle.
- The operating margin (EBIT) should be improved to 16–17 percent. This should be achieved through continued growth, a modern product portfolio and realizing synergies in the Group.
- The positive long-term trend in ASSA ABLOY's operating cash flow should be maintained.
- Capital efficiency should be continuously improved. Given the potential to improve the utilization of current production capacity, capital expenditure can be maintained at today's level, below current depreciation.

## Strategy

In recent years the Group has launched a project to update its strategy in order to enhance its leading market position. This year the Executive Team has worked to develop that strategy further.

The overall aim is to lead the trend towards higher security with a product-driven offering that focuses on the customer.

The main product areas are mechanical locks and security doors, electromechanical and electronic locks, access control, identification technology and automatic doors.

The strategic action plans have been split into three focused areas: market presence, product leadership, and cost-effectiveness.

## Market presence

ASSA ABLOY's strategy to increase its market presence has three main thrusts:

- Exploit the strength of the brand portfolio.
- Increase growth in the core business.
- Expand onto new markets.

### *Exploit the strength of the brand portfolio*

ASSA ABLOY owns many of the industry's strongest brands. To become better at meeting the increasing demand for more complete security solutions, sales teams on the local markets will gradually be united under the master brand of ASSA ABLOY. The Group's local brands will gradually be linked more strongly to the ASSA ABLOY master brand. However, a number of global brands will supplement the master brand. One example of a global brand is Yale, which is used on the residential market. Another is ABLOY, which is used for customers demanding very high security.

## Financial objectives

### ORGANIC GROWTH:

- About 5% a year over a business cycle

### MARGIN IMPROVED TO 16–17%:

- Stand-alone improvements
- Leverage Group synergies

### STRONG CASH FLOW:

- The long-term positive trend in operating cash flow should be maintained

### CAPITAL EFFICIENCY:

- Maintained capital expenditure level
- Working capital



### Increase growth in the core business

Growth in the core business should be increased through a number of activities. One of the most important is to develop the project and specification market by continuing to work closely with architects, security consultants and major end-users. Another prioritized area is continuing investment in the development of distribution channels, for example through education and clear market segmentation. In the fast-growing area of electronic and automatic door solutions, where the Group has a market-leading position, ongoing investment will be made in the development of channels to market.

### Expand onto new markets

The Group will expand onto new geographical markets by developing distribution channels, with customized product offerings and through acquisitions. The Group's position on the OEM market in door and window manufacture is high on some markets and much lower on others. Improved market coverage offers great potential here. Efforts to develop products and distribution channels for the residential market are continuing. By exploiting the Group's strength in specific technologies, for example RFID adapted to special application sectors such as electronic passports, interesting new growth areas are created.

### Product leadership

The overall goal is continuously to develop products with greater customer benefit and lower product costs. A vital activity for achieving this is to increase the use of common product platforms with fewer components. To increase customer benefit, ASSA ABLOY also develops new products in close collaboration with end-users and distributors. The product development process will be further streamlined by more clearly distinguishing the maintenance and improvement of existing products from new development.

The technical level of lock and door products is continuously on the rise in response to the ever-increasing demands placed on them. To meet the technical require-

ments and take advantage of the Group's size, ASSA ABLOY has created a new Group function for product development, Shared Technologies, responsible for developing Group-wide electronics and software platforms.

### Cost-effectiveness

ASSA ABLOY focuses on cost-effectiveness in all areas. The efforts towards common product platforms, fewer components and common product development have been covered above.

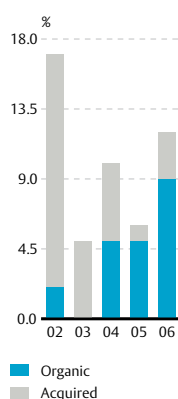
In addition, ASSA ABLOY decided in early 2006 to implement an extensive restructuring program directed at its production arrangements and expected to take three years. The program includes about 50 individual restructuring measures. The roles of many production units will change to focus primarily on assembly; and some will be closed down. Much of the standard production will be relocated to low-cost countries. The cost of the program has been calculated at just under SEK 1,500 M, including the closure of car-lock manufacturing in the UK, and it is expected to generate savings of SEK 600 M a year once the program is complete in 2009. The goal is to improve the manufacturing infrastructure and streamline the production process as a whole, while ensuring a local presence for fast and efficient assembly of customized products.

Lean methods are being implemented in the Group's divisions. Many of the Group companies have followed these principles for many years, resulting in greater efficiency.

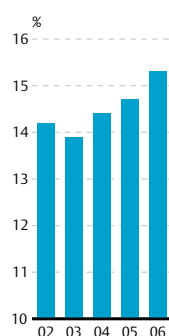
A far-reaching supply management project covering both raw materials and components has been initiated. This will become increasingly important as outsourcing of component supply to external suppliers increases.

Support functions, such as IT, customer support and finance, will be coordinated at the country and division levels.

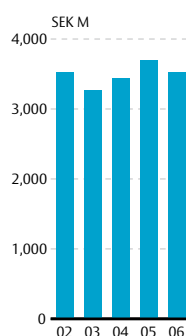
Organic and acquired growth, %



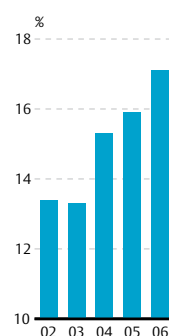
Operating margin (EBIT), %<sup>1,2</sup>



Operating cash flow



Return on capital employed<sup>1,2</sup>



<sup>1</sup> 2002–2003 have not been adjusted for IFRS but amortization of goodwill has been excluded.

<sup>2</sup> 2003 and 2006 excluding restructuring items.

# The security market – a growing sector in change

ASSA ABLOY is a world leader in secure and convenient door opening solutions, including locks and access control. ASSA ABLOY has solutions for all types of doors in a range of environments. Demands vary widely between customer segments. Continuous product development has given the Group a wide product portfolio that meets the needs of many customer segments. The ASSA ABLOY Group is represented in all major regions on both mature and emerging markets. Advances in the security market are primarily fueled by the global trend toward higher security.

The total security market consists primarily of security services, plus electronic and mechanical security products. ASSA ABLOY estimates the total security market at something over EUR 200 billion.

With the product groups ASSA ABLOY manufactures and sells today, the Group is active in about 15 percent of the total security market. This means that ASSA ABLOY's market can be estimated at about EUR 30 billion, giving the Group a market share of just over 10 percent in its sectors. Two-thirds of the Group's activities concern mechanical security products, a segment that is expected to grow at the rate of each market's GDP. The remaining one-third is in the faster-growing segment of electronic and electromechanical security products. ASSA ABLOY's growth goals are based on the expected growth of these markets.

## Complete security solutions

ASSA ABLOY works with architects, authorities and major end-customers to offer the best security solutions for various kinds of door openings. The need for security varies. Airports, hospitals, offices and private homes all have a range of security needs. Accordingly, the security solution for each door is adapted to the door's location and area of use – for example, as a main entrance or the door to a computer hall or a conference room. The functionality of the

door itself must also be adapted in terms of security and convenience. For example, whether it is an outer or inner door, how often it will be opened, how many people will use it, and specific requirements such as fire-safety regulations. In addition, the products must increasingly be integrated into new or existing security systems.

## Local differences

Americans spend more than twice as much on panic exit devices as Europeans do. Conversely, northern Europeans spend three to four times as much on high-security locks for their homes as Americans do. Automatic doors are also much more widespread in Europe than in the USA. Electromechanical products are far more widespread in the commercial segment than in the residential segment.

In global terms, the locking market is still relatively fragmented; however, the market in each country is fairly consolidated, since security companies in the industrialized parts of the world are often still family-owned and leaders in their home markets. The companies are well-established and have strong ties to local distribution networks. In less developed countries, however, established brands and lock standards are less common.

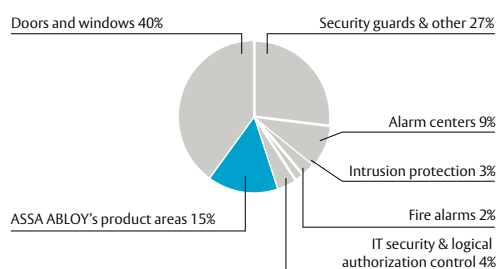
## Distribution channels

Manufacturers of security products reach their end-customers primarily through various types of distributors. A large proportion of ASSA ABLOY products are sold in small volumes to a large number of end-customers with a range of needs. In consequence the distribution of mechanical and electromechanical products is mainly local and fragmented.

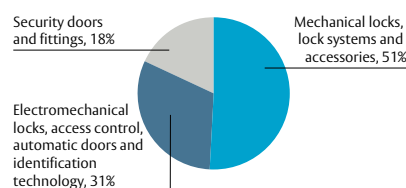
Building and lock wholesalers and locksmiths all play a vital part in delivering the products that have been specified for various construction projects. ASSA ABLOY has

## The security market

The whole security market



ASSA ABLOY's sales by product group





built up close relationships with architects and security consultants in order to specify appropriate products to achieve a well-functioning security solution. Many door and window manufacturers install lock cases and fittings in their products before delivery to customers.

Electronic security products go from manufacturer to end-user via security installers and special distributors. The products are also sold through security integrators, who often offer a complete solution for installation of traditional security solutions, access control and computer security.

Bringing innovative solutions to market requires close collaboration not only with distributors, but also with architects, specifiers and major end-users. This stimulates demand from distributors and customers.

#### The role of the distributors

One of the most crucial aspects of an effective security solution is the installation of all the components. ASSA ABLOY works closely with the distribution channels to offer end-customers the right products, a correct installation and therefore an effective security solution. The distributors also have a vital role in taking care of service and support after installation. The distributor's role may vary between customer segments. In the commercial segment, distributors on some markets act as consultants, technicians and project managers to create good security solutions. They have solid knowledge of the customer's needs and ensure that the products meet local regulations.

As security solutions become increasingly complex, the need for skills in the distribution phase becomes even more important. Locksmiths are an example of specialized security distributors who are important distributors of mechanical and electromechanical security products on many markets. They purchase directly from the manufacturer or via wholesalers and provide advice, deliveries, installation and service.

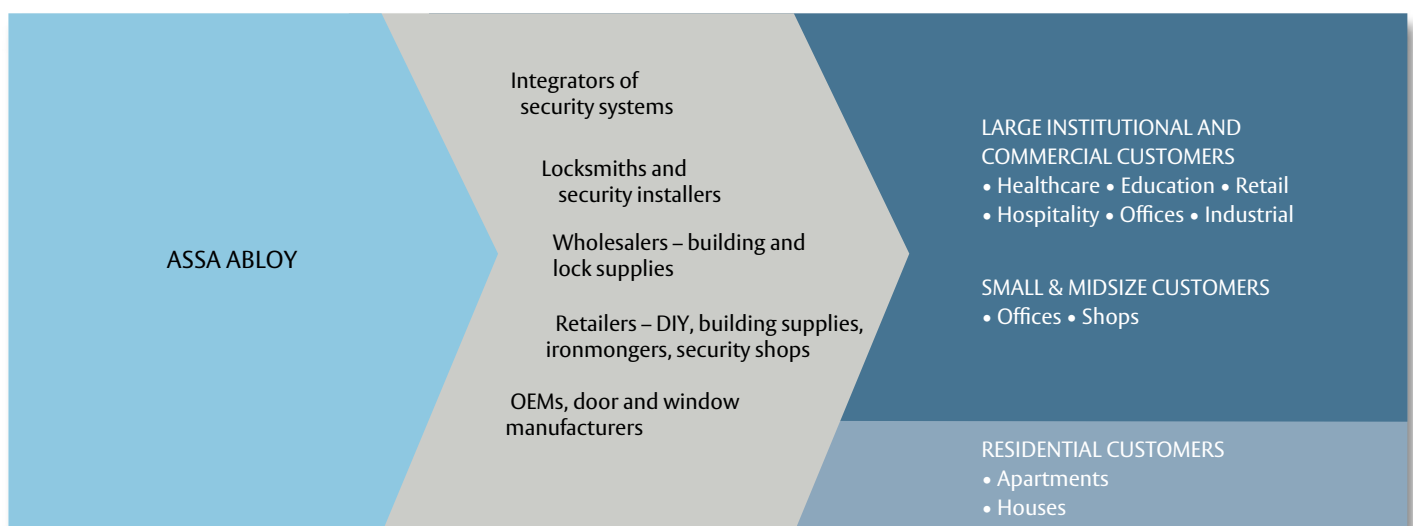
#### Customer groups

**Major customers** – including airports, commercial institutions and hospitals, with a large number of people passing through daily. Normally ASSA ABLOY has primary contact with the customer's security manager, a person well familiar with the security needs of the facility who actively participates in planning the security solutions. The lead times for this kind of project are often long and involve mainly custom solutions. Distribution and installation are largely implemented by security installers and locksmiths.

**Small and midsize customers** – a segment characterized by the customers' need for professional advice and installation. This need is mainly met by specialized distributors and installers, such as locksmiths. ASSA ABLOY works actively to train distributors and to provide customized solutions for small and midsize companies such as stores and offices.

**Consumers** – the majority of consumer sales are replacements or upgrades of existing security products. Private consumers need extensive advice and help with installation. ASSA ABLOY has developed a range of home-security concepts to meet the needs of consumers. Depending on the geographical market, ASSA ABLOY works with door and window manufacturers (OEMs) or specialized distribution channels such as building supply stores and locksmiths.

#### Distribution channels and customer groups



Trends

Higher security

Today there is a general trend toward higher security fueled in part by the increasing uncertainty in society, rising crime and terror threats. The trend is also powered by technical developments that allow better, more convenient security solutions.

Convergence of technology

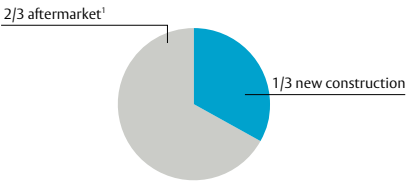
The industry is heavily influenced by the global trend of converging technologies. Compatibility between different systems is increasingly common and of growing importance as common standards are established. This creates business opportunities in the lock and physical access control sector, since it means that security products are increasingly easy to integrate with other security systems.

Changing demand

Customer preferences in terms of security solutions are becoming polarized: some demand advanced solutions, while others choose simpler ones at a lower cost. Architects and security consultants are coming into the construction process at an earlier stage, allowing for better security solutions from the start.



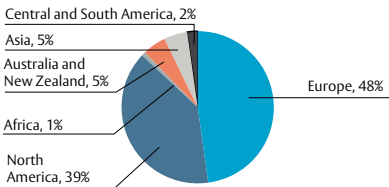
What drives demand



The large aftermarket gives good stability.

<sup>1</sup> The aftermarket comprises renovations, replacements and upgrades.

ASSA ABLOY's total sales by region, %





ASSA ABLOY designs tailored solutions for customers in the retail trade.

### Competitors

Although the industry has been consolidated to some extent in the past ten years, it is still fragmented from a global perspective. Some countries have one strong manufacturer that holds a large percentage of the local market. These companies are often focused on the domestic market with limited international activity.

ASSA ABLOY is a market leader on the global scale, with five major players as its main competitors, three in the United States and two in Europe. These competitors are strongest on their home markets and also have a presence on some other markets, although none have such a wide range as ASSA ABLOY. The Asian market is still very fragmented; the biggest manufacturers hold only a small market share. One continued trend is that Asian manufacturers are becoming increasingly important as sub-suppliers, mainly to the established lock companies in Europe and North America, but without brands of their own.



## Living by the Swan Lake

Wuxi Swan Lake is a newly constructed housing area of 110 hectares in the Jiangsu province of China and is the biggest in Wuxi city. The area will house around 11,000 residents once it is finished in the year 2008. Wuxi Swan Lake lies on the outskirts of the 3,000-year-old city of Wuxi located along Lake Tai Hu on the central part of the Yangtze River delta. Other waterfront cities like Barcelona, Brisbane, Buenos Aires and Amsterdam were studied before the Wuxi Swan Lake was shaped.

ASSA ABLOY Wangli Security Products is a major player on the Chinese residential market for high-security doors and locks and has provided over 2,000 doors for Wuxi Swan Lake.

Together with strict security requirements Wangli faced stiff specifications regarding ease of use, design and color. There were also some requests for special modifications. Wangli's technicians worked on site so as to provide prompt solutions to any problems arising.

High-security doors and locks intended for the main entrance doors of residential buildings are regulated by a strict standard set by the Ministry of Public Security of the People's Republic of China. The standard stipulates technical requirements and testing methods for mechanical and burglarproof locks as well as guarantees of their working life.



# Product leadership for enhanced growth

ASSA ABLOY is a world leader with the largest base of installed locks and security solutions in the world. The Group offers the market's widest product range, with continuous development based on the customers' needs and local requirements and standards. The majority of patents are still for mechanical products, but ASSA ABLOY's fastest-growing segment is electromechanical products and solutions for access control, based on RFID technology and other electronic identification methods.

## **Innovation and product development**

The global security market is changing rapidly. A continuous flow of innovative new products is one of the keys to creating long-term profitability. To make better use of ASSA ABLOY's collective development strength and to coordinate new technology with the aid of our existing

central organization, Shared Technologies, the Executive Team was strengthened this year by the appointment of a Chief Technology Officer (CTO).

Separating product development resources from maintenance/improvement resources and investing in more cross-border projects ensures better use of the total resources and increases the rate of release of new products.

To benefit from economies of scale and streamline production, ASSA ABLOY is working more and more with modular platforms. These will allow the Group companies to use common components while maintaining product variation. Improvements and updates will also be adopted faster throughout the product range, allowing products to be altered at the same rate as customer requirements change. And, perhaps most importantly, modular product platforms cut the time to market.

## RFID and biometrics give double security

Mexico City International Airport is Latin America's busiest airport. With nearly 340,000 flights carrying 32 million passengers each year and about 20,000 staff on site, the airport has a great need for access control systems. Given the size, amenities and complexity of the airport, controlling access to restricted areas is a huge task.

By combining RFID technology and a biometric solution based on fingerprint reading, the airport achieves a dual authentication process. The fingerprint readers use contactless smart card technology from HID Global. To pass a controlled door, a cardholder must first establish identity by presenting a valid access control card. After reading and verification of the card, the cardholder then places a finger on the biometric reader to verify that the person carrying the credential is its owner. The contactless smart card also includes personal information such as photo, name, title and a color code identifying the card carrier's area of duty. This sophisticated access solution manages secure operations areas and high-profile VIP rooms throughout the airport.





#### Growing demand for complete security solutions

End-users' ever-increasing demands for better security, safety, convenience and design are the foundation for ASSA ABLOY's product development. To meet its customers' varying demands, the Group develops complete solutions for different customer segments. Reliable functionality under rough conditions is one such requirement; for example, when locks are subjected to corrosion or extreme loadings. The security solutions may combine mechanical and electromechanical products. ASSA ABLOY products need to become easier to install and integrate in the increasingly complex systems required to manage a building. The Group's wide product range and great expertise in electronic access control make this advance possible.



www.icehotel.com

## Besam opens a door to the North Pole

Located about 200 kilometers above the Arctic Circle, ICEHOTEL in Jukkasjärvi, Sweden is built anew each year almost entirely of ice and snow. ICEHOTEL has approximately 85 rooms but the figure varies from year to year according to the design.

The Group company Besam, which is a leading supplier of automatic door solutions, had the task of providing a system for the hotel's main entrance. The project was initiated in the spring of 2006 and was finished in time for the opening of the 2006/2007 season.

Due to its unusual location and construction, ICEHOTEL's door system is exposed to extreme weather and temperature conditions. The sliding-door operators, for example, need to be able to function in temperatures that are regularly between -5 and -10 degrees Celsius. Because the hotel is built differently each year, suppliers' products need to be as flexible as possible to fit into the architect's design.

Installing an automated door into a block of ice is a unique experience and is a testament to the durability of Besam products. ICEHOTEL features a special Besam UniSlide solution in its main entrance. This is one of the most high-profile and challenging installations that Besam has undertaken.

In addition, Besam will provide entrance systems for the growing chain of ABSOLUT ICEBARs around the world, including locations in Stockholm, Tokyo, Milan and London.

### The intelligent door

The latest product launches ensure that ASSA ABLOY products will easily fit into new or existing security systems and work with competitors' products. They feature open interfaces that are prepared for ready integration. Highly Intelligent Operation (Hi-O), is a new technology based on a known open standard (CAN Open) for communication and management of electromechanical products around the door. Simplified project planning, fast and easy wiring and the ability to link the entire door environment to the building's IP network allow even better security and continuous monitoring.

In 2006, ASSA ABLOY initiated cooperation with Cisco Systems, the world leader in IP (Internet Protocol) networks. The companies will develop compatible technologies for physical access control and logical access to systems and databases. During the course of the year, a network door combining ASSA ABLOY's Hi-O lock technology system and Cisco's access control and security monitoring technology was demonstrated.

### The electronic key

The market for electronic keys – which mainly comprise cards for access control – is growing strongly. In 2006 ASSA ABLOY acquired Fargo Electronics, a world leader in technology for secure issuance of electronic ID cards, including card printers, card readers, related equipment and software. The acquisition gives ASSA ABLOY access to the technology and expertise needed to issue electronically encrypted keycards with very high security. Fargo's technology is expected to form the basis of future credit and debit cards, passports, driver's licenses and keycards. There will also be joint solutions – such as a single card combining the functions of credit card and keycard. The acquisition of Fargo gives ASSA ABLOY a leading position in this field similar to the position the Group already holds in master-key systems. ASSA ABLOY is now the world leader in both mechanical and electronic keys.

### The intelligent door



The intelligent door is connected to the network and each piece of hardware around the door can communicate interactively with other systems including security, maintenance and building management. The benefits are accurate information about every device, plug-and-play installation, and the ability to configure the devices from a remote location.

## Hotel convenience in a card

Hotels and casinos in Las Vegas are large and often house shopping malls, spas and restaurants as well as thousands of hotel rooms. At these mega-complexes the various amenities are frequently a long way apart. To improve guest convenience and operational efficiency, the Wynn hotel chain has installed a TimeLox locking system linked to the Internet in both Las Vegas and Macau. If a room change is requested, the guest does not have to go all the way back to the front desk to receive new keys. The hotel staff can simply make the change in a so-called Property Management System, and the existing key is remotely reassigned to the new room. The TimeLox online system also streamlines security and administrative systems. For example, the system can monitor

the position of each door. If a door is unlatched for an extended period of time, the system can send an alert to security personnel. Or if someone finds a key and starts trying all the doors, the system will automatically alert security to these activities and cancel the key. Reporting-cards allow housekeepers to insert a pre-coded card such as 'plumber needed' so that repairs can be quickly reported and attended to. About 20,000 rooms in Las Vegas are equipped with the TimeLox online system. Future releases will include the ability to send an SMS or email directly to predetermined staff members in order to ensure that the situation is addressed and logged automatically.





## Keeping Britain's water clean and pure

Scottish Water is the UK's fourth largest water and waste water service provider and is a publicly owned company answering to the Scottish Parliament. It provides services to 2.2 million private customers and 130,000 business customers across the UK. Scottish Water needed a unified and effective system of protection against extreme weather and persistent acts of vandalism.

Safeguarding a water utility involves protecting the property and facilities against attempted security breaches and vandalism, often in remote locations.

Scottish Water decided to standardize the Abloy master-key system on all its sites to control access for

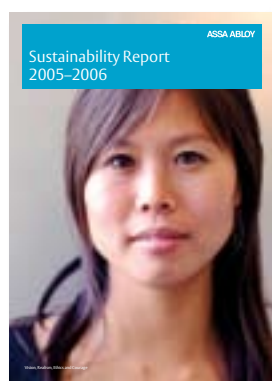
front-line staff, each of whom may have different levels of responsibility and security clearance.

Scottish Water required standardized locks across multiple sites that could be opened by several people with varying access rights. These systems needed to be integrated across different lock types such as cylinders, padlocks and industrial locks so that authorized personnel could access specific areas without requiring multiple sets of keys.

Abloy solutions are used by water companies worldwide to safeguard sites from unauthorized access and, more importantly, to protect the public.



# Ethics, the environment, and employees



More information about sustainable development can be found in ASSA ABLOY's Sustainability Report 2005–2006 and on [www.assaabloy.com](http://www.assaabloy.com).

Vision, realism, ethics, and courage are the cornerstones of ASSA ABLOY's operations. They form the foundation of the Group's work on environmental issues, business ethics and social responsibility. ASSA ABLOY's extensive systematic work on these issues, which affect both internal and external stakeholders, is one pillar of the Group's long-term development.

## Organization

Sustainable development efforts are coordinated by a central manager and at least one person in each division. The President and/or the HR Director of each Group company is responsible for ethical and social issues, while the Environmental Manager is in charge of environmental matters.

## Risk analysis

The Group's regular risk analysis, covering the entire value chain and including the environment, ethics and social issues, has identified the following primary risks:

- Environmental impact of production.
- Business ethics problems.
- Operations and suppliers in low-cost countries.

## Code of Conduct

ASSA ABLOY's continuous work on risk management and the control of environmental, ethical, and social issues is based on its publication 'Our Code of Conduct'. The Code is a part of the effort to formalize the common basic values represented by ASSA ABLOY's four cornerstones: vision, realism, ethics, and courage. The Code of Conduct is based on the Group's overall policies as well as international guidelines such as the UN Declaration of Human Rights and the core conventions of the International Labor Organization.

## Risk management in business processes

### Environment, health and safety

The ASSA ABLOY Group's environmental program aims to cut the environmental impact of production while continuously improving health and safety conditions for employees at all of the Group's production facilities. The environmental program is summarized in a few main points, including some key figures which can be found in ASSA ABLOY's Sustainability Report 2005–2006.

### Limiting harmful substances in manufacturing

ASSA ABLOY is constantly working to reduce and find replacements for harmful substances in its production.

Many production facilities have already phased out chlorinated solvents. About ten still use them, and are focusing on investigating opportunities for phasing them out.

### ISO 14001

By the end of 2006, most of the Group's production facilities had implemented ISO 14001 or an equivalent environmental management system. The table shows the number of certificates in 2005 and 2006, with the corresponding number of certifiable systems (North American units). The number of production facilities with some kind of environmental impact is estimated at 50–60.

### Power consumption and greenhouse gases

For the first time, ASSA ABLOY has measurable figures for power consumption and carbon dioxide emissions in Group companies. These figures will now be used for benchmarking between the Group companies and as a basis for improvement measures.

| Certificate            | 2006      | 2005      |
|------------------------|-----------|-----------|
| ISO 14001 certificates | 29        | 20        |
| Certifiable systems    | 24        | 9         |
| <b>Total</b>           | <b>53</b> | <b>29</b> |



**Audit**

2006 saw extensive audits of sustainable development in several of the Group's manufacturing companies. The studies included the external environment, the working environment, human rights, and business ethics. The results of the audits are being used to develop detailed action plans. ASSA ABLOY also applies its internal audit tool to its suppliers. For example, some 40 suppliers in China have been evaluated on site during the year. The biggest suppliers were audited first regarding both environmental impact and working conditions.

**Ethical and social issues**

A sweeping internal survey of ethical and social issues, including gender equality, was conducted in 2006. Group companies completed a detailed checklist based on the Code of Conduct regarding pay levels, working hours, and the assurance of no child labor. Other issues taken up were measures concerning alcohol and drug problems and business ethics. The questions also covered the introduction of the Code of Conduct in the Group companies. The results of the evaluation were used to establish an action program, based on exchange of experience between the companies.

## A cost-effective environmental deal

ASSA ABLOY is developing production methods that impact the environment as little as possible. One example is investments in more surface-treatment methods with less environmental impact. One of several possible new methods replaces the use of perchloroethylene and trichloroethylene solvents with N-propyl bromide (NPB), an organic solvent with less harmful effects.

TESA in Mexico and Mul-T-Lock in Israel invested in modern surface-treatment facilities in 2006. Both companies previously bought these services in. Having their own surface-treatment plants will give them more control over the process and make production more cost-effective. Mul-T-Lock can now run more than 20 surface-treatment processes at once, which has increased productivity and flexibility. Quality has also improved while water and power consumption have dropped.

In Mexico, one improvement is that waste water is now led from the plating machines to the purification tanks by gravity, reducing the number of pumps and slashing power consumption. In addition, a series of automatic high-power heaters with separate temperature settings has been installed, which has further reduced power consumption. Rinsing methods have also been improved through multiple-step rinsing and spray flushing, which has dramatically reduced water consumption.





ASSA ABLOY's employees the world over.

ASSA ABLOY strives to provide an attractive workplace where motivated employees have the freedom to grow. The Group focuses on developing managers and staff who will meet the requirements of the future while supporting and facilitating collaboration and integration between the Group companies.

#### Common knowledge base

In 2006, the ASSA ABLOY Orientation Program was introduced in the Group. The interactive web-based program will give employees worldwide a common knowledge base about ASSA ABLOY. The program deals with the Group's

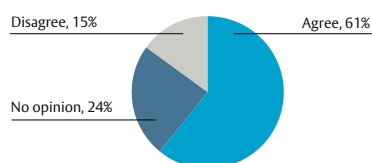
history, products, Code of Conduct, competitors and more. The ASSA ABLOY Orientation Program is a mandatory part of the introductory process that all employees must go through.

#### What do the employees think of ASSA ABLOY?

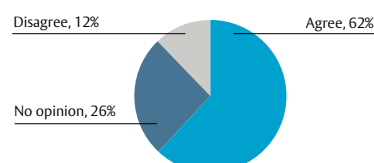
For the first time, a global employee survey was held in 2006. With a response rate of 75 percent, the survey showed that ASSA ABLOY staff members are generally satisfied with their working situation. In areas where the results were less positive, measures have been implemented to improve conditions. The survey will be repeated on a regular basis.

#### Employee survey

##### My workplace is a good place to work



##### In my workplace, the customer always comes first



## Increased motivation at work

ASSA ABLOY's employee survey showed that the staff on the whole need more feedback on their work and more recognition for their good efforts. Employees also expressed a desire for more opportunity to participate in and influence the decision-making process.

One company that immediately drew up an action plan based on the survey was HES in the USA. It began by contacting other Group companies to see what it could learn from them. Then the Human Resources department worked with the HES management to develop routines for measuring and supporting management feedback on the employees' efforts. Result-oriented monthly meetings were one result.

A project group was established to develop an action plan for boosting employee influence. The group consists of representatives from several areas and levels of the organization. HES expects the final result to be that the corporate mission, vision and core values will be rewritten by the staff themselves.





## Management and employee skills enhancement

### Management skills enhancement

Two Group-wide training programs, ASSA ABLOY Management Training and the ASSA ABLOY Business Leadership Program, aim to build up managerial skills.

ASSA ABLOY Management Training has been in place since 1996 and has seen about 250 participants so far. In 2006, the tenth edition of this program was held. The year-long program aims to facilitate integration between the companies in the Group, in part by giving the participants an opportunity to create networks and learn about the business, products and experiences of different parts of the Group.

The ASSA ABLOY Business Leadership Program was introduced in 2005 and is carried out in collaboration with the Institute of Management Development (IMD) in Lausanne, Switzerland. So far, 90 managers from different parts of the Group have participated.

### Employee skills enhancement

The ASSA ABLOY Scholarship Program lets employees spend a short period working in a different company in the Group. Open to all employees, the purpose of the program is to give participants the opportunity to share their own knowledge and experiences while gaining experience of a different culture and other methods and procedures, which they can bring back to their own workplace. Some 20 employees participated in the program in 2006.

### Talent Management

The goal of ASSA ABLOY's annual Talent Management Process is to take advantage of the whole Group's resources – the leaders and specialists of tomorrow – as well as to offer opportunities for career advancement outside the employee's own unit. The process embraces the entire Group and involves a structured review of succession planning and skills enhancement.

## Exchange student focused on production

Jeanette Bloch Hansen from Ruko in Denmark was one of the participants in the ASSA ABLOY Scholarship Program in 2006. She spent five weeks working at Guli Security Products in China. Since Guli produces door fittings for Ruko, the exchange focused on ensuring quality in that segment of production. Jeanette participated actively in Guli's working methods and learned first-hand about their production process. She returned home with a wealth of knowledge about China, Chinese culture and Guli. But more importantly, she has a wide network of contacts for the future.

*"The advantage of Ruko and Guli being in the same Group is that we can be frank and demand the best of each other. That leads to open, innovative development," says Jeanette Bloch Hansen.*





## EMEA

## Stronger demand lifts sales in EMEA

**Characteristics of the EMEA division**

- The division's markets are strongly diversified, with significant local differences.
- EMEA comprises many and varied companies with good knowledge of their local markets.
- In EMEA's largest markets there is no clear distinction between products for the residential and the commercial segments.

**Report on the year**

During the year the division achieved sales of SEK 12,509 M (11,649), an increase of 7 percent, of which 8 percent was organic growth. Operating income excluding restructuring costs increased by 16 percent to SEK 1,972 M (1,707), which represents an operating margin (EBIT) of 15.8 percent (14.7).

EMEA reported strong organic growth in 2006, driven by the momentum in the construction industry and successful product launches. Several of the largest European market regions, such as DACH (Germany, Austria, Switzerland), France and the UK, improved their sales trends after reporting slow growth in previous years. Scandinavia and Finland performed very well. The Middle East, Africa, Israel and East Europe reported excellent growth, although these market regions are still relatively small. The chain of Yale Security Point stores in South Africa that was acquired in 2005 developed very well.

In 2006 Tzachi Wiesenfeld was appointed Executive Vice President and Head of EMEA division, taking over from CEO Johan Molin who was also acting Head of EMEA. A newly formed management team has been in place since the fall of 2006.

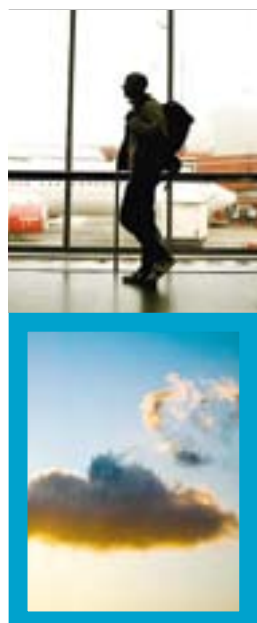
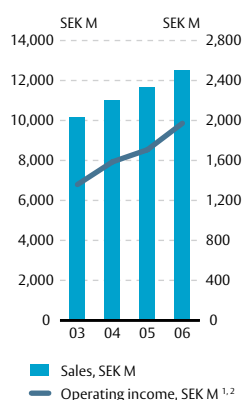
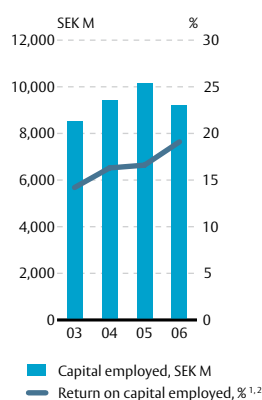
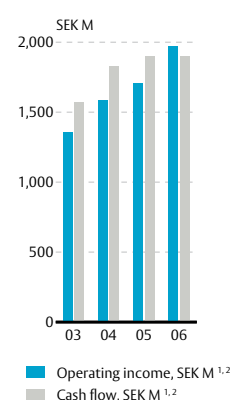
During 2006 the security industry has increasingly moved towards electromechanical and electronic security solutions. There is an increasing demand for products like electric strikes, electromechanical locks and combinations of mechanical and electromechanical products to make a complete security solution. This part of the market is growing faster than the more traditional products.

EMEA improved its profitability through a combination of higher volumes and effective cost controls. EMEA is now starting to see the effects of ongoing restructuring programs, with an improved production structure. Market regions such as Italy, Spain and the UK underwent restructuring in the last couple of years, and all reported improved performance in 2006.

Prices of the main raw materials, such as brass and zinc, soared during the year, which diluted the operating margin. However, EMEA was able to compensate for cost increases to a great extent by increasing its own prices and through supply management savings.

**Restructuring**

In 2006 the EMEA division continued to move the production of its entry-level products from high-cost countries to low-cost countries in eastern Europe or China. Three production units in eastern Europe were selected to be centers of excellence for future product manufacturing. Good

**Sales / Operating income****Capital employed / Return on capital employed****Operating income / Cash flow**

<sup>1</sup> Excluding restructuring items.

<sup>2</sup> 2003 has not been adjusted for IFRS but amortization of goodwill has been excluded.



access to a skilled but cost-effective workforce and high efficiency mean that plants in eastern Europe have good capacity for future expansion. In addition to the restructuring described above, the manufacturing of car locks in the UK is in the process of being closed down.

During the year all of EMEA's production units worked hard to implement Lean manufacturing. EMEA recruited a central Lean Team and added local Lean Teams at various production sites, with a calendar of Lean events where EMEA aims to improve factories' production flows.

### Ongoing initiatives

#### Operational excellence

EMEA is focusing on exploiting production synergies between Group companies. Production of core components will be concentrated at specialized facilities - for example cylinders in the Czech Republic and lock cases in Romania. Non-core components will continue to be outsourced to selected suppliers in low-cost countries. As a result, production plants in western Europe will focus more on final assembly and customization of products to maintain high-level customer service. EMEA has also concentrated its efforts in supply management to benefit from economies of scale.

