Annual Report 2012

ASSA ABLOY

The global leader in
door opening solutions

Contents

Cover image

ASSA ABLOY's door closers help create a total door opening solution and can be used in homes as well as public buildings, elderly homes, offices, factories and pre-schools.

Lock and lock systems

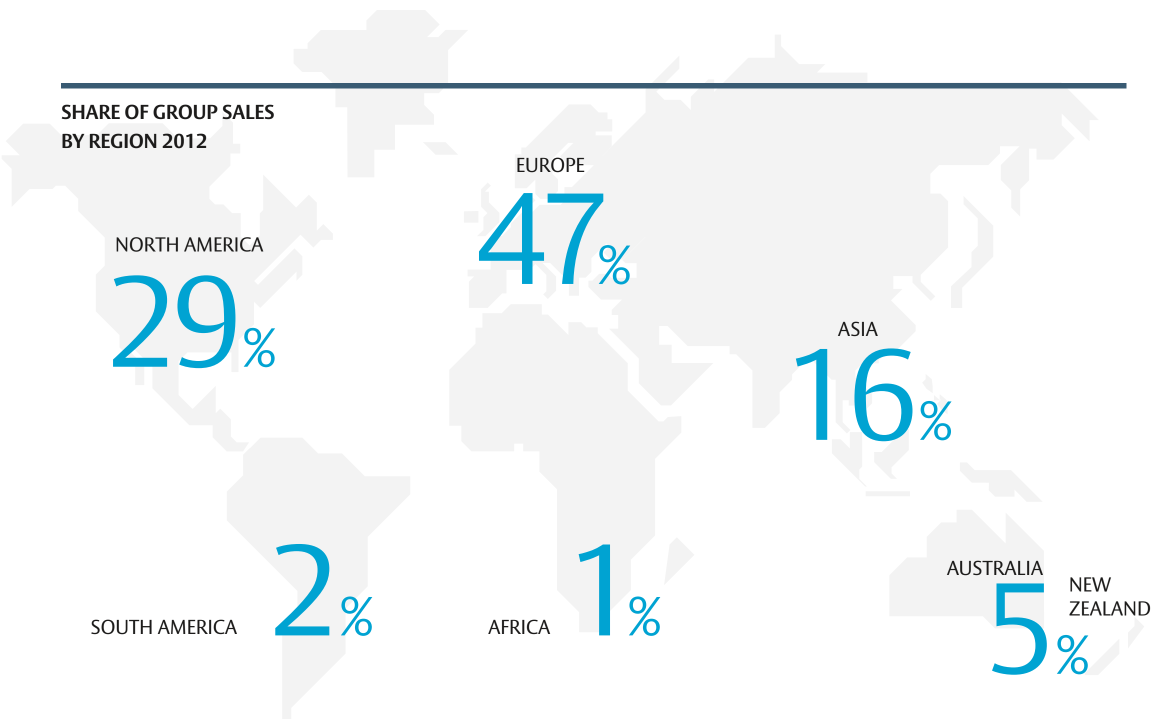
Mobile keys

Access control

Door closers

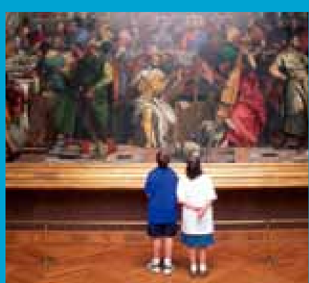
ASSA ABLOY is the global lea
dedicated to satisfying end-u
and convenience.

ASSA ABLOY is represented on both mature and emerging markets worldwide, with leading positions in much of Europe, North America, Asia, Australia and New Zealand.



Schools and offices

Museums



Homes

Hospitals

Electromechanical locks

Entrance automation

Industrial doors

Digital locks

der in door opening solutions,
user needs for security, safety

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

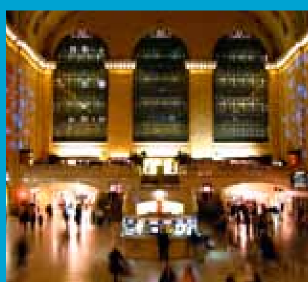
47
SEK 47 billion in sales

Since its formation in 1994, ASSA ABLOY has grown from a regional company into an international group with around 43,000 employees and sales of around SEK 47 billion.

In the fast-growing electromechanical security segment, the Group has a leading position in areas such as access control, identification technology, entrance automation and hotel security.

