

Annual Report 2018

ASSA ABLOY

Experience a safer
and more open world



Our purpose is to every day
help people feel safe, secure and
experience a more open world

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P2

Innovation and product development drive growth

ASSA ABLOY showed strong growth driven by new innovative products.



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Value creation strategy

The Group's overall strategic direction is to lead the trend toward increased security with a product-driven offering centered around the customer.



Developments in the divisions 2018

Most divisions showed continued good organic growth with a strong development for electromechanical solutions.



P40

Sustainable development

ASSA ABLOY's sustainability initiatives continued to make good progress in 2018, with advances in line with the five-year sustainability plan.

P42

Report of the Board of Directors, corporate governance and financial statements

ASSA ABLOY in brief



#1 SEK 84 billion 48,500 employees

Who are we?

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

What do we do?

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

For whom?

The ASSA ABLOY Group provides access solutions, trusted identities, entrance automation and service for institutional and commercial customers, as well as for the residential market. The Group has the largest installed base of products in the world, with a large share of sales in the stable aftermarket.

Where are we?

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

Share of Group sales by region 2018

North America	42% (40)
South America	3% (3)
Europe	38% (38)
Asia	13% (14)
Oceania	3% (4)
Africa	1% (1)

Our divisions

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

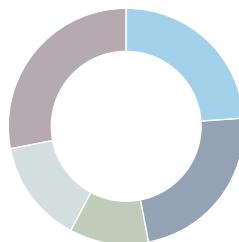
The global divisions manufacture and sell electronic access control, identification products and entrance automation on the global market.

Our brands

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

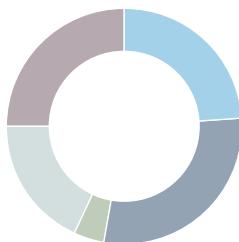
ASSA ABLOY

SALES BY DIVISION



- EMEA, 24% (23)
- Americas, 23% (23)
- Asia Pacific, 11% (11)
- Global Technologies, 14% (14)
- Entrance Systems, 28% (29)

OPERATING INCOME BY DIVISION



- EMEA, 24% (24)
- Americas, 29% (30)
- Asia Pacific, 4% (7)
- Global Technologies, 18% (15)
- Entrance Systems, 25% (24)



Financials in brief 2018

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

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

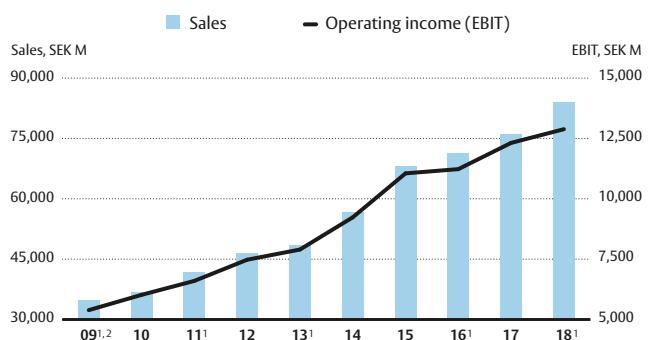
Data per share	2017	2018	Change
Earnings per share after tax and dilution (EPS), SEK/share ¹	7.77	8.09	4%
Equity per share diluted, SEK/share	45.60	46.71	2%
Dividend, SEK/share	3.30	3.50 ³	6%
Weighted average number of shares, diluted, thousands	1,110,776	1,110,776	

¹ Excluding impairment of goodwill and other intangible assets of SEK 5,595 M and restructuring costs of SEK 1,218 M in 2018.

² Excluding restructuring payments.

³ As proposed by the Board of Directors.

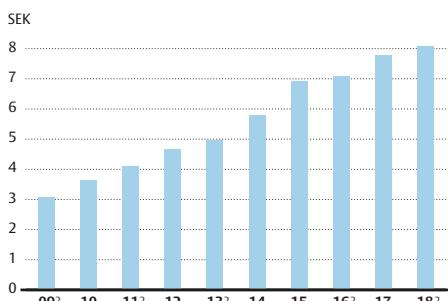
SALES AND OPERATING INCOME (EBIT)



¹ Excluding items affecting comparability.

² Reclassification has been made.

EARNINGS PER SHARE¹

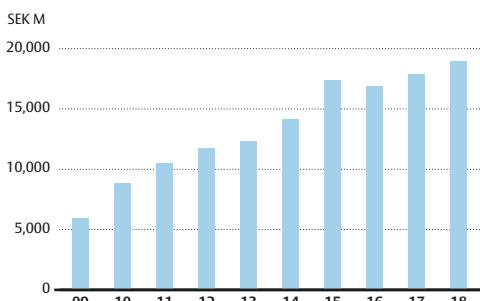


¹ Earnings per share has been restated due to the 3:1 share split in 2015.

² Excluding items affecting comparability.



SALES IN EMERGING MARKETS



Global leader in access solutions

2018 was once again a good year for ASSA ABLOY. We strengthened our position as the market leader with strong growth for electromechanical products, new smart and sustainable access solutions and acquisition of 19 companies. We continued our operational efficiency initiatives and accelerated our innovation efforts during the year. Sales increased to SEK 84,048 M, with organic growth of 5 percent driven by strong growth in Americas and Global Technologies. Operating income increased to SEK 13,309 M¹, the operating margin was 15.8 percent¹ and cash flow from operation reached SEK 11,357 M.

Financial overview

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

There are significant growth opportunities in our industry, which is why, during the year, we reaffirmed that our target to grow over a business cycle by 5 percent organically and by 5 percent through acquisitions remains unchanged.

The technology shift from mechanical to electromechanical and smart locks drives strong demand both

in advanced mature markets as well as in many emerging markets. Digital door opening solutions have become mainstream in the commercial segment, but the mechanical locks business remains an important part of our overall business and a significant cash generator in which the Group continues to invest. We completed 19 acquisitions during the year, mainly strengthening and expanding our core, but the acquisition of Crossmatch also reinforced our position in biometrics and extended HID Global's market leadership in the trusted identity solutions.

Our operating income for 2018 increased by 8 percent to SEK 13,309 M¹, and the operating margin was 15.8 percent¹. Operating cash flow was SEK 11,357 M, supported by constant focus on operational efficiency. Good profitability requires good cost control. Our restructuring

¹ Excluding impairment of goodwill, other intangible assets and write-down of operating assets in China of SEK 5,995 M and restructuring costs of SEK 1,218 M.



program continued to deliver according to plan, as did the Group-wide programs for more efficient processes at every stage in the value chain from innovation, purchasing, across production and administration to sales and service. But price increases and operational efficiency measures only partly compensated for the strong material price increases in general and steel price increases in particular. They had a dilutive effect on our margins, mainly in the first part of the year. The target of an operating margin of 16–17 per cent on average over a business cycle remains unchanged.

The situation in China remained challenging and resulted in a required write-down of SEK 5,595 M for impairment of goodwill and other intangible assets. We are committed to China and are now implementing a new comprehensive strategy around three consolidated brands and a new key account organization. During 2018 we also put a new leadership in place and I look forward to working closely with them in 2019.

Global leader in access solutions

Our purpose is to help people feel safe, secure and experience a more open world. Door openings, trusted identities and entrance automation are important in a world with increasing needs for safe, secure and convenient movement of people and things. Our divisions address these areas with a specialized and focused approach, as well as combining them into joint systems and solutions. By combining them, we create access solutions addressing specific end user needs across a large breadth of applications and business verticals.

Market growth through customer relevance, product leadership, cost-efficiency and evolution through people form the cornerstones of our strategy to maintain our leadership in access solutions. During 2018 we continued to reinforce our customer focus by allocating more resources to marketing and sales, and by improving our service to customers. About 75 percent of our sales is related to the commercial and institutional customer segment, while the residential segment represents 25 percent of our sales. We have identified services, including field services and Software as a Service, and the shift from mechanical to electromechanical and smart solutions as key drivers for accelerating our profitable growth.

We will also look for more opportunities to grow our core business in adjacent areas. During the year we changed the name of ASSA ABLOY Hospitality to ASSA ABLOY Global Solutions. This reflects ASSA ABLOY Global Solutions' broadened scope of its business, focusing on more specific verticals and its role as service provider, which is reflected in strong services growth.

Security, including locks, is considered by end-users to be one of the more important parts of smart home ecosystems. We have a strong position in the residential smart lock market and our trusted brands enable us to be a significant contributor to the strong development in this segment. To maintain our leadership in this field, we established a global organization to gain speed and realize synergies between our divisions.

There are several growth trends that create strong underlying demand. Besides urbanization, digitization and sustainability, the need for safe, secure and convenient solutions, drives demand for the Group's customer offerings. Sustainable access solutions add customer value as they enable customers to improve cost-efficiency, reduce energy consumption and lower the environmental impact of their operations significantly. The number of new sustainable building projects continues to increase, driving higher end solutions. ASSA ABLOY is leading in offering efficient, sustainable solutions enabling us to win high profile and important projects.

Innovation as an enabler

In 2018 ASSA ABLOY was for the fourth time ranked on Forbes' list of the world's 100 most innovative companies. Product innovation is an enabler, driving our organic growth and supporting our margin ambition. In 2018 we invested SEK 2,893 M in R&D and we have some 2,400 R&D engineers. The main driver for innovation and product development is the ongoing rapid technological evolution. We constantly update our existing product and solutions offering and complement this with breakthrough innovations. Every new product and solution must add additional customer benefits at a reduced overall cost.

In 2018 sales of new products launched during the last three years accounted for 27 percent of total sales, or above the target of 25 percent. In the EMEA division, we launched a new mechanical door closer range with

“Market growth through customer relevance, product leadership, cost-efficiency and evolution through people form the cornerstones of our strategy.”

ASSA ABLOY's Executive Team.

Standing from the left:
Erik Pieder, Chief Financial Officer, Christophe Sut, Head of the ASSA ABLOY Global solutions business unit, Maria Romberg Ewerth, Chief Human Resource Officer, Lucas Boselli, Head of Americas division, Mogens Jensen, Head of Entrance Systems division, Anders Maltesen, Head of Asia Pacific division and Chris Bone, Chief Technology Officer.

Sitting from the left:
Neil Vann, Head of EMEA division, Stefan Widing, Head of the HID Global business unit and Nico Delvaux, President and CEO.



**“During the year we launched our core values:
Empowerment, Innovation and Integrity.”**

a distinctive and contemporary design that won the 2018 German Design Council Iconic Awards. EMEA also launched Pulse, an innovative energy harvesting key solution making batteries for smart locks obsolete. In the Americas division, Yale strengthened its position and developed for, and in collaboration with, Nest, a smart lock that brings a new level of security and convenience to the market. During the year we also linked the Yale smart locks to the August cloud-based software, which means that we can now use the advanced August Software for smart residential Yale applications on a global level. In Global Technologies, HID Global demonstrated its product leadership in combating ticket fraud by providing four million smart tickets for the FIFA World Cup.

Our innovation capacity is reflected not only in our products and solutions but also in our processes. Our ambition is to increase efficiency in all parts of the value chain by digitization. We constantly update our software solutions and processes and for example our e-procurement ratio is increasing steadily. Our operations are becoming more seamless and our sales via digital channels are also increasing significantly.

People make the difference

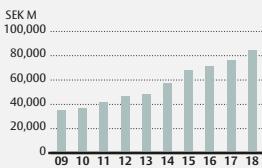
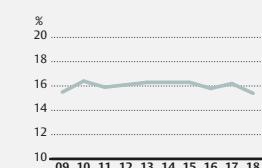
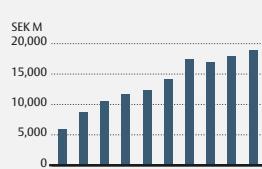
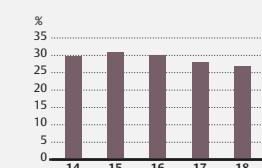
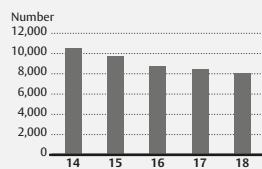
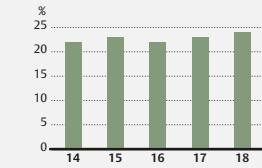
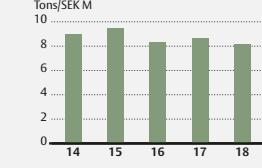
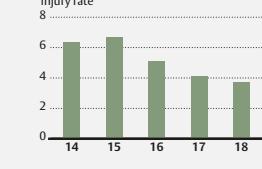
Finally, a few important words on values, purpose and beliefs. During the year we launched our core values: Empowerment, Innovation and Integrity. The Group mission is to build sustainable shareholder value, but also to be an attractive company to our employees and to conduct business in an ethical, compliant and sustainable way. For me, the employees and the competence they possess are our most important asset. It is our employees who bring everything together and I would like to take this opportunity to thank all our employees for the effort they have invested in ASSA ABLOY in 2018, for making the difference, and for making my first year such a remarkable one.

Thank you!

Stockholm, 4 February 2019

Nico Delvaux
President and CEO

Goals and outcomes

	Goal	Outcome																							
Growth and profitability	10% annual growth through a combination of organic and acquired growth	 <table border="1"> <caption>Group sales in SEK M (2009-2018)</caption> <thead> <tr> <th>Year</th> <th>Sales (SEK M)</th> </tr> </thead> <tbody> <tr><td>09</td><td>~25,000</td></tr> <tr><td>10</td><td>~30,000</td></tr> <tr><td>11</td><td>~35,000</td></tr> <tr><td>12</td><td>~40,000</td></tr> <tr><td>13</td><td>~45,000</td></tr> <tr><td>14</td><td>~50,000</td></tr> <tr><td>15</td><td>~55,000</td></tr> <tr><td>16</td><td>~60,000</td></tr> <tr><td>17</td><td>~65,000</td></tr> <tr><td>18</td><td>~70,000</td></tr> </tbody> </table>	Year	Sales (SEK M)	09	~25,000	10	~30,000	11	~35,000	12	~40,000	13	~45,000	14	~50,000	15	~55,000	16	~60,000	17	~65,000	18	~70,000	Average annual growth over the past ten years has been over 9 percent. The Group's growth in 2018 was 10 percent, including 5 percent organic growth and 2 percent from acquisitions.
Year	Sales (SEK M)																								
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16–17% operating margin	 <table border="1"> <caption>Average operating margin (%) (2009-2018)</caption> <thead> <tr> <th>Year</th> <th>Margins (%)</th> </tr> </thead> <tbody> <tr><td>09</td><td>~15.5</td></tr> <tr><td>10</td><td>~16.5</td></tr> <tr><td>11</td><td>~16.0</td></tr> <tr><td>12</td><td>~15.5</td></tr> <tr><td>13</td><td>~16.0</td></tr> <tr><td>14</td><td>~16.5</td></tr> <tr><td>15</td><td>~16.0</td></tr> <tr><td>16</td><td>~15.5</td></tr> <tr><td>17</td><td>~15.0</td></tr> <tr><td>18</td><td>~16.0</td></tr> </tbody> </table>	Year	Margins (%)	09	~15.5	10	~16.5	11	~16.0	12	~15.5	13	~16.0	14	~16.5	15	~16.0	16	~15.5	17	~15.0	18	~16.0	Average operating margin over the past ten years was about 16 percent, excluding items affecting comparability.	
Year	Margins (%)																								
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Growth through customer relevance	Group sales in 2018: North America 42%, South America 3%, Europe 38% Asia Pacific 16%, Africa 1%	 <table border="1"> <caption>Group sales by region in 2018 (SEK M)</caption> <thead> <tr> <th>Region</th> <th>Sales (SEK M)</th> </tr> </thead> <tbody> <tr><td>North America</td><td>~8,500</td></tr> <tr><td>Europe</td><td>~7,000</td></tr> <tr><td>Asia Pacific</td><td>~3,000</td></tr> <tr><td>Africa</td><td>~1,000</td></tr> <tr><td>South America</td><td>~1,000</td></tr> </tbody> </table>	Region	Sales (SEK M)	North America	~8,500	Europe	~7,000	Asia Pacific	~3,000	Africa	~1,000	South America	~1,000	The Group is active in over 70 countries, both in mature and emerging markets. This enables ASSA ABLOY to stay close to its customers and customize its solutions and grow sales.										
Region	Sales (SEK M)																								
North America	~8,500																								
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South America	~1,000																								
Product leadership	25% of sales from new products	 <table border="1"> <caption>Percentage of sales from new products (%) (2014-2018)</caption> <thead> <tr> <th>Year</th> <th>Share (%)</th> </tr> </thead> <tbody> <tr><td>14</td><td>~28</td></tr> <tr><td>15</td><td>~28</td></tr> <tr><td>16</td><td>~26</td></tr> <tr><td>17</td><td>~26</td></tr> <tr><td>18</td><td>~27</td></tr> </tbody> </table>	Year	Share (%)	14	~28	15	~28	16	~26	17	~26	18	~27	The goal of having at least 25 percent of total sales from products less than three years old has been exceeded in recent years. In 2018 the share was 27 percent.										
Year	Share (%)																								
14	~28																								
15	~28																								
16	~26																								
17	~26																								
18	~27																								
Cost-efficiency	-27% reduction in number of suppliers	 <table border="1"> <caption>Number of suppliers (2014-2018)</caption> <thead> <tr> <th>Year</th> <th>Suppliers</th> </tr> </thead> <tbody> <tr><td>14</td><td>~10,000</td></tr> <tr><td>15</td><td>~9,000</td></tr> <tr><td>16</td><td>~8,000</td></tr> <tr><td>17</td><td>~7,500</td></tr> <tr><td>18</td><td>~7,000</td></tr> </tbody> </table>	Year	Suppliers	14	~10,000	15	~9,000	16	~8,000	17	~7,500	18	~7,000	Reducing the number of suppliers is important for reducing costs and improving quality. Active efforts have reduced the total number of suppliers by 27 percent over the past five years.										
Year	Suppliers																								
14	~10,000																								
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People	30% women in management positions	 <table border="1"> <caption>Percentage of women in management positions (%) (2014-2018)</caption> <thead> <tr> <th>Year</th> <th>Share (%)</th> </tr> </thead> <tbody> <tr><td>14</td><td>~20</td></tr> <tr><td>15</td><td>~21</td></tr> <tr><td>16</td><td>~20</td></tr> <tr><td>17</td><td>~21</td></tr> <tr><td>18</td><td>~24</td></tr> </tbody> </table>	Year	Share (%)	14	~20	15	~21	16	~20	17	~21	18	~24	The target is to have 30 percent of management positions held by women by 2020. In 2018 the share was 24 percent.										
Year	Share (%)																								
14	~20																								
15	~21																								
16	~20																								
17	~21																								
18	~24																								
Environment	-20% greenhouse gas emissions	 <table border="1"> <caption>Greenhouse gas emissions (Tons/SEK M) (2014-2018)</caption> <thead> <tr> <th>Year</th> <th>Emissions (Tons/SEK M)</th> </tr> </thead> <tbody> <tr><td>14</td><td>~8.5</td></tr> <tr><td>15</td><td>~8.0</td></tr> <tr><td>16</td><td>~7.5</td></tr> <tr><td>17</td><td>~7.5</td></tr> <tr><td>18</td><td>~7.5</td></tr> </tbody> </table>	Year	Emissions (Tons/SEK M)	14	~8.5	15	~8.0	16	~7.5	17	~7.5	18	~7.5	The target is to reduce the intensity of greenhouse gas emissions related to the Group's energy consumption by 20 percent from 2015 to 2020. In 2018 the reduction was 6 percent and the reduction since 2015 is 14 percent.										
Year	Emissions (Tons/SEK M)																								
14	~8.5																								
15	~8.0																								
16	~7.5																								
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Social KPI	-55% injury rate	 <table border="1"> <caption>Injury rate (2014-2018)</caption> <thead> <tr> <th>Year</th> <th>Injury rate</th> </tr> </thead> <tbody> <tr><td>14</td><td>~6.5</td></tr> <tr><td>15</td><td>~6.0</td></tr> <tr><td>16</td><td>~4.5</td></tr> <tr><td>17</td><td>~3.8</td></tr> <tr><td>18</td><td>~3.7</td></tr> </tbody> </table>	Year	Injury rate	14	~6.5	15	~6.0	16	~4.5	17	~3.8	18	~3.7	The target is to reduce the injury rate by 55 percent from 2015 to 2020. In 2018 the injury rate decreased by 11 percent and totaled 3.7 injuries per million hours worked. Since 2015 the injury rate has declined by 45 percent.										
Year	Injury rate																								
14	~6.5																								
15	~6.0																								
16	~4.5																								
17	~3.8																								
18	~3.7																								



ASSA ABLOY's brands

ASSA ABLOY

king
ASSA ABLOY

LOCKWOOD
ASSA ABLOY

SARGENT
ASSA ABLOY

Vachette
ASSA ABLOY

ASSA ABLOY has considerable value in its well-known brands. ASSA ABLOY is the Group's master brand and is increasingly becoming the leading product brand for commercial door solutions. Approximately 70 percent of Group sales are under the ASSA ABLOY brand or a

combination of ASSA ABLOY and local brands. The local brands are well established in the local markets and play an important role in creating trust, loyalty, value and differentiation.



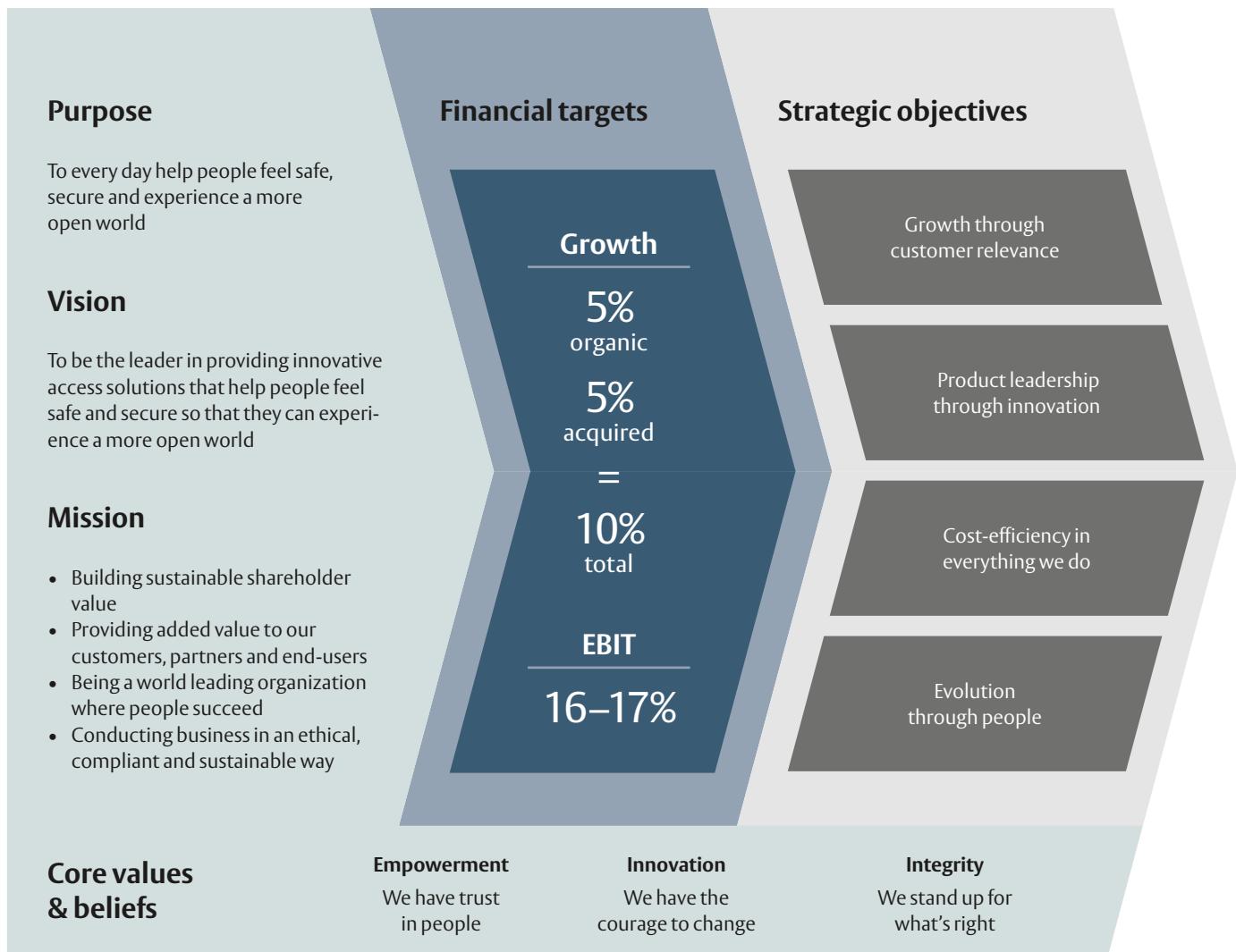
ENTRE/MATIC

The master brand is complemented by global brands, which are all leaders in their respective market segments, some examples are: Yale in the residential market, HID in access control, secure card issuance and identification

technology, and ABLOY in high security locks. The Group also has product brands that are not associated with ASSA ABLOY, such as Entrematic in entrance automation, to further drive sales.

Value creation strategy

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



Value creation strategy #1 Growth through customer relevance

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

No. 1

Global leader in access solutions.

x5

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

57%

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



Global market leader with growing demand

Demand for security, electromechanical, digital and smart access solutions, as well as for sustainable products, continues to increase. The combination of global growth trends, such as urbanization and digitization, and new technology, has resulted in stable and growing demand for ASSA ABLOY's access solutions and form good prerequisites for underlying profitable growth. The Group has a unique global market reach with its own presence in over 70 countries.

Institutional and commercial markets – service offering and total access solutions

ASSA ABLOY's large installed base drives organic growth. Some 75 percent of ASSA ABLOY's total sales derive from the institutional and commercial markets. Buildings related to education, health care, public administration, private offices, shopping centers, stores and warehouses – are all environments where ASSA ABLOY's access solutions can be found. These projects are often large and complex. This provides ASSA ABLOY with an advantage as a supplier of total access solutions.

Customers are competent and demanding and the Group is in dialogue with many different stakeholders in the value chain. The Group's focused and segmented sales forces develop products for the multifaceted customer needs, while distribution and installation are largely handled by channel partners, installers, system integrators and locksmiths.

Residential market – smart residential in focus

Residential sales account for about 25 percent of total sales. The increased demand for security and the megatrends of urbanization, digitization and increased wealth drive demand for secure access solutions as well as for smart door locks. ASSA ABLOY is leading the development of smart door locks for the residential market, where demand is very strong.

There is also a demand for professional advice and installation assistance. Depending on the geographic market, ASSA ABLOY cooperates with door and window manufacturers or specialist distribution channels such as

home improvement stores and locksmiths – and is often developing residential products in partnership with suppliers of other smart residential products for the connected home.

Aftermarket – a significant contributor to sales

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

The increased demand for electromechanical, digital and smart solutions also drives growth in the aftermarket. These products have shorter life spans and are more frequently replaced, supplemented and upgraded than mechanical solutions. The products are supported by software platforms which enable customers to constantly upgrade their security with more and new features. While contributing to stronger customer relationships, connected products, service products and subscription services will also contribute to an increase in recurring revenues.

Breakdown of ASSA ABLOY's sales

Working and shopping
Institutional and commercial market – share of sales

75%

Living
Private customers and residential market – share of sales

25%

New construction
New buildings – share of sales

33%

Aftermarket
Renovations, remodeling and additions, replacements and upgrades of existing access solutions, as well as ongoing service – share of sales

67%

Strategies for a world-leading global market presence

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

Customer relevance through segmentation

ASSA ABLOY aims to build relationships, generate demand and achieve the industry's best understanding of customer needs, and to be an expert in total access solutions in each segment. This increases customer relevance and allows ASSA ABLOY to offer solutions that meet customer requirements for safety, security, convenience and sustainability. The solutions need to meet local requirements, rules and standards, as well as the need for integration into new or existing security systems.

To reach the different segments, ASSA ABLOY's market organization works closely with architects, security consultants, large end users and distributors. A substantial portion of ASSA ABLOY's business processes are digitized – including product information, design and configuration and smart specification tools. The digitization of business processes – including order management, logistics and payments, and Seamless Flow – has also resulted in a shift of resources from indirect sales to direct sales.

Growth through acquisitions

As an important part of its strategy, ASSA ABLOY's ambition is to achieve 5 percent acquired growth per year. The aim is to further increase its market presence, complement existing operations and increase its offering of electromechanical, digital and smart solutions. On average the latest ten years acquisitions have contributed to an annual growth of about 6 percent. In 2018, 19 acquisitions were consolidated and 2 were divested. In 2018 the Group's acquired gross growth was 4 percent and the net growth (acquisitions and divestments) was 2 percent corresponding to a sales increase of SEK 1,793 M.

Leveraging the strength of the brand portfolio

The Group's brand portfolio, which includes valuable, leading and well-known brands, is also a reflection of the acquisition strategy. To optimize the advantages of the brand portfolio both locally and globally, the brands are continuously consolidated in parallel with the market and customer segmentation.

ASSA ABLOY is the Group's global master brand. The master brand is often combined with individual brands that are well established locally and adjusted to local regulations and security standards. The ASSA ABLOY brands account for roughly 70 percent of Group sales.

The global brands, which are all leaders in their respective market segments, represent another 20 percent of Group sales: HID in secure identity and access management, Yale in the residential market, and ABLOY in high-security locks.

In addition, the Group has brands that are not associated with ASSA ABLOY. These brands, representing some 10 percent of Group sales, have leading expertise in specialty products and service, and are important complements to ASSA ABLOY's market presence and positioning. These brands are usually sold through distributors and installers.

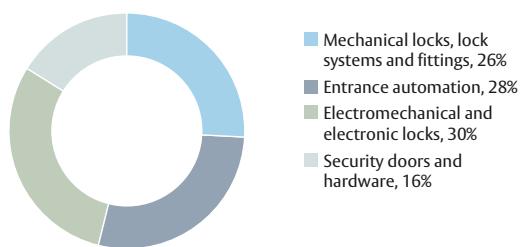
Sales processes with a stronger sales force

ASSA ABLOY's ambition is to gradually move an increasing amount of resources forward in the value chain to strengthen the sales processes and the sales force and to increase customer value. To constantly enhance customer relevance in all dimensions, the initiative emphasizes streamlining the Group's sales processes with strong support in digital tools. Through its Commercial Excellence team, ASSA ABLOY is developing and streamlining its processes for pricing, brand positioning, marketing and sales. This involves branding and marketing to e-commerce, developing value-based pricing models and implementing digital tools such as CRM (customer relationship management), BIM (building information modeling) and architectural marketing systems. The aim is to improve ASSA ABLOY's commercial capabilities and interactions with customers, thereby enhancing the customers' experience of doing business with ASSA ABLOY.

The Group has identified a number of sales subprocesses that differ depending on if it is sales based on specifications, sales to consumers or sales based on OEM delivery. Although the sales processes in ASSA ABLOY's global organization also vary because of rules, norms and traditions, the Group has developed a structured and efficient approach to supply chain and sales management. Knowledge and experience are shared in the Group through Group-wide work groups for the various sales channels – and the different sales approaches and techniques are regularly analyzed, along with a large number of customer transactions. Among other things this approach improves the understanding of customer needs and behaviors.

SALES BY PRODUCT GROUP

The Group sees fast-growing demand for electromechanical products, as well as electronic and digital solutions. Since 2008 these have sharply increased from 34 percent to 57 percent of Group sales. Mechanical products continue to increase, but electromechanical products are growing considerably faster.



Markets

The underlying demand for access solutions is based on global growth trends and a rapid technology change. ASSA ABLOY is a global player with local presence in all major markets. Although the Group's ambition is to increase its market presence in emerging markets, mature markets accounted for most of ASSA ABLOY's total sales in 2018.

Global scale and local presence

The demand for access solutions varies between countries – depending on security needs, climate, development level, regulations and standards. One of ASSA ABLOY's major competitive advantages is that it is a global player with local presence in all major markets and with operations in over 70 countries. The globalization trend is reflected in the increasing demand from global companies for ASSA ABLOY's Group-wide smart and cost-effective solutions.

Rapid technology development drives demand

Customer demand is increasingly shifting from mechanical to electromechanical solutions, driven by new technology and the development of more advanced electromechanical and smart solutions. In 2018, the sale of electromechanical solutions increased by 20 percent. Digitization drives customer behavior and smart technology is becoming an integral part of customers' everyday life. Besides an increasing share of electromechanical, digital and smart access solutions, the aftermarket for upgrades as well as recurring sales is expected to grow – driven by software-based solutions and a continuous demand for maintenance, training and safety.

Large potential in emerging markets

The share of sales derived from emerging market customers has over the last ten years increased from 16 percent to 23 percent in 2018. Demand for mechanical locks is somewhat stronger in emerging markets than in mature markets; however, electromechanical access solutions are driven by urbanization and a stronger economy. This is evident both in the commercial segment and the residential market, where the potential of connectivity drives demand for connected locks and smart home security.

With a large population, Asia Pacific has the greatest growth potential going forward as well. The vast Chinese market, where the Group is one of the largest suppliers of access solutions, remains important, despite recent market challenges.

Fragmented competition – continued consolidation

ASSA ABLOY is considerably larger than its closest competitors, but the market remains fragmented. However, consolidation is underway in mature markets and has advanced farthest in North America, followed by Europe, with ASSA ABLOY as a driving force. In the emerging markets, the markets are still in their early stages and consolidation activities have not yet taken off.

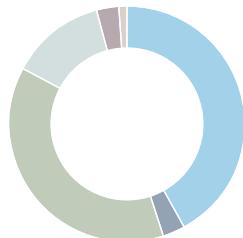
Group sales trend 2018 by region in local currencies



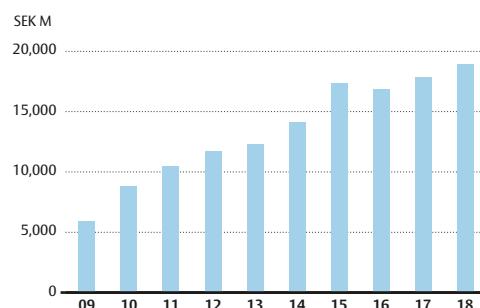
North America	42%
South America	3%
Europe	38%
Asia	13%
Oceania	3%
Africa	1%

Geographical expansion is mainly achieved through acquisitions of leading local companies with well-known brands, in order to build a strong platform on emerging markets in Asia, eastern Europe, the Middle East, Africa and South America. Emerging markets have increased their share of Group sales from 16 percent in 2008 to 23 percent in 2018.

SALES BY REGION



SALES ON EMERGING MARKETS¹



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

Distribution

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

Value creation in distribution

ASSA ABLOY's ambition is to deliver well-designed, safe, secure and convenient access solutions. In close collaboration with customers and their advisers, the Group's efficient distribution process creates good customer relations, market demand and increases the entry barriers for competitors.

Distributors are also important in their roles as providers of service and support after installation. In the commercial and institutional segment, distributors in some markets act as advisers and project managers. They have a deep understanding of customer needs and ensure that ASSA ABLOY's solutions comply with the local market's standards and security requirements. In the residential segment, the buying decision is less rational and the competence of the buyer is often lower.

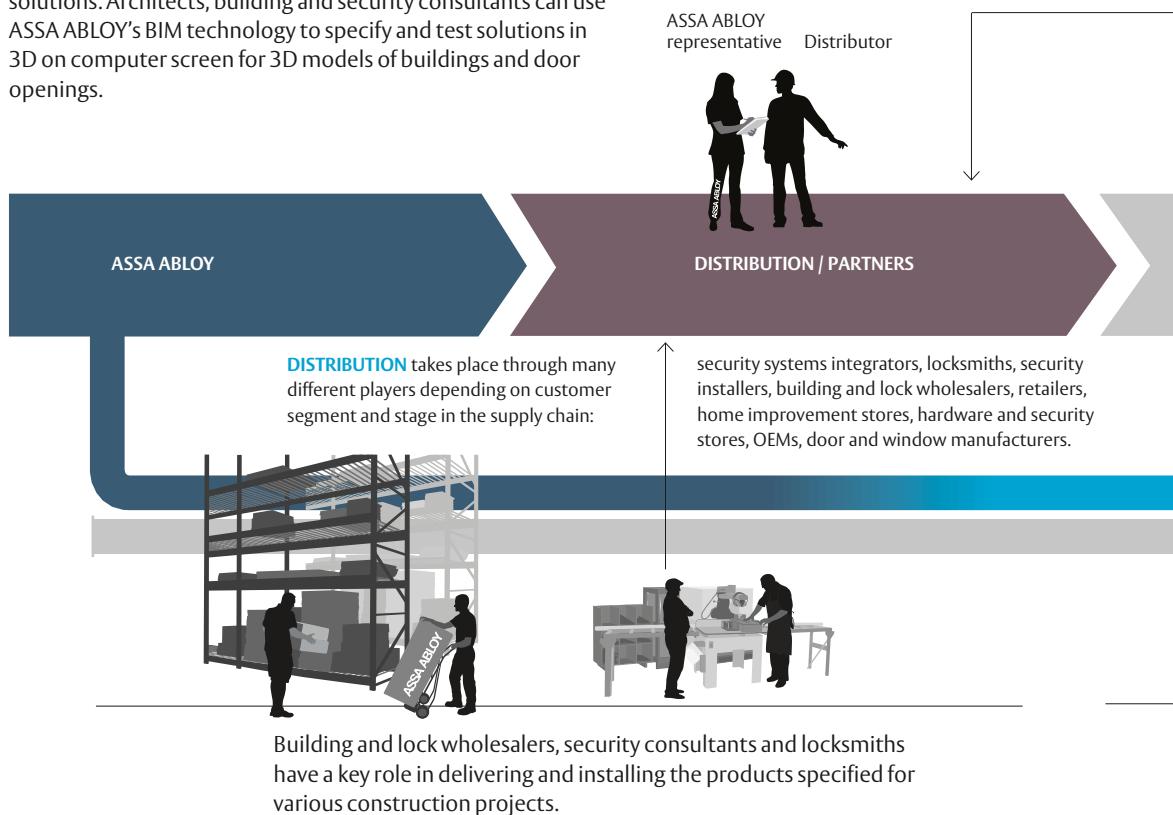
Electromechanical solutions are distributed to end-users mainly through security installers and specialist distributors. The solutions are also sold through systems integrators, who offer total solutions for installation of perimeter protection, access control, and access to computers and other connected devices.

Specification – advice and digital tools

Rapid technological development and the growing number of rules and standards, especially in the area of sustainability, are constantly increasing complexity for builders and other customers. This trend applies to everything from components to prefabricated door openings and advanced access solutions. This is also increasing the competence required by distributors. A central role in marketing is therefore played by ASSA

DISTRIBUTION CHANNELS FOR THE SECURITY MARKET

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



ABLOY's specifiers, who have increased sharply over the past few years and continue to increase rapidly, especially in emerging markets.

Specification teams work as specialist advisers to customers, helping them specify products that provide total security solutions that meet all rules and standards. They also collaborate with other key groups early in the distribution chain, such as building consultants, architects, security consultants and building standards agencies, to educate them regarding new, innovative security solutions and to create demand with their business-driving competence.

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

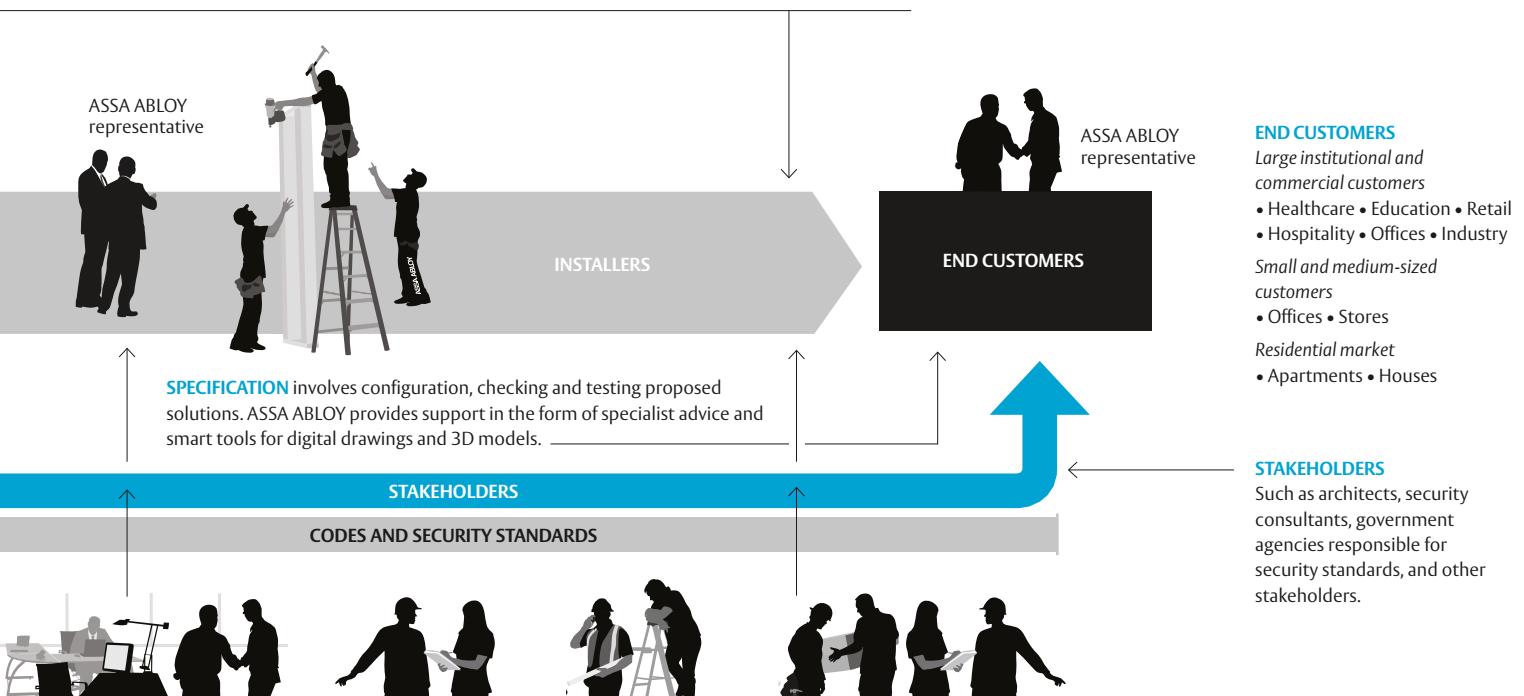
The complex information in BIM creates good opportunities for repeat business, since the customer can

quickly see exactly which products are installed in the building, along with their location. This simplifies the upgrade, service and repair processes.