#### Product innovation

EMEA will continue to invest in ongoing development of traditional products to ensure that the division has products to meet all the latest security and safety requirements, convenience expectations and market demands. New regulations and standards are used as an opportunity to upgrade products. Besides providing safety and security, it is important that products are aesthetically pleasing. It is also vital to increase the focus on electromechanical products and to develop future platforms for electronic cylinders. Here the ASSA ABLOY Group initiative Hi-O is playing a key role.

### Commercial organizations

It is becoming increasingly important to be involved in specification during the early phases of the building process when a new hospital, factory or office complex is to be built. ASSA ABLOY is working more closely with architects and security consultants to put together a comprehensive security solution. There is a growing trend towards complete tailor-made solutions for buildings.

EMEA is creating sales teams that meet the specific needs of different customer segments and thereby achieving a more efficient sales process.

### Shared services

Back-office services will be consolidated on a country-by-country basis to reduce administration costs for both sales and general administration. Shared services have already been implemented in certain market regions, Germany being a good example where significant cost savings have been made.

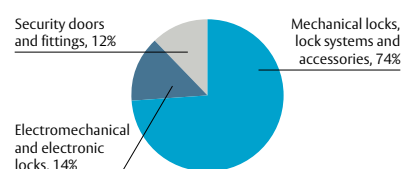
### Human Resources

Finding, training and keeping highly skilled employees is critical for EMEA, given the considerable change that is ongoing in the division, for example the extensive restructuring program. EMEA will ensure that key employees have the right career paths in place to move more quickly into senior management positions. To cater for these changes EMEA is strengthening its Human Resources efforts.

### Acquisitions

EMEA is actively looking for acquisition targets to fill geographical gaps, for example in German-speaking countries and eastern Europe, or to complement its technological expertise and distribution capacity.

Sales by product group



### Key figures

| SEK M                                   | 2006   | 2005   |
|-----------------------------------------|--------|--------|
| <b>Income statement</b>                 |        |        |
| Sales                                   | 12,509 | 11,649 |
| Organic growth                          | 8%     | 3%     |
| Operating income (EBIT) <sup>1</sup>    | 1,972  | 1,707  |
| Operating margin (EBIT) <sup>1</sup>    | 15.8%  | 14.7%  |
| <b>Capital employed</b>                 |        |        |
| Capital employed                        | 9,183  | 10,151 |
| – of which goodwill                     | 4,631  | 4,709  |
| Return on capital employed <sup>1</sup> | 19.1%  | 16.6%  |
| <b>Cash flow</b>                        |        |        |
| Cash flow <sup>1</sup>                  | 1,899  | 1,901  |
| Average number of employees             | 12,283 | 12,405 |

<sup>1</sup> Excluding restructuring items.

# Americas

## US new construction drives excellent performance

### Characteristics of the Americas division

- The division participates in both the residential and non-residential (institutional, commercial and industrial) segments. The non-residential segment accounts for a clear majority of the division's sales.
- In the North American market there is a clear distinction between products intended for the non-residential segment and products intended for the residential segment. As a result, very few of the US and Canadian products are suitable for both markets. The distribution channels serving the two segments are also differentiated.
- Doors and door frames are major components of solutions offered to non-residential customers.

### Report on the year

During the year the division achieved sales of SEK 10,142 M (8,806), an increase of 15 percent, of which 10 percent was organic growth and 6 percent acquired growth. Operating income excluding restructuring costs increased by 20 percent to SEK 1,945 M (1,615), which represents an operating margin (EBIT) of 19.2 percent (18.3).

The Americas division had strong sales in response to good demand on its major markets. The larger non-residential segment continued to benefit from good levels of new construction. The operating margin for the division rose during the year as a result of higher sales and continuous improvement. Raw-material price increases have affected the division, with some of the costs being absorbed through efficiencies and some through price increases.

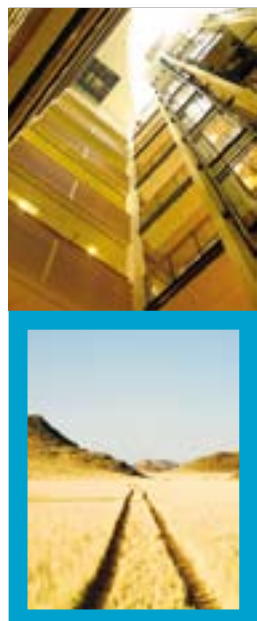
Acquisitions by the Americas division this year included Adams Rite and Baron Metal Industries. Adams Rite has a strong brand and a specialized product range primarily in locks for the OEM segment. The company has about 300 employees mainly in the USA and also has a small operation in the UK. Baron Metal Industries is one of Canada's leading manufacturers of steel doors. The company has about 140 employees. These acquisitions strengthen ASSA ABLOY's door product offering in Canada and increase its presence in the OEM segment.

### The US non-residential segment

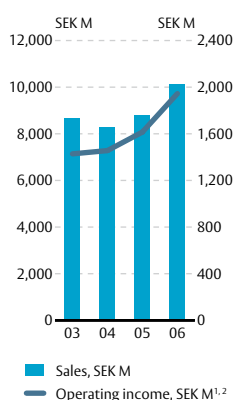
The non-residential segment, comprising institutional, commercial and industrial end-users, accounts for a large percentage of the division's sales in the USA and Canada. Typical applications are in public buildings, hospitals, school and college campuses, airports, transport terminals, sports and shopping centers, manufacturing plants and commercial offices.

Since security and safety standards are more complex for these environments, they often require more lock and door functionality than typical residential applications. The changing nature of intricate building, fire and life-safety codes calls for significantly higher and ever rising levels of product functionality, complexity and durability, and it is increasingly essential that solutions should consider the whole environment of the door opening.

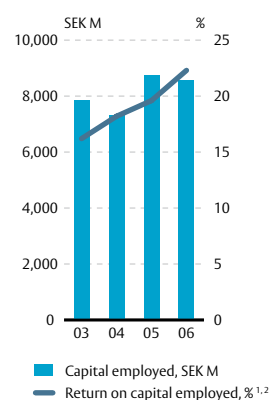
It is increasingly important also to be able to offer a complete package of solutions to satisfy end-user needs. A total solution from ASSA ABLOY is likely to include a coordinated combination of doors, door-frames, locks, door controls or exit devices, access-control products and high-security key system solutions.



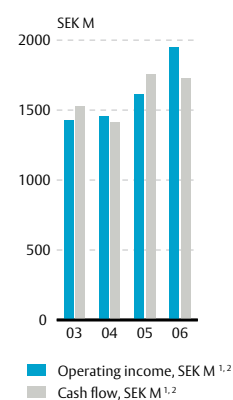
Sales / Operating income



Capital employed / Return on capital employed



Operating income / Cash flow



<sup>1</sup> Excluding restructuring items.

<sup>2</sup> 2003 has not been adjusted for IFRS but amortization of goodwill has been excluded.





### The US residential segment

The residential segment, which constitutes a smaller part of the division's sales, developed well, even though the Group companies in this segment experienced a slowdown in demand during the later part of 2006.

### Other markets in the Americas division

Market conditions in Mexico were stable and the Group companies improved their performance. Implementation of Lean methods in both production and business processes continued.

The Canadian operations are focused on the non-residential market and have performed well during the year.

The division achieved good sales on the Latin American markets. All Group companies in Americas division are continuing the implementation of Lean production methods, which has resulted in improved margins.

### Ongoing initiatives

#### Complete solutions

The division continues to further develop its complete solutions for non-residential customers to meet their safety and security demands. To achieve this, the Americas division is building specific knowledge of the true needs of both the installer and the end-user. Working more closely with the market continues to be an important theme for the division. Better understanding of the complex needs of end-users and specific types of building helps the sales force to sell complete solutions to vertical market segments.

Distributor partners are deeply involved with the Americas division in defining the right products and solutions for given applications. The distributor often acts as the local consultant, engineer, project manager and installer, with the ultimate objective of making sure that the end-user receives the right product, and that it is installed correctly, in order to meet increasingly complex and demanding codes.

#### Lean processes

The Lean philosophy continues to be a major thrust in all the division's organizations and has now been extended to functions such as product and solutions design as well as

many office processes. Lean methods have the benefits of streamlining product flows, controlling material costs at a time of rising prices, simplifying decision-making, increasing speed to market, and improving interaction with the market and the sales force.

Ongoing initiatives with Lean processes have become ingrained in the division's way of working. Further development of Lean operations in production and work processes and through capturing purchasing synergies is continuing.

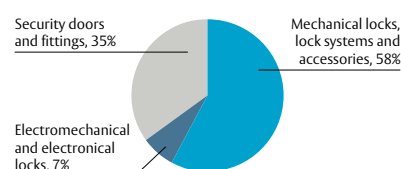
#### Raising technology levels

Electromechanical products with more sophisticated technology make up a rapidly growing segment and form crucial components of most integrated security systems. One example is the SARGENT Electric Latch Retraction exit device which adds electronics to mechanical products and improves functionality. A new product development process using a thorough 'voice of the customer' research method significantly reduces time to market. The product utilizes the ASSA ABLOY Americas ElectroLynx quick-connect system to facilitate simple electrification of the component during the installation process. Through its added functionality the exit device can now be used in conjunction with an automatic door operator and in access control applications. It can also be tied into the building's fire detection system to meet complex fire-safety building codes.

#### Acquisitions

The Americas division continues to investigate acquisition opportunities that are similar to recent acquisitions made in North America.

Sales by product group



### Key figures

| SEK M                                   | 2006   | 2005  |
|-----------------------------------------|--------|-------|
| <b>Income statement</b>                 |        |       |
| Sales                                   | 10,142 | 8,806 |
| Organic growth                          | 10%    | 5%    |
| Operating income (EBIT) <sup>1</sup>    | 1,945  | 1,615 |
| Operating margin (EBIT) <sup>1</sup>    | 19.2%  | 18.3% |
| <b>Capital employed</b>                 |        |       |
| Capital employed                        | 8,545  | 8,726 |
| – of which goodwill                     | 5,076  | 5,276 |
| Return on capital employed <sup>1</sup> | 22.3%  | 19.6% |
| <b>Cash flow</b>                        |        |       |
| Cash flow <sup>1</sup>                  | 1,724  | 1,755 |
| Average number of employees             | 9,641  | 9,251 |

<sup>1</sup> Excluding restructuring items.

# Asia Pacific

## Developing distribution and production in China

### Characteristics of the Asia Pacific division

- The division's main sales markets are Australia, China and New Zealand.
- Approximately 60 percent of sales are to the commercial segment and 40 percent to the residential segment.
- There is great growth potential in the large, fragmented markets of Asia. These markets are generally undeveloped, with low security standards, and are therefore mostly price-driven.
- The production units in China supply significant volumes to ASSA ABLOY's other regions.

### Report on the year

During the year the division achieved sales of SEK 2,309 M (2,209), an increase of 5 percent, of which 4 percent was organic growth and 3 percent acquired growth. Operating income excluding restructuring costs decreased by 13 percent to SEK 213 M (245), which represents an operating margin (EBIT) of 9.2 percent (11.1).

Demand in the non-residential market in Australia and New Zealand continued to generate good growth. The residential market in those regions was weak due to poor residential new construction. The division's sales on Asian markets have shown a positive trend, with strong growth on most local markets. The division has continued to move production from New Zealand and Australia to China. Profitability was negatively affected by the global price increases on raw materials. To compensate for the resulting high cost inflation, the division started to increase its prices during the second half of the year.

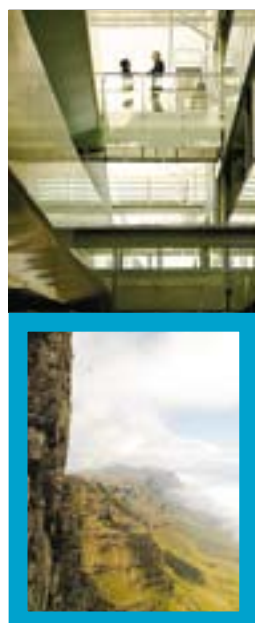
There has been a change of management in the Asia Pacific division. The new management team has been in place since the autumn of 2006 and is headed by Martin Brandt, who is Executive Vice President and Head of Asia Pacific division.

### Australia and New Zealand

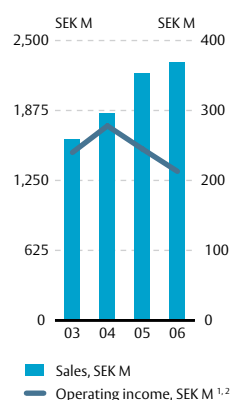
In the non-residential segment the division has further developed its specification teams, which has been successful in achieving good growth within institutional and commercial construction. Specification teams from Asia Pacific, Global Technologies and Entrance Systems have collaborated in developing joint security solutions that use a wide range of products to provide increased customer benefit. The division has also continued to develop part of the distribution to serve smaller commercial clients better. Increased knowledge of customer needs and tailored solutions for end-users have resulted in higher growth and profit.

The designed range of locksets with a choice of levers and knobs together with a range of finishes to match modern decor has proved to be successful in the residential segment. The newly launched electromechanical keyless locksets were also well received by the market even though sales have been held back by the low rate of new construction.

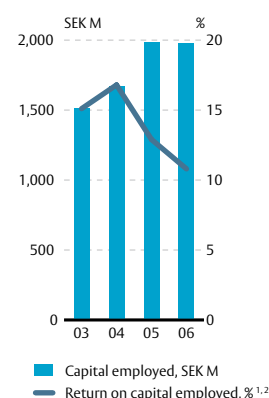
The production of security fittings for residential doors and windows, most of which are exported to OEM markets, continued to show volume growth. However, profit was negatively impacted by the weak US dollar and the production was therefore relocated to China.



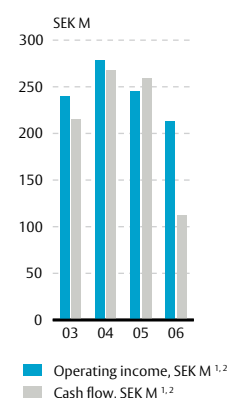
Sales / Operating income



Capital employed / Return on capital employed



Operating income / Cash flow



<sup>1</sup> Excluding restructuring items.

<sup>2</sup> 2003 has not been adjusted for IFRS but amortization of goodwill has been excluded.



## China

There was strong growth in both domestic sales in China and intra-Group sales to other ASSA ABLOY divisions. The division and Wangli have increased their integration and cooperation in order to benefit from Wangli's distributors and production capacity. Wangli's large network of distributors has been important in driving organic growth, which accelerated during the second half of 2006.

ASSA ABLOY has a good market position in the rapidly growing segment of high-end non-residential projects. The division has established specification teams in China to further strengthen its market position when tendering for large commercial and institutional projects. For such non-residential projects the division offers complete security solutions utilizing ASSA ABLOY products from Group companies in other geographical regions.

## Other Asian markets

Sales in Hong Kong and Singapore have developed well and the division has recruited specification teams to address both the residential and the commercial segments. BEST Metaline in South Korea has been refocused as a sales company and its production has been outsourced. A new presence has been established in India with the aim of capturing growth opportunities better.

## Ongoing initiatives

### Moving production to China

The relocation of production from Australia and New Zealand to China continues. During 2006 two production units in New Zealand were closed down and their production was moved to China. The Australian plant for residential products is in the process of being transferred to Guli in China. As production moves to China, companies in Australia and New Zealand will concentrate on assembly, product development and sales and marketing of products.

### Product development

Innovation and continuing product development are essential factors if the Asia Pacific division is to maintain an appealing product range and to improve sales.

The importance of electromechanical security products continues to grow and there is great growth potential in the commercial segment for electronic cylinders. The Asia Pacific division is working together with Group companies Assa and effeff to develop suitable products for the local market.

Asia Pacific is investing in a Research & Development department in China to develop products intended for both intra-Group sales and the Chinese market. Together with other Group companies Guli is also developing modular platforms and components that will serve many Group companies on other geographical markets.

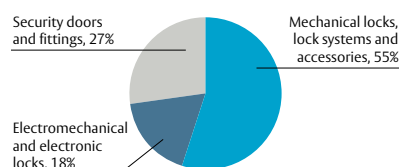
### Reorganization of the sales force

Sales organizations will be reorganized to follow the Group strategy of changing from a product supplier to a provider of security solutions. Key Account Management will be established for large nationwide customers. To attract more project business, Asia Pacific will continue to strengthen specification resources and to work with architects to create a pull effect in the market. A channel-focused sales force will serve smaller customers through locksmiths and wholesalers. Back-office organizations will be streamlined by implementing Lean sales processes, for example in the order intake. The aim of the reorganization is to create a more efficient and focused sales force.

### Acquisitions

In the large security markets in China and India there are great opportunities for acquisitions to increase the division's geographical presence and to build up local distribution. Acquisition targets are companies that complement the local product offering and add distribution and manufacturing capacity. In Australia there are also opportunities to acquire niche companies to complement the product range and to exploit the division's specification skills.

Sales by product group



## Key figures

| SEK M                                   | 2006  | 2005  |
|-----------------------------------------|-------|-------|
| <b>Income statement</b>                 |       |       |
| Sales                                   | 2,309 | 2,209 |
| Organic growth                          | 4%    | 2%    |
| Operating income (EBIT) <sup>1</sup>    | 213   | 245   |
| Operating margin (EBIT) <sup>1</sup>    | 9.2%  | 11.1% |
| <b>Capital employed</b>                 |       |       |
| Capital employed                        | 1,974 | 1,985 |
| – of which goodwill                     | 955   | 995   |
| Return on capital employed <sup>1</sup> | 10.8% | 12.9% |
| <b>Cash flow</b>                        |       |       |
| Cash flow <sup>1</sup>                  | 112   | 259   |
| Average number of employees             | 5,099 | 4,352 |

<sup>1</sup> Excluding restructuring items.

# Security focus drives organic growth

# Global Technologies

## Characteristics of the Global Technologies division

- The division consists of three specialized business units, HID Global, ASSA ABLOY Identification Technologies (ITG) and ASSA ABLOY Hospitality, dedicated to global products and services.
- The division's products are sold to the non-residential segment.
- The largest markets are North America and Europe.

## Global Technologies' three business units:

- **HID Global** is primarily concerned with electronic access control. Its product offering includes card readers, access control cards, card printers for secure issuance of cards, and control panels used for authentication. These products utilize many technologies including radio-frequency identification (RFID), magnetic stripe and biometrics. The products are sold under well-known brand names such as HID, Indala and Fargo Electronics.
- **ASSA ABLOY Identification Technologies (ITG)** produces identification products based on RFID and smart card technology, such as identification cards, electronic passports and electronic tags for inventory management of industrial products and for marking livestock. Sokymat, ACG and Omnikey are leading brands in the business unit.
- **ASSA ABLOY Hospitality** produces door-locking systems and hotel-room safes and serves the hotel and cruise-ship markets under leading global brands such as VingCard and Elsafe.

## Report on the year

During the year the division achieved sales of SEK 4,220 M (3,387), an increase of 24 percent, of which 12 percent was organic growth and 12 percent acquired growth. Operating income excluding restructuring costs increased by 29 percent to SEK 612 M (476), which represents an operating margin (EBIT) of 14.5 percent (14.1).

Continued focus on security in more mature markets, such as North America and Europe, drove RFID and electronic-security product growth. Legislation and raised security standards increased demand for high-security products such as electronic passports. The strong world economy also benefited the division. The hospitality market in particular continued its recovery based on strong travel demand.

In June ITG acquired VisionCard, which is a leading European manufacturer of contactless cards for ski lifts, public transportation and access-control markets. In September HID Global acquired Fargo, which is a global leader in the development of secure technologies for ID-card issuance systems – including secure card printers, card readers, materials and software. Fargo's integration with HID Global is progressing according to plan with the objective of realizing sales synergies.

The operating margin is boosted by growth in sales volumes but constrained by continuing investments in an enlarged marketing and sales organization in the fast-growing segments.

## Development within the business units

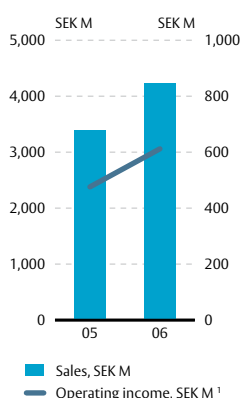
### HID Global

The iCLASS line of contactless high-frequency smart cards and readers continued to expand, finding new types of customers, and now represents one-third of HID Global's business. Customers use the cards for logical access, for making payments and for physical access control. For even greater security, iCLASS cards can store digital versions of users' biometric information. HID Global's low-frequency products maintained their customer base and market share with continued strong growth.

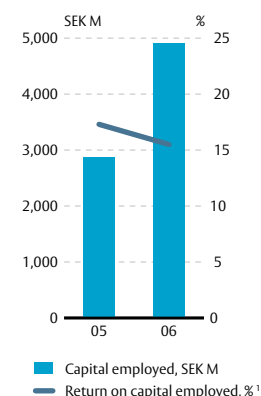
HID Global has invested in sales and distribution infrastructure for the Chinese and Indian markets, resulting in strong growth in Asia. The business unit will continue geographic expansion into emerging markets.

The security industry is moving toward products that provide standardized communication methodologies so that all products within a security system can communicate with each other. To meet this trend HID Global has launched several products compatible with standard IT systems, for example, VertX and Edge Reader.

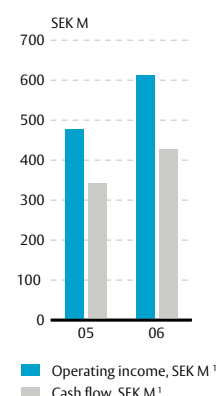
Sales / Operating income



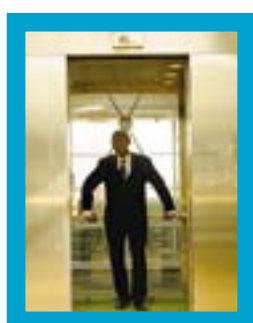
Capital employed / Return on capital employed



Operating income / Cash flow



<sup>1</sup> Excluding restructuring items.







HID Global broadened its iClass product line by adding the bioCLASS biometric reader and the FIPS 201 Government Smart Card products. The latter are designed for United States government agencies and contractors adopting contactless smart card technology.

In the new collaboration between ASSA ABLOY and Cisco Systems, HID Global has the premier role in developing compatible technologies that allow convergence of physical and logical access. The collaboration is designed to ensure that ASSA ABLOY's Hi-O-enabled products communicate with Cisco's integrated IP solutions.

#### ASSA ABLOY Identification Technologies (ITG)

ITG had good growth in all vertical market segments for RFID products, which include access and security, industrial logistics, and food and animal tagging. Electronic passports have been a great success; ITG is already supplying nine countries including Germany and Spain and demand continues to increase.

Logical access control, including logging-on to computers, developed well with the Omnikey brand. The HID Global and ITG business units carried out joint product development that expanded the product offering in both physical and logical access control.

A new management team for ITG was appointed during the year. The objective is to increase customer focus on vertical market segments for RFID products. ITG also started to consolidate brands and sales forces, which will continue in 2007.

#### ASSA ABLOY Hospitality

The Hospitality business unit continued to restructure and launched several new products that generated strong growth. The business unit is reinvigorating its main brands VingCard and Elsafe through closer relationships with distribution channels and improved support to customers.

The recently launched Signature line generated good sales. RFID-based locks and 'RF online' locking systems that allow communication from the front desk to all doors in a hotel are other examples of ongoing product innovation. A new front-desk encoder system was also launched in 2006. These products will all help to reposition VingCard and Timelox as true industry leaders in innovation.

#### Ongoing initiatives

At divisional level, Global Technologies will continue to focus on growth opportunities. Organic growth will come from innovative new products, a broader geographical presence and continued refinement of brand and channel management.

An important trend is the increased cooperation among all ASSA ABLOY's technology areas via its Shared Technologies initiative. Group companies in other ASSA ABLOY divisions use technology originating from the Global Technologies division when adding RFID and wireless technology to more traditional lock products.

Global Technologies division will continue to investigate acquisition opportunities across all business units. Acquisition targets will add either geographic market share or distribution capacity or new technologies.

#### HID Global

HID Global will focus on the integration of Fargo and realizing sales synergies. The business unit will continue to launch IT-based products and develop the HID CONNECT and Axio electronic cylinder programs. The Cisco collaboration on Hi-O technology is expected to generate new business opportunities. The business unit will continue to consolidate the distribution activities of its HID and Indala brands while expanding in emerging markets.

#### ASSA ABLOY Identification Technologies (ITG)

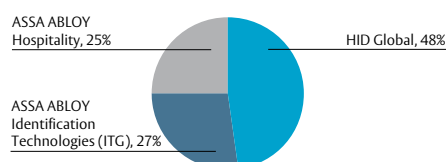
During 2007 ITG will complete the merging of its sales forces into one, and will consolidate brands. The business unit will expand production capacity in its manufacturing center in Malaysia to meet demand for electronic passports. Another important initiative is to adopt the RFID technology used in electronic passports in developing new products for mass transit and contactless payment cards.

#### ASSA ABLOY Hospitality

ASSA ABLOY Hospitality will finalize its restructuring with production consolidation and additional outsourcing initiatives. Based on recent product launches the business unit will develop growth opportunities outside the traditional hospitality market.

#### Sales by product group

Electromechanical locks, access control and identification technology, of which:



#### Key figures

| SEK M                                   | 2006  | 2005  |
|-----------------------------------------|-------|-------|
| <b>Income statement</b>                 |       |       |
| Sales                                   | 4,220 | 3,387 |
| Organic growth                          | 12%   | 12%   |
| Operating income (EBIT) <sup>1</sup>    | 612   | 476   |
| Operating margin (EBIT) <sup>1</sup>    | 14.5% | 14.1% |
| <b>Capital employed</b>                 |       |       |
| Capital employed                        | 4,911 | 2,871 |
| – of which goodwill                     | 3,568 | 2,309 |
| Return on capital employed <sup>1</sup> | 15.5% | 17.3% |
| <b>Cash flow</b>                        |       |       |
| Cash flow <sup>1</sup>                  | 426   | 341   |
| Average number of employees             | 2,183 | 1,767 |

<sup>1</sup> Excluding restructuring items.

# Entrance Systems

## Greater market share on the largest markets

### Characteristics of the Entrance Systems division

- The division is ASSA ABLOY's worldwide supplier of complete solutions for automatic doors, with a complete range of services for the aftermarket.
- A significant part of sales goes direct to major end-customers in the commercial, health care and transport sectors.
- Entrance Systems' products and services are sold to commercial and institutional customers.
- Entrance Systems has been a separate division since 1 January 2006.

### Report on the year

During the year the division achieved sales of SEK 2,715 M (2,373), an increase of 14 percent, of which 11 percent was organic growth and 3 percent acquired growth. Operating income excluding restructuring costs increased by 10 percent to SEK 368 M (335), which represents an operating margin (EBIT) of 13.6 percent (14.1).

2006 was a positive year for Entrance Systems, with good demand for the division's products. Despite tough competition, Entrance Systems has seen strong growth on its major markets. The division is a market leader in Europe and also has a good position on other large markets, such as the United States and Australia.

During 2006 Entrance Systems has worked successfully on integration to bring about synergy effects with acquired companies, particularly in the service area. This leads to even more growth opportunities for the companies in the Group.

The operating margin has benefited from the growth in volume, but is constrained by dilution from acquisitions. Rising prices of raw materials, particularly aluminum, have had some negative effect on the division.

### Europe

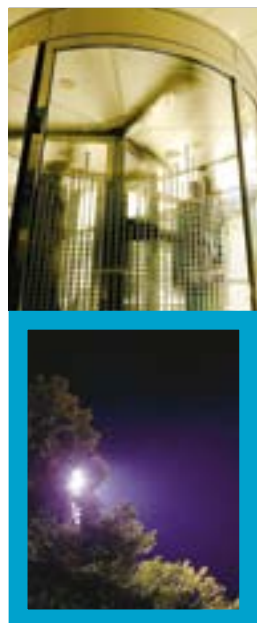
Entrance Systems has grown strongly in Europe and its companies have increased their market shares in several regions. The division has also seen strong growth on markets where it has previously been somewhat weaker, such as Germany, Italy and France. The division has increased the proportion of direct sales to major end-customers such as Lidl and Carrefour.

### North America

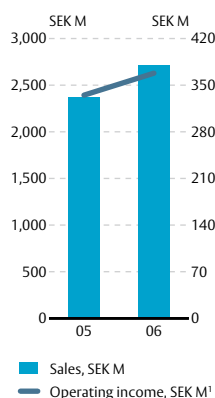
In North America, Entrance Systems has seen very strong growth in both new sales and service. The relocation of manufacturing undertaken earlier has resulted in greater efficiency. The majority of sales in North America are direct sales; distributor sales are only a small part. Entrance Systems has increased its service presence in priority regions. Customization of the products, such as adaptation to local fire regulations and adaptation for disability, is a crucial factor for good sales in the region.

### Asia and Australia

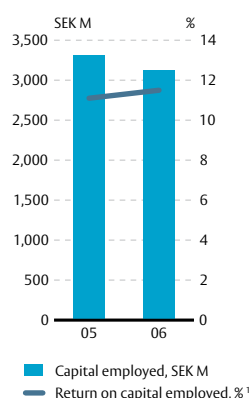
In Asia and Australia, sales have been strong. Entrance Systems has performed well in Australia, with strong organic growth. The division has also acquired Perth Door Services, a vital addition to the service organization. Some regions have shown excellent demand with several major projects – for example in Singapore. Establishment on the Chinese market is under way, and the division has made some organizational changes during the year.



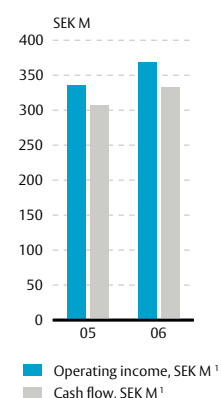
Sales / Operating income



Capital employed / Return on capital employed



Operating income / Cash flow



<sup>1</sup> Excluding restructuring items.



### EntreMatic

EntreMatic is a separate Group company with its own brand which focuses on distribution sales of components instead of offering complete door systems and service. The company has grown strongly on existing markets in 2006 and has established itself on several regional markets in Europe and Asia. Marketing of the EntreMatic brand will be intensified.

### Ongoing initiatives

#### Enhanced service operations

Entrance Systems is working steadily to expand its customer offerings to include selling complete automatic door solutions, including service, for the total door environment. Continuous preventive service is profitable for customers. Regular contact with the end-customers also enhances opportunities for additional sales. The division is putting major emphasis on training service technicians in sales techniques to take advantage of their daily customer contacts.

The large number of service orders each year indicates great potential for automating routines in the division. The division aims to make its service organization more efficient, to further automate its processes and to make more customer visits.

#### Acquisitions

Opportunities for acquisitions are great, as the market for automatic doors is relatively fragmented. Entrance Systems is actively seeking acquisitions that will give it a broader geographic base. Europe and North America in particular have several regional companies selling automatic doors, as well as many smaller local service companies. There are also opportunities for acquisitions to further expand Entrance Systems' product range.

#### Expanding presence in Asia

Expanding its presence in China and gaining access to the robust market growth there is one of the division's greatest opportunities in the coming years. To succeed better on the local markets in Asia, Entrance Systems is working to adapt its products to local requirements and demands. One example is specially adapted openers for sliding doors for the Chinese market.

In 2007, Entrance Systems will establish itself on several new markets in Asia, including South Korea.

### Product development

Investments in product development have been stepped up, and the division has several important ongoing projects. Entrance Systems is working to develop a global product range with common components that can be adapted to local markets. Among other things, special products are being developed for growth markets such as eastern Europe and Asia. Entrance Systems has launched a large revolving door with built-in sliding doors, called the UniTurn. The great flexibility of the door offers major advantages during peak access times of the day. Since design is an increasingly important factor for good sales, the division has also launched a new revolving door with narrow, more aesthetic door profiles.

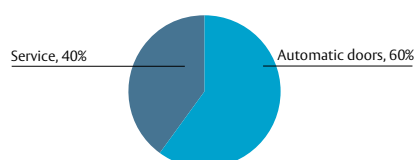
### Efficiency

Entrance Systems is working to further improve efficiency not only in logistics and production but also in administrative processes.

Restructuring and the implementation of Lean methods in the main factory in Landskrona have significantly improved work flows in the past two years. This has allowed the factory to produce larger volumes with the same workforce. Entrance Systems is constantly working on streamlining its processes in both Europe and North America to further increase the rate of production.

Today, Entrance Systems has relatively little production of its own and works extensively with component suppliers. The division has four final-assembly plants: two in Europe and one each in the United States and China. The Chinese production plant provides the other plants with components, and is itself a final-assembly plant for the local market. Purchases of components from low-cost countries in Asia and eastern Europe continue to rise.

Sales by product group



### Key figures

| SEK M                                   | 2006  | 2005  |
|-----------------------------------------|-------|-------|
| <b>Income statement</b>                 |       |       |
| Sales                                   | 2,715 | 2,373 |
| Organic growth                          | 11%   | 8%    |
| Operating income (EBIT) <sup>1</sup>    | 368   | 335   |
| Operating margin (EBIT) <sup>1</sup>    | 13.6% | 14.1% |
| <b>Capital employed</b>                 |       |       |
| Capital employed                        | 3,121 | 3,309 |
| – of which goodwill                     | 2,453 | 2,427 |
| Return on capital employed <sup>1</sup> | 11.5% | 11.1% |
| <b>Cash flow</b>                        |       |       |
| Cash flow <sup>1</sup>                  | 332   | 307   |
| Average number of employees             | 1,926 | 1,714 |

<sup>1</sup> Excluding restructuring items.







## Contents

|                                       |    |
|---------------------------------------|----|
| Report of the Board of Directors      | 32 |
| Corporate governance report           | 34 |
| Sales and earnings                    | 44 |
| Income statement – Group              | 45 |
| Comments by division                  | 46 |
| Results by division                   | 47 |
| Financial position                    | 48 |
| Balance sheet – Group                 | 49 |
| Cash flow                             | 50 |
| Cash flow statement – Group           | 51 |
| Changes in equity – Group             | 52 |
| Parent company's financial statements | 53 |
| Financial risk management             | 55 |
| Notes                                 | 58 |
| Five years in summary                 | 78 |
| Quarterly information                 | 80 |
| Definitions of key data terms         | 81 |
| Proposed disposition of earnings      | 82 |
| Audit report                          | 83 |

# Report of the Board of Directors

The Annual Report of ASSA ABLOY AB (publ.), Corporate identity number 556059-3575, contains the Group's accounts for the financial year 1 January – 31 December 2006. ASSA ABLOY is the world's leading manufacturer and supplier of door opening solutions that meet customers' demands for security, safety and convenience.

## Important events

### *Sales and earnings*

During the year sales increased by 12 percent to SEK 31,137 M (27,802), with organic growth of 9 percent and acquired growth of 3 percent. Operating income (EBIT) excluding restructuring costs increased by 17 percent to SEK 4,771 M (4,078), representing an operating margin of 15.3 percent (14.7). Income before tax totaled SEK 2,626 M (3,556).

Operating cash flow amounted to SEK 3,528 M (3,702). Earnings per share excluding restructuring items increased by 15 percent to SEK 7.99 (6.97).

### *Restructuring*

During the year a comprehensive three-year restructuring program was initiated with the aims of increasing efficiency and realizing synergies within the Group more quickly. The program includes some 50 individual restructuring measures. The roles of a large number of production units will be changed to focus mainly on final assembly, and some units will be closed. The total cost of the program is SEK 1,274 M, and it is expected to generate cost savings of about SEK 600 M a year once the whole program is completed in 2009. The full cost of the program has been expensed in 2006.

In addition to the restructuring described above, the costs of closing the remaining car-lock manufacturing in

Britain amount to SEK 200 M. Of the total restructuring costs of SEK 1,474 M, it is estimated that SEK 1,275 M relate to payments associated chiefly with redundancies. Write-downs, chiefly relating to machinery and equipment, have totaled SEK 199 M.

During 2006 about 500 out of the total of 2,000 employees affected by the restructuring program have left the Group.

Payments related to restructuring amounted to SEK 342 M for the full year.

### *Acquisitions*

Adams Rite, a leading American manufacturer of locks and fittings for aluminum doors, was acquired by Americas division in April. The acquisition brings ASSA ABLOY complementary products and new distribution channels. The company's annual sales are USD 50 M. The acquisition contributed to earnings per share from the acquisition date. Americas division also acquired Baron Metal, Canada's leading manufacturer of steel doors and doorframes, in April. The company's annual sales are CAD 30 M, and it contributed to earnings per share from the acquisition date.

In June VisionCard, a leading European manufacturer of contactless cards for the ski-lift, public transportation and access control markets, was acquired by Global Technologies division. The company has annual sales of EUR 13 M and contributed to earnings per share from the acquisition date.

In August Global Technologies division acquired Fargo Electronics, a world-leading company in systems for secure issuance of ID cards. A secure process for managing the issuing of cards for identification and access control is becoming an ever more important factor in all security solutions. Fargo has annual sales of USD 90 M, with high profitability. The acquisition had a mildly diluting effect on



earnings per share in 2006 and is expected to contribute to earnings per share in 2007.