Industry

Arenas



Railway Stations and Airports

Hotels

Strategies for growth, profitability and value creation

ASSA ABLOY is the largest global supplier of intelligent lock and security solutions. Its products account for more than one in ten of all lock and security installations worldwide. The Group's strategies are based on three cornerstones:

+

Market presence

A global leading market presence is achieved by exploiting the strength of the brand portfolio, increasing growth in the core business and expanding into new markets and segments. ASSA ABLOY has many of the industry's strongest brands. The sales teams on the local markets are united under the ASSA ABLOY master brand to better meet the rising demand for more complete security solutions.

+

Product leadership

The Group's product leadership is achieved through the continuous development of products offering enhanced customer value and lower product costs. A key activity for achieving this is the use of common product platforms with fewer components. New products are also being developed in close collaboration with ASSA ABLOY's end-users to enhance customer value.

+

Cost-efficiency

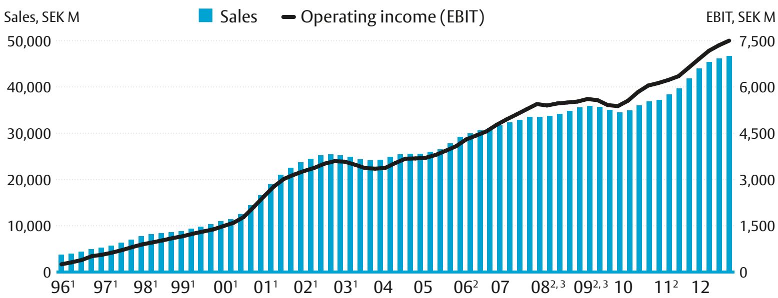
Efforts to increase cost-efficiency continue in all areas, including common product platforms with fewer components and common product development. Production combines flexible final assembly close to the customer with the transfer of high-volume standard production to external and internal production units in low-cost countries.

=

Increased growth and profitability

ASSA ABLOY's strategic focus on market presence, product leadership and cost-efficiency has been very successful. The Group's earnings trend has created major value for customers, shareholders and employees.

SALES AND OPERATING INCOME (EBIT)



[1] 1996–2003 have not been adjusted for IFRS. [2] Excluding items affecting comparability. [3] Reclassification has been made.

INCREASE IN SALES

+1,200%

INCREASE IN OPERATING INCOME

+4,700%

Winning strategy on a challenging market

Once again we can look back on a very good year for ASSA ABLOY, despite tough market conditions in a global recession. Sales rose 12 percent to SEK 46,619 M and organic growth was 2 percent. Operating income increased 13 percent to SEK 7,501 M and the margin strengthened further to 16.1 percent. Our performance in 2012 confirms once again the long-term strength of the Group's strategies and action programs. During five years of financial crisis, ASSA ABLOY has increased sales by 34 percent and operating income by 36 percent, with a continued strong cash flow and good financial stability. Excellent performance in recent years has consolidated ASSA ABLOY's position as the largest global supplier of door opening solutions, providing a sound basis for continued profitable growth and value creation.

Following five years of serious financial disruption, macroeconomic turbulence and considerable uncertainty in the global economy, there is reason to comment on the Group's performance in a longer perspective and ask the question: How has ASSA ABLOY weathered the financial crisis?

But let us begin with a slightly more detailed review of the past year for our divisions.

Divisions

EMEA division The European market remained divided into two, with overall weak demand. We saw stable growth, which weakened at the end of the year, in northern and eastern Europe, while sales fell in southern Europe in the wake of the financial crisis, austerity policies and a deep recession. EMEA division (Europe, the Middle East and Africa) reported stable organic growth of 1 percent, outperforming the total market. Operating

Important events during the year

- **Sales** increased by 12 percent to SEK 46,619 M (41,786).
- **Operating income** amounted to SEK 7,501 M (6,624[1]).
- **Earnings per share** after full dilution amounted to SEK 13.84 (12.30[1]).
- **Operating cash flow** amounted to SEK 7,044 M (6,080[2]).
- **Investments in product development** continued at an accelerated level and a number of **new products were launched.**

[1] Excluding items affecting comparability.
[2] Excluding restructuring payments.

income and operating margin remained satisfactory, due to several years of tough cost-efficiency programs and successful marketing of new products and services.

Americas division On the American markets we saw a cautious market upturn in North America, mainly in the residential segment. Renovations and upgrades in the commercial and institutional segments also showed positive growth. The Latin American markets continued to show stable growth. Americas division reported 4 percent organic growth and further strengthened its good operating income and very good operating margin. Several years of considerable investments in market presence and new products resulted in a strengthened market position.