Partners and distributors

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

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



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

Value creation strategy #2 Product leadership through innovation

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

No. 1

57%

The most innovative supplier of access solutions.

27%

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

Products launched in the past three years account for 27 percent of total sales.



The strategy for product leadership is based on four points:

1

Developing and exploiting the advantages of a Group-wide, structured innovation process.

2

Applying Lean principles and deep customer insight to product management and development.

3

Developing and using common modular platforms and common technologies.

4

Continuing to invest in our R&D competence centers.

World-leading technology for digital and smart solutions

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

Product leadership

Strategies for a high innovation rate

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

Technology development and new technologies

Together with the global mega trends, the main driver of innovation and product development is the rapid technology development. Sales of mechanical products continue to increase, but electromechanical products are growing considerably faster. In the residential segment, the demand for smart door locks is rapidly increasing. In 2018 ASSA ABLOY sold 2.5 million smart locks, up from 2 million smart locks in 2017.

Technology development of access solutions is gradual, usually originating from a solid mechanical product. An electromechanical solution enables digital control of the bolt, door and the entire entrance environment for more efficient and convenient operation. Adding software or even cloud-based access management systems creates additional value for the customer, not only through added security but also through convenience. A connected lock, for example, can be remotely controlled and monitored while being linked to a network of other products and solutions with multiple security features. ASSA ABLOY's global platforms currently provide customers with a complete, intelligent ecosystem that coordinates multidimensional security solutions for whole complexes of buildings, with user identification and preventive and acute signaling of security risks.

The platforms give the Group increased capabilities for scaling and with the possibility to connect the products for increased synergies. Demand for these global connected products is high with strong annual growth rates globally.

With the customer trends towards convenience and speed, together with the low penetration of electronic digital access solutions in the market, there is a huge potential enabled by the rapid technology development.

ASSA ABLOY's technology leadership provides a substantial platform for robust profitable growth. To ensure leadership in all product areas, the Group also continues to invest in innovative mechanical solutions. More electronics also means increased sales growth per door and more customer value. The rapid technological development requires more frequent replacements and upgrades which provide opportunities for increasing recurring revenue and services through software licensing and maintenance.

ASSA ABLOY's Global Technologies division, with its technology development relating to identification and authentication, is a key asset and offers a competitive edge. The division, comprising of HID and Global Solutions, is the global market leader for products and solutions for secure identities for physical access to buildings and areas, as well as logical access to computers and other connected devices. This is a core competence in the development of digital access solutions.

Sustainable solutions

Another important driver for product development is the sharply rising demand for sustainable solutions. There is strong growth in investment in sustainable buildings, with requirements for energy savings, lower materials consumption, and renewable or recycled materials becoming increasingly important. The various openings of a building can account for up to 20 percent of energy consumption. ASSA ABLOY offers a growing selection of products with environmental declarations, with focus on energy savings, as well as reduced consumption of materials and other resources used in production.

Continuous improvement of the innovation process

ASSA ABLOY's product leadership is based on the Group's joint innovation process. Guiding principles are deep insights into customer and market needs, product development based on long-term planning and active portfolio management throughout the product life-cycle to enable innovative, sustainable and cost-efficient products. Shared Technologies, the Group's joint development center, plays a key role to achieve this objective.

Value creation with customer insight

Each new product and product solution should create additional customer value through improved functionality, usability, security and cost efficiency. All new projects are based on insight into underlying customer needs and requirements. Broad monitoring and collection of data, analysis and surveys of different customer segments are conducted on an ongoing basis, to uncover future and underlying needs. Cost savings are achieved through improved designs, new materials, software and components, as well as continuous improvement of the development and production process.

Sustainability

Sustainability is an integral part of product innovation and is hence integrated into the development process from the concept stage to end of life. The Group uses a tool called the Sustainability Compass which outlines the sustainability vision for individual products and includes eight focus areas: raw materials, water, virgin material, end-of-life reusability, recyclability, in-life energy consumption, carbon footprint and financial cost. The modular approach and the technology platforms enable the Group to standardize materials, reduce the number of components, constantly improve quality, and considerably reduce the costs of each new product. The modular approach is also supportive in component procurement and development, enabling the group to source components that are sustainable.

Design and design language

The Group has established a unit for the development of industrial design and a common design language. Planning of a Group-wide design center is the next step in the

development, to create an even clearer expression of ASSA ABLOY's basic values and the physical experience of products with common guidelines for design, location of brand names, colors and visuals. Design, especially of residential door locks, is also increasing in importance as door locks are seen more as lifestyle products. The Group also has a Concept Lab where the product development teams can test prototypes and conduct user tests of technologies for the future.

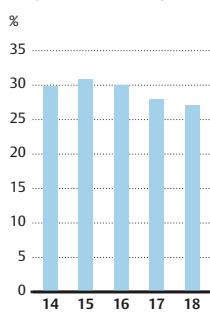
Product management and product development

Product management ensures that each product group has a vision-based, long-term plan founded on market insight, technology development, customer value and the strengths of each product. These plans form the basis for the integrated and cross-functional balancing and optimization of the product portfolio throughout the product life-cycle. Projects are planned and executed according to Lean principles, where a clear vision and a visual overview are important components.

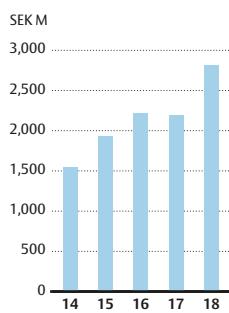
Product development is continuous and has three phases: pre-development projects, new product development and continuous improvements of products already in the market.

Efficient development is achieved through clear long-term product strategies and a modular development approach, providing an opportunity to reuse designs, make improvements and substitute parts of a product or solution. Shared Technologies, the Group's joint development center for global product platforms, in which a modular approach to both hardware and software is the basis for the joint solutions, plays a key role to achieve this objective.

PERCENTAGE OF SALES OF PRODUCTS LAUNCHED IN PAST THREE YEARS



INVESTMENTS IN RESEARCH AND DEVELOPMENT



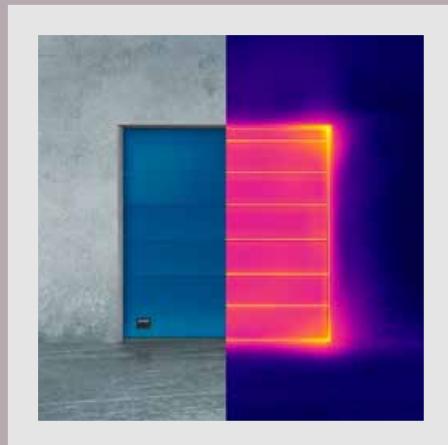
NEW PRODUCTS

HID Global scores in world's greatest soccer event

HID Global delivered more than 4 million secure RFID tickets for 2018 FIFA World Cup. The smart tickets contained a Radio Frequency Identification (RFID) inlay with several security features designed to prevent forgery. Data that was stored in a ticket's RFID chip was encrypted and digitally signed.



NEW PRODUCTS



Excellent energy efficiency

The new overhead sectional door reduces energy usage while also cutting costs with an increased focus on reducing energy waste and meeting building regulations. With a full 82 mm of insulation the door delivers exceptional thermal separation. The U-value is more than two times as effective compared to a standard overhead sectional door.



Global Solutions expands innovative RFID Lock Technology

Varying configurations of doors found within office and hotel staff areas often limit the ability to implement newer door lock solutions. The VingCard E100 serves to sidestep such issues, thanks to its narrow and minimalistic design. By offering both DIN and SIS compatibility, the E100 can be implemented on doors that feature narrow lock cases in aluminum frames and can also be installed on sliding doors.



Ergonomically designed smart lock

X300-FH is a premium push-pull digital door lock designed to improve user experience by reducing door opening process compared to lever type locks. It is designed ergonomically by placing the fingerprint scanner in an area where the thumb naturally ends up when grabbing the handle. This small difference is a unique value which makes the lock stand out in the market.

Product platforms

CLIQ™

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

Seos™

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

Aperio™

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

Accentra™

Accentra is a cloud-based access control system that focuses on solutions for multi-family buildings and small and medium-sized enterprises. A scalable infrastructure through a cloud provider provides a high level of service and full control over information in a centrally based security system. Accentra supports multiple global products at door level (Aperio, Yale, ASSA and HID readers) and is developed for, and deployed in, a true cloud environment for a global reach, while complying with local demands.

Hi-O™

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

Future security solutions – convenient, secure, digital

Human needs in the connected society serve as an important starting point for ASSA ABLOY's innovation and product development. Secure, convenient and smart access solutions that interact with people and products play a major role in the continued development of successful e-services and e-commerce. They add to the development of the sharing economy and the connected society of the Internet of Things.

The technology shift for access solutions in the connected society is accelerating, providing ASSA ABLOY with major growth opportunities. Home services and other services that are logically connected to the Group's products are experiencing strong demand. Strong growth is expected for services both in home delivery of products and services as well as in home care. Broadening and deepening demand are boosting revenue with more value per product, faster replacements and upgrades, more recurrent revenues and new business opportunities.

E-commerce, shared economy and home services

A smart home or office space starts with a smart front door lock. ASSA ABLOY's offering entails smart door locks and access management systems with technology that enables the creation and management of digital identities. This digital identity is programmed to only apply for a certain person and a certain door during a certain time period, and can only be shared with trusted individuals or companies, who thereby gain access to the space at a certain point in time. The code or "digital key" – an encrypted digital token – is transmitted via a smart phone.

In simple cases, smart door locks provide secure and convenient access to a single door. In some cases, however, service providers need access to a gate, a garage or other area to perform services such as laundry or picking up the mail. E-commerce is a major driver. Buying products and services through online services or over the internet means that many end-users want the goods they acquire on the web to be physically delivered to their homes, workplaces or cars. The applications are relevant in many daily life situations in the shared economy, including sharing housing, vacation homes, vehicles and other equipment. Secure identification and digital identities enable secure and convenient access to whatever is shared.

Home services, such as residential home care, is rapidly growing in many mature markets. Sharing the digital identity through a smart phone provides secure and convenient access to the home on a regular basis. In the example of residential home care, caregivers, home care providers and relatives need to be able to enter the homes of residents on a regular basis. ASSA ABLOY has developed a product platform for multi-family buildings and small and medium enterprises which enables easy and intuitive management of access to housing and other areas using digital keys, smart phones or other connected devices – while providing the safety and security that small businesses, care providers and their customers demand.

Taking the stance in its products, the Group works in partnership with both local and global organizations and businesses to create an end-to-end experience in deliveries, home services, care and other services in the connected ecosystem. One example is the partnership with Amazon, enabling convenient and secure in-home delivery and home access for guests and service appointments.

Internet of Things (IoT)

ASSA ABLOY's products and technologies are well-positioned to grow with IoT. The number of connected residential and industrial devices and machines are rapidly increasing, enabling the identification, communication, control and monitoring of functions and production of the things connected. The IoT enables the formation of ecosystems connecting, for example, homes, devices, cars, robots, shipping containers, traffic systems and transport systems.

The Group has world-leading technology and solutions for secure digital and mobile management of identity and authentication to determine who should have access when, where and how, with various layers of security and control. This includes a flexible and modular

Next evolutionary stage

Higher value per product

Increased replacement rate

New business opportunities

Increase in recurring revenues

Higher value per product
Increased replacement rate

Intelligent connected products
and cloud-based systems

Electromechanical and electronic products

Mechanical products

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

identification technology platform that serves as an ecosystem of connected products and services, enabling the collection and analyzing of disparate data, in real-time or over time.

A significant value-add for the customers in the future, and as a source of revenue for the Group, is hence the data that the connected ASSA ABLOY products and solutions generate. This data can be collected and analyzed and used by the customers to develop, for example, new business models. Movement patterns as people enter and leave buildings provide valuable information about how different areas are used at different times.

IoT can also be used as a cost efficiency tool, as analyzing the data provides information about both security needs and energy needs – one of the largest cost items for property operations – for efficient climate control and use of various areas of the building. Control may also include opening and closing doors, surveillance of high-security areas and goods and transport flows.

More recurrent services and revenue

As ASSA ABLOY's product portfolio contains more digital electronics, software and data, revenues will shift toward recurrent services in the Group's offering. Subscription-

based agreements for upgrades, data and analysis, as well as software licenses, are increasing. The trend toward complex, multifunctional systems creates new business opportunities, promotes close customer relationships, and generates stronger recurring revenue streams, often with long-term contracts for supply and service including cloud solutions.

Entrance automation

In entrance automation, ASSA ABLOY has gained global market leadership with its Entrance Systems division, through acquisitions, innovation and organic growth. Hospitals, schools, airports, offices, warehouses, commercial buildings and industrial buildings are typical facilities with many entrances and doors of various types. The total market for entrance automation is estimated at about SEK 200 billion, with a robust growth rate. Connected products enable the facility manager to collect data and apply analytics to the data coming from the entrance systems. The facility manager receives data about what has happened and what spare parts are needed to fix the problem. This approach allows proactive service and cost efficiency, while generating substantial customer value.

NEW PRODUCTS

Redesigned door closer winner of the 2018 Iconic Awards – Innovative Architecture

The respected design award is given to products and buildings that contribute to innovation in architecture. The award-winning door controls provide innovative solutions for all door opening scenarios. With innovative Cam-Motion® technology inside, the range delivers an outstanding and accessible door opening experience with quiet, safe and secure door closing.



Yale Assure Lock Connected by August

Yale Assure Locks, Connected by August are the first product collaborations between the two ASSA ABLOY brands August and Yale. The Assure Lock with the Connected by August Upgrade Kit combines Yale's secure lock hardware with August's app and cloud-based software to create the most full-featured smart locks. The Yale Assure Locks, Connected by August, and the Connected by August Upgrade Kit for existing Assure Lock owners, are available on Amazon.com, August.com, ShopYaleHome.com and in Best Buy stores.



Value creation strategy #3

Cost-efficiency in everything we do

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

48%

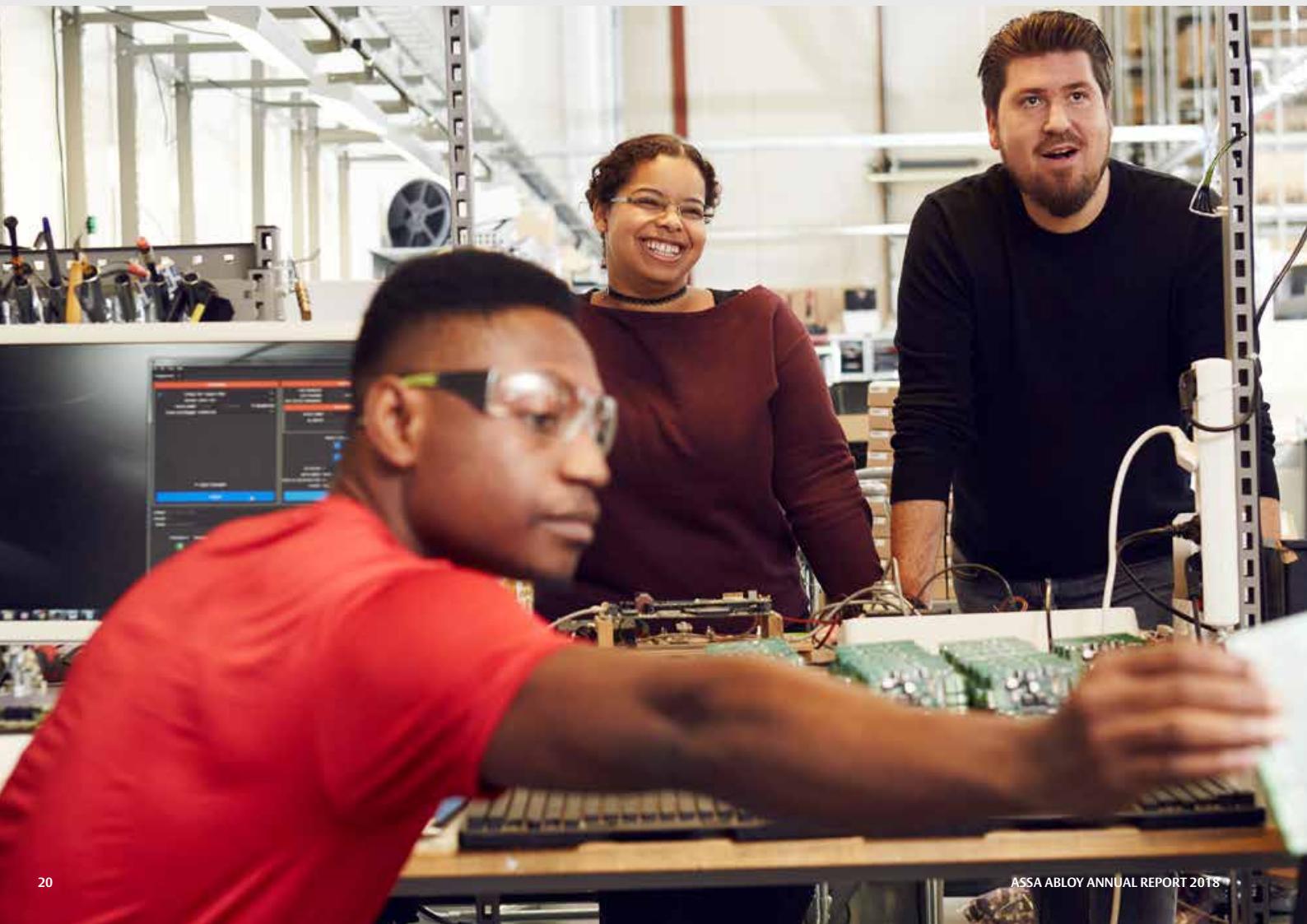
Share of total purchases in low-cost countries.

-27%

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

7th

manufacturing footprint program launched in 2018 with an expected payback time of less than three years.



Increased efficiency through automation and digitization

ASSA ABLOY's strategy to increase efficiency is fundamental to continue to drive profitable growth by investing in market presence through customer relevance, product leadership through innovation, technology and in evolution through people. This will contribute to achieving the target of an operating margin of 16–17 percent. In 2018, the Group launched its seventh manufacturing footprint program (MFP), which will further improve efficiency going forward. In parallel, ASSA ABLOY also, on an ongoing basis, implements other efficiency measures such as professional sourcing to offset price pressure, including raw material prices, which was in focus during 2018. Initiatives to improve efficiency through -digitalization of processes and automation of production also remain top priority.

Production structure

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

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

Since the first MFP in 2006, 88 production plants have been closed, more than 143 plants have been remodeled into assembly plants, and about 60 offices have closed. The majority of the remaining production units in high-cost countries have switched to mainly final assembly

lines and customization centers. In 2018, the restructuring programs have proceeded according to plan and led to efficiency improvements and a reduction of 1,798 employees. Including acquisitions, the number of employees in low-cost countries was about 21,000 in 2018, representing 44 percent of the total workforce compared with 38 percent in 2008. Since the MFP's were launched back in 2006, the number of employees has been reduced by 15,362, largely related to production in high-cost countries.

In 2018 the seventh Group-wide MFP was launched. The program will have an expected payback time of less than three years and includes the closure of 15 production plants and about 30 offices. The estimated total cost of the program is SEK 1,500 M, of which SEK 1,218 M was accounted for in 2018.

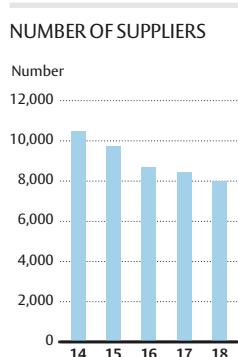
A review of ASSA ABLOY's logistics structure continued in 2018. Work is underway to reduce the number of logistic providers, while creating a more efficient structure for logistics centers with a high degree of standardization of materials and products. Standardized digital processes enable fast, efficient and secure transportation solutions.

PLANTS IN LOW-COST COUNTRIES

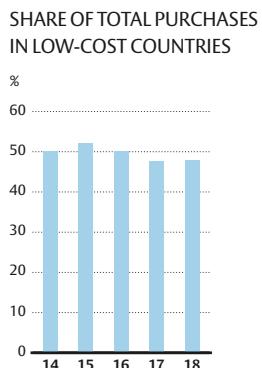


Professional sourcing

The Group's purchasing processes are gaining in importance, mainly driven by an increased share of sourced standard components for final assembly and customization, but also as a significant tool for cost efficiency. In addition, improving sourcing offers significant cost efficiency potential also from a product quality and sustainability perspective. The Group's ambition is to decrease the number of suppliers and increase the number of partner suppliers and this entails significant cost reductions. As a result, the role of the partner suppliers continues to increase. In addition, due to the higher raw material prices, the focus on sourcing increased in 2018.



Reducing the number of suppliers is important for reducing costs and improving quality. Active efforts have reduced the number of suppliers by 27 percent over the past five years for comparable units.



Raw materials, components and finished goods from low-cost countries accounted for 48 percent of the Group's total purchases in 2018.

The aim of the Group's purchasing process is to ensure high quality at a lowest cost. Hence, the Group is increasingly focusing on the role of professional sourcing to improve product quality and improve cost efficiency. This occurs in processes that drive a number of activities for development and management of purchases, where the Group's suppliers become strategic partners. The suppliers participate to a greater extent in product development and work in close collaboration with ASSA ABLOY to be able to deliver not only components, but entire subsystems and products based on supplier agreements with category and quality management. The Group contribution is competence transfer and its production and quality expertise.

The purchasing organization has become more sophisticated over the past ten years. It categorizes and segments suppliers based on the strategic needs identified by the Group and according to a number of different quality categories. The best performing suppliers achieve partner status, and the worst performers may not remain as suppliers, or may only remain if they meet certain conditions. The divisions have specialized purchasing managers for each component category. Purchasing centers efficiently manage different categories of components. Cost trends are monitored on a monthly basis.

The ambition is to have an increasingly limited number of larger, high-quality partner suppliers for more of the Group's divisions, mainly in low-cost countries. Over the past five years, the number of suppliers has been reduced by 27 percent to around 8,000 worldwide, with a majority in low-cost countries. The goal is to continue to reduce the number of suppliers and in 2018 the number of suppliers decreased by 6 percent on Group level.

ASSA ABLOY requires all suppliers and business partners to comply with the principles of the Code of Conduct for business partners, and to accept their social, environmental and ethical responsibilities. This often

results in continual improvement in the sustainability efforts of the suppliers regarding resource consumption, health and safety, the working environment and conditions, and other sustainability-related issues. Collaboration is terminated with business partners that fail to live up to the Code of Conduct, or who show no interest in improvements. Reviews are conducted to check the progress of over 2,000 suppliers in Latin America, Asia, Africa and Eastern Europe.

Quality and price are at the focus of all purchases. As data flows continue to increase, the need for efficient processes increases, and hence efficient digital tools are a necessity. ASSA ABLOY has, for example, developed an analytical tool, the "Should Cost analysis," to get a picture of what deliveries from subcontractors should cost. It breaks down costs at multiple levels, including value analyses and cost estimates to gain an understanding of the true costs and pricing of products. The analysis is complemented by the Group's extensive knowledge of product optimization based on Value Analysis/Value Engineering methodology and potential process improvements.

Current initiatives include a special quality team for subcontractors launched in 2016 and a process for better risk management of subcontractors, which is a Group-wide control process which has been implemented in 2018. E-procurement is substantially growing with the purchase of goods and services done online, and investment in e-auctions where divisions put out tenders for materials and services for competitive bidding by suppliers is also increasing. Both these processes lead to significant savings.

Process development

A constant effort is underway to apply and develop methods and processes in all stages of the value chain to improve cost efficiency and add customer value. Lean methodology also encompasses all internal processes in all divisions. The automation and digitization of all of the Group's administrative flows is a prerequisite for process efficiency.

With the strong growth in data flows, the Group's focus is on improving its digital processes. Digitalization of processes is a prerequisite to deliver products and services to customers and according to customers' requirements and needs. The Seamless Flow automation program, in conjunction with Lean methods, is central in achieving fully automated production logistics and seamless production – which means that production becomes transparent, with better material cost control, improved decision-making procedures, shorter development times, and increased collaboration with the marketing and sales staff. Today, Seamless Flow automation and Lean methods are applied in all of the Group units and the number of projects is increasing each year.

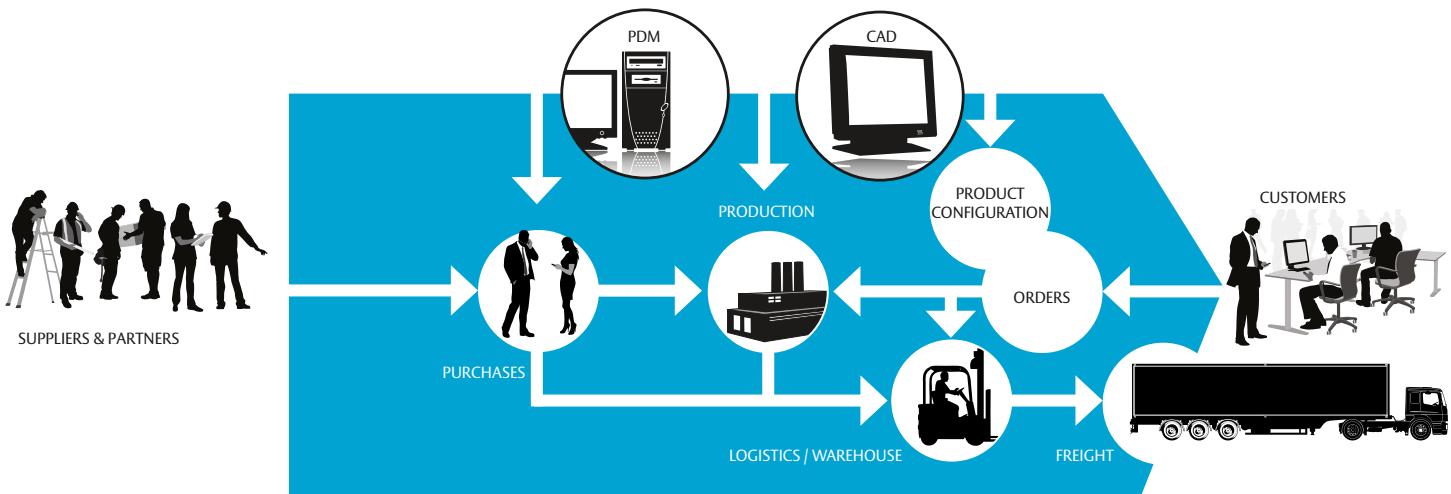
Seamless Flow encompasses the entire Group, and enables seamless transaction flows between divisions, regions, suppliers and customers. The aim is to achieve full automation and to streamline processes, especially in sales support, production and supply chain, enabling a seamless customer experience throughout all interactions with the Group. Standardized product databases and efficient product data management, together with

an efficient ERP (Enterprise Resource Planning) system enable the Group to improve the quality of administrative flows and processes, whilst freeing up resources that can be dedicated to direct customer relationships instead of support functions and other back-end administrative functions. By the end of 2018, more than 150 companies have implemented one of the six divisional ERP systems.

Value Analysis (VA) is a structured process for optimizing cost and customer value in existing products. The same applies to Value Engineering (VE), which is part of the product development process. Value Analysis/Value Engineering (VA/VE) entails an in-depth analysis of the product's design, components and production methods, which systematically reduces costs and enhances customer value with improved quality.

Investments in increased automation of production flows have accelerated in recent years. E-procurement processes as well as e-commerce are also important elements in the ambition to automate and digitalize the processes throughout the value chain.

SEAMLESS FLOW – A MORE EFFICIENT FLOW THROUGHOUT THE VALUE CHAIN



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

Value creation strategy #4 Evolution through people

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

28

different nationalities
in senior manage-
ment positions.

87%

of the employees participated
in the employee survey 2018.

3.6

injuries per million hours
worked. Since 2015 injury rate
decreased with 46 percent.

Core values

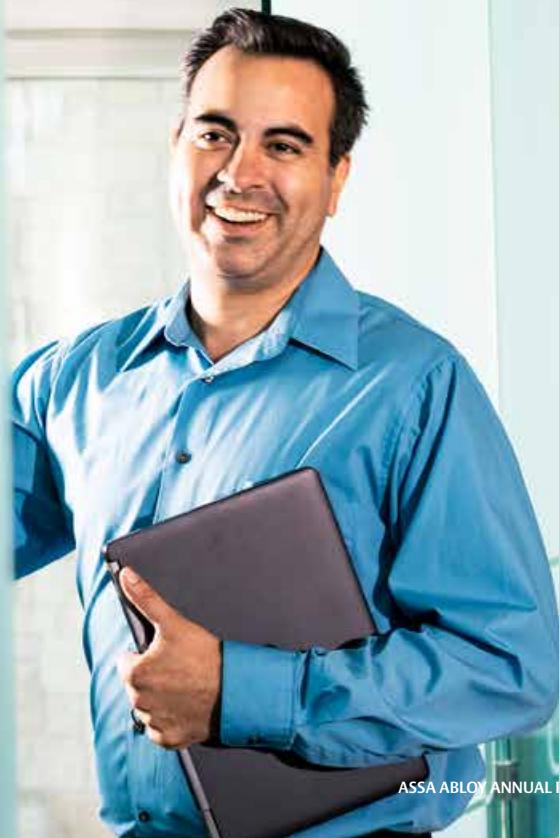
- Empowerment
- Innovation
- Integrity

Beliefs

- We have trust in people
- We have the courage to change
- We stand up for what's right

The human resources framework is based on three foundations:

- Increase diversity and inclusion
- Improve talent management
- Improve health and safety



Employees lead the way

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

Increasing diversity and inclusion

ASSA ABLOY's Code of Conduct states that gender, nationality, social or ethnic origin, age, religion, physical disability, sexual orientation and political opinion must not be the basis for negative discrimination. ASSA ABLOY has a performance culture based on the diversity of perspectives and is set to lead by example.

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

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

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

Improving talent management

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

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

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

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

Improving health and safety

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

Digital workplace

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

Leveraging integration can be a source of competitive differentiation to provide effective access to information, cope with fast technology innovation and accelerated pace of business. By combining technology and IT tools with step changes to processes and ways of working, the Group achieves improved information flow, visibility, speed and efficiency.

The result of ASSA ABLOY's strategy Profitable growth

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

141%

Sales growth since 2008.

164%

Increase in earnings per share since 2008.

134%

Increase in operating income since 2008.



Focus on long-term value-creation

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

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

Market presence through customer relevance

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

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

Product leadership through innovation

ASSA ABLOY is an innovative product leader and spends annually about 3 percent of the Group's sales on Research & Development. This is becoming more impor-

tant as part of the move to more electromechanical, digital and mobile solutions. Products that are less than three years old accounted for 27 percent of the Group's total sales in 2018 compared with the Group target of 25 percent. The continuous investments in product development and innovation is a main driver for achieving the target of 5 percent annual organic growth.

Cost-efficiency in everything we do

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

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

Evolution through people

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

ASSA ABLOY's divisions

Regional divisions

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

Opening Solutions EMEA



P 30

Share of sales

Share of operating income

24%

24%

Opening Solutions Americas



P 31

Share of sales

Share of operating income

23%

29%

Opening Solutions Asia Pacific



P 32

Share of sales

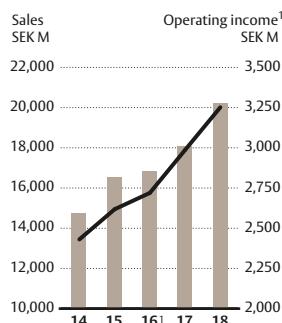
Share of operating income

11%

4%

FINANCIALS IN BRIEF 2018

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

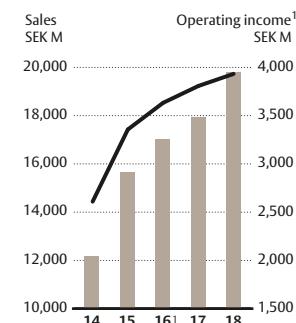


█ Sales — Operating income¹

¹ Excluding items affecting comparability.

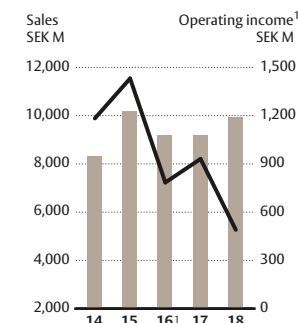
FINANCIALS IN BRIEF 2018

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



FINANCIALS IN BRIEF 2018

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

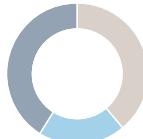


SALES BY PRODUCT GROUP



█ Mechanical locks, lock systems and fittings, 50%
█ Electromechanical and electronic, 35%
█ Security doors and hardware, 15%

SALES BY PRODUCT GROUP



█ Mechanical locks, lock systems and fittings, 39%
█ Electromechanical and electronic, 20%
█ Security doors and hardware, 41%

SALES BY PRODUCT GROUP



█ Mechanical locks, lock systems and fittings, 24%
█ Electromechanical and electronic, 26%
█ Security doors and hardware, 41%

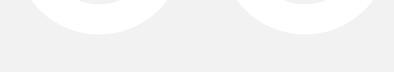
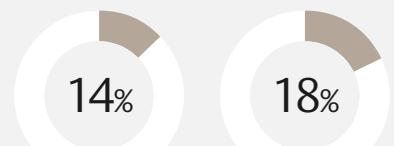
Global divisions

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

Global Technologies



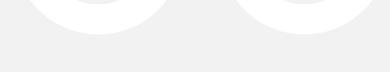
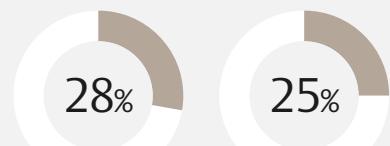
Share of sales
Share of operating income



Entrance Systems

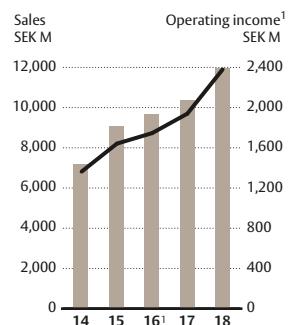


Share of sales
Share of operating income



FINANCIALS IN BRIEF 2018

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

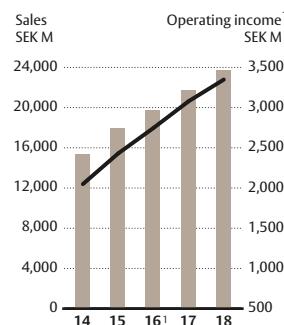


█ Sales — Operating income¹

¹ Excluding items affecting comparability.

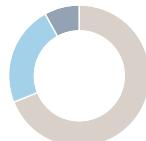
FINANCIALS IN BRIEF 2018

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



For more key figures see p 61.

SALES BY PRODUCT GROUP



Access management, 69%
Hotel locks, 23%
Service, 8%

SALES BY PRODUCT GROUP



Products, 72%
Service, 28%

Opening Solutions EMEA



Neil Vann
Executive Vice President and
Head of EMEA division



The sale of electromechanical locks increased by 18 percent during 2018. What are the drivers for this growth?

The growth was mainly driven by the continued focus on critical infrastructure and the conversion of commercial mechanical Master Key systems into flexible digital solutions.

You acquired the door seal company Planet in 2018. How will you integrate it?

This acquisition delivers on our strategy to expand our core business as Planet is a leading supplier of door drop down seals and finger protection covers. Planet will be fully integrated into EMEA's Switzerland set-up which is part of our DACH market region. This includes the integration of shared services, endorsing the Planet brand and applying best practices, whilst maintaining the location and operations in Tagelswangen just outside Zurich. A dedicated integration manager on the ground ensures the execution to plan. Making Planet our competence centre for drop down seals and finger protection technology, the integration is also centred around maximising revenue synergy potential, particularly through ASSA ABLOY's international network, cross-sell and specification.

In which geographical areas did you grow the most in 2018?

Our largest growth from a geographical point of view has come from Eastern Europe, particularly in Poland. We also had strong growth in Germany and Finland.

Good growth and a high innovation rate

Demand in the region was good with organic sales growth close to 2 percent. Sales of electromechanical locks with digital and mobile solutions increased sharply. Growth was good in many markets in Europe. Product development continued at a high pace and efficiency and streamlining programs continue to produce good results, driven by robotics and the continued consolidation of suppliers.

Market trend

In 2018 growth was strong in Germany, Eastern Europe and Finland and good in Scandinavia, the UK and Southern Europe. Africa/ Middle East and France also reported growth while sales in Benelux declined. Electromechanical products showed very strong growth. Commercial products driven by specification remain the largest part of the business, while consumer awareness, consistent and innovative product development including quality and service, are key drivers in the residential market. In EMEA demand for sustainable solutions continues to grow strongly.

Brand development, value-based pricing, recurring revenue and specification are major cornerstones in EMEA's strategy to increase customer relevance. The division has over 200 specifiers and the number of projects specified continued to increase sharply. The customer offerings are adapted to the local market's standards and security requirements, supported by local knowledge of the Group's brands. In EMEA, these include some of the most respected in the industry, such as ABLOY, Yale, Mult-Lock, TESA, IKON and Vachette, amongst others. Whilst digital products are providing significant growth, mechanical locks still play a significant role and are growing.

Acquisition principles include a strategic fit, new technology, geographical expansion or growth into adjacent sectors. In 2018 the Group acquired HKC and Planet. Both are examples of acquisitions in adjacent sectors which expanded the addressable market.

Product leadership

The share of new products introduced over the past three years was 29 percent of total sales. In 2018 EMEA launched its first energy harvesting product, Pulse, which features a cutting-edge electronic cylinder that requires no batteries or power supply. In product development, the division is also committed to developing environmental product declarations which enable customers to fully understand the environmental impact of any new product. This is a significant competitive advantage. The software share of the offering is also constantly increasing and the service offering is developed in the areas of maintenance, training and safety.

Cost-efficiency

The division's restructuring program to reduce the number of plants and to concentrate on assemblies close to customers continued according to plan, with continued

consolidation of sub-suppliers to fewer and larger partners. In Scandinavia the division has consolidated its operational sites, which will be reflected in improved efficiency and service improvements across the product portfolio. Automation of production continued at a high pace. Here, advanced robotics with intelligent vision systems play a key role. The number of robots has increased by 75 percent over three years and in 2018 they increased by 30 percent. The commercial excellence program made good progress in several areas, such as pricing, recurring revenue and digitalization. One example is the business-to-business web shop. During the year the division increased the number of order lines received seamlessly by over 10 percent as the focus on customer experience continues at full pace.

Offering: Mechanical and electromechanical locks, digital door locks, security doors and fire doors, as well as hardware.

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

Acquisitions 2018: Dale & Excel, Lorient and Exidor in the UK, HKC in Ireland, LOB in Poland, Lukkoaitta in Finland, Luleå Låskonsult in Sweden, Marenco in Holland and Planet GDZ in Switzerland.



EMEA's offering includes door and window systems, access control and service.

Opening Solutions Americas



Lucas Boselli
Executive Vice President and
Head of Americas division



How did you work with offsetting rising raw material prices during the year? We were able to gradually compensate for the raw material inflation through price adjustments. In addition, we implemented cost efficiency measures across the division.

What is driving your strong electromechanical growth?
We continue to see strong adoption of electromechanical products throughout the Americas, both in the residential and non-residential segments. In the residential segment, as consumers embrace connected home technologies, we have experienced an increased demand for our smart lock solutions. We have also experienced solid growth from our partnership with key players in the smart home segment. In addition to brick-and-mortar gains, our eCommerce are proven to be an interesting channel to our electromechanical solutions.

In non-residential, accelerating demand for access control solutions has resulted in robust growth for our entire range of electromechanical products, in both institutional and commercial segments.

In which geographical areas did you grow the most in 2018?
All of North America experienced strong growth in 2018. While the US saw the most significant gains, Canada and Mexico also grew nicely. In Latin America, we had good development across Central America and Caribbean regions, while South America did not grow as much as we had expected.

Electromechanical and smart lock solutions drive growth

Sales increased at a strong rate with organic growth of 9 percent, driven by very strong growth in North America. In particular, demand was very strong for electromechanical locks in both the commercial and residential segments. The division's operating margin was good, despite headwinds from increased material costs.

Market trend

The division's largest market, the US, reported strong growth in 2018. Growth was strong in both the commercial and institutional segments and accelerated in the residential market. Canada delivered strong growth, particularly in the institutional segment. Political uncertainty in several countries in South America affected the growth negatively. Demand for electromechanical solutions continued to grow in all markets and segments. In the residential segment the penetration of digital locks is still low and forms a large untapped market opportunity.

Smart lock solutions and sustainable energy saving products remain important growth drivers. Growth was high for high-security products, architectural hardware and perimeter solutions. Traditional lock products and accessories also showed growth. The market for smart residential solutions accelerated as home sharing, in-home deliveries and other access services continue to drive demand for smart locks. ASSA ABLOY's partnerships with Google Nest, Walmart and other retailers offer strong growth potential for in-home delivery. In 2018, the division acquired Luxer One, a leading advanced package locker solutions business in the US. Brüken in Mexico, a company specialized in glass and aluminum door hardware, and Pioneer and Concept Frame in the US, which added regional door, frame and project detailing capabilities. The Wood Door business and Maiman Company in the US was divested during the year.

Product leadership

New products launched in the past three years accounted for 27 percent of total division sales in 2018. Technology and software integration serves as an enabler to innovate differentiated features such as integrated access control and cloud based solutions for all markets including the smart residential market. The division is the US market leader for smart lock solutions for the connected home under both the Yale and August brands.