In addition a number of smaller acquisitions were made during the year, including Perth Door Services in Australia. These companies have total annual sales of about SEK 200 M. The total acquisition price on a tax-free basis for all acquisitions, including estimated earn-outs, is about SEK 3,100 M. Goodwill and other intangible assets with indefinite useful life amount to about SEK 2,700 M.

#### *Acquisitions in 2007*

In early 2007 Pyropanel, Australia's leading company in fireproof doors, and Pemko, a US manufacturer of door components, were acquired. The companies have combined annual sales of nearly SEK 500 M and are expected to contribute to earnings per share from the acquisition date.

#### *Changes to the Executive Team*

During the year the following executives were appointed as new members of the Executive Team: Tomas Eliasson as Chief Financial Officer, Ulf Södergren as Chief Technology Officer (CTO), Tzachi Wiesenfeld as Head of EMEA division and Martin Brandt as Head of Asia Pacific division.

#### *Incentive program for senior executives*

An incentive program for senior executives has been implemented during the year. The program concerns fewer than 100 people in some 15 countries. The program is issued at market price and based on four convertible bonds with a total value of EUR 38.4 M and a maturity date of June 2011.

The maximum dilution effect of the program is estimated to amount to 0.6 percent of share capital.

#### **Research and development**

ASSA ABLOY's expenditure on research and development during the year amounted to SEK 719 M (588), which is equivalent to 2.3 percent (2.1) of sales.

A collaborative venture with Cisco Systems, the world leader in IP (Internet Protocol) systems, has been launched. The companies will jointly develop compatible technologies for convergence between security products for physical entry and for logical access.

#### **Environmental impact**

Four of the ASSA ABLOY Group's subsidiaries in Sweden carry out licensable business activities in accordance with Swedish environmental regulations. The Group's activities liable to license and registration affect the external environment chiefly through the subsidiaries Assa AB, Assa Industri AB, AB FAS Låsfabrik and FIX AB. The companies operate machine shops and foundries and associated surface-coating plants, which have an impact on the external environment through the discharge of water, air and solid waste.

The subsidiaries Assa AB, Assa Industri AB, AB FAS Låsfabrik and FIX AB are actively addressing environmental issues, and are certified in accordance with ISO 14001. Most units outside Sweden carry out licensable business activities and hold comparable licenses under local legislation.

#### **Outlook**

Organic sales growth is expected to continue at a good rate. The operating margin (EBIT) and operating cash flow are expected to develop well. Long-term, ASSA ABLOY expects an increase in security-driven demand. Focus on end-user value and innovation as well as leverage on ASSA ABLOY's strong position will accelerate growth and increase profitability.



ASSA ABLOY AB is a Swedish public company with headquarters in Stockholm, Sweden. The company's governance is based on its own articles of association, the Swedish Companies Act, the rules of the Stockholm Stock Exchange including the Swedish Code of Corporate Governance, and other applicable Swedish and foreign laws and regulations.

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

## Shareholders

The number of shareholders in ASSA ABLOY at year-end was 26,118. ASSA ABLOY's principal shareholders are Investment AB Latour and Säkl (9.5 percent of the capital and 29.7 percent of the votes) and Melker Schörling and companies (3.9 percent of the capital and 11.5 percent of the votes). Foreign shareholders account for 53 percent of the share capital and 36 percent of the votes. The ten largest shareholders account for 32 percent of the share capital and 54 percent of the votes. The total number of shareholders fell during the year, while the proportion of foreign shareholders increased.

## Share capital and voting rights

ASSA ABLOY's share capital at year-end amounted to SEK 366 M, distributed among 19,175,323 Series A shares and 346,742,711 Series B shares. Each Series A share carries ten votes and each Series B share one vote. All shares give the holders equal rights to the company's assets and earnings.

## Share and dividend policy

ASSA ABLOY's Series B share is quoted on the Large Cap list of the Stockholm Stock Exchange – the list for larger companies. The trading lot is 200 shares. ASSA ABLOY's stock-market value at the end of the year amounted to SEK 54,521 M. The goal of the Board of Directors is that, in the long term, the dividend should correspond to 33–50 percent of earnings after standard tax of 28 percent, but always taking into account ASSA ABLOY's long-term financial requirements.

## Annual General Meeting

Shareholders' rights to decide on the affairs of ASSA ABLOY are exercised at the Annual General Meeting. Shareholders who are recorded in the share register on the nominated day and who have notified their intention to attend may take part in the Meeting, either in person or via a proxy. Decisions at the Annual General Meeting are normally taken by simple majority. However, on certain matters the Swedish Companies Act or ASSA ABLOY's articles of association prescribe that proposals should be supported by a higher proportion of the shares represented or votes cast at the Meeting. Individual shareholders who wish to have an issue raised at the Annual General Meeting can apply to ASSA ABLOY's Board of Directors at a special address that is published on the company's website in good time before the Meeting.

The Annual General Meeting must be held within six months of the end of the company's financial year. Matters considered at the Annual General Meeting include dividends; approval of the income statement and balance sheet; discharge from liability of the Board of Directors and the CEO; the election of Board members, the Chairman of the Board, the Nomination Committee and, where applicable, Auditors; and the fixing of remuneration for the Board and Auditors. Extraordinary General Meetings may be held if the Board of Directors believes that they are needed or if ASSA ABLOY's Auditors or holders of at least 10 percent of the shares so request.

## The 2006 Annual General Meeting

The Annual General Meeting in April 2006 was attended by shareholders representing 46 percent of the company's capital and 62 percent of the votes.

At the meeting Gustaf Douglas, Melker Schörling, Carl-Henric Svanberg, Carl Douglas, Per-Olof Eriksson, Lotta Lundén and Sven-Christer Nilsson were re-elected as members of the Board. Johan Molin, President and CEO of ASSA ABLOY, was elected as a new member of the Board. Gustaf Douglas was elected as the new Chairman of the Board to succeed Georg Ehrnrooth, who was thanked for his services after twelve years as Chairman. Melker Schörling and Carl-Henric Svanberg were re-elected as Vice Chairmen. PricewaterhouseCoopers, with Authorized Public Accountant Peter Nyllinge as Auditor in Charge, were appointed as Auditors for a four-year period up to the Annual General Meeting of 2010.

The Meeting fixed the dividend at SEK 3.25 per share. The Meeting also decided on the fees payable to the Board and the Auditors and appointed the members of the Nomination Committee up to the 2007 Annual General Meeting. Against the background of the new Swedish Companies Act that came into force on 1 January 2006, the Meeting approved a number of changes to the company's articles of association. The Meeting also approved the issue of convertible debentures and the incentive program for senior executives of the ASSA ABLOY Group. For information about current incentive programs, see page 86 and Note 25 on page 70 as well as the ASSA ABLOY website [www.assaabloy.com](http://www.assaabloy.com), where the minutes of the 2006 Annual General Meeting are also available.

## Nomination Committee

The duties of the Nomination Committee are to consider the choice of the Chairman, Vice Chairmen and other members of the Board of Directors, the choice of Auditor, the choice of the Chairman of the Annual General Meeting, questions of remuneration and associated matters.

The members of the Nomination Committee prior to the 2007 Annual General Meeting are Melker Schörling (Melker Schörling AB), Chairman, Gustaf Douglas (Investment AB Latour and Säkl), Staffan Grefbäck (Alecta) and Marianne Nilsson (Swedbank Robur). If a shareholder represented by one of the members of the Nomination Committee ceases to be among the major shareholders in ASSA ABLOY, the Committee has the right to elect a representative of any of the current major shareholders to take the place of such a



member. The same applies if a member of the Nomination Committee ceases to be employed by such a shareholder or for any other reason leaves the Committee before the 2007 Annual General Meeting. Up to 13 February 2007 no changes in the composition of the Nomination Committee had taken place.

As a basis for its proposals to the 2007 Annual General Meeting, the Nomination Committee has carried out an assessment of whether the current Board is appropriately composed for its purpose and is fulfilling the demands placed on the Board by the company's present situation and future objectives. As one factor in this assessment, the Committee has studied the results of the evaluation of the Board's work carried out under the leadership of the Committee's Chairman. Any recruitment of new Board members is based on a profile of requirements laid down by the Committee. The search for new Board members continues throughout the year.

Shareholders who wish to put forward proposals to the Nomination Committee can do so by e-mailing [nominationcommittee@assaabloy.com](mailto:nominationcommittee@assaabloy.com). The Nomination Committee's proposals and information about its work during the year are published at the latest in conjunction with the formal notification of the Annual General Meeting, which is expected to be issued about 20 March 2007.

### Board of Directors

In accordance with the Swedish Companies Act, the Board of Directors is responsible for the organization and administration of the Group and for ensuring proper control of bookkeeping, management of assets, financial circumstances etc. The Board decides on the Group's overall objectives, strategies and policies and on acquisitions, divestments and investments. The Board approves the Annual Report and Interim Reports, recommends a dividend and principles for remunerating Management to the Annual General Meeting and takes decisions about the Group's financial structure.

The Board's other duties include:

- continually evaluating the company's operating management and the work of the CEO,
- ensuring that there are effective systems for monitoring and regulating the company's operations and financial position with reference to its stated objectives,
- ensuring that the company's external presentation of information is marked by openness and accuracy,
- ensuring that there is satisfactory control of the company's compliance with laws and other regulations applying to the company's operations,
- ensuring that necessary ethical guidelines for the company's conduct are set down.

Working procedures for the Board and instructions for the division of duties between the Board and the CEO are reviewed and set down at least once a year. The Board has also issued written directives specifying how financial reporting to the Board shall be presented and the division of duties between the Board and the CEO.

In addition to leading the work of the Board, the Chairman of the Board shall continually monitor the Group's operations and development by means of discussions with the CEO. The Chairman shall consult with the CEO on strategic issues and shall represent the company in matters concerning the ownership structure. The Chairman shall also, when necessary, take part in particularly important external discussions and, in consultation with the CEO, in other matters of especial significance. The Chairman shall ensure that the work of the Board is evaluated each year and that new members of the Board receive appropriate training.

The Board meets at least four times a year. The regular meetings take place in connection with the company's publication of its year-end or quarterly results. At least one of the Board meetings is combined with a visit and an in-depth review of one of the Group's businesses. Extra Board meetings are held when necessary. All meetings follow an approved agenda. Before each meeting, a draft agenda including documentation relating to each point on the agenda is sent to all Board members.

The Board has a Remuneration Committee and an Audit Committee. The purpose of these Committees is to make the work of the Board in these areas deeper and more effective and to lay the ground for decision-making. The Committees themselves have no decision-making powers. The members of the Committees are chosen at the inaugural Board meeting each year. Instructions to the Committees are included in the Board's working procedures.

### *The Board's work during 2006*

During the year the Board held five regular meetings and three extra meetings. At three Board meetings one Board member was absent. At the others, all members were present.

At the regular Board meetings the President and CEO reported the Group's results and financial position, including the outlook for the coming quarter. Investments, acquisitions and divestments were also considered. All acquisitions exceeding SEK 100 M are decided by the Board.

The most important issues considered by the Board during the year covered the three-year restructuring program initiated with the aims of increasing efficiency and exploiting synergies in the Group more quickly; the acquisition of Fargo Electronics and a number of other acquisitions, mainly in Americas and Global Technologies divisions; and a review of the Group's strategy.

The year's Board visit was to California, USA, where the Board attended a world security exhibition in San Diego and visited the Group companies HID Global in Irvine and Adams Rite in Pomona. The visit to Adams Rite, which was acquired at the start of the year, was combined with a discussion of the strategy for Americas division.

During the year the Board also decided to recommend an incentive program for senior executives to the Annual General Meeting, and approved the appointment of Martin Brandt, Tomas Eliasson, Ulf Södergren and Tzachi Wiesenfeld as members of the Executive Team.

In November the Board decided that Gustaf Douglas should replace Melker Schörfling as Chairman of the Remuneration Committee, and that Melker Schörfling should replace Gustaf Douglas as Chairman of the Audit Committee.

#### Remuneration Committee

The duty of the Remuneration Committee is to survey and discuss, on behalf of the Board, issues concerning the remuneration of the CEO and the Executive Team. The Committee also puts forward proposals for changes in the company's remuneration policy. Subjects covered by this policy include:

- the balance between fixed and variable remuneration and the relationship between performance and remuneration,
- the main terms of bonus and incentive programs,
- the main conditions applying to non-monetary benefits, pensions, periods of notice and severance pay.

The Board is responsible for decisions about the remuneration of the CEO and other senior executives and any changes to the company's remuneration policy.

Since November 2006 the Remuneration Committee has consisted of Gustaf Douglas (Chairman) and Sven-Christer Nilsson. The Remuneration Committee held two meetings during the year, attended by all current members. In addition to its normal duties, the Committee this year prepared the Board's proposal of an incentive program for senior executives which was approved at the 2006 Annual General Meeting.

Meetings of the Remuneration Committee are minuted, material for the Board is attached, and an oral report is made at Board meetings.

#### Audit Committee

The areas of responsibility of the Audit Committee include:

- annual review of the company's treasury policy,
- control of the company's financial reporting and internal reporting and control systems,
- monitoring of operations in the internal audit function,
- the scope and evaluation of the external audit,
- monitoring of legal risks.

Since November 2006 the Audit Committee has consisted of Melker Schörling (Chairman), Per-Olof Eriksson and Lotta Lundén. There is an ongoing dialog with the appointed auditor, who also participates in the Committee's meetings. The Audit Committee held three meetings during the year, at which all members were present.

In addition to its normal duties, the Committee this year focused especially on preparatory work for the Nomination Committee's proposed choice of Auditor at the 2006 Annual General Meeting, and audit aspects of the restructuring program.

Meetings of the Audit Committee are minuted, material for the Board is attached, and an oral report is made at Board meetings.

#### Remuneration of the Board

Remuneration of the Board is in accordance with decisions taken at the Annual General Meeting. The 2006 Annual General Meeting decided that fees paid to the Board should comprise a total sum of SEK 3,250,000 (excluding remuneration for Committee work), to be divided between the members as follows: SEK 750,000 to the Chairman, SEK 550,000 to each of the Vice Chairmen and SEK 350,000 to each of the other members who is not employed by the company. In addition, there should be payments to members of the Audit and Remuneration Committees of SEK 100,000 to each of the Chairmen and SEK 50,000 to each of the other members. The Chairman and other Board members have no pension benefits or severance pay agreements. The CEO and the employee representatives do not receive a Director's fee.

#### Fees to Board members in 2006

| SEK thousands           | Fees         | Social costs | Total        |
|-------------------------|--------------|--------------|--------------|
| Chairman of the Board   | 850          | 90           | 940          |
| Other Board members (6) | 2,750        | 800          | 3,550        |
| <b>Total</b>            | <b>3,600</b> | <b>890</b>   | <b>4,490</b> |

#### Composition of the Board

ASSA ABLOY's Board consists of eight members without deputies, who are elected at the Annual General Meeting for a period of one year. In addition there are two employee representatives with deputies, who in accordance with Swedish law are chosen by the employee organizations.

With the exception of the CEO, no Board members are members of the Executive Team. All Board members are from Sweden. The average age of Board members is 56. One member of the Board is a woman.

The majority of the Board members elected at the Annual General Meeting are independent in relation to the company and the company management. Three of the members composing that majority are also independent in relation to the company's major shareholders.

The CEO has no significant shareholdings or partnerships in companies that have important business relationships with ASSA ABLOY.

#### Independence of the Board

| Name                  | Independent in relation to the company and its management | Independent in relation to the company's major shareholders |
|-----------------------|-----------------------------------------------------------|-------------------------------------------------------------|
| Gustaf Douglas        | Yes                                                       | No                                                          |
| Melker Schörling      | Yes                                                       | No                                                          |
| Carl-Henric Svanberg  | No                                                        | –                                                           |
| Carl Douglas          | Yes                                                       | No                                                          |
| Per-Olof Eriksson     | Yes                                                       | Yes                                                         |
| Lotta Lundén          | Yes                                                       | Yes                                                         |
| Johan Molin           | No                                                        | –                                                           |
| Sven-Christer Nilsson | Yes                                                       | Yes                                                         |



Gustaf Douglas

*Board members elected at the 2006 Annual General Meeting*

*Gustaf Douglas, Chairman*

Member of the ASSA ABLOY Board since 1994. Chairman since 2006.  
Born 1938.

MBA, Harvard Business School. Principal owner of Investment AB Latour and Säkl AB. Self-employed since 1980.  
Other appointments: Chairman of Investment AB Latour, Boxholms Skogar AB and Säkl AB, Vice Chairman of Securitas AB, Board member of the Swedish Conservative Party since 2002 and Securitas Direct since 2006.  
Shareholdings (including family and through companies): 6,746,425 Series A shares and 19,000,000 Series B shares through Investment AB Latour, and 7,118,818 Series A shares and 2,000,000 Series B shares through Säkl AB.



Melker Schörling

*Melker Schörling, Vice Chairman*

Member of the ASSA ABLOY Board since 1994.  
Born 1947.

Master of Business Administration, Gothenburg School of Economics. CEO of a number of companies, including Securitas AB 1987–1992 and Skanska AB 1993–1997.

Other appointments: Chairman of MSAB, AarhusKarlshamn AB, Hexagon AB, Securitas AB and Securitas Systems AB, Board member of Hennes & Mauritz AB.

Shareholdings (including family and through companies): 5,310,080 Series A shares and 9,304,734 Series B shares.



Carl-Henric Svanberg

*Carl-Henric Svanberg, Vice Chairman*

Member of the ASSA ABLOY Board since 1994.  
Born 1952.

Master of Science and Bachelor of Economics. President and CEO of Telefonaktiebolaget LM Ericsson. President and CEO of ASSA ABLOY between 1994 and March 2003.

Other appointments: Board member of Hexagon AB and Melker Schörling AB. Carl Henric Svanberg has been awarded honorary doctorates by Luleå Technical University and Linköping University.

Shareholdings (including family and through companies): 3,920,031 series B shares.



Carl Douglas

*Carl Douglas*

Member of the ASSA ABLOY Board since 2004.  
Born 1965.

Bachelor of Arts. Self-employed.

Other appointments: Board member of Securitas AB, Swegon AB and Säkl AB.

Shareholdings (including family and through companies): –



Per-Olof Eriksson

*Per-Olof Eriksson*

Member of the ASSA ABLOY Board since 1995.  
Born 1938.

Master of Engineering, Honorary Doctor of Technology. President and CEO of Sandvik AB 1984–1994, various posts in the Sandvik Group 1965–1984.

Other appointments: Chairman of Callans Trä AB, Cross Country Systems AB and Odlander, Fredriksson & Co, Board member of Senea AB, AB Volvo, Investmentbolaget Öresund and Elkem AS. Member of the Royal Swedish Academy of Engineering Sciences.

Shareholdings (including family and through companies): 10,000 Series B shares.



Lotta Lundén

*Lotta Lundén*

Member of the ASSA ABLOY Board since 2003.  
Born 1957.

Bachelor of Economics. Founder of and partner in Konceptverkstan since 2004, General Manager of Coop Forum Sweden 2002–2003, Head of Purchasing and later President and CEO of Guldfynd/Hallbergs Guld 1999–2001, various posts, mostly in marketing and sales, in IKEA both in Sweden and internationally 1980–1991 and 1994–1998.

Other appointments: Board member of Bergendahls Gruppen AB, Expanda AB, Exportrådet, Borås Wäfveri AB, Green Cargo AB, Akademibokhandeln AB, Gallerix AB and Sven-Axel Svenssons Bijouterier AB.

Shareholdings (including family and through companies): –



Johan Molin

*Johan Molin*

Member of the ASSA ABLOY Board since 2006.

Born 1959.

Bachelor of Science in Economics. President and CEO of ASSA ABLOY since 2005. CEO of Nilfisk-Advance 2001–2005.

Various posts mainly in finance and marketing, later divisional head, in the Atlas Copco Group 1983–2001.

Other appointments: Board member of Nilfisk-Advance.

Shareholdings (including family and through companies): 500,000 Series B shares and Incentive 2006 convertibles corresponding to 224,700 Series B shares.



Sven-Christer Nilsson

*Sven-Christer Nilsson*

Member of the ASSA ABLOY Board since 2001.

Born 1944.

Bachelor of Science, Lund University. President and CEO of Telefonaktiebolaget LM Ericsson 1998–1999, various posts, mainly in marketing and management, in the Ericsson Group 1982–1997.

Other appointments: Chairman of the National Swedish Public Service Broadcasting Foundation (Sveriges Radio AB, Sveriges Television AB and Sveriges Utbildningsradio AB), Chairman of Swedish ICT Research AB and Board member of TeliaSonera AB, CEVA Inc, Tilgin AB and Innovationsbron AB.

Shareholdings (including family and through companies): –



Seppo Liimatainen

*Board members appointed by employee organizations*

*Seppo Liimatainen*

Member of the ASSA ABLOY Board since 2003.

Born 1950.

Employee representative, Federation of Salaried Employees in Industry and Services.

Shareholdings: 2,600 Series B shares.



Mats Persson

*Mats Persson*

Member of the ASSA ABLOY Board since 1994.

Born 1955.

Employee representative, Swedish Metal Workers Union.

Shareholdings: –



Rune Hjälml

*Rune Hjälml*

Member of the ASSA ABLOY Board since 2005. Chairman of ASSA ABLOY's European Works Council (EWC).

Born 1964.

Employee representative, Swedish Metal Workers Union.

Shareholdings: –



Per Edvin Nyström

*Per Edvin Nyström*

Member of the ASSA ABLOY Board since 1994.

Born 1955.

Employee representative, Swedish Metal Workers Union.

Shareholdings: 7,727 Series B shares and Incentive 2004 convertibles corresponding to 7,800 Series B shares.



### **Operating management and internal control**

ASSA ABLOY's business operations are split into divisions. The Executive Team (Group Management) consists of the CEO, the heads of the Group's divisions, the Chief Financial Officer, the Chief Technology Officer and an Executive Vice President responsible for market and business development. The composition of this group gives a geographical and strategic spread of responsibility designed to ensure short decision-making paths.

### *Management philosophy*

ASSA ABLOY's firm conviction is that people make the company. The Group's management philosophy is based on trust, positive thinking, and respect for local conditions and cultures. The four cornerstones of Vision, Realism, Ethics and Courage play a central role in the Group.

### *Guidelines and policies*

The Group's most important guidelines and policies concern financial control, communication issues, the Group's brands, business ethics, and environmental issues.

Common financial, accounting and investment policies set the frameworks for financial control and monitoring.

ASSA ABLOY's communication policy aims to treat all interested parties in the same way; to present important information at the right time and in the right way; to meet legal requirements; and to observe relevant stock market rules. Guidelines concerning brands aim to protect and develop the major assets that the Group's brands represent.

ASSA ABLOY has adopted a Code of Conduct that applies to the whole Group. The Code, which is based on a set of internationally accepted conventions, defines the values and guidelines that should govern the Group in matters such as business ethics, rights and privileges. The environmental policy provides guidance for the Group's environmental work and is based on international standards in this field such as ISO 14001, the UN Global Compact and the OECD's Guidelines.

### *Decentralized organization with a strong control environment*

ASSA ABLOY's organization is decentralized, which is explained by a deliberate strategic choice imposed primarily by the local nature of the lock industry. Another important factor is that the Group was built up in a relatively short period by a large number of acquisitions. Viewed historically, this structure has meant that internal control originated from a strong, centrally based control environment where the integrity, ethical values, expertise and management philosophy of the Executive Team (which achieved high visibility out in the organization) were decisive in forming the basis for other areas of internal control.

ASSA ABLOY's operating structure is designed to create the greatest possible transparency, to facilitate financial and operational monitoring and to promote the flow of information and communication in the Group. The Group's smallest component units are 150 so-called benchmarking units, which normally correspond to a legal entity or part of a legal entity. The next level in the operating structure currently consists of 27 business units. These are either geo-

graphically based or organized around various types of product group. All business units belong to one of the Group's divisions, which form the next higher level in the Group's structure. At each of these levels, there are designated people and a management group responsible for ensuring that internal control of financial reporting maintains a satisfactory quality.

### *Financial reporting and benchmarking*

All benchmarking units submit their financial results monthly, reported according to the Group's IFRS accounting principles in the Hyperion Financial Management system. The reports are consolidated and form the basis for quarterly reports and monthly operating reviews at everything from benchmarking-unit to Group level. The operating reviews conform to a long-established structure – LockPack – in which sales, income, cash flow and other key figures and trends are combined and form the basis for analysis and actions by management and controllers at different levels. The benchmarking units are compared and ranked each month in relation to other units in the Group. The ranking is in terms of the most important key figures for the Group. This benchmarking, one of whose effects is to reveal a number of winners in various categories every quarter, provides an effective tool for review and for spreading good ideas and good business methods among the Group's companies. The financial reviews take the form both of regular monthly meetings at divisional level – so-called performance reviews – and of more informal analysis. Other important Group-wide components of internal control are the annual business planning and budgeting process, and quarterly forecasts of financial results for the current calendar year.

### *Group-wide tools for increasing efficiency*

As well as the guidelines and policies discussed above, some 20 systems and applications for increasing the efficiency of business operations have been developed centrally. These aids can, and in some cases should, be used by Group companies – for example, for optimizing inventories and for cost control. The tools are intended primarily for operational use, but in many cases also result in general and specific control activities linked to financial reporting being implemented in the business and create increased awareness of the importance of internal control.

### *The acquisition process*

A large part of the ASSA ABLOY Group's historical growth and present size is explained by acquisitions. Acquisitions will continue to be an important growth factor for expansion onto new markets, into new technologies and on markets where the market share is low. Complementary acquisitions on existing markets may also become appropriate.

Against this background ASSA ABLOY has thought it right to establish and refine a special Group-wide acquisition process, which lays down how acquisitions should be handled. The process consists of four phases – strategy, evaluation, execution and integration – and each phase includes various predefined activities, decisions and documentation requirements.

Goodwill and other intangible assets with indefinite useful life resulting from acquisitions are subject to a simplified valuation test each quarter and to detailed in-depth impairment testing once a year.

#### *Group internal control and internal audit function*

During the year the work of the Group's unit for Management Assurance and Special Assignments (MASA) included review and coordination of the external audit and evaluation of the Group's internal control. Control Self Assessments are used as a method for central recording of internal control combined with support for the subsidiaries' own procedures. Internal audit is carried out with central resources and within the divisions, where the more experienced of the financial staff carry out internal audits in units other than those they are employed in. The MASA unit reports to the Board's Audit Committee.

#### *Financial objectives*

ASSA ABLOY's primary financial objective is that return on capital employed (ROCE) should exceed 20 percent. ASSA ABLOY has the following further objectives:

- Sales should increase organically by an average of about 5 percent a year over a business cycle.
- The operating margin (EBIT) should be improved to 16–17 percent. This should be achieved through continued growth, a modern product portfolio and realizing synergies in the Group.
- The positive long-term trend in ASSA ABLOY's operating cash flow should be maintained.
- Capital efficiency should be continuously improved. Given the potential to improve the utilization of current production capacity, capital expenditure can be maintained at today's level, below current depreciation.

From left: Juan Vargues, Joseph J. Grillo, Martin Brandt, Tzachi Wiesenfeld, Johan Molin, Åke Sund, Tomas Eliasson, Ulf Södergren, Thanasis Molokotos.

#### *Risks and risk management*

As an international Group with a wide geographic spread, ASSA ABLOY is exposed to a number of business and financial risks. The business risks can be divided into strategic, operational and legal risks. The financial risks are related to such factors as exchange rates, interest rates, liquidity, the giving of credit, raw materials and financial instruments. The financial risks and the Group's management of them are described in the section 'Financial risk management' on pages 55–57.

Risk management in ASSA ABLOY aims to identify, control and reduce risks. This work begins with an assessment of the probability of risks occurring and their potential effect on the Group. In the decentralized spirit that marks ASSA ABLOY, and to keep risk analysis and risk management as close as possible to the risks themselves, a large proportion of risk management takes place at division and business-unit level.

#### *Strategic and operational risks*

The main risks of these kinds that ASSA ABLOY encounters relate to customers, suppliers, employees, competitors and acquisition situations. Some country-specific risks also arise. Customers and suppliers, and relationships with them, are a matter for continuous local supervision. Customers, suppliers and employees are also covered by the Group's Code of Conduct. Competitors are subjected to both central and local risk analysis.

In recent years low-price competition, mainly from Asia, has increased in some segments. Quality features, total solutions and breadth of product range have become natural responses to reduce such risks.

As regards risks related to acquisitions, the Group follows a standardized, predefined process, as described above.



*Legal risks*

ASSA ABLOY continuously keeps track of likely or enacted changes in the laws of the countries it operates in. From time to time ASSA ABLOY is involved in legal disputes, mainly concerned with such matters as product liability, protection of intangible rights, the environment, and the interpretation of supplier, distribution and employment contracts. Where it is considered necessary, local legal expertise is engaged to deal with these matters. With the aim of charting and controlling legal risks, there is a system

of regular Group-wide reporting of outstanding legal matters. This is managed and coordinated by the Group's central legal department.

Many of the legal risks, for example those concerning real estate or questions of liability, are covered by insurance. ASSA ABLOY carries out regular reviews of risks and risk assessment together with insurance-company representatives. At present there are no legal disputes that it is believed could lead to significant costs.

**The Executive Team***Johan Molin*

Born 1959

Bachelor of Science in Economics

President and CEO

Employed since 2005

Shareholdings: 500,000 Series B shares and Incentive 2006 convertibles corresponding to 224,700 Series B shares

*Martin Brandt*

Born 1960

Degree in Business Administration and Mechanical Engineering

Executive Vice President

Head of Asia Pacific division

Employed since 1996

Shareholdings: Incentive 2006 convertibles corresponding to 60,700 Series B shares

*Tomas Eliasson*

Born 1962

Bachelor of Science in Economics

Executive Vice President

Chief Financial Officer (CFO)

Employed since 2006

Shareholdings: Incentive 2006 convertibles corresponding to 85,000 Series B shares

*Joseph J. Grillo*

Born 1957

Bachelor of Finance and Economics

Executive Vice President

Head of Global Technologies division

Employed since 2001

Shareholdings: Incentive 2004 convertibles corresponding to 132,300 Series B shares and Incentive 2006 convertibles corresponding to 30,400 Series B shares

*Thanasis Molokotos*

Born 1958

Master of Science

Executive Vice President

Head of Americas division

Employed since 1996

Shareholdings: 25,000 Series B shares, Incentive 2004 convertibles corresponding to 31,100 Series B shares and Incentive 2006 convertibles corresponding to 48,600 Series B shares

*Åke Sund*

Born 1957

Graduate Diploma in Marketing

Executive Vice President

Head of Market and Business Development

Employed since 1994

Shareholdings: Incentive 2004 convertibles corresponding to 93,400 Series B shares and Incentive 2006 convertibles corresponding to 79,000 Series B shares

*Ulf Södergren*

Born 1953

Master of Science, Bachelor of Economics

Chief Technology Officer (CTO)

Employed since 2000

Shareholdings: Incentive 2004 convertibles corresponding to 77,800 Series B shares and Incentive 2006 convertibles corresponding to 79,000 Series B shares

*Juan Vargues*

Born 1959

Graduate in Mechanical Engineering, Master of Business Administration

Executive Vice President

Head of Entrance Systems division

Employed since 2002

Shareholdings: Incentive 2004 convertibles corresponding to 47,000 Series B shares and Incentive 2006 convertibles corresponding to 103,300 Series B shares

*Tzachi Wiesenfeld*

Born 1958

Bachelor of Science in Industrial Engineering, Master of Business Administration

Executive Vice President

Head of EMEA division

Employed since 2000

Shareholdings: Incentive 2004 convertibles corresponding to 38,900 Series B shares and Incentive 2006 convertibles corresponding to 121,500 Series B shares

#### Remuneration of the Executive Team

Remuneration of the Executive Team consists of fixed salary, variable salary, other benefits, and pensions.

For the CEO, variable salary is based partly on improvement in earnings per share compared with the previous year (75 percent) and partly on organic growth (25 percent). The variable salary is capped at a maximum of three-quarters of fixed salary.

For other members of the Executive Team, variable salary is based primarily on improvement in operating income (for their own area of responsibility) compared with the previous year (50 percent), and also on organic growth (25 percent) and a personal target (25 percent). In this case variable salary is capped at two-thirds of fixed salary.

Some of the Executive Team also have the opportunity to receive variable salary based on improvement in earnings per share (67 percent) and organic growth (33 percent). The maximum payment of SEK 2 M per person applies if earnings per share increase by 12 percent compared with the previous year and organic growth reaches 7 percent. One-third of such variable salary is paid the following year, while the other two-thirds is retained for two years and grows at the same rate as the Group's return on capital employed. This residual two-thirds is paid only if, at the end of the period, the person concerned has neither left his job on his own initiative nor been dismissed for breach of contract.

Basic pension arrangements for the CEO and some other members of the Executive Team are through participation in the ITP plan or equivalent. Some members of the Executive Team, but not the CEO, have the right and obligation to retire with a pension on reaching the age of 60. ASSA ABLOY

pays pension contributions amounting to 35 percent of fixed salary to the CEO and pension contributions amounting to about 60 percent of fixed salary to some other members of the Executive Team. Provided that certain assumptions about the return on pension capital are met, this means that pensions will amount to about 65 percent of fixed salary at the time of retiring for those between the ages of 60 and 65, and about 50 percent of this salary after the age of 65 for the remainder of life.

For the CEO, a period of 24 months' notice has been agreed if the company terminates the contract. No severance payment agreement applies. Others in the Executive Team are entitled to six months' notice and receive a severance payment of 100 percent of their fixed salary for a maximum of 12 months, which is reduced by any income from employment that may arise.

During the year Geoff Norcott ceased to be employed as Executive Vice President and Head of Asia Pacific division. His contract specified a 12-month period of notice, and he has a severance payment agreement of 100 percent of fixed salary for 12 months, reduced by any income from employment that may arise. Göran Jansson also ceased to be employed as Deputy CEO and Chief Financial Officer during the year. He has a severance payment agreement of 100 percent of fixed salary for 12 months, reduced by any income from employment that may arise.

#### External audit

At the 2006 Annual General Meeting PricewaterhouseCoopers (PwC) were appointed as the company's external Auditors for a four-year period up to the 2010 Annual

#### Remuneration and other benefits to the Executive Team in 2006

| SEK thousands                                        | Fixed salary  | Variable salary | Other benefits | Pension costs |
|------------------------------------------------------|---------------|-----------------|----------------|---------------|
| Johan Molin                                          | 7,000         | 5,250           | 100            | 2,450         |
| Other members of the Executive Team (8) <sup>1</sup> | 21,750        | 16,409          | 1,397          | 7,124         |
| <b>Total remuneration and benefits</b>               | <b>28,750</b> | <b>21,659</b>   | <b>1,497</b>   | <b>9,574</b>  |
| <b>Total costs<sup>2</sup></b>                       | <b>35,108</b> | <b>25,903</b>   | <b>1,647</b>   | <b>11,557</b> |

<sup>1</sup> During the year Geoff Norcott and Göran Jansson left and Martin Brandt, Tomas Eliasson, Ulf Södergren and Tzachi Wiesenfeld joined the Executive Team.

The costs tabled above cover the parts of the year during which each person belonged to the Executive Team.

<sup>2</sup> Total costs include social fees on salaries and benefits, special pension tax and additional costs for other benefits.



General Meeting, with Authorized Public Accountant Peter Nyllinge as the Auditor in Charge. PwC have been the Group's Auditors since the Group was formed in 1994. Peter Nyllinge, born in 1966, is responsible for auditing the following companies besides ASSA ABLOY: Bonnier AB (publ) and Skandinaviska Enskilda Banken AB (publ).

PwC undertake the audit of ASSA ABLOY AB, the Group and a substantial majority of its subsidiaries round the world. The audit of ASSA ABLOY AB also covers the administration by the Board of Directors and the CEO.

The company's Auditor attends all meetings of the Audit Committee and also the Board meeting in February, at which he submits his observations and recommendations concerning the Group's annual audit.

The external audit is carried out in accordance with good auditing practice in Sweden. The auditing of annual financial statements for legal entities outside Sweden is in accordance with legal requirements and other applicable regulations in the countries concerned and with good auditing practice as defined by the International Federation of Accountants (IFAC) for the issue of audit reports for the legal entities. For information about the fees paid for audit and other assignments in the Group during the last three financial years, see Note 3 on page 63 of this Report and Note 3 on page 71 of the 2005 Annual Report.

#### **The Swedish Code of Corporate Governance**

ASSA ABLOY has adopted the Swedish Code of Corporate Governance, which has formed part of the rules of the Stockholm Stock Exchange since 1 July 2005.

The Code, which is based on self-regulation using the 'comply or explain' principle, deals mainly with the organization and working procedures of a company's Annual General Meeting, Board of Directors and management, and the interaction between the three. The subjects covered include rules for the appointment of the Board and the Auditor, the Board's responsibility for internal control, processes for setting the remuneration of the company management, and information about corporate governance.