Asia Pacific division In the Asia Pacific region, sales growth remained strong in China and Southeast Asia. In South Korea, the market was weak, while the considerable export trade in digital door locks grew strongly. Negative growth in Australia continued but improved at the end of the year. Asia is an important growth driver for the Group and has been the focus of several years of intensive marketing initiatives and acquisitions. ASSA ABLOY continued to be the clear market leader and gain market shares on the fast-growing Chinese market. Asia Pacific division reported 3 percent organic growth with somewhat lower operating income and maintained good operating margin.

Global Technologies division Demand for digital identification systems continued to grow strongly, as did demand for access control, logical access and secure smart card issuance. Government ID and project orders experienced negative growth in the wake of austerity measures. ASSA ABLOY strengthened its position on these fast-growing future markets, as a result of marketing and innovation initiatives in recent years. Growth was also strong on the hotel market, particularly in the renovation segment. Global Technologies division reported 6 percent organic growth and substantially improved its operating income and margin.

Entrance Systems division The global market for entrance automation, doors and entrance solutions, mainly in the commercial and institutional segments, weakened in Europe during the year in the wake of the recession. Demand was stable in North and South America, while it grew in Asia, particularly in the industrial segment. The market has good underlying growth potential in the long term, and ASSA ABLOY has rapidly built a global leading position. Entrance Systems division reported acquired growth of 37 percent for the year, while organic growth was –2 percent. Operating income increased substantially, while the operating margin declined somewhat.

Group-wide programs are delivering

Our Group-wide initiatives continued successfully during the year. The number of specification sales representatives increased on most markets, which means that we are increasingly relevant to the customer as a specialist and adviser in total door opening solutions. The expansion rate on emerging markets was again high, with 5 percent organic growth. The innovation flow was strong and the share of products launched in the past

Key data	2010	2011	2012	Change
Sales, SEK M	36,823	41,786	46, 619	12%
of which: Organic growth, %	3	4	2	
Acquired growth, %	8	17	9	
Exchange rate effects, %	–6	–8	1	
Operating income (EBIT), SEK M	6,046	6,624[1]	7,501	13%
Operating margin (EBIT), %	16.4	15.9[1]	16.1	
Income before tax (EBT), SEK M	5,366	5,979[1]	6,731	13%
Operating cash flow, SEK M[3]	6,285	6,080	7,044	16%
Return on capital employed, %	18.5	17.4[1]	18.2	

Data per share	2010	2011	2012	Change
Earnings per share after tax and dilution (EPS), SEK/share	10.89	12.30[1]	13.84	13%
Equity per share after dilution, SEK/share	58.64	65.54	71.82	
Dividend, SEK/share	4.00	4.50	5.10[2]	
Number of shares after dilution, thousands	372,736	371,213	369,592	

[1] Excluding items affecting comparability.
[2] As proposed by the Board of Directors.
[3] Excluding restructuring payments.

Statement by the President and CEO

three years rose to 25 percent. A total of 13 acquisitions improved our market positions, and complemented our product offering and technologies.

The review shows that the Group is well on track to meet the operating margin target of 16 to 17 percent. The outcome was 16.1 percent. Operating income increased by 13 percent to SEK 7,501 M. This indicates considerable strength in the Group's earning capacity, even under the difficult conditions that confronted us during this year's downturn and the five-year financial crisis.

Increased strength during the financial crisis

Global crises are often critical strength tests for businesses and watersheds for development trends. The financial crisis and double-dip recession since 2008 can therefore be an appropriate starting point for an account of ASSA ABLOY's strategies, processes and activities for value creation in a longer perspective.

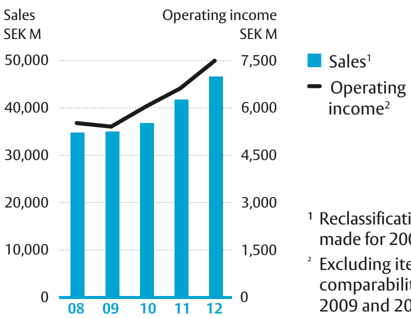
What have we achieved during this challenging period?

Since 2008 the Group has increased sales by 34 percent to SEK 46,619 M, and operating income by

ASSA ABLOY's Executive Team from left to right: Ulf Södergren, Chief Technology Officer (CTO); Tzachi Wiesenfeld, Head of EMEA division; Denis Hébert, Head of HID Global business unit; Juan Vargues, Head of Entrance Systems division; Johan Molin, President and CEO and Head of Global Technologies division; Thanasis Molokotos, Head of Americas division; Carolina Dybeck Happe, Chief Financial Officer (CFO); Jonas Persson, Head of Asia Pacific division; and Tim Shea, Head of ASSA ABLOY Hospitality business unit.