The software platform from August Home has had a positive impact on the division's product development for smart locks and home delivery solutions. During the year several smart solutions for the connected home were launched, providing security while enabling homeowners to control and monitor home deliveries via mobile apps.

Cost-efficiency

The division continues to improve efficiency through the implementation of lean processes, seamless flow,

continuous improvement in manufacturing, automation, robotics and footprint rationalization. To further improve cost efficiency and support customer relevance, marketing and sales processes are being optimized at every level for seamless data flows. E-commerce is implemented both for the residential as well as the commercial and institutional segments. For the residential segment, the focus is on smart residential products, while e-commerce tools for the commercial and institutional segments enable channel partners to speed up delivery of products when there is project time sensitivity. Investments in automation and robotics continue at a high pace improving safety, quality and efficiency.

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

Markets: U.S., Canada, Mexico, Central America and South America. The majority of sales are in the US and Canada, where ASSA ABLOY has an extensive sales organization and sells its products through distributors. Institutional and commercial customers are the largest end-customer segments. These segments account for 80 percent of sales, while the private residential segment accounts for 20 percent of sales. Sales in South America and Mexico take place mainly through distributors, wholesalers and home improvement stores. Sales in these markets are more evenly distributed between the non-residential and residential segments.

Acquisitions 2018: Brüken in Mexico, Pioneer, Concept Frame and Luxer One in the US.

Divestment 2018: Wood Door business and Maiman Company in the US.



Americas' offering includes doors, locks, hardware accessories, perimeter systems, access control and service.

Opening Solutions Asia Pacific



Anders Maltesen
Executive Vice President and
Head of Asia Pacific division



How is the implementation of the new strategy in China progressing?

The new strategy in China is progressing well. The organizational structure allows the teams to be more focused by allocating dedicated employees to serve different customer segments with specialized solutions and brands. We are also further streamlining our production which will improve our competitiveness going forward.

How is the adoption of digital locks progressing in the different markets?

South Korea currently has the highest digital lock adoption rate in Asia Pacific. Most new residential buildings have smart door solutions, and the Gateman brand from ASSA ABLOY is leading the market. With this high penetration rate, we are focusing on more advanced functions and smart locks for the replacement and upgrade markets. China is another fast-growing market for digital and smart locks, and our extensive product range helps us effectively penetrate different market segments.

In which geographical areas did you grow the most in 2018?

We achieved strong growth in South Korea in 2018, especially with our digital and architectural solutions. We are also happy to see steady growth in some other south east Asia markets.

Good growth in APAC – transforming China

Overall sales growth in the division was good with strong growth in South Korea, Japan and for electromechanical products in particular. The Group has a new business strategy in place in China to transform it into a more focused organization to respond to the rapidly changing business environment. The development of new products continues at a high level in the division, with strong demand – especially for smart door locks in the residential market.

Market trend

Demand in large parts of the APAC region was good. Sales growth was strong in South Korea, Japan and South East Asia and good in the Pacific. Demand in China, which accounts for about half of the division's sales, remained weak. Sales continued to decline for fire and security doors. Organic sales in China declined by 1 percent, compared with 4 percent in 2017.

In APAC, demand for digital and mobile solutions is strong and rapidly growing, as is the adoption of new technology. This is also reflected in the division's sales by product group, where sales of mechanical locks and system fittings decreased to below 50 percent in 2018. Demand for smart door locks continues to grow with strong double-digit figures, as does demand for sustainable solutions. Market transformation, urbanization, as well as new regulations promoting environmentally-rated and energy-efficient products, drive demand.

In China, smart locks are increasingly regarded as consumer electronics, even lifestyle products, and are rapidly spreading beyond early adopters. The business in China has been reorganized to focus on meeting the specific needs of different market channels and has consolidated a number of brands into Pan Pan, Yale and ASSA ABLOY with separate sales organizations. The new brand strategy will support the division's growth ambitions also in the replacement market. In addition to the brand strategy, to better serve the construction market, a key-account organization has been established in China.

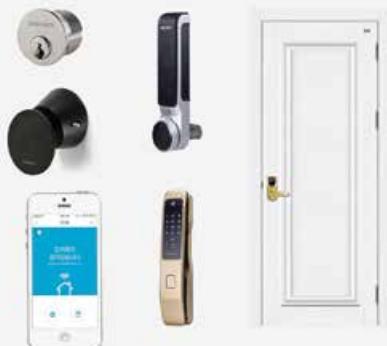
Product leadership

The division continued to launch new products at a high pace. The share of products launched in the past three years increased to 40 percent of total sales, compared with the Group target of 25 percent. By increasing investments in innovation and new products, the division continues to strengthen its product leadership. The Group is reducing the number of product platforms, as a means of simplification, while the share of software is increasing, enabling customer offerings entailing differentiated features and comprehensive solutions for the residential market. Attractive design is also increasing in importance. The number of development engineers continued to increase in the division's 15 development centers, including in China, where products are also developed for the entire region. The division has the widest range of "green" products with a rapidly growing number of environmental product declarations.

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

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

Acquisitions 2018: Pacific Door Systems in New Zealand.



Asia Pacific's offering includes mechanical and smart door locks, window systems, access control, and service.

Cost-efficiency

The new construction market in China is expected to grow at a slower pace and consolidation of the construction developers continue. As the operating margin in China is expected to remain low for the next few years, the Group took a write-down of SEK 5,595 M for impairment of goodwill and other intangible assets in 2018. The Group also made provisions of SEK 400 M for receivables and inventory in China.

In China, the Group continues to optimize the manufacturing footprint to fit the market demand. These efforts include increasing specialization and streamlining production structure as well as optimizing the size of the manufacturing plants. The ambition is to improve efficiency throughout the value chain.

The Seamless Flow initiative also continued. Over 60 percent of the division is now working in a common business system.

Global Technologies



Stefan Widing
Executive Vice President and
Head of Global Technologies
business unit HID Global



What products were driving your strong sales growth during 2018?

We had good growth across many product lines. One highlight is Location Services where we have had breakthrough wins in several important customer segments. We are now getting key references and customer success stories that will drive continued growth in this area. Also, Mobile Access continues to develop very well with continued triple-digit growth in user adoption and with several foundational aspects being put in place in 2018 that will enable us to scale even better in the future. And then, finally, our Authentication and Threat Detection solution that we launched this year, that is based on machine learning technology, has enjoyed significant early market traction that bodes well for the future.

How will you develop and integrate Crossmatch going forward?

Crossmatch will be integrated into the three HID Business Units that aligns with their three product segments. Some core technology and other functional areas move into HID's global functions. The main development will be on the commercial side by leveraging HID's market footprint, and on the innovation side where we will increase investments into Crossmatch's biometric technologies.

In which geographical areas did you grow the most in 2018? North America grew the most in 2018.

Strong sales and earnings trend

Global Technologies, which consists of HID Global and ASSA ABLOY Global Solutions, reported strong organic sales growth of 8 percent. Demand for HID Global's products and services was strong, especially in North America, driven by upgrades and large investments in the institutional and commercial market. Global Solutions continued to report strong growth, reflecting the strong demand for hotel locks with mobile access and strong demand also in the other verticals: marine, elderly care and student accommodation.

HID Global

Market trend

Trusted digital identities are key enablers in the digital society to underpin security, safety and convenience. Hence, underlying global demand in the identity market continued to be strong, driven by growing security needs, upgrades and rapid technology developments.

Sales were strong in Physical Access Control Solutions, Extended Access Technologies, Identity & Access Management Solutions and Identification Technologies. Secure Issuance reported good growth while Citizen ID declined. Driven by the very strong growth in North America, sales growth in the mature markets was as strong as in the emerging markets.

During the year HID Global acquired Crossmatch in the US. Crossmatch's product portfolio includes biometric identity management hardware and software that complement HID Global's product portfolio. The acquisition makes HID Global one of the world's major providers of fingerprint biometric technologies and strengthens its ability to offer innovative biometric identity solutions.

Product leadership

While innovation and product development continued on a high level, the share of products launched in the past three years was about 21 percent, or close to the Group's target of 25 percent.

The division's identity and access management products undergo constant development with new features and platform adaptations, addressing the increasing demand for updates and modifications. Supported by software, HID Global's trusted identity products and services can handle all aspects of the lifecycle of an identity. The increasing share of software in the products also allows HID Global to complement its existing physical products with software solutions. One example is complementing a printing product with Financial Instant Issuance. This creates recurring revenue and added customer value.

HID Location Services has showed strong growth in 2018, driven by the fast growing enterprise IoT market. HID Location Services provides real-time location awareness and improves organizations' ability to manage assets and people within buildings and enables the location of people in a facility. Analyzing room usage, mapping the flow of people for better building management and security as well as increased operational efficiency are some of the value-added features.

Cost efficiency

Efficiency initiatives continued, both through streamlining of operations, but also by improving processes. During the year the Group announced the intent to consolidate HID Global's credential manufacturing footprint and shared services footprint in Europe to Ireland. This will be reflected in cost savings and improved flexibility going forward.

Offering: HID Global is a worldwide leader in trusted identity solutions, dedicated to powering the trusted identities of the world's people, places and things.

Markets: Millions of people around the world use HID products and services to navigate their everyday lives, and over 2 billion things are connected through HID-technology. Customers comprise companies, healthcare, education, financial, government and state institutions. Customers are mainly in the institutional and commercial sectors worldwide.

Acquisitions 2018: Crossmatch in the US and ISLOG in France.



HID's offering include trusted identity and access solutions.



Christophe Sut
Executive Vice President and
Head of Global Technologies
business unit Global Solutions



What products were driving your strong sales growth in 2018?

Mobile key has really become a priority for the hotel industry and has been materializing during 2018. Most of the locks delivered during the year have been with mobile key capabilities as well as the number of properties where the service is enable. This is the first step of the digitalization of our offering. We have also presented Vostio and Bluvision and have had a lot of interest for those solutions even if sales are not significant yet.

How did your recurring revenues develop?

We are having a very positive development of our Credential and Software as a service based recurring revenue, driven by an accelerating conversion to Mobile access technology.

In which areas did you grow the most in 2018?

The growth was spread across most geographical markets and verticals. It is pleasing that our marine business developed strongly with our customer migrating to better guest experience. North America grew faster than ever. At the same time, China came back with double digit growth while Europe remained strong.

The electromechanical lock – an enabler of growth

Global Solutions

Market trend

In 2018 ASSA ABLOY Hospitality changed its name to Global Solutions to reflect the Group's expansion into new verticals beyond hospitality. The strong growth continued, in combination with high operating income and very good margin growth. Global Solutions continues to strengthen its market presence, expand into new geographical areas and digitize the customer offering.

Renovations, upgrades, solutions and software sales continue to drive growth. The focus is on understanding the customer's journey and the way to create added customer value. Electromechanical locks are the enablers: creating potential for the customers to add value to their clients by applying cloud based services, software solutions and introducing keyless mobile access. Several major global hotel chains have installed and continue to install the Group's high-end systems, while new verticals – including multi-family housing, care, education, and student accommodation – are markets where Global Solutions' product portfolio offers additional growth potential. Cloud-based solutions allow the customers to streamline their operations and improve both property and data security – thereby adding value.

Markets: ASSA ABLOY Global Solutions are leading the development within safe and secure access solutions for hotels, cruise ships, student accommodations and elderly care facilities. ASSA ABLOY Global solutions' systems and products are installed in over seven million hotel rooms in more than 42,000 hotels worldwide. Customers are mainly in the institutional and hospitality sectors worldwide.

Acquisitions 2018: Phoniro in Sweden.



Global Solutions' offering include access solutions for hotels, cruise ships, student accommodations and elderly care facilities.

Integrated service solutions, including applications such as lighting and security, as well as recurring revenue by selling software licenses, are also steadily increasing as a share of total sales.

During 2018, the Group acquired Phoniro, a major player in elderly care solutions for homecare and nursing homes in the Nordic region. Its business model is similar to that used in hospitality: that is, offering electro-mechanical and digital products with the capability for the care providers to launch cloud-based mobile access services.

Product leadership

Innovation and product development are central elements to drive product leadership and continue at a high level. The share of sales from products launched in the past three years was about 34 percent; significantly higher than the Group target of 25 percent. Software is constantly updated and R&D investments consist to a large extent of software development.

Global Solutions addresses the full life-cycle of a product, including software updates, upgrades and service. The products undergo constant development with new features and platform adaptations. Physical products are complemented with software solutions which, over time, generate recurring revenue and added customer value. In 2018 Global Solutions launched a cloud-based, maintenance free, access management system that requires no local servers.

Cost efficiency

Efficiency initiatives continued during the year, both through streamlining of operations, but also by improving processes. Global Solutions has a focus on lean processes and a streamlined production structure – including the reuse of common functions and IT systems, continuous streamlining of administrative processes and seamless flows. For example, there is only one dedicated plant, in Shanghai. Products are sold primarily directly to customers, with the resources constantly being adjusted to the development of the market.

Entrance Systems



Mogens Jensen
Executive Vice President and
Head of Entrance Systems
division



Your organic growth was 4 percent in 2018. Which markets performed best? Geographically, Entrance Systems had a strong development in North America and Emerging Markets Europe. Western Europe had a moderate growth but in Asia/Pacific and Latin America the growth was negative due to the challenging development in China mainly in our component business. The decline in Latin America was mostly due to some big projects in 2017 that did not reoccur in 2018.

On the product side we had a very strong development in loading dock equipment where the demand in the distribution and logistics segment continues to be strong in both North America and Europe. The growth was also strong in the US for Residential Doors.

High Performance Doors and Residential Doors in Europe had a negative development.

How did the Service Business develop during the year?
We have started to invest more in our service business during 2018 and saw an improvement of growth in service from previous years, especially in our industrial service business. In addition to investing more, we have also done organizational changes to get an increased focus on service and for 2019 our ambition is to further increase the sales.

How did the sale of your newly developed products develop during the year?
Sales of new products reached the target of 25% of sales in 2018 and we have launched a number of new products both in the industrial and pedestrian segment during the year.

Strong growth in services

In 2018 good organic growth continued in the Entrance Systems division with strong growth in North America and good growth in EMEA. The service offering showed strong growth. Sustainable solutions were in high demand. The restructuring programs for a more efficient production structure proceeded according to plan.

Market trend

The division's sales grew organically by 4 percent. Acquired growth was 1 percent. There was strong growth in North America and good growth in EMEA driven by a strong development in Eastern Europe. In China the market conditions were challenging and the sale in many emerging markets outside Europe declined.

In services, connected products and solutions drive growth, and electromechanical and sustainable solutions are major drivers of growth in all product segments. Sliding doors, entrance automation, and industrial doors are all products that are achieving good or strong growth. Another driving force is the growth in e-commerce that helps to increase demand for warehouse and logistics door opening solutions.

The service offering, which accounts for 28 percent of the division's sales, showed strong growth. The division is investing in its service offering both in sales people specializing in services, and technicians. New service concepts based on long-term contracts, with efficient data flow and analysis for preventive maintenance and modernization, strengthen customer relationships and provide good growth opportunities.

Acquisitions are an important part of growth. In 2018, the Group acquired Door Systems in the US and K.A.D. in South Korea. Door Systems is a distributor of commercial and residential doors in the Chicago metropolitan area with a strong service organization.

Product leadership

Innovation and product development continued at a high level. New products launched in the past three years accounted for 25 percent of sales. The division has a competitive and comprehensive offering, and continues to launch new products and solutions which encompass, essentially, all product segments. Entrance Systems has also launched new service offerings with enhanced user experience, strong features and improved maintenance. The division has a large and growing range of energy-saving solutions and launched a new insulated door with strong thermal performance, measured in heat loss, ahead of new building regulations. During the year, a new compact revolving door built for improved user experience with enhanced ease and comfort was also introduced. The division also launched a new range of garage products with smart digital app-based solutions and connected doors which shorten lead times for maintenance and service if the doors fail. Digitization has resulted in a strong focus on smart solutions and connectivity, while sustainability drives product development in the direction of energy savings and climate control.

Cost-efficiency

Consolidation of the production structure and organizational resources continued according to plan. The division continued to pursue efficiency initiatives with investments in robotics, implementation of Lean practices and by reducing purchasing and production costs through VA/VE analyses. The division's Commercial Excellence initiative includes improvements in its work with customer segmentation, specification projects and sales processes, including increased digitization. In addition, the transition to use only the ASSA ABLOY brand in direct sales channels continues.

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

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

Acquisitions 2018: Door Systems in the US and K.A.D in South Korea.



Entrance Systems' offering includes automatic doors, industrial doors, loading dock equipment, high-performance doors and service.

Customer solutions around the world



Safety, security and sustainability at Australian school

CUSTOMER: Beaumaris Secondary College, servicing Year 7–12 students for Beaumaris and the surrounding area. As part of the design for their brand new facilities, the school was dedicated to environmental awareness, including development of a wetland area to provide educational opportunities and environmental benefits.

CHALLENGE: Create the ideal education building for students and administrators that minimizes energy usage, water usage, and waste generation, while offering easy access, yet maintaining security and accountability. This delicate balance between safety and security while improving sustainability and energy efficiency called for careful selection of door hardware and the means by which it was provided.

SOLUTION: ASSA ABLOY provided a variety of products and services that are environmentally sound throughout the entire production process and product life cycle, and several of the products had with Environmental Product Declarations (EPD's). Furthermore, ASSA ABLOY provided Australian made products that exceeded expectations for safety and security. Services included utilizing ASSA ABLOY's Openings Studio software program, which created workflow efficiencies, helped reduce costs, and reduced the environmental impact of construction documentation.



ASSA ABLOY brings its star power to Los Angeles' grandest new hotel

CUSTOMER: The Wilshire Grand InterContinental Hotel is the marquee tenant for the LA Financial District's new Wilshire Grand, the tallest building west of the Mississippi River. The hotel includes nearly 1,000 guest rooms, plus a swanky rooftop bar, numerous restaurants, a health club, ballroom, conference space and more.

CHALLENGE: The luxury property commanded the highest level of aesthetics, but the solutions had to be functional and safe as well as decorative. Featuring a wide range of products from a utilitarian look in the parking garage to unique, upscale elements in the common areas, consistency was key.

SOLUTION: Working across divisions, ASSA ABLOY was able to offer a complete suite of products that met the requirements for design aesthetics, functionality and safety. Among the key solutions was an mortise lock with an integrated card reader featuring HID technology. This lock allows the hotel to use mixed credentials. The same principle applied with the ASSA ABLOY Global Solutions lock used on the guest room doors. Guest rooms' door closers were replaced with a concealed closer, which met the needs for both fire safety and aesthetics. Elevator lobby doors and stairwell doors were equipped with the ASSA ABLOY surface mounted door operator, which has the ability to power close as well as power open, a necessity to meet fire ratings on the project. Sound seal acoustic gaskets and door bottoms contributed to better acoustics, and many of the products chosen were endorsed with Health Product Declarations (HPD).

Throughout the design and implementation, collaboration among multiple ASSA ABLOY divisions kept the project on schedule and provided the desired consistent finishes across the entire spectrum of products.



Hotel guests and staff benefit from Mobile Access

CUSTOMER: Nordic Choice Hotels is one of the largest hotel groups in Scandinavia, operating 190 properties.

CHALLENGE: With today's tech-savvy climate in the hospitality industry, Nordic Choice Hotels required a mobile key solution for six of its hotels in Stockholm. The company wanted minimal upgrades to the existing RFID-enabled locks and easy integration with Nordic Choice Hotels' mobile application.

SOLUTION: Looking to implement a digital key offering that is as convenient as it is secure, Nordic Choice Hotels chose ASSA ABLOY Global Solutions Mobile Access – a solution that brings benefits to both guests and staff.

As ASSA ABLOY Global Solutions is a long-term partner of Nordic Choice Hotels, it was able to swiftly and efficiently upgrade more than 3,000 existing electronic locks to allow for mobile keys.

With Mobile Access, hotel guests can bypass the front desk by checking in with the hotel's mobile app and leverage ASSA ABLOY's secure Seos technology to open their room with a quick swipe of their mobile device.

The solution allows hotel staff to focus their time on customer service. Now that guests no longer need to wait at the front desk for a keycard to enter their room, staff can more efficiently provide other guests with the assistance they need.



E-passport solution for Tanzania makes travel simpler

CUSTOMER: With a population of over 55 million, the country of Tanzania shares borders with eight neighboring African states.

CHALLENGE: As part of a transformative e-immigration program, the government of Tanzania wanted to modernize its passports to improve the traveling experience for its citizens and to prevent the use of counterfeit passports.

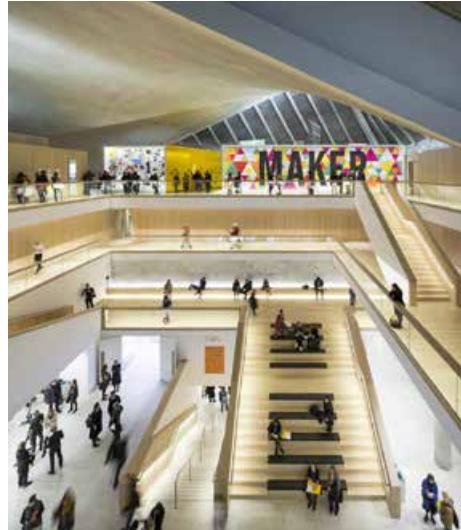
SOLUTION: Tanzania's government selected a complete electronic passport solution from HID Global.

The new e-passport makes travel easier for the country's citizens, such as simply scanning their passports electronically at border control stations upon entry and exit. The e-passport conforms to all international standards as set out by the International Civil Aviation Organization, ensuring that its features can be used by Tanzanians as they travel around the world.

A notable benefit is that an e-passport holder can be issued with an emergency passport on their smartphone if their passport is stolen or lost. This convenient solution is enabled using HID's award-winning Seos technology for mobile citizen IDs, called HID goID.

The new Tanzania e-passport contains a contactless chip embedded in its polycarbonate data page, which is proven as tamper-proof.

HID Global has established a lasting relationship with the government of Tanzania to ensure the highest levels of security for many years to come.



CLIQ's flexibility meets museum's high security demands

CUSTOMER: The Design Museum, in London, hosts exhibitions related to architectural, fashion, graphic, industrial and product design. Founded in 1989, it moved to a new site in Kensington in 2016.

CHALLENGE: It took a EUR 90 M investment to create a new London site for the Design Museum. This new space needed an access control system suited to such a high-profile project, designed to protect high-value exhibits. The solution had to be flexible to meet the security requirements of three galleries, a café and an events space, with 100 permanent staff and hundreds of daily visitors.

SOLUTION: CLIQ access control has an established track record in the museums and heritage sector, and when the museum's construction company was asked to recommend the best solution, it picked CLIQ.

CLIQ is an easy-to-use access control system based on mechanical high-security cylinders combined with encrypted electronic locking and identification. CLIQ PROTEC2 electromechanical locks control access through 56 doors. Staff carry one battery-powered CLIQ key, programmed with the appropriate, pre-authorized access permissions.

Using intuitive CLIQ software, security managers can change or cancel a user's permissions at any time. Contractors are issued with temporary programmable keys, which saves time formerly wasted escorting them around the building.



Service agreement keeps doors open for business

CUSTOMER: Decathlon, a world-leading sporting goods retailer, has 27 stores in Belgium, including a flagship store in Brussels with around 14,000 customers every week.

CHALLENGE: At all the Decathlon stores it is vital to ensure that the front doors always function to allow a seamless flow of customers, while the rear doors operate smoothly to receive regular deliveries of merchandise.

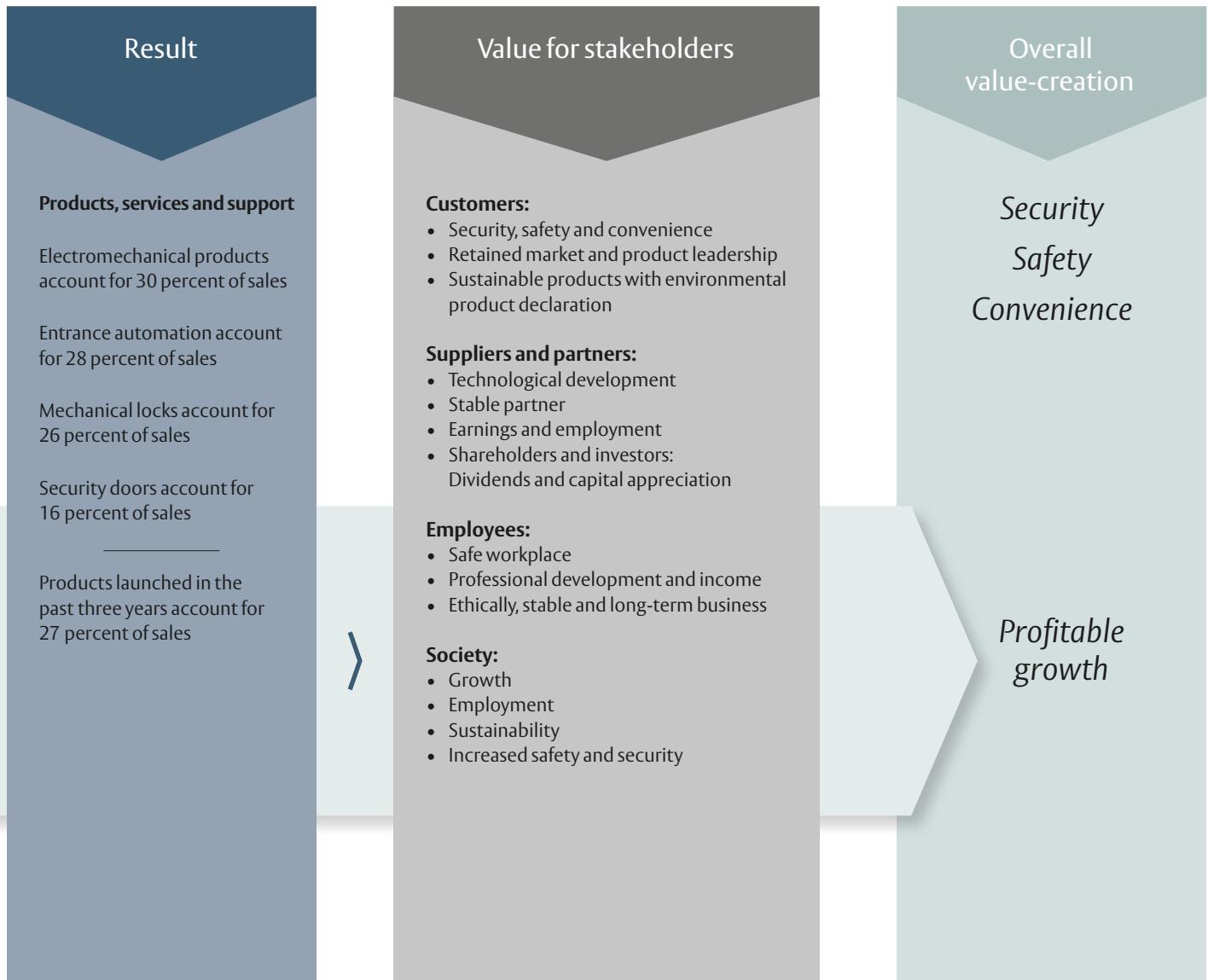
SOLUTION: Decathlon has peace of mind thanks to a service agreement with ASSA ABLOY Entrance Systems.

Under the agreement, in the event of a breakdown, a specialized ASSA ABLOY service technician is on hand to get the door back up and running and keep business moving. This is particularly helpful in the case of automatic doors, where Decathlon's maintenance manager doesn't have the specialist skills required to carry out repairs.

The agreement means that there's no need for the maintenance manager to know the state of every door, how it works, or how to fix it. All the Decathlon staff can feel safe and secure at work, confident that an ASSA ABLOY technician will swiftly attend to any door-related issue.

Value-creation for all stakeholders





Continued good progress in sustainability

ASSA ABLOY's sustainability initiatives continued to make good progress in 2018, with advances in line with the five-year sustainability plan, new sustainable products, improved water and energy efficiency. The focus on health and safety has led to a decrease of injury rate by 11 percent in 2018 and fewer workplace accidents. The Group's materiality analysis was updated during the year with input from employees, customers and suppliers. The result confirms that the Group is working with the right priorities.



Read more about ASSA ABLOY's sustainability work in the Group's Sustainability Report.

Commercial driver

Global demand for environmentally certified products and products with improved environmental performance is growing. Customers are increasingly choosing sustainable security solutions, especially when it comes to energy consumption and health aspects for the building's users.

Sustainability activities supports the Group's vision and strategy. Sustainability initiatives are integrated into all of ASSA ABLOY's business processes, from product development to purchasing, production and logistics, and finally to sales. The goal is to reduce the impact on the environment, conserve resources and lead developments to meet the rapidly growing demand for sustainable products. Substantial sustainability gains can be achieved in the Group's product development, streamlining of the Group's production structure, investments in modern equipment and other efficiency programs such as Seamless Flow and smarter IT systems.

Governance

ASSA ABLOY works to continuously strengthen sustainability within its operations. Governance is based on the Group's Code of Conduct for all employees and the Code of Conduct for business partners, as well as a series of policy documents that comprise the Group's sustainability commitment. A global sustainability council collects, inspires and spreads common experiences and ideas. The Group's sustainability performance is reported in detail in its Sustainability Report, which is prepared in accordance with GRI Standards: Core and fulfills the requirements in the Swedish Annual Accounts Act on a statutory sustainability report.

Results and focus areas

ASSA ABLOY's operational work is based on its five-year sustainability program through 2020, with more indicators and broader and faster follow-up than previous programs. Energy consumption is an important area with investments in more efficient processes and control systems. The results in 2018 are positive and in line with the plan. Efforts to increase the share of renewable energy with the goal of 20 percent of total energy consumption in 2020 faced constraints in many countries with difficulties finding this type of energy at competitive prices. The percentage of renewables in 2018 was 12 percent of total energy consumption.

Water consumption is following the plan in the sustainability program with progress in recovery due to technology and facility investments, especially in various surface treatment processes. The water intensity decreased by 10 percent in 2018. The use of solvents

when painting products also continues to decline due to the introduction of more environmentally friendly alternatives.

ASSA ABLOY is investing more in careful sorting and recycling of waste, and as a result in some cases clean waste fractions can be sold and generate revenue. The Group is also working to find smarter production methods and more environmentally friendly packaging.

The Group's ambition is to implement environmental management systems in all factories with significant environmental impact. At the end of 2018, 77 percent of employees in the Group's plants were working in factories with environmental management systems. These practices are gradually being implemented in all acquired companies with production facilities. To spread commitment and increase activity in sustainability efforts, employees are also encouraged to form "Green Teams" at workplaces throughout the Group. They are formed through local initiatives and work practically with everyday sustainability, health and safety issues.

ASSA ABLOY is working systematically with its suppliers to improve sustainability performance across the supply chain. Evaluation and improvement of the supplier base is a continuous process, with a special focus on suppliers in low-cost countries. The number of supplier audits continues to increase and was 1,055 (919) in 2018. To verify the quality of the audits, external auditors have assessed the work processes and confirmed the audit outcomes.

Improving health and safety

The health and safety management system covers all business entities with at least 10 employees. The system includes indicators to identify hazards and follow up training to prevent injuries, as well as safety communications and incident investigation. Since the system's implementation ASSA ABLOY has seen a steady decrease in the injury rate. The focus for 2019 will be to reduce workplace hazards and to minimize days lost due to workplace injuries. The objective is to have zero accidents in the workplace.

Sustainable products

ASSA ABLOY is a world leader in innovation, product development and sales of climate-smart and environmentally certified products. The Group has an increased proportion of products with industry-leading sustainability characteristics, several of which are certified by a third party, such as the "Green Circle." ASSA ABLOY has a system for internal measurement of sales of sustainable products where each division defines the criteria to be included in the measurement. The objective is to stimulate development and sales of sustainable products.

Report of the Board of Directors and Financial statements

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Report of the Board of Directors

The Annual Report of ASSA ABLOY AB (publ.), corporate identity number 556059-3575, contains the consolidated financial statements for the fiscal year January 1 through December 31, 2018. ASSA ABLOY is the global leader in access solutions, dedicated to satisfying end-user needs for security, safety and convenience.

Significant events

Sales and income

Sales increased by 10 percent and totaled SEK 84,048 M (76,137). The increase consisted of organic growth of 5 percent (4), acquired growth of 4 percent (3) and discontinued growth of -2 percent (-1). The exchange rate impact on sales was 3 percent (1).

Operating income (EBIT) excluding items affecting comparability increased by 5 percent to SEK 12,909 M (12,341), equivalent to an operating margin of 15.4 percent (16.2). Impairment of operating assets within Asia Pacific reduced operating income by SEK 400 M. Items affecting comparability relate to impairment of goodwill, other intangible assets of SEK 5,595 M (-) and costs for the new restructuring program that was launched at year-end 2018 of SEK 1,218 M (-).

Net financial items were SEK -799 M (-668). Income before tax excluding items affecting comparability totaled SEK 12,110 M (11,673), an increase of 4 percent. Operating cash flow increased by 4 percent to SEK 11,357 M (10,929). Earnings per share after full dilution, excluding items affecting comparability, increased 4 percent to SEK 8.09 (7.77).

Restructuring

A new restructuring program that covers all divisions was launched during the year. About fifty closures of plants and offices are planned and some production will be outsourced, as well as continued automation. The new program affects approximately net 1,600 people. The total cost of the program is estimated at SEK 1,500 M before tax, of which SEK 1,218 M was expensed in 2018. The payback period is expected to be less than three years. Activities related to the previous programs continued with effective cost-cutting measures during the year.

At year-end 2018, 15,362 employees had left the Group, including 1,798 employees who left during the year, as a result of the changes in the production structure since the restructuring programs began in 2006. A total of 88 plant closures have been implemented, including 11 closures in 2018. A large number of plants in high-cost countries have switched from production to final assembly.

The Group is increasingly concentrating production to its own plants in Asia, Central Europe and Eastern Europe, as well as to outsourcing to external suppliers in low-cost countries.

Payments for the restructuring programs totaled SEK 793 M (612) for the year. At year-end 2018, the remaining provisions for restructuring measures amounted to SEK 1,190 M (944).

Acquisitions and divestments

In February 2018 the Group acquired Phoniro, the leading company in integrated solutions for digital key management and alarms in home services and senior housing in the Nordic countries. The acquisition is viewed as strategic and strengthens the Group's position in the healthcare and long-term care market. The company is headquartered in Halmstad, Sweden.

In June 2018, ASSA ABLOY acquired HKC, a leading Irish provider of alarms and cloud-based monitoring services.

The product offering includes an extensive portfolio of wired and wireless alarm products, as well as monitoring services that are a good complement to ASSA ABLOY's offering on the Irish market. The company is headquartered in Dublin, Ireland.

In September 2018 ASSA ABLOY acquired 100 percent of the share capital in the US company Crossmatch Inc., a leader in biometric identity management and secure authentication solutions. The acquisition of Crossmatch strengthens the ability to offer innovative biometric solutions to hundreds of millions of users worldwide and expands HID's market leadership in secure identity solutions. The company is headquartered in Palm Beach Gardens, Florida, USA.

In December 2018, ASSA ABLOY acquired 100 percent of the share capital of Luxer One, a leading provider of advanced package locker solutions in the US. The acquisition further strengthens ASSA ABLOY's market position in home delivery solutions and provides excellent opportunities for synergies in vertical segments, such as education and commercial properties. The company is headquartered in Sacramento, California, USA.

Other acquisitions during the year include Lorient in the UK and Planet in Switzerland, which complement the product portfolio with innovative door sealing systems and finger protection covers, as well as Brüken, a leading Mexican company in locks, hardware and accessories for glass and aluminum products.

A total of 19 businesses, including minor acquisitions, were consolidated during the year. The total purchase price of these acquisitions, including adjustments for acquisitions from previous years, was SEK 7,300 M on a debt-free basis, and the acquisition analyses indicate that goodwill and other intangible assets with an indefinite useful life amounted to SEK 5,329 M. Estimated deferred consideration were SEK 1,150 M.

Additional acquisitions of non-controlling interests occurred during the year for SEK 229 M (130). The holdings were previously 100 percent consolidated.

In June 2018 the US wooden door business within the Americas was sold to Masonite. The business, consisting of the two companies Graham Wood Doors and the Maiman Company, had sales of about SEK 600 M in 2017. The disposal resulted in a small capital gain and had a positive impact on ASSA ABLOY's operating margin moving forward, all else being equal. A small business in Norway within EMEA was also sold at the beginning of the year.

Research and development

ASSA ABLOY's expenditure on research and development during the year totaled SEK 2,893 M (2,244), equivalent to 3.4 percent (2.9) of sales.

The pace of innovation remained high throughout the year, including in areas such as digital door opening solutions, products with increased sustainability and energy-saving products. New products launched in the past three years accounted for 27 percent of sales for the year.

Sustainable development

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

In accordance with the Swedish Annual Accounts Act, Chapter 6, section 11, ASSA ABLOY opted to prepare the Sustainability Report as a separate report from the Annual Report. The Sustainability Report has been submitted to the auditor at the same time as the Annual Report.

The 2018 Sustainability Report, reporting on the Group's prioritized environmental activities and providing other information on sustainable development, is available on the company's website, www.assabloy.com.

Internal control and financial reporting

ASSA ABLOY strengthened the internal audit and internal control functions in terms of staffing during the year. More reviews were conducted, and work continued during the year to strengthen internal control and compliance in the business in general. Special emphasis has been placed on financial reporting and internal control compliance issues related to the internal control framework that has been in effect for some time.

Tax matters

In 2015 the Finnish Tax Administration decided not to allow tax deductions for interest expenses in the Finnish operations for the years 2008–2012. The decision was appealed to a higher court. In 2017, the earlier decision was reconsidered to ASSA ABLOY's advantage. The decision has since been appealed by the Finnish tax authority. The total tax exposure amounts to just over SEK 800 M.

Transactions with related parties

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

Significant events after the financial year-end

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

Proposed distribution of earnings

The Board of Directors and the President and CEO propose that the 2019 Annual General Meeting should approve a dividend of SEK 3.50 (3.30) per share, representing an increase of 6 percent. The proposal for profit distribution can be found in its entirety on page 102 of the Annual Report.

Outlook

Long-term outlook

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

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

Significant risks and risk management

Risk management

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

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

Organization

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

Responsibility

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

Review process

Strategic risks, such as competitors, brand positioning and so on, are regularly reviewed at ASSA ABLOY AB's board meetings. The Group's operational risk management is continuously monitored by the Executive Team through divisional reporting and divisional board meetings. For further information on monitoring and management of operational risks, see page 46.

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

ASSA ABLOY's risks

STRATEGIC RISKS

Changes in the business environment with potentially significant effects on operations and business objectives.

- Country-specific risks
- Customer behavior
- Competitors
- Brand positioning
- Reputational risk

OPERATIONAL RISKS

Risks directly attributable to business operations with a potential impact on financial position and performance.

- Legal risks
- Environmental risks
- Tax risks
- Acquisition of new businesses
- Restructuring measures
- Price fluctuations and availability of raw materials
- Credit losses
- Insurance risks
- Risks relating to internal control

FINANCIAL RISKS

Financial risks with a potential impact on financial position and performance.

- Financing risk
- Currency risk
- Interest rate risk
- Credit risk
- Risks associated with pension obligations

Strategic risks

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

Country-specific risks

ASSA ABLOY has global market penetration, with sales and production in a large number of countries. The emphasis is on western Europe and North America, but the proportion of sales in Asia and in central and eastern Europe has increased in recent years. Consequently, the Group has increased exposure to the emerging markets, which may entail a higher risk profile for country-specific risks in the form of inadequate compliance, policy decisions, overall changes in regulations and more.

Customer behavior

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

Competitors

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

Brand positioning

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

Reputational risk

Activities to maintain and further strengthen ASSA ABLOY's good reputation are constantly ongoing. These include ensuring compliance with ASSA ABLOY's Code of Conduct for employees and the Code of Conduct for business partners. These Codes express the Group's values relating to business ethics, human rights and working conditions, as well as the environment, health and safety.

Operational risks

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

The table on page 46 describes in more detail the management of these risks.