#### **Deviations from the Code**

ASSA ABLOY has chosen to deviate from the following Clauses of the Code:

##### **Clause 2.1.2**

"A majority of the members of the Nomination Committee should not be members of the Board. Neither the Chairman of the Board nor any other Board member should be Chairman of the Nomination Committee."

Explanation of the deviation: the shareholders currently represented on the Nomination Committee consider that it is important, in the interests of an efficient, ongoing nomination process, that the membership of the Nomination Committee should be limited in number. At the same time the two main shareholders must be represented. This results in an equal number of Board members and external members on the Nomination Committee. A majority of the external members had called for five members, which was adjudged to be too many. The shareholders mentioned above also consider it natural for the representative of the shareholder with the largest number of votes to be Chairman of the Nomination Committee.

##### **Clause 3.6.2**

"Immediately before signing off the Annual Report, the Board and the CEO should issue a declaration that, to the best of their knowledge, the Annual Report has been prepared in accordance with good accounting practice for quoted companies, that the information presented reflects the facts and that nothing of significant importance is omitted that could affect the picture of the company created by the Annual Report."

Explanation of the deviation: the Board considers that issues of responsibility are comprehensively regulated by the Swedish Companies Act, and that a special declaration as proposed by the Code would be superfluous.

#### **Other requirements of the Code**

In all other respects ASSA ABLOY believes that it was meeting the requirements of the Code at the end of 2006.



# Sales and earnings

- Organic growth for comparable units was 9 percent (5). Acquired growth totaled 3 percent (1).
- Operating income (EBIT) excluding restructuring costs increased by 17 percent to SEK 4,771 M (4,078), representing an operating margin of 15.3 percent (14.7).
- Earnings per share excluding restructuring items increased by 15 percent to SEK 7.99 (6.97).

## Sales

The Group's sales increased to SEK 31,137 M (27,802). Exchange-rate effects affected sales negatively by SEK 109 M compared with 2005.

## Changes in sales

| %                | 2006      | 2005     |
|------------------|-----------|----------|
| Organic growth   | 9         | 5        |
| Acquired growth  | 3         | 1        |
| Currency effects | 0         | 3        |
| <b>Total</b>     | <b>12</b> | <b>9</b> |

In local currencies, sales increased by 12 percent, of which organic growth by comparable units accounted for 9 percent (5). Acquired units made a positive contribution of 3 percent (1).

## Sales by product group

| %                                              | 2006 | 2005 |
|------------------------------------------------|------|------|
| Mechanical locks, lock systems and accessories | 51   | 53   |
| Electromechanical and electronic locks         | 31   | 29   |
| Security doors and fittings                    | 18   | 18   |

Mechanical locks, lock systems and accessories accounted for 51 percent (53) of sales. Sales of electromechanical and electronic locks rose to 31 percent (29), while sales of security doors and fittings accounted for 18 percent (18).

## Cost structure

Total remuneration costs including social costs and pension costs amounted to SEK 9,374 M (9,260), which represents 30 percent (33) of sales. The average number of employees was 31,243 (29,578).

The average number of employees in the Parent company was 96 (74).

The Group's material costs totaled SEK 9,561 M (8,059), which represents 31 percent (29) of sales. The rise was mainly due to the increased costs of raw materials.

Other purchasing costs totaled SEK 6,532 M (5,557), which represents 21 percent (20) of sales.

Depreciation and write-down of fixed assets amounted to SEK 1,039 M (884), which represents 3 percent (3) of sales.

## Operating income

Operating income (EBIT) excluding restructuring costs amounted to SEK 4,771 M (4,078) after negative currency effects of SEK 27 M. The corresponding operating margin was 15.3 percent (14.7).

Operating income before depreciation (EBITDA) and excluding restructuring costs amounted to SEK 5,669 M (4,960). The corresponding margin was 18.2 percent (17.8).

## Restructuring costs

Restructuring costs totaled SEK 1,474 M (–). The costs of the restructuring program amounted to SEK 1,274 M and the costs of closing car-lock manufacturing in the UK amounted to SEK 200 M.

## Income before tax

Income before tax totaled SEK 2,626 M (3,556). This represents a reduction of 26 percent compared with the previous year, with negative currency effects of SEK 23 M. Financial items amounted to SEK –671 M (–522) and the increase is chiefly due to increased net debt. Profit margin – defined as income before tax in relation to sales – amounted to 8.4 percent (12.8).

The Parent company's income before tax amounted to SEK 1,047 M (728).

## Tax

The Group's tax charge totaled SEK 870 M (943), which corresponds to an effective tax rate of 33 percent (27). The increase in effective tax rate is temporary and is due to the fact that deferred tax on some restructuring items has not been considered.

## Earnings per share

Earnings per share excluding restructuring items amounted to SEK 7.99 (6.97), which represents an increase of 15 percent.

# Income statement – Group

| SEK M                               | Note   | 2006          | 2005          |
|-------------------------------------|--------|---------------|---------------|
| Sales                               | 2      | 31,137        | 27,802        |
| Cost of goods sold                  |        | -19,936       | -16,508       |
| <b>Gross income</b>                 |        | <b>11,201</b> | <b>11,294</b> |
| Selling expenses                    |        | -5,337        | -4,883        |
| Administrative expenses             | 3      | -1,847        | -1,781        |
| Research and development costs      |        | -719          | -588          |
| Other operating income and expenses | 4      | -9            | 28            |
| Share of earnings in associates     | 5      | 8             | 8             |
| <b>Operating income</b>             | 6-10   | <b>3,297</b>  | <b>4,078</b>  |
| Financial income                    | 11     | 30            | 51            |
| Financial expenses                  | 10, 12 | -701          | -573          |
| <b>Income before tax</b>            |        | <b>2,626</b>  | <b>3,556</b>  |
| Tax on income                       | 13     | -870          | -943          |
| <b>Net income</b>                   |        | <b>1,756</b>  | <b>2,613</b>  |
| <b>Allocation of net income</b>     |        |               |               |
| Shareholders in ASSA ABLOY AB       |        | 1,746         | 2,608         |
| Minority interests                  |        | 10            | 5             |
| <b>Earnings per share</b>           |        |               |               |
| before dilution, SEK                | 14     | 4.77          | 7.13          |
| after dilution, SEK                 | 14     | 4.72          | 6.97          |

## Comments by division

ASSA ABLOY is organized into three geographical divisions and two product divisions. The geographical divisions, EMEA (Europe, Middle East and Africa), Americas (North and South America) and Asia Pacific (Asia, Australia and New Zealand), consist of a number of local lock companies which are active mainly on a local market. The two product divisions are Global Technologies (ASSA ABLOY Hospitality, ASSA ABLOY Identification Technologies (ITG) and HID Global) and Entrance Systems, both of which serve a global market. Functions common to the whole Group appear in the column headed 'Other' in the table.

### EMEA

Sales totaled SEK 12,509 M (11,649), with organic growth of 8 percent (3). Operating income excluding restructuring costs amounted to SEK 1,972 M (1,707), with an operating margin (EBIT) of 15.8 percent (14.7). Return on capital employed excluding restructuring items amounted to 19.1 percent (16.6). Operating cash flow before interest paid amounted to SEK 1,899 M (1,901).

EMEA's strong organic growth is due to generally improved demand in Europe which led to particularly good sales performance in the Nordic region and eastern Europe as well as the Middle East and Africa. Increased sales volumes and the restructuring measures taken in the division have had a positive effect on profitability.

### Americas

Sales totaled SEK 10,142 M (8,806), with organic growth of 10 percent (5). Acquired units contributed 5 percent of sales. Operating income excluding restructuring costs amounted to SEK 1,945 M (1,615), with an operating margin (EBIT) of 19.2 percent (18.3). Return on capital employed excluding restructuring items amounted to 22.3 percent (19.6). Operating cash flow before interest paid amounted to SEK 1,724 M (1,755).

Americas' excellent performance is due to markedly improved demand in North America generally and especially strong in the important commercial segment. Business in this segment generated strong organic growth and improved profit margins. Other units including acquired units also produced good results in terms of both sales and profitability.

### Asia Pacific

Sales totaled SEK 2,309 M (2,209), with organic growth of 4 percent (2). Acquired units contributed 3 percent of sales. Operating income excluding restructuring costs amounted to SEK 213 M (245), with an operating margin (EBIT) of 9.2 percent (11.1). Return on capital employed excluding

restructuring items amounted to 10.8 percent (12.9). Operating cash flow before interest paid amounted to SEK 112 M (259).

Sales performance in Asia was strong during the year due to very good results in China in terms of both exports and local sales. The commercial segment in Australia and New Zealand performed well but low demand in the residential segment is a burden on the division. The division's margins were hit by high material costs.

### Global Technologies

Sales totaled SEK 4,220 M (3,387), with organic growth of 12 percent (12). Acquired units contributed 13 percent of sales. Operating income excluding restructuring costs amounted to SEK 612 M (476), with an operating margin (EBIT) of 14.5 percent (14.1). Return on capital employed excluding restructuring items amounted to 15.5 percent (17.3). Operating cash flow before interest paid amounted to SEK 426 M (341).

Global Technologies is performing well, with strong organic growth and an improved operating margin. Demand for the division's products is very good. New applications for access control, hotel locks and secure identification based on RFID technology are the drivers of sales growth. The acquisition of Fargo Electronics contributed to increases in both growth and profitability.

### Entrance Systems

Sales totaled SEK 2,715 M (2,373), with organic growth of 11 percent (8). Acquired units contributed 3 percent of sales. Operating income excluding restructuring costs amounted to SEK 368 M (335), with an operating margin (EBIT) of 13.6 percent (14.1). Return on capital employed excluding restructuring items amounted to 11.5 percent (11.1). Operating cash flow before interest paid amounted to SEK 332 M (307).

Entrance Systems achieved strong sales growth in both automatic doors and service during the year. Organic growth was particularly strong in the USA and Asia. The division has also gained market shares in Europe. Profitability weakened slightly, partly as a result of high material costs.

### Other

Costs for common Group functions such as Group management, accounting & finance, purchasing and Shared Technology amounted to SEK 339 M (300). The increase is mainly due to investments in common product development through Shared Technology.



# Results by division

| SEK M                                                    | EMEA <sup>1</sup> |               | Americas <sup>2</sup> |              | Asia Pacific <sup>3</sup> |              | Global Technologies <sup>4</sup> |              | Entrance Systems |              | Other       |             | Total         |               |
|----------------------------------------------------------|-------------------|---------------|-----------------------|--------------|---------------------------|--------------|----------------------------------|--------------|------------------|--------------|-------------|-------------|---------------|---------------|
|                                                          | 2006              | 2005          | 2006                  | 2005         | 2006                      | 2005         | 2006                             | 2005         | 2006             | 2005         | 2006        | 2005        | 2006          | 2005          |
| Sales, external                                          | 12,165            | 11,369        | 10,104                | 8,775        | 2,082                     | 2,019        | 4,108                            | 3,297        | 2,678            | 2,341        |             |             | 31,137        | 27,802        |
| Sales, internal                                          | 344               | 280           | 38                    | 31           | 227                       | 190          | 112                              | 90           | 37               | 32           | -758        | -622        |               |               |
| <b>Sales</b>                                             | <b>12,509</b>     | <b>11,649</b> | <b>10,142</b>         | <b>8,806</b> | <b>2,309</b>              | <b>2,209</b> | <b>4,220</b>                     | <b>3,387</b> | <b>2,715</b>     | <b>2,373</b> | <b>-758</b> | <b>-622</b> | <b>31,137</b> | <b>27,802</b> |
| Organic growth                                           | 8%                | 3%            | 10%                   | 5%           | 4%                        | 2%           | 12%                              | 12%          | 11%              | 8%           |             |             | 9%            | 5%            |
| Share of earnings in associates                          | 3                 | 4             | 5                     | 4            | -                         | -            | -                                | -            | -                | -            | -           | -           | 8             | 8             |
| <b>Operating income (EBIT) excl. restructuring costs</b> | <b>1,972</b>      | <b>1,707</b>  | <b>1,945</b>          | <b>1,615</b> | <b>213</b>                | <b>245</b>   | <b>612</b>                       | <b>476</b>   | <b>368</b>       | <b>335</b>   | <b>-339</b> | <b>-300</b> | <b>4,771</b>  | <b>4,078</b>  |
| Operating margin (EBIT)                                  | 15.8%             | 14.7%         | 19.2%                 | 18.3%        | 9.2%                      | 11.1%        | 14.5%                            | 14.1%        | 13.6%            | 14.1%        |             |             | 15.3%         | 14.7%         |
| Restructuring costs                                      | -1,059            | -             | -169                  | -            | -93                       | -            | -152                             | -            | -1               | -            | -           | -           | -1,474        | -             |
| <b>Operating income (EBIT)</b>                           | <b>913</b>        | <b>1,707</b>  | <b>1,776</b>          | <b>1,615</b> | <b>120</b>                | <b>245</b>   | <b>460</b>                       | <b>476</b>   | <b>367</b>       | <b>335</b>   | <b>-339</b> | <b>-300</b> | <b>3,297</b>  | <b>4,078</b>  |
| Net financial items                                      |                   |               |                       |              |                           |              |                                  |              |                  |              |             |             | -671          | -522          |
| Tax on income                                            |                   |               |                       |              |                           |              |                                  |              |                  |              |             |             | -870          | -943          |
| <b>Net income</b>                                        |                   |               |                       |              |                           |              |                                  |              |                  |              |             |             | <b>1,756</b>  | <b>2,613</b>  |
| Capital employed                                         | 9,183             | 10,151        | 8,545                 | 8,726        | 1,974                     | 1,985        | 4,911                            | 2,871        | 3,121            | 3,309        | -529        | -389        | 27,205        | 26,653        |
| – of which goodwill                                      | 4,631             | 4,709         | 5,076                 | 5,276        | 955                       | 995          | 3,568                            | 2,309        | 2,453            | 2,427        | -           | -           | 16,683        | 15,716        |
| Return on capital employed excl. restructuring items     | 19.1%             | 16.6%         | 22.3%                 | 19.6%        | 10.8%                     | 12.9%        | 15.5%                            | 17.3%        | 11.5%            | 11.1%        |             |             | 17.1%         | 15.9%         |
| Assets                                                   | 13,182            | 13,360        | 9,689                 | 10,657       | 2,410                     | 2,432        | 6,333                            | 3,839        | 3,665            | 5,265        | 277         | -1,862      | 35,557        | 33,692        |
| – of which, shares in associates                         | 31                | 34            | 2                     | 2            | -                         | -            | -                                | -            | -                | -            | -           | -           | 33            | 37            |
| Liabilities                                              | 3,999             | 3,209         | 1,148                 | 1,931        | 436                       | 447          | 1,423                            | 968          | 543              | 1,956        | 14,363      | 10,767      | 21,912        | 19,279        |
| Operating income (EBIT)                                  | 913               | 1,707         | 1,776                 | 1,615        | 120                       | 245          | 460                              | 476          | 367              | 335          | -339        | -300        | 3,297         | 4,078         |
| Restructuring costs                                      | 1,059             | -             | 169                   | -            | 93                        | -            | 152                              | -            | 1                | -            | -           | -           | 1,474         | -             |
| Depreciation                                             | 468               | 499           | 231                   | 230          | 64                        | 66           | 87                               | 46           | 39               | 32           | 9           | 9           | 898           | 882           |
| Investments in fixed assets                              | -388              | -390          | -206                  | -126         | -113                      | -111         | -130                             | -116         | -32              | -71          | -24         | -57         | -894          | -871          |
| Sales of fixed assets                                    | 137               | 55            | 7                     | 12           | 4                         | 71           | 3                                | 1            | 2                | 45           | 1           | 20          | 155           | 204           |
| Change in working capital                                | -290              | 30            | -253                  | 24           | -56                       | -12          | -146                             | -66          | -45              | -34          | 86          | -52         | -704          | -110          |
| <b>Cash flow<sup>5</sup></b>                             | <b>1,899</b>      | <b>1,901</b>  | <b>1,724</b>          | <b>1,755</b> | <b>112</b>                | <b>259</b>   | <b>426</b>                       | <b>341</b>   | <b>332</b>       | <b>307</b>   |             |             | <b>4,226</b>  | <b>4,183</b>  |
| Adjustment for non-cash items                            |                   |               |                       |              |                           |              |                                  |              |                  |              | 10          | -26         | 10            | -26           |
| Paid and received interest                               |                   |               |                       |              |                           |              |                                  |              |                  |              | -708        | -455        | -708          | -455          |
| <b>Operating cash flow<sup>5</sup></b>                   |                   |               |                       |              |                           |              |                                  |              |                  |              |             |             | <b>3,528</b>  | <b>3,702</b>  |
| Acquisitions of shares in companies                      | -84               | -30           | -800                  | -            | -                         | -158         | -2,222                           | -72          | -16              | -123         | -           | -1          | -3,122        | -384          |
| Average number of employees                              | 12,283            | 12,405        | 9,641                 | 9,251        | 5,099                     | 4,352        | 2,183                            | 1,767        | 1,926            | 1,714        | 111         | 89          | 31,243        | 29,578        |

<sup>1</sup> Europe, Middle East and Africa.

<sup>2</sup> North and South America.

<sup>3</sup> Asia, Australia and New Zealand.

<sup>4</sup> ASSA ABLOY Hospitality, ASSA ABLOY Identification Technologies (ITG) and HID Global.

<sup>5</sup> Excluding restructuring payments.

# Financial position

- Capital employed amounted to SEK 27,205 M (26,653).
- Net debt rose to SEK 13,560 M (12,240).
- Net debt / equity ratio was 0.99 (0.85).

| SEK M                | 2006   | 2005   |
|----------------------|--------|--------|
| Capital employed     | 27,205 | 26,653 |
| – of which, goodwill | 16,683 | 15,716 |
| Net debt             | 13,560 | 12,240 |
| Minority interests   | 60     | 71     |
| Shareholders' equity | 13,585 | 14,342 |

## Capital employed

Capital employed in the Group – defined as total assets less interest-bearing assets and non-interest-bearing liabilities including deferred tax liabilities – amounted to SEK 27,205 M (26,653). The return on capital employed excluding restructuring items was 17.1 percent (15.9).

Intangible assets amounted to SEK 17,825 M (16,078). The change is explained mainly by acquisitions made. During the year goodwill and other intangible assets with indefinite useful life amounted to more than SEK 2,700 M. A valuation model based on discounted future cash flow is used for impairment testing of goodwill and other intangible assets with indefinite useful life. No impairment was recognized this year.

Tangible assets amounted to SEK 5,121 M (5,702). Investments in tangible and intangible assets, less sales of tangible and intangible assets, totaled SEK 739 M (667). Depreciation according to plan amounted to SEK 898 M (882).

Accounts receivable totaled 5,081 M (4,818) and inventories totaled SEK 4,026 M (3,679). The average collection period for accounts receivable was 54 days (53). Material throughput time averaged 109 days (108). The Group has been making systematic efforts to increase capital efficiency.

## Net debt

Net debt amounted to SEK 13,560 M (12,240), of which provisions for pensions accounted for SEK 1,297 M (1,634). Net debt was increased by the dividend to shareholders and acquisitions and reduced by the strong operating cash flow.

## External financing

The Group's long-term loan financing consists mainly of a Private Placement program in the USA amounting to USD 630 M (330). The Group's short-term loan financing consists mainly of a global Commercial Paper program for a maximum of USD 1,000 M (1,000).

There are also substantial credit facilities, chiefly in the form of a Multi-Currency Revolving Credit (MCRF) agreement for a maximum of EUR 1,000 M (1,000), which at year-end was not being utilized at all.

At year-end the Private Placement was being utilized for SEK 4,331 M (2,625) and the global Commercial Paper program for SEK 4,658 M (1,302).

The interest coverage ratio, defined as income before tax excluding restructuring costs, plus net interest, divided by net interest, was 7.4 (8.2). The interest coverage ratio including restructuring costs was 5.1 (8.2). Periods for fixed-interest-rate borrowings lengthened during the year, averaging 26 months at year-end.

Cash and cash equivalents amounted to SEK 1,154 M (958). Cash and cash equivalents are invested in banks with high credit ratings.

## Equity

Equity in the Group totaled SEK 13,645 M (14,413) at year-end. The return on shareholders' equity amounted to 11.5 percent (18.1). The equity ratio was 38.4 percent (42.8). The net debt / equity ratio, defined as net debt divided by shareholders' equity, was 0.99 (0.85).

# Balance sheet – Group

| SEK M                                | Note | 2006          | 2005          |
|--------------------------------------|------|---------------|---------------|
| <b>ASSETS</b>                        |      |               |               |
| <b>Non-current assets</b>            |      |               |               |
| Intangible assets                    | 15   | 17,825        | 16,078        |
| Tangible assets                      | 16   | 5,121         | 5,702         |
| Shares in associates                 | 18   | 33            | 37            |
| Other long-term financial assets     | 20   | 241           | 171           |
| Deferred tax receivables             | 19   | 1,089         | 1,349         |
| <b>Total non-current assets</b>      |      | <b>24,309</b> | <b>23,337</b> |
| <b>Current assets</b>                |      |               |               |
| Inventories                          | 21   | 4,026         | 3,679         |
| Accounts receivable                  | 22   | 5,081         | 4,818         |
| Current tax receivables              |      | 227           | 129           |
| Other short-term receivables         |      | 405           | 344           |
| Prepaid expenses and accrued income  |      | 314           | 365           |
| Derivative financial instruments     | 23   | 40            | 43            |
| Short-term investments               |      | 1             | 19            |
| Cash and cash equivalents            | 24   | 1,154         | 958           |
| <b>Total current assets</b>          |      | <b>11,248</b> | <b>10,355</b> |
| <b>TOTAL ASSETS</b>                  |      | <b>35,557</b> | <b>33,692</b> |
| <b>EQUITY AND LIABILITIES</b>        |      |               |               |
| <b>Equity</b>                        |      |               |               |
| <i>Parent company's shareholders</i> |      |               |               |
| Share capital                        | 27   | 366           | 366           |
| Other contributed capital            |      | 8,887         | 8,887         |
| Reserves                             | 28   | -253          | 1,061         |
| Retained earnings                    |      | 4,585         | 4,028         |
|                                      |      | <b>13,585</b> | <b>14,342</b> |
| Minority interests                   |      | 60            | 71            |
| <b>Total equity</b>                  |      | <b>13,645</b> | <b>14,413</b> |
| <b>Non-current liabilities</b>       |      |               |               |
| Long-term loans                      | 25   | 6,010         | 2,783         |
| Convertible debenture loans          | 25   | 1,252         | 943           |
| Deferred tax liabilities             | 19   | 106           | 153           |
| Pension provisions                   | 29   | 1,297         | 1,634         |
| Other long-term provisions           | 30   | 751           | 88            |
| Other long-term liabilities          |      | 116           | 156           |
| <b>Total non-current liabilities</b> |      | <b>9,532</b>  | <b>5,757</b>  |
| <b>Current liabilities</b>           |      |               |               |
| Short-term loans                     | 25   | 6,281         | 6,966         |
| Convertible debenture loans          | 25   | -             | 943           |
| Derivative financial instruments     | 23   | 42            | 54            |
| Accounts payable                     |      | 2,143         | 1,949         |
| Current tax liabilities              |      | 210           | 196           |
| Short-term provisions                | 30   | 692           | 344           |
| Other short-term liabilities         | 31   | 681           | 657           |
| Accrued expenses and prepaid income  | 32   | 2,331         | 2,413         |
| <b>Total current liabilities</b>     |      | <b>12,380</b> | <b>13,522</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>  |      | <b>35,557</b> | <b>33,692</b> |

# Cash flow

- Operating cash flow amounted to SEK 3,528 M (3,702).
- Net capital expenditure amounted to SEK 739 M (667).

## Operating cash flow

| SEK M                                                   | 2006         | 2005         |
|---------------------------------------------------------|--------------|--------------|
| Operating income (EBIT)                                 | 3,297        | 4,078        |
| Restructuring costs                                     | 1,474        | –            |
| Depreciation / amortization                             | 898          | 882          |
| Net capital expenditure                                 | –739         | –667         |
| Change in working capital                               | –704         | –110         |
| Paid and received interest                              | –708         | –455         |
| Adjustment for non-cash items                           | 10           | –26          |
| <b>Operating cash flow<sup>1</sup></b>                  | <b>3,528</b> | <b>3,702</b> |
| Operating cash flow /<br>Income before tax <sup>2</sup> | 0.86         | 1.04         |

<sup>1</sup> Excluding restructuring payments.

<sup>2</sup> Income before tax excluding restructuring costs.

The Group's operating cash flow amounted to SEK 3,528 M (3,702), equivalent to 86 percent (104) of income before tax excluding restructuring costs.

The Parent company's cash flow amounted to SEK –66 M (829).

## Net capital expenditure

Direct net capital expenditure on tangible and intangible fixed assets totaled SEK 739 M (667), equivalent to 82 percent (76) of depreciation / amortization of tangible and intangible fixed assets falling due during the financial year. The low level of capital expenditure is explained principally by the Group's long-term efforts to optimize capital expenditure.

## Change in working capital

| SEK M                            | 2006        | 2005        |
|----------------------------------|-------------|-------------|
| Inventories                      | –526        | –108        |
| Accounts receivable              | –487        | –95         |
| Accounts payable                 | 223         | 215         |
| Other working capital            | 86          | –122        |
| <b>Change in working capital</b> | <b>–704</b> | <b>–110</b> |

Efforts to reduce the Group's average material throughput times in its inventories are continuing. During the year rising material prices and increased volumes have increased the capital tied up in inventories, which burdened cash flow by SEK –526 M (–108). The average material throughput time is now 109 days (108). The increased capital tied up in accounts receivable is chiefly due to stronger sales.

## Relationship between cash flow from operating activities and operating cash flow

| SEK M                               | 2006         | 2005         |
|-------------------------------------|--------------|--------------|
| Cash flow from operating activities | 3,310        | 3,450        |
| Net capital expenditure             | –739         | –667         |
| Tax paid                            | 957          | 919          |
| <b>Operating cash flow</b>          | <b>3,528</b> | <b>3,702</b> |

## Acquisitions of subsidiaries

Total outlay on acquisition of subsidiaries amounted to SEK 3,553 M (422). Acquired net debt totaled SEK –339 M (–10).

## Change in net debt

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

| SEK M                          | 2006          | 2005          |
|--------------------------------|---------------|---------------|
| Net debt at 1 January          | 12,240        | 12,208        |
| IFRS adjustment (IAS 39)       | –             | 77            |
| Operating cash flow            | –3,528        | –3,702        |
| Restructuring payments         | 342           | 298           |
| Tax paid                       | 957           | 919           |
| Acquisitions                   | 3,132         | 413           |
| Dividend                       | 1,189         | 951           |
| Translation differences        | –772          | 1,076         |
| <b>Net debt at 31 December</b> | <b>13,560</b> | <b>12,240</b> |



# Cash flow statement – Group

| SEK M                                              | Note | 2006          | 2005          |
|----------------------------------------------------|------|---------------|---------------|
| <b>OPERATING ACTIVITIES</b>                        |      |               |               |
| Operating income                                   |      | 3,297         | 4,078         |
| Depreciation                                       | 8    | 898           | 882           |
| Reversal of restructuring costs                    |      | 1,474         | –             |
| Non-cash items                                     | 37   | 10            | –26           |
| <b>Cash flow before interest and tax</b>           |      | <b>5,679</b>  | <b>4,934</b>  |
| Paid and received interest                         | 37   | –708          | –455          |
| Tax paid on income                                 |      | –957          | –919          |
| <b>Cash flow before changes in working capital</b> |      | <b>4,014</b>  | <b>3,560</b>  |
| Changes in working capital                         | 37   | –704          | –110          |
| <b>Cash flow from operating activities</b>         |      | <b>3,310</b>  | <b>3,450</b>  |
| <b>INVESTING ACTIVITIES</b>                        |      |               |               |
| Investments in tangible and intangible assets      | 37   | –894          | –805          |
| Sales of tangible and intangible assets            | 37   | 155           | 138           |
| Investments in subsidiaries                        | 37   | –3,122        | –384          |
| Disposal of associates                             | 37   | 1             | 2             |
| Other investments                                  | 37   | –11           | –3            |
| <b>Cash flow from investing activities</b>         |      | <b>–3,871</b> | <b>–1,052</b> |
| <b>FINANCING ACTIVITIES</b>                        |      |               |               |
| Dividends                                          |      | –1,189        | –951          |
| Net cash effect of changes in borrowings           |      | 2,050         | –1,374        |
| <b>Cash flow from financing activities</b>         |      | <b>861</b>    | <b>–2,325</b> |
| <b>CASH FLOW</b>                                   |      | <b>300</b>    | <b>73</b>     |
| <b>CASH AND CASH EQUIVALENTS</b>                   |      |               |               |
| <b>Cash and cash equivalents at 1 January</b>      | 24   | <b>958</b>    | <b>1,017</b>  |
| Cash flow                                          |      | 300           | 73            |
| Effect of translation differences                  |      | –104          | –132          |
| <b>Cash and cash equivalents at 31 December</b>    | 24   | <b>1,154</b>  | <b>958</b>    |

# Changes in equity – Group

| SEK M                                              | Note | Parent company's shareholders |                           |          |                   |                    | Total  |
|----------------------------------------------------|------|-------------------------------|---------------------------|----------|-------------------|--------------------|--------|
|                                                    |      | Share capital                 | Other contributed capital | Reserves | Retained earnings | Minority interests |        |
| <b>Opening balance 1 January 2005</b>              | 27   | 366                           | 8,887                     | -479     | 2,452             | 27                 | 11,253 |
| Effect of changed accounting principle, IAS 39     | 28   |                               |                           | 4        | -81               |                    | -77    |
| <b>Adjusted opening balance 1 January 2005</b>     |      | 366                           | 8,887                     | -475     | 2,371             | 27                 | 11,176 |
| Translation differences for the year               |      |                               |                           | 1,539    |                   | 3                  | 1,542  |
| Changes in value of cash flow hedging instruments  | 28   |                               |                           | -3       |                   |                    | -3     |
| <i>Income/expenses reported directly to equity</i> |      |                               |                           | 1,536    |                   | 3                  | 1,539  |
| Net income from income statement                   |      |                               |                           |          | 2,608             | 5                  | 2,613  |
| <b>Total income and expenses</b>                   |      |                               |                           | 1,536    | 2,608             | 8                  | 4,152  |
| Dividend for 2004                                  | 27   |                               |                           |          | -951              |                    | -951   |
| Acquisitions of shares of subsidiaries             |      |                               |                           |          |                   | 36                 | 36     |
| <b>Closing balance 31 December 2005</b>            | 27   | 366                           | 8,887                     | 1,061    | 4,028             | 71                 | 14,413 |
| <b>Opening balance 1 January 2006</b>              | 27   | 366                           | 8,887                     | 1,061    | 4,028             | 71                 | 14,413 |
| Translation differences for the year               |      |                               |                           | -1,313   |                   | -7                 | -1,320 |
| Changes in value of cash flow hedging instruments  | 28   |                               |                           | -1       |                   |                    | -1     |
| <i>Income/expenses reported directly to equity</i> |      |                               |                           | -1,314   |                   | -7                 | -1,321 |
| Net income from income statement                   |      |                               |                           |          | 1,746             | 10                 | 1,756  |
| <b>Total income and expenses</b>                   |      |                               |                           | -1,314   | 1,746             | 3                  | 435    |
| Dividend for 2005                                  | 27   |                               |                           |          | -1,189            |                    | -1,189 |
| Acquisitions of shares of subsidiaries             |      |                               |                           |          |                   | -14                | -14    |
| <b>Closing balance 31 December 2006</b>            | 27   | 366                           | 8,887                     | -253     | 4,585             | 60                 | 13,645 |

# Parent Company Financial Statements

## Income statement Parent Company

| SEK M                               | Note       | 2006         | 2005       |
|-------------------------------------|------------|--------------|------------|
| Administrative expenses             | 3, 6, 8, 9 | -478         | -313       |
| Research and development costs      |            | -52          | -21        |
| Other operating income and expenses | 4          | 945          | 749        |
| <b>Operating income</b>             | 10         | <b>415</b>   | <b>415</b> |
| Financial income                    | 11         | 1,260        | 867        |
| Financial expenses                  | 10, 12     | -628         | -554       |
| <b>Income before tax</b>            |            | <b>1,047</b> | <b>728</b> |
| Tax on income                       | 13         | 3            | -13        |
| Tax effect of Group contributions   | 13         | -156         | -          |
| <b>Net income</b>                   |            | <b>894</b>   | <b>715</b> |

## Balance sheet Parent Company

| SEK M                                  | Note | 2006          | 2005          |
|----------------------------------------|------|---------------|---------------|
| <b>ASSETS</b>                          |      |               |               |
| <b>Non-current assets</b>              |      |               |               |
| Intangible assets                      | 15   | 407           | 36            |
| Tangible assets                        | 16   | 7             | 10            |
| Shares in subsidiaries                 | 17   | 12,474        | 12,202        |
| Receivables from subsidiaries          |      | 2,259         | 2,216         |
| Other long-term financial assets       | 20   | 174           | 67            |
| <b>Total non-current assets</b>        |      | <b>15,321</b> | <b>14,531</b> |
| <b>Current assets</b>                  |      |               |               |
| Receivables from subsidiaries          |      | 15,518        | 18,758        |
| Other short-term receivables           |      | 17            | 15            |
| Prepaid expenses and accrued income    |      | 27            | 41            |
| Cash and cash equivalents              | 24   | 767           | 833           |
| <b>Total current assets</b>            |      | <b>16,329</b> | <b>19,647</b> |
| <b>TOTAL ASSETS</b>                    |      | <b>31,650</b> | <b>34,178</b> |
| Assets pledged                         |      | None          | None          |
| <b>EQUITY AND LIABILITIES</b>          |      |               |               |
| <b>Equity</b>                          |      |               |               |
| Restricted equity                      | 26   |               |               |
| Share capital                          | 27   | 366           | 366           |
| Statutory reserve                      |      | 8,905         | 8,905         |
| Fair value reserve                     |      | 43            | -             |
| Unrestricted equity                    |      |               |               |
| Retained earnings                      |      | 4,033         | 4,892         |
| Net income                             |      | 894           | 715           |
| <b>Total equity</b>                    |      | <b>14,241</b> | <b>14,878</b> |
| <b>Non-current liabilities</b>         |      |               |               |
| Long-term loans                        | 25   | 1,500         | -             |
| Convertible debenture loans            | 25   | 1,252         | 943           |
| Long-term loans to subsidiaries        |      | 2,259         | 2,216         |
| Other long-term liabilities            |      | 205           | -             |
| <b>Total non-current liabilities</b>   |      | <b>5,216</b>  | <b>3,159</b>  |
| <b>Current liabilities</b>             |      |               |               |
| Short-term loans                       | 25   | 536           | 3,842         |
| Convertible debenture loans            | 25   | -             | 943           |
| Accounts payable                       |      | 32            | 19            |
| Short-term liabilities to subsidiaries |      | 11,501        | 11,241        |
| Current tax liabilities                |      | 3             | 13            |
| Other short-term liabilities           |      | 6             | 5             |
| Accrued expenses and prepaid income    | 32   | 115           | 78            |
| <b>Total current liabilities</b>       |      | <b>12,193</b> | <b>16,141</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>    |      | <b>31,650</b> | <b>34,178</b> |
| Contingent liabilities                 | 33   | 9,911         | 10,088        |

Cash flow statement  
Parent Company

| SEK M                                              | Note | 2006          | 2005           |
|----------------------------------------------------|------|---------------|----------------|
| <b>OPERATING ACTIVITIES</b>                        |      |               |                |
| Operating income                                   |      | 415           | 415            |
| Depreciation                                       | 8    | 33            | 6              |
| <b>Cash flow before interest and tax</b>           |      | <b>448</b>    | <b>421</b>     |
| Paid and received interest                         |      | -28           | 18             |
| Dividends received                                 |      | 1,695         | 13,802         |
| Tax paid on income                                 |      | 3             | -1             |
| <b>Cash flow before changes in working capital</b> |      | <b>2,118</b>  | <b>14,240</b>  |
| Changes in working capital                         |      | -62           | -133           |
| <b>Cash flow from operating activities</b>         |      | <b>2,056</b>  | <b>14,107</b>  |
| <b>INVESTING ACTIVITIES</b>                        |      |               |                |
| Investments in tangible and intangible assets      |      | -405          | -45            |
| Sales of tangible and intangible assets            |      | 3             | 18             |
| Investments in subsidiaries                        |      | -1,435        | -142           |
| Sales of shares in subsidiaries                    |      | 87            | 222            |
| Other investments                                  |      | -56           | -              |
| <b>Cash flow from investing activities</b>         |      | <b>-1,806</b> | <b>53</b>      |
| <b>FINANCING ACTIVITIES</b>                        |      |               |                |
| Dividends                                          |      | -1,189        | -951           |
| Net cash effect of changes in borrowings           |      | 873           | -12,380        |
| <b>Cash flow from financing activities</b>         |      | <b>-316</b>   | <b>-13,331</b> |
| <b>CASH FLOW</b>                                   |      | <b>-66</b>    | <b>829</b>     |
| <b>CASH AND CASH EQUIVALENTS</b>                   |      |               |                |
| Cash and cash equivalents at 1 January             | 24   | 833           | 4              |
| Cash flow                                          |      | -66           | 829            |
| <b>Cash and cash equivalents at 31 December</b>    | 24   | <b>767</b>    | <b>833</b>     |

Changes in equity  
Parent Company

| SEK M                                                         | Note | Restricted shareholders' equity |                   |                    | Unrestricted shareholders' equity |                  |        |
|---------------------------------------------------------------|------|---------------------------------|-------------------|--------------------|-----------------------------------|------------------|--------|
|                                                               |      | Share-capital                   | Statutory reserve | Fair value reserve | Premium reserve                   | Retained reserve | Total  |
| <b>Opening balance 1 January 2005</b>                         | 26   | 366                             | 645               | -                  | 8,260                             | 5,883            | 15,154 |
| Group contributions net                                       |      |                                 |                   |                    |                                   | -40              | -40    |
| Net income from income statement                              |      |                                 |                   |                    |                                   | 715              | 715    |
| <i>Total income and expenses</i>                              |      |                                 |                   |                    |                                   | 675              | 675    |
| Dividend for 2004                                             | 27   |                                 |                   |                    |                                   | -951             | -951   |
| Transfer of premium reserve                                   |      |                                 | 8,260             |                    | -8,260                            |                  |        |
| <b>Closing balance 31 December 2005</b>                       |      | 366                             | 8,905             | -                  |                                   | 5,607            | 14,878 |
| <b>Opening balance 1 January 2006</b>                         |      | 366                             | 8,905             | -                  |                                   | 5,607            | 14,878 |
| Effect of changed accounting principle, financial instruments |      |                                 |                   | 156                |                                   | 15               | 171    |
| <b>Adjusted opening balance 1 January 2006</b>                |      | 366                             | 8,905             | 156                |                                   | 5,622            | 15,049 |
| Changes in value of financial instruments                     |      |                                 |                   | -113               |                                   |                  | -113   |
| Group contributions net                                       |      |                                 |                   |                    |                                   | -556             | -556   |
| Tax effect of Group contributions                             |      |                                 |                   |                    |                                   | 156              | 156    |
| Net income from the income statement                          |      |                                 |                   |                    |                                   | 894              | 894    |
| <i>Total income and expenses</i>                              |      |                                 |                   | -113               |                                   | 494              | 381    |
| Dividend for 2005                                             | 27   |                                 |                   |                    |                                   | -1,189           | -1,189 |
| <b>Closing balance 31 December 2006</b>                       | 27   | 366                             | 8,905             | 43                 |                                   | 4,927            | 14,241 |

# Financial risk management

ASSA ABLOY is exposed to a variety of financial risks through its international business operations.