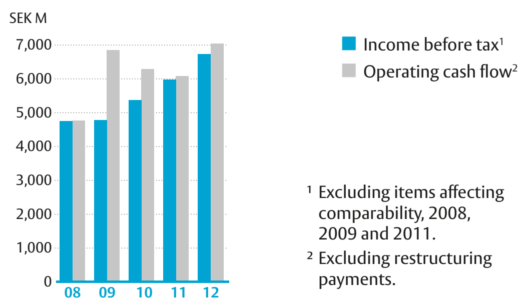
PERFORMANCE 2008–2012

SALES AND OPERATING INCOME



¹ Reclassification has been made for 2008 and 2009.
² Excluding items affecting comparability, 2008, 2009 and 2011.

INCOME BEFORE TAX AND OPERATING CASH FLOW



¹ Excluding items affecting comparability, 2008, 2009 and 2011.
² Excluding restructuring payments.

36 percent to SEK 7,501 M, with a stable, high operating margin. Cash flow has increased markedly, as has the equity ratio, with reduced net indebtedness. Shareholders have seen the share price triple. A good indicator of value creation is that equity per share has increased by around 30 percent.

At least as important is the operational shift, which highlights our strengths for the future. ASSA ABLOY has tripled its sales on emerging markets to a growing share of 25 percent. We have accelerated product development, and the share of products launched in the past three years have reached the target of 25 percent of sales. We are the market leader overall and in the industry's digital revolution. Our sales have 46 percent electronic content, a doubling in five years. We have shifted from 25 percent low-cost content to more than 50 percent, and replaced over 50 old plants with considerably fewer upgraded and new plants.

Sustainability efforts have been integrated into the Group's strategies and business processes. Over the past seven years, sustainability methods have been integrated into sales, logistics, manufacturing, product development and supply management. Our commitment and efforts meet market demand: a more sustainable product is more competitive, more cost-efficient and creates added value for customers and other stakeholders. Last year ASSA ABLOY updated its sustainability program on the basis of the Group's risk assessment process, with targets up to 2015. The 2012 results show that the Group is well on the way to achieving its more stringent targets.

All in all, ASSA ABLOY has emerged considerably strengthened from the crisis. Going forward, we have a more competitive product offering, improved market positions and a better cost situation than before the crisis.

What is the basis of this transformation?

I often say that locks and door opening solutions is a good business to be in. We have three fundamental and mutually reinforcing global drivers supporting us:

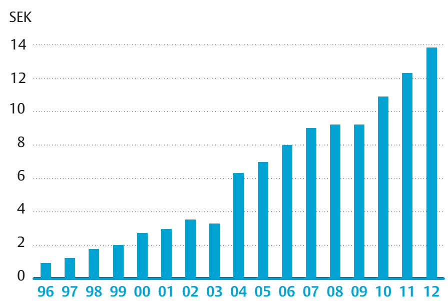
- Security and convenience are human needs, which are high on the agenda as prosperity increases.
- We have a strong growth trend, with urbanization in countries with a predominant share of the global population.
- We have new digital technologies, which drive the replacement, upgrade and renovation of door opening solutions.

On the basis of these drivers, the ASSA ABLOY Group is developing its three strategic action areas, which provide us with the necessary foundation for organic growth.

Increased market presence

An essential task since the mid-2000s has been the development of an offensive brand structure that creates synergies for our global and local market leadership. Today 75 percent of products are sold under the ASSA ABLOY brand or co-branded with a strong local brand. The other 25 percent of products are sold under global brands, such as Yale, HID, ABLOY and Mul-T-Lock, as well as non-ASSA ABLOY associated brands, such as Entrematic, Flexiforce and Helton. Attitude surveys clearly show that we are well on the way to loading our

DEVELOPMENT OF EARNINGS PER SHARE



Earnings per share has increased by 248 percent since 1996.

brands with our vision of being the global leader in total door opening solutions, with strong local competence and presence.

Brand consolidation has gone hand in hand with the rationalization and development of products and solutions, in which segmentation and lower costs have been a guiding principle. By segmenting market and customer development, and focusing on specification sales to direct and indirect customers, such as installers and architects, we gain a superior knowledge of customer needs, can act as a partner in better total door opening solutions, and generate increased demand. The share of customer-facing or 'demand-generating' staff has increased considerably in recent years.

Emerging markets have been a key priority. Their share of sales has tripled to a total share of over 25 percent in seven years, and I venture to have confidence in the potential for up to a 50 percent share. We have become China's largest lock and door company, with a small but fast-growing market share. However, we also see substantial future demand in other Asian, South American and eastern European countries in pace with increasing prosperity and urbanization.