ASSA ABLOY's operational risks and risk management

Operational risks	Risk management	Comments
Legal risks	<p>The Group continuously monitors anticipated and implemented changes in legislation in the countries in which it operates. Ongoing and potential disputes and other legal matters are reported regularly to the Group's central legal function.</p> <p>Policies and guidelines on compliance with applicable competition, export control, anti-corruption and data protection legislation have been implemented.</p>	At year-end 2018, there are considered to be no outstanding legal disputes that may lead to significant costs for the Group.
Environmental risks	Ongoing and potential environmental risks are regularly monitored in the operations. External expertise is brought in for environmental assessments when necessary.	Prioritized environmental activities and other information on sustainable development are reported in the Group's Sustainability Report.
Tax risks	Ongoing and potential tax cases are regularly reported to the Group's central tax function.	At year-end 2018, there are considered to be no ongoing tax cases with a significant impact on the Group's earnings. A tax-related case in Finland from previously has been appealed to a higher court. For further information see the Report of the Board of Directors.
Acquisition of new businesses	<p>Acquisitions are carried out by a number of people with considerable acquisition experience and with the support of, for example, legal and financial consultants.</p> <p>Acquisitions are carried out according to a uniform and predefined Group-wide process. This consists of four documented phases: strategy, evaluation, implementation and integration.</p>	During the year ASSA ABLOY acquired 19 businesses. The Group's acquisitions in 2018 are reported in the Report of the Board of Directors and in Note 30, Business combinations.
Restructuring measures	<p>The restructuring programs are carried on as a series of projects with stipulated activities and schedules. The various projects in the respective restructuring program are systematically monitored on a regular basis.</p>	A new restructuring program was launched at the end of 2018 involving the closure of about fifty factories and offices. The scope, costs and savings of the restructuring programs are presented in more detail in the Report of the Board of Directors.
Price fluctuations and availability of raw materials	Raw materials are purchased and handled primarily at division and business unit level. Regional committees coordinate these activities with the help of senior coordinators for selected material components.	For further information about procurement of materials, see Note 7, Expenses by nature.
Credit losses	<p>Trade receivables are spread across a large number of customers in many markets. No individual customer in the Group accounts for more than 1 percent of sales.</p> <p>Commercial credit risks are managed locally at company level and monitored at division level.</p>	Receivables from each customer are relatively small in relation to total trade receivables. The risk of significant credit losses for the Group is considered to be limited, but has increased somewhat in pace with the Group's expansion in recent years in emerging markets, mainly regarding China.
Insurance risks	<p>A Group-wide insurance program is in place, mainly relating to property, business interruption and liability risks. This program covers all business units.</p> <p>The Group's exposure to the risk areas listed above is regulated by means of its own captive insurance company.</p>	The Group's insurance cover is considered to be generally adequate, providing a reasonable balance between assessed risk exposure and insurance costs.
Risks relating to internal control	<p>The organization is considered to be relatively transparent, with a clear allocation of responsibilities. A well-established Controller organization at both division and Group level monitors financial reporting quality.</p> <p>Instructions about the allocation of responsibilities, authorization and procedures for ordering, sourcing and plant management are laid down in an internal control manual. Compliance is evaluated annually for all operating companies, combined with an action plan for concrete improvements.</p> <p>An annual internal audit of financial reporting is performed for selected Group companies on a rotating basis.</p>	<p>ASSA ABLOY strengthened the internal audit and internal control functions in terms of staffing in 2018 and more audits were carried out. Internal control and other related issues are reported in more detail in the Report of the Board of Directors, section on Corporate governance.</p> <p>Further information on risk management relating to financial reporting can be found in the Report of the Board of Directors, section on Corporate governance. See also the section 'Basis of preparation' in Note 1.</p>

Financial risks

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

Financing risk

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

Currency risk

Since ASSA ABLOY sells its products in countries worldwide and has companies in a large number of countries, the Group is exposed to the effects of exchange rate fluctuations. These fluctuations affect Group earnings when the income statements of foreign subsidiaries are translated to Swedish kronor (translation exposure), and when products are exported and sold in countries outside the country of production (transaction exposure). Translation exposure is primarily related to earnings in USD and EUR. This type of exposure is not hedged. Currency risk in the form of transaction exposure, i.e. the relative values of exports and imports of goods, is expected to increase over time due to rationalization of production and sourcing. In accordance with financial policy, the Group only hedged a very limited part of current currency flows in 2018. As a result, exchange rate fluctuations had a direct impact on business operations.

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

Interest rate risk

With respect to interest rate risks, interest rate changes have a direct impact on ASSA ABLOY's net interest expense. The net interest expense is also impacted by the size of the Group's net debt and its currency composition. Net debt was SEK 29,246 M (25,275) at year-end 2018. Debt was mainly denominated in USD and EUR. Group Treasury analyzes the Group's interest rate exposure and calculates the impact on income of interest rate changes on a rolling 12-month basis. In addition to raising variable-rate and fixed-rate loans, various interest rate swaps are used to adjust interest rate sensitivity.

Credit risk

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

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

Pension obligations

At year-end 2018, ASSA ABLOY had obligations for pensions and other post-employment benefits of SEK 8,107 M (8,014). The Group manages pension assets valued at SEK 5,227 M (5,081). Provisions in the balance sheet for defined benefit and defined contribution plans and post-employment medical benefits totaled SEK 2,880 M (2,933). Changes in the value of assets and liabilities from year to year are due partly to the development of equity and debt capital markets and partly to the actuarial assumptions made. Significant remeasurement of obligations and plan assets is recognized on a current basis in the balance sheet and in other comprehensive income. The assumptions made include discount rates and anticipated inflation and salary increases.

Corporate governance

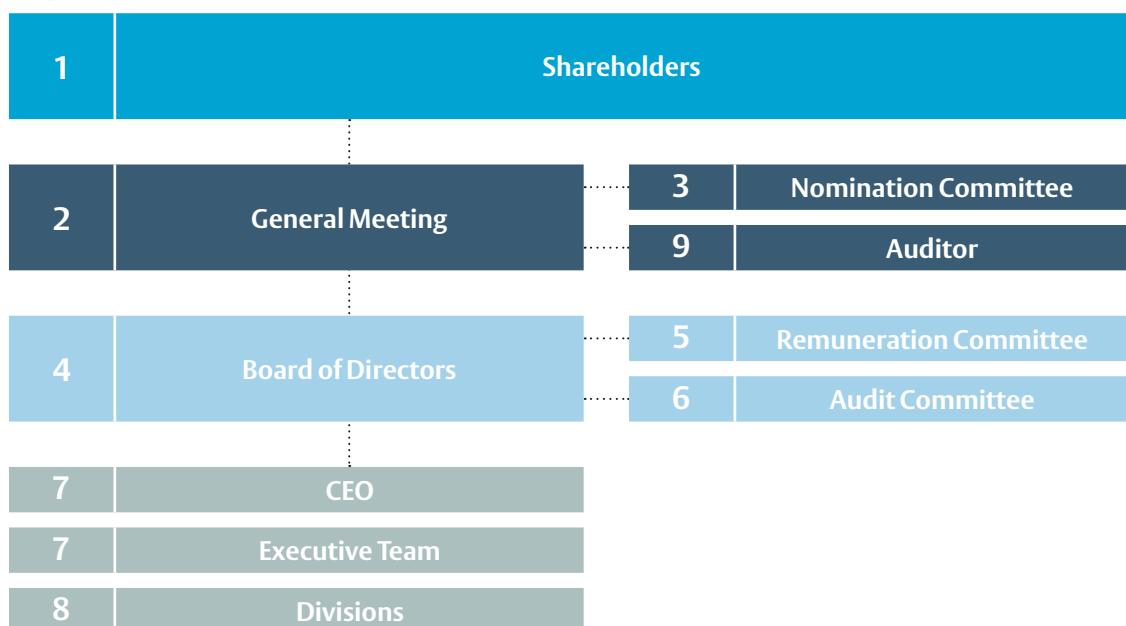
ASSA ABLOY is a Swedish public limited liability company with registered office in Stockholm, Sweden, whose Series B share is listed on the Nasdaq Stockholm.

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

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

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

Corporate governance structure



Important external rules and regulations

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

Important internal rules and regulations

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

1 Shareholders

At year-end 2018, ASSA ABLOY had 31,143 shareholders (33,811). The principal shareholders are Investment AB Latour (9.5 percent of the share capital and 29.5 percent of the votes) and Melker Schörling AB (3.4 percent of the share capital and 11.1 percent of the votes). Foreign shareholders accounted for 70.5 percent (66.6) of the share capital and 48.1 percent (45.4) of the votes. The ten largest shareholders accounted for 36.9 percent (40.3) of the share capital and 56.9 percent (59.3) of the votes. For further information on shareholders, see page 109.

ASSA ABLOY's Articles of Association contains a pre-emption clause for owners of Series A shares regarding Series A shares. A shareholders' agreement exists between Gustaf Douglas, Melker Schörling and related companies and includes an agreement on right of first refusal if any party disposes of Series A shares. The Board of Directors of ASSA ABLOY is not aware of any other shareholders' agreements or other agreements between shareholders in ASSA ABLOY.

Share capital and voting rights

ASSA ABLOY's share capital at the end of 2018 amounted to SEK 370,858,778 distributed among a total of 1,112,576,334 shares, comprising 57,525,969 Series A shares and 1,055,050,365 Series B shares. The total number of votes amounted to 1,630,310,055. Each Series A share carries ten votes and each Series B share one vote. All shares have a par value of around SEK 0.33 and give shareholders equal rights to the company's assets and earnings.

Repurchase of own shares

Since 2010, the Board of Directors has requested and received a mandate from the Annual General Meeting to repurchase and transfer ASSA ABLOY Series B shares. The aim has been, among other things, to secure the company's undertakings in connection with its long-term incentive programs (LTI). The 2018 Annual General Meeting authorized the Board of Directors to acquire, during the period until the next Annual General Meeting, a maximum number of Series B shares so

that after each repurchase ASSA ABLOY holds a maximum 10 percent of the total number of shares in the company.

ASSA ABLOY holds a total of 1,800,000 (1,800,000) Series B shares after repurchase. These shares account for around 0.2 percent (0.2) of the share capital and each share has a par value of around SEK 0.33. The purchase consideration amounted to SEK 103 M (103). No shares were repurchased in 2018.

Share and dividend policy

ASSA ABLOY's Series B share is listed on Nasdaq Stockholm, Large Cap. At the end of 2018, ASSA ABLOY's market capitalization amounted to SEK 175,954 M, calculated on both Series A and Series B shares. The Board of Directors' objective is that, in the long term, the dividend should be equivalent to 33–50 percent of income after standard tax, but always taking into account ASSA ABLOY's long-term financing requirements.

2 General Meeting

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

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

2018 Annual General Meeting

The Annual General Meeting in April 2018 was attended by shareholders representing 52.7 percent of the share capital and 67.8 percent of the votes.

The Annual General Meeting's resolutions included the following.

- Dividend of SEK 3.30 per share.
- Lars Renström, Carl Douglas, Ulf Ewaldsson, Eva Karlsson, Birgitta Klasén, Sofia Schörling Höglberg and Jan Svensson were re-elected as members of the Board of Directors and Lena Olving was elected as new member of the Board of Directors. Further, Lars Renström was re-elected as Chairman of the Board of Directors, and Carl Douglas was re-elected as Vice Chairman.
- PricewaterhouseCoopers AB (PwC) was re-appointed as the company's auditor.
- Remuneration of the Board of Directors.
- Remuneration guidelines for senior management.
- Authorization to the Board of Directors regarding repurchase and transfers of own Series B shares.
- A long-term incentive program for senior executives and other key employees in the Group (LTI 2018).
- Instructions for appointment of the Nomination Committee and its assignment.

For more information about the Annual General Meeting, including the minutes, please see www.assaabloy.com.

3 Nomination Committee

According to the instructions adopted by the Nomination Committee at the 2018 Annual General Meeting the Nomination Committee shall be composed of representatives of the five largest shareholders in terms of voting rights registered in the shareholders' register maintained by Euroclear Sweden AB as of 31 August the year before the Annual General Meeting who wish to participate on the Nomination Committee.

The Nomination Committee prior to the 2019 Annual General Meeting comprises Carl Douglas (Investment AB Latour), Mikael Ekdahl (Melker Schörling AB), Liselott Ledin (Alecta), Marianne Nilsson (Swedbank Robur funds) and Anders Oscarsson (AMF and AMF funds). Carl Douglas is Chairman of the Nomination Committee. Carl Douglas is also Vice Chairman of ASSA ABLOY's Board of Directors. The Nomination Committee thus deviates from the Swedish Corporate Governance Code in that the Vice Chairman of the Board of Directors is also Chairman of the Nomination Committee. The reason for this deviation is that the major shareholders consider it to be important to have the representative from the largest shareholder as Chairman of the Nomination Committee.

Should the ownership structure change, the composition of the Nomination Committee may change to reflect such changes.

The Nomination Committee has the task of preparing, on behalf of the shareholders, proposals regarding the election of Chairman of the General Meeting, members of the Board of Directors, Chairman of the Board, Vice Chairman of the Board, auditor, fees for the board members including division between the Chairman, the Vice Chairman, and the other board members, as well as fees for committee work, fees to the company's auditor and changes of the instructions for the Nomination Committee. The Audit Committee assists the Nomination Committee in work associated with the proposal regarding appointment of the auditor.

Prior to the 2019 Annual General Meeting, the Nomination Committee makes an assessment of whether the current Board of Directors is appropriately composed and fulfills the requirements imposed on the Board of Directors by the company's present situation and future direction. The annual evaluation of the Board of Directors and its work is part of the basis for this assessment. Moreover, the Nomination Committee applies ASSA ABLOY's diversity policy for the Board of Directors, which is based on Rule 4.1 of the Swedish Corporate Governance Code, when preparing its proposal for election of members of the Board of Directors. The search for suitable board members is carried on throughout the year and proposals for new board members are based in each individual case on a profile of requirements established by the Nomination Committee.

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

The Nomination Committee's proposals for the 2019 Annual General Meeting are published at the latest in conjunction with the formal notification of the Annual General Meeting, which is expected to be issued around 21 March 2019.

4 Board of Directors

In accordance with the Swedish Companies Act, the Board of Directors is responsible for the organization and administration of the Group and for ensuring satisfactory control of bookkeeping, asset management and other financial circumstances. The Board of Directors decides on the Group's overall objectives, strategies, significant policies, acquisitions and divestments as well as investments of major

Corporate governance

importance. Acquisitions and divestments with a value (on a debt-free basis) exceeding SEK 200 M are decided by the Board of Directors. This amount presumes that the matter relates to acquisitions or divestments in accordance with the strategy agreed by the Board of Directors. The Board of Directors approves the Annual Report and Interim Reports, proposes a dividend and remuneration guidelines for senior management to the Annual General Meeting, and makes decisions concerning the Group's financial structure.

The Board of Directors' other ongoing duties include:

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

Each year, the Board of Directors reviews and adopts the Board of Directors' rules of procedure, which is the document that governs the work of the Board and the distribution of duties between the Board of Directors and the CEO. The rules of procedure include instructions for the CEO, instructions relating to financial reporting and internal control, and instructions to the Remuneration Committee and the Audit Committee.

Included in the rules of procedure is a description of the role of Chairman of the Board. In addition to organizing and leading the work of the Board of Directors, the Chairman's duties include maintaining contact with the CEO to continuously monitor the Group's operations and development, consulting with the CEO on strategic issues, representing the company in matters concerning the ownership structure, ensuring that the Board receives satisfactory information on which to base decisions and ensuring that Board decisions are implemented. In addition, the Chairman shall ensure that the work of the Board of Directors is evaluated annually.

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

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

Board of Directors' composition

The Board of Directors is elected annually at the Annual General Meeting for the period until the end of the next Annual General Meeting and shall, according to the Articles of Association, comprise a minimum of six and a maximum of ten members elected by the Meeting. Two of the members are appointed by the employee organizations in accordance with Swedish law. The employee organizations also appoint two deputies. The Board of Directors has consisted of eight elected members and two employee representatives since the 2018 Annual General Meeting. No board members are included in the Executive Team.

The diversity policy that ASSA ABLOY applies with respect to the company's Board of Directors is based on Rule 4.1 of the Swedish Corporate Governance Code. The objective is that the composition of the Board of Directors, taking into account the company's operations, phase of development and other circumstances, shall be appropriate, characterized by versatility and breadth regarding the qualifications, experience and background of the elected members, and strive to achieve gender equality. In 2018 the Nomination Committee has taken the diversity policy into account when preparing its proposal for election of members of the Board of Directors prior to the Annual General Meeting. After the election at the 2018 Annual General Meeting, four of eight elected board members are women. In addition, in-depth reviews of operations were conducted during the year at selected divisions in order to broaden the expertise of the Board of Directors within ASSA ABLOY. The Board also completed a training at the Group's common development center, Shared Technologies, to gain further understanding of ASSA ABLOY's new technological solutions.

Board of Directors' work in 2018

The Board of Directors held ten meetings during the year. At the ordinary board meetings the CEO reported on the Group's performance and financial position, including the outlook for the coming quarters. Acquisitions and divestments were also discussed to the extent they arose.

More important questions that the Board of Directors addressed during the year include impairment of goodwill and other intangible assets, as well as operating assets in the Chinese operation in the Asia Pacific division. In addition, the Board of Directors addressed a number of acquisitions, including HKC, Crossmatch and Luxer One, as well as the divestment of the US wooden door business in the Americas division, consisting of the two companies Graham Wood Doors and Maiman Company, to Masonite. During the year,

SUMMARY OF BOARD OF DIRECTORS' WORK AND COMMITTEE MEETINGS IN 2018

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

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

the Board of Directors also conducted in-depth reviews of the Group's operations in Global Technologies division's HID Global business unit, the Entrance Systems division and the Asia Pacific division, and visited the EMEA division's operations in Albstadt and Berlin, Germany. The Board of Directors' work is summarized in the timeline on pages 50–51.

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

5 Remuneration Committee

In 2018 the Remuneration Committee comprised Lars Renström (Chairman) and Jan Svensson.

The Remuneration Committee has the task of drawing up remuneration guidelines for senior management, which the Board of Directors proposes to the Annual General Meeting for resolution. The Board of Directors' proposal for guidelines prior to the 2019 Annual General Meeting is set out on page 57.

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

The Committee held two meetings in 2018. Its work included preparing a proposal for the remuneration of the Executive Team, evaluating existing incentive programs, and preparing a proposal for a new long-term incentive program. Remuneration Committee meetings are minuted; a copy of the minutes is enclosed with the materials provided to the Board and a verbal report is given at board meetings.

6 Audit Committee

In 2018 the Audit Committee comprised Jan Svensson (Chairman), Birgitta Klasén and Sofia Schörling Höglberg.

The duties of the Audit Committee include continuous monitoring and quality assurance of ASSA ABLOY's financial reporting. Regular communication is maintained with the company's auditor, including on the focus and scope of the audit. The Audit Committee is also responsible for evaluating the audit assignment and obtaining the results of the Swedish Inspectorate of Auditors' quality control of the auditor, as well as informing the Board of Directors of the results of the evaluation. The Audit Committee also has the task of supporting the Nomination Committee in providing a proposal for the appointment of auditor. Furthermore, the Audit Committee shall review and monitor the impartiality and independence of the auditor, paying particular attention to

whether the auditor provides the company with services other than auditing services. The Audit Committee sets guidelines for procurement of services other than audit services from the company's auditor, but otherwise, the Committee has no decision-making powers.

The Committee held four meetings in 2018. The company's auditor and representatives from senior management also participated at these meetings. More important matters dealt with by the Audit Committee during the year included internal control, financial statements and valuation matters, tax matters, insurance and risk management matters and legal risk areas. Audit Committee meetings are minuted; a copy of the minutes is enclosed with the materials provided to the Board and a verbal report is given at board meetings.

Remuneration of the Board of Directors

The General Meeting passes a resolution on the remuneration to be paid to board members. The 2018 Annual General Meeting passed a resolution on board fees totaling SEK 6,780,000 (excluding remuneration for committee work) to be allocated between the members as follows: SEK 2,100,000 to the Chairman, SEK 900,000 to the Vice Chairman, and SEK 630,000 to each of the other members elected by the Annual General Meeting. As remuneration for committee work, the Chairman of the Audit Committee is to receive SEK 275,000, the Chairman of the Remuneration Committee SEK 150,000, members of the Audit Committee (except the Chairman) SEK 200,000 each, and members of the Remuneration Committee (except the Chairman) SEK 75,000 each.

The Chairman and other board members have no pension benefits or severance pay agreements. The employee representatives do not receive board fees. For further information on the remuneration of board members in 2018, see Note 33.

Attendance 2018, Board of Directors and Committees

Board members	Board of Directors	Audit Committee	Remuneration Committee
Lars Renström	10/10		2/2
Carl Douglas	9/10		
Ulf Ewaldsson	10/10		
Eva Karlsson	10/10		
Birgitta Klasén	10/10	4/4	
Eva Lindqvist	3/3		
Johan Molin	2/3		
Lena Olving	7/7		
Sofia Schörling Höglberg	9/10	3/4	
Jan Svensson	10/10	4/4	2/2
Rune Hjälm	9/10		
Mats Persson	9/10		

The maximum number of meetings varies due to appointment and resignation in 2018.

Ordinary board meeting and visit to operations

Visit EMEA
Presentation Entrance Systems
Presentation Shared Technologies
Strategy
Acquisitions

Ordinary board meeting

Interim Report Q3

Ordinary board meeting

Presentation Asia Pacific
Acquisitions
Restructuring program

Remuneration Committee meeting

Audit Committee meeting

July	August	September	October	November	December
Ordinary board meeting Interim Report Q2 Acquisitions	Ordinary board meeting Acquisitions				
Extraordinary board meeting Impairment China, Asia Pacific Audit Committee meeting					

Board of Directors

Board members elected by the 2018 Annual General Meeting



Lars Renström



Carl Douglas



Ulf Ewaldsson



Eva Karlsson



Birgitta Klasén



Lena Olving



Sofia Schörling Högberg



Jan Svensson

Lars Renström

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

Carl Douglas

Vice Chairman.
Board member since 2004.
Born 1965.
BA (Bachelor of Arts) and D. Litt (h.c.) (Doctor of Letters).
Self-employed.

Other appointments: Vice Chairman of Securitas AB. Board member of Investment AB Latour.
Shareholdings (including through companies and related natural parties): 41,595,729 Series A shares and 63,900,000 Series B shares through Investment AB Latour.

Ulf Ewaldsson

Board member since 2016.
Born 1965.
Master of Science in Engineering and Business Management.
Advisor to the President and CEO of Ericsson 1 February–31 December 2018. Senior Vice President and Head of the Business Area Digital Services at Ericsson April 2017–January 2018. Various managerial positions within the Ericsson Group since 1990, including Chief Technology Officer, Head of Strategy and Head of Group Function Strategy and Technology September 2016–March 2017, Chief Technology Officer and Head of Group Function Technology 2012–September 2016, and Head of Product Area Radio within the Business Unit Networks 2007–2012.

Other appointments: Chairman of KTH Royal Institute of Technology. Member of the Royal Swedish Academy of Engineering Sciences (IVA).

Shareholdings (including through companies and related natural parties): –

Eva Karlsson

Board member since 2015.
Born 1966.
Master of Science in Engineering.
President and CEO of Armatec AB since 2014.
CEO of SKF Sverige AB and Global Manufacturing Manager 2011–2013, Director of Industrial Marketing & Product Development Industrial Market AB SKF 2005–2010, various positions within the SKF Group primarily within Manufacturing Management.

Other appointments: Board member of Bräcke diakoni and Valcon A/S.

Shareholdings (including through companies and related natural parties): –

Birgitta Klasén

Board member since 2008.
Born 1949.
Master of Science in Engineering and degree in Business and Economics.
Independent IT consultant (Senior IT Advisor). CIO and Head of Information Management at EADS (European Aeronautics Defence and Space Company) 2004–2005. CIO and Senior Vice President at Pharmacia 1996–2001 and previously CIO at Telia. Various positions at IBM 1976–1994.

Other appointments: Board member of Avanza and Benefitie Ltd.

Shareholdings (including through companies and related natural parties): 21,000 Series B shares.

Lena Olving

Board member since 2018.
Born 1956.
Master of Science in Mechanical Engineering.
President and CEO of Mycronic AB (publ) since 2013. COO and Deputy CEO of SAAB AB 2008–2013. Various positions within Volvo Car Corporation 1980–1991 and 1995–2008 of which five years as Senior Vice President of Volvo Cars Asia Pacific and seven years in the Executive Management Team. CEO of Samhall Höglund AB 1991–1995.

Other appointments: Chairman of the Royal Swedish Opera. Board member of Investment AB Latour, Munters Group AB, the Association of Swedish Engineering Industries (Teknikföretagen) and the Swedish Corporate Governance Board (Kollegiet för svensk bolagsstyrning). Member of the Royal Swedish Academy of Engineering Sciences (IVA) and board member of IVA's Business Executives Council (IVAs Näringslivsråd).

Shareholdings (including through companies and related natural parties): –

Sofia Schörling Högberg

Board member since 2017.
Born 1978.
BSc (Bachelor of Science) in Business Administration.
Other appointments: Board member of Melker Schörling AB, Securitas AB and Hexagon AB.
Shareholdings (including through companies and related natural parties): 15,930,240 Series A shares and 21,654,104 Series B shares through Melker Schörling AB as well as 463,800 Series B shares through Edeby-Ripsa Skogsförvaltning Aktiebolag.

Jan Svensson

Board member since 2012.
Born 1956.
Degree in Mechanical Engineering and Master of Science in Business and Economics.
President and CEO of Investment AB Latour since 2003. Previously CEO of AB Sigfrid Stenberg 1986–2002.

Other appointments: Chairman of AB Fagerhult, Nederman Holding AB, Troax Group AB, Alimak Group AB and Tomra Systems ASA.

Board member of Investment AB Latour, Loomis AB and Oxeon AB.

Shareholdings (including through companies and related natural parties): 6,000 Series B shares.

Appointments and shareholdings as at 31 December 2018.

Board members appointed by employee organizations

Rune Hjälm



Mats Persson



Bjarne Johansson



Nadja Wikström

Rune Hjälm

Board member since 2017.
Born 1964.
Employee representative,
IF Metall. Chairman of European
Works Council (EWC) in the
ASSA ABLOY Group.
*Shareholdings (including through
companies and related natural
parties):* –

Mats Persson

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

Bjarne Johansson

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

Nadja Wikström

Deputy board member since
2017.
Born 1959.
Employee representative,
Unionen.
*Shareholdings (including through
companies and related natural
parties):* –

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

Independence of the Board of Directors

Name	Position	Independent of the company and its management	Independent of the company's major shareholders
Lars Renström	Chairman	Yes	Yes
Carl Douglas	Vice Chairman	Yes	No
Ulf Ewaldsson	Board member	Yes	Yes
Eva Karlsson	Board member	Yes	Yes
Birgitta Klasén	Board member	Yes	Yes
Lena Olving	Board member	Yes	No
Sofia Schörling Högberg	Board member	Yes	No
Jan Svensson	Board member	Yes	No

The Board of Directors' composition and shareholdings

Name	Position	Elected	Born	Remuneration Committee	Audit Committee	Series A shares ¹	Series B shares ¹
Lars Renström	Chairman	2008	1951	Chairman	–	–	30,000
Carl Douglas	Vice Chairman	2004	1965	–	–	41,595,729	63,900,000
Ulf Ewaldsson	Board member	2016	1965	–	–	–	–
Eva Karlsson	Board member	2015	1966	–	–	–	–
Birgitta Klasén	Board member	2008	1949	–	Member	–	21,000
Lena Olving	Board member	2018	1956	–	–	–	–
Sofia Schörling Högberg	Board member	2017	1978	–	Member	15,930,240	22,117,904
Jan Svensson	Board member	2012	1956	Member	Chairman	–	6,000
Rune Hjälm	Board member, employee representative	2017	1964	–	–	–	–
Mats Persson	Board member, employee representative	1994	1955	–	–	–	–
Bjarne Johansson	Deputy, employee representative	2015	1966	–	–	–	–
Nadja Wikström	Deputy, employee representative	2017	1959	–	–	–	–

¹ Shareholdings through companies and related natural parties.

Executive Team



Nico Delvaux



Erik Pieder



Chris Bone



Lucas Boselli



Mogens Jensen

Nico Delvaux

President and CEO and Head of Global Technologies division since 2018.
Born 1966.
Master of Engineering in Electromechanics and MBA.
Previous positions: President and CEO of Metso Corporation August 2017–February 2018. Previously various positions in the Atlas Copco Group, including Business Area President Compressor Technique 2014–2017, Business Area President Construction Technique 2011–2014, and various positions in sales, marketing, service, acquisition-integration management and general manager in markets including Benelux, Italy, China, Canada, and the United States 1991–2011.
Shareholdings (including through companies and related natural parties): 27,248 Series B shares and 94,787 call options.

Erik Pieder

Executive Vice President and Chief Financial Officer (CFO) since 2019.
Born 1968.
MBA and Master of Laws.
Previous positions: Various positions in the Atlas Copco Group 1996–2019, including Vice President Business Control Compressor Technique.
Shareholdings: –

Chris Bone

Executive Vice President and Chief Technology Officer (CTO) since 2018.
Born 1965.
Degree in Industrial Management and Electrical Engineering.
Previous positions: Vice President of Digital and Access Solutions, ASSA ABLOY EMEA 2010–2017. Previously various positions in Honeywell Inc. globally, including District General Manager Honeywell Building Solutions London and South East UK 2008–2010, Honeywell Security Systems Group Marketing Director 2005–2008. Previous to that various product management and technical roles with Honeywell and eight years in the Royal Australian Army.
Shareholdings: 7,800 Series B shares.

Lucas Boselli

Executive Vice President and Head of Americas division since 2018.
Born 1976.
Bachelor of Science in Industrial Engineering.
Previous positions: Various positions in the ASSA ABLOY Group, including President of ASSA ABLOY Central and South America 2014–2018 and President of Yale Latin America 2012–2014. Previously various positions in Ingersoll Rand 2000–2010.
Shareholdings: 12,035 Series B shares.

Mogens Jensen

Executive Vice President and Head of Entrance Systems division since 2018.
Born 1958.
Master of Science in Mechanical Engineering and Master of Business Administration.
Previous positions: Various positions in the ASSA ABLOY Group, including BA President Industrial Door and Docking Solutions, Entrance Systems division 2016–2017, Market Region Manager Scandinavia, EMEA division 2006–2016 and Managing Director Ruko A/S Denmark. Previously various Managing Director positions.
Shareholdings: 13,802 Series B shares.

Shareholdings as at 31 December 2018.

7 Organization

CEO and Executive Team

The Executive Team consists of the CEO, the Heads of the Group's divisions, the Chief Financial Officer, the Chief Technology Officer and the Chief Human Resources Officer. For a presentation of the CEO and the other members of the Executive Team, see pages 54–55.

8

Divisions – decentralized organization

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

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

Policies and guidelines

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



Anders Maltesen



Maria Romberg Ewerth



Christophe Sut



Neil Vann



Stefan Widing

Anders Maltesen

Executive Vice President and Head of Asia Pacific division since 2017.

Born 1965.

Bachelor's degree in Marketing and Bachelor's degree in Financial and Management Accounting.

Previous positions: Regional General Manager and President, Asia Pacific, GE Energy, Power Services 2015–2017, Managing Director, Asia Pacific, Alstom Thermal Services 2014–2015, Vice President, East Asia, Alstom Thermal Services 2011–2014, General Manager, board member, Tianjin Alstom Hydro Co. Ltd 2003–2011. Previously various positions within Alstom.

Shareholdings: 3,904 Series B shares.

Maria Romberg Ewerth

Executive Vice President and Chief Human Resources Officer (CHRO) since 2019.

Born 1978.

Bachelor's degree in Human Resources and MBA.

Previous positions: Senior Vice President Human Resources ASSA ABLOY AB 2013–2019, Vice President Human Resources ASSA ABLOY Entrance Systems 2011–2013. HR-manager and HR-director ASSA ABLOY Entrance Systems 2008–2011. Previously to that HR-positions in various companies: JELD-WEN Sverige AB, VALEO Engine Cooling AB and Swedish Meats 2003–2008.

Shareholdings: 9,896 Series B shares.

Christophe Sut

Executive Vice President and Head of Global Technologies business unit ASSA ABLOY Global Solutions since 2016.

Born 1973.

Master of Science in Business and Marketing, Bachelor of Science in Language and Mathematics.

Previous positions: Various positions in the ASSA ABLOY Group, 2001–2010 and 2012–2014, including CTO and Vice President Business Development ASSA ABLOY Hospitality and Platform Director for ASSA ABLOY AB. Niscayah Group 2010–2012. SPIT France (ITW group) 1999–2001 and SAM Outillage 1997–1999.

Shareholdings: 6,470 Series B shares.

Neil Vann

Executive Vice President and Head of EMEA division since 2018.

Born 1971.

Degree in Manufacturing Engineering.

Previous positions: Various positions in the ASSA ABLOY Group, including Market Region Manager ASSA ABLOY UK 2014–2018, Market Region Manager Italy and Greece 2012–2014 and Vice President Operations EMEA 2011–2012. Previously various positions within ASSA ABLOY, Yale and Chubb 1987–2001.

Shareholdings: 10,435 Series B shares.

Stefan Widing

Executive Vice President and Head of Global Technologies business unit HID Global since 2015.

Born 1977.

Master of Science in Applied Physics and Electrical Engineering and Bachelor of Social Science in Business Administration.

Previous positions: Various positions in the ASSA ABLOY Group, including Director of Product Management and General Manager of Shared Technologies Unit 2006–2015.

Previously various positions in the Saab Group 2001–2006.

Shareholdings: 16,209 Series B shares.

Changes in the Executive Team

Nico Delvaux assumed the position of President and CEO on 15 March 2018. He succeeded Johan Molin.

Chris Bone assumed the position of Executive Vice President and CTO on 1 March 2018. He succeeded Ulf Södergren.

Lucas Boselli assumed the position of Executive Vice President and Head of Americas division on 2 April 2018. He succeeded Thanasis Molokotos.

Neil Vann assumed the position of Executive Vice President and Head of the EMEA division on 12 July 2018. He succeeded Tzachi Wiesenfeld.

Erik Pieder was appointed Executive Vice President and CFO with effect from 14 January 2019. He succeeds Carolina Dybeck Happe, who left the Group on 31 December 2018.

Maria Romberg Ewerth joined the Executive Team on 1 February 2019 as Executive Vice President and Chief Human Resources Officer.

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

ASSA ABLOY had adopted a Code of Conduct for employees and a separate ASSA ABLOY Code of Conduct for business partners. The Codes, which are based on a set of internationally accepted conventions, define the values and guidelines that should apply both within the Group and for ASSA ABLOY's business partners with regard to matters such as business ethics, human rights and working conditions, as well as the environment, health and safety. Moreover, ASSA ABLOY has adopted policies and guidelines on compliance with competition, export control, anti-corruption and data protection legislation applicable to the Group.

9 Auditor

At the 2018 Annual General Meeting, PricewaterhouseCoopers (PwC) was re-appointed as the company's external auditor up to the end of the 2019 Annual General Meeting. In connection with the 2018 Annual General

Meeting, PwC notified that the authorized public accountant Bo Karlsson would remain the auditor in charge. In addition to ASSA ABLOY, Bo Karlsson, born 1966, is responsible for auditing SKF, Scania and Investment AB Latour.

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

The external audit is conducted in accordance with International Standards in Auditing (ISA), and generally accepted auditing standards in Sweden. The audit of the financial statements for legal entities outside Sweden is conducted in accordance with statutory requirements and other applicable rules in each country. For information about the fees paid to auditors and other assignments carried out in the Group in the past three financial years, see Note 3 and the Annual Report for 2017, Note 3.

Internal control – financial reporting

ASSA ABLOY's internal control process for financial reporting is designed to provide reasonable assurance of reliable financial reporting, which is in compliance with generally accepted accounting principles, applicable laws and regulations, and other requirements for listed companies.

Control environment

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

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

The Code of Conduct has been regularly reviewed and updated, and compliance is monitored systematically in operations.

Risk assessment

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

Control activities

The Group's controller and accounting organization at both central and division levels plays a significant role in ensuring reliable financial information. It is responsible for complete, accurate and timely financial reporting. A global financial internal audit function has been established and carries out annual financial evaluations in accordance with the plan

annually adopted by the Audit Committee. The results of the financial evaluations are submitted to the Audit Committee and the auditors.

In 2018 ASSA ABLOY further strengthened the internal audit and internal control functions in terms of staffing and expanded the number of audits at the local level. Each division will employ full-time internal auditors who will audit the companies and monitor internal control.

Information and communication

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

Review process

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

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

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

Remuneration guidelines for senior management

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

The Board of Directors of ASSA ABLOY proposes that the Annual General Meeting adopts the following guidelines for the remuneration and other employment conditions of the President and CEO and other members of the ASSA ABLOY Executive Team (the Executive Team). The proposed guidelines below do not involve any material change, compared with the guidelines adopted by the 2018 Annual General Meeting. The basic principle is that the remuneration and other employment conditions shall be in line with market conditions and be competitive. ASSA ABLOY takes into account both global remuneration practice and practice in the home country of each member of the Executive Team. The total remuneration of the Executive Team shall consist of base salary, variable components in the form of annual and long-term variable remuneration, other benefits and pension.

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

Fixed and variable remuneration

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

In addition, the Executive Team shall, within the framework of the Board of Directors' proposal for a long-term incentive program, be able to receive variable remuneration in the form of shares, based on the annual development of ASSA ABLOY's earnings per share in relation to target levels, as defined by the Board of Directors, during the measurement period 1 January 2019 – 31 December 2021, where each year during the measurement period is compared to the previous year. The outcome is calculated yearly, whereby one third of the maximum outcome is measured against the outcome for 2019, one third is measured against the outcome for 2020 and one third is measured against the outcome for 2021. The remuneration shall, if the share price is unchanged, be equivalent to a maximum of 90 per cent of the base salary (excluding social security costs).

The company's annual cost of variable remuneration for the Executive Team as above, assuming maximum outcome, can amount to a total of approximately SEK 55 M (excluding social security costs and financing cost). This calculation is made on the basis of the current members of the Executive Team.

Other benefits and pension

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

Notice and severance pay

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

Deviation from the guidelines

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

Sales and income

- Net sales increased by 10 percent to SEK 84,048 M (76,137). Organic growth was 5 percent (4). Growth from acquisitions and divestments amounted to 2 percent (2).
- Operating income (EBIT) excluding items affecting comparability increased by 5 percent to SEK 12,909 M (12,341), equivalent to an operating margin of 15.4 percent (16.2).
- Earnings per share after full dilution and excluding items affecting comparability increased by 4 percent till SEK 8.09 (7.77).

Sales

The Group's sales totaled SEK 84,048 M (76,137), representing a 10 percent increase.

Change in sales

%	2017	2018
Organic growth	4	5
Acquisitions and divestments	2	2
Exchange rate effects	1	3
Total	7	10

The total change in sales for 2018 was 10 percent (7). Organic growth was 5 percent (4) and acquired growth and divestments contributed 4 percent (3) and -2 percent (-1). The exchange rate impact on sales was 3 percent (1).

Sales by product group

Mechanical locks, lock systems and fittings accounted for 26 percent (27) of total sales. Electromechanical and electronic locks rose to 30 percent (27) of sales and entrance automation accounted for 28 percent (28). Security doors and hardware accounted for 16 percent (18) of sales.

Cost structure

Total wage costs, including social security expenses and pension expenses, amounted to SEK 24,485 M (21,618), equivalent to 29 percent (28) of sales. The average number of employees was 48,353 (47,426).

The Group's material costs amounted to SEK 30,461 M (27,630), equivalent to 36 percent (36) of sales.

Other purchasing costs totaled SEK 15,319 M (13,144), equivalent to 18 percent (17) of sales.

Depreciation and amortization of non-current assets amounted to SEK 1,963 M (1,688), equivalent to 2 percent (2) of sales.

Operating income

Operating income (EBIT) excluding items affecting comparability increased by 5 percent to SEK 12,909 M (12,341), primarily due to continued growth in operations, efficiency

improvements, acquisitions and exchange rate effects. The operating margin dropped to 15.4 percent (16.2), in part because of impairment of operating assets for Asia Pacific of SEK 400 M. The exchange rate effects in operating income amounted to SEK 304 M (37).

Operating income before amortization of intangible assets recognized in business combinations (EBITA), excluding items affecting comparability, was SEK 13,302 M (12,584). The corresponding margin was 15.8 percent (16.5).

Items affecting comparability

Impairment of goodwill and other intangible assets for Asia Pacific was SEK 5,595 M (-). A new restructuring program was launched during the year for a cost of SEK 1,218 M before tax. The program involves the closure of about fifty plants and offices over a three-year period for a total estimated cost before tax of about SEK 1,500 M.

Income before tax

Income before tax excluding items affecting comparability totaled SEK 12,110 M (11,673). The positive exchange rate effect before taxes amounted to SEK 315 M (17). Net financial items were SEK -799 M (-668). The profit margin was 14.4 percent (15.3).

The Parent company's operating income for 2018 continued to be stable at a high level, totaling SEK 1,801 M (1,701).

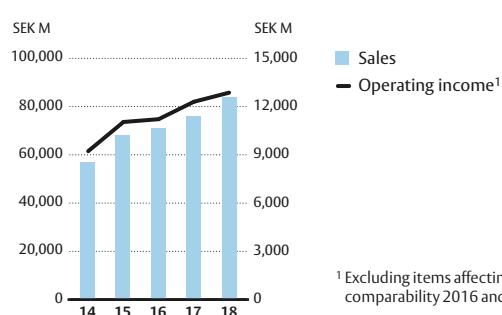
Taxes

The Group's tax expense totaled SEK 2,542 M (3,038), equivalent to an effective tax rate excluding items affecting comparability of 25.8 percent (26.0). The new restructuring program increased the effective tax rate for 2018 by 0.5 percentage points. Impairment of goodwill and other intangible assets further increased the effective tax rate to a total of 48 percent (26).

Earnings per share

Earnings per share before and after full dilution and excluding items affecting comparability amounted to SEK 8.09 (7.77), an increase of 4 percent.

SALES AND OPERATING INCOME



Consolidated income statement and Statement of comprehensive income

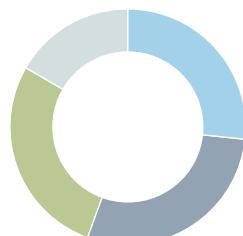
Consolidated income statement

SEK M	Note	2017	2018
Sales	2	76,137	84,048
Cost of goods sold		-46,148	-51,345
Gross income		29,988	32,703
Selling expenses		-12,008	-13,594
Administrative expenses	3	-3,680	-4,395
Research and development costs		-2,244	-2,893
Other operating income and expenses	4	156	-296
Impairment of goodwill and other intangible assets	14	-	-5,595
Share of earnings in associates	5	129	167
Operating income	6–9, 24, 33	12,341	6,096
Financial income	10	19	20
Financial expenses	9, 11, 24	-687	-819
Income before tax		11,673	5,297
Tax on income	12	-3,038	-2,542
Net income		8,635	2,755
Net income attributable to:			
Parent company's shareholders		8,633	2,753
Non-controlling interests		2	2
Earnings per share			
Before and after dilution, SEK	13	7.77	2.48
Before and after dilution and excluding items affecting comparability, SEK	13	7.77	8.09

Consolidated statement of comprehensive income

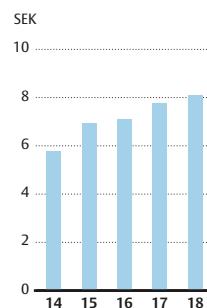
SEK M	Note	2017	2018
Net income		8,635	2,755
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial gain/loss on post-employment benefit obligations	24	26	39
Deferred tax from actuarial gain/loss on post-employment benefit obligations		-77	-34
Total		-51	6
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive income of associates		50	87
Cash flow hedges		8	2
Net investment hedges		15	-8
Exchange rate differences		-1,864	2,089
Tax attributable to items that may be reclassified subsequently to profit or loss		4	-8
Total		-1,788	2,163
Total comprehensive income		6,796	4,923
Total comprehensive income attributable to:			
Parent company's shareholders		6,794	4,923
Non-controlling interests		2	1

SALES BY PRODUCT GROUP, 2018



- Mechanical locks, lock systems and fittings, 26%(27)
- Entrance automation, 28%(28)
- Electromechanical and electronic locks, 30%(27)
- Security doors and hardware, 16%(18)

EARNINGS PER SHARE BEFORE AND AFTER DILUTION



■ Earnings per share before and after dilution¹

¹ Excluding items affecting comparability 2016 and 2018.