## Organization and activities

ASSA ABLOY's Treasury Policy, which is reviewed annually by the Board of Directors, constitutes a framework of guidelines and regulations for the management of financial risks and financial activities.

ASSA ABLOY's financial activities are coordinated centrally within the subsidiary ASSA ABLOY Treasury S.A. in Switzerland, which is the Group's internal bank. External financial transactions are conducted by the internal bank, which also handles transactions involving foreign currencies and interest rates. The internal bank achieves many economies of scale when borrowing funds, fixing interest rates and exchanging currency flows.

## Currency risk

Currency risk affects ASSA ABLOY mainly through translation of capital employed and net debt, through translation of income in foreign subsidiaries, and through flow of goods between countries.

## Translation exposure

The effect arising on translation of capital employed is limited by the fact that financing is largely done in local currency.

The capital structure in each country is optimized based on local legislation. So far as this constraint allows, the currency exposure and gearing per currency should reflect the overall exposure and gearing for the whole Group to limit the effect from movements in individual currencies. The internal bank uses currency derivatives to supply the appropriate funding and eliminate currency exposure.

The table 'Net debt by currency' below shows the use of currency forward contracts in association with funding, for the major currencies. The forward contracts are used to neutralize the exposure arising between net debt and internal needs.

### Net debt by currency (in millions)

| Currency                               | Currency exposure | Forward contracts | External borrowing |
|----------------------------------------|-------------------|-------------------|--------------------|
| USD                                    | 816               | 77                | 893                |
| EUR                                    | 388               | 124               | 512                |
| SEK                                    | 1,321             | 569               | 1,890              |
| GBP                                    | 61                | -61               | -                  |
| Other (SEK)                            | 1,406             | -1,406            | -                  |
| <b>Total internal bank (SEK)</b>       | <b>12,663</b>     |                   | <b>12,663</b>      |
| <b>SEK</b>                             |                   |                   |                    |
| External loans                         |                   |                   | 395                |
| Overdrafts                             |                   |                   | 482                |
| Cash and cash equivalents              |                   |                   | -1,154             |
| Long-term interest-bearing receivables |                   |                   | -126               |
| Pension provisions                     |                   |                   | 1,297              |
| Accrued financial items                |                   |                   | 3                  |
| <b>Net debt</b>                        |                   |                   | <b>13,560</b>      |

## Exposure of Group earnings

A general strengthening of the Swedish krona in 2007 by 1 percent is calculated to have a negative impact of about SEK 300 M on Group sales and of about SEK 25 M on Group earnings.

## Transaction exposure

Currency risk in the form of transaction exposure, or the relative values of exports and imports of goods, is limited in the Group.

The Group limits its transaction exposure through a currency basket option with the aims of facilitating contract management and reducing administrative costs.

### Forecast transaction flows by major currency for 2007 (imports + and exports -)

| Currency | Currency exposure SEK M |
|----------|-------------------------|
| EUR      | 546                     |
| GBP      | 351                     |
| CHF      | -306                    |
| USD      | -244                    |

## Interest rate risk

Interest rate fluctuations have a direct impact on ASSA ABLOY's net interest expense. The internal bank is responsible for identifying and managing the Group's interest rate exposure. At year-end, the average interest rate duration, excluding pension obligations, was about 26 months.

### Effective interest rate by currency, 31 December 2006

| Currency                     | Interest rate |
|------------------------------|---------------|
| USD                          | 5.3%          |
| EUR                          | 3.7%          |
| SEK <sup>1</sup>             | 3.4%          |
| <b>Average for the Group</b> | <b>4.8%</b>   |

<sup>1</sup> The SEK figure includes the effects of interest rate swaps

## External funding and interest rate swaps

The table 'External funding / net debt' overleaf gives an overview of interest rate swaps associated with debt. The interest-rate derivatives are structured to have durations matching the underlying debt securities. The internal bank swaps parts of the Private Placement program in USD to floating rates.

## Sensitivity analysis

A rise/fall of 1 percentage point in market rates is calculated to have a negative/positive impact in the form of higher/lower interest expense of SEK 88 M / SEK 89 M for the year 2007.



### Liquidity risk

Financing and liquidity risks are defined as the risks of being unable to meet payment obligations as a result of inadequate liquidity or difficulties in obtaining credit from external sources. The internal bank is responsible for external borrowing and external investments. ASSA ABLOY strives to have access, on every occasion, to both short-term and long-term loan facilities. The available facilities should include a reserve (facilities confirmed but not used) equivalent to 10 percent of the Group's annual total sales.

### Maturity structure

The column 'End of facility' in the table 'External funding / net debt' below shows that duration until repayment of debts contracted by the internal bank is not concentrated in the short term. When there are many transactions with different maturities, the duration is computed by weighted average. At year-end, the average duration, excluding pension liabilities, was 47 months.

### Ratings

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

Ratings from both agencies remain unchanged from the previous year.

### Credit risk

Financial risk management exposes ASSA ABLOY to certain counterparty risks. Such exposure may arise, for example, from the placement of surplus cash, from trade receivables, and from the use of debt securities and derivative financial instruments.

ASSA ABLOY's policy is to minimize the potential credit risk from cash surplus by having no cash in bank accounts and by using cash available from subsidiaries to amortize ASSA ABLOY debt. This objective is controlled primarily through the cash pool network put in place by the internal bank. About 80 per-

### External funding / net debt (in millions)

|                                              |           | Amount<br>SEK | End of<br>facility | Book value<br>SEK | Currency | Amount  | Market value<br>SEK | Interest<br>rate swap | Average interest<br>rate duration |
|----------------------------------------------|-----------|---------------|--------------------|-------------------|----------|---------|---------------------|-----------------------|-----------------------------------|
| <b>Credit facilities</b>                     |           |               |                    |                   |          |         |                     |                       |                                   |
| Private Placement Program                    | confirmed | 344           | Dec 2011           | 344               | USD      | 50      | 344                 | No                    | Fixed quarterly                   |
| Private Placement Program                    | confirmed | 550           | May 2012           | 550               | USD      | 80      | 538                 | Yes <sup>1</sup>      | Fixed six-monthly                 |
| Private Placement Program                    | confirmed | 361           | Dec 2013           | 361               | USD      | 53      | 356                 | No                    | 7 years                           |
| Private Placement Program                    | confirmed | 550           | May 2015           | 550               | USD      | 80      | 538                 | Yes <sup>1</sup>      | Fixed six-monthly                 |
| Private Placement Program                    | confirmed | 519           | Dec 2016           | 519               | USD      | 76      | 507                 | No                    | 10 years                          |
| Private Placement Program                    | confirmed | 344           | Apr 2017           | 344               | USD      | 50      | 343                 | No                    | Fixed quarterly                   |
| Private Placement Program                    | confirmed | 344           | May 2017           | 344               | USD      | 50      | 335                 | No                    | 10.4 years                        |
| Private Placement Program                    | confirmed | 838           | Dec 2018           | 838               | USD      | 122     | 815                 | No                    | 12 years                          |
| Private Placement Program                    | confirmed | 481           | May 2020           | 481               | USD      | 70      | 468                 | No                    | 13.4 years                        |
| Floating Rate Notes                          | confirmed | 1,500         | Nov 2009           | 1,500             | SEK      | 1,500   | 1,499               | No                    | Fixed quarterly                   |
| Incentive Program                            | confirmed | 905           | Jun 2009           | 905               | EUR      | 100     | 904                 | No                    | Fixed quarterly                   |
| Incentive Program                            | confirmed | 347           | Jun 2011           | 347               | EUR      | 38      | 347                 | No                    | Fixed quarterly                   |
| Other long-term interest-bearing loans       |           | 180           | –                  | 180               |          | 180     | 180                 |                       |                                   |
| <b>Total long-term loans</b>                 |           | <b>7,262</b>  |                    | <b>7,262</b>      |          |         | <b>7,174</b>        |                       |                                   |
| Global CP Program                            | confirmed | 6,873         | –                  | 4,658             | EUR/USD  | 315/263 | 4,657               | No                    | 27 days                           |
| Swedish CP Program                           | confirmed | 5,000         | –                  | 390               | SEK      | 390     | 390                 | No                    | 9 days                            |
| Bank loan                                    | committed | 536           | Feb 2007           | 536               | EUR      | 58      | 536                 | No                    | 1 month                           |
| Other short-term interest-bearing loans      |           | 215           |                    | 215               |          |         | 215                 |                       |                                   |
| Overdrafts etc                               |           | 901           | –                  | 482               |          |         | 482                 |                       |                                   |
| <b>Total short-term loans</b>                |           | <b>13,525</b> |                    | <b>6,281</b>      |          |         | <b>6,280</b>        |                       |                                   |
| Multi-Currency RF                            | committed | 9,049         | Dec 2010           | 0                 | EUR      | 1,000   | 0                   |                       |                                   |
| <b>Total credit facilities</b>               |           | <b>29,836</b> |                    | <b>13,543</b>     |          |         | <b>13,454</b>       |                       |                                   |
| Cash and cash equivalents                    |           |               |                    | –1,154            |          |         | –1,154              |                       |                                   |
| Other long-term interest-bearing investments |           |               |                    | –126              |          |         | –126                |                       |                                   |
| Pension provisions                           |           |               |                    | 1,297             |          |         | 1,437               |                       |                                   |
| <b>Net debt</b>                              |           |               |                    | <b>13,560</b>     |          |         | <b>13,611</b>       |                       |                                   |

<sup>1</sup> Hedge accounting

cent of commercial sales were settled through cash pools in 2006. The Group may nevertheless deposit surplus funds on a short-term basis with banks in order to match debt maturities.

Derivative financial instruments are allocated to banks according to risk factors set in the Group policy to limit counterparty risk.

The internal bank enters into derivative contracts exclusively with banks participating in the syndicated credit system or with banks rated AAA and AA.

An ISDA (full netting of transactions in case of default by one counterparty) is agreed in the case of interest derivatives.

Trade receivables are spread over a large number of individual customers, thus minimizing credit risk.

### Commodity risk

The Group is exposed to price risk related to purchases of certain commodities (primarily metals) used as raw materials in its business. The Group's policy is to not enter into commodity hedge contracts.

### Financial instruments and accounting principles

Derivative financial instruments such as currency and interest-rate forwards are used to the extent necessary. The use of derivative financial instruments is solely to reduce exposure to financial risks. Derivative financial instruments are not used with speculative intent.

The positive and negative market values in the table below show the market values of instruments outstanding at year-end, based on available market values, and are the same as the values reported on the balance sheet. The nominal value represents the gross value of the contract.

### Outstanding derivative financial instruments at 31 December, SEK M

| Instrument                             | Positive market value 2006 | Negative market value 2006 | Nominal value 2006 | Positive market value 2005 | Negative market value 2005 | Nominal value 2005 |
|----------------------------------------|----------------------------|----------------------------|--------------------|----------------------------|----------------------------|--------------------|
| Foreign exchange forwards, funding     | 24                         | -20                        | 6,226              | 27                         | -40                        | 8,417              |
| Foreign exchange forwards, transaction | 4                          | -4                         | 68                 | 7                          | -6                         | 621                |
| Currency basket option                 | 10                         | -                          | 691                | 7                          | -                          | 572                |
| Interest rate swaps                    | 2                          | -18                        | 2,130              | 2                          | -8                         | 3,326              |
| <b>Total</b>                           | <b>40</b>                  | <b>-42</b>                 | <b>9,115</b>       | <b>43</b>                  | <b>-54</b>                 | <b>12,936</b>      |

## Note 1 Significant accounting and valuation principles

### The Group

ASSA ABLOY applies International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), the Swedish Annual Accounts Act and standard RR 30:05 of the Financial Accounting Standards Council. The accounting principles are based on IFRS as endorsed by 31 December 2006 and have been applied to all years presented, unless stated otherwise. This Note describes the most significant accounting principles that have been applied in the preparation of the financial reports, which comprise the information appearing on pages 32–82.

### Basis of preparation

ASSA ABLOY's consolidated financial statements have been prepared in accordance with IFRS.

The preparation of financial statements is based on estimates and assumptions made for accounting purposes. The management also makes judgements about the application of the Group's accounting principles. Estimates and assumptions may affect the income statement and balance sheet as well as the supplementary information that appears in the financial reports. Thus changes in estimates and assumptions may lead to changes in the financial statements.

For example, estimates and assumptions play an important part in the valuation of items such as identifiable assets and liabilities in acquisitions, impairment testing of goodwill and other assets, the fixing of actuarial assumptions for calculating employee benefits and other types of provisions as well as the valuation of deferred taxes. Estimates and assumptions are continually reassessed and are based on a combination of historical experience and reasonable expectations about the future.

The Group considers that estimates and assumptions relating to impairment testing of goodwill and other intangible assets with indefinite useful life are of significant importance to the consolidated financial statements. The Group tests carrying amounts for impairment on an annual basis. The recoverable amounts of Cash-Generating Units are established by calculating their values in use. The calculations are based on certain assumptions about the future which, for the Group, are associated with risks of material adjustments in reported amounts during the next financial year. Major assumptions and the effects of likely changes to them are described in Note 15.

### New and amended standards not yet effective

The following new IFRS and amendments to current IFRS have been published but are not yet effective, and have not been applied in the preparation of the financial reports. The first financial year to which each IFRS shall be applied is noted in parentheses.

- IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (2007)
- IFRIC 8 Scope of IFRS 2 (2007)
- IFRIC 9 Reassessment of Embedded Derivatives, 1 (2007)
- IFRIC 10 Interim Reporting and Impairment, (2007)<sup>1</sup>
- IAS 1 (Amendment) Presentation of Financial Statements: Capital Disclosures (2007)

- IFRS 7 Financial Instruments: Disclosures (2007)
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (2008)<sup>1</sup>
- IFRIC 12 Service Concession Arrangements (2008)<sup>1</sup>
- IFRS 8 Operating Segments (2009)<sup>1</sup>

<sup>1</sup> Not endorsed by the EU at 31 December 2006.

IFRS 7 and IFRS 8 may have impact on disclosures related to financial instruments and segment reporting. In other respects, it is currently assessed that none of the new and amended standards listed above will have a significant impact on the Group's financial statements.

### Consolidated financial statements

The consolidated financial statements cover ASSA ABLOY AB (the Parent company) and companies in which the Parent company held, directly or indirectly, more than 50 percent of the voting rights at the end of the period, as well as companies in which the Parent company exercises control by some other means, for example by having the power to govern financial and operating policies. Companies acquired during the year are included in the consolidated financial statements with effect from the date when control was obtained. Companies sold during the year are included in the consolidated financial statements up to the date when control ceased.

The consolidated financial statements have been prepared in accordance with the purchase method, which means that the cost of acquisition of shares in subsidiaries is eliminated against their equity at the time of acquisition. In this context, equity in subsidiaries is determined on the basis of the fair value of assets, liabilities and contingent liabilities at the date of acquisition. Thus only that part of subsidiaries' equity that has arisen after the acquisition is included in the Group's equity. A positive difference between the cost of acquisition and the fair value of the Group's share of acquired net assets is reported as goodwill. A negative difference, negative goodwill, is recognized immediately in the income statement.

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

### Minority interests

Minority interests are based on subsidiaries' accounts with application of fair-value adjustments resulting from completed acquisition analysis. Minority participations in subsidiaries' income are reported in the income statement with net income divided between the Parent company's shareholders and minority interests. Minority participations in subsidiaries' equity are reported as a separate item in the Group's equity. Transactions with minority shareholders are accounted for as third-party transactions.

### Associates

Associates are defined as companies which are not subsidiaries but in which the Group has a significant, but not a controlling, interest. This is usually taken to be companies where the Group's shareholding represents between 20 percent and 50 percent of the voting rights. Participations in associates are accounted for in accordance with the equity method. In the consolidated balance sheet,

shareholdings in associates are reported at cost, adjusted for participation in income after the date of acquisition. Dividends from associates are reported as a reduction in the carrying amount of the investment. Participations in the income of associates are reported in the consolidated income statement as part of operating income as the investments are related to business operations.

#### Segment reporting

The Group's business operations are split organizationally into five divisions. Three divisions are based on products sold in local markets in the respective division: EMEA, Americas and Asia Pacific. The products of Global Technologies and Entrance Systems are sold worldwide. The divisions reflect a partition of the Group's operations according to major risks and returns. The divisions form the operational structure for internal control and reporting and also constitute the Group's segments for external financial reporting. There are no secondary segments.

#### Foreign currency translation

Functional currency corresponds to local currency in each country where Group companies operate. Transactions in foreign currencies are translated to functional currency by application of the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses arising from the settlement of such transactions are normally reported in the income statement, as are those arising from translation of monetary balances in foreign currencies at the closing-day rate. Exceptions are transactions relating to qualifying cash flow hedges or net investment hedges, which are reported in equity. Receivables and liabilities are valued at the closing-day rate.

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

The rates for currencies used in the Group relative to the Group's presentation currency (SEK) – the weighted average for the year, and the closing-day rate – are shown in the table to the right.

#### Revenue

Revenue comprises the fair value of goods sold, excluding VAT and discounts and after eliminating intra-group sales. The Group's sales revenue arises principally from sales of products. Service related to products sold makes up a very limited fraction of revenue. Revenue from sales of the Group's products is recognized when all significant risks and rewards associated with ownership are transferred to the purchaser in accordance with applicable conditions of sale, which is normally upon delivery. If the product requires installation at the customer's premises, revenue is recognized when installation is completed. Revenue from service contracts is recognized through distribution over the contract period.

#### Intra-group sales

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

#### Government grants

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

| Country        | Currency | Average rate |         | Closing-day rate |         |
|----------------|----------|--------------|---------|------------------|---------|
|                |          | 2006         | 2005    | 2006             | 2005    |
| Argentina      | ARS      | 2.40         | 2.54    | 2.24             | 2.62    |
| Australia      | AUD      | 5.57         | 5.68    | 5.44             | 5.83    |
| Brazil         | BRL      | 3.38         | 3.09    | 3.22             | 3.42    |
| Canada         | CAD      | 6.52         | 6.17    | 5.92             | 6.84    |
| Switzerland    | CHF      | 5.88         | 6.00    | 5.63             | 6.06    |
| Chile          | CLP      | 0.014        | 0.013   | 0.013            | 0.015   |
| China          | CNY      | 0.93         | 0.91    | 0.88             | 0.98    |
| Czech Republic | CZK      | 0.33         | 0.31    | 0.33             | 0.32    |
| Denmark        | DKK      | 1.24         | 1.25    | 1.21             | 1.26    |
| Estonia        | EEK      | 0.59         | 0.59    | 0.58             | 0.60    |
| Euro zone      | EUR      | 9.26         | 9.28    | 9.05             | 9.43    |
| United Kingdom | GBP      | 13.57        | 13.54   | 13.49            | 13.73   |
| Hongkong       | HKD      | 0.95         | 0.96    | 0.88             | 1.03    |
| Hungary        | HUF      | 0.035        | 0.037   | 0.036            | 0.037   |
| Israel         | ILS      | 1.66         | 1.66    | 1.63             | 1.74    |
| Kenya          | KES      | 0.102        | 0.099   | 0.099            | 0.110   |
| South Korea    | KRW      | 0.00772      | 0.00729 | 0.00739          | 0.00791 |
| Lithuania      | LTL      | 2.68         | 2.69    | 2.62             | 2.73    |
| Mexico         | MXN      | 0.68         | 0.68    | 0.63             | 0.75    |
| Malaysia       | MYR      | 2.01         | 1.97    | 1.95             | 2.10    |
| Norway         | NOK      | 1.15         | 1.16    | 1.09             | 1.18    |
| New Zealand    | NZD      | 4.82         | 5.25    | 4.85             | 5.43    |
| Poland         | PLN      | 2.38         | 2.31    | 2.36             | 2.44    |
| Russia         | RUR      | 0.27         | 0.26    | 0.26             | 0.28    |
| Singapore      | SGD      | 4.64         | 4.48    | 4.48             | 4.78    |
| Slovenia       | SIT      | 0.039        | 0.039   | 0.038            | 0.039   |
| Slovakia       | SKK      | 0.25         | 0.24    | 0.26             | 0.25    |
| Thailand       | THB      | 0.19         | 0.18    | 0.19             | 0.19    |
| USA            | USD      | 7.38         | 7.45    | 6.87             | 7.95    |
| South Africa   | ZAR      | 1.10         | 1.18    | 0.99             | 1.26    |

#### Research and development

Research costs are expensed as they are incurred. The costs of development work are reported in the balance sheet only to the extent that they are expected to generate future economic benefits for the Group and provided such benefits can be reliably measured. Development costs so reported are amortized over the expected useful life. Development costs recorded as assets but not yet in use are subject to annual impairment testing. Costs for development of existing products are expensed as they are incurred.

**Note 1**  
**Significant accounting and valuation principles, cont.**

*Borrowing costs*

Borrowing costs are recognized as expenses in the period in which they are incurred.

*Tax on income*

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

*Cash flow statement*

The cash flow statement has been prepared according to the indirect method. The reported cash flow includes only transactions involving cash payments. 'Cash and cash equivalents' covers cash and bank balances and short-term financial investments with durations of less than three months from the date of acquisition.

*Goodwill and acquisition-related intangible assets*

Goodwill represents the positive difference between the cost of acquisition and the fair value of the Group's share of the acquired company's net identifiable assets at the date of acquisition, and is reported at cost less accumulated impairment losses. Goodwill is allocated to Cash-Generating Units (CGU) and each year is systematically tested for impairment using a valuation model based on discounted future cash flow. Deferred tax receivables based on local tax rates are reported in terms of tax-deductible goodwill (with corresponding reduction of the goodwill value). Such deferred tax receivables are expensed as the tax deduction is utilized.

Other acquisition-related intangible assets consist chiefly of various types of intangible rights such as brands, patents and customer relationships. Identifiable acquisition-related intangible assets are initially recognized at fair value at the date of acquisition and subsequently at cost less accumulated amortization and impairment losses. Amortization is on a straight-line basis over estimated useful life. Acquisition-related intangible assets with indefinite useful life are tested for impairment every year in the same way as goodwill, as described above.

*Other intangible assets*

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

*Tangible assets*

Tangible assets are reported at cost less accumulated depreciation and impairment losses. Cost includes expenditure that can be directly attributed to the acquisition of the asset. Subsequent expenditure is added to the carrying amount if it is probable that economic benefits associated with it will flow to the Group and if the cost can be reliably measured. Expenditure on repairs and maintenance is expensed as it is incurred. Depreciable amount is the cost of an asset less its residual value. No depreciation is applied to land. For other assets, cost is depreciated over estimated useful life, which for the Group leads to the following depreciation periods (on average):

- office buildings, 50 years
- industrial buildings, 25 years
- machinery and other technical plant, 7–10 years
- equipment and tools, 3–6 years.

An asset's residual value and useful life are reviewed at each financial year-end and adjusted when needed. Profit or loss on the disposal of a tangible asset is recognized in the income statement as 'Other operating income' or 'Other operating expenses', based on the difference between the selling price and the carrying amount.

*Leasing*

The Group's leasing is chiefly operational leasing. The leasing payments are expensed at a constant rate over the period of the contract and are reported as operating costs.

*Impairment*

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

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

When impairment has been established, the value of the asset is reduced to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

*Inventories*

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

*Accounts receivable*

Accounts receivable are reported at their fair value, which corresponds to amortized cost less any provision for bad



debts. A provision is recognized when it is probable that the recorded amounts will not flow to the Group. The year's change in such a provision is reported in the income statement.

#### *Financial instruments*

Financial instruments are initially recorded at fair value. Subsequent measurement of financial instruments depends on the classification at initial recognition, which in turn depends on the original purpose of acquiring the instrument. Financial instruments are divided into the following categories:

'Financial instruments at fair value through profit and loss' are financial assets held for trading, financial assets at fair value through profit and loss (classified at inception) and derivatives that are not part of a hedge relationship qualifying for hedge accounting. Gains and losses arising from changes in the fair value of financial instruments at fair value through profit and loss are included in the income statement in the period in which they arise. The category includes current financial investments and derivatives that are not part of hedge relationships qualifying for hedge accounting. See also the section below regarding hedge accounting.

'Loans and other receivables' are non-derivative financial assets, with fixed or determinable payments, which are not traded on an active market. Such a receivable usually arises when the Group provides a counterparty with cash or supplies a customer with goods or services without intention of trading the receivable. Loans and other receivables are carried at amortized cost using the effective interest method. The category covers non-current receivables, accounts receivable and other current receivables.

'Held-to-maturity investments' are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Group has the intention and ability to hold to maturity. After initial recognition, these investments are carried at amortized cost using the effective interest method. The Group normally holds no, or very limited, amounts as held-to-maturity investments.

'Available-for-sale financial assets' includes non-derivative financial assets that are either classified as available for sale or are not classified in any of the other categories of financial assets. The Group normally holds no positions falling into this category.

Financial liabilities that are neither recorded at fair value through profit and loss nor included in a hedge relationship qualifying for hedge accounting are reported at amortized cost using the effective interest method. The category covers non-current and current loan liabilities which are not hedged items, other non-current and current liabilities, and accounts payable.

Acquisitions and disposals of financial instruments are recognized on trade-date, i.e. when the Group is committed to the purchase or sale. Transaction costs are included initially in the fair value of all financial instruments apart from those reported at fair value through profit and loss.

The fair value of a quoted financial instrument is based on the bid price on the closing day. Regarding financial instruments in a non-active market and for unlisted securities, fair value is determined by using an appropriate method of valuation, for example using available information on comparable arm's length transactions, comparison with similar instruments, and analysis of discounted cash flows.

The current and non-current distinction is applied con-

sistently to all financial instruments. When settlement or disposal is expected to occur more than 12 months after closing day, a financial asset is reported as a non-current asset. But when settlement or disposal is expected to occur within 12 months of closing day, financial assets are reported as current assets. Financial liabilities with maturity later than 12 months after closing day are reported as non-current liabilities and those with maturity within 12 months of closing day as current liabilities.

A financial asset is derecognized when the right to receive cash flow from the asset expires or is transferred to another party because all risks and rewards associated with the asset have been transferred to that party. A financial liability is derecognized when the obligation is discharged or cancelled or when it expires.

#### *Hedge accounting*

Hedge accounting is applied only to transactions that are designated to hedge a specific risk and that qualify for hedge accounting. The Group holds a limited number of such hedge relationships and they include both fair value hedges and cash flow hedges.

A financial liability is a hedged item when it is included in a hedge relationship qualifying for hedge accounting, thus effectively hedged by a derivative designated as a hedging instrument. Both the liability (the hedged item) and the derivative (the hedging instrument) are recognized at fair value.

Changes in the fair value of a liability which is the hedged item of a qualifying fair value hedge are reported in the income statement in the period in which they arise. Gain or loss from revaluation of the hedging instrument of such a qualifying fair value hedge is reported in the income statement at the same time as gain or loss from the hedged item.

Gain or loss from revaluation of a hedging instrument of a cash-flow hedge qualifying for hedge accounting is reported in equity in the period in which it arises and is transferred to the income statement in the period that the hedged cash flow is recognized. The ineffective portion of the gain or loss is reported in the income statement in the period in which it arises.

#### *Provisions*

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

#### *Employee benefits*

Both defined contribution and defined benefit pension plans exist in the Group. Comprehensive defined benefit plans are found chiefly in the USA, the UK and Germany. Post-employment medical benefits also exist, mainly in the USA, which are reported in the same way as defined benefit pension plans. Calculations related to the Group's defined benefit plans are performed by independent actuaries and are based on a number of actuarial assumptions such as discount rate, future inflation and salary increases. Obligations are valued on the closing day at their discounted value. For funded plans, obligations are reduced by the fair

**Note 1**  
**Significant accounting and valuation principles, cont.**

value of the plan assets. Unrecognized actuarial gains and losses lying outside the so-called ten-percent corridor (i.e. exceeding the higher of 10 percent of the present value of the obligation or the fair value of plan assets) are spread over the expected average remaining working lives of the employees. Pension costs for defined benefit plans are spread over the employee's service period. The part of the interest component in the pension cost that relates to the deficit in pension plans is reported as a financial expense. The Group's payments related to defined contribution pension plans are reported as cost in the period to which they refer, based on the services performed by the employee.

**Share-based incentive programs**

Current share-based incentive programs were issued at market value and therefore involve no personnel costs for the Group.

**Dividend**

The dividend is reported as a liability once the Annual General Meeting has approved the dividend.

**The Parent company**

The Group's Parent company, ASSA ABLOY AB, is responsible for the management of the Group and handles common Group functions. The Parent company's revenue consists of intra-group franchise and royalty revenue, and its main balance sheet items consist of shares in subsidiaries, intra-group receivables and liabilities, and external borrowing.

The Parent company has prepared its annual accounts in accordance with the Swedish Annual Accounts Act (1995:1554) and standard RR 32:05 of the Swedish Financial Accounting Standards Council. RR 32:05 requires the Parent company, in its annual accounts, to apply all the International Financial Reporting Standards (IFRS) endorsed by the EU in so far as this is possible within the framework of the Annual Accounts Act and with regard to the relationship between accounting and taxation. RR 32:05 states what exceptions from, and additions to, IFRS should be made.

From 1 January 2006 the parent company is applying Chapter 4, 14§, sections a–e, of the Swedish Annual Accounts Act regarding the valuation of financial instruments. This has caused a change in accounting principle regarding accounting for exchange differences arising on monetary items that form part of net investments in foreign entities. Under the new principle, such items previously accounted for at cost are translated at closing-day rate. The effect of this change in accounting principle on 1 January 2006 was recognized as an increase in equity of SEK 156 M. The effect of the revaluation of other financial instruments was recognized as an increase of equity of SEK 15 M. In other respects, the accounting principles for the Parent company described below have been applied consistently to all periods presented in the Parent company's financial statements.

**Revenue**

The Parent company's revenue consists of intra-group franchise and royalty revenues. These are reported in the income statement as 'Other operating income' to make it clear that the Parent company has no product sales similar to those of other Group companies concerned with external business.

**Dividend revenue**

Dividend revenue is recognized when the right to receive payment is judged to be firm.

**Tangible assets**

Tangible assets owned by the Parent company are reported at cost less accumulated depreciation and any impairment losses in the same way as for the Group. All leasing contracts in the Parent company consist of operational leasing and are reported according to applicable rules.

**Shares in subsidiaries**

Shares in subsidiaries are reported at cost less impairment losses.

**Receivables from subsidiaries**

Receivables from subsidiaries are valued as the amounts that are expected to be received.

**Liabilities to subsidiaries**

Liabilities to subsidiaries are initially recognized at fair value and thereafter reported at amortized cost.

**Financial instruments**

Derivative financial instruments are recorded at fair value. Changes in the fair values of derivative financial instruments are reported in the income statement with the following exceptions, for which changes in fair values are reported in the fair value reserve:

- changes to the fair value of a hedging instrument qualifying for hedge accounting, and
- exchange rate differences related to a monetary item that forms part of a net investment in a foreign operation.

**Employee benefits**

Payments related to defined contribution pension plans are expensed in the period they relate to.

**Group contributions**

The company reports Group contributions in accordance with a statement from the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council. Group contributions are reported according to their financial implications. This means that Group contributions that are paid with the aim of minimizing the Group's total tax charge are reported directly against equity after deduction for their actual tax effects. Group contributions comparable to dividends are reported as such, which means that received Group contributions and their actual tax effects are reported in the income statement and paid Group contributions and their actual tax effects are reported directly against equity.

**Note 2 Sales**

The Group's sales revenues come chiefly from sales of products. Service related to products sold accounts for a very limited part of revenues (3–4 percent).