Complementary acquisitions have built new market positions and contributed key products and technology. The 100 acquisitions in the past seven years are proof of this and have generated additional sales of nearly SEK 20 billion. Our largest ever structural transaction was the acquisition of Crawford two years ago. This transformed our Entrance Systems division into a global leader in entrance automation, creating considerable revenue and cost synergies with the rest of the Group. Following its rapid expansion in recent years, Entrance Systems is now entering a new phase, with a new organization and good growth and profit conditions.

Product leadership

A continuous flow of innovative products, with enhanced customer value and lower costs, creates product leadership, the foundation for long-term successful organic growth. The Group has implemented a significant reorientation from a relatively fragile base over the past seven years. R&D investments have increased by 129 percent since 2005, and the number of development engineers has risen by over 30 percent to around 1,350. Our ambition is to be the industry's most innovative supplier, and products launched in the past three years have reached the target of 25 percent.

Product leadership is focused on customer needs for security, reliability, functionality, design, life cycle costs and so on. A strong driver is the demand for electromechanical locks and entrance automation, which today account for 46 percent of our sales, double the share in the mid-2000s. A large part of our substantially increased investments have focused on these new technologies and developed today's product and market leadership. This provides competitiveness for continued rapid growth, in which sales value per electromechanical door is increasing, as well as the recurring revenue from service and upgrades.

The focus on product development has resulted in a renewal of the Group's working methods, with a common structured innovation process. In the Group function Shared Technologies and in collaborations in and between divisions, we have developed common product platforms, which have considerably reduced the number of components, increased the development rate and reduced costs. Ideas and competence are spread more rapidly through the development of R&D competence centers. Customers are involved earlier and deeper in the product development process.

Cost-efficiency

In the mid-2000s, ASSA ABLOY had an over-dimensioned production structure, with a large number of small local and regional plants. Rationalization of production has substantially improved cost-efficiency. The policy is to locate flexible final assembly close to customers and standard production in low-cost countries. Since 2006, 53 plants have been closed and nearly 15 more plants are in the process of being closed. A total of 56 plants have been converted to assembly. Nearly 30 offices have also been closed. Today around 55 percent of products are manufactured in low-cost countries, compared with 26 percent in 2005.

Meanwhile the Group has increased the share of purchases from high-quality suppliers with a good cost profile. As a result of purchasing competence programs, specific category managers, better agreements and price management, the number of suppliers has fallen 25 percent in seven years, while the value of directly purchased materials has increased by nearly 130 percent.

An important change since the mid-2000s is the implementation of a number of processes to increase efficiency in various dimensions of the operations. Value Analysis and Value Engineering (VA/VE) have enabled us to reduce the cost of existing products by between 25 and 40 percent through measures in the development, design and production of existing products. To date, savings exceed SEK 500 M. Lean processes have led to more efficient production flows, better materials cost control, improved administration and decision-making

procedures, shorter development times, and increased cooperation between various parts of the Group. Seamless Flow is automating administrative processes across the whole value chain, resulting in major savings. By 2017 the number of different business systems is to be reduced from 120 to 6, while the number of data centers is to be reduced from 55 to 5, and 80 different data networks are to be consolidated into 1 in the Group's Shared Service Center.

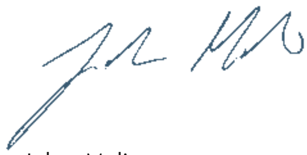
Outlook

In these circumstances I should like to thank all our employees for their excellent efforts during a very demanding period for the Group. We can be pleased with the strength we have developed over the past years and the very good outcome for 2012.

We now face exciting challenges. Many indicators suggest that the world economy will remain weak for the foreseeable future, due primarily to the budget cutbacks that many countries are making. It is therefore of the utmost importance that ASSA ABLOY continues its expansion on the new markets, which are expected to go on growing well, while at the same time maintaining its investments in new products and market presence.

Going forward, I see excellent opportunities for ASSA ABLOY. As I have already said: Locks and door opening solutions is a good business to be in. Increased prosperity and urbanization are driving ever-increasing security and safety needs. If we venture to have confidence in a return to the same growth figures as we had before the financial crisis, ASSA ABLOY is today better prepared than ever before to further increase its rate of value creation.

Stockholm, 7 February 2013



Johan Molin
President and CEO

Vision

- To be the world-leading, most successful and innovative supplier of total door opening solutions,
- to lead in innovation and offer well-designed, convenient, safe and secure solutions that create added value for our customers, and
- to be an attractive company to work for.

Financial targets

- 10 percent annual growth through a combination of organic and acquired growth.
- An operating margin of 16 to 17 percent.

The financial targets are long-term and should be regarded as an average over an economic cycle.

Strategy