Comments by division

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

EMEA

Sales totaled SEK 20,201 M (18,081), with organic growth of 2 percent (4). Acquired units contributed 5 percent (3) net to sales. Operating income excluding items affecting comparability amounted to SEK 3,256 M (2,990), with an operating margin (EBIT) of 16.1 percent (16.5). Return on capital employed was 20.1 percent (21.4). Operating cash flow before interest paid was SEK 2,819 M (2,977).

Growth was robust in the EMEA on several markets, with total organic growth of 2 percent. Sales of electromechanical locks with digital and mobile solutions continued to increase sharply during the year. Initiatives focused on innovation and new products continued during the year, at the same time that initiatives focused on efficiency, automation of production, and other areas continued to contribute to the high operating margin for EMEA.

Americas

Sales totaled SEK 19,817 M (17,940), with organic growth of 9 percent (4). Acquired units contributed 1 percent (1) net to sales. Operating income excluding items affecting comparability amounted to SEK 3,941 M (3,815), with an operating margin (EBIT) of 19.9 percent (21.3). Return on capital employed was 22.5 percent (24.2). Operating cash flow before interest paid was SEK 3,903 M (3,491).

Demand was strong in North America and robust in Latin America for most markets. Growth was extremely strong in the US for electromechanical locks in both the commercial and institutional customer segments, as well as in the private residential market. Profitability continued to be strong despite increased material costs.

Asia Pacific

Sales totaled SEK 9,949 M (9,211), with organic growth of 4 percent (0). Acquired units contributed 1 percent (0) to sales. Operating income excluding items affecting comparability amounted to SEK 492 M (934), with an operating margin (EBIT) of 4.9 percent (10.1). Impairment of operating assets reduced operating income by a total of SEK 400 M. Return on capital employed was 4.8 percent (7.8). Operating cash flow before interest paid was SEK 811 M (859).

Growth was strong in South Korea, Japan and Southeast Asia, as well as for internal sales to other business areas. Stable growth in Pacific. Meanwhile, demand remained weak in China. A new business strategy and organization was implemented in China to strengthen the market position moving forward. The operating margin declined because of impairment of operating assets. A larger impairment loss was reported for goodwill and other intangible assets during the year.

Global Technologies

Sales totaled SEK 11,951 M (10,373), with organic growth of 8 percent (7). Acquired units contributed 4 percent (0) net to sales. Operating income excluding items affecting comparability amounted to SEK 2,387 M (1,946), with an operating margin (EBIT) of 20.0 percent (18.8). Return on capital employed was 14.0 percent (14.4). Operating cash flow before interest paid was SEK 2,463 M (1,732).

Growth for the HID Global business unit was generally strong in the US, while the emerging markets continued to show good growth. The market position was strengthened by the Crossmatch acquisition. ASSA ABLOY Global Solutions showed strong growth and good profitability, driven by continued increased demand for electromechanical door opening solutions with mobile technology.

Entrance Systems

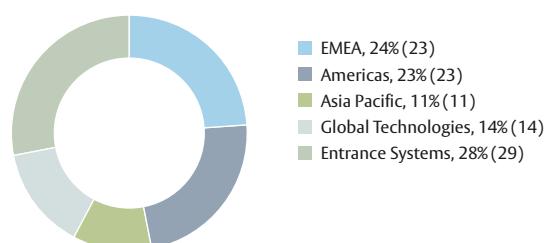
Sales totaled SEK 23,762 M (21,781), with organic growth of 4 percent (4). Acquired units contributed 1 percent (6) to sales. Operating income excluding items affecting comparability amounted to SEK 3,358 M (3,087), with an operating margin (EBIT) of 14.1 percent (14.2). Return on capital employed was 16.9 percent (16.4). Operating cash flow before interest paid was SEK 2,772 M (3,065).

Strong growth was seen in North America, as well as for service in general. Growth in Europe was robust, driven by a strong trend in central and eastern Europe. Sales were weaker in the emerging markets. New product launches, a strong service offering and continued consolidation of the production structure were contributing factors to the trend of continued robust growth, and maintained operating margins.

Other

The costs of Group-wide functions, such as corporate management, accounting and finance, supply management and Group-wide product development, totaled SEK 525 M (432). Elimination of sales between the Group's segments is included in "Other".

EXTERNAL SALES, 2018



Results by division

SEK M	EMEA		Americas		Asia Pacific		Global Technologies		Entrance Systems		Other		Total	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Sales, external	17,729	19,908	17,873	19,737	8,553	8,875	10,301	11,864	21,681	23,665	0	0	76,137	84,048
Sales, internal	351	293	67	79	658	1,074	72	87	100	97	-1,249 ²	-1,631 ²	-	-
Sales	18,081	20,201	17,940	19,817	9,211	9,949	10,373	11,951	21,781	23,762	-1,249	-1,630	76,137	84,048
Organic growth	4%	2%	4%	9%	0%	4%	7%	8%	4%	4%	-	-	4%	5%
Acquisitions and disposals	3%	5%	1%	1%	0%	1%	0%	4%	6%	1%	-	-	2%	2%
Exchange-rate effects	0%	5%	0%	0%	0%	3%	0%	3%	0%	4%	-	-	1%	3%
Share of earnings in associates	-	0	-	-	25	17	-	3	104	147	-	-	129	167
Operating income (EBIT) excluding items affecting comparability	2,990	3,256	3,815	3,941	934	492	1,946	2,387	3,087	3,358	-432	-525	12,341	12,909
Operating margin (EBIT) excluding items affecting comparability ¹	16.5%	16.1%	21.3%	19.9%	10.1%	4.9%	18.8%	20.0%	14.2%	14.1%	-	-	16.2%	15.4%
Restructuring costs	-	438	-	-225	-	-130	-	-218	-	-108	-	-100	-	-1,218
Impairment goodwill and other intangible assets	-	-	-	-	-	-5,595	-	-	-	-	-	-	-	-5,595
Operating income (EBIT)	2,990	2,818	3,815	3,716	934	-5,233	1,946	2,170	3,087	3,250	-432	-625	12,341	6,096
Operating margin (EBIT)	16.5%	13.9%	21.3%	18.8%	10.1%	-52.6%	18.8%	18.2%	14.2%	13.7%	-	-	16.2%	7.3%
Net financial items													-668	-799
Tax on income													-3,038	-2,542
Net income													8,635	2,755
Capital employed	13,865	16,883	16,095	18,506	12,048	7,455	15,615	18,511	18,379	20,742	-71	-951	75,932	81,146
- of which goodwill	8,571	10,709	11,190	13,327	7,752	3,892	11,121	13,245	11,696	12,240	-	-	50,330	53,413
- of which other intangible assets and property, plant and equipment	3,567	4,041	3,310	3,813	3,789	2,345	4,064	4,866	4,273	4,422	140	151	19,144	19,637
- of which investments in associates	9	9	-	-	519	587	17	19	1,699	1,819	-	-	2,243	2,434
Return on capital employed excluding items affecting comparability ¹	21.4%	20.1%	24.2%	22.5%	7.8%	4.8%	14.4%	14.0%	16.4%	16.9%	-	-	16.6%	16.2%
Operating income (EBIT)	2,990	2,818	3,815	3,716	934	-5,233	1,946	2,170	3,087	3,250	-432	-625	12,341	6,096
Restructuring costs	-	438	-	-225	-	-130	-	-218	-	-108	-	-100	-	-1,218
Impairment of goodwill, etc.	-	-	-	-	-	-5,595	-	-	-	-	-	-	-	-5,595
Depreciation and amortization	421	464	333	367	310	292	353	522	255	294	15	24	1,688	1,963
Net capital expenditure	-571	-500	-466	-327	-337	-6	-297	-281	-273	-170	-30	-36	-1,975	-1,319
Change in working capital	136	-401	-191	-78	-48	33	-271	-165	-4	-709	30	244	-347	-1,076
Cash flow	2,977	2,819	3,491	3,903	859	811	1,732	2,463	3,065	2,772	-417	-293	11,706	12,477
Non-cash items											-221	-458	-221	-458
Interest paid and received											-557	-662	-557	-662
Operating cash flow													10,929	11,357
Average number of employees	11,033	11,717	8,836	8,768	11,756	11,492	4,328	4,624	11,211	11,463	264	288	47,426	48,353

¹ Items affecting comparability relate to restructuring costs as well as impairment of goodwill and other intangible assets.

² Of which eliminations SEK 1,631 M (1,249).

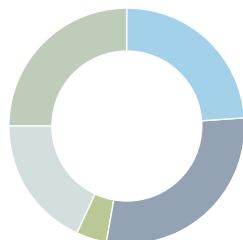
The segments have been determined on the basis of reporting to the CEO, who monitors the overall performance and makes decisions on resource allocation.

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

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

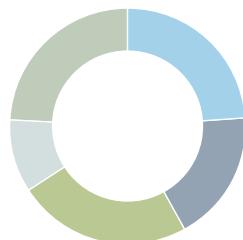
For further information on sales, see Note 2.

OPERATING INCOME, 2018^{1,2}



- EMEA, 24% (24)
- Americas, 29% (30)
- Asia Pacific, 4% (7)
- Global Technologies, 18% (15)
- Entrance Systems, 25% (24)

AVERAGE NUMBER OF EMPLOYEES, 2018



- EMEA, 24% (23)
- Americas, 18% (19)
- Asia Pacific, 24% (25)
- Global Technologies, 10% (9)
- Entrance Systems, 24% (24)

¹ "Other" is not included in the calculation. See section Comments by division for what is included in "Other".

² Excluding items affecting comparability.

Financial position

- Capital employed amounted to SEK 81,146 M (75,932).
- Return on capital employed remained high at 16.2 percent (16.6).
- The net debt/equity ratio was 0.56 (0.50).

SEK M	2017	2018
Capital employed	75,932	81,146
– of which goodwill	50,330	53,413
Net debt	25,275	29,246
Equity	50,657	51,900
– of which non-controlling interests	9	10

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 81,146 M (75,932). The return on capital employed excluding items affecting comparability was 16.2 percent (16.6).

Intangible assets amounted to SEK 64,861 M (61,409). The increase is mainly due to the effects of completed acquisitions. During the year, goodwill and other intangible assets with an indefinite useful life have arisen to a preliminary value of SEK 5,753 M as a result of completed acquisitions and adjustments of acquisitions made in previous years. A valuation model, based on discounted future cash flows, is used for impairment testing of goodwill and other intangible assets with an indefinite useful life.

Property, plant and equipment amounted to SEK 8,189 M (8,065). Capital expenditure on property, plant and equipment and intangible assets, less sales of property, plant and equipment and intangible assets, totaled SEK 1,319 M (1,197). Total depreciation and amortization amounted to SEK 1,963 M (1,688).

Trade receivables amounted to SEK 14,496 M (13,068) and inventories totaled SEK 11,316 M (9,430). The average collection period for trade receivables was 52 days (54). Material throughput time was 96 days (92). The Group is making systematic efforts to increase capital efficiency.

Net debt

Net debt amounted to SEK 29,246 M (25,275), of which pension commitments and other post-employment benefits accounted for SEK 2,880 M (2,933).

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

External financing

The Group's long-term loan financing mainly consists of a Private Placement Program in the US totaling USD 320 M, of which USD 295 M (320) is long-term, a GMTN program of SEK 14,229 M (10,700), of which SEK 12,996 M (9,329) is long-term, a loan from the European Investment Bank of EUR 37 M (55) and USD 121 M (137), and a loan from the Nordic Investment Bank of EUR 55 M (110). During the year, ten new issues were made under the GMTN program for a total amount of SEK 4,445 M. In addition, the company took out a somewhat smaller long-term loan. Other changes in long-term loans are mainly due to some of the originally long-term loans now having less than 1 year to maturity. The size of the loans increased substantially due to currency fluctuations, especially regarding the USD. A total of SEK 4,492 M was raised in new long-term loans, while SEK 2,849 M in originally long-term loans matured during the year.

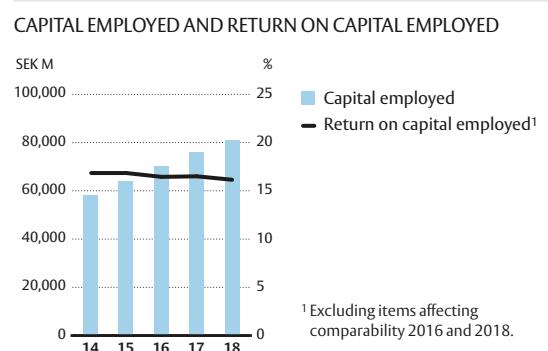
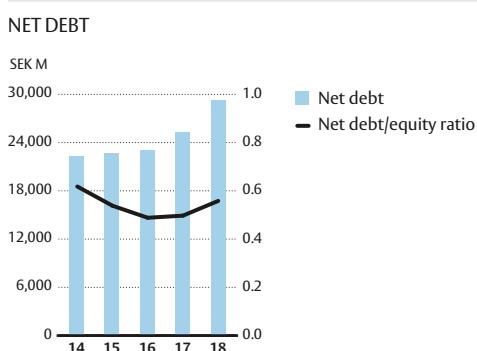
The Group's short-term loan financing mainly consists of two Commercial Paper Programs for a maximum USD 1,000 M (1,000) and SEK 5,000 M (5,000) respectively. At year-end, SEK 2,752 M (1,307) of the Commercial Paper Programs had been utilized. In addition, substantial credit facilities are available, mainly in the form of a Multi-Currency Revolving Credit Facility of EUR 900 M (900), which was wholly unutilized at year-end. The interest coverage ratio, defined as income before tax excluding items affecting comparability plus net interest, divided by net interest, was 17.1 (19.1). Fixed interest terms increased during the year, with an average term of 26 months (25) at year-end.

Cash and cash equivalents amounted to SEK 459 M (552), and are invested in banks with high credit ratings.

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

Equity

Consolidated equity was SEK 51,900 M (50,657) at year-end. The return on equity was 5.4 percent (17.6). The equity ratio was 48.7 percent (49.6). The debt/equity ratio, defined as net debt divided by equity, was 0.56 (0.50).



Consolidated balance sheet

SEK M	Note	2017	2018
ASSETS			
Non-current assets			
Intangible assets	14	61,409	64,861
Property, plant and equipment	15	8,065	8,189
Investments in associates	17	2,243	2,434
Other financial assets	19	227	152
Deferred tax assets	18	1,355	1,354
Total non-current assets		73,299	76,991
Current assets			
Inventories	20	9,430	11,316
Trade receivables	21	13,068	14,496
Current tax receivables		472	457
Other current receivables		1,552	1,327
Prepaid expenses and accrued income		1,015	1,256
Derivative financial instruments	34	107	117
Short-term investments	34	43	71
Cash and cash equivalents	34	459	538
Total current assets		26,145	29,577
TOTAL ASSETS		99,444	106,568
EQUITY AND LIABILITIES			
Equity			
<i>Parent company's shareholders</i>			
Share capital	23	371	371
Other contributed capital		9,675	9,675
Reserves	32	2,932	5,096
Retained earnings		37,670	36,748
Equity attributable to the Parent company's shareholders		50,648	51,890
Non-controlling interests		9	10
Total equity		50,657	51,900
Non-current liabilities			
Long-term loans	34	16,859	19,489
Deferred tax liabilities	18	2,218	1,764
Pension provisions	24	2,933	2,880
Other non-current provisions	25	1,447	745
Other non-current liabilities		836	1,406
Total non-current liabilities		24,293	26,283
Current liabilities			
Short-term loans	34	6,151	7,594
Derivative financial instruments	34	112	116
Trade payables		7,811	7,893
Current tax liabilities		751	1,943
Current provisions	25	699	891
Other current liabilities	26	3,446	3,551
Accrued expenses and deferred income	27	5,524	6,396
Total current liabilities		24,494	28,385
TOTAL EQUITY AND LIABILITIES		99,444	106,568

Cash flow

- Operating cash flow remained strong and amounted to SEK 11,357 M (10,929).
- The total purchase price of investments in subsidiaries was SEK 6,752 M (6,885).

Operating cash flow

SEK M	2017	2018
Operating income (EBIT)	12,341	6,096
Restructuring costs	–	1,218
Goodwill impairment	–	5,595
Amortization and depreciation	1,688	1,963
Net capital expenditure	–1,975	–1,319
Change in working capital	–347	–1,076
Interest paid and received	–557	–662
Non-cash items	–221	–458
Operating cash flow¹	10,929	11,357
Operating cash flow/Income before tax	0.94	0.94 ²

¹ Excluding restructuring payments.

² Excluding restructuring costs and impairment of goodwill and other intangible assets.

The Group's operating cash flow amounted to SEK 11,357 M (10,929), equivalent to 94 percent (94) of income before tax excluding items affecting comparability.

Net capital expenditure

Net capital expenditure on intangible assets and property, plant and equipment totaled SEK 1,319 M (1,975), equivalent to 67 percent (117) of amortization and depreciation on intangible assets and property, plant and equipment. The lower net capital expenditure compared with the previous year is mainly due to property sales in Sweden and South Korea.

Change in working capital

SEK M	2017	2018
Inventories	–158	–983
Trade receivables	–696	–340
Trade payables	454	–439
Other working capital	52	686
Change in working capital	–347	–1,076

The material throughput time was 96 days (92) at year-end. Capital tied up in working capital increased during the year, which had an impact on cash flow of SEK –1,076 M (–347) overall. The change is mainly attributable to increased capital tied up in inventories.

Relationship between cash flow from operating activities and operating cash flow

SEK M	2017	2018
Cash flow from operating activities	9,248	9,225
Restructuring payments	612	793
Net capital expenditure	–1,975	–1,319
Reversal of tax paid	3,044	2,658
Operating cash flow	10,929	11,357

Investments in subsidiaries

The total purchase price of investments in subsidiaries amounted to SEK 6,752 M (6,885), of which the cash flow effect was SEK 5,503 M (6,825). Acquired cash and cash equivalents totaled SEK 437 M (187).

Change in net debt

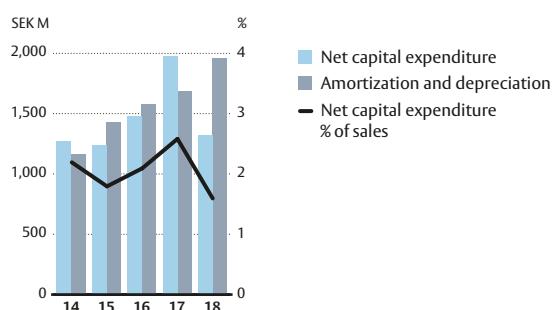
Net debt was mainly affected by the strong positive operating cash flow, the dividend to shareholders, acquisitions and exchange rate differences.

SEK M	2017	2018
Net debt at 1 January	23,127	25,275
Operating cash flow	–10,929	–11,357
Restructuring payments	612	793
Tax paid on income	3,044	2,658
Acquisitions/Divestments	6,790	6,390
Dividend	3,332	3,666
Actuarial gain/loss on post-employment benefit obligations	–26	–39
Exchange rate differences, etc.	–675	1,862
Net debt at 31 December	25,275	29,246

INCOME BEFORE TAX AND OPERATING CASH FLOW



CAPITAL EXPENDITURE



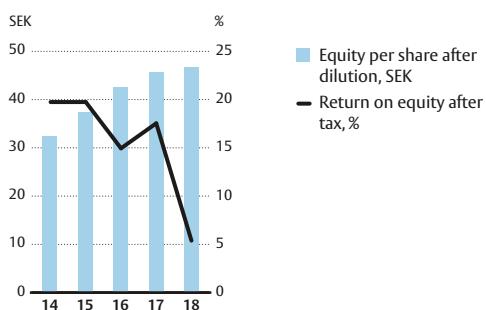
Consolidated statement of cash flows

SEK M	Note	2017	2018
OPERATING ACTIVITIES			
Operating income		12,341	6,096
Amortization and depreciation	8	1,688	1,963
Impairment of goodwill and other intangible assets	14	–	5,595
Reversal of restructuring costs		–	1,218
Restructuring payments		–612	–793
Other non-cash items	32	–221	–458
Cash flow before interest and tax		13,196	13,621
Interest paid		–570	–675
Interest received		13	14
Tax paid on income		–3,044	–2,658
Cash flow before changes in working capital		9,595	10,302
Change in working capital	32	–347	–1,076
Cash flow from operating activities		9,248	9,225
INVESTING ACTIVITIES			
Investments in property, plant and equipment and intangible assets	14, 15	–2,105	–1,793
Sales of property, plant and equipment and intangible assets	14, 15	130	474
Investments in subsidiaries	30	–6,825	–5,503
Investments in associates		0	0
Divestments of subsidiaries	32	139	395
Other investments		0	0
Cash flow from investing activities		–8,661	–6,427
FINANCING ACTIVITIES			
Dividend		–3,332	–3,666
Long-term loans raised	34	3,226	4,483
Long-term loans repaid	34	–2,637	–2,849
Purchase of shares in subsidiaries from non-controlling interest		–130	–229
Stock purchase plans		–74	–60
Change in short-term loans, etc.		2,085	–408
Cash flow from financing activities		–861	–2,728
CASH FLOW		–274	70
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		750	459
Cash flow		–274	70
Effect of exchange rate differences		–17	9
Cash and cash equivalents at 31 December	34	459	538

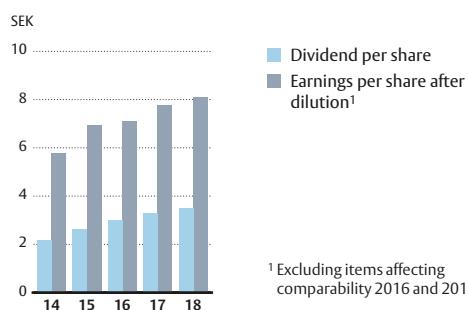
Changes in consolidated equity

SEK M	Note	Parent company's shareholders				Non-controlling interests	Total
		Share capital	Other contributed capital	Reserves	Retained earnings		
Opening balance 1 January 2017 according to adopted Annual Report	371	9,675	2,540	34,634	5	47,224	
Adjustment, misclassification	32		2,179	-2,179	-		-
New opening balance 31 December 2017	371	9,675	4,720	32,455	5	47,224	
Net income				8,633	2	8,635	
Other comprehensive income				-1,788	-51	0	-1,839
Total comprehensive income				-1,788	8,582	2	6,796
Dividend	23				-3,332	-	-3,332
Stock purchase plans					-33	-	-33
Total contributions by and distributions to Parent company's shareholders					-3,366	-	-3,366
Change in non-controlling interest					0	3	3
Total transactions with shareholders					-3,366	3	-3,363
Closing balance 31 December 2017	23	371	9,675	2,932	37,670	9	50,657
 Opening balance 1 January 2018	 371	 9,675	 2,932	 37,670	 9	 50,657	
Net income				2,753	2	2,755	
Other comprehensive income			2,164	6	-1	2,168	
Total comprehensive income			2,164	2,759	1	4,923	
Dividend	23			-3,666	-	-3,666	
Stock purchase plans				-15	-	-15	
Total contributions by and distributions to Parent company's shareholders				-3,681	-	-3,681	
Change in non-controlling interest				-	-	-	
Total transactions with shareholders				-3,681	-	-3,681	
Closing balance 31 December 2018	23	371	9,675	5,096	36,748	10	51,900

EQUITY PER SHARE AFTER DILUTION AND RETURN ON EQUITY AFTER TAX



DIVIDEND AND EARNINGS PER SHARE



Parent company financial statements

Income statement – Parent company

SEK M	Note	2017	2018
Administrative expenses	3, 6, 8, 9	-1,524	-1,911
Research and development costs	6, 8, 9	-911	-1,119
Capitalized work for own account		73	81
Other operating income and expenses	4	4,063	4,750
Operating income	9,33	1,701	1,801
Financial income	10	2,955	2,805
Financial expenses	9, 11	-418	-654
Income before appropriations and tax		4,238	3,951
Group contributions		1,300	1,608
Change in excess depreciation and amortization		-565	-113
Tax on income	12	-303	-650
Net income		4,670	4,796

Statement of comprehensive income – Parent company

SEK M	2017	2018
Net income	4,670	4,796
Other comprehensive income	–	–
Total comprehensive income	4,670	4,796

Balance sheet – Parent company

SEK M	Note	2017	2018
ASSETS			
Non-current assets			
Intangible assets	14	3,497	2,997
Property, plant and equipment	15	32	37
Shares in subsidiaries	16	34,242	34,738
Other financial assets	19	1,808	1,782
Total non-current assets		39,579	39,554
Current assets			
Receivables from subsidiaries		12,716	17,169
Other current receivables		14	17
Prepaid expenses and accrued income		10	9
Cash and cash equivalents		0	0
Total current assets		12,740	17,195
TOTAL ASSETS		52,319	56,749
EQUITY AND LIABILITIES			
Equity			
Restricted equity	22		
Share capital		371	371
Revaluation reserve		275	275
Statutory reserve		8,905	8,905
Fund for development expenses		139	219
Non-restricted equity			
Share premium reserve		787	787
Retained earnings including net income for the year		12,017	13,053
Total equity		22,494	23,610
Untaxed reserves		565	678
Non-current liabilities			
Long-term loans	34	10,491	13,771
Other non-current liabilities		90	50
Total non-current liabilities		10,581	13,821
Current liabilities			
Short-term loans	34	1,371	1,697
Trade payables		116	198
Current liabilities to subsidiaries		16,805	16,228
Current tax liabilities		5	94
Other current liabilities		10	5
Accrued expenses and deferred income	27	372	419
Total current liabilities		18,679	18,641
TOTAL EQUITY AND LIABILITIES		52,319	56,749

Cash flow statement – Parent company

SEK M	Note	2017	2018
OPERATING ACTIVITIES			
Operating income		1,701	1,801
Depreciation and amortization	8	339	609
Cash flow before interest and tax		2,040	2,410
Interest paid and received		-285	-287
Dividends received		2,832	2,479
Tax paid and received		-614	-556
Cash flow before changes in working capital		3,973	4,046
Change in working capital		1,431	1,326
Cash flow from operating activities		5,404	5,372
INVESTING ACTIVITIES			
Investments in tangible and intangible assets		-3,431	-115
Investments in subsidiaries		-630	-526
Other investments		0	0
Cash flow from investing activities		-4,061	-641
FINANCING ACTIVITIES			
Dividend		-3,332	-3,666
Loans raised		2,977	5,249
Loans repaid		-988	-6,314
Cash flow from financing activities		-1,343	-4,731
CASH FLOW		0	0
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		0	0
Cash flow		0	0
Cash and cash equivalents at 31 December		0	0

Change in equity – Parent company

SEK M	Restricted equity				Non-restricted equity		
	Share capital	Revaluation reserve	Statutory reserve	Fund for development expenses	Share premium reserve	Retained earnings	Total
Opening balance 1 January 2017	371	275	8,905	–	787	10,852	21,190
Net income					4,670	4,670	
Total comprehensive income					4,670	4,670	
Dividend for 2016					-3,332	-3,332	
Stock purchase plans					-33	-33	
Reclassifications				139	-139	-	
Total transactions with shareholders				139	-3,505	-3,366	
Closing balance 31 December 2017	371	275	8,905	139	787	12,017	22,494
Opening balance 1 January 2018	371	275	8,905	139	787	12,017	22,494
Net income					4,796	4,796	
Total comprehensive income					4,796	4,796	
Dividend for 2017					-3,666	-3,666	
Stock purchase plans					-15	-15	
Reclassifications				80	-80	-	
Total transactions with shareholders				219	-3,757	-3,680	
Closing balance 31 December 2018	371	275	8,905	219	787	13,053	23,610

Notes

Note 1 Significant accounting and valuation principles

Group

ASSA ABLOY applies International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's RFR 1 Supplementary Accounting Rules for Corporate Groups. The accounting principles are based on IFRS as endorsed by 31 December 2018 and have been applied to all years presented, unless stated otherwise. This Note describes the most significant accounting principles that have been applied in the preparation of the financial statements, which comprise the information provided on pages 42–102.

Basis of preparation

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

The total amount in tables and statements might not always summarize as there are rounding differences. The aim is to have each line item corresponding to the source and it might therefore be rounding differences in the total.

Key estimates and assessments for accounting purposes

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

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

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

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

New and revised standards applied by the Group

The Group has applied the following standards for the first time for the financial year beginning 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from contracts with customers

IFRS 9 addresses classification, measurement and recognition of financial assets and liabilities and replaces the parts of IAS 39 that relate to these areas. IFRS 9 entails implementation of a new impairment model based on expected credit losses rather than incurred losses. For the Group, the new model will entail a new procedure for measurement of credit losses, though the Standard have not had any material impact on the Group's performance and financial position.

IFRS 15 supersedes IAS 11 Construction contracts and IAS 18 Revenue and includes a new single model for revenue recognition related to customer contracts. The new Standard introduces a five-step process that must be applied before revenue can be recognized from customer contracts. The Standard prescribes that an entity shall recognize revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. The good or service is transferred when the customer acquires control over the asset, which may happen either over time or at a particular point in time. In all important respects the Group's previous revenue recognition practices conform with IFRS 15 and the new Standard will therefore have no impact on the Group's performance and financial position. However, additional information about the disaggregation of revenue, contract assets and contract liabilities, as well as remaining performance obligations can be found in Note 2.

New and revised IFRS not yet effective

The following new standards and interpretations have been published but were not yet effective as of the closing date, and have not been applied in the preparation of the financial statements.

- IFRS 16 Leases
- IFRIC 23 Accounting for uncertainty over income tax treatments

The Group has applied IFRS 16 from 1 January 2019. During the transition, all leases, except short-term leases and leases for low-value assets, are recognized in the consolidated balance sheet. Under the standard, an asset (the right to use the leased item) and a financial liability representing the obligation to make lease payments are recognized. The Group's lease liability as of 1 January 2019 is SEK 3,802 M. Additional information about the financial effects of the transition to IFRS 16 can be found in Note 6. The Group has applied the cumulative catch-up approach as transition method and does not restate any comparative information. In addition, the Group has chosen not to recognize right-of-use and lease liability regarding obligations for short-term leases and low-value leases.

IFRIC 23 explains how an entity should determine the method with which a transaction should be measured and recognized when there is uncertainty over income tax treatments. The Group applies the new guidance commencing on 1 January 2019. In conjunction with the application, the Group reassessed its uncertain tax positions based on the new guidance, which resulted in an increased provision for uncertain income taxes of SEK 234 M. The Group has chosen a modified retrospective approach for initial application of the interpretation, in which comparative figures is not restated. The effect of initial application is recognized as an adjustment to equity in the first quarter of 2019.

Note 1 cont.***Consolidated financial statements***

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

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

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

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

Non-controlling interests

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

Associates

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

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

Segment reporting

Operating segments are reported in accordance with internal reporting to the chief operating decision maker. Chief operating decision maker is the function that is responsible for allocation of resources and assessing performance of the

operating segments. The divisions form the operational structure for internal control and reporting and also constitute the Group's segments for external financial reporting. The Group's business is divided into five divisions. Three divisions are based on products sold in local markets in the respective division: EMEA, Americas and Asia Pacific. Global Technologies and Entrance Systems consist of products sold worldwide.

Foreign currency translation

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

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

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

Country	Currency	Average rate		Closing rate	
		2017	2018	2017	2018
United Arab Emirates	AED	2.33	2.37	2.25	2.45
Argentina	ARS	0.51	0.33	0.43	0.23
Australia	AUD	6.54	6.49	6.43	6.34
Brazil	BRL	2.67	2.39	2.49	2.32
Canada	CAD	6.57	6.71	6.57	6.60
Switzerland	CHF	8.67	8.91	8.44	9.12
Chile	CLP	0.013	0.014	0.013	0.013
China	CNY	1.27	1.31	1.27	1.31
Czech Republic	CZK	0.37	0.40	0.39	0.40
Denmark	DKK	1.30	1.38	1.32	1.38
Euro zone	EUR	9.64	10.27	9.86	10.29
United Kingdom	GBP	11.03	11.57	11.11	11.37
Hong Kong	HKD	1.10	1.11	1.06	1.15
Hungary	HUF	0.031	0.032	0.032	0.032
Israel	ILS	2.38	2.42	2.38	2.38
India	INR	0.131	0.128	0.129	0.128
Kenya	KES	0.083	0.086	0.080	0.088
South Korea	KRW	0.0076	0.0079	0.0077	0.0081
Mexico	MXN	0.45	0.4522	0.42	0.4561
Malaysia	MYR	1.99	2.15	2.03	2.16
Norway	NOK	1.03	1.06	1.00	1.03
New Zealand	NZD	6.07	6.01	5.86	6.03
Poland	PLN	2.26	2.41	2.36	2.40
Romania	RON	2.11	2.21	2.12	2.21
Thailand	THB	0.25	0.27	0.25	0.28
Turkey	TRY	2.36	1.88	2.18	1.71
US	USD	8.55	8.70	8.25	8.98
South Africa	ZAR	0.64	0.66	0.67	0.62

Revenue

The Group recognizes revenue from contracts with customers based on the five-step process described in IFRS 15. Revenue is recognized when the entity satisfies a performance obligation by transferring a promised good or service to a

Note 1 cont.

customer. The good or service is transferred when the customer acquires control over the asset, which may happen either over time or at a particular point in time.

Under the five-step process an entity must complete the following steps before revenue can be recognized: Identify contracts with customers, identify performance obligations, determine the transaction price, allocate the transaction price to each of the separate performance obligations, and finally recognize the revenue attributable to each performance obligation.

At the beginning of the customer contract ASSA ABLOY determines whether the goods and/or services that are promised in the agreement comprise one performance obligation or several separate performance obligations.

A performance obligation is defined as a distinct promise to transfer a good or a service to the customer. A promised good or service is distinct if both of the following criteria are met:

- a) the customer can benefit from the good or service separately or together with other resources that are readily available to the customer and
- b) the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

When determining the transaction price, which is the amount of consideration promised in the contract, the Group takes into account any variable considerations, such as cash discounts, volume-based discounts, and right of returns. The transaction price includes variable consideration only if it is highly probable that a significant reversal of the revenue is not expected to occur in a future period.

ASSA ABLOY receives payment in advance from customers to a limited extent. No customer contracts within the Group relating to the sale of goods or services are assessed to contain a significant financing component. The Group does not recognize any contract costs since the Group applies the practical expedient permitted by the standard, under which incremental costs of obtaining a contract are recognized as an expense when incurred if the amortization period of the asset that the Group otherwise would have recognized is one year or less.

ASSA ABLOY allocates the transaction price for each performance obligation on the basis of a stand-alone selling price. The stand-alone selling price is the price for which the Group would sell the good or service separately to a customer. In cases where a stand-alone selling price is not directly observable, it is usually calculated based on the adjusted market assessment approach or the expected cost plus a margin approach.

Any discounts are allocated proportionately to all performance obligations in the contract, provided there is no observable evidence that the discount does not relate to all performance obligations.

ASSA ABLOY recognizes revenue when the Group satisfies a performance obligation by transferring a good or service to a customer, i.e. as the customer gains control over the asset. A performance obligation is met either over time or at a particular point in time. ASSA ABLOY recognizes revenue over time if any of the following criteria are met:

- a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs an obligation
- b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced
- c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Revenue that is not recognized over time is recognized at a given point in time, i.e. the point in time when the customer gains control over the asset.

The Group's revenue mainly consists of product sales. Service related to products sold represents a limited share of revenue. Revenue for the sale of the Group's products is recognized at a given point in time when the customer gains control over the product, usually at the time of delivery. ASSA ABLOY also carries out installation services, which are recognized over time. For shorter installation jobs, revenue is recognized in practice upon completion of installation. Revenue from service contracts is recognized over time.

For product sales, a receivable is recognized when the goods have been delivered, since this is usually the point in time when the consideration becomes unconditional. Payment terms for trade receivables differ among geographic markets. The average collection period for trade receivables in 2018 was 52 days.

Intra-Group sales

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

Government grants

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

Research and development

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

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

Borrowing costs

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

Tax on income

The income statement includes all tax that is to be paid or received for the current year, adjustments relating to tax due for previous years, and changes in deferred tax. These taxes have been calculated at nominal amounts, in accordance with the tax regulations in each country, and in accordance with tax rates that have either been decided or have been notified and can confidently be expected to be confirmed. For items recognized in the income statement, associated tax effects are also recognized in the income statement. The tax effects of items recognized directly against equity or in other comprehensive income are themselves recognized against equity or in other comprehensive income. The liability method is used in accounting for deferred tax. This means that deferred

Note 1 cont.

tax is recognized on all temporary differences between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets relating to tax losses carried forward or other future tax allowances are recognized to the extent that it is probable that the allowance can be offset against taxable income in future taxation. Deferred tax liabilities for temporary differences relating to investments in subsidiaries are not recognized in the consolidated financial statements, since the Parent company can control the time at which the temporary differences are reversed, and it is not considered likely that such reversal will occur in the foreseeable future. Deferred tax assets and deferred tax liabilities are offset when there is a legal right to do so and when deferred taxes relate to the same tax authority.

Cash flow statement

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

Cash and cash equivalents

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

Goodwill and acquisition-related intangible assets

Goodwill represents the positive difference between the acquisition cost and the fair value of the Group's share of the acquired company's identifiable net assets at the acquisition date, and is recognized at cost less accumulated impairment losses. Goodwill is allocated to cash generating units (CGU) and is tested annually to identify any impairment loss. Cash generating units are subject to systematic annual impairment testing using a valuation model based on discounted future cash flows. Deferred tax assets based on local tax rates are recognized in terms of tax-deductible goodwill (with corresponding reduction of the goodwill value). Such deferred tax assets are expensed as the tax deduction is utilized. Other acquisition-related intangible assets consist chiefly of various types of intellectual property rights, such as brands, technology and customer relationships. Identifiable acquisition-related intellectual property rights are initially recognized at fair value at the acquisition date and subsequently at cost less accumulated amortization and impairment losses. Amortization is on a straight-line basis over the estimated useful life and amounts to 5–12 years for technology and 8–15 years for customer relationships. Acquisition-related intangible assets with an indefinite useful life are tested for impairment annually in the same way as goodwill.

Other intangible assets

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

Property, plant and equipment

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

depreciated over the estimated useful life, which for the Group results in the following average depreciation periods:

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

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

Leasing

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

Impairment

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

For assets that are depreciated/amortized, impairment testing is carried out when events or circumstances indicate that the carrying amount may not be recoverable. Impairment losses are recognized in the amount by which the carrying amount of the asset exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less selling expenses 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 the reporting date. Deductions are made for internal profits arising from deliveries between Group companies. Work in progress and finished goods include both direct costs incurred and a fair allocation of indirect production costs.

Trade receivables

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

Regarding provisions for expected credit losses on trade receivables, see the section *Impairment of financial assets*. The year's change in expected credit losses is recognized in the income statement as selling expenses.

Financial assets

Financial assets include cash and cash equivalents, trade receivables, short-term investments, derivatives and other financial assets. The Group applies IFRS 9 from 1 January 2018, but has chosen not to restate comparative figures. Comparative figures are therefore presented in accordance with previous accounting principles. Information about accounting principles for financial assets until 31 December 2017 can be found at the end of Note 1.

Under IFRS 9, the Group classifies financial assets in the categories financial assets at amortized cost, financial assets at fair value through profit or loss, or financial assets at fair value through other comprehensive income.

Financial assets at amortized cost

Financial assets at amortized cost mainly comprise trade receivables and cash and cash equivalents. A financial asset is measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets to col-

Note 1 cont.

lect their contractual cash flows, and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets in this category are initially recognized at fair value plus transaction costs that are directly related to the purchase and then at amortized cost.

Financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and also the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets in this category are initially recognized at fair value plus transaction costs that are directly related to the purchase and then at fair value through other comprehensive income. As of the reporting date the Group has no financial assets in this category.

Financial assets at fair value through profit or loss

Financial assets that are not recognized in any of the other categories are measured at fair value through profit or loss. Financial assets in this category are initially recognized at fair value. Transaction costs related to financial assets recognized in this category are expensed directly in the income statement. As of the reporting date, this category comprises shares and participations.

Impairment of financial assets

From 1 January 2018 the Group has applied the IFRS 9 simplified approach to measuring expected credit losses for trade receivables. Under this approach, a provision is made for lifetime expected credit losses for the trade receivable. For calculation of expected credit losses, the trade receivables are grouped based on the number of days past due. Expected credit losses on trade receivables that are not past due are primarily based on actual credit losses from recent years.

Impairment that would be considered for other financial assets that are within the scope of expected credit losses have been assessed to be immaterial.

Financial liabilities

Financial liabilities include deferred considerations, loan liabilities, trade payables and derivative instruments. Recognition depends on how the liability is classified. The Group classifies financial liabilities in the categories: financial liabilities at amortized cost and financial liabilities at fair value through profit or loss.

Financial liabilities are initially measured at fair value less, for a financial liability that is not measured at fair value through profit or loss, transaction costs that are directly related to the acquisition or issue of the financial liability. After initial recognition, financial liabilities are recognized either at amortized cost or at fair value through profit or loss, depending on the classification of the financial liability.

Financial liabilities at fair value through profit or loss

This category includes derivatives with a negative fair value that are not used for hedge accounting and deferred considerations. Liabilities are measured at fair value on a continuous basis and changes in value are recognized in the income statement.