**Sales to customers, by country**

| SEK M                              | Group         |               |
|------------------------------------|---------------|---------------|
|                                    | 2006          | 2005          |
| USA                                | 10,421        | 9,278         |
| France                             | 2,431         | 2,294         |
| United Kingdom                     | 2,107         | 2,010         |
| Germany                            | 1,610         | 1,466         |
| Sweden                             | 1,435         | 1,286         |
| Australia                          | 1,310         | 1,186         |
| Spain                              | 1,168         | 1,029         |
| Netherlands                        | 1,119         | 1,070         |
| Canada                             | 1,038         | 744           |
| Finland                            | 800           | 765           |
| Norway                             | 702           | 662           |
| Mexico                             | 696           | 570           |
| Denmark                            | 629           | 534           |
| China                              | 597           | 429           |
| Asia (excluding China)             | 547           | 533           |
| Italy                              | 455           | 457           |
| Middle East                        | 431           | 347           |
| Belgium                            | 405           | 362           |
| Czech Republic                     | 369           | 326           |
| South America                      | 343           | 263           |
| Switzerland                        | 303           | 280           |
| New Zealand                        | 291           | 327           |
| South Africa                       | 279           | 238           |
| Austria                            | 251           | 195           |
| Russia                             | 180           | 128           |
| Central America (excluding Mexico) | 167           | 130           |
| Baltic countries                   | 134           | 108           |
| Poland                             | 118           | 96            |
| Portugal                           | 116           | 111           |
| Romania                            | 59            | 54            |
| Other countries                    | 626           | 524           |
| <b>Total</b>                       | <b>31,137</b> | <b>27,802</b> |

**Note 3 Auditors' fees**

| SEK M                               | Group     |           | Parent company |          |
|-------------------------------------|-----------|-----------|----------------|----------|
|                                     | 2006      | 2005      | 2006           | 2005     |
| <i>Audit</i>                        |           |           |                |          |
| Pricewaterhouse-Coopers             | 19        | 26        | 3              | 3        |
| Other                               | 5         | 4         | –              | –        |
| <i>Assignments other than audit</i> |           |           |                |          |
| Pricewaterhouse-Coopers             | 17        | 10        | 1              | –        |
| Other                               | 4         | 4         | –              | 2        |
| <b>Total</b>                        | <b>44</b> | <b>44</b> | <b>4</b>       | <b>5</b> |

**Note 4 Other operating income and expenses**

| SEK M                                  | Group     |           |
|----------------------------------------|-----------|-----------|
|                                        | 2006      | 2005      |
| Rent received                          | 19        | 23        |
| Profit/loss from sales of fixed assets | 6         | 8         |
| Government grants                      | 4         | 6         |
| Other non-business-related income      | 21        | 12        |
| Business-related taxes                 | –32       | –42       |
| Other, net                             | –27       | 21        |
| <b>Total</b>                           | <b>–9</b> | <b>28</b> |

**Parent company**

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

**Note 5 Share of earnings in associates**

| SEK M                               | Group    |          |
|-------------------------------------|----------|----------|
|                                     | 2006     | 2005     |
| Låsgruppen Wilhelm Nielsen AS       | 3        | 4        |
| Cerraduras de Colombia Cerracol S.A | 5        | 4        |
| <b>Total</b>                        | <b>8</b> | <b>8</b> |

**Note 6 Operational leasing agreements**

| SEK M                                               | Group      |            | Parent company |           |
|-----------------------------------------------------|------------|------------|----------------|-----------|
|                                                     | 2006       | 2005       | 2006           | 2005      |
| <i>Leasing fees paid during the year:</i>           | 230        | 200        | 9              | 10        |
|                                                     |            |            |                |           |
| SEK M                                               | Group      |            | Parent company |           |
|                                                     | 2006       | 2005       | 2006           | 2005      |
| <i>Nominal value of agreed future leasing fees:</i> |            |            |                |           |
| Due for payment in 2007 (2006)                      | 207        | 183        | 10             | 10        |
| Due for payment in 2008 (2007)                      | 167        | 139        | 10             | 10        |
| Due for payment in 2009 (2008)                      | 138        | 91         | 11             | 9         |
| Due for payment in 2010 (2009)                      | 100        | 69         | 11             | 9         |
| Due for payment in 2011 (2010)                      | 79         | 52         | 11             | 10        |
| Due for payment in 2012 (2011) or later             | 153        | 57         | 11             | 10        |
| <b>Total</b>                                        | <b>844</b> | <b>591</b> | <b>64</b>      | <b>58</b> |

**Note 7 Expenses by nature**

In the income statement costs are broken down by function. Cost of goods sold, Selling expenses, Administrative expenses and Research & Development costs amount to SEK 27,839 M (23,760). Below, these same costs are broken down by nature:

| SEK M                                          | Group         |               |
|------------------------------------------------|---------------|---------------|
|                                                | 2006          | 2005          |
| Remuneration of employees (Note 9)             | 9,374         | 9,260         |
| Direct material costs                          | 9,561         | 8,059         |
| Depreciation and write-downs (Notes 8, 15, 16) | 1,039         | 884           |
| Restructuring costs excluding write-downs      | 1,333         | –             |
| Other expenses                                 | 6,532         | 5,557         |
| <b>Total</b>                                   | <b>27,839</b> | <b>23,760</b> |

**Note 8 Depreciation and amortization**

| SEK M                      | Group      |            | Parent company |          |
|----------------------------|------------|------------|----------------|----------|
|                            | 2006       | 2005       | 2006           | 2005     |
| Intangible rights          | 61         | 18         | 31             | 4        |
| Machinery                  | 459        | 497        | –              | –        |
| Equipment                  | 246        | 244        | 2              | 2        |
| Buildings                  | 129        | 122        | –              | –        |
| Land and land improvements | 3          | 1          | –              | –        |
| <b>Total</b>               | <b>898</b> | <b>882</b> | <b>33</b>      | <b>6</b> |

### Note 9 Employee benefits

Salaries, wages and other remuneration (of which, performance-related salary paid to managing directors)

| SEK M          | Group             |                   |
|----------------|-------------------|-------------------|
|                | 2006              | 2005              |
| Sweden         | 598 (9)           | 530 (4)           |
| Finland        | 314 (0)           | 297 (0)           |
| Norway         | 275 (1)           | 274 (3)           |
| Denmark        | 152 (1)           | 117 (1)           |
| United Kingdom | 558 (2)           | 596 (1)           |
| Belgium        | 70 (0)            | 69 (0)            |
| Netherlands    | 217 (1)           | 211 (2)           |
| France         | 608 (1)           | 613 (2)           |
| Germany        | 553 (4)           | 530 (2)           |
| Switzerland    | 226 (3)           | 227 (2)           |
| Italy          | 58 (0)            | 92 (-)            |
| Spain          | 262 (1)           | 268 (1)           |
| Czech Republic | 72 (0)            | 63 (0)            |
| Romania        | 37 (-)            | 29 (0)            |
| Israel         | 81 (-)            | 74 (0)            |
| South Africa   | 76 (-)            | 78 (0)            |
| Canada         | 122 (1)           | 135 (0)           |
| USA            | 2,511 (9)         | 2,395 (21)        |
| Mexico         | 165 (0)           | 161 (1)           |
| South America  | 59 (0)            | 52 (0)            |
| China          | 103 (1)           | 111 (1)           |
| Australia      | 266 (0)           | 288 (0)           |
| New Zealand    | 88 (-)            | 130 (-)           |
| Other          | 147 (2)           | 134 (2)           |
| <b>Total</b>   | <b>7,618 (36)</b> | <b>7,474 (43)</b> |

| SEK M        | Parent company |               |
|--------------|----------------|---------------|
|              | 2006           | 2005          |
| Sweden       | 109 (6)        | 72 (2)        |
| Other        | 7 (-)          | 9 (-)         |
| <b>Total</b> | <b>116 (6)</b> | <b>81 (2)</b> |

### Social costs (of which pensions)

| SEK M        | Group              |                    |
|--------------|--------------------|--------------------|
|              | 2006               | 2005               |
| <b>Total</b> | <b>1,756 (413)</b> | <b>1,786 (384)</b> |

| SEK M        | Parent company |                |
|--------------|----------------|----------------|
|              | 2006           | 2005           |
| <b>Total</b> | <b>64 (29)</b> | <b>46 (22)</b> |

### Remuneration of the Parent company's Board of Directors and CEO

Salaries and other remuneration paid to the Board of Directors and the CEO totaled SEK 16 M (13). Social costs for the Directors and the CEO amounted to SEK 8 M (14), of which SEK 2 M (9) consisted of pension costs. Detailed information about remuneration and social costs applying to the Directors and senior management appears in the Corporate Governance report (page 42).

### Severance pay agreement

For the CEO, a period of 24 months' notice has been agreed if the company terminates the contract. No severance payment agreement applies.

### Absence for illness

| %                         | Parent company |      |
|---------------------------|----------------|------|
|                           | 2006           | 2005 |
| Total absence for illness | 2.5            | 1.5  |
| – long-term               | –              | –    |
| – men                     | 2.9            | 0.4  |
| – women                   | 1.9            | 2.7  |
| – aged 29 or younger      | 0.7            | 1.4  |
| – aged 30–49              | 2.9            | 1.8  |
| – aged 50 or older        | 1.7            | 0.3  |

### Note 10 Exchange-rate differences in the income statement

| SEK M                                                              | Group      |           | Parent company |           |
|--------------------------------------------------------------------|------------|-----------|----------------|-----------|
|                                                                    | 2006       | 2005      | 2006           | 2005      |
| Exchange-rate differences reported in operating income             | -9         | 3         | –              | –         |
| Exchange-rate differences reported in financial expenses (Note 12) | -4         | -7        | -24            | 43        |
| <b>Total</b>                                                       | <b>-13</b> | <b>-4</b> | <b>-24</b>     | <b>43</b> |

### Note 11 Financial income

| SEK M                                            | Group     |           | Parent company |            |
|--------------------------------------------------|-----------|-----------|----------------|------------|
|                                                  | 2006      | 2005      | 2006           | 2005       |
| Earnings from participations in subsidiaries (A) | –         | –         | 533            | 375        |
| Intra-group interest income                      | –         | –         | 725            | 491        |
| External interest income and similar items       | 30        | 51        | 2              | 1          |
| <b>Total</b>                                     | <b>30</b> | <b>51</b> | <b>1,260</b>   | <b>867</b> |

### (A) Earnings from participations in subsidiaries

| SEK M                                         | Parent company |            |
|-----------------------------------------------|----------------|------------|
|                                               | 2006           | 2005       |
| Dividends from subsidiaries                   | 1,695          | 13,588     |
| Write-downs of shares in subsidiaries         | -1,078         | -13,210    |
| Earnings from sales of shares in subsidiaries | -84            | -3         |
| <b>Total</b>                                  | <b>533</b>     | <b>375</b> |

Write-downs of shares in subsidiaries of SEK 1,078 M (13,210) were mainly due to dividends received from subsidiaries.

### Note 12 Financial expenses

| SEK M                                                | Group       |             | Parent company |             |
|------------------------------------------------------|-------------|-------------|----------------|-------------|
|                                                      | 2006        | 2005        | 2006           | 2005        |
| Intra-group interest expenses                        | –           | –           | -400           | -348        |
| Interest expenses, convertible debenture loans       | -61         | -46         | -61            | -46         |
| Interest expenses, other liabilities                 | -608        | -499        | -157           | -183        |
| Exchange-rate differences, net (Note 10)             | -4          | -7          | -24            | 43          |
| Changes in value of derivative financial instruments | -15         | 15          | 37             | –           |
| Other financial expenses                             | -13         | -36         | -23            | -20         |
| <b>Total</b>                                         | <b>-701</b> | <b>-573</b> | <b>-628</b>    | <b>-554</b> |

## Note 13 Tax on income

| SEK M                           | Group       |             | Parent company |            |
|---------------------------------|-------------|-------------|----------------|------------|
|                                 | 2006        | 2005        | 2006           | 2005       |
| Current tax paid                | -887        | -818        | -153           | -13        |
| Tax attributable to prior years | 5           | 8           | -              | -          |
| Deferred tax                    | 12          | -132        | -              | -          |
| <b>Total</b>                    | <b>-870</b> | <b>-943</b> | <b>-153</b>    | <b>-13</b> |

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

| Percent                                         | Group     |           | Parent company |          |
|-------------------------------------------------|-----------|-----------|----------------|----------|
|                                                 | 2006      | 2005      | 2006           | 2005     |
| Swedish rate of tax on income                   | 28        | 28        | 28             | 28       |
| Effect of foreign tax rates                     | 5         | 3         | -              | -        |
| Non-taxable income/non-deductible expenses, net | -2        | -6        | -13            | -15      |
| Deductible goodwill                             | 2         | 2         | -              | -        |
| Tax losses utilized                             | -1        | -1        | -              | -11      |
| Other                                           | 1         | 1         | -              | -        |
| <b>Effective tax rate in income statement</b>   | <b>33</b> | <b>27</b> | <b>15</b>      | <b>2</b> |

## Note 14 Earnings per share

## Earnings per share before dilution

|                                                           | Group       |             |
|-----------------------------------------------------------|-------------|-------------|
|                                                           | 2006        | 2005        |
| Earnings assigned to the Parent company's shareholders    | 1,746       | 2,608       |
| Weighted average number of shares issued (thousands)      | 365,918     | 365,918     |
| <b>Earnings per share before dilution (SEK per share)</b> | <b>4.77</b> | <b>7.13</b> |

## Earnings per share after dilution

|                                                               | Group       |             |
|---------------------------------------------------------------|-------------|-------------|
|                                                               | 2006        | 2005        |
| Earnings assigned to the Parent company's shareholders        | 1,746       | 2,608       |
| Interest expenses for convertible debenture loans, after tax  | 44          | 33          |
| Net profit for calculating earnings per share after dilution  | 1,790       | 2,641       |
| Weighted average number of shares issued (thousands)          | 365,918     | 365,918     |
| Assumed conversion of convertible debentures (thousands)      | 13,296      | 12,800      |
| Weighted average number of shares for calculation (thousands) | 379,214     | 378,718     |
| <b>Earnings per share after dilution (SEK per share)</b>      | <b>4.72</b> | <b>6.97</b> |

## Note 15 Intangible assets

| 2006 SEK M                                         | Group         |                   |               | Parent company    |
|----------------------------------------------------|---------------|-------------------|---------------|-------------------|
|                                                    | Goodwill      | Intangible rights | Total         | Intangible rights |
| <b>Opening accumulated acquisition value</b>       | <b>15,716</b> | <b>666</b>        | <b>16,382</b> | <b>41</b>         |
| Purchases                                          | -             | 84                | 84            | 402               |
| Acquisitions of subsidiaries                       | 2,263         | 828               | 3,091         | -                 |
| Sales/disposals                                    | -9            | -9                | -18           | -                 |
| Reclassifications                                  | -             | -                 | -             | -                 |
| Translation differences                            | -1,287        | -95               | -1,382        | -                 |
| <b>Closing accumulated acquisition value</b>       | <b>16,683</b> | <b>1,474</b>      | <b>18,157</b> | <b>443</b>        |
| <b>Opening accumulated amortization/impairment</b> | <b>-</b>      | <b>-305</b>       | <b>-305</b>   | <b>-5</b>         |
| Sales/disposals                                    | -             | 4                 | 4             | -                 |
| Reclassifications                                  | -             | -                 | -             | -                 |
| Impairment                                         | -             | -                 | -             | -                 |
| Amortization for the year                          | -             | -61               | -61           | -31               |
| Translation differences                            | -             | 30                | 30            | -                 |
| <b>Closing accumulated amortization/impairment</b> | <b>-</b>      | <b>-332</b>       | <b>-332</b>   | <b>-36</b>        |
| <b>Book value</b>                                  | <b>16,683</b> | <b>1,142</b>      | <b>17,825</b> | <b>407</b>        |

| 2005 SEK M                                         | Group         |                   |               | Parent company    |
|----------------------------------------------------|---------------|-------------------|---------------|-------------------|
|                                                    | Goodwill      | Intangible rights | Total         | Intangible rights |
| <b>Opening accumulated acquisition value</b>       | <b>13,917</b> | <b>473</b>        | <b>14,390</b> | <b>9</b>          |
| Purchases                                          | 18            | 86                | 104           | 40                |
| Acquisitions of subsidiaries                       | 249           | 75                | 324           | -                 |
| Sales/disposals                                    | -             | -20               | -20           | -18               |
| Reclassifications                                  | -3            | 8                 | 5             | 10                |
| Translation differences                            | 1,535         | 44                | 1,579         | -                 |
| <b>Closing accumulated acquisition value</b>       | <b>15,716</b> | <b>666</b>        | <b>16,382</b> | <b>41</b>         |
| <b>Opening accumulated amortization/impairment</b> | <b>-</b>      | <b>-252</b>       | <b>-252</b>   | <b>-1</b>         |
| Sales/disposals                                    | -             | 1                 | 1             | -                 |
| Reclassifications                                  | -             | 1                 | 1             | -                 |
| Impairment                                         | -             | -1                | -1            | -                 |
| Amortization for the year                          | -             | -18               | -18           | -4                |
| Translation differences                            | -             | -36               | -35           | -                 |
| <b>Closing accumulated amortization/impairment</b> | <b>-</b>      | <b>-305</b>       | <b>-304</b>   | <b>-5</b>         |
| <b>Book value</b>                                  | <b>15,716</b> | <b>361</b>        | <b>16,078</b> | <b>36</b>         |



**Note 15**  
**Intangible assets, cont.**

Intangible rights consist mainly of brands and licenses with finite useful life. The book value of intangible rights with indefinite life amounts to SEK 587 M (126).

Useful life is taken as indefinite where the time period during which it is judged that an asset will contribute economic benefits cannot be defined.

Amortization and write-down of intangible rights have mainly been reported as administrative costs in the income statement.

In the Parent company the book value of intangible rights with indefinite life amounts to SEK 29 M (29).

**Impairment testing of goodwill and intangible rights with indefinite useful life**

Goodwill and intangible rights with indefinite useful life are assigned to the Group's Cash-Generating Units, as summarized in the following table:

| 2006 SEK M                                    | HID Global   | Architectural<br>Hardware<br>Group | Entrance<br>Systems | Other        | Total         |
|-----------------------------------------------|--------------|------------------------------------|---------------------|--------------|---------------|
| Goodwill                                      | 2,977        | 3,012                              | 2,741               | 7,953        | 16,683        |
| Intangible rights with indefinite useful life | 333          | –                                  | 19                  | 235          | 587           |
| <b>Total</b>                                  | <b>3,310</b> | <b>3,012</b>                       | <b>2,760</b>        | <b>8,188</b> | <b>17,270</b> |

| 2005 SEK M                                    | Architectural<br>Hardware<br>Group | Entrance<br>Systems | ASSA ABLOY<br>Identification<br>Technologies | Other        | Total         |
|-----------------------------------------------|------------------------------------|---------------------|----------------------------------------------|--------------|---------------|
| Goodwill                                      | 3,442                              | 2,446               | 2,136                                        | 7,692        | 15,716        |
| Intangible rights with indefinite useful life | –                                  | 19                  | –                                            | 107          | 126           |
| <b>Total</b>                                  | <b>3,442</b>                       | <b>2,465</b>        | <b>2,136</b>                                 | <b>7,799</b> | <b>15,842</b> |

For each Cash-Generating Unit, the Group assesses each year whether any write-down of goodwill is needed, in accordance with the accounting principles described in Note 1. Recoverable amounts for Cash-Generating Units have been established by calculation of value in use. These calculations are based on estimated future cash flows, which in turn are based on financial budgets approved by the management and covering a three-year period. Cash flows beyond three years are extrapolated using estimated growth rates according to the principles below.

The main assumptions used to calculate values in use are:

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

The management has established the budgeted operating margin on a basis of earlier results and its expectations about future market development. For extrapolating cash flows beyond the budget period, a growth rate of 3 percent is used for all Cash-Generating Units. This growth rate is thought to be a conservative estimate. An average discount rate after tax in local currency is then used in the calculations. For a small number of Cash-Generating Units this discount rate has been adjusted to reflect the specific risks faced by these Units. Overall, the discount rate employed varies between 7.0 and 9.0 percent (HID Global 9.0 percent, Architectural Hardware Group 7.5 percent, Entrance Systems 7.0 percent).

The restructuring currently in progress in the Group is leading to significantly greater harmonization of product development, purchasing, manufacturing and selling between the business units. As one effect of this, the Group's five divisions will constitute Cash-Generating Units from 2007.

**Sensitivity analysis**

A sensitivity analysis has been carried out for each Cash-Generating Unit. The results of the analyses can be summarized as follows:

If the estimated operating margin after the end of the budget period had been 10 percent lower than the management's figure, total recoverable amount, and likewise the recoverable amount for HID Global, Architectural Hardware Group and Entrance Systems, would be 9 percent lower.

If the estimated growth rate to extrapolate cash flows beyond the budget period had been 10 percent lower than the starting assumption of 3 percent, total recoverable amount, and likewise the recoverable amount for HID Global, Architectural Hardware Group and Entrance Systems, would be 6 percent lower.

If the estimated weighted capital expenditure used for the Group's discounted cash flow had been 10 percent higher than the starting assumption of 7.0 to 9.0 percent, total recoverable amount, and likewise the recoverable amount for HID Global, Architectural Hardware Group and Entrance Systems, would be 14 percent lower.

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

None of the hypothetical cases above would lead to a write-down of goodwill in a particular Cash-Generating Unit.

## Note 16 Tangible assets

| 2006 SEK M                                         | Group         |                            |               |               |               | Parent Company |
|----------------------------------------------------|---------------|----------------------------|---------------|---------------|---------------|----------------|
|                                                    | Buildings     | Land and land improvements | Machinery     | Equipment     | Total         | Equipment      |
| <b>Opening accumulated acquisition value</b>       | <b>3,150</b>  | <b>761</b>                 | <b>5,745</b>  | <b>1,688</b>  | <b>11,344</b> | <b>19</b>      |
| Purchases                                          | 74            | 2                          | 316           | 213           | 605           | 2              |
| Acquisitions of subsidiaries                       | 24            | –                          | 51            | 45            | 120           | –              |
| Sales/disposals                                    | –85           | –14                        | –157          | –110          | –366          | –4             |
| Reclassifications                                  | 23            | –                          | 50            | 44            | 117           | –              |
| Translation differences                            | –204          | –49                        | –430          | –116          | –799          | –              |
| <b>Closing accumulated acquisition value</b>       | <b>2,982</b>  | <b>700</b>                 | <b>5,575</b>  | <b>1,764</b>  | <b>11,021</b> | <b>17</b>      |
| <b>Opening accumulated depreciation/impairment</b> | <b>–1,212</b> | <b>–24</b>                 | <b>–3,676</b> | <b>–1,084</b> | <b>–5,996</b> | <b>–9</b>      |
| Sales/disposals                                    | 13            | –                          | 134           | 91            | 238           | 1              |
| Impairment                                         | –34           | –                          | –70           | –37           | –141          | –              |
| Depreciation for the year                          | –129          | –3                         | –460          | –246          | –838          | –2             |
| Translation differences                            | 80            | 3                          | 283           | 87            | 453           | –              |
| <b>Closing accumulated depreciation/impairment</b> | <b>–1,282</b> | <b>–24</b>                 | <b>–3,789</b> | <b>–1,189</b> | <b>–6,284</b> | <b>–10</b>     |
| Construction in progress                           |               |                            |               |               | 383           |                |
| <b>Book value</b>                                  | <b>1,700</b>  | <b>676</b>                 | <b>1,786</b>  | <b>575</b>    | <b>5,120</b>  | <b>7</b>       |

The tax value of the Group's Swedish buildings was SEK 82 M (83).

The tax value of the Group's Swedish land was SEK 12 M (11).

| 2005 SEK M                                         | Group         |                            |               |               |               | Parent Company |
|----------------------------------------------------|---------------|----------------------------|---------------|---------------|---------------|----------------|
|                                                    | Buildings     | Land and land improvements | Machinery     | Equipment     | Total         | Equipment      |
| <b>Opening accumulated acquisition value</b>       | <b>2,892</b>  | <b>695</b>                 | <b>4,910</b>  | <b>1,402</b>  | <b>9,899</b>  | <b>18</b>      |
| Purchases                                          | 88            | 1                          | 341           | 234           | 664           | 5              |
| Acquisitions of subsidiaries                       | –             | –                          | 31            | 20            | 51            | –              |
| Sales/disposals                                    | –125          | –9                         | –106          | –99           | –339          | –4             |
| Reclassifications                                  | 9             | 7                          | 66            | 5             | 87            | –              |
| Translation differences                            | 286           | 67                         | 503           | 126           | 982           | –              |
| <b>Closing accumulated acquisition value</b>       | <b>3,150</b>  | <b>761</b>                 | <b>5,745</b>  | <b>1,688</b>  | <b>11,344</b> | <b>19</b>      |
| <b>Opening accumulated depreciation/impairment</b> | <b>–1,051</b> | <b>–16</b>                 | <b>–3,006</b> | <b>–846</b>   | <b>–4,919</b> | <b>–9</b>      |
| Sales/disposals                                    | 57            | 0                          | 66            | 63            | 186           | 2              |
| Reclassifications                                  | –4            | –4                         | 2             | 5             | –1            | –              |
| Impairment                                         | –             | –                          | –             | –1            | –1            | –              |
| Depreciation for the year                          | –122          | –1                         | –497          | –244          | –864          | –2             |
| Translation differences                            | –92           | –3                         | –241          | –61           | –397          | –              |
| <b>Closing accumulated depreciation/impairment</b> | <b>–1,212</b> | <b>–24</b>                 | <b>–3,676</b> | <b>–1,084</b> | <b>–5,996</b> | <b>–9</b>      |
| Construction in progress                           |               |                            |               |               | 354           |                |
| <b>Book value</b>                                  | <b>1,938</b>  | <b>737</b>                 | <b>2,069</b>  | <b>604</b>    | <b>5,702</b>  | <b>10</b>      |

## Note 17 Shares in subsidiaries

| Company name                                  | Corporate identity number,<br>Registered office | Parent company      |                       |                      |
|-----------------------------------------------|-------------------------------------------------|---------------------|-----------------------|----------------------|
|                                               |                                                 | Number<br>of shares | % of share<br>capital | Book value,<br>SEK M |
| ASSA ABLOY EMEA AB                            | 556061-8455 Stockholm                           | 70                  | 100                   | 14                   |
| Timelox AB                                    | 556214-7735 Landskrona                          | 15,000              | 100                   | 22                   |
| ASSA ABLOY Entrance Systems AB                | 556204-8511 Landskrona                          | 1,000               | 100                   | 6                    |
| Sokymat S.A.                                  | CH-232-0730018-2 Granges                        | 2,500               | 100                   | 47                   |
| ASSA ABLOY Kredit AB                          | 556047-9148 Stockholm                           | 400                 | 100                   | 529                  |
| ASSA ABLOY Identification Technology Group AB | 556645-4087 Stockholm                           | 1,000               | 100                   | 0                    |
| ASSA ABLOY Svensk Fastighets AB               | 556645-0275 Stockholm                           | 1,000               | 100                   | 0                    |
| ASSA ABLOY Asia Holding AB                    | 556602-4500 Stockholm                           | 1,000               | 100                   | 131                  |
| ASSA ABLOY IP AB                              | 556645-4087 Stockholm                           | 1,000               | 100                   | 0                    |
| ASSA ABLOY OY                                 | 1094741-7 Joensuu                               | 800,000             | 100                   | 631                  |
| ASSA ABLOY Norway a.s.                        | 979207476 Moss                                  | 150,000             | 100                   | 538                  |
| ASSA ABLOY Denmark A/S                        | CVR 10050316 Herlev                             | 60,500              | 100                   | 376                  |
| ASSA ABLOY Deutschland GmbH                   | HR B 66227 Berlin                               | 2                   | 100                   | 1,064                |
| LIPS Nederland BV                             | 23028070 Dordrecht                              | 3,515               | 100                   | 57                   |
| Vema Security B.V.                            | 31021889 Hoevelaken                             | 230                 | 100                   | 31                   |
| Nemef BV                                      | 08023138 Apeldoorn                              | 4,000               | 100                   | 928                  |
| ASSA ABLOY France SAS                         | 412140907 R.C.S. Versailles                     | 12,499,999          | 100                   | 1,582                |
| Interlock Holding AG                          | CH-020.3.913.588-8 Zürich                       | 10,736              | 98                    | 0                    |
| ASSA ABLOY Ltd                                | 2096505 Willenhall                              | 1,330,000           | 100                   | 1,705                |
| Mul-T-Lock Ltd                                | 520036583 Yavne                                 | 13,787,856          | 90                    | 901                  |
| ASSA ABLOY Holdings (SA) Ltd                  | 1948/030356/06 Johannesburg                     | 100,220             | 100                   | 184                  |
| AA US International Holdings, Inc.            | 040916454 Delaware                              | 100                 | 100                   | 0                    |
| ASSA ABLOY Inc                                | 39347-83 Salem, Oregon                          | 100                 | 100                   | 2,259                |
| ABLOY Holdings Ltd                            | 1148165260 St Laurent                           | 1                   | 100                   | 13                   |
| ASSA ABLOY Australia Pacific Pty Ltd          | ACN 095354582 Oakleigh, Victoria                | 48,190,000          | 100                   | 242                  |
| ASSA ABLOY South Asia Pte Ltd                 | 199804395K Singapore                            | 3,400,000           | 100                   | 43                   |
| Grupo Industrial Phillips, S.A de C.V.        | GIP980312169 Mexico                             | 27,036,635          | 100                   | 765                  |
| ASSA ABLOY Innovation AB                      | 556192-3201 Stockholm                           | 2,500               | 100                   | 1                    |
| ASSA ABLOY Hospitality AB                     | 556180-7156 Göteborg                            | 1,000               | 100                   | 14                   |
| WHAIG Limited                                 | EC21330 Bermuda                                 | 100,100             | 100                   | 303                  |
| Fleming Door Products, Ltd                    | 147126 Ontario                                  | 25,846,590          | 100                   | 0                    |
| AAC Acquisition Inc.                          | 002098175 Ontario                               | 1                   | 100                   | 0                    |
| ASSA ABLOY Holding GmbH                       | FN 273601f, A-6175 Kematen                      | 1                   | 100                   | 15                   |
| ITG (UK) Ltd                                  | 5099094 Haverhill                               | 1                   | 100                   | 1                    |
| ASSA ABLOY Asia Pacific Ltd                   | 53451 Hong Kong                                 | 1,000,000           | 100                   | 72                   |
| <b>Total</b>                                  |                                                 |                     |                       | <b>12,474</b>        |

## Note 18 Shares in associates

| 2006 Company name                   | Country of<br>registration | Number of<br>shares | % of<br>share capital | Book value<br>SEK M |
|-------------------------------------|----------------------------|---------------------|-----------------------|---------------------|
| Talleres Agui S.A.                  | Spain                      | 4,800               | 40                    | 17                  |
| Låsgruppen Wilhelm Nielsen AS       | Norway                     | 305                 | 50                    | 12                  |
| Cerraduras de Colombia Cerracol S.A | Colombia                   | 182,682             | 29                    | 2                   |
| Renato Fattorini SRL                | Italy                      | –                   | 25                    | 2                   |
| Other                               |                            | –                   | –                     | 0                   |
| <b>Total</b>                        |                            |                     |                       | <b>33</b>           |

| 2005 Company name                   | Country of<br>registration | Number of<br>shares | % of<br>share capital | Book value<br>SEK M |
|-------------------------------------|----------------------------|---------------------|-----------------------|---------------------|
| Talleres Agui S.A.                  | Spain                      | 4,800               | 40                    | 17                  |
| Låsgruppen Wilhelm Nielsen AS       | Norway                     | 305                 | 50                    | 15                  |
| Cerraduras de Colombia Cerracol S.A | Colombia                   | 182,682             | 29                    | 2                   |
| Renato Fattorini SRL                | Italy                      | –                   | 25                    | 2                   |
| Other                               |                            | –                   | –                     | 1                   |
| <b>Total</b>                        |                            |                     |                       | <b>37</b>           |

### Note 19 Deferred tax on income

| SEK M                                         | Group        |              |
|-----------------------------------------------|--------------|--------------|
|                                               | 2006         | 2005         |
| <i>Deferred tax receivables</i>               |              |              |
| Tax-deductible goodwill                       | 533          | 696          |
| Pensions                                      | 250          | 220          |
| Other deferred tax receivables                | 306          | 433          |
| <b>Deferred tax receivables</b>               | <b>1,089</b> | <b>1,349</b> |
| <b>Deferred tax liabilities</b>               | <b>106</b>   | <b>153</b>   |
| <b>Deferred tax receivables, net</b>          | <b>983</b>   | <b>1,196</b> |
| <b>Change in deferred tax during the year</b> |              |              |
| At 1 January                                  | 1,196        | 1,243        |
| Acquisitions of subsidiaries                  | -174         | 38           |
| Reported in income statement                  | 12           | -132         |
| Reported against equity                       | -            | 2            |
| Exchange rate differences                     | -51          | 45           |
| <b>At 31 December</b>                         | <b>983</b>   | <b>1,196</b> |

The group has additional tax losses carried forward of some SEK 700 M (700) for which deferred tax receivables have not been recognized.

### Note 20 Other long-term financial assets

| SEK M                                  | Group      |            | Parent company |           |
|----------------------------------------|------------|------------|----------------|-----------|
|                                        | 2006       | 2005       | 2006           | 2005      |
| Other shares and participations        | 18         | 12         | 14             | 6         |
| Interest-bearing long-term receivables | 128        | 62         | 42             | -         |
| Other long-term receivables            | 95         | 97         | 118            | 61        |
| <b>Total</b>                           | <b>241</b> | <b>171</b> | <b>174</b>     | <b>67</b> |

Other shares and participations are valued at cost. Interest-bearing long-term receivables and Other long-term receivables are valued at amortized cost.

### Note 21 Inventories

| SEK M                  | Group        |              |
|------------------------|--------------|--------------|
|                        | 2006         | 2005         |
| Materials and supplies | 1,171        | 1,040        |
| Work in progress       | 1,207        | 1,149        |
| Finished goods         | 1,575        | 1,439        |
| Paid in advance        | 73           | 51           |
| <b>Total</b>           | <b>4,026</b> | <b>3,679</b> |

SEK 211 M (265) of the inventory value on 31 December 2006 was reported at net realizable value. Direct material costs during the year amounted to SEK 9,561 M (8,059), of which SEK 185 M (123) represented write-downs of inventory.

### Note 22 Accounts receivable

| SEK M                  | Group        |              |
|------------------------|--------------|--------------|
|                        | 2006         | 2005         |
| Accounts receivable    | 5,359        | 5,102        |
| Provision for bad debt | -278         | -284         |
| <b>Total</b>           | <b>5,081</b> | <b>4,818</b> |

There is a limited concentration of credit risks associated with accounts receivable because the Group has a large number of customers with a wide international spread.

### Note 23 Derivative financial instruments

| SEK M                                                    | Group      |            |
|----------------------------------------------------------|------------|------------|
|                                                          | 2006       | 2005       |
| <i>Derivatives, positive values (assets)</i>             |            |            |
| Interest rate swaps – cash flow hedging                  | -          | 1          |
| Interest rate swaps – fair value hedging                 | -          | 1          |
| Interest rate swaps – held for trading                   | 2          | -          |
| Currency basket options                                  | 10         | 7          |
| Currency contracts – held for trading                    | 28         | 34         |
| <b>Derivatives, positive values (assets)</b>             | <b>40</b>  | <b>43</b>  |
| <i>Derivatives, negative values (liabilities)</i>        |            |            |
| Interest rate swaps – fair value hedging                 | -18        | -7         |
| Interest rate swaps – held for trading                   | -          | -1         |
| Currency contracts – held for trading                    | -24        | -46        |
| <b>Derivatives, negative values (liabilities)</b>        | <b>-42</b> | <b>-54</b> |
| <b>Derivative financial instruments, net (liability)</b> | <b>-2</b>  | <b>-11</b> |

### Note 24 Cash and cash equivalents

| SEK M                                        | Group        |            | Parent company |            |
|----------------------------------------------|--------------|------------|----------------|------------|
|                                              | 2006         | 2005       | 2006           | 2005       |
| Cash and bank balances                       | 1,115        | 916        | 1              | 223        |
| Short-term investments (duration < 3 months) | 39           | 42         | 766            | 610        |
| <b>Total</b>                                 | <b>1,154</b> | <b>958</b> | <b>767</b>     | <b>833</b> |

Short-term interest-bearing investments amounted to SEK 40 M (52) at year-end, of which SEK 1 M (19) were non-realizable receivables with a term to maturity of over three months. These items are not classified as cash and cash equivalents and are not included in the table above.

### Note 25 Borrowings

| SEK M                                              | Group         |               | Parent company |              |
|----------------------------------------------------|---------------|---------------|----------------|--------------|
|                                                    | 2006          | 2005          | 2006           | 2005         |
| Long-term loans (A)                                | 6,010         | 2,783         | 1,500          | -            |
| Convertible debenture loans, long-term part (A, B) | 1,252         | 943           | 1,252          | 943          |
| <i>Long-term loans, total (A)</i>                  | <i>7,262</i>  | <i>3,726</i>  | <i>2,752</i>   | <i>943</i>   |
| Convertible debenture loans, short-term part (B)   | -             | 943           | -              | 943          |
| Short-term loans (C)                               | 6,281         | 6,966         | 536            | 3,842        |
| <i>Short-term loans, total</i>                     | <i>6,281</i>  | <i>7,909</i>  | <i>536</i>     | <i>4,785</i> |
| <b>Total</b>                                       | <b>13,543</b> | <b>11,635</b> | <b>3,288</b>   | <b>5,728</b> |

Also see the section 'Financial risk management' on pages 55–57.

#### (A) Long-term loans

The Parent company's long-term loans mature within five years. The maturities for the Group's long-term loans, including the long-term part of convertible debenture loans, are as follows:

| SEK M                                       | Group        |              |
|---------------------------------------------|--------------|--------------|
|                                             | 2006         | 2005         |
| Between two and five years                  | 3,276        | 943          |
| Over five years                             | 3,986        | 2,783        |
| <b>Book values</b>                          | <b>7,262</b> | <b>3,726</b> |
| Fair value of long-term loans               | 7,174        | 3,735        |
| Securities pledged against long-term loans: |              |              |
| Real estate mortgages                       | 47           | 70           |
| Chattel mortgages                           | 0            | 0            |
| <b>Total</b>                                | <b>47</b>    | <b>70</b>    |

**Note 25**  
**Borrowings, cont.**

*(B) Convertible debenture loans*

| SEK M                                     | Group        |              |
|-------------------------------------------|--------------|--------------|
|                                           | 2006         | 2005         |
| Incentive 2001                            | –            | 943          |
| Incentive 2004                            | 905          | 943          |
| Incentive 2006                            | 347          | –            |
| <b>Book value</b>                         | <b>1,252</b> | <b>1,886</b> |
| Fair value of convertible debenture loans | 1,251        | 1,886        |

Incentive 2001 ended on 20 November 2006. No conversion took place.

Incentive 2004 has a variable interest rate equivalent to 0.9\*EURIBOR + 47 basis points. Any conversion of Incentive 2004 will take place in a 90-day period between March and June 2009. Full conversion at a conversion rate of EUR 10.20 for Bond 1, of EUR 12.20 for Bond 2, of EUR 14.30 for Bond 3 and of EUR 16.30 for Bond 4 will add 7,782,155 shares. The dilution effects with full conversion will amount to 2.1 percent of share capital and 1.4 percent of the total number of votes.

Incentive 2006 has a variable interest rate equivalent to 0.9\*EURIBOR + 45 basis points. Any conversion of Incentive 2006 will take place in a 180-day period between January and June 2011. Full conversion at a conversion rate of EUR 14.60 for Bond 1, of EUR 15.90 for Bond 2, of EUR 17.30 for Bond 3 and of EUR 18.60 for Bond 4 will add 2,332,350 shares. The dilution effects with full conversion will amount to 0.6 percent of share capital and 0.4 percent of the total number of votes.

Incentive 2006 has been issued at the nominal value of the convertible bond. The valuation has been based on Black & Scholes and has been performed by an external party.

Full conversion of both programs will add a total of 10,114,505 shares and result in dilution effects amounting to 2.7 percent of share capital and 1.8 percent of the total number of votes. Incentive 2004 has a value of EUR 100 M and Incentive 2006 has a value of EUR 38 M.

*(C) Short-term loans*

| SEK M                          | Group        |              |
|--------------------------------|--------------|--------------|
|                                | 2006         | 2005         |
| Corporate credit line          | 482          | 272          |
| Other short-term loans         | 5,799        | 6,694        |
| <b>Book value</b>              | <b>6,281</b> | <b>6,966</b> |
| Fair value of short-term loans | 6,280        | 6,977        |

Check credits granted to the Group totaled SEK 1,226 M (1,223), of which SEK 482 M (272) was utilized.

**Note 26 Parent company's equity**

The Parent company's equity is split between restricted and unrestricted equity. Restricted equity consists of share capital, the statutory reserve and the fair value reserve. Restricted funds must not be reduced by issue of dividends. Unrestricted equity consists of the premium reserve, retained earnings and the year's net income.

The statutory reserve contains premiums (amounts received from share issues that exceed the nominal value of the shares) relating to shares issued up to 2005.

The premium reserve contains premiums (amounts received from share issues that exceed the nominal value of the shares) relating to shares issued from 2006 onwards.

Up to and including 2005 the premium reserve was classified as restricted equity and contained premiums (amounts received from share issues that exceed the nominal value of the shares) relating to shares issued from 1997 onwards. In accordance with the transition rules relating to the new Swedish Companies Act that came into force on 1 January 2006, the full amount held in the premium reserve on 31 December 2005 has been moved to the statutory reserve. From 1 January 2006 the premium reserve forms part of unrestricted equity.

**Note 27 Share capital, number of shares and dividend per share**

|                                            | Number of shares (thousands) |                |                | Share capital SEK T |
|--------------------------------------------|------------------------------|----------------|----------------|---------------------|
|                                            | Series A                     | Series B       | Total          |                     |
| Opening balance at 1 January 2005          | 19,175                       | 346,743        | 365,918        | 365,918             |
| <b>Closing balance at 31 December 2005</b> | <b>19,175</b>                | <b>346,743</b> | <b>365,918</b> | <b>365,918</b>      |
| Number of votes, thousands                 | 191,753                      | 346,743        | 538,496        |                     |
| Opening balance at 1 January 2006          | 19,175                       | 346,743        | 365,918        | 365,918             |
| <b>Closing balance at 31 December 2006</b> | <b>19,175</b>                | <b>346,743</b> | <b>365,918</b> | <b>365,918</b>      |
| Number of votes, thousands                 | 191,753                      | 346,743        | 538,496        |                     |

All shares have a par value of SEK 1.00 and provide the holders with equal rights to the Company's assets and earnings. All shares are entitled to dividends subsequently issued. Each Series A share carries 10 votes and each Series B share one vote. All issued shares are fully paid-up. The average number of shares during the year, to the nearest thousand, was 365,918 thousand (365,918). The average number of shares after full conversion of outstanding convertible bonds, similarly rounded, was 379,214 thousand (378,718).

**Dividend per share**

The dividend paid out during the financial year amounted to a total sum of SEK 1,189 M (951), corresponding to SEK 3.25 (2.60) per share. At the Annual General Meeting on 26 April 2007, a dividend of SEK 3.25 per share for the year 2006 – a total sum of SEK 1,189 M – will be proposed.



## Note 28 Reserves

| Group SEK M                                    | Translation reserve | Hedging-reserve | Total        |
|------------------------------------------------|---------------------|-----------------|--------------|
| Opening balance at 1 January 2005              | -479                | -               | -479         |
| Effect of changed accounting principle, IAS 39 | -                   | 4               | 4            |
| Adjusted opening balance at 1 January 2005     | -479                | 4               | -475         |
| Currency translation differences               | 1,539               | -               | 1,539        |
| Cash flow hedging instruments, fair value      | -                   | -3              | -3           |
| <b>Closing balance at 31 December 2005</b>     | <b>1,060</b>        | <b>1</b>        | <b>1,061</b> |
| Opening balance at 1 January 2006              | 1,060               | 1               | 1,061        |
| Currency translation differences               | -1,313              | -               | -1,313       |
| Cash flow hedging instruments, fair value      | -                   | -1              | -1           |
| <b>Closing balance at 31 December 2006</b>     | <b>-253</b>         | <b>-</b>        | <b>-253</b>  |

The hedging reserve consists of changes in the fair value of hedging instruments used to hedge cash flows.

The translation reserve consists of all currency translation differences that arise in the translation of financial reports from foreign operations prepared in a currency other than Swedish kronor, the currency used to present the Group's financial reports. Currency translation differences arising from the revaluation of liabilities originating from instruments used to hedge net investment in foreign operations are also carried to the translation reserve. If a foreign operation is sold, currency translation differences are transferred to the income statement.

## Note 29 Post-employment employee benefits

Post-employment benefits include pensions and medical benefits. Pension plans are classified as either defined benefit plans or defined contribution plans. Pension obligations reported in the balance sheet are mainly due to defined benefit pension plans. ASSA ABLOY has defined benefit plans in a number of countries, those in the USA and the UK being the most significant ones. There are also obligations related to post-retirement medical benefits in the USA.

## Amounts recognized in the income statement

| Pension cost SEK M                          | 2006       | 2005       |
|---------------------------------------------|------------|------------|
| Defined benefit pension charges (A)         | 84         | 138        |
| Defined contribution pension charges        | 299        | 215        |
| Post-employment medical benefit charges (A) | 30         | 31         |
| <b>Total</b>                                | <b>413</b> | <b>384</b> |

## Amounts recognized in the balance sheet

| Pension provisions SEK M                             | 2006         | 2005         |
|------------------------------------------------------|--------------|--------------|
| Provisions for defined benefit pension plans (B)     | 808          | 1,099        |
| Provisions for post-employment medical benefits (B)  | 406          | 461          |
| Provisions for defined contribution pension plans    | 83           | 74           |
| <b>Pension provisions</b>                            | <b>1,297</b> | <b>1,634</b> |
| <b>Financial assets (defined contribution plans)</b> | <b>-21</b>   | <b>-22</b>   |
| <b>Pension provisions, net</b>                       | <b>1,276</b> | <b>1,612</b> |

## A) Specification of amounts recognized in the income statement

|                                            | Post-employment medical benefits |           | Defined benefit pension plans |            | Total      |            |
|--------------------------------------------|----------------------------------|-----------|-------------------------------|------------|------------|------------|
| Pension cost SEK M                         | 2006                             | 2005      | 2006                          | 2005       | 2006       | 2005       |
| Current service cost                       | 7                                | 7         | 73                            | 102        | 80         | 109        |
| Interest on obligation                     | 23                               | 23        | 204                           | 204        | 227        | 227        |
| Expected return on plan assets             | -                                | -         | -202                          | -183       | -202       | -183       |
| Net actuarial losses (gains)               | -                                | -         | 1                             | 1          | 1          | 1          |
| Past service cost                          | -                                | 1         | 2                             | -3         | 2          | -2         |
| Losses (gains) on curtailments/settlements | -                                | -         | 6                             | 17         | 6          | 17         |
| <b>Total</b>                               | <b>30</b>                        | <b>31</b> | <b>84</b>                     | <b>138</b> | <b>114</b> | <b>169</b> |
| <i>of which, included in</i>               |                                  |           |                               |            |            |            |
| Operating income                           | 7                                | 8         | 82                            | 117        | 89         | 125        |
| Net financial items                        | 23                               | 23        | 2                             | 21         | 25         | 44         |
| <b>Total</b>                               | <b>30</b>                        | <b>31</b> | <b>84</b>                     | <b>138</b> | <b>114</b> | <b>169</b> |

Actuarial gains/losses resulting from changes in the actuarial assumptions for defined benefit pension plans are recognized to the extent that their accumulated amount exceeds the 'corridor', i.e. 10 percent of the higher of the obligation's present value or the fair value of plan assets. The surplus/deficit outside the 10 percent corridor is recognized as income/expense over the expected average remaining service period, starting in the year after the actuarial gain or loss arose. Amortization of actuarial gains/losses that arose in 2006 will start in 2007.

The actual return on plan assets regarding defined benefit plans was SEK 267 M (282) in 2006.

There are no defined benefit plans with surpluses within the Group. Partly funded or unfunded pension plans are reported as provisions for pensions.

**Note 29**  
**Post-employment**  
**employee benefits, cont.**

*B) Specification of amounts recognized in the balance sheet*

| Specification of pension provisions SEK M  | Post-employment medical benefits |            | Defined benefit pension plans |              | Total        |              |
|--------------------------------------------|----------------------------------|------------|-------------------------------|--------------|--------------|--------------|
|                                            | 2006                             | 2005       | 2006                          | 2005         | 2006         | 2005         |
| Present value of funded obligations (C)    | –                                | –          | 3,823                         | 4,166        | 3,823        | 4,166        |
| Fair value of plan assets (D)              | –                                | –          | –3,133                        | –3,009       | –3,133       | –3,009       |
| Net value of funded plans                  | –                                | –          | 690                           | 1,157        | 690          | 1,157        |
| Present value of unfunded obligations (C)  | 406                              | 475        | 258                           | 251          | 664          | 726          |
| Unrecognized actuarial gains (losses), net | 2                                | –14        | –140                          | –312         | –138         | –326         |
| Unrecognized past service cost             | –2                               | 1          | –                             | 2            | –2           | 3            |
| <b>Total</b>                               | <b>406</b>                       | <b>462</b> | <b>808</b>                    | <b>1,098</b> | <b>1,214</b> | <b>1,560</b> |

*C) Movement in pension obligations*

| SEK M                            | Post-employment medical benefits |            | Defined benefit pension plans |              | Total        |              |
|----------------------------------|----------------------------------|------------|-------------------------------|--------------|--------------|--------------|
|                                  | 2006                             | 2005       | 2006                          | 2005         | 2006         | 2005         |
| <b>Opening obligation</b>        | <b>475</b>                       | <b>396</b> | <b>4,417</b>                  | <b>3,564</b> | <b>4,892</b> | <b>3,960</b> |
| Current service cost             | 7                                | 7          | 73                            | 102          | 80           | 109          |
| Interest on obligation           | 23                               | 23         | 204                           | 204          | 227          | 227          |
| Actuarial losses (gains)         | –16                              | 21         | –120                          | 293          | –136         | 314          |
| Curtailements / settlements      | –                                | –          | –68                           | –16          | –68          | –16          |
| Payments                         | –25                              | –51        | –144                          | –139         | –169         | –190         |
| Currency translation differences | –58                              | 79         | –281                          | 409          | –339         | 488          |
| <b>Closing obligation</b>        | <b>406</b>                       | <b>475</b> | <b>4,081</b>                  | <b>4,417</b> | <b>4,487</b> | <b>4,892</b> |

*D) Movement in fair value of plan assets*

| SEK M                                        | Defined benefit pension plans |              |
|----------------------------------------------|-------------------------------|--------------|
|                                              | 2006                          | 2005         |
| <b>Opening fair value of plan assets</b>     | <b>3,009</b>                  | <b>2,243</b> |
| Expected return on plan assets               | 202                           | 183          |
| Actuarial gains (losses)                     | 65                            | 99           |
| Curtailements / settlements                  | –72                           | –24          |
| Payments                                     | 186                           | 162          |
| Currency translation differences             | –257                          | 346          |
| <b>Closing fair value of plan assets (E)</b> | <b>3,133</b>                  | <b>3,009</b> |

*E) Plan asset allocation*

| Plan assets             | 2006         | 2005         |
|-------------------------|--------------|--------------|
| Shares in ASSA ABLOY AB | –            | 90           |
| Other shares            | 2,355        | 2,377        |
| Debt instruments        | 620          | 331          |
| Other assets            | 158          | 211          |
| <b>Total</b>            | <b>3,133</b> | <b>3,009</b> |

| Key actuarial assumptions (yearly, weighted average) | 2006  | 2005  |
|------------------------------------------------------|-------|-------|
| Discount rate                                        | 5.2%  | 4.7%  |
| Expected return on plan assets                       | 7.2%  | 7.3%  |
| Future salary increases                              | 2.1%  | 3.0%  |
| Future pension increases                             | 2.7%  | 2.3%  |
| Future medical benefit increases                     | 12.0% | 15.0% |
| Future inflation                                     | 2.8%  | 2.3%  |

| As at 31 December               | 2006         | 2005         | 2004         |
|---------------------------------|--------------|--------------|--------------|
| Present value of obligation (+) | 4,487        | 4,892        | 3,960        |
| Fair value of plan assets (–)   | –3,133       | –3,009       | –2,243       |
| <b>Obligation, net</b>          | <b>1,354</b> | <b>1,883</b> | <b>1,717</b> |

**Pensions with Alecta**

Commitments for old-age pensions and family pensions for salaried employees in Sweden are guaranteed in part through insurance with Alecta. According to statement URA 42 from the Swedish Financial Accounting Standards Council's Emerging Issues Task Force, this is a defined benefit plan that covers many employers. For the 2006 financial year the company has not had access to information making it possible to report this plan as a defined benefit plan. Pension plans in accordance with ITP that are guaranteed through insurance with Alecta are therefore reported as defined contribution plans. The year's contributions that are contracted to Alecta amount to SEK 11 M (10), of which SEK 4 M (3) relates to the Parent company. Alecta's surplus may be distributed to the policy-holders and/or the persons insured. At the end of 2006 Alecta's surplus expressed as collective consolidation level amounted to 143.1 percent (128.5). Collective consolidation level consists of the market value of Alecta's assets as a percentage of its insurance commitments calculated according to Alecta's actuarial calculation assumptions, which do not comply with IAS 19.

### Note 30 Other provisions

| SEK M                                      | Group                 |            |              |
|--------------------------------------------|-----------------------|------------|--------------|
|                                            | Restructuring reserve | Other      | Total        |
| Opening balance at 1 January               | 586                   | 93         | 679          |
| Utilized during the year                   | -298                  | -5         | -303         |
| Currency translation differences           | 56                    | -          | 56           |
| <b>Closing balance at 31 December 2005</b> | <b>344</b>            | <b>88</b>  | <b>432</b>   |
| Opening balance at 1 January               | 344                   | 88         | 432          |
| Reclassification                           | -                     | 91         | 91           |
| Provisions for the year                    | 1,265                 | 27         | 1,292        |
| Acquisitions of subsidiaries               | -                     | 6          | 6            |
| Utilized during the year                   | -342                  | -22        | -364         |
| Currency translation differences           | -10                   | -4         | -14          |
| <b>Closing balance at 31 December 2006</b> | <b>1,257</b>          | <b>186</b> | <b>1,443</b> |
| <b>Balance-sheet breakdown:</b>            |                       |            |              |
|                                            | Group                 |            |              |
|                                            | 2006                  | 2005       |              |
| Other long-term provisions                 | 751                   | 88         |              |
| Other short-term provisions                | 692                   | 344        |              |
| <b>Total</b>                               | <b>1,443</b>          | <b>432</b> |              |

The restructuring reserve is concerned chiefly with future restructuring measures and is expected to be utilized during the next three years. Other provisions relate to legal obligations including future environment-related requirements.

### Note 31 Other short-term liabilities

| SEK M                                         | Group      |            |
|-----------------------------------------------|------------|------------|
|                                               | 2006       | 2005       |
| VAT and excise duty                           | 204        | 145        |
| Employee withholding tax                      | 69         | 70         |
| Advances received                             | 54         | 60         |
| Social security contributions and other taxes | 30         | 55         |
| Other short-term liabilities                  | 324        | 327        |
| <b>Total</b>                                  | <b>681</b> | <b>657</b> |

### Note 32 Accrued expenses and prepaid income

| SEK M                      | Group        |              | Parent company |           |
|----------------------------|--------------|--------------|----------------|-----------|
|                            | 2006         | 2005         | 2006           | 2005      |
| Personnel-related expenses | 1,072        | 1,023        | 71             | 31        |
| Customer-related expenses  | 349          | 362          | -              | -         |
| Prepaid income             | 95           | 94           | -              | -         |
| Accrued interest expenses  | 67           | 118          | 24             | 36        |
| Other                      | 748          | 816          | 20             | 11        |
| <b>Total</b>               | <b>2,331</b> | <b>2,413</b> | <b>115</b>     | <b>78</b> |

### Note 33 Contingent liabilities

| SEK M                                | Group      |              | Parent company |               |
|--------------------------------------|------------|--------------|----------------|---------------|
|                                      | 2006       | 2005         | 2006           | 2005          |
| Guarantees                           | 77         | 120          | 135            | 125           |
| Guarantees on behalf of subsidiaries | 837        | 924          | 9,776          | 9,963         |
| Other                                | 15         | 6            | -              | -             |
| <b>Total</b>                         | <b>929</b> | <b>1,050</b> | <b>9,911</b>   | <b>10,088</b> |

The group has contingent liabilities in the form of bank guarantees and other guarantees that arose in the normal course of business. No significant liabilities are expected to occur through these contingent liabilities.

### Note 34 Net debt

| SEK M                                                     | Group         |               |
|-----------------------------------------------------------|---------------|---------------|
|                                                           | 2006          | 2005          |
| Long-term interest-bearing receivables                    | -127          | -62           |
| Short-term interest-bearing investments incl. derivatives | -80           | -104          |
| Cash and bank balances                                    | -1,115        | -916          |
| Pension provision                                         | 1,297         | 1,634         |
| Long-term interest-bearing liabilities                    | 7,262         | 3,726         |
| Short-term interest-bearing liabilities incl. derivatives | 6,323         | 7,963         |
| <b>Total</b>                                              | <b>13,560</b> | <b>12,240</b> |

### Note 35 Acquisitions

| 2006 SEK M                                    | Fargo        | Other        | Total        |
|-----------------------------------------------|--------------|--------------|--------------|
| Cash paid, including direct acquisition costs | 2,486        | 1,000        | 3,486        |
| Unpaid parts of purchase prices               | -            | 67           | 67           |
| <b>Total purchase price</b>                   | <b>2,486</b> | <b>1,067</b> | <b>3,553</b> |
| Fair value of acquired net assets             | -939         | -351         | -1,290       |
| <b>Goodwill</b>                               | <b>1,547</b> | <b>716</b>   | <b>2,263</b> |

#### Acquired assets and liabilities in accordance with purchase price allocations

|                                          |            |            |              |
|------------------------------------------|------------|------------|--------------|
| Intangible assets                        | 708        | 120        | 828          |
| Tangible assets                          | 30         | 100        | 130          |
| Inventories                              | 46         | 139        | 185          |
| Receivables                              | 83         | 160        | 243          |
| Cash and cash equivalents                | 313        | 56         | 369          |
| Interest-bearing liabilities             | -          | -39        | -39          |
| Other liabilities                        | -241       | -185       | -426         |
| <b>Acquired net assets at fair value</b> | <b>939</b> | <b>351</b> | <b>1,290</b> |

|                                            |      |      |      |
|--------------------------------------------|------|------|------|
| Fair value adjustments, intangible assets  | -708 | -118 | -826 |
| Fair value adjustments, deferred taxes etc | 288  | 44   | 332  |

|                                          |            |            |            |
|------------------------------------------|------------|------------|------------|
| <b>Acquired net assets at book value</b> | <b>519</b> | <b>277</b> | <b>796</b> |
|------------------------------------------|------------|------------|------------|

|                                                    |       |       |       |
|----------------------------------------------------|-------|-------|-------|
| Purchase prices settled in cash                    | 2,486 | 1,000 | 3,486 |
| Cash and cash equivalents in acquired subsidiaries | -313  | -56   | -369  |

|                                                                              |              |            |              |
|------------------------------------------------------------------------------|--------------|------------|--------------|
| <b>Change in Group cash and cash equivalents resulting from acquisitions</b> | <b>2,173</b> | <b>944</b> | <b>3,117</b> |
|------------------------------------------------------------------------------|--------------|------------|--------------|

|                                      |     |     |     |
|--------------------------------------|-----|-----|-----|
| Net sales from times of acquisition  | 306 | 687 | 993 |
| EBIT from times of acquisition       | 58  | 84  | 142 |
| Net income from times of acquisition | -3  | 35  | 32  |

Acquired entities had total net sales of SEK 1,580 M in 2006. Fargo Electronics was the largest acquisition in 2006, while Adams Rite and Baron are the most important among the other acquisitions.

#### Fargo Electronics

On 3 August 2006 the Group acquired 100 percent of the share capital of Fargo Electronics, a world-leading company in systems for secure issuance of ID cards including card printers, peripheral equipment and software. The acquisition will make possible a unique offering of products and services for secure issuance of identity and authorization cards. Fargo is the only manufacturer to offer three completely different printing technologies – High-Definition Printing™ (reverse image), Direct-to-Card printing (dye-sublimation) and CardJet Printing™ technology (inkjet) – to meet the requirements of customers on different markets. Fargo has a comprehensive patent portfolio that protects these different technologies. Intangible assets in the form of technology, brands and customer relationships

**Note 35**  
**Acquisitions, cont.**

have been reported separately. Remaining goodwill lies mainly in synergies and intangible assets that do not meet the criteria for separate reporting.

**Adams Rite**

On 24 March 2006 the Group acquired 100 percent of the share capital of Adams Rite, a leading American manufacturer of locks and fittings for aluminum doors. The acquisition brings ASSA ABLOY complementary products and new distribution channels. Adams Rite designs and manufactures mechanical and electromechanical security products. The company has a strong brand and product range in aluminum doors, which are sold through distribution channels that complement ASSA ABLOY's existing channels. The company's head office is in Pomona, California, where most of its operations also take place, with a focus on assembly. In the UK the company is the leading distributor of mechanical and electromechanical security products for commercial aluminum doors. The brand has been reported separately, while remaining goodwill lies mainly in synergies and intangible assets that do not meet the criteria for separate reporting.

**Baron**

On 31 March 2006 the Group acquired 100 percent of the share capital of Baron Metal Industries Inc, Canada's leading manufacturer of steel doors and door frames. The acquisition gives ASSA ABLOY a broader range of steel doors and frames. The company has its head office and factory in Woodbridge, Toronto. The brand has been reported separately, while remaining goodwill lies mainly in synergies and intangible assets that do not meet the criteria for separate reporting.

| 2005 SEK M                                                                            | Total      |
|---------------------------------------------------------------------------------------|------------|
| Cash paid, including direct acquisition costs                                         | 393        |
| Unpaid parts of purchase prices                                                       | 29         |
| <b>Total purchase price</b>                                                           | <b>422</b> |
| Fair value of acquired net assets                                                     | -173       |
| <b>Goodwill</b>                                                                       | <b>249</b> |
| <b>Acquired assets and liabilities in accordance with purchase price allocations:</b> |            |
| Intangible assets                                                                     | 75         |
| Tangible assets                                                                       | 51         |
| Inventories                                                                           | 82         |
| Receivables                                                                           | 135        |
| Cash and cash equivalents                                                             | 28         |
| Interest-bearing liabilities                                                          | -18        |
| Other liabilities                                                                     | -132       |
| Minority interests                                                                    | -48        |
| <b>Acquired net assets at fair value</b>                                              | <b>173</b> |
| <b>Acquired net assets at book value</b>                                              | <b>143</b> |
| Purchase price settled in cash                                                        | 393        |
| Cash and cash equivalents in acquired subsidiaries                                    | -28        |
| <b>Change in Group cash and cash equivalents resulting from acquisitions</b>          | <b>365</b> |
| Net sales from times of acquisition                                                   | 449        |
| EBIT from times of acquisition                                                        | 18         |
| Net income from times of acquisition                                                  | 5          |

No individual major acquisitions were made in 2005. The year's largest acquisitions are described below.

**BEST Metaline**

On 31 January 2005 the Group acquired 100 percent of the share capital of BEST Metaline, one of South Korea's leading suppliers of lock and door fittings. The acquisition has given ASSA ABLOY a foothold on the South Korean market. Best Metaline was founded in 1994 and specializes in lock and door fittings and also in automatic doors. The company has a strong position in the customer specification segment serving architects and construction companies. Its goodwill lies mainly in synergies and intangible assets that do not meet the criteria for separate reporting.

**Doorman Services**

On 1 February 2005 the Group acquired 100 percent of the share capital of Doorman Services, one of the United Kingdom's leading door service companies. The acquisition has strengthened ASSA ABLOY's automatic-door business. Doorman Services supplies installations and servicing of manual and automatic doors and security shutters for stores in Britain. The acquisition gives ASSA ABLOY a strong position in the store segment and the opportunity to offer a broad range of services for the entire entrance environment. Goodwill lies mainly in synergies.

**Wangli**

On 1 June 2005 ASSA ABLOY acquired 70 percent of Wangli, a leading supplier of high-security doors and high-security locks in China. The company has built up a comprehensive distribution network in China and holds a leading position in its segment. Wangli's business is located in the Zhejiang region of southern China. Its goodwill lies mainly in synergies and intangible assets that do not meet the criteria for separate reporting.

**Note 36 Average number of employees, with breakdown into women and men***Average number of employees by country and by gender*

| Group          | Women         |               | Men           |               | Total         |               |
|----------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                | 2006          | 2005          | 2006          | 2005          | 2006          | 2005          |
| Sweden         | 584           | 585           | 975           | 923           | 1,559         | 1,508         |
| Finland        | 435           | 423           | 676           | 686           | 1,111         | 1,108         |
| Norway         | 268           | 205           | 405           | 466           | 673           | 672           |
| Denmark        | 126           | 128           | 179           | 144           | 305           | 271           |
| United Kingdom | 664           | 745           | 1,004         | 1,010         | 1,668         | 1,755         |
| Belgium        | 83            | 65            | 137           | 136           | 220           | 201           |
| Netherlands    | 99            | 103           | 513           | 521           | 612           | 624           |
| France         | 913           | 922           | 1,394         | 1,386         | 2,307         | 2,308         |
| Germany        | 484           | 465           | 818           | 802           | 1,302         | 1,268         |
| Switzerland    | 188           | 207           | 261           | 268           | 449           | 475           |
| Italy          | 134           | 158           | 201           | 212           | 335           | 370           |
| Spain          | 239           | 267           | 540           | 577           | 779           | 844           |
| Czech Republic | 558           | 505           | 345           | 372           | 903           | 877           |
| Romania        | 414           | 420           | 539           | 507           | 953           | 927           |
| Israel         | 113           | 105           | 301           | 267           | 414           | 372           |
| South Africa   | 364           | 370           | 383           | 404           | 747           | 774           |
| Canada         | 95            | 77            | 453           | 322           | 548           | 399           |
| USA            | 2,481         | 2,178         | 4,110         | 3,919         | 6,591         | 6,097         |
| Mexico         | 1,808         | 1,791         | 1,077         | 1,150         | 2,885         | 2,941         |
| South America  | 159           | 366           | 533           | 325           | 692           | 691           |
| China          | 1,635         | 1,366         | 2,200         | 1,659         | 3,835         | 3,025         |
| Australia      | 290           | 333           | 724           | 583           | 1,014         | 916           |
| New Zealand    | 158           | 140           | 199           | 300           | 357           | 440           |
| Other          | 461           | 272           | 522           | 443           | 984           | 715           |
| <b>Total</b>   | <b>12,753</b> | <b>12,196</b> | <b>18,489</b> | <b>17,382</b> | <b>31,243</b> | <b>29,578</b> |

| Parent company | Women     |           | Men       |           | Total     |           |
|----------------|-----------|-----------|-----------|-----------|-----------|-----------|
|                | 2006      | 2005      | 2006      | 2005      | 2006      | 2005      |
| Sweden         | 32        | 30        | 51        | 32        | 83        | 62        |
| Other          | 5         | 5         | 8         | 7         | 13        | 12        |
| <b>Total</b>   | <b>37</b> | <b>35</b> | <b>59</b> | <b>39</b> | <b>96</b> | <b>74</b> |

*Gender-split in senior management*

| Group                           | Women    |          | Men       |           | Total     |           |
|---------------------------------|----------|----------|-----------|-----------|-----------|-----------|
|                                 | 2006     | 2005     | 2006      | 2005      | 2006      | 2005      |
| Board of Directors <sup>1</sup> | 1        | 1        | 7         | 7         | 8         | 8         |
| Executive Team                  | –        | –        | 9         | 7         | 9         | 7         |
| <b>Total</b>                    | <b>1</b> | <b>1</b> | <b>16</b> | <b>14</b> | <b>17</b> | <b>15</b> |

<sup>1</sup> Excluding employee representatives.



### Note 37 Cash flow

| SEK M                                                              | Group         |             |
|--------------------------------------------------------------------|---------------|-------------|
|                                                                    | 2006          | 2005        |
| <b>Adjustments for non-cash items</b>                              |               |             |
| Profit on sales of equipment                                       | 7             | -14         |
| Change of pension provision                                        | 2             | -4          |
| Other                                                              | 1             | -8          |
| <b>Adjustments for non-cash items</b>                              | <b>10</b>     | <b>-26</b>  |
| <b>Paid and received interest</b>                                  |               |             |
| Interest paid                                                      | -758          | -475        |
| Interest received                                                  | 50            | 20          |
| <b>Paid and received interest</b>                                  | <b>-708</b>   | <b>-455</b> |
| <b>Change in working capital</b>                                   |               |             |
| Inventory increase/decrease (-/+)                                  | -526          | -108        |
| Accounts receivable increase/decrease (-/+)                        | -487          | -95         |
| Accounts payable increase/decrease (-/+)                           | 223           | 215         |
| Other working capital increase/decrease (-/+)                      | 86            | -122        |
| <b>Change in working capital</b>                                   | <b>-704</b>   | <b>-110</b> |
| <b>Net capital expenditure</b>                                     |               |             |
| Purchases of tangible and intangible assets                        | -894          | -805        |
| Sales of tangible and intangible assets                            | 155           | 138         |
| <b>Net capital expenditure</b>                                     | <b>-739</b>   | <b>-667</b> |
| <b>Investments in subsidiaries</b>                                 |               |             |
| Acquired assets and liabilities according to acquisition analysis: |               |             |
| Intangible assets                                                  | -3,091        | -324        |
| Tangible assets                                                    | -130          | -51         |
| Inventory                                                          | -185          | -82         |
| Accounts receivable                                                | -199          | -79         |
| Other receivables                                                  | -34           | -56         |
| Minority interests                                                 | -14           | 48          |
| Long-term liabilities                                              | 223           | 60          |
| Accounts payable                                                   | 131           | 42          |
| Other short-term liabilities                                       | 85            | 30          |
| Acquired net debt                                                  | -339          | -10         |
| <b>Purchase price</b>                                              | <b>-3,553</b> | <b>-422</b> |
| Less, acquired cash and cash equivalents                           | 369           | 28          |
| Less, unpaid parts of purchase prices                              | 67            | 29          |
| Plus, paid parts of purchase prices relating to previous years     | -5            | -19         |
| <b>Investments in subsidiaries</b>                                 | <b>-3,122</b> | <b>-384</b> |
| <b>Investments in associates</b>                                   |               |             |
| Investments in associates                                          | 1             | 2           |
| <b>Investments in associates</b>                                   | <b>1</b>      | <b>2</b>    |
| <b>Other investments</b>                                           |               |             |
| Investments in / sales of other shares                             | -4            | 10          |
| Investments in / sales of other financial assets                   | -7            | -13         |
| <b>Other investments</b>                                           | <b>-11</b>    | <b>-3</b>   |



## Five years in summary

### 2002

The year saw continuing improvements and growth despite difficult market conditions. ASSA ABLOY's long-term efforts to reduce working capital and achieve cost-efficient investments produced a very strong cash flow. A more precise focus was directed towards Group-wide purchasing, with targets set for reducing the number of suppliers and exploiting Group synergies. Besam, the world leader in automatic doors, was acquired during the year.

### 2003

Business was affected by weak demand in major markets in Europe and North America. Substantial negative exchange-rate effects due mainly to the weak US dollar reduced figures for both sales and earnings. The main acquisitions were in Europe in the Identification sector.

Following the appointment of Bo Dankis as the Group's new President and CEO, a new organization consisting of four divisions (EMEA, Americas, Asia Pacific and Global Technologies) was implemented. The Executive Team was reduced from 17 people to seven. A two-year action program entitled Leverage & Growth was launched towards the end of the year. The aims of the program were to realize Group synergies and strengthen sustainable organic growth.

### 2004

Some recovery in demand on major markets contributed to a notable improvement in organic growth. Acquisitions contributed to business performance in the EMEA and Global Technologies divisions. Negative exchange-rate effects continued to decrease reported sales and earnings. The operating margin rose in response to better sales volumes and savings from the ongoing action program, while higher costs for important metals were neutralized by higher selling prices and changes in the purchasing structure. Operating cash flow was strong as usual.

During the year ASSA ABLOY refined the Group's strategy with the aims of strengthening organic growth in ASSA ABLOY's core business and in certain attractive and fast-growing markets and product segments, and of better exploiting the Group's size to generate significant savings, especially in production and purchasing.

### 2005

Sales were relatively weak at the start of the year but then steadily improved, which resulted in good organic growth for the year as a whole. The Group's performance was founded on good demand on the important US market. A number of relatively small companies were acquired, mainly in the Asia Pacific and Global Technologies divisions.

The Leverage & Growth program was concluded by the end of the year. The program has contributed to increasing the Group's efficiency and productivity. Operating margin and operating cash flow both improved during the year. Johan Molin succeeded Bo Dankis as President and CEO. ASSA ABLOY strengthened its overall position by focusing on customer value both in its traditional business and in segments of rather higher market growth such as electro-mechanical locks, automatic doors, access control systems and identification technology.

### 2006

This was a very good year for ASSA ABLOY, with the highest organic growth in the company's history and a strong improvement in profitability. ASSA ABLOY's strong performance was based on good economic growth in the Group's most important markets in Europe and North America together with success in fast-growing segments such as electromechanical locks, access control, automatic doors and identification technology. The pace of acquisition increased with, for example, the acquisition of Fargo Electronics, a world leader in the fast-growing segment of secure issuance of cards.

A three-year restructuring program intended to realize synergies and increase efficiency in the Group's manufacturing units was launched during the year. The program means that large parts of production will change their function from full production to focus mainly on final assembly. Parts of production will be transferred to low-cost countries, which will mean the closing of a number of production units. Total costs of the restructuring program are SEK 1,474 M, and it is predicted to produce SEK 600 M of annual savings when the full effect is felt in 2009.

Sales volume growth, acquisitions and the restructuring measures carried out have contributed to the strong increase in operating income. During the year the Group has made a number of price increases to compensate for the substantial rise in raw-material costs, which have thus had only a modest negative impact on the operating margin.