Loan liabilities

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

Trade payables

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

Recognition and measurement of financial assets and liabilities

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

Financial assets and liabilities are offset against each other and the net amount is recognized in the balance sheet when there is a legal right of set-off and there is an intention to settle the items by a net amount. See note 34 for disclosures about offsetting of financial assets and liabilities.

Derivative instruments and hedging

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

The Group designates derivatives as follows:

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

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

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

Note 1 cont.

For information on the fair value of derivative instruments, see Note 34, 'Financial risk management and financial instruments'. Derivatives at fair value, with a maturity of more than 12 months, are classified as non-current interest-bearing liabilities or receivables. Other derivatives are classified as current interest-bearing liabilities and investments respectively.

Fair value hedges

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

Cash flow hedges

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

Net investment hedges

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

Provisions

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

Assets and liabilities of disposal group classified as held for sale

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

Remuneration of employees

The Group operates both defined contribution and defined benefit pension plans. Comprehensive defined benefit plans

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

Equity-based incentive programs

The Group has equity-based remuneration plans in the form of ASSA ABLOY's long-term incentive program presented for the first time at the 2010 Annual General Meeting. Detailed information about the structure of the various programs can be found in Note 33 *Employees*. For the long-term incentive program, personnel costs during the vesting period are recognized based on the shares' fair value on the allotment date, that is, when the company and the employees entered into an agreement on the terms and conditions for the program. The long-term incentive program through 2017 comprised two parts: a matching part where the employee receives one share for every share the latter invests during the term of the program, and a performance-based part where the outcome is based on the company's financial results (EPS target) during the period. The program requires that the employee continues to invest in the long-term incentive program and that the latter remains employed in the ASSA ABLOY Group. Beginning in 2018, no matching portion is included in the long-term incentive programs.

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

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

Earnings per share

Earnings per share before dilution is calculated by dividing the net income attributable to the Parent company's share-

Note 1 cont.

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

Dividend

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

Financial assets – Accounting principles applied through 31 December 2017

Financial assets are classified in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables. Management determines the classification of financial assets at initial recognition.

Financial assets at fair value through profit or loss

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

Available-for-sale financial assets

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

Loans and receivables

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

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

Parent company

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

Revenue

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

Dividend

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

Research and development costs

Research and development costs are expensed as incurred.

Intangible assets

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

Property, plant and equipment

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

Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. From 1 January 2018 the Parent company has applied the IFRS 9 simplified approach to measuring the expected credit loss allowance for trade receivables. However, the expected credit losses attributable to the Parent company's trade receivables have been assessed to be immaterial.

Pension obligations

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

Leasing

In the Parent company all lease agreements are classified as operating leases.

Shares in subsidiaries

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

Financial instruments

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

Group contributions

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

Contingent liabilities

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

Note 2 Sales revenue

Disaggregation of revenue from contracts with customers

Sales by product group

SEK M	EMEA		Americas		Asia Pacific		Global Technologies		Entrance Systems		Other		Group	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Mechanical locks, lock systems and fittings	9,391	10,076	7,304	7,650	4,711	4,978	32	11	9	9	-651	-678	20,796	22,046
Electromechanical and electronic locks	5,624	6,605	2,659	3,876	1,827	2,332	10,340	11,938	704	891	-436	-779	20,717	24,863
Security doors and hardware	2,760	3,155	7,935	8,220	2,662	2,627	-	2	-	-	-56	-70	13,301	13,933
Entrance automation	306	365	42	70	12	12	-	-	21,068	22,862	-105	-103	21,322	23,205
Total	18,081	20,201	17,940	19,817	9,211	9,949	10,373	11,951	21,781	23,762	-1,249	-1,630	76,137	84,048

Sales by continent

SEK M	EMEA		Americas		Asia Pacific		Global Technologies		Entrance Systems		Other		Group	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Europe	15,677	17,597	49	43	485	551	2,725	3,016	10,611	11,397	-587	-663	28,961	31,941
North America	582	606	16,160	18,071	563	923	4,510	5,718	9,239	10,405	-420	-688	30,635	35,036
Central and South America	98	100	1,619	1,582	43	48	363	493	84	89	-31	-35	2,176	2,278
Africa	686	840	23	14	9	15	349	441	57	60	-24	-28	1,099	1,342
Asia	943	951	83	99	6,311	6,610	2,106	2,008	1,269	1,302	-95	-126	10,617	10,843
Oceania	93	106	6	8	1,800	1,802	319	275	521	508	-90	-91	2,649	2,608
Total	18,081	20,201	17,940	19,817	9,211	9,949	10,373	11,951	21,781	23,762	-1,249	-1,630	76,137	84,048

Customer sales by country

SEK M	Group		SEK M	Group	
	2017	2018		2017	2018
US	26,940	30,970	Czech Republic	447	451
China	4,853	4,768	Ireland	278	427
Sweden	4,203	4,551	Saudi Arabia	406	374
France	3,714	3,960	Chile	365	373
United Kingdom	3,134	3,728	Singapore	300	311
Germany	3,193	3,310	Hong Kong	280	298
Canada	2,420	2,659	Israel	297	294
Australia	2,145	2,100	Turkey	362	277
Netherlands	1,866	2,090	Philippines	221	247
Finland	1,761	1,964	Thailand	215	239
South Korea	1,556	1,736	Colombia	243	238
Norway	1,580	1,657	Malaysia	251	237
Belgium	1,423	1,550	Japan	200	220
Denmark	1,308	1,449	Hungary	182	219
Mexico	1,274	1,407	Russia	211	212
Spain	1,057	1,223	Portugal	189	208
Poland	697	1,014	Romania	166	206
Brazil	922	945	Tanzania	79	202
Switzerland	784	902	Estonia	161	182
Italy	811	889	Indonesia	158	172
India	621	624	Slovakia	138	158
United Arab Emirates	585	609	Kazakhstan	100	126
Austria	632	609	Croatia	113	126
South Africa	488	592	Vietnam	97	121
New Zealand	484	490	Other countries	2,224	2,335
Total			Total		76,137
					84,048

Contract assets and contract liabilities

The Group recognizes the following revenue-related contract assets and contract liabilities:

Contract assets

SEK M	Group	
	2017	2018
Accrued revenue	231	272
Total	231	272

Contract liabilities

SEK M	Group	
	2017	2018
Long-term advances from customers and deferred revenue	28	31
Short-term advances from customers and deferred revenue	1,241	1,722
Total	1,270	1,753

Contract liabilities during the year have increased by SEK 483 M. Acquired companies account for SEK 81 M of this increase. Divested companies have not had any effect on this item. The total contract liability as at 31 December 2017 of SEK 1,270 M has in all important respects been recognized in 2018.

Remaining performance obligations

The total transaction price allocated to unsatisfied performance obligations at the reporting date amounts to SEK 12,282 M. Of this amount, SEK 11,572 M is expected to be recognized as revenue in 2019, while an estimated SEK 710 M will be recognized as revenue in 2020 or later.

In accordance with the transition provisions in IFRS 15, the Group does not disclose information about the total transaction price allocated to unsatisfied performance obligations as at 31 December 2017.

Note 3 Auditors' fees

SEK M	Group		Parent company	
	2017	2018	2017	2018
Audit assignment				
PwC	52	56	5	5
Others	16	16	–	–
Audit-related services in addition to audit assignment				
PwC	1	1	0	0
Tax advice				
PwC	10	8	1	0
Others	9	9	1	1
Other services				
PwC	32	17	1	1
Others	6	14	0	0
Total	126	122	8	7

The auditors' fee for PwC in Sweden during the year was SEK 8 M (8) and the fee for extra services was SEK 2 M (8).

Note 4 Other operating income and expenses

SEK M	Group	
	2017	2018
Rental income	6	14
Business-related taxes	–40	–54
Profit on sales of non-current assets	45	265
Profit/loss on sales of subsidiaries	–42	11
Transaction expenses from acquisitions	–86	–107
Exchange rate differences	–2	–51
Impairment operating assets, etc., in China	–191	–400
Restructuring costs	–	–142
Revalued Earnout	300	296
Other, net	165	–128
Total	156	–296

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	
	2017	2018
Agta Record AG	91	146
Goal Co., Ltd	25	17
PT Jasuindo Arjo Wiggins Security	–	3
SARA Loading Bay Ltd	0	–1
Saudi Crawford Doors Factory Ltd	12	2
Others	0	–
Total	129	167

The share of earnings in Agta Record AG has been estimated on the basis of the associated company's latest available financial report, which is the published Interim Report for the first half of 2018.

Note 6 Operating leases

SEK M	Group		Parent company	
	2017	2018	2017	2018
Lease payments during the year				
	1,029	1,084	19	11
Total	1,029	1,084	19	11
Nominal value of agreed future lease payments:				
Due for payment in:				
(2018) 2019	904	1,144	23	13
(2019) 2020	726	943	23	11
(2020) 2021	542	727	24	4
(2021) 2022	398	480	25	0
(2022) 2023	276	334	26	0
(2023) 2024 or later	373	517	26	0
Total	3,218	4,144	147	28

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

Effects of the transition to IFRS 16

From 1 January 2019 the Group has applied IFRS 16 Leases. For the transition to the new standard, the Group's liability arising from obligations for operating leases is SEK 3,718 M. Adjusted for advance lease payments, the liability is SEK 3,711 M. The Group's total lease liability at the beginning of 2019, including financial lease liability recognized in accordance with IAS 17, is SEK 3,802 M.

The lease liability based on the Group's operating lease obligations as at 31 December 2018 is derived as shown in the table below.

SEK M	Group	
	2018	2018
Obligations, operating leases, as at 31 December 2018		4,144
Less: Obligations, short-term leases and low-value leases		–187
Less: Reclassifications, new assessments, etc.		–8
Adjusted lease obligations as at 31 December 2018	3,950	
Effect of discount at incremental borrowing rate		–231
Less: Advance lease payments		–7
Plus: Liabilities, financial leases, as at 31 December 2018		91
Lease liability as at 1 January 2019		3,802

The carrying amount for right-of-use attributable to operating leases measured according to IFRS 16 as at 1 January 2019 is SEK 3,718 M. This amount includes SEK 3,043 M for buildings and land, while the remainder is primarily attributable to cars and other vehicles. The Group has chosen to measure right of use for an amount equal to the lease liability as at the reporting date, adjusted for accrued and advance lease payments. The value of operating leases recognized in accordance with IAS 17 as at 31 December 2018 is SEK 119 M. The total value of the Group's right-of-use assets as at 1 January 2019 is therefore SEK 3,837 M.

When measuring right-of-use and lease liability, the Group made estimates and assumptions such as whether any options to extend or terminate a lease agreement will be exercised. The discount rate was determined based on the Group's incremental borrowing rate in different currencies.

The Group's assessment is that the new rules will have a slight positive impact on operating income. No significant effect on the year's net income is expected.

Note 7 Expenses by nature

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

SEK M	Group	
	2017	2018
Remuneration of employees (note 33)	21,618	24,485
Direct material costs	27,630	30,461
Depreciation and amortization (notes 8, 14, 15)	1,688	1,963
Other purchase expenses	13,144	15,319
Total	64,081	72,228

Note 8 Depreciation and amortization

SEK M	Group		Parent company	
	2017	2018	2017	2018
Intangible assets	598	802	329	593
Machinery	528	549	–	–
Equipment	334	364	10	16
Buildings	210	220	–	–
Land improvements	7	10	–	–
Finance leases	11	18	–	–
Total	1,688	1,963	339	609

Note 9 Exchange differences in the income statement

SEK M	Group		Parent company	
	2017	2018	2017	2018
Exchange differences recognized in operating income	–2	–51	–13	–41
Exchange differences recognized in financial expenses (note 11)	20	7	8	–18
Total	18	–44	–5	–59

Note 10 Financial income

SEK M	Group		Parent company	
	2017	2018	2017	2018
Earnings from investments in subsidiaries	–	–	2,783	2,551
Earnings from investments in associates	–	–	49	64
Intra-Group interest income	–	–	123	190
Other financial income	1	3	0	0
External interest income and similar items	18	17	0	–
Total	19	20	2,955	2,805

Note 11 Financial expenses

SEK M	Group		Parent company	
	2017	2018	2017	2018
Intra-Group interest expenses	–	–	–263	–284
Interest expenses, other liabilities ¹	–584	–633	–132	–194
Interest expenses, interest rate swaps	31	30	–4	–
Interest expenses, currency derivatives	–111	–169	–	–
Exchange rate differences on financial instruments	20	7	8	–18
Fair value adjustments on shares and interests	–	–	0	–136
Other financial expenses	–43	–54	–27	–22
Total	–687	–819	–418	–654

¹ Of which –23 (–14) is fair value adjustments on derivatives, non-hedge accounting, for the Group.

Note 12 Tax on income

SEK M	Group		Parent company	
	2017	2018	2017	2018
Current tax	–3,025	–3,069	–484	–640
Tax attributable to prior years	279	82	–	18
Withholding tax	–52	–34	–6	–2
Deferred tax	–240	479	187	–26
Total	–3,038	–2,542	–303	–650

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

Percent	Group		Parent company	
	2017	2018	2017	2018
Swedish income tax rate	22	22	22	22
Effect of foreign tax rates	8	3	–	–
Non-taxable income/non-deductible expenses	–1	2	–16	–8
Exercised/new, not yet measured tax loss carryforwards	–1	2	–	–
Effect of impairment of intangible assets	–	22	–	–
Other	–2	–3	–	–
Effective tax rate in income statement	26	48	6	14

Note 13 Earnings per share

Earnings per share before and after dilution

SEK M	Group	
	2017	2018
Earnings attributable to the Parent company's shareholders	8,633	2,753
Net profit	8,633	2,753
Weighted average number of shares issued (thousands)	1,110,776	1,110,776
Earnings per share (SEK)	7.77	2.48

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

Earnings per share before and after dilution and excluding items affecting comparability

SEK M	Group	
	2017	2018
Earnings attributable to the Parent company's shareholders	8,633	2,753
Items affecting comparability after tax ¹	–	6,229
Net profit	8,633	8,982
Weighted average number of shares issued (thousands)	1,110,776	1,110,776
Earnings per share excluding items affecting comparability (SEK)	7.77	8.09

¹ Items affecting comparability relate to restructuring costs and impairment of goodwill and other intangible assets

Note 14 Intangible assets

2018, SEK M	Group			Parent company	
	Goodwill	Brands	Other intangible assets		
Opening accumulated acquisition cost	50,394	6,344	8,833	65,571	6,775
Purchases	–	1	599	600	93
Acquisitions of subsidiaries	5,455	300	1,128	6,883	–
Divestments of subsidiaries	–100	–	0	–100	–
Sales, disposals and adjustments	–	–	–170	–170	–
Reclassifications	–	–2	114	112	–
Exchange rate difference	1,897	281	438	2,616	–
Closing accumulated acquisition cost	57,646	6,924	10,942	75,512	6,868
Opening accumulated amortization/impairment	–64	–101	–3,998	–4,163	–3,278
Sales, disposals and adjustments	–	–	144	144	–
Reclassifications	–	0	–8	–8	–
Amortization	–	–2	–800	–802	–593
Impairment	–4,199	–1,142	–286	–5,627	–
Exchange rate difference	30	6	–231	–195	–
Closing accumulated amortization/impairment	–4,233	–1,239	–5,179	–10,651	–3,871
Carrying amount	53,413	5,685	5,763	64,861	2,997

2017, SEK M	Group			Parent company	
	Goodwill	Brands	Other intangible assets		
Opening accumulated acquisition cost	47,609	6,451	6,743	60,804	3,357
Purchases	–	1	555	556	3,279
Acquisitions of subsidiaries	4,962	101	1,742	6,805	–
Divestments of subsidiaries	–76	–	–	–76	–
Sales, disposals and adjustments	–	0	–25	–25	–
Reclassifications	–	–	34	34	139
Exchange rate difference	–2,100	–209	–216	–2,527	–
Closing accumulated acquisition cost	50,394	6,344	8,833	65,571	6,775
Opening accumulated amortization/impairment	–65	–98	–3,544	–3,708	–2,949
Sales, disposals and adjustments	–	0	15	14	–
Reclassifications	–	–	–5	–5	–
Amortization	–	–2	–596	–598	–329
Exchange rate difference	2	0	133	135	–
Closing accumulated amortization/impairment	–64	–101	–3,998	–4,163	–3,278
Carrying amount	50,330	6,243	4,835	61,409	3,497

Other intangible assets consist mainly of customer relations and technology. The carrying amount of intangible assets with an indefinite useful life, excluding goodwill, amounts to SEK 5,640 M (6,197) and relates to brands.

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

Because of the continued challenging market in China, during the year the Group took an impairment charge of SEK 5,595 M on goodwill and other intangible assets related to China. The impairment charge is attributable in its entirety to the Asia Pacific cash-generating unit. Of the total impairment charge, SEK 4,199 M relates to goodwill impairment, while the remaining SEK 1,396 M is primarily attributable to brands.

Impairment of goodwill and intangible assets of SEK 5,595 M is recognized as a separate line item in the income statement, while other amortization and impairment of intangible assets are mainly recognized as cost of goods sold in the income statement. Impairment losses for the year totaled SEK 5,627 M (–), of which SEK 25 M (–) related to restructuring programs.

Impairment testing of goodwill and intangible assets with indefinite useful life

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

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

Material assumptions used to calculate values in use:

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

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

Note 14 cont.

2018

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

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

2018, SEK M	EMEA	Americas	Asia Pacific	Global Technologies	Entrance Systems	Total
Goodwill	10,709	13,327	3,892	13,245	12,240	53,413
Intangible assets with indefinite useful life	232	1,012	736	815	2,846	5,640
Total	10,941	14,339	4,628	14,060	15,086	59,053

2017

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

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

2017, SEK M	EMEA	Americas	Asia Pacific	Global Technologies	Entrance Systems	Total
Goodwill	8,571	11,190	7,752	11,121	11,696	50,330
Intangible assets with indefinite useful life	223	735	1,813	665	2,762	6,197
Total	8,793	11,924	9,566	11,786	14,458	56,528

Sensitivity analysis

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

2018

If the estimated operating margin after the end of the budget period had been one percentage point lower than the management's estimate, the total recoverable amount would be 6 percent lower (EMEA 6 percent, Americas 5 percent, Asia Pacific 10 percent, Global Technologies 5 percent, and Entrance Systems 7 percent).

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

If the estimated weighted capital cost used for the Group's discounted cash flows had been one percentage point higher than the basic assumption of 8.0 to 9.0 percent, the total recoverable amount would be 17 percent lower (EMEA 17 percent, Americas 17 percent, Asia Pacific 14 percent, Global Technologies 17 percent, and Entrance Systems 17 percent).

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

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

2017

If the estimated operating margin after the end of the budget period had been one percentage point lower than the management's estimate, the total recoverable amount would be 6 percent lower (EMEA 6 percent, Americas 4 percent, Asia Pacific 8 percent, Global Technologies 5 percent, and Entrance Systems 7 percent).

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

If the estimated weighted capital cost used for the Group's discounted cash flows had been one percentage point higher than the basic assumption of 8.0–9.0 percent, the total recoverable amount would be 16 percent lower (EMEA 17 percent, Americas 17 percent, Asia Pacific 14 percent, Global Technologies 17 percent, and Entrance Systems 17 percent).

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

None of the hypothetical cases above would lead to an impairment of goodwill in an individual Cash Generating Unit, with the exception of Asia Pacific where the recovery value exceeds the reported value, though only to a minor extent. For Asia Pacific, a good future financial performance, in terms of growth and increasing operating margins, is essential for the carrying amount to be recoverable in the long term.

Note 15 Property, plant and equipment

2018, SEK M	Group						Parent company	
	Buildings	Land and land improvements	Machinery	Equipment	Construction in progress	Finance leases	Total	Equipment
Opening accumulated acquisition cost	5,811	1,191	9,503	3,763	849	194	21,311	63
Purchases	32	10	277	249	625	15	1,208	22
Acquisitions of subsidiaries	61	7	81	47	2	15	214	—
Divestments of subsidiaries	-82	-10	-281	-19	-3	—	-395	—
Sales and disposals	-357	-106	-791	-498	-2	-2	-1,765	—
Reclassifications	139	2	583	36	-844	-31	-115	—
Exchange rate difference	354	48	654	227	57	11	1,351	—
Closing accumulated acquisition cost	5,958	1,142	10,026	3,805	684	203	21,817	85
Opening accumulated amortization, depreciation and impairment	-2,909	-151	-7,241	-2,890	—	-55	-13,246	-31
Sales and disposals	289	18	771	485	—	0	1,563	—
Divestments of subsidiaries	28	2	232	15	—	—	278	—
Impairment incl. reversals	-46	0	-72	-33	—	—	-151	—
Depreciation and amortization	-220	-10	-549	-364	—	-18	-1,160	-16
Reclassifications	-4	1	-80	98	—	-5	11	—
Exchange rate difference	-191	-6	-519	-200	—	-6	-923	—
Closing accumulated amortization, depreciation and impairment	-3,053	-145	-7,458	-2,889	—	-84	-13,628	-47
Carrying amount	2,905	997	2,568	916	684	119	8,189	37
2017, SEK M	Group						Parent company	
	Buildings	Land and land improvements	Machinery	Equipment	Construction in progress	Finance leases	Total	Equipment
Opening accumulated acquisition cost	6,143	1,215	9,766	3,663	564	—	21,351	51
Purchases	119	67	237	214	912	14	1,562	12
Acquisitions of subsidiaries	23	12	34	25	1	—	94	—
Divestments of subsidiaries	—	—	-3	0	—	—	-3	—
Sales and disposals	-251	-52	-412	-150	-8	-1	-873	—
Reclassifications	-14	-29	290	129	-589	181	-32	—
Exchange rate difference	-209	-23	-410	-119	-30	1	-790	—
Closing accumulated acquisition cost	5,811	1,191	9,503	3,763	849	194	21,311	63
Opening accumulated depreciation and impairment	-2,937	-138	-7,399	-2,811	—	—	-13,286	-21
Sales and disposals	141	0	388	137	—	1	667	—
Divestments of subsidiaries	—	—	—	0	—	—	0	—
Impairment incl. reversals	11	-6	-28	-7	—	—	-29	—
Depreciation and amortization	-210	-7	-528	-334	—	-11	-1,090	-10
Reclassifications	5	—	16	28	—	-46	3	—
Exchange rate difference	82	-1	311	96	—	1	488	—
Closing accumulated amortization, depreciation and impairment	-2,909	-151	-7,241	-2,890	—	-55	-13,246	-31
Carrying amount	2,902	1,040	2,261	873	849	140	8,065	32

Impairment losses for the year totaled SEK 151 M (29), of which SEK 89 M (11) related to restructuring programs.

Note 16 Shares in subsidiaries

Company name	Corporate identity number, Registered office	Parent company		
		Number of shares	Share of equity	Carrying amount, SEK M
ASSA Sverige AB	556061-8455, Eskilstuna	70	100	197
ASSA ABLOY Entrance Systems AB	556204-8511, Landskrona	1,000	100	192
ASSA ABLOY Global Solutions AB	556666-0618, Stockholm	1,306,891	100	475
ASSA ABLOY Kredit AB	556047-9148, Stockholm	400	100	6,036
ASSA ABLOY Holding AB	559180-8646, Stockholm	6,500	100	0
ASSA ABLOY Försäkrings AB	516406-0740, Stockholm	60,000	100	145
ASSA ABLOY Asia Holding AB	556602-4500, Stockholm	1,000	100	189
ASSA ABLOY OY	1094741-7, Joensuu	800,000	100	4,257
ASSA ABLOY Norge A/S	979207476, Moss	150,000	100	538
ASSA ABLOY Danmark A/S	CVR 10050316, Herlev	60,500	100	376
ASSA ABLOY Deutschland GmbH	HR B 66227, Berlin	1	100	1,086
ASSA ABLOY Nederland Holding B.V.	52153924, Raamsdonksveer	180	100	771
Pan Pan DOOR Co LTD	210800004058002, Dashiqiao	–	66 ¹	2,228
ASSA ABLOY France SAS	412140907, R.C.S. Versailles	15,184,271	100	1,964
Interlock Holding AG	CH-020.3.913.588-8, Zürich	211,000	98 ¹	0
HID Global Switzerland S.A.	CH-232-0730018-2, Granges	2,500	100	47
ASSA ABLOY Holding GmbH	FN 273601f, A-6175, Kematen	1	100	109
ASSA ABLOY Ltd	2096505, Willenhall	1,330,000	100	3,091
HID Global Ireland Teoranta	364896, Galway	501,000	100	293
Mul-T-Lock Ltd	520036583, Yavne	13,787,856	90 ¹	901
ASSA ABLOY Holdings (SA) Ltd	1948/030356/06, Roodepoort	100,220	100	217
ASSA ABLOY Inc	039347-83, Oregon	100	100	2,410
ABLOY Canada Inc.	1148165260, Montreal	1	100	0
ASSA ABLOY of Canada Ltd	104722749 RC0003, Ontario	9,621	100	138
ASSA ABLOY Australia Pacific Pty Ltd	ACN 095354582, Oakleigh, Victoria	48,190,000	100	242
Cerramex, S.A de C.V	CER8805099Y6, Mexico	4	0	0
ASSA ABLOY Mexico, S.A de CV	AAM961204C11, Mexico	50,108,549	100	762
Cerraduras y Candados Phillips S.A de C.V	CCP910506LK2, Mexico	112	0	0
ASSA ABLOY Colombia S.A.S	860009826-8, Bogota	3,115,080	100	203
WHAIG Limited	EC21330, Bermuda	100,100	100	303
ASSA ABLOY Asia Pacific Ltd	53451, Hong Kong	1,000,000	100	72
ASSA ABLOY Entrance Systems IDDS AB	556071-8149, Landskrona	25,000,000	100	5,093
ASSA ABLOY Portugal, Unipessoal, Lda (Portugal)	PT500243700, Alfragide	1	100	0
ASSA ABLOY Mobile Services AB	556909-5929, Stockholm	50,000	100	25
ASSA ABLOY Holding Italia S.p.A.	IT01254420597, Rome	650,000	100	974
HID SA (Argentina)	CUIT 30-61783980-2, Buenos Aires	2,400	2 ¹	0
HID Global SAS	FR21341213411, Nanterre	1,000,000	100	679
CEDES AG	CHE-101.321-677, Landquart	300,000	100	635
ASSA ABLOY East Africa Ltd	C.20402, Nairobi	13,500	100	90
Total				34,738

¹ The Group's holdings amount to 100 percent.

Note 17 Investments in associates

2018 Company name	Country of registration	Group		
		Number of shares	Share of equity, %	Carrying amount, SEK M
Agta Record AG	Switzerland	5,166,945	39	1,800
Goal Co., Ltd	Japan	2,778,790	46	587
PT Jasuindo Arjo Wiggins Security	Indonesia	1,533,412	49	19
SARA Loading Bay Ltd	United Kingdom	4,990	50	14
Talleres Agui S.A.	Spain	4,800	40	9
Saudi Crawford Doors Ltd	Saudi Arabia	800	40	5
Others				1
Total				2,434

The share of equity in Agta Record AG has been estimated on the basis of the associated company's latest available financial report, which is the published Interim Report for the first half of 2018. For the period January to June, the company's revenue totaled SEK 1,817 M (1,682) and income after tax was SEK 136 M (98). The company's assets totaled SEK 3,622 M (3,199) and total liabilities amounted to SEK 1,095 M (1,033).

2017 Company name	Country of registration	Group		
		Number of shares	Share of equity, %	Carrying amount, SEK M
Agta Record AG	Switzerland	5,166,945	39	1,679
Goal Co., Ltd	Japan	2,778,790	46	519
PT Jasuindo Arjo Wiggins Security	Indonesia	1,533,412	49	17
SARA Loading Bay Ltd	United Kingdom	4,990	50	14
Talleres Agui S.A.	Spain	4,800	40	8
Saudi Crawford Doors Ltd	Saudi Arabia	800	40	5
Others				1
Total				2,243

Note 18 Deferred tax

SEK M	Group	
	2017	2018
Deferred tax assets		
Non-current assets	–	104
Pension provisions	572	330
Tax loss carryforwards and other tax credits	191	149
Other deferred tax assets	592	770
Deferred tax assets	1,355	1,354
Deferred tax liabilities		
Non-current assets	1,652	1,523
Other deferred tax liabilities	566	242
Deferred tax liabilities	2,218	1,764
Deferred tax assets, net	–862	–410
Change in deferred tax		
Opening balance	–445	–862
Acquisitions and divestments	–172	52
Recognized in income statement	–240	529
Deferred tax from actuarial gain/loss on post-employment benefit obligations	–77	–34
Exchange rate differences	71	–95
Closing balance	–862	–410

The Group has tax loss carryforwards and other tax credits of SEK 3,234 M (2,562) for which deferred tax assets have not been recognized, as it is uncertain whether they can be offset against taxable income in future taxation.

Note 19 Other financial assets

SEK M	Group		Parent company	
	2017	2018	2017	2018
Investments in associates, Parent company	–	–	1,621	1,621
Other shares and interests	11	8	–	–
Non-current interest-bearing liabilities	171	106	–	–
Other non-current receivables	44	37	187	161
Total	227	152	1,808	1,782

Note 20 Inventories

SEK M	Group	
	2017	2018
Materials and supplies	2,750	3,057
Work in progress	1,861	2,291
Finished goods	4,563	5,640
Advances paid	256	328
Total	9,430	11,316

Impairment of inventories during the year amounted to SEK 230 M (269).

Note 21 Trade receivables

SEK M	Group	
	2017	2018
Trade receivables	14,228	15,674
Loss allowance	–1,160	–1,178
Total	13,068	14,496

Maturity analysis

Current trade receivables	9,316	10,615
Trade receivables due:		
<3 months	3,173	3,221
3–12 months	859	930
>12 months	880	908
	4,912	5,059
Impaired trade receivables:		
Current	–35	–65
Trade receivables due:		
<3 months	–104	–110
3–12 months	–220	–133
>12 months	–802	–870
	–1,160	–1,178
Total	13,068	14,496

Trade receivables by currency	2017	2018
USD	4,201	5,083
EUR	3,335	3,478
CNY	1,310	1,216
GBP	599	762
SEK	589	659
KRW	399	448
CAD	219	325
AUD	312	269
Other currencies	2,104	2,265
Total	13,068	14,496

Change in loss allowance for trade receivables	2017	2018
Opening balance	959	1,160
Acquisitions and divestments of subsidiaries	48	15
Receivables written off	–103	–262
Reversal of unused amounts	–46	–85
Provision for bad debts	335	306
Exchange rate differences	–33	45
Closing balance	1,160	1,178

The closing loss allowance as at 31 December 2017, calculated under IAS 39, was SEK 1,160 M. Opening loss allowance as at 1 January 2018 was calculated under IFRS 9. The recalculation did not affect the size of the loss allowance.

Note 22 Parent company's equity

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

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

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

	Number of shares, thousands			Share capital, SEK K
	Series A shares	Series B shares	Total	
Opening balance at 1 January 2017	57,525	1,055,052	1,112,576	370,859
Closing balance at 31 December 2017	57,525	1,055,052	1,112,576	370,859
Number of votes, thousands	575,259	1,055,052	1,630,311	
Opening balance at 1 January 2018	57,525	1,055,052	1,112,576	370,859
Closing balance at 31 December 2018	57,525	1,055,052	1,112,576	370,859
Number of votes, thousands	575,259	1,055,052	1,630,311	

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

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

The total number of treasury shares as at 31 December 2018 amounted to 1,800,000. No shares have been repurchased during the year.

Dividend per share

The dividend paid during the financial year totaled SEK 3,666 M (3,332), equivalent to SEK 3.30 (3.00) per share. A dividend for 2018 of SEK 3.50 per share, a total of SEK 3,888 M, will be proposed at the Annual General Meeting on 25 April 2019.

Note 24 Post-employment employee benefits

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

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

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

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

As at 31 December 2018, shares accounted for 43 percent (45) and fixed income securities for 35 percent (33) of plan assets, while other assets accounted for 23 percent (22). The actual return on plan assets in 2018 was SEK -230 M (386).

Amounts recognized in the income statement

Pension costs, SEK M	2017	2018
Defined contribution pension plans	566	647
Defined benefit pension plans	147	175
Post-employment medical benefit plans	30	28
Total	744	849
<i>of which, included in:</i>		
Operating income	658	771
Net financial items	86	79

Amounts recognized in the balance sheet

Pension provisions, SEK M	2017	2018
Provisions for defined benefit pension plans	2,350	2,296
Provisions for post-employment medical benefit plans	573	571
Provisions for defined contribution pension plans	10	12
Total	2,933	2,880

Pensions with Alecta

Commitments for old-age pensions and family pensions for salaried employees in Sweden are secured in part through insurance with Alecta. According to UFR 10, this is a defined benefit plan that covers many employers. For the 2018 financial year, the company has not had access to information making it possible to report this plan as a defined benefit plan. Pension plans in accordance with ITP secured through insurance with Alecta are therefore reported as defined contribution plans. The year's pension contributions that are contracted to Alecta total SEK 30 M (33), of which SEK 13 M (11) relates to the Parent company. Pension contributions are expected to remain largely unchanged in 2019.

Alecta's surplus can be distributed to policyholders and/or the insured. As at 30 September 2018, Alecta's surplus expressed as the collective consolidation level amounted preliminarily to 159 percent (154 percent as at 31 December 2017). The collective consolidation level consists of the market value of Alecta's assets as a percentage of its insurance commitments calculated according to Alecta's actuarial calculation assumptions, which do not comply with IAS 19. The collective consolidation level is normally allowed to vary between 125 and 155 percent. If the consolidation level deviates from this range, measures in the form of an adjustment of the premium level should be taken to return to the normal range.

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

Specification of defined benefits, SEK M	United Kingdom		Germany		US		Other countries		Total	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Present value of funded obligations	2,878	2,790	95	99	2,046	1,968	1,179	1,352	6,199	6,209
Fair value of plan assets	-2,658	-2,514	-21	-21	-1,604	-1,735	-799	-958	-5,081	-5,227
Net value of funded plans	220	276	75	79	443	234	380	394	1,118	982
Present value of unfunded obligations	-	-	689	735	-	-	543	580	1,232	1,314
Present value of unfunded medical benefits	-	-	-	-	568	567	5	5	573	571
Net value of defined benefit pension plans	220	276	764	813	1,011	800	928	978	2,923	2,868
Provisions for defined contribution pension plans	-	-	-	-	-	-	10	12	10	12
Total	220	276	764	813	1,011	800	938	990	2,933	2,880

Note 24 cont.

<i>Movement in obligations</i>		<i>Post-employment medical benefits</i>	<i>Defined benefit pension plans</i>	<i>Plan assets</i>	<i>Total</i>
<i>2018, SEK M</i>					
Opening balance 1 January 2018		573	7,431	-5,081	2,923
Acquisitions and divestments		-	120	91	29
Reclassifications		64	-64	-	-
<i>Recognized in the income statement:</i>					
Current service cost		6	118	-	124
Past service cost		-	15	-	15
Impairment/reversal of pension receivables		-	-15	-	-15
Interest expense/income		21	197	-140	79
Total recognized in the income statement		28	315	-140	202
<i>Recognized in other comprehensive income:</i>					
Return on plan assets, excluding amounts included above		-	-	369	369
Gain/loss from change in demographic assumptions		-112	-163	-	-275
Gain/loss from change in financial assumptions		-	-125	-	-125
Experience-based gains/losses		-	-8	-	-8
Remeasurement of net pension obligations					
Exchange rate differences		48	356	-262	142
Total recognized in other comprehensive income		-63	59	107	378
<i>Contributions and payments:</i>					
Employer contributions		-	-	-296	-296
Employee contributions		0	19	-19	0
Payments		-30	-320	257	-94
Settlements		-	-37	37	-
Total payments		-30	-338	-22	-390
Closing balance 31 December 2018		571	7,523	-5,227	2,868
<i>2017, SEK M</i>		<i>Post-employment medical benefits</i>	<i>Defined benefit pension plans</i>	<i>Plan assets</i>	<i>Total</i>
Opening balance 1 January 2017		610	7,560	-5,063	3,107
Acquisitions and divestments		-	6	-	6
<i>Recognized in the income statement:</i>					
Current service cost		7	108	-	115
Past service cost		-	3	-	3
Impairment/reversal of pension receivables		-	-26	-	-26
Interest expense/income		23	199	-136	86
Total recognized in the income statement		30	284	-136	178
<i>Recognized in other comprehensive income:</i>					
Return on plan assets, excluding amounts included above		-	-	-254	-254
Gain/loss from change in demographic assumptions		22	87	-	109
Gain/loss from change in financial assumptions		-	116	-	116
Experience-based gains/losses		-	2	-	2
Remeasurement of net pension obligations		22	206	-254	-26
Exchange rate differences		-58	-248	214	-92
Total recognized in other comprehensive income		-36	-43	-40	-118
<i>Contributions and payments:</i>					
Employer contributions		-	-	-161	-161
Employee contributions		0	17	-17	0
Payments		-32	-351	294	-89
Settlements		-	-43	43	-
Total payments		-31	-377	158	-250
Closing balance 31 December 2017		573	7,431	-5,081	2,923

Plan assets allocation

<i>Plan assets</i>	<i>2017</i>	<i>2018</i>
Publicly traded shares	2,309	2,244
Government bonds	689	651
Corporate bonds	736	842
Inflation-linked bonds	250	312
Property	302	345
Cash and cash equivalents	22	41
Alternative investments	86	65
Other assets	687	727
Total	5,081	5,227

Note 24 cont.

Key actuarial assumptions

Key actuarial assumptions (weighted average), %	United Kingdom		Germany		US	
	2017	2018	2017	2018	2017	2018
Discount rate	2.5	2.8	1.8	1.8	3.6	4.3
Expected annual salary increases	n/a	n/a	2.8	2.8	n/a	n/a
Expected annual pension increases	2.1	2.0	1.3	1.5	2.0	2.0
Expected annual medical benefit increases	n/a	n/a	n/a	n/a	6.9	6.4
Expected annual inflation	2.4	2.4	1.3	1.5	3.0	3.0

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

The effect on defined benefit obligations and post-employment medical benefits of a 1.0 percentage change in some actuarial assumptions, change in percent	+1.0%	-1.0%
Discount rate	-15.1%	14.6%
Expected annual medical benefit increases	8.3%	-7.0%

Note 25 Other provisions

SEK M	Group		
	Restructuring reserve	Other	Total
Opening balance at 1 January 2018	944	1,202	2,146
Provisions for the year	1,218	106	1,324
Acquisitions of subsidiaries	-	7	7
Reversal of non-utilized amounts	-	-14	-14
Payments	-793	-53	-845
Utilized during the year, without cash flow impact	-209	-	-209
Reclassifications	-	-807	-807
Exchange rate differences	30	2	32
Closing balance at 31 December 2018	1,190	445	1,635

SEK M	Group		
	Restructuring reserve	Other	Total
Opening balance at 1 January 2017	1,572	1,170	2,742
Provisions for the year	-	848	848
Acquisitions of subsidiaries	-	-1	-1
Reversal of non-utilized amounts	-	-38	-38
Payments	-612	-772	-1,384
Utilized during the year, without cash flow impact	-11	-	-11
Exchange rate differences	-5	-6	-11
Closing balance at 31 December 2017	944	1,202	2,146

Balance sheet breakdown:	Group	
	2017	2018
Other non-current provisions	1,447	745
Other current provisions	699	891
Total	2,146	1,635

The restructuring reserve at year-end relates mainly to the ongoing restructuring program launched during the year. The restructuring reserve is expected to be used over the next two years. The non-current part of the reserve totaled SEK 339 M. For further information on the restructuring programs, see the Report of the Board of Directors.

Other provisions mainly relate to legal obligations including future environment-related measures. During the year a provision for taxes was reclassified to the item Current tax liabilities on the balance sheet.

Note 26 Other current liabilities

SEK M	Group	
	2017	2018
VAT and excise duties	626	651
Employee withholding tax	110	145
Advances received	889	1,170
Social security contributions and other taxes	89	111
Deferred considerations	1,177	1,021
Other current liabilities	554	454
Total	3,446	3,551

Note 27 Accrued expenses and deferred income

SEK M	Group		Parent company	
	2017	2018	2017	2018
Personnel-related expenses	2,728	3,227	279	285
Customer-related expenses	972	1,022	-	-
Deferred income	352	553	-	-
Accrued interest expenses	113	138	54	82
Other	1,358	1,457	39	52
Total	5,524	6,396	372	419

Note 28 Contingent liabilities

SEK M	Group		Parent company	
	2017	2018	2017	2018
Guarantees	113	121	-	-
Guarantees on behalf of subsidiaries	-	-	11,015	11,522
Total	113	121	11,015	11,522

Maturity profile – guarantees, SEK M	Group	
	2017	2018
<1 year	61	41
>1 <2 years	16	42
>2 <5 years	19	13
>5 years	17	16
Total	113	113

Note 29 Assets pledged against liabilities to credit institutions

SEK M	Group		Parent company	
	2017	2018	2017	2018
Real estate mortgages	114	97	-	-
Other mortgages	131	65	-	-
Total	244	162	-	-

Note 30 Business combinations

SEK M	2017	2018
Purchase prices		
Cash paid for acquisitions during the year	6,501	5,602
Holdbacks and deferred consideration for acquisitions during the year	365	1,152
Adjustment of purchase prices for acquisitions in prior years	18	-2
Total	6,885	6,752
Acquired assets and liabilities at fair value		
Intangible assets	1,843	1,428
Property, plant and equipment	94	214
Deferred tax assets	16	221
Other financial assets	18	1
Inventories	232	555
Current receivables and investments	416	643
Cash and cash equivalents	187	437
Non-controlling interests	-3	-
Deferred tax liabilities	-188	-169
Pension provisions	-6	-29
Other non-current liabilities	-95	-60
Current liabilities	-592	-1,521
Total	1,922	1,720
Goodwill	4,962	5,032
Cash paid for acquisitions during the year	6,501	5,602
Cash and cash equivalents in acquired subsidiaries	-187	-437
Paid deferred considerations for acquisitions in previous years	511	339
Change in cash and cash equivalents due to acquisitions	6,825	5,503
Net sales from acquisition date	1,250	1,450
EBIT from acquisition date	150	96
Net income from acquisition date	111	76

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

Purchase price allocations have been prepared for all acquisitions in 2018. The net sales of acquired units for 2018 totaled SEK 3,623 M (2,543) and net income amounted to SEK 331 M (232). Acquisition-related costs for 2018 totaled SEK 107 M (86) and have been reported as other operating expenses in the income statement.