# Five years in summary

|                                                              | 2002-2003<br>have not been<br>adjusted for IFRS |                   |                    |                    |                    |
|--------------------------------------------------------------|-------------------------------------------------|-------------------|--------------------|--------------------|--------------------|
| (Amounts in SEK M unless stated otherwise)                   | 2002                                            | 2003              | 2004 <sup>1</sup>  | 2005               | 2006               |
| <b>Sales and income</b>                                      |                                                 |                   |                    |                    |                    |
| Sales                                                        | 25,397                                          | 24,080            | 25,526             | 27,802             | 31,137             |
| Organic growth, %                                            | 2                                               | 0                 | 5                  | 5                  | 9                  |
| Acquired growth, %                                           | 15                                              | 5                 | 5                  | 1                  | 3                  |
| Operating income before depreciation / amortization (EBITDA) | 4,545                                           | 4,249             | 4,606              | 4,960              | 5,669 <sup>3</sup> |
| Depreciation / amortization                                  | 1,907                                           | 1,856             | 923                | 882                | 898                |
| Operating income (EBIT)                                      | 2,638                                           | 1,073             | 3,683              | 4,078              | 4,771 <sup>3</sup> |
| Income before tax (EBT)                                      | 2,015                                           | 583               | 3,199              | 3,556              | 2,626              |
| Net income                                                   | 1,270                                           | 9                 | 2,356              | 2,613              | 1,756              |
| <b>Cash flow</b>                                             |                                                 |                   |                    |                    |                    |
| Cash flow from operating activities                          | 3,847                                           | 3,180             | 3,339              | 3,450              | 3,310              |
| Cash flow from investing activities                          | -4,268                                          | -1,827            | -1,505             | -1,052             | -3,871             |
| Cash flow from financing activities                          | 568                                             | -1,772            | -1,734             | -2,325             | 861                |
| Cash flow                                                    | 146                                             | -419              | 100                | 73                 | 300                |
| Operating cash flow                                          | 3,525                                           | 3,265             | 3,439 <sup>3</sup> | 3,702 <sup>3</sup> | 3,528 <sup>3</sup> |
| <b>Capital employed and financing</b>                        |                                                 |                   |                    |                    |                    |
| Capital employed                                             | 26,701                                          | 22,984            | 23,461             | 26,653             | 27,205             |
| – of which, goodwill                                         | 16,213                                          | 14,766            | 13,917             | 15,716             | 16,683             |
| Net debt                                                     | 13,989                                          | 12,290            | 12,208             | 12,240             | 13,560             |
| Minority interests                                           | 331                                             | 16                | 27                 | 71                 | 60                 |
| Shareholders' equity (excluding minority interests)          | 12,381                                          | 10,678            | 11,226             | 14,342             | 13,585             |
| <b>Data per share, SEK</b>                                   |                                                 |                   |                    |                    |                    |
| Earnings per share after tax and before dilution             | 3.53                                            | 3.30 <sup>2</sup> | 6.42               | 7.13               | 4.77               |
| Earnings per share after tax and dilution (EPS)              | 3.53                                            | 3.31 <sup>2</sup> | 6.33               | 6.97               | 7.99 <sup>3</sup>  |
| Shareholders' equity per share after dilution                | 35.85                                           | 31.23             | 34.74              | 42.85              | 39.13              |
| Dividend per share (for 2006, as proposed by the Board)      | 1.25                                            | 1.25              | 2.60               | 3.25               | 3.25               |
| Price of Series B share at year-end                          | 99.50                                           | 85.50             | 113.50             | 125.00             | 149.00             |
| <b>Key data</b>                                              |                                                 |                   |                    |                    |                    |
| Gross margin (EBITDA), %                                     | 17.9                                            | 17.6              | 18.0               | 17.8               | 18.2 <sup>3</sup>  |
| Operating margin (EBIT), %                                   | 10.4                                            | 9.9 <sup>2</sup>  | 14.4               | 14.7               | 15.3 <sup>3</sup>  |
| Profit margin (EBT), %                                       | 7.9                                             | 7.9 <sup>2</sup>  | 12.5               | 12.8               | 8.4                |
| Return on capital employed, %                                | 9.9                                             | 9.6 <sup>2</sup>  | 15.3               | 15.9               | 12.1               |
| Return on capital employed excl. restructuring items, %      | 9.9                                             | 9.6 <sup>2</sup>  | 15.3               | 15.9               | 17.1               |
| Return on shareholders' equity, %                            | 9.9                                             | 9.9 <sup>2</sup>  | 20.0               | 18.1               | 11.5               |
| Equity ratio, %                                              | 38.2                                            | 35.9              | 37.4               | 42.8               | 38.4               |
| Net debt / equity ratio, times                               | 1.13                                            | 1.15              | 1.09               | 0.85               | 0.99               |
| Interest coverage ratio, times                               | 3.9                                             | 4.7               | 7.6                | 8.2                | 5.1                |
| Interest on convertible debenture loan after tax             | 27.2                                            | 17.8              | 24.0               | 33.1               | 43.6               |
| Number of shares, thousands                                  | 365,918                                         | 365,918           | 365,918            | 365,918            | 365,918            |
| Number of shares after dilution, thousands                   | 370,935                                         | 370,935           | 378,718            | 378,718            | 376,033            |
| Average number of employees                                  | 28,754                                          | 28,708            | 29,160             | 29,578             | 31,243             |

<sup>1</sup> 2004 has been adjusted for IFRS – see information about main effects on pages 85–89 of the 2005 Annual Report.

<sup>2</sup> Excluding non-recurring items.

<sup>3</sup> Excluding restructuring items.

# Quarterly information

| THE GROUP IN SUMMARY<br>(Amounts in SEK M unless stated otherwise)             | Q1<br>2005   | Q2<br>2005   | Q3<br>2005   | Q4<br>2005   | Full<br>year<br>2005 | Q1<br>2006   | Q2<br>2006   | Q3<br>2006   | Q4<br>2006   | Full<br>year<br>2006 |
|--------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|----------------------|--------------|--------------|--------------|--------------|----------------------|
| Sales                                                                          | 6,269        | 6,984        | 7,019        | 7,530        | 27,802               | 7,653        | 7,689        | 7,736        | 8,059        | 31,137               |
| Organic growth                                                                 | 2%           | 6%           | 5%           | 7%           | 5%                   | 12%          | 7%           | 8%           | 9%           | 9%                   |
| <b>Gross income excl. restructuring costs</b>                                  | <b>2,544</b> | <b>2,860</b> | <b>2,851</b> | <b>3,039</b> | <b>11,294</b>        | <b>3,114</b> | <b>3,140</b> | <b>3,118</b> | <b>3,303</b> | <b>12,676</b>        |
| Gross income / Sales                                                           | 40.6%        | 41.0%        | 40.6%        | 40.4%        | 40.6%                | 40.7%        | 40.8%        | 40.3%        | 41.0%        | 40.7%                |
| <b>Operating income before depreciation (EBITDA) excl. restructuring costs</b> | <b>1,102</b> | <b>1,243</b> | <b>1,317</b> | <b>1,298</b> | <b>4,960</b>         | <b>1,332</b> | <b>1,378</b> | <b>1,464</b> | <b>1,494</b> | <b>5,669</b>         |
| Gross margin (EBITDA)                                                          | 17.6%        | 17.8%        | 18.8%        | 17.2%        | 17.8%                | 17.4%        | 17.9%        | 18.9%        | 18.5%        | 18.2%                |
| Depreciation                                                                   | -212         | -221         | -214         | -235         | -882                 | -222         | -227         | -229         | -220         | -898                 |
| <b>Operating income (EBIT) excl. restructuring costs</b>                       | <b>890</b>   | <b>1,022</b> | <b>1,103</b> | <b>1,063</b> | <b>4,078</b>         | <b>1,110</b> | <b>1,151</b> | <b>1,235</b> | <b>1,274</b> | <b>4,771</b>         |
| Operating margin (EBIT)                                                        | 14.2%        | 14.6%        | 15.7%        | 14.1%        | 14.7%                | 14.5%        | 15.0%        | 16.0%        | 15.8%        | 15.3%                |
| Restructuring costs                                                            | -            | -            | -            | -            | -                    | -            | -520         | -437         | -517         | -1,474               |
| <b>Operating income (EBIT)</b>                                                 | <b>890</b>   | <b>1,022</b> | <b>1,103</b> | <b>1,063</b> | <b>4,078</b>         | <b>1,110</b> | <b>631</b>   | <b>798</b>   | <b>757</b>   | <b>3,297</b>         |
| Net financial items                                                            | -126         | -122         | -134         | -140         | -522                 | -145         | -156         | -181         | -188         | -671                 |
| <b>Income before tax (EBT)</b>                                                 | <b>764</b>   | <b>900</b>   | <b>969</b>   | <b>923</b>   | <b>3,556</b>         | <b>965</b>   | <b>475</b>   | <b>617</b>   | <b>569</b>   | <b>2,626</b>         |
| Profit margin (EBT)                                                            | 12.2%        | 12.9%        | 13.8%        | 12.3%        | 12.8%                | 12.6%        | 6.2%         | 8.0%         | 7.1%         | 8.4%                 |
| Tax                                                                            | -205         | -243         | -263         | -232         | -943                 | -261         | -178         | -251         | -181         | -870                 |
| <b>Net income</b>                                                              | <b>559</b>   | <b>657</b>   | <b>706</b>   | <b>691</b>   | <b>2,613</b>         | <b>704</b>   | <b>297</b>   | <b>366</b>   | <b>388</b>   | <b>1,756</b>         |
| <b>Allocation of net income</b>                                                |              |              |              |              |                      |              |              |              |              |                      |
| Shareholders in ASSA ABLOY AB                                                  | 558          | 654          | 705          | 691          | 2,608                | 703          | 294          | 364          | 385          | 1,746                |
| Minority interests                                                             | 1            | 3            | 1            | 0            | 5                    | 1            | 3            | 2            | 3            | 10                   |

|                                                      | Q1<br>2005 | Q2<br>2005 | Q3<br>2005   | Q4<br>2005   | Full<br>year<br>2005 | Q1<br>2006 | Q2<br>2006 | Q3<br>2006 | Q4<br>2006   | Full<br>year<br>2006 |
|------------------------------------------------------|------------|------------|--------------|--------------|----------------------|------------|------------|------------|--------------|----------------------|
| <b>OPERATING CASH FLOW</b>                           |            |            |              |              |                      |            |            |            |              |                      |
| Operating income (EBIT)                              | 890        | 1,022      | 1,103        | 1,063        | 4,078                | 1,110      | 631        | 798        | 757          | 3,297                |
| Restructuring costs                                  | -          | -          | -            | -            | -                    | -          | 520        | 437        | 517          | 1,474                |
| Depreciation                                         | 212        | 221        | 214          | 235          | 882                  | 222        | 227        | 229        | 220          | 898                  |
| Net operating capital expenditure                    | -140       | -161       | -135         | -231         | -667                 | -180       | -180       | -151       | -228         | -739                 |
| Change in working capital                            | -333       | -201       | 102          | 322          | -110                 | -492       | -163       | -241       | 192          | -704                 |
| Paid and received interest                           | -83        | -80        | -87          | -205         | -455                 | -114       | -176       | -131       | -287         | -708                 |
| Non-cash items                                       | 3          | 12         | -7           | -34          | -26                  | 41         | -26        | -22        | 17           | 10                   |
| <b>Operating cash flow<sup>1</sup></b>               | <b>549</b> | <b>813</b> | <b>1,190</b> | <b>1,150</b> | <b>3,702</b>         | <b>587</b> | <b>833</b> | <b>919</b> | <b>1,189</b> | <b>3,528</b>         |
| Operating cash flow / income before tax <sup>2</sup> | 0.72       | 0.90       | 1.23         | 1.25         | 1.04                 | 0.61       | 0.84       | 0.87       | 1.09         | 0.86                 |

|                                  | Q1<br>2005    | Q2<br>2005    | Q3<br>2005    | Q4<br>2005    | Full<br>year<br>2005 | Q1<br>2006    | Q2<br>2006    | Q3<br>2006    | Q4<br>2006    | Full<br>year<br>2006 |
|----------------------------------|---------------|---------------|---------------|---------------|----------------------|---------------|---------------|---------------|---------------|----------------------|
| <b>CHANGE IN NET DEBT</b>        |               |               |               |               |                      |               |               |               |               |                      |
| Net debt at start of period      | 12,208        | 12,499        | 13,860        | 12,769        | 12,208               | 12,240        | 12,506        | 13,127        | 14,785        | 12,240               |
| Effects of IFRS (IAS 39)         | 77            | -             | -             | -             | 77                   | -             | -             | -             | -             | -                    |
| Operating cash flow              | -549          | -813          | -1,190        | -1,150        | -3,702               | -587          | -833          | -919          | -1,189        | -3,528               |
| Restructuring payments           | 56            | 59            | 42            | 141           | 298                  | 161           | 52            | 51            | 78            | 342                  |
| Tax paid                         | 167           | 373           | 122           | 257           | 919                  | 200           | 341           | 187           | 229           | 957                  |
| Acquisitions                     | 111           | 123           | 66            | 113           | 413                  | 682           | 255           | 2187          | 8             | 3,132                |
| Dividend                         | -             | 951           | -             | -             | 951                  | -             | 1,189         | -             | -             | 1,189                |
| Translation differences          | 429           | 668           | -131          | 110           | 1,076                | -190          | -383          | 152           | -351          | -772                 |
| <b>Net debt at end of period</b> | <b>12,499</b> | <b>13,860</b> | <b>12,769</b> | <b>12,240</b> | <b>12,240</b>        | <b>12,506</b> | <b>13,127</b> | <b>14,785</b> | <b>13,560</b> | <b>13,560</b>        |
| Net debt / equity ratio          | 1.03          | 1.07          | 0.95          | 0.85          | 0.85                 | 0.84          | 0.98          | 1.07          | 0.99          | 0.99                 |

| NET DEBT                                                  | Q1<br>2005    | Q2<br>2005    | Q3<br>2005    | Q4<br>2005    | Q1<br>2006    | Q2<br>2006    | Q3<br>2006    | Q4<br>2006    |
|-----------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Long-term interest-bearing receivables                    | -37           | -40           | -36           | -62           | -61           | -65           | -73           | -127          |
| Short-term interest-bearing investments incl. derivatives | -171          | -249          | -147          | -104          | -87           | -179          | -181          | -80           |
| Cash and bank balances                                    | -896          | -881          | -945          | -916          | -958          | -833          | -841          | -1,115        |
| Pension obligations                                       | 1,739         | 1,860         | 1,601         | 1,634         | 1,657         | 1,337         | 1,329         | 1,297         |
| Long-term interest-bearing liabilities                    | 6,138         | 8,068         | 7,908         | 3,726         | 4,541         | 3,830         | 3,901         | 7,262         |
| Short-term interest-bearing liabilities incl. derivatives | 5,726         | 5,102         | 4,388         | 7,963         | 7,414         | 9,037         | 10,650        | 6,323         |
| <b>Total</b>                                              | <b>12,499</b> | <b>13,860</b> | <b>12,769</b> | <b>12,240</b> | <b>12,506</b> | <b>13,127</b> | <b>14,785</b> | <b>13,560</b> |

<sup>1</sup> Excluding restructuring payments.

<sup>2</sup> Income before tax excluding restructuring costs.



|                                                                        | Q1<br>2005          | Q2<br>2005          | Q3<br>2005          | Q4<br>2005          |                               | Q1<br>2006          | Q2<br>2006          | Q3<br>2006          | Q4<br>2006          |                               |
|------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------------------|
| <b>CAPITAL EMPLOYED AND FINANCING</b>                                  |                     |                     |                     |                     |                               |                     |                     |                     |                     |                               |
| Capital employed                                                       | 24,675              | 26,759              | 26,292              | 26,653              |                               | 27,368              | 26,497              | 28,645              | 27,205              |                               |
| – of which, goodwill                                                   | 14,562              | 15,631              | 15,519              | 15,716              |                               | 15,966              | 15,572              | 17,237              | 16,683              |                               |
| Net debt                                                               | 12,499              | 13,860              | 12,769              | 12,240              |                               | 12,506              | 13,127              | 14,785              | 13,560              |                               |
| Minority interests                                                     | 29                  | 79                  | 74                  | 71                  |                               | 70                  | 59                  | 64                  | 60                  |                               |
| Shareholders' equity<br>(excl. minority interests)                     | 12,147              | 12,820              | 13,449              | 14,342              |                               | 14,793              | 13,311              | 13,796              | 13,585              |                               |
| <b>DATA PER SHARE</b>                                                  |                     |                     |                     |                     |                               |                     |                     |                     |                     |                               |
| <b>SEK</b>                                                             | <b>Q1<br/>2005</b>  | <b>Q2<br/>2005</b>  | <b>Q3<br/>2005</b>  | <b>Q4<br/>2005</b>  | <b>Full<br/>year<br/>2005</b> | <b>Q1<br/>2006</b>  | <b>Q2<br/>2006</b>  | <b>Q3<br/>2006</b>  | <b>Q4<br/>2006</b>  | <b>Full<br/>year<br/>2006</b> |
| Earnings per share after tax and before dilution                       | 1.52                | 1.79                | 1.93                | 1.89                | 7.13                          | 1.92                | 0.80                | 1.00                | 1.05                | 4.77                          |
| Earnings per share after tax and dilution                              | 1.49                | 1.75                | 1.89                | 1.84                | 6.97                          | 1.88                | 0.80                | 0.99                | 1.05                | 4.72                          |
| Earnings per share after tax and dilution<br>excl. restructuring costs | 1.49                | 1.75                | 1.89                | 1.84                | 6.97                          | 1.88                | 1.95                | 2.02                | 2.14                | 7.99                          |
| Shareholders' equity per share after dilution                          | 36.90               | 38.84               | 40.44               | 42.85               | 42.85                         | 44.03               | 40.93               | 42.00               | 39.13               | 39.13                         |
| <b>NUMBER OF SHARES</b>                                                |                     |                     |                     |                     |                               |                     |                     |                     |                     |                               |
|                                                                        | <b>Mar<br/>2005</b> | <b>Jun<br/>2005</b> | <b>Sep<br/>2005</b> | <b>Dec<br/>2005</b> | <b>Full<br/>year<br/>2005</b> | <b>Mar<br/>2006</b> | <b>Jun<br/>2006</b> | <b>Sep<br/>2006</b> | <b>Dec<br/>2006</b> | <b>Full<br/>year<br/>2006</b> |
| Number of shares before dilution,<br>thousands <sup>3</sup>            | 365,918             | 365,918             | 365,918             | 365,918             | 365,918                       | 365,918             | 365,918             | 365,918             | 365,918             | 365,918                       |
| Number of shares after dilution,<br>thousands <sup>3</sup>             | 378,718             | 378,718             | 378,718             | 378,718             | 378,718                       | 378,718             | 379,154             | 381,050             | 378,050             | 379,214                       |

<sup>3</sup> Weighted average.

## Definitions of key data terms

### Organic growth:

Change in sales for comparable units after adjustments for acquisitions and exchange-rate effects.

### Gross margin (EBITDA):

Operating income before depreciation and amortization as a percentage of sales.

### Operating margin (EBIT):

Operating income as a percentage of sales.

### Profit margin (EBT):

Income before tax as a percentage of sales.

### Operating cash flow:

See the table on page 80 opposite for the items included in operating cash flow.

### Net capital expenditure:

Investments in fixed assets less disposals of fixed assets.

### Depreciation:

Depreciation/amortization of tangible and intangible fixed assets.

### Net debt:

Interest-bearing liabilities less interest-bearing assets.

### Capital employed:

Total assets less interest-bearing assets and non-interest-bearing liabilities including deferred tax liability.

### Equity ratio:

Shareholders' equity as a percentage of total assets.

### Interest coverage ratio:

Income before tax plus net interest divided by net interest.

### Return on shareholders' equity:

Net income excluding minority interests, plus interest expenses after tax for convertible debenture loans, as a percentage of average shareholders' equity (excluding minority interests) after dilution.

### Return on capital employed:

Income before tax plus net interest as a percentage of average capital employed.

### Earnings per share after tax and before dilution:

Net income excluding minority interests divided by weighted average number of shares before dilution.

### Earnings per share after tax and dilution:

Net income excluding minority interests, plus interest expenses after tax for convertible debenture loans, divided by weighted average number of shares after dilution.

### Shareholders' equity per share after dilution:

Equity excluding minority interests, plus convertible debenture loan, divided by number of shares after dilution.

# Proposed disposition of earnings

The following retained earnings are available for disposition by the shareholders at the Annual General Meeting:

Net income for the year: SEK 894 M  
Retained earnings brought forward: SEK 4,033 M  
TOTAL: SEK 4,927 M

The Board of Directors and the President and CEO propose that a dividend of SEK 3.25 per share, a maximum total of SEK 1,189 M, be distributed to shareholders and that the remainder, SEK 3,738 M, be carried forward to the new financial year.

Wednesday 2 May 2007 has been proposed as the qualification day for dividends.  
If the Annual General Meeting confirms this proposal, the dividend is expected to be distributed by VPC AB on Monday 7 May 2007.

Stockholm, 13 February 2007

*Gustaf Douglas*  
Chairman

*Melker Schörling*  
Vice Chairman

*Carl-Henric Svanberg*  
Vice Chairman

*Johan Molin*  
President and CEO

*Carl Douglas*

*Per-Olof Eriksson*

*Lotta Lundén*

*Sven-Christer Nilsson*

*Seppo Liimatainen*  
Employee representative

*Mats Persson*  
Employee representative

Our audit report was issued on 13 February 2007

PricewaterhouseCoopers AB

*Peter Nyllinge*  
Authorized Public Accountant

**To the Annual General Meeting of the shareholders of ASSA ABLOY AB**  
**Corporate identity number 556059-3575**

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President and CEO of ASSA ABLOY AB for the year 2006. (The company's annual accounts are presented on pages 30–82 of the printed version of this document.) The Board of Directors and the President and CEO are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and CEO and significant estimates made by the Board of Directors and the President and CEO when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President and CEO. We also examined whether any Board member or the President and CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the Parent company and the Group be adopted, that the profit of the Parent company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the President and CEO be discharged from liability for the financial year.

Stockholm February 13, 2007

PricewaterhouseCoopers AB

*Peter Nyllinge*  
Authorized Public Accountant

# The ASSA ABLOY share

## Share price movement in 2006

The closing price of ASSA ABLOY's Series B share at the end of 2006 was SEK 149.00 (125.00), corresponding to a market capitalization of SEK 54,521 M (45,740). The price of the ASSA ABLOY share thus rose by 19 percent compared with its closing price at the end of 2005. During the same period, the all-share index of the Stockholm Stock Exchange (OMXS) rose by 24 percent. The highest closing price for the share was SEK 151.00, recorded on 24 April, and the lowest was SEK 109.00, recorded on 17 July.

## Listing and trading

ASSA ABLOY's Series B share is listed in the Stockholm Stock Exchange's Large Cap list for major companies. The share has been listed on the Stockholm Stock Exchange since 8 November 1994.

During 2006 a total of 816 million shares (648) were traded, which is an average of 3.3 million shares (2.6) per trading day and represents about 229 percent (180) of the listed shares.

## Ownership structure

The number of shareholders at year-end was 26,118 (31,702). Investors outside Sweden accounted for 53 percent (41) of the capital and 36 percent (28) of the votes. The ten largest shareholders accounted for some 32

percent (37) of the share capital and 54 percent (57) of the votes. Shareholders with more than 50,000 shares represented about 2 percent of the total number of shareholders and accounted for 92 percent of the capital and 95 percent of the votes.

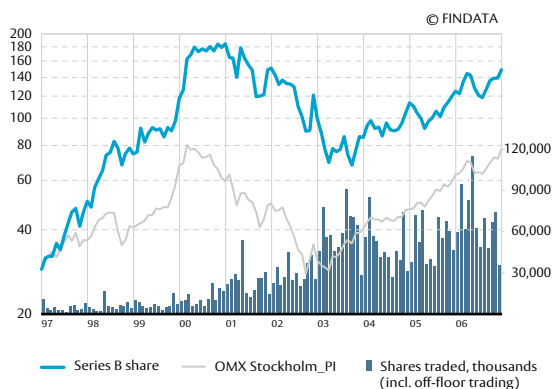
## Share capital and voting rights

The share capital at year-end amounted to SEK 365,918,034, distributed among 19,175,323 Series A shares and 346,742,711 Series B shares. All shares have a par value of SEK 1.00 and provide the holders with equal rights to the Company's assets and earnings. Each Series A share carries 10 votes and each Series B share one vote. The trading lot is 200 shares.

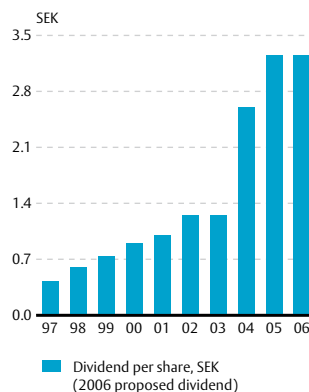
## Dividend and dividend policy

The Board of Directors and President propose that SEK 3.25 per share (3.25) – a maximum total amount of SEK 1,189 M – be paid as a dividend to shareholders for the 2006 financial year, corresponding to a direct return of 2.2 percent (2.6) on the Series B share. The aim is that, in the long term, the dividend should correspond to 33–50 percent of ASSA ABLOY's earnings after standard tax of 28 percent, but always taking into account ASSA ABLOY's long-term financial requirements.

## Share price movement and trading 1997–2006



## Dividend per share 1997–2006



## Data per share

| SEK/share <sup>1</sup>                       | 1997    | 1998    | 1999               | 2000               | 2001              | 2002    | 2003              | 2004    | 2005    | 2006              |
|----------------------------------------------|---------|---------|--------------------|--------------------|-------------------|---------|-------------------|---------|---------|-------------------|
| Earnings after tax and dilution <sup>8</sup> | 1.23    | 1.76    | 2.00 <sup>3</sup>  | 2.73               | 2.98 <sup>2</sup> | 3.53    | 3.31 <sup>2</sup> | 6.33    | 6.97    | 7.99 <sup>9</sup> |
| Dividend                                     | 0.43    | 0.60    | 0.74               | 0.90               | 1.00              | 1.25    | 1.25              | 2.60    | 3.25    | 3.25 <sup>4</sup> |
| Direct yield, % <sup>5</sup>                 | 0.8     | 0.8     | 0.6                | 0.5                | 0.7               | 1.3     | 1.5               | 2.3     | 2.6     | 2.2               |
| Dividend % <sup>6,8</sup>                    | 31.6    | 33.5    | 32.6               | 30.9               | 30.5              | 32.2    | 33.9              | 42.0    | 47.6    | 64.0              |
| Share price at end of period                 | 51.24   | 75.65   | 119.50             | 184.50             | 151.00            | 99.50   | 85.50             | 113.50  | 125.00  | 149.00            |
| Highest share price                          | 52.95   | 92.73   | 140.00             | 206.70             | 186.00            | 159.50  | 110.00            | 113.50  | 126.00  | 151.00            |
| Lowest share price                           | 28.69   | 48.07   | 73.21              | 110.50             | 94.50             | 76.50   | 67.00             | 84.00   | 89.25   | 109.00            |
| Shareholders' equity <sup>8</sup>            | 8.64    | 9.93    | 16.95 <sup>3</sup> | 30.58 <sup>3</sup> | 35.80             | 35.85   | 31.23             | 34.74   | 42.85   | 39.13             |
| Number of shares (thousands) <sup>7</sup>    | 295,448 | 295,448 | 324,200            | 356,712            | 361,730           | 370,935 | 370,935           | 378,718 | 378,718 | 376,033           |

<sup>1</sup> Adjustment made for new issues.

<sup>2</sup> Excluding non-recurring items.

<sup>3</sup> Key data adjusted following change in accounting principle.

<sup>4</sup> Proposed dividend.

<sup>5</sup> Dividend as percentage of share price at end of period.

<sup>6</sup> Dividend as percentage of adjusted earnings in line with dividend policy.

<sup>7</sup> After dilution.

<sup>8</sup> 1997–2003 have not been adjusted for IFRS.

<sup>9</sup> Excluding restructuring costs.

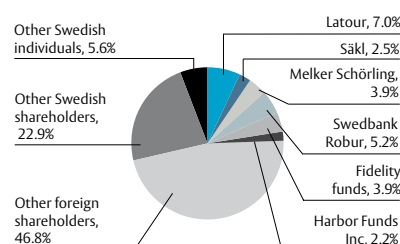
## ASSA ABLOY's 10 largest shareholders

Based on the share register at 31 December 2006.

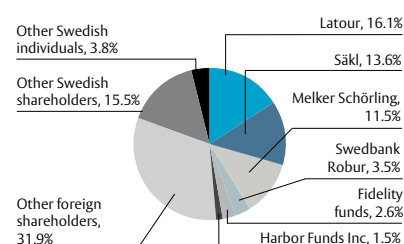
| Owner                | A shares          | B shares           | Capital, %    | Voting rights, % |
|----------------------|-------------------|--------------------|---------------|------------------|
| Investment AB Latour | 6,746,425         | 19,000,000         | 7.0%          | 16.1%            |
| Säkl                 | 7,118,818         | 2,000,000          | 2.5%          | 13.6%            |
| Melker Schörling AB  | 5,310,080         | 9,062,136          | 3.9%          | 11.5%            |
| Swedbank Robur       |                   | 18,982,858         | 5.2%          | 3.5%             |
| Fidelity funds       |                   | 14,253,042         | 3.9%          | 2.6%             |
| Harbor Funds Inc     |                   | 7,904,700          | 2.2%          | 1.5%             |
| SHB/SPP funds        |                   | 7,457,231          | 2.0%          | 1.4%             |
| Wärtsilä Corporation |                   | 7,270,350          | 2.0%          | 1.4%             |
| SEB funds            |                   | 6,943,074          | 1.9%          | 1.3%             |
| Alecta               |                   | 5,836,195          | 1.6%          | 1.1%             |
| Other owners         |                   | 248,033,125        | 67.8%         | 46.1%            |
| <b>Total numbers</b> | <b>19,175,323</b> | <b>346,742,711</b> | <b>100.0%</b> | <b>100.0%</b>    |

Source: SIS Ägarservice AB and VPC AB.

### Ownership structure (by share capital)



### Ownership structure (by votes)



## Share capital

ASSA ABLOY's share capital at 31 December 2006 amounted to SEK 365,918,034, distributed among 19,175,323 Series A shares and 346,742,711 Series B shares. All shares have a par value of SEK 1.00 and provide the holders with equal rights to the company's assets and earnings. Each Series A share carries 10 votes and each Series B share one vote.

| Year | Transaction                                     | A shares   | C shares  | B shares    | Share capital, SEK <sup>1</sup> |
|------|-------------------------------------------------|------------|-----------|-------------|---------------------------------|
| 1989 |                                                 |            | 20,000    |             | 2,000,000                       |
| 1994 | 100:1 split                                     |            |           | 2,000,000   | 2,000,000                       |
| 1994 | Bonus issue                                     |            |           |             |                                 |
| 1994 | Non-cash issue                                  | 1,746,005  | 1,428,550 | 50,417,555  | 53,592,110                      |
| 1996 | New share issue                                 | 2,095,206  | 1,714,260 | 60,501,066  | 64,310,532                      |
| 1996 | Conversion of C shares into A shares            | 3,809,466  |           | 60,501,066  | 64,310,532                      |
| 1997 | New share issue                                 | 4,190,412  |           | 66,541,706  | 70,732,118                      |
| 1998 | Converted debentures                            | 4,190,412  |           | 66,885,571  | 71,075,983                      |
| 1999 | Converted debentures before split               | 4,190,412  |           | 67,179,562  | 71,369,974                      |
| 1999 | Bonus issue                                     |            |           |             |                                 |
| 1999 | 4:1 split                                       | 16,761,648 |           | 268,718,248 | 285,479,896                     |
| 1999 | New share issue                                 | 18,437,812 |           | 295,564,487 | 314,002,299                     |
| 1999 | Converted debentures after split and new issues | 18,437,812 |           | 295,970,830 | 314,408,642                     |
| 2000 | Converted debentures                            | 18,437,812 |           | 301,598,383 | 320,036,195                     |
| 2000 | New share issue                                 | 19,175,323 |           | 313,512,880 | 332,688,203                     |
| 2000 | Non-cash issue                                  | 19,175,323 |           | 333,277,912 | 352,453,235                     |
| 2001 | Converted debentures                            | 19,175,323 |           | 334,576,089 | 353,751,412                     |
| 2002 | New share issue                                 | 19,175,323 |           | 344,576,089 | 363,751,412                     |
| 2002 | Converted debentures                            | 19,175,323 |           | 346,742,711 | 365,918,034                     |
|      | Number of shares after dilution                 | 19,175,323 |           | 356,857,216 | 376,032,539                     |

<sup>1</sup> 1 SEK per share – number of shares at end of period.

Source: VPC AB.

### Convertible debentures for personnel

The ASSA ABLOY Group has issued several convertible debentures to employees in the Group. The first debenture was issued in 1995 and about 400 employees participated in the issue. The debenture amounted to about SEK 75 M and expired in 2000. The second debenture was issued in 1997. A total of 1,400 employees participated in this issue. This debenture amounted to SEK 250 M and expired in 2002.

In 2001 a convertible debenture amounting to EUR 100 M was issued. The program expired in November 2006 and no conversion took place.

In 2004 it was decided to launch an incentive program, Incentive 2004. The program amounts to a total of EUR 100 M and is based on four series of convertible bonds, each series having a par value of EUR 25 M. The only difference between the series of bonds is the conversion price. On full conversion, at a conversion price for Series 1 of EUR 10.20, Series 2 of EUR 12.20, Series 3 of EUR 14.30 and Series 4 of EUR 16.30, an additional 7,782,155 shares would be created. Any conversion of Incentive 2004 will take place in a 90-day period between March and June 2009.

In 2006 it was decided to launch an incentive program for senior managers, Incentive 2006. The program amounts to a total of EUR 38.4 M and is based on four series of convertible bonds, each series having a par value of EUR 9.6 M. Any conversion of Incentive 2006 will take place in a 180-day period between December 2010 and June 2011. On full conversion, at a conversion price for Series 1 of EUR 14.60, Series 2 of EUR 15.90, Series 3 of EUR 17.30 and Series 4 of EUR 18.60, an additional 2,332,350 shares would be created.

Full conversion of both Incentive 2004 and Incentive 2006 would create an additional 10,114,505 shares and produce dilution effects amounting to 2.7 percent of the share capital and 1.8 percent of the total number of votes.

Over 2,000 employees in about 15 countries are participating in the current incentive programs.

### Financial analysts who follow ASSA ABLOY

| Company                        | Name             | Telephone number  | E-mail                             |
|--------------------------------|------------------|-------------------|------------------------------------|
| ABG Sundal Collier             | Anders Jegers    | +44 20 7905 5631  | anders.jegers@abgsc.com            |
| Bear Stearns International     | Daniel Cunliffe  | +44 20 7516 6628  | dcunliffe@bear.com                 |
| Carnegie                       | Anders Idborg    | +46 8 676 86 88   | andidb@carnegie.se                 |
| Cheuvreux                      | Lars Norrby      | +46 8 723 51 76   | lnorrby@cheuvreux.com              |
| Credit Suisse                  | Patrick Marshall | +44 20 7888 0289  | patrick.marshall@credit-suisse.com |
| Danske Bank                    | Henrik Breum     | +45 33 44 09 04   | hbre@danskebank.com                |
| Deutsche Bank                  | Johan Wettergren | +46 8 463 55 18   | johan.wettergren@db.com            |
| Dresdner Kleinwort Wasserstein | Colin Grant      | +44 20 7475 9161  | colin.grant@dkib.com               |
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| HSBC                           | Colin Gibson     | +44 20 7991 6592  | colin.gibson@hsbcib.com            |
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| Lehman Brothers                | Brian Hall       | +44 20 7102 4726  | brhall@lehman.com                  |
| Merrill Lynch                  | Ben Maslen       | +44 20 7996 4783  | ben_maslen@ml.com                  |
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| Société Générale               | Gaël de Bray     | +33 1 42 13 84 14 | gael.de-bray@sgcib.com             |
| S&P Equity Research            | Lars Glemstedt   | +46 8 545 069 68  | lars_glemstedt@sandp.com           |
| Swedbank Markets               | Niclas Höglund   | +46 8 5859 1800   | niclas.hoglund@swedbank.se         |
| UBS                            | Olof Cederlund   | +46 8 453 73 06   | olof.cederholm@ubs.com             |



# Information for shareholders

## Annual General Meeting

The Annual General Meeting of ASSA ABLOY will be held at the Modern Museum (Moderna Museet), Skeppsholmen, Stockholm at 15.00 on Thursday 26 April 2007. Shareholders wishing to attend the Annual General Meeting should:

- be registered in the share register kept by VPC AB no later than Friday 20 April 2007
- notify ASSA ABLOY AB of their intention to attend by 16.00 on Friday 20 April 2007.

### *Registration in the share register*

To have the right to attend the Annual General Meeting, shareholders whose shares are nominee-registered through a bank or other nominee must request, by Friday 20 April 2007 at the latest, that their holdings be temporarily registered under their own names in the share register kept by VPC AB. Shareholders must notify the nominee well in advance about this.

### *Notification of intention to attend*

Shareholders must notify ASSA ABLOY of their intention to attend the Annual General Meeting no later than 16.00 on 20 April 2007 via:

- Website [www.assaabloy.com](http://www.assaabloy.com)
- E-post E-mail [bolagsstamma@assaabloy.com](mailto:bolagsstamma@assaabloy.com)
- Post ASSA ABLOY AB, "Årsstämma",  
Box 70340  
SE-107 23 Stockholm, Sweden
- Telephone +46 8 506 485 00
- Fax +46 8 506 485 85

The notification should state:

- Name
- Personal identity number or Corporate identity number
- Address and daytime telephone number
- Number of shares held
- Any accompanying adviser

A shareholder who is to be represented by a proxy should send in a form of appointment for the proxy. Where a corporate body appoints a proxy, the form of appointment should be accompanied by a proof of registration for the corporate body (or, if this is not available, by a document carrying simi-

lar authority). Documents must not be more than one year old. To ensure admission to the Annual General Meeting, forms of proxy and proofs of registration should reach the company at the above address by 20 April 2007 at the latest.

## Nomination Committee

The duties of the Nomination Committee are to consider the choice of the Chairman and other members of the Board of Directors, the choice of Auditor, the choice of the Chairman of the Annual General Meeting, questions of remuneration and associated matters. The members of the Nomination Committee prior to the 2007 Annual General Meeting are Melker Schörling (Melker Schörling AB), Chairman, Gustaf Douglas (Investment AB Latour and Säkl), Staffan Grefbäck (Alecta) and Marianne Nilsson (Swedbank Robur).

## Dividend

Wednesday 2 May 2007 has been set as the qualification day for dividends. If the Annual General Meeting decides to follow the recommendation of the Board of Directors, dividends are expected to be distributed through VPC AB on Monday 7 May 2007.

### Reports can be ordered from:

- Website [www.assaabloy.com](http://www.assaabloy.com)
- Telephone +46 8 506 485 00
- Fax +46 8 506 485 85
- Post ASSA ABLOY AB  
Box 70340  
SE-107 23 Stockholm, Sweden

## Future financial reports

First quarter: 25 April 2007

Second quarter: 9 August 2007

Third quarter: 8 November 2007

Fourth quarter and Year-end Report: February 2008

2006 Annual Report: March 2008

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