See below for an account of some acquisitions completed in 2018 and 2017. No single acquisition is significant in terms of size and separate acquisition details are therefore not provided.

2018

Crossmatch

On 21 September 2018 ASSA ABLOY acquired 100 percent of the share capital in the US company Crossmatch Inc., a leader in biometric identity management and secure authentication solutions.

The acquisition of Crossmatch strengthens the ability to offer innovative biometric solutions to hundreds of millions of users worldwide and expands HID's market leadership in secure identity solutions. Crossmatch is headquartered in Palm Beach Gardens, Florida.

Intangible assets in the form of technology, brands and customer relationships have been disclosed in the purchase price allocation. Residual goodwill mainly relates to synergies and other intangible assets that do not meet the criteria for separate reporting.

Luxer One

On 12 December 2018, ASSA ABLOY acquired 100 percent of the share capital of Luxer Holdings Corporation, a leading provider of advanced package locker solutions in the US.

The acquisition further strengthens ASSA ABLOY's market position in home delivery solutions and provides excellent opportunities for synergies in vertical segments, such as education and commercial properties. The company is headquartered in Sacramento, California.

On the reporting date the acquisition analysis is preliminary with respect to valuation of intangible assets.

Other acquisitions

Other noteworthy acquisitions during the year included Phoniro (Sweden), Brüken (Mexico), HKC (Ireland) and Planet (Switzerland). Please see the Report of the Board of Directors for further information on these acquisitions.

2017

Arjo Systems

On 3 July 2017, ASSA ABLOY acquired 100 percent of the share capital in the French company Arjo Systems SAS, a leading provider of physical and digital identity solutions for national ID documents.

The acquisition strengthens the current offering of secure identity solutions and will strengthen the Group's position in national ID documents, while offering additional growth opportunities. Arjo Systems operates in France, Italy and Hong Kong.

Intangible assets in the form of technology and customer relationships have been disclosed in the purchase price allocation. Residual goodwill mainly relates to synergies and other intangible assets that do not meet the criteria for separate reporting.

Mercury Security

On 18 October 2017, ASSA ABLOY acquired 100 percent of the share capital of Mercury Security, a leading US OEM supplier of control systems for physical access control.

The acquisition strengthens the current offering in physical access management where Mercury Security considerably strengthens the Group's position in physical access management and offers complementary growth opportunities. Mercury Security is headquartered in Long Beach, California.

Intangible assets in the form of the brand, technology and customer relationships have been disclosed in the purchase price allocation. Residual goodwill mainly relates to synergies and other intangible assets that do not meet the criteria for separate reporting.

August Home

On 21 November 2017, ASSA ABLOY acquired 100 percent of the share capital of August Home Inc., a leading US supplier of smart digital locks.

The acquisition of August Home further strengthens the strategy for smart door solutions aimed at the residential market with additional smart digital locks, doorbells with camera and complete home delivery solutions. August Home is headquartered in San Francisco, California.

Other acquisitions

Other noteworthy acquisitions during the year include Shree Mahavir Metalcraft (India), Southeastern Dock & Door (US) and Jerith (US).

Note 31 Cash flow

SEK M	Group	
	2017	2018
Adjustments for non-cash items		
Profit on sales of non-current assets	-45	-265
Profit/loss on sales of subsidiaries	42	-11
Change in pension provisions	92	124
Share of earnings in associates	-129	-167
Dividend from associates	61	66
Remeasurement of earn out provisions related to acquisitions	-300	-296
Other	58	92
Adjustments for non-cash items	-221	-458
Change in working capital		
Inventories increase/decrease (-/+)	-158	-983
Trade receivables increase/decrease (-/+)	-696	-340
Trade payables increase/decrease (+/-)	454	-439
Other working capital increase/decrease (-/+)	52	686
Change in working capital	-347	-1,076
Divestments of subsidiaries		
Purchase prices received, net	140	406
Cash and cash equivalents in divested subsidiaries	-1	-11
Change in consolidated cash and cash equivalents due to divestments	139	395

Note 32 Reserves

SEK M	Hedging reserve			
	Net investment hedges	Cash flow hedges	Exchange rate difference	Total
Opening balance 1 January 2017 according to adopted Annual Report	-247	-7	2,795	2,540
Adjustment, misclassification			2,179	2,179
New opening balance 1 January 2017	-247	-7	4,974	4,720
Share of other comprehensive income of associates			50	50
Cash flow hedges		8		8
Net investment hedges	15			15
Exchange rate differences			-1,864	-1,864
Deferred tax	-4	-2	9	4
Closing balance 31 December 2017	-236	-2	3,170	2,932
Opening balance 1 January 2018	-236	-2	3,170	2,932
Share of other comprehensive income of associates			87	87
Cash flow hedges		2		2
Net investment hedges	-8			-8
Exchange rate differences			2,090	2,090
Deferred tax	1	0	-9	-8
Closing balance 31 December 2018	-243	-	5,339	5,096

Of the item Net investment hedges, SEK -28 M relates to current hedge relationships, while the remainder, SEK -215 M, relates to closed hedge relationships for which hedged objects remain.

During the year a historic misclassification was identified in the Group's equity involving the item *Reserves* and the item *Retained earnings*. The misclassification has no effect on the total equity in the Group. The Group's reserves have been corrected through an adjustment of the opening balance established as at 1 January 2017.

Note 33 Employees

Salaries, wages, other remuneration and social security costs

SEK M	Group		Parent company	
	2017	2018	2017	2018
Salaries, wages and other remuneration	16,804	19,200	231	278
Social security costs	4,814	5,284	137	132
– of which pensions	658	771	36	49
Total	21,618	24,485	368	410

Note 33 cont.

Fees to Board members in 2018 (including committee work), SEK thousand

Name and post	Board of Directors	Remuneration Committee	Audit Committee	Total
Lars Renström, Chairman	2,100	150	–	2,250
Carl Douglas, Vice Chairman	900	–	–	900
Ulf Ewaldsson, Member	630	–	–	630
Eva Karlsson, Member	630	–	–	630
Birgitta Klasén, Member	630	–	200	830
Lena Olving, Member	630	–	–	630
Sofia Schörling Höglberg, Member	630	–	200	830
Jan Svensson, Member	630	75	275	980
Employee representatives (4)	–	–	–	–
Total	6,780	225	675	7,680

Total fees to Board members amounted to SEK 7.3 M in 2017.

Remuneration and other benefits of the Executive Team in 2018, SEK thousands

Name	Fixed salary	Variable salary	Stock-related benefits	Other benefits	Pension costs
Nico Delvaux, President and CEO, 15 March 2018–	12,709	7,233	1,202	189	4,433
Johan Molin, President and CEO, 1 January – 14 March 2018	3,938	2,469	1,406	27	1,681
Other members of the Executive Team (8 positions)	38,633	16,951	7,960	2,926	10,027
Total remuneration and benefits	55,280	26,652	10,569	3,142	16,141

Total remuneration and other benefits of the Executive Team amounted to SEK 146.9 M in 2017.

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

Salaries and other remuneration for the Board of Directors and the Parent company's Executive Team totaled SEK 57 M (68), excluding pension costs and social security costs. Pension costs amounted to SEK 11 M (12). Pension obligations for several senior executives are secured through pledged endowment insurances.

Long-term incentive programs

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

At the 2011 to 2018 Annual General Meetings, it was decided to implement further long-term incentive programs for senior executives and other key employees in the Group. The new long-term incentive programs were named LTI 2011 to LTI 2018. LTI 2011 to LTI 2017 are based on similar terms to LTI 2010. LTI 2018 is based on similar principles, but with an extended measurement period of three years for the performance-based condition and removal of matching shares.

For each Series B share acquired by the CEO within the framework of LTI 2016 and LTI 2017, the company has awarded one matching share award and four performance-based share awards. For each Series B share acquired by other members of the Executive Team, the company has awarded one matching share award and three performance-based share awards. For other participants, the company has awarded one matching share award and one performance-based share award. For each Series B share acquired by the CEO within the framework of LTI 2018, the company has awarded six performance-based share awards. For each Series B share acquired by other members of the Executive Team, the company has awarded five performance-based share awards. For other participants, the company has awarded four performance-based share awards.

In accordance with the terms of the incentive programs, employees have acquired a total of 365,018 shares in ASSA ABLOY AB, of which 110,357 shares were acquired in 2018 within the framework of LTI 2018.

Each matching share award for LTI 2016 and LTI 2017 entitles the holder to receive one Series B share in the company free of charge three years after allotment, provided that the

holder, with certain exceptions, at the time of the release of the interim report for the first quarter 2019 (LTI 2016) and 2020 (LTI 2017) still is employed by the Group and has maintained the shares acquired within the framework of the long-term incentive programs. Each performance-based share award for LTI 2016 and LTI 2017 entitles the holder to receive one Series B share in the company free of charge three years after allotment, provided that the above conditions have been fulfilled. In addition, the maximum level in a range determined by the Board of Directors for the performance of the company's earnings per share must have been fulfilled during the first year of each program in order to receive full outcome.

Each performance-based share award for LTI 2018 entitles the holder to receive one Series B share in the company free of charge three years after allotment, provided that the holder, with certain exceptions, at the time of the release of the interim report for the first quarter 2021, still is employed by the Group and has maintained the shares acquired within the framework of the long-term incentive program. The number of performance-based share awards that entitle the holder to Series B shares in the company depends on the annual development of ASSA ABLOY's earnings per share based on the target levels, as defined by the Board of Directors, during the measurement period 1 January 2018 – 31 December 2020, where each year during the measurement period is compared to the previous year. The outcome is calculated yearly, whereby one third of the performance-based share awards is measured against the outcome for 2018, one third is measured against the outcome for 2019 and one third is measured against the outcome for 2020. The outcome for each year is measured linearly. Unless the minimum level is achieved for the year, none of the relevant performance-based share awards will give the right to Series B shares. If the maximum level is achieved, each performance-based share award linked to the relevant year entitles the holder to one Series B share.

The performance-based condition was 67 percent fulfilled for LTI 2016 and 100 percent for LTI 2017. Fulfilment of the performance-based condition for LTI 2018 is intended to be presented in the Annual Report for the financial year 2020.

Outstanding performance-based share awards for LTI 2018 total 449,584. The total number of outstanding matching and performance-based share awards for LTI 2016, LTI 2017 and LTI 2018 amounted to 702,432 on the reporting date of 31 December 2018.

Fair value is based on the share price on the respective allotment date. The present value calculation is based on data from an external party. Fair value is adjusted for partici-

Note 33 cont.

pants who do not retain their holding of shares for the duration of the respective program. In the case of performance-based shares, the company assesses the probability of the performance targets being met when calculating the compensation expense.

The fair value of ASSA ABLOY's Series B share on the allotment date for LTI 2018, 25 May 2018, was SEK 191.63. The fair value of ASSA ABLOY's Series B share on the allotment date for LTI 2017, 26 May 2017, was SEK 192.10. The fair value of ASSA ABLOY's Series B share on the allotment date for LTI 2016, 26 May 2016, was SEK 171.24.

The total cost of the Group's long-term incentive programs (LTI 2015–LTI 2018) excluding social security costs amounted to SEK 45 M (40) in 2018. In April 2018 vesting of LTI 2015, as well as parts of LTI 2016 and LTI 2017, took place and 313,744

shares (395,304) at a total market value at the time of vesting of SEK 60 M (74) were transferred to the participants of the program. Parts of the vesting of LTI 2015, LTI 2016 and LTI 2017 were settled through endowment insurances. The payment as above for the transferred shares in LTI 2015 and parts of LTI 2016 and LTI 2017 was recognized in equity.

Notice and severance pay

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

Average number of employees per country, broken down by gender

	Group					
	2017		2018			
	Total	of which women	of which men	Total	of which women	of which men
US	10,188	2,723	7,464	10,339	2,742	7,597
China	10,337	4,552	5,784	9,483	3,970	5,514
Sweden	2,154	535	1,619	2,252	580	1,672
France	1,939	596	1,343	1,934	603	1,331
United Kingdom	1,688	508	1,180	1,851	552	1,299
Mexico	1,518	419	1,099	1,660	504	1,156
India	972	84	888	1,655	148	1,058
Germany	1,611	471	1,141	1,452	455	997
Brazil	1,435	663	773	1,392	419	973
Czech Republic	1,094	345	749	1,203	375	828
Poland	692	131	561	1,182	315	867
Finland	1,216	348	868	1,173	329	844
Netherlands	1,034	158	876	1,050	171	879
Romania	802	320	482	878	347	531
Malaysia	873	434	439	870	437	433
Canada	815	238	577	814	192	622
Belgium	674	132	542	698	142	556
Norway	710	133	577	690	145	545
South Korea	676	257	418	681	191	491
Australia	669	204	465	674	195	479
South Africa	581	260	321	650	306	344
Denmark	595	171	424	601	165	436
Switzerland	565	183	382	584	181	402
Spain	538	131	407	535	133	402
Italy	461	135	326	453	121	332
United Arab Emirates	416	32	384	399	33	365
Hungary	321	55	267	315	52	264
Chile	336	99	237	307	89	218
New Zealand	294	101	193	293	99	194
Israel	303	89	214	292	99	193
Hong Kong	183	77	106	210	85	125
Colombia	215	145	70	199	56	143
Ireland	193	52	142	195	50	144
Others	1,329	343	986	1,388	465	923
Total	47,426	15,122	32,304	48,353	14,746	33,606

	Parent company					
	2017		2018			
	Total	of which women	of which men	Total	of which women	of which men
Sweden	208	49	159	231	56	175
Total	208	49	159	231	56	175

Gender distribution of Board of Directors and Executive Team

	2017			2018		
	Total	of which women	of which men	Total	of which women	of which men
Board of Directors ¹	9	4	5	9	4	5
Executive Team	9	1	8	9	1	8
– of which Parent company's Executive Team	4	1	3	4	1	3
Total	18	5	13	18	5	13

¹ Excluding employee representatives.

Note 34 Financial risk management and financial instruments

Financial risk management

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

Organization and activities

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

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

Capital structure

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

Net debt is defined as interest-bearing liabilities, including negative market values of derivatives, plus pension provisions,

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

Net debt and equity

SEK M	Group	
	2017	2018
Non-current interest-bearing liabilities	-171	-106
Current interest-bearing investments incl. positive market values of derivatives	-150	-188
Cash and cash equivalents	-459	-538
Pension provisions	2,933	2,880
Other non-current interest-bearing liabilities	16,859	19,489
Current interest-bearing liabilities incl. negative market values of derivatives	6,263	7,710
Total	25,275	29,246
Equity	50,657	51,900
Net debt/equity ratio	0.50	0.56

Rating

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

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

Maturity profile – financial instruments¹

SEK M ²	December 31, 2017				December 31, 2018			
	<1 year	>1 <2 years	>2 <5 years	>5 years	<1 year	>1 <2 years	>2 <5 years	>5 years
Long-term bank loans	-343	-1,421	-2,904	-566	-1,437	-744	-2,738	-489
Long-term capital market loans	-2,694	-1,609	-5,659	-5,852	-1,844	-3,000	-6,621	-7,523
Short-term bank loans	-1,907				-2,199			
Commercial papers and short-term capital market loans	-1,545				-2,752			
Derivatives (outflow)	-9,295	-26	-75	-73	-13,656	-53	-152	-68
Total by period	-15,784	-3,056	-8,638	-6,491	-21,888	-3,798	-9,511	-8,080
Cash and cash equivalents incl. interest-bearing receivables	502				610			
Non-current interest-bearing liabilities	90	57	30			108		
Derivatives (inflow)	9,242	56	143	148	13,609	77	189	110
Deferred considerations	-1,177	-264	-118		-1,021	-507	-371	
Trade receivables	13,068				14,496			
Trade payables	-7,811				-7,893			
Net total	-1,870	-3,207	-8,584	-6,343	-2,087	-4,121	-9,693	-7,970
Confirmed credit facilities	8,874		-8,874		9,265	-9,265		
Credit facilities maturing <1 year	-681				-690			
Adjusted maturity profile¹	6,322	-3,207	-17,457	-6,343	6,488	-13,386	-9,693	-7,970

¹ For maturity structure of guarantees, see Note 28.

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

Financing risk and maturity profile

Financing risk is defined as the risk of being unable to meet payment obligations as a result of inadequate liquidity or difficulties in obtaining external financing. ASSA ABLOY manages financing risk at Group level. Treasury is responsible for external borrowings and external investments. ASSA ABLOY strives to have access on every occasion to both short-term and long-term loan facilities. In accordance with financial policy, the available loan facilities, including available cash and cash equivalents, should include a reserve (facilities available but not utilized) equivalent to 10 percent of the Group's total annual sales.

Maturity profile

The table 'Maturity profile' above shows the maturities for ASSA ABLOY's financial instruments, including confirmed credit facilities. The maturities are not concentrated to a particular date in the immediate future. An important component of liquidity planning is the Group's Multi-Currency Revolving Credit Facility, which matures in June 2020. This credit facility was wholly unutilized at year-end. Moreover, existing financial assets are also taken into account. The table shows undiscounted cash flows relating to the Group's financial instruments at the reporting date, and these amounts are therefore not found in the balance sheet.

Note 34 cont.

External financing/net debt

Credit lines/facilities	Amount, SEK M	Maturity	Carrying amount, SEK M	Currency	Amount 2017	Amount 2018	Of which Parent company, SEK M
US Private Placement Program	629	May 2020	629	USD	70	70	
US Private Placement Program	1,372	Aug 2022	1,372	USD	150	150	
US Private Placement Program	674	Aug 2024	674	USD	75	75	
Multi-Currency RCF	9,265	Jun 2020	—	EUR	900	900	
Bank loan EIB	377	May 2020 ²	377	EUR	55	37	
Bank loan EIB	1,079	Apr 2022 ²	1,079	USD	137	120	
Bank loan NIB	566	Dec 2021	566	EUR	55	55	
Global MTN Program	24,500	Feb 2020	515	EUR	50	50	515
		Jun 2020	127	AUD	20	20	127
		Sep 2020	720	EUR	70	70	720
		Nov 2020	372 ¹	EUR	35	35	
		Dec 2020	318 ¹	EUR	30	30	308
		Feb 2021	450	USD	50	50	450
		Jul 2021	500	SEK	500	500	
		Aug 2021	90	USD	10	10	90
		Oct 2021	154	EUR	15	15	154
		Feb 2022	180	USD	20	180	
		Mar 2022	514	EUR	50	50	514
		Apr 2022	90	USD	10	10	90
		Jun 2022	103	EUR	10	10	103
		Jul 2022	45	USD	5	5	45
		Mar 2023	156	EUR	15	15	156
		Oct 2023	205	EUR	20	20	205
		Nov 2023	227 ¹	USD	25	25	
		Nov 2023	906 ¹	USD	100	100	897
		Dec 2023	898	USD	100	100	898
		May 2024	179	USD	20	20	179
		Jul 2024	270	USD	30	30	270
		Sep 2024	1,025	EUR	100	100	1,025
		Feb 2025	514	EUR	50	50	514
		Mar 2025	342 ¹	EUR	30	30	342
		Jun 2025	513	EUR	50	50	513
		Jun 2025	269	USD	30	30	269
		Dec 2025	433 ¹	USD	50	50	449
		Feb 2027	305	EUR	30	30	305
		Feb 2027	515	EUR	50	50	515
		Jun 2027	305 ¹	NOK	300	300	307
		Oct 2027	204 ¹	NOK	200	200	204
		Oct 2029	289 ¹	EUR	28	28	289
		Oct 2029	266	EUR	26	26	266
		Mar 2030	307	EUR	30	30	307
		Apr 2030	715	EUR	70	70	715
Other long-term loans	1,773		1,773				1,387
Total long-term loans/facilities	40,235		19,489				13,771
Global MTN Program	1,235	Jan 2019	90	USD	10	10	90
		Aug 2019	449	USD	50	50	449
		Sep 2019	180	USD	20	20	180
		Nov 2019	516	EUR	50	50	516
US Private Placement Program	224	Aug 2019	224	USD	122	25	
Global CP Program	8,984		1,419	USD	25	158	
			824	EUR		80	
Swedish CP Program	5,000		500	SEK	1,100	500	
Other bank loans	2,113		2,113				463
Overdraft facility	2,716		1,277				
Total short-term loans/facilities	20,272		7,594				1,697
Total loans/facilities	60,507		27,083				15,468
Cash and cash equivalents			-538				
Current interest-bearing investments			-71				
Non-current interest-bearing liabilities			-106				
Market value of derivatives			0				
Pension provisions			2,880				
Net debt			29,246				

¹ The loans are subject to hedge accounting, in whole or in part.² The loans are amortizing. In the table the average dates of maturity of the loans have been stated.

Note 34 cont.

SEK M	Long-term loans	Short-term loans	Total
Opening balance 1 January 2017	16,901	3,929	20,829
Cash flow from financing activities			
Long-term loans raised	3,226	–	3,226
Long-term loans repaid	–	-2,637	-2,637
Other changes in cash flow short-term loans	–	2,414	2,414
Total	3,226	-223	3,003
Changes in non-cash items			
Acquisitions of subsidiaries	93	83	176
Reclassifications	-2,698	2,698	–
Unrealized exchange rate differences	-663	-335	-998
Total	-3,268	2,446	-822
Closing balance 31 December 2017	16,859	6,151	23,010

SEK M	Long-term loans	Short-term loans	Total
Opening balance 1 January 2018	16,859	6,151	23,010
Cash flow from financing activities			
Long-term loans raised	4,483	–	4,483
Long-term loans repaid	–	-2,849	-2,849
Other changes in cash flow short-term loans	–	553	553
Total	4,483	-2,296	2,187
Changes in non-cash items			
Acquisitions of subsidiaries	23	933	957
Reclassifications	-2,660	2,660	–
Unrealized exchange rate differences	806	155	960
Other changes in non-cash items	-22	-9	-31
Total	-1,853	3,739	1,886
Closing balance 31 December 2018	19,489	7,594	27,083

Interest-bearing liabilities

The Group's long-term loan financing mainly consists of a Private Placement Program in the US totaling USD 320 M, of which USD 295 M (320) is long-term, a GMTN program of SEK 14,229 M (10,700), of which SEK 12,996 M (9,329) is long-term, a loan from the European Investment Bank of EUR 37 M (55) and USD 121 M (137), and a loan from the Nordic Investment Bank of EUR 55 M (110). During the year, ten new issues were made under the GMTN program for a total amount of SEK 4,445 M. In addition, the company took out a smaller long-term loan. Other changes in long-term loans are mainly due to some of the originally long-term loans now having less than 1 year to maturity. The size of the loans increased substantially due to currency fluctuations, especially regarding the USD. A total of SEK 4,492 M was raised in new long-term loans, while SEK 2,849 M in originally long-term loans matured during the year.

The Group's short-term loan financing mainly consists of two Commercial Paper Programs for a maximum USD 1,000 M (1,000) and SEK 5,000 M (5,000) respectively. At year-end, SEK 2,752 M (1,307) of the Commercial Paper Programs had been utilized. In addition, substantial credit facilities are available, mainly in the form of a Multi-Currency Revolving Credit Facility of EUR 900 M (900). At year-end the average time to maturity for the Group's interest-bearing liabilities, excluding the pension provision, was 42 months (44).

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

Currency composition

The currency composition of ASSA ABLOY's borrowing depends on the currency composition of the Group's assets and other liabilities. Currency swaps are used to achieve the desired currency composition. See the table 'Net debt by currency' below.

Cash and cash equivalents and other interest-bearing receivables

Short-term interest-bearing investments totaled SEK 71 M (43) at year-end. In addition, ASSA ABLOY has long-term interest-bearing receivables of SEK 106 M (171) and financial derivatives with a positive market value of SEK 117 M (107) which, in addition to cash and cash equivalents, are included in the definition of net financial debt. Cash and cash equivalents are mainly invested in bank accounts or interest-bearing instruments with high liquidity from issuers with a credit rating of at least A-, according to Standard & Poor's or similar rating agency. The average term for cash and cash equivalents was 22 days (21) at year-end 2018.

The Parent company's cash and cash equivalents are held in a sub-account to the Group account.

SEK M	Group		Parent company	
	2017	2018	2017	2018
Cash and bank balances	362	456	0	0
Short-term investments with maturity less than 3 months	97	81	–	–
Cash and cash equivalents	459	538	0	0
Short-term investments with maturity more than 3 months	43	71	–	–
Non-current interest-bearing liabilities	171	106	–	–
Positive market value of derivatives	107	117	–	–
Total	321	832	0	0

Note 34 cont.

Net debt by currency

SEK M	December 31, 2017		December 31, 2018	
	Net debt excluding currency swaps	Net debt including currency swaps	Net debt excluding currency swaps	Net debt including currency swaps
USD	8,522	12,236	10,875	14,442
EUR	12,074	7,241	14,150	7,575
CNY	451	1,764	635	1,609
GBP	258	-157	288	874
NOK	565	645	563	688
CHF	214	259	190	653
CZK	21	449	27	592
PLN	50	325	49	472
SEK	2,185	1,171	1,466	416
MXN	-11	-36	5	396
AUD	134	357	135	336
Other	812	1,021	862	1,194
Total	25,275	25,275	29,246	29,246

Interest rate risks in interest-bearing assets

Treasury manages interest rate risk in interest-bearing assets. Derivative instruments such as interest rate swaps and FRAs (forward rate agreements) may be used to manage interest rate risk. These interest-bearing assets are mostly short-term. The term for the majority of these investments is three months or less, although the share with a longer maturity rose during the year. The fixed interest term for these short-term investments was 210 days (136) at year-end 2018. A downward change in the yield curve of one percentage point would reduce the Group's interest income by around SEK 1 M (7) and consolidated equity by SEK 0 M (5).

Interest rate risks in borrowing

Changes in interest rates have a direct impact on ASSA ABLOY's net interest expense. Treasury is responsible for identifying and managing the Group's interest rate exposure. Treasury analyzes the Group's interest rate exposure and calculates the impact on income of changes in interest rates on a rolling 12-month basis. The Group strives for a mix of fixed rate and variable rate borrowings, and uses interest rate swaps to adjust the fixed interest term. The financial policy stipulates that the average fixed interest term should normally be 24 months. At year-end, the average fixed interest term on gross debt, excluding pension liabilities, was around 28 months (25). An upward change in the yield curve of one percentage point would increase the Group's interest expense by around SEK 126 M (118) and reduce consolidated equity by SEK 93 M (87).

Currency risk

Currency risk affects ASSA ABLOY mainly through translation of capital employed and net debt, translation of the income of foreign subsidiaries, and the impact on income of flows of goods between countries with different currencies.

Transaction exposure

Currency risk in the form of transaction exposure, or exports and imports of goods respectively, is relatively limited in the Group, even though it can be significant for individual business units. The main principle is to allow currency fluctuations to have an impact on the business as quickly as possible. As a result of this strategy, current currency flows are not normally hedged.

Transaction flows relating to major currencies

(import + and export -)

Currency, SEK M	Currency exposure	
	2017	2018
AUD	535	557
CAD	766	944
CNY	-1,316	-1,825
DKK	160	244
EUR	2,033	2,400
GBP	438	571
RON	-373	-445
SEK	-2,637	-3,518
USD	979	1,410

Translation exposure in income

The table below shows the impact on the Group's income before tax of a 10 percent weakening of the Swedish krona (SEK) in relation to the major currencies, with all other variables constant.

Impact on income before tax of a 10 percent weakening of SEK

Currency, SEK M	2017		2018	
	2017	2018	2017	2018
AUD	43	41		
CHF	30	33		
CNY	28	27		
DKK	11	9		
EUR	151	191		
GBP	22	20		
HKD	76	95		
KRW	18	33		
USD	545	611		

Translation exposure in the balance sheet

The impact of translation of equity is limited by the fact that a large part of financing is in local currency.

The capital structure in each country is optimized based on local legislation. Whenever possible, according to local conditions, gearing per currency should generally aim to be the same as for the Group as a whole to limit the impact of fluctuations in individual currencies. Treasury uses currency derivatives and loans to achieve appropriate financing and to eliminate undesirable currency exposure.

The table 'Net debt by currency' above shows the use of forward exchange contracts in relation to financing in major currencies. Forward exchange contracts are used to neutralize the exposure arising between external debt and internal requirements.

Note 34 cont.**Financial credit risk**

Financial risk management exposes ASSA ABLOY to certain counterparty risks. Such exposure may arise from the investment of surplus cash as well as from investment in debt instruments and derivative instruments.

ASSA ABLOY's policy is to minimize the potential credit risk relating to surplus cash by using cash flow from subsidiaries to repay the Group's loans. This is primarily achieved through cash pools put in place by Treasury. Around 96 percent (93) of the Group's sales were settled through cash pools in 2018. Smaller amounts may be held in other local banks for shorter time periods depending on how customers choose to pay. The Group can also invest surplus cash in the short term in banks to match borrowing and cash flow. The banks in which surplus cash is deposited have a high credit rating. In light of this and the short terms of the investments the effect of the calculated credit risk is assessed to be negligible.

Derivative instruments are allocated between banks based on risk levels defined in the financial policy, in order to limit counterparty risk. Treasury only enters into derivative contracts with banks that have a high credit rating.

ISDA agreements (full netting of transactions in case of counterparty default) have been entered into with respect to interest rate and currency derivatives. The table on page 96 shows the impact of this netting.

Commercial credit risk

The Group's trade receivables are distributed across a large number of customers who are spread globally. No single customer accounts for more than 1 percent of the Group's sales. The concentration of credit risk associated with trade receivables is considered limited, but increased slightly in pace with increased activity in emerging markets, mainly with respect to China. The fair value of trade receivables is equivalent to the carrying amount. Credit risks relating to operating activities are managed locally at company level and monitored at division level. For more information see Note 21 and the section "impairment of financial assets" in the information on accounting principles.

Commodity risk

The Group is exposed to price risks relating to purchases of certain commodities (primarily metals) used in production. Forward contracts are not used to hedge commodity purchases.

Fair value of financial instruments

Derivative financial instruments such as forward exchange contracts and forward rate agreements are used to the extent necessary. The use of derivative instruments is limited to reducing exposure to financial risks.

The positive and negative fair values in the table 'Outstanding derivative financial instruments' on page 96 show the fair values of outstanding instruments at year-end, based on available fair values, and are the same as the carrying amounts in the balance sheet. The nominal value is equivalent to the gross value of the contracts.

For accounting purposes, financial instruments are classified into measurement categories in accordance with IFRS 9. Financial instruments from the comparative year are classified in accordance with IAS 39. The table 'Financial instruments' on page 96 provides an overview of financial assets and liabilities, measurement category, and carrying amount and fair value per item.

Risk management through hedge accounting

During the year the Group used hedge accounting in its financial risk management. These can be divided into cash flow hedges, fair value hedges and net investment hedges. Changes in these hedges can be seen in the table below. For information regarding the effects of net investment hedges and cash flow hedges terminated during the year in other comprehensive income, see Note 32. Net investment hedges are used to manage currency risk that arises through investments in foreign subsidiaries. Fair value hedges are used to manage interest rate risk that arises when the Group takes out loans at a fixed interest rate. Cash flow hedges for interest rate risk in loans with variable interest rates have also been used during the year.

Interest rate risk related to the long-term loans are hedged through hedge accounting using interest rate swaps. In cases where the loans are denominated in a currency other than SEK, they are not included in the applied hedge accounting. For risks related to net investments in foreign subsidiaries, hedge accounting is only applied to manage currency risk; no other related risks are managed by the hedges that are applied. ASSA ABLOY does not hedge 100% of its long-term loans or its net investments. Instead, the decision on when hedge accounting is appropriate is taken on a case-by-case basis, in accordance with the risk levels described in the financial policy.

For fair value hedges the Group uses interest rate swaps with critical terms that are equivalent to the hedged object, such as reference rate, settlement days, maturity date and nominal amounts. This approach ensures an economic relationship between the hedging objects and the hedging instruments. Hedging relationship effectiveness is tested through periodic forward-looking evaluation to ensure that an economic relationship still exists. Examples of identified sources of ineffectiveness in the hedging relationship include if a credit risk adjustment in the interest rate swap is not matched by an equivalent adjustment to the loan, or if for some reason differences in the critical terms between the interest rate swap and the loan should arise. All critical terms matched during the year. For this reason, the economic relationship has been 100% effective.

Hedging instruments

SEK M	Fair value 2018	Net investments 2018
Carrying amount of hedged item	2,749	392
Nominal amount of hedging instrument	2,749	392
Maturity	2020 to 2029	2020 to 2022
Hedge ratio	1:1	1:1
Total effect of hedging on hedged item	50	-28
Accrued remaining amount for terminated hedges	-24	-215
Change in value, hedging instruments since 1 January	-11	-8
Change in value, hedge item	11	8
Ineffectiveness recognized in profit or loss	0	0

Changes in the value of fair value hedged items are recognized against long-term loans, changes in value of hedging instruments are recognized against accrued revenue or expenses, respectively; ineffectiveness, if any, is recognized against interest income or expenses, respectively. Changes in value of hedge instruments in net investment hedges are recognized in the hedging reserve in equity.

Note 34 cont.

Disclosures of offsetting of financial assets and liabilities

SEK M	2017					2018				
	Gross amount	Amount netted in the balance sheet	Net amounts in the balance sheet	Amount covered by netting agreement but not offset	Net amount	Gross amount	Amount netted in the balance sheet	Net amounts in the balance sheet	Amount covered by netting agreement but not offset	Net amount
Financial assets	107	–	107	39	68	117	–	117	53	64
Financial liabilities	112	–	112	39	73	116	–	116	53	63

Netted financial assets and financial liabilities only consist of derivative instruments.

Outstanding derivative financial instruments at December 31

Instrument, SEK M	December 31, 2017			December 31, 2018		
	Positive fair value ²	Negative fair value ²	Nominal value	Positive fair value ²	Negative fair value ²	Nominal value
Foreign exchange forwards, funding	39	-45	7,076	49	-99	8,105
Interest rate swaps ¹ , cash flow hedges	1	-6	528	–	–	–
Interest rate swaps ¹ , fair value hedges	67	-6	2,182	68	-18	2,749
Cross currency swaps	–	-55	527	–	–	–
Total	107	-112	10,313	117	116	10,854

¹ For interest rate swaps, only one leg is included in nominal value.

² Assets are recognized against accrued revenue and liabilities against accrued expenses.

Financial instruments: carrying amounts and fair values by measurement category

SEK M	2017		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at amortized cost				
Trade receivables	13,068	13,068	14,496	14,496
Other financial assets at amortized cost	–	–	177	177
Other loans and receivables	258	258	–	–
Cash and cash equivalents	459	459	538	538
Financial assets at fair value through profit or loss				
Shares and interests	–	–	8	8
Available-for-sale financial assets	11	11	–	–
Derivative financial instruments				
Hedge accounting	68	68	68	68
Held for trading	39	39	49	49
Total financial assets	13,904	13,904	15,374	15,374
Financial liabilities at amortized cost				
Trade payables and other liabilities	7,811	7,811	7,893	7,893
Long-term loans – hedge accounting	2,237	2,237	2,790	2,790
Long-term loans – non-hedge accounting	14,622	14,632	16,699	16,729
Short-term loans – non-hedge accounting	6,151	6,151	7,594	7,594
Financial liabilities at fair value through profit or loss				
Deferred considerations	1,559	1,559	1,899	1,899
Derivative financial instruments				
Hedge accounting	11	11	18	18
Held for trading	100	100	99	99
Total financial liabilities	32,491	32,501	36,991	37,021

The fair value of long-term borrowing is based on observable data by discounting cash flows to market rate, while the fair value of current receivables and current liabilities is considered to correspond to the carrying amount.

Note 34 cont.

Financial instruments: measured at fair value

SEK M	2017				2018			
	Carrying amounts	Quoted prices	Observable data	Non-observable data	Carrying amounts	Quoted prices	Observable data	Non-observable data
Financial assets								
Derivative financial instruments	107	–	107	–	117	–	117	–
Financial liabilities								
Derivative financial instruments	112	–	112	–	116	–	116	–
Deferred considerations	1,559	–	–	1,559	1,899	–	–	1,899

Deferred considerations relate to additional payments for acquired companies. The size of a deferred consideration is usually linked to the earnings and sales trend in an acquired company during a specific period of time. Deferred consideration is measured on the day of acquisition based on the best judgment of management regarding future outcomes. Discounting takes place in the case of significant amounts.

For derivatives, the present value of future cash flows is calculated based on observable yield curves and exchange rates on the balance sheet date.

Comments on five years in summary

2014

ASSA ABLOY continued to grow rapidly during the year, with total sales growth of 17 percent. Demand was strong in the USA, while growth in Europe was more unevenly distributed between the different regions. Emerging markets showed a slowdown, partly due to a credit crunch.

The Group's continued focus on market presence and innovation within ASSA ABLOY during the year took the form of a strengthened sales force and the launch of many new products. Integration of acquisitions made and continued efficiencies contributed to maintaining good earning capacity.

Operating income, excluding items affecting comparability, increased by 17 percent compared with 2013, and cash flow remained strong. Earnings per share after full dilution, excluding items affecting comparability, increased by 17 percent.

A total of 20 acquisitions were consolidated during the year, which both strengthened the market position in key emerging markets such as China, India and Brazil, and complemented the customer offering in fast-growing new segments such as biometrics.

2015

ASSA ABLOY's good performance continued during the year despite challenging market conditions and relatively weak underlying growth worldwide. The Group's growth remained strong during the year, with total sales growth of 7 percent excluding exchange rate effects. The global market showed a divided picture with strong demand in the USA and much of Asia, while growth in Europe was more unevenly distributed. Emerging markets showed a slowdown, particularly China.

The focus in recent years on product development, innovation and sustainability yielded positive results during the year. ASSA ABLOY has established leadership in the ongoing industry shift from mechanical solutions to electronics, digitization and mobile. Growth remained strong for electromechanical products and entrance automation, whose share of sales exceeded 50 percent.

Operating income increased by 20 percent compared with 2014, and cash flow remained very strong. Earnings per share after full dilution increased by 20 percent.

A total of 16 acquisitions were consolidated during the year, which strengthened the market position in important emerging markets such as Brazil, and complemented the customer offering in key areas for the Group such as entrance automation and secure identity solutions.

2016

Demand for door opening solutions was relatively good during the year despite the weakened global economy. The Group's growth remained strong during the year, with total sales growth of 5 percent excluding exchange rate effects. The mature markets, primarily in Europe and the US, showed robust growth, while the trend in the emerging markets in Asia, Africa, the Middle East and parts of South America was more subdued in general, affected by factors such as the low prices for oil and other commodities. For ASSA ABLOY, the weak demand in these markets was most pronounced in China.

A new restructuring program was launched during the year. About fifty production plants and offices are set to close over a three-year period, with an estimated payback period of less than three years.

The focus in recent years on product development, innovation and sustainability continued at a high level during 2016. The ongoing technology shift toward an increased share of electromechanics with more digital and mobile solutions is expected to benefit ASSA ABLOY in the long term, and the

proportion of sales of electromechanical products exceeded 50 percent.

Operating income for the year, excluding items affecting comparability, increased by 2 percent compared with 2015, and cash flow continued to be strong. Earnings per share after full dilution, excluding items affecting comparability, increased 2 percent.

A total of 13 acquisitions were consolidated during the year, which strengthened the market position for the Group in key areas such as entrance automation and secure identity solutions. ASSA ABLOY's car locks operation was sold.

2017

Sales growth continued to be robust during the year. Organic growth was 4 percent, driven by growing demand for electromechanical and digital door opening solutions. For ASSA ABLOY, the mature markets primarily in Europe and the US demonstrated continued robust growth, while the trend in the emerging markets was weaker, especially in China, Brazil and the Middle East. Growth in Asia outside China continued to be robust.

The Group-wide programs to improve efficiency in all processes continue to deliver good results according to plan, as do the restructuring programs.

Product development continues to focus on areas such as digital and mobile technologies, which are believed to provide substantial potential for robust profitable growth for some time to come. ASSA ABLOY also has a growing selection of products with environmental product declarations as part of its sustainable solutions initiative.

Operating income for the year, excluding items affecting comparability, increased by 10 percent compared with 2016, and cash flow remained strong. Earnings per share after full dilution, excluding items affecting comparability, increased 10 percent.

A total of 16 acquisitions were consolidated during the year, which strengthened the market position in areas such as smart door locks, physical access management and identity solutions. ASSA ABLOY divested its project operation within HID Global, AdvanIDe, in its entirety.

2018

Growth was strong during the year, with organic growth of 5 percent driven by continued successes for electromechanical and digital solutions, as well as strong growth in North and South America. The mature markets continued to demonstrate a favorable trend, with the US and Europe demonstrating strong and robust growth, respectively, during the year. The trend in the emerging markets was weaker, especially in Asia and the Middle East.

A new restructuring program was launched during the year. About fifty production plants and offices are set to close over a three-year period, with an estimated payback period of less than three years.

Product development continued at a high level with large investments in R&D, as reflected by 27 percent of sales for the year which relate to products that are less than three years old.

Operating income for the year, excluding items affecting comparability, increased by 5 percent compared with 2017, and cash flow remained strong. Earnings per share after full dilution, excluding items affecting comparability, increased 4 percent. An impairment charge of SEK 6 billion was taken during the year for goodwill, other intangible assets and operating assets.

A total of 19 acquisitions were consolidated during the year, which strengthened the market position for HID in secure identity solutions. ASSA ABLOY sold its wood door business within the Americas division during the year.

Five years in summary

Amounts in SEK M unless stated otherwise	2014	2015	2016	2017	2018
Sales and income					
Sales	56,843	68,099	71,293	76,137	84,048
Organic growth,%	3	4	2	4	5
Acquisitions and disposals,%	9	3	3	2	2
Operating income before depreciation and amortization (EBITDA) ¹	10,419	12,512	12,833	14,029	14,872
Depreciation and amortization	-1,163	-1,433	-1,580	-1,688	-1,963
Operating income (EBIT) ¹	9,257	11,079	11,254	12,341	12,909
Income before tax (EBT)	8,698	10,382	8,952	11,673	5,297
Net income	6,436	7,693	6,653	8,635	2,755
Cash flow					
Cash flow from operating activities	6,679	8,572	8,575	9,248	9,225
Cash flow from investing activities	-3,524	-4,412	-4,063	-8,661	-6,427
Cash flow from financing activities	-2,908	-4,335	-4,271	-861	-2,728
Cash flow	247	-175	240	-274	70
Operating cash flow ³	8,238	9,952	10,467	10,929	11,357
Capital employed and financing					
Capital employed	58,425	63,848	70,351	75,932	81,146
– of which goodwill	39,778	42,777	47,544	50,330	53,413
– of which other intangible assets and property, plant and equipment	14,990	16,649	17,618	19,144	19,637
– of which shares and interests in associates	1,861	1,910	2,109	2,243	2,434
Net debt	22,327	22,269	23,127	25,275	29,246
Non-controlling interests	2	4	5	9	10
Shareholders' equity, excluding non-controlling interest	36,096	41,575	47,220	50,648	51,890
Data per share, SEK⁴					
Earnings per share before and after dilution	5.79	6.93	5.99	7.77	2.48
Earnings per share before and after dilution and excluding items affecting comparability ¹	5.79	6.93	7.09	7.77	8.09
Shareholders' equity per share after dilution	32.50	37.43	42.51	45.60	46.71
Dividend per share	2.17	2.65	3.00	3.30	3.50 ²
Price of Series B share at year-end	138.27	178.00	169.10	170.40	156.55
Key figures					
Operating margin (EBITDA),% ¹	18.3	18.4	18.0	18.4	17.7
Operating margin (EBIT),% ¹	16.3	16.3	15.8	16.2	15.4
Profit margin (EBT),%	15.3	15.2	12.6	15.3	6.3
Return on capital employed, %	16.9	17.8	14.1	16.6	7.6
Return on capital employed excluding items affecting comparability, %	16.9	17.8	16.5	16.6	16.2
Return on shareholders' equity, %	19.8	19.8	15.0	17.6	5.4
Equity ratio, %	45.1	48.2	49.6	50.9	48.7
Net debt/equity ratio	0.62	0.54	0.49	0.50	0.56
Interest coverage ratio, times	17.4	16.7	14.1	19.1	8.0
Total number of shares, thousands ⁴	1,112,576	1,112,576	1,112,576	1,112,576	1,112,576
Number of outstanding shares, thousands ⁴	1,110,776	1,110,776	1,110,776	1,110,776	1,110,776
Weighted average number of shares issued, before and after dilution, thousands ⁴	1,110,776	1,110,776	1,110,776	1,110,776	1,110,776
Average number of employees	44,269	45,994	46,928	47,426	48,353

¹ Excluding items affecting comparability 2016 and 2018.

² Dividend proposed by the Board of Directors.

³ Excluding restructuring payments.

⁴ Comparatives have been recalculated for all historical periods prior to 2015 reflecting the stock split (3:1) in 2015.



¹ Excluding items affecting comparability 2016 and 2018.

Quarterly information

THE GROUP IN SUMMARY Amounts in SEK M unless stated otherwise	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Full year 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Fully year 2018
Sales	18,142	19,387	18,499	20,109	76,137	18,550	21,140	21,191	23,167	84,048
Organic growth	6%	2%	3%	5%	4%	4%	5%	5%	6%	5%
Gross income excluding items affecting comparability	7,190	7,581	7,293	7,924	29,988	7,372	8,345	8,392	9,134	33,243
Gross margin excluding items affecting comparability	39.6%	39.1%	39.4%	39.4%	39.4%	39.7%	39.5%	39.6%	39.4%	39.6%
Operating income before depreciation and amortization (EBITDA), excluding items affecting comparability	3,208	3,543	3,488	3,789	14,029	3,297	3,407	3,912	4,256	14,872
Operating margin (EBITDA)	17.7%	18.3%	18.9%	18.8%	18.4%	17.8%	16.1%	18.5%	18.4%	17.7%
Depreciation and amortization excluding amortization attributable to business combinations	-370	-376	-355	-344	-1,444	-376	-400	-396	-397	-1,570
Operating income before amortization (EBITA), excluding items affecting comparability	2,839	3,168	3,132	3,446	12,584	2,921	3,007	3,516	3,858	13,302
Operating margin (EBITA)	15.6%	16.3%	16.9%	17.1%	16.5%	15.7%	14.2%	16.6%	16.7%	15.8%
Amortization attributable to business combinations	-52	-54	-52	-87	-244	-92	-97	-91	-113	-393
Operating income (EBIT) excluding items affecting comparability	2,787	3,114	3,080	3,359	12,341	2,829	2,911	3,424	3,746	12,909
Operating margin (EBIT)	15.4%	16.1%	16.7%	16.7%	16.2%	15.3%	13.8%	16.2%	16.2%	15.4%
Items affecting comparability ²	-	-	-	-	-	-	-5,595	-	-1,218	-6,813
Operating income (EBIT)	2,787	3,114	3,080	3,359	12,341	2,829	-2,685	3,424	2,528	6,096
Operating margin (EBIT)	15.4%	16.1%	16.7%	16.7%	16.2%	15.3%	-12.7%	16.2%	10.9%	7.3%
Net financial items	-195	-170	-171	-133	-668	-175	-191	-203	-230	-799
Income before tax (EBT)	2,593	2,944	2,910	3,226	11,673	2,654	-2,876	3,221	2,297	5,297
Profit margin (EBT)	14.3%	15.2%	15.7%	16.0%	15.3%	14.3%	-13.6%	15.2%	9.9%	6.3%
Tax on income	-674	-765	-757	-842	-3,038	-690	-344	-838	-670	-2,542
Net income	1,918	2,179	2,153	2,385	8,635	1,964	-3,220	2,384	1,627	2,755
Net income attributable to:										
Parent company's shareholders	1,919	2,178	2,153	2,384	8,633	1,964	-3,222	2,384	1,627	2,753
Non-controlling interests	0	1	1	1	2	0	2	0	0	2

OPERATING CASH FLOW	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Full year 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Fully year 2018
Operating income (EBIT)	2,787	3,114	3,080	3,359	12,341	2,829	-2,685	3,424	2,528	6,096
Restructuring costs	-	-	-	-	-	-	-	-	1,218	1,218
Impairment of goodwill, etc.	-	-	-	-	-	-	5,595	-	-	5,595
Depreciation and amortization	421	429	407	430	1,688	468	497	488	510	1,963
Net capital expenditure	-373	-593	-448	-561	-1,975	-356	-411	-429	-124	-1,319
Change in working capital	-1,882	-207	-319	2,061	-347	-2,136	127	-296	1,229	-1,076
Interest paid and received	-93	-198	-77	-189	-557	-122	-220	-105	-215	-662
Non-cash items	-36	28	11	-224	-221	-107	-49	-78	-224	-458
Operating cash flow¹	824	2,575	2,654	4,876	10,929	575	2,855	3,004	4,923	11,357
Operating cash flow/Income before tax excluding items affecting comparability ²	0.32	0.87	0.91	1.51	0.94	0.22	1.05	0.93	1.40	0.94

CHANGE IN NET DEBT	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Full year 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Fully year 2018
Net debt at beginning of period	23,127	23,339	24,970	25,180	23,127	25,275	27,219	31,454	31,372	25,275
Operating cash flow	-824	-2,575	-2,654	-4,876	-10,929	-575	-2,855	-3,004	-4,923	-11,357
Restructuring payments	84	136	106	286	612	173	166	103	351	793
Tax paid on income	629	961	1,656	-203	3,044	609	986	576	487	2,658
Acquisitions and divestments	461	268	1,741	4,319	6,790	986	1,097	2,610	1,697	6,390
Dividend	-	3,332	-	-	3,332	-	3,666	-	-	3,666
Actuarial gain/loss on post-employment benefit obligations	-34	99	-50	-40	-26	-35	20	-21	-3	-39
Exchange rate differences, etc.	-104	-590	-590	608	-675	787	1,157	-348	266	1,862
Net debt at end of period	23,339	24,970	25,180	25,275	25,275	27,219	31,454	31,372	29,246	29,246
Net debt/equity ratio	0.48	0.54	0.53	0.50	0.50	0.50	0.65	0.63	0.56	0.56

NET DEBT	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Non-current interest-bearing receivables	-41	-39	-212	-171	-113	-120	-96	-106
Current interest-bearing investments including derivatives	-113	-211	-161	-150	-277	-284	-211	-188
Cash and cash equivalents	-697	-844	-440	-459	-551	-496	-559	-538
Pension provisions	3,058	3,109	2,929	2,933	2,971	3,102	2,873	2,880
Other non-current interest-bearing liabilities	16,232	17,450	16,728	16,859	18,425	20,194	19,067	19,489
Current interest-bearing liabilities including derivatives	4,901	5,505	6,336	6,263	6,763	9,059	10,297	7,710
Total	23,339	24,970	25,180	25,275	27,219	31,454	31,372	29,246

¹ Excluding restructuring payments.² Items affecting comparability relate to restructuring costs as well as impairment of goodwill and other intangible assets.

CAPITAL EMPLOYED AND FINANCING	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
	2017	2017	2017	2017		2018	2018	2018	2018
Capital employed	72,333	71,349	72,477	75,932		81,139	79,733	81,412	81,146
-of which goodwill	47,438	46,252	46,573	50,330		51,956	50,590	52,169	53,413
-of which other intangible assets and property, plant and equipment	17,595	17,309	17,032	19,144		20,019	19,011	19,052	19,637
-of which investments in associates	2,176	2,193	2,147	2,243		2,385	2,391	2,383	2,434
Net debt	23,339	24,970	25,180	25,275		27,219	31,454	31,372	29,246
Non-controlling interests	4	5	5	9		9	11	11	10
Equity attributable to the Parent company's shareholders	48,989	46,374	47,292	50,648		53,911	48,268	50,030	51,890

DATA PER SHARE, SEK	Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4	Full year
	2017	2017	2017	2017	2017					
Earnings per share before and after dilution	1.73	1.96	1.94	2.15	7.77	1.77	-2.90	2.15	1.46	2.48
Earnings per share before and after dilution and excluding items affecting comparability ²	1.73	1.96	1.94	2.15	7.77	1.77	1.84	2.15	2.33	8.09
Shareholders' equity per share after dilution	44.10	41.75	42.58	45.60	45.60	48.53	43.45	45.04	46.71	46.71

NUMBER OF SHARES	Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4	Full year
	2017	2017	2017	2017	2017					
Total number of shares, millions	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6
Weighted average number of outstanding shares, before and after dilution, millions	1,110.8	1,110.8	1,110.8	1,110.8	1,110.8	1,110.8	1,110.8	1,110.8	1,110.8	1,110.8

¹ Excluding restructuring payments.² Items affecting comparability relate to restructuring costs as well as impairment of goodwill and other intangible assets.

Definitions of key ratios

Organic growth

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

Operating margin (EBITDA)

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

Operating margin (EBITA)

Operating income before amortization of intangible assets recognized in business combinations, as a percentage of sales.

Operating margin (EBIT)

Operating income as a percentage of sales.

Profit margin (EBT)

Income before tax as a percentage of sales.

Operating cash flow

See the table on operating cash flow for detailed information.

Net capital expenditure

Investments in, less disposals of, intangible assets and property, plant and equipment.

Depreciation and amortization

Depreciation and amortization of intangible assets and property, plant and equipment.

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 attributable to parent company's shareholders as a percentage of average parent company's shareholders equity.

Return on capital employed

Income before tax plus net interest as a percentage of average capital employed, excluding restructuring reserves.

Earnings per share after tax and before dilution

Net income excluding non-controlling interests divided by weighted average number of outstanding shares before any potential dilution.

Earnings per share after tax and dilution

Net income excluding non-controlling interests divided by weighted average number of outstanding shares after any potential dilution.

Shareholders' equity per share after dilution

Equity excluding non-controlling interests in relation to number of outstanding shares after any potential dilution.

Proposed distribution of earnings

The following earnings are at the disposal of the general meeting of shareholders:

Share premium reserve: SEK 787 M
Retained earnings brought forward: SEK 8,257 M
Net income for the year: SEK 4,796 M
TOTAL: SEK 13,840 M

The Board of Directors and the President and CEO propose that a dividend of SEK 3.50 per share, a total of SEK 3,888 M, be distributed to shareholders and that the remainder, SEK 9,952 M, be carried forward to the new financial year. The dividend amount is calculated on the number of outstanding shares as per 4 February 2019.

No dividend is payable on ASSA ABLOY AB's holding of treasury shares, the exact number of which is determined on the record date for payment of dividend. ASSA ABLOY AB held 1,800,000 treasury shares as at 4 February 2019.

Monday, 29 April 2019 has been proposed as the record date for dividends. If the Annual General Meeting approves this proposal, dividends are expected to be distributed by Euroclear Sweden AB on Friday, 3 May 2019.

The Board of Directors and the President and CEO declare that the consolidated accounts have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU and give a true and fair view of the Group's financial position and results. The Parent company's annual accounts have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent company's financial position and results.

The Report of the Board of Directors for the Group and the Parent company gives a true and fair view of the development of the Group's and the Parent company's business operations, financial position and results, and describes material risks and uncertainties to which the Parent company and the other companies in the Group are exposed.

Stockholm, 4 February 2019

Lars Renström
Chairman

Carl Douglas
Vice Chairman

Nico Delvaux
President and CEO

Ulf Ewaldsson
Board member

Eva Karlsson
Board member

Birgitta Klasén
Board member

Lena Olving
Board member

Sofia Schörling Högberg
Board member

Jan Svensson
Board member

Rune Hjälm
Board member
Employee representative

Mats Persson
Board member
Employee representative

Our audit report was issued on 4 February 2019

PricewaterhouseCoopers AB

Bo Karlsson
Authorized Public Accountant
Auditor in charge

Linda Corneliusson
Authorized Public Accountant

Auditor's report

To the general meeting of the shareholders of ASSA ABLOY AB (publ),
corporate identity number 556059-3575

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of ASSA ABLOY AB (publ) for the year 2018 except for the corporate governance statement on pages 48–56. The annual accounts and consolidated accounts of the company are included on pages 41–97 and 102 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting

Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

Our opinions do not cover the corporate governance statement on pages 48–56. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and statement of comprehensive income and balance sheet for the Parent company and the Group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the Parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Parent company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This

includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its Parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The ASSA ABLOY Group is comprised of a large number of companies. None of these companies have, individually, been deemed to be of major significance in the audit of the Group. For the Group audit, we have selected the Parent company and the treasury company and some 80 companies spread across the Group's five divisions, which are audited according to a Group-wide audit program. The audit program includes the assessment of the design and operating effectiveness of selected controls in processes significant to the financial reporting and also includes audit procedures in the form of

test of details supplemented with analytical procedures applied to the Group's significant income statement and balance sheet items. The majority of the subsidiaries in the Group are also the subject of statutory audits according to local requirements. During 2018, we visited the audit teams in China and the US to participate, on site, in the audit, and to take part in the meetings with representatives from ASSA ABLOY's local companies and ASSA ABLOY's head office. The operations in China and the US have been selected as they are the countries with the largest external sales.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter

Goodwill and other intangible assets with indefinite useful lives

Goodwill and other intangible assets with indefinite useful lives are described in the Annual Report in Note 14 and in the accounting principles in Note 1.

ASSA ABLOY is an acquisition-intensive company that has an established and structured acquisition process. During the 2018 financial year, a total of 19 acquisitions were consolidated.

ASSA ABLOY's goodwill of SEK 53 billion and its intangible assets with indefinite useful lives of SEK 6 billion are allocated to the Group's five cash-generating units which are equivalent to the Group's five divisions. We have specifically focused on the APAC division due to the low headroom at this division in prior year as well as the SEK 5.6 billion impairment recorded during the current year.

In our audit, we have focused on the valuation of goodwill and intangible assets with indefinite useful lives as these items involve a large degree of judgement on behalf of management in assessing future cash flows.

How our audit addressed the Key audit matter

ASSA ABLOY's calculation of the impairment of goodwill and indefinite lived intangible assets in the APAC division and its annual test of goodwill and other intangible assets with indefinite useful lives can be traced to observable market data and to the company's own business plans and forecasts on future development.

Through test of details we have examined whether ASSA ABLOY's calculation of the impairment during the second quarter and assessment of whether there is any indication that assets may be further impaired at 31 December 2018, are based on the company's financial budgets approved by management. We have compared forecasts to the actual business performance for the current year and also assessed the growth rate that the company has used to forecast cash flows beyond the first three-year period. In conjunction with this, we have compared management's assumptions regarding the sustainable growth rate and the operating margin against actual growth and the actual operating margin during recent years.

Our assessment of the discount rate applied in management's calculations reflects the specific and general risks found in the cash generating units. We have reconciled the data in the calculations and checked it against external. In this part of the audit, we have utilized PwC's valuation specialists.

We have evaluated the company's sensitivity analysis of the valuation to changes in significant parameters, which, individually or on a collective basis, could imply the existence of an impairment requirement.

Key audit matter

Provisions – restructuring program

The restructuring program is described in the Report of the Board of Directors in the Annual Report and in Note 25.

Restructuring programs were launched during the previous financial years and during 2018 and the closing provision balance amounts to SEK 1190 M as of 31 December 2018.

In our audit, we have focused on these restructuring programs to assess whether a present obligation exists, and we have assessed the valuation of that obligation representing future expenditures as it requires judgement and is dependent on management estimates.

How our audit addressed the Key audit matter

We have examined the company's process for identifying restructuring projects and the estimated costs of these projects.

Our audit measures include an evaluation of whether the restructuring programs comply, in all significant aspects, with the Group's accounting principles for reporting provisions.

Furthermore, we have challenged management's assumptions that are the basis for the restructuring provisions with the aim of assessing the reasonability of the provisions. Based on risk and materiality, we have reconciled the parameters in the calculations against supporting documentation. This includes, amongst other things, the examination of minutes, agreements, calculations and communication with employees.

We have evaluated management's assessments of remaining cash flows by reviewing their quarterly project updates.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found in sections Report on Operations, Divisions, Sustainability Report, Shareholder Information and the sections Comments on five years in summary, Five years in summary, Quarterly information and Definitions of key ratios. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Director's and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director

are responsible for the assessment of the company's and the Group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error

and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Director's and the Managing Director of ASSA ABLOY AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Director's and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Parent company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Director's and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the Group's type of operations, size and risks place on the size of the Parent company's and the Group' equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of

the company's and the Group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of

assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 48–56 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16. The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and gener-

ally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

PricewaterhouseCoopers AB, 113 97 Stockholm, was appointed auditor of ASSA ABLOY AB (publ) by the general meeting of the shareholders on the 26 April 2018 and has been the company's auditor since the 1994.

Stockholm, 4 February 2019

PricewaterhouseCoopers AB

Bo Karlsson
Authorized Public Accountant
Auditor in charge

Linda Corneliusson
Authorized Public Accountant

Shareholder information

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The ASSA ABLOY share

Share price trend

2018 turned out to be yet another volatile year for global stock markets. After a relatively calm first-half of the year indexes turned weaker over the summer and suffered sharp declines during the fall. OMX Stockholm index fell 14 percent during the fourth quarter, ending the year with a decline of -7.7 percent.

The ASSA ABLOY's Series B share followed the trend, rising 12 percent during the first half-year, but after a decline of 11 percent in the fourth quarter ended the year with a decline of 7.2 percent, slightly better than OMX Stockholm. The highest closing price during the year of SEK 193.90 was recorded on 21 May 2018 and the lowest of SEK 155.85 was recorded on 27 December 2018.

At year-end, market capitalization amounted to SEK 175,954 M (189,276), calculated on both Series A and Series B shares.

Listing and trading¹

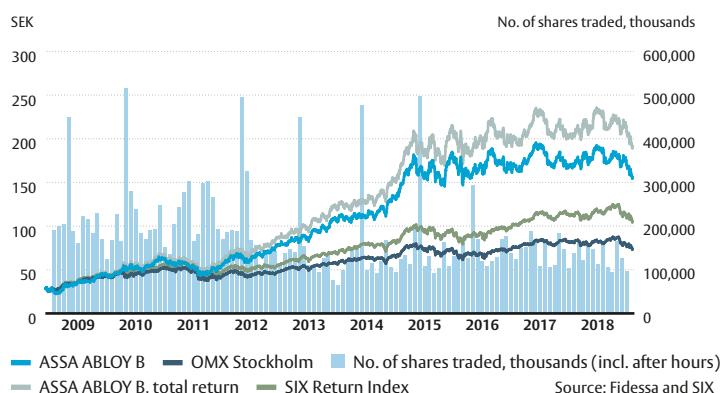
ASSA ABLOY's Series B share has been listed on Nasdaq Stockholm, Large Cap since 8 November 1994 under the code ASSA-B.ST. Total turnover of the Series B share on all markets amounted to 1,588 million shares (1,698) in 2018, equivalent to a turnover rate of 151 percent (161). Turnover

of the Series B share on Nasdaq Stockholm amounted to 578 million shares (583), equivalent to a turnover rate of 55 percent (55).

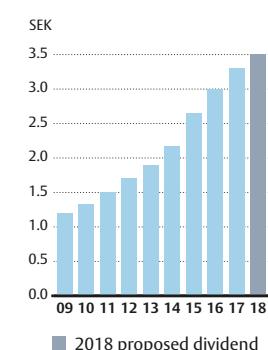
The trend of declining turnover rates for trading on Nasdaq Stockholm was slightly reversed in 2018 with an average turnover rate of 67 percent (63), a slight uptick from 2017. Over the past few years however, turnover rates on Nasdaq Stockholm have gradually declined from 78 percent in 2012 to 67 percent in 2018. Even among the most frequently traded shares the trend is the same, average turnover rate was 70 percent (65) on the Large Cap list in 2018.

The implementation of the EU's Markets in Financial Instruments Directive (MiFID) in late 2007 changed the structure of equity trading in Europe and trading now takes place on both regulated markets and other trading platforms. Thus, trading has become more fragmented and an increasing proportion of trading in shares in Swedish companies now takes place on markets other than Nasdaq Stockholm. In 2018 the ASSA ABLOY share was traded on more than fifteen different markets, with trading on Nasdaq Stockholm accounting for only around 35 percent of share turnover, compared with 65 percent in 2009. The diagram below shows the trend and distribution of trading in ASSA ABLOY's Series B share on various markets over the past five years.

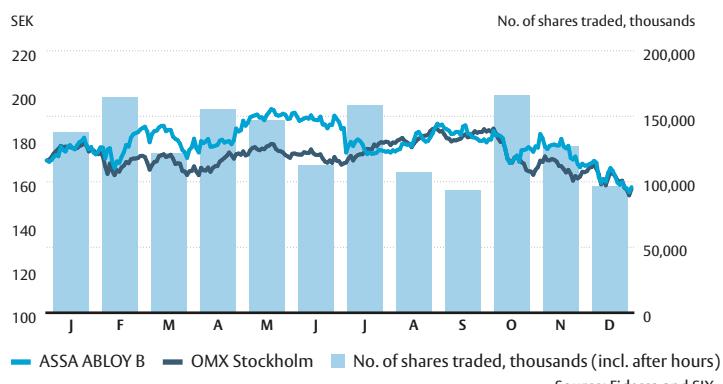
SHARE PRICE TREND AND TURNOVER 2009–2018¹



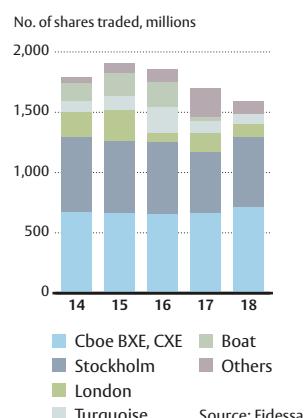
DIVIDEND PER SHARE 2008–2017



SHARE PRICE AND TURNOVER 2018



MARKETS FOR THE SHARE¹



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

Data per share

SEK/share ¹	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Earnings after tax and dilution	3,07 ²	3.63	4,10 ²	4.66	4,95 ²	5.79	6.93	7.09 ²	7.77	8.09 ²
Dividend	1.20	1.33	1.50	1.70	1.90	2.17	2.65	3.00	3.30	3.50 ³
Dividend yield, % ⁴	2.6	2.1	2.6	2.1	1.7	1.6	1.5	1.8	1.9	2.2
Dividend, % ⁵	47.8	37.0	36.6	36.8	38.4	37.4	38.2	42.3	42.5	43.3
Share price at year-end	45.93	63.17	57.53	80.97	113.27	138.27	178.00	169.10	170.40	158.15
Highest share price	47.50	66.40	64.97	81.60	114.07	139.17	189.00	190.10	197.10	193.90
Lowest share price	23.83	42.20	44.50	57.23	79.33	105.63	135.00	148.40	163.80	155.85
Equity	18.25	19.55	21.85	23.29	25.94	32.50	37.43	42.51	45.60	46.71
Number of shares, millions ⁶	1,118.8	1,118.2	1,113.6	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6	1,112.6

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

² Excluding items affecting comparability 2008, 2009, 2011, 2013, 2016 and 2018.

³ Dividend proposed by the Board of Directors.

⁴ Dividend as percentage of share price at year-end.

⁵ Dividend as percentage of earnings per share after tax and dilution, excluding items affecting comparability.

⁶ After full dilution.

Ownership structure

The number of shareholders at the end of 2018 was 31,143 (33,811) and the ten largest shareholders accounted for 36.9 percent (40.3) of the share capital and 56.9 percent (59.3) of the votes. Shareholders with more than 50,000 shares, a total

of 481 shareholders, accounted for 97 percent (97) of the share capital and 98 percent (98) of the votes.

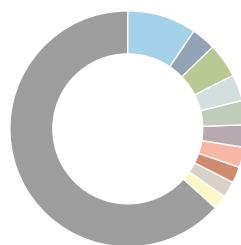
Investors outside Sweden owned 70.5 percent (66.6) of the share capital and accounted for 48.1 percent (45.4) of the votes, and were mainly in the US and the UK.

ASSA ABLOY's ten largest shareholders

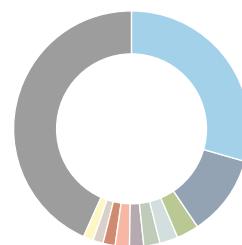
Based on the share register at 31 December 2018.

Shareholders	Series A shares	Series B shares	Total number of shares	Share capital ¹ , %	Votes ¹ , %
Latour	41,595,729	63,900,000	105,495,729	9.5	29.5
Melker Schörling AB	15,930,240	21,654,104	37,584,344	3.4	11.1
Government of Singapore		51,230,631	51,230,631	4.6	3.1
Capital Group		42,012,171	42,012,171	3.8	2.6
BlackRock		36,469,288	36,469,288	3.3	2.2
Fidelity Investments		33,090,837	33,090,837	3.0	2.0
Vanguard		29,864,644	29,864,644	2.7	1.8
Norges Bank		26,845,606	26,845,606	2.4	1.6
Swedbank Robur Funds		23,697,324	23,697,324	2.1	1.5
Alecta Pension Insurance		23,695,000	23,695,000	2.1	1.5
Other shareholders		702,590,760	702,590,760	63.1	43.1
Total number	57,525,969	1,055,050,365	1,112,576,334	100.0	100.0

¹ Based on the number of outstanding shares and votes of 1,110,776,334 and 1,628,510,055 respectively, excluding shares held by ASSA ABLOY. Source: Modular Finance AB and Euroclear Sweden AB.

OWNERSHIP STRUCTURE (SHARE CAPITAL)

- Latour, 9.5%
- Government of Singapore, 4.6%
- Capital Group, 3.8%
- Melker Schörling AB, 3.4%
- BlackRock, 3.3%
- Fidelity Investments, 3.0%
- Vanguard, 2.7%
- Norges Bank, 2.4%
- Swedbank Robur Funds, 2.1%
- Alecta Pension Insurance, 2.1%
- Other shareholders, 63.1%

OWNERSHIP STRUCTURE (VOTES)

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

Share capital and voting rights

The share capital amounted to SEK 370,858,778 at year-end 2018, distributed among a total of 1,112,576,334 shares, comprising 57,525,969 Series A shares and 1,055,050,365 Series B shares. All shares have a par value of around SEK 0.33 and give shareholders equal rights to the company's assets and earnings. The total number of votes amounted to 1,630,310,055. Each Series A share carries ten votes and each Series B share one vote.

Repurchase of own shares

Since 2010, the Board of Directors has requested and received a mandate from the Annual General Meeting to repurchase and transfer ASSA ABLOY Series B shares. The aim has been, among other things, to secure the company's undertakings in connection with its long-term incentive programs (LTI).

The 2018 Annual General Meeting authorized the Board of Directors to acquire, during the period until the next Annual General Meeting, a maximum number of Series B

shares so that after each repurchase ASSA ABLOY holds a maximum 10 percent of the total number of shares in the company. ASSA ABLOY holds a total of 1,800,000 (1,800,000) Series B shares after repurchase. These shares account for around 0.2 percent (0.2) of the share capital and each share has a par value of around SEK 0.33. The purchase consideration amounted to SEK 103 M.

No shares were repurchased in 2018.

Dividend and dividend policy

The objective of the dividend policy is that, in the long term, the dividend should be equivalent to 33–50 percent of income after standard tax, but always taking into account ASSA ABLOY's long-term financing requirements.

The Board of Directors and the President and CEO propose that the dividend to shareholders be raised by 6 percent to SEK 3.50 per share (3.30) for the 2018 financial year, equivalent to a dividend yield on the Series B share of 2.2 percent (1.9).

In 2018 the total return on the ASSA ABLOY share, defined as market price movement plus reinvested dividends, was 5.4 percent, compared with the reinvested SIX Return Index, which was down 4.6 percent. Over the ten-year period 2008–2018, the total return on ASSA ABLOY's Series B share was 745 percent, compared with a 249 percent rise in the SIX Return Index and a 157 percent rise in OMX Stockholm.

Changes in share capital

Year	Transaction	Series A shares	Series C shares	Series B shares	Share capital, SEK ¹
1989			20,000		2,000,000
1994	Split 100:1			2,000,000	2,000,000
1994	Bonus issue				
1994	Non-cash issue	1,746,005	1,428,550	50,417,555	53,592,110
1996	New share issue	2,095,206	1,714,260	60,501,066	64,310,532
1996	Conversion of Series C shares into Series A shares	3,809,466		60,501,066	64,310,532
1997	New share issue	4,190,412		66,541,706	70,732,118
1998	Converted debentures	4,190,412		66,885,571	71,075,983
1999	Converted debentures before split	4,190,412		67,179,562	71,369,974
1999	Bonus issue				
1999	Split 4:1	16,761,648		268,718,248	285,479,896
1999	New share issue	18,437,812		295,564,487	314,002,299
1999	Converted debentures after split and new share issues	18,437,812		295,970,830	314,408,642
2000	Converted debentures	18,437,812		301,598,383	320,036,195
2000	New share issue	19,175,323		313,512,880	332,688,203
2000	Non-cash issue	19,175,323		333,277,912	352,453,235
2001	Converted debentures	19,175,323		334,576,089	353,751,412
2002	New share issue	19,175,323		344,576,089	363,751,412
2002	Converted debentures	19,175,323		346,742,711	365,918,034
2010	Converted debentures	19,175,323		347,001,871	366,177,194
2011	Converted debentures	19,175,323		349,075,055	368,250,378
2012	Converted debentures	19,175,323		351,683,455	370,858,778
2015	Split 3:1	57,525,969		1,055,050,365	370,858,778

¹ SEK 1 per share before split in 2015 – number of shares at the end of the period and around SEK 0.33 per share after split in 2015. Number of shares at the end of the period 1,112,576,334 (including repurchase of own shares).

Common questions from the capital market to ASSA ABLOY

How will you achieve the 10 percent annual sales growth target?

The 10 percent growth target is an ambitious, but achievable target. The target is a combination of organic and acquired growth over a business cycle. During the last ten years, ASSA ABLOY has grown by slightly more than 9 percent annually. In 2018, the organic growth was 5 percent and the gross acquired growth was 4 percent. Over time this industry is growing more than GDP and the digitization of the industry provides further growth opportunities. By investing in product development, combined with acquisitions, and growing in both new and mature markets, the target can be achieved.

In what product segments are you growing the most?

In 2018, sales growth was very strong in electromechanical products. In particular, the sale of smart locks grew strongly in the US, driven by Yale, August and new partnerships developed with Amazon and Nest. The digitization of the locks provides many opportunities going forward.

Which was the most important acquisition during 2018?

All acquisitions are an important, but in particular, the acquisition of Crossmatch was the largest acquisition ASSA ABLOY has completed in five years. In total, 19 acquisitions were completed with annualized sale of about SEK 3.8 billion. Two businesses were also divested.

ASSA ABLOY wrote down SEK 6bn in China during 2018.

How will you turn around the operation in China?

During 2018, ASSA ABLOY implemented a new strategy that consolidates the broad range of brands in the Chinese market as well as production sites. Three sales organizations have been established around the local brand PanPan, the international brand Yale and ASSA ABLOY. A key account organization has also been established to focus on the largest construction developers. The turnaround will take time, but with the new team in place we are confident we will start to see the first results already in 2019.

Information for shareholders

Annual General Meeting

The Annual General Meeting of ASSA ABLOY AB will be held at Moderna Museet (Museum of Modern Art), Skeppsholmen, Stockholm, Sweden, at 3.30 p.m. on Thursday 25 April 2019. Shareholders who wish to attend the Annual General Meeting must:

- Be recorded in the share register kept by Euroclear Sweden AB on Wednesday 17 April 2019.
- Notify ASSA ABLOY AB of their intent to attend no later than Wednesday 17 April 2019.

Notice of attendance

- Website www.assaabloy.com
- Telephone +46 (0)8 506 485 14
- Address ASSA ABLOY AB,
"Annual General Meeting 2019",
c/o Euroclear Sweden AB
Box 191, 101 23 Stockholm, Sweden

The notice of attendance should state:

- Name
- Personal or corporate identification number
- Address and telephone number (daytime)
- Number of shares
- Any assistants attending

If participation is by proxy, the proxy should be submitted in connection with the notice of attendance and the proxy must be presented in original at the latest at the Annual General Meeting. Proxy forms are available at: www.assaabloy.com.

Nominee registered shares

Shareholders whose shares are nominee registered must, in addition of giving notice of attendance, request that their shares be temporarily registered in their own name in the share register (so-called voting right registration) in order to have the right to attend the Annual General Meeting. Such registration must be effected by Wednesday 17 April 2019, and shareholders should contact their bank or nominee well in advance of this date.

Nomination Committee

The Nomination Committee has the task of preparing, on behalf of the shareholders, proposals regarding the election of Chairman of the General Meeting, members of the Board of Directors, Chairman of the Board, Vice Chairman of the Board, auditor, fees for the board members including division between the Chairman, the Vice Chairman, and the other board members, as well as fees for committee work, fees to the company's auditor and changes of the instructions for the Nomination Committee.

The Nomination Committee prior to the 2019 Annual General Meeting comprises Carl Douglas (Investment AB Latour), Mikael Ekdahl (Melker Schörling AB), Liselott Ledin (Alecta), Marianne Nilsson (Swedbank Robur funds) and Anders Oscarsson (AMF and AMF funds). Carl Douglas is Chairman of the Nomination Committee.

Dividend

Monday 29 April 2019 has been proposed as the record date for dividends. If the Annual General Meeting approves the proposal, dividend is expected to be distributed by Euroclear Sweden AB on Friday 3 May 2019.

Further information

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Reports can be ordered from

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- Email info@assaabloy.com
- Mail ASSA ABLOY AB
Box 70340
SE-107 23 Stockholm

Financial reporting

First quarter: 25 April 2019
Second quarter: 17 July 2019
Third quarter: 18 October 2019
Fourth quarter and Year-end report: February 2020
Annual Report 2019: March 2020

ASSA ABLOY's access solutions are installed in all types of buildings all over the world

Securing buildings from the perimeter ...



The ASSA ABLOY Group is the global leader in access solutions. Every day, the Group helps billions of people to experience a more open world. ASSA ABLOY's innovations enable safe, secure and convenient access to physical and digital places. The Group has leading positions in areas such as efficient door openings, trusted identities and entrance automation.

1 Bollards and other safety devices protect pedestrians from motor vehicles. The various models can be permanently installed, portable or retractable, and they can be integrated in security and alarm systems.

2 High-security fences and gates protect against unauthorized entry. The doors can be integrated with security systems, sensors and surveillance cameras.

3 ASSA ABLOY has a complete offering for service, maintenance and modernization of automatic entrances and docks.

4 Automatic sliding doors are particularly suitable for entrances and indoor areas with large pedestrian flows. Automatic sliding doors allow you to enter a building without manually open doors – and conveniently pass through even if you are pushing a shopping or carrying suitcases.

5 Inside the building, mechanical and electromechanical key systems, software and solutions for access control. System to integrate access control systems for e.g. authorization, logistics, personnel, etc. Solutions for secure issuance and management of identities for access to various systems with Specific security requirements, such as staff ID cards. Positioning solutions inform the building security system about who is at

a certain place to ensure that no unauthorized individuals, temporary contractors, etc., have access to the wrong part of the building. At the same time, the staff can keep track of security personnel to see where they are located in the building.

Enterprise

6 Mobile keys, physical access control systems including readers and controllers to manage access in the building.

7 Security-rated doors and frames. Electromechanical locks and other hardware work together with physical access control systems, including readers and controllers to manage access.

Hotel/retail

8 With Mobile Access for hotels guests can use a smart phone to directly book a room. Secure Seos technology then sends a digital key directly to the guest's mobile phone, enabling the guest to go directly to the room and unlock the door. The solution is connected to the hotel's booking and security systems, and the key will be deleted at check-out.

9 Total door opening solutions for retail premises.

10 Revolving doors create spacious and welcoming entrances with room for luggage carts or wheelchairs. Revolving doors are ideal when climate control is a priority. Advanced sensor technology ensures functionality in the door's features, while conveniently controlling safe traffic flows and providing superior separation of indoor and outdoor climates. Side doors are added for increased accessibility and rapid evacuation.

11 Complete solutions for hotel rooms, including door solution, safes and energy management systems.

12 Garage doors, bars and gates are secure and easy to connect to the buildings access control system.

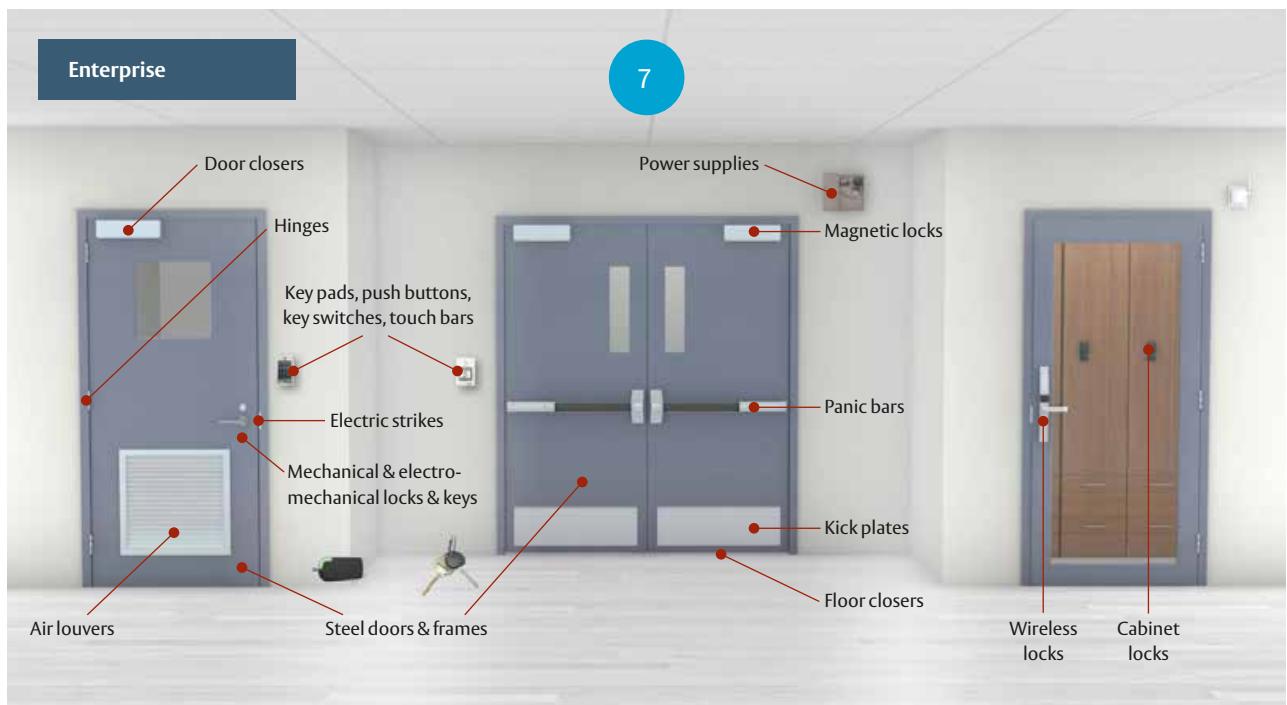
Multi-family building

13 Complete solutions for multi-family buildings, ranging from mechanical locks to sophisticated, customized access control systems. Digital door locks can easily be opened with a code or a smart phone app. The app enables controlling the lock remotely to let in visitors, and receiving notifications when children come home. In the future, online locks make it possible to safely and securely open the door for service and deliveries directly into the home.

... to shell ...



... to core ...



... to shell and core ...



... to shell and core ...





ASSA ABLOY is the global leader in access solutions.

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

ASSA ABLOY



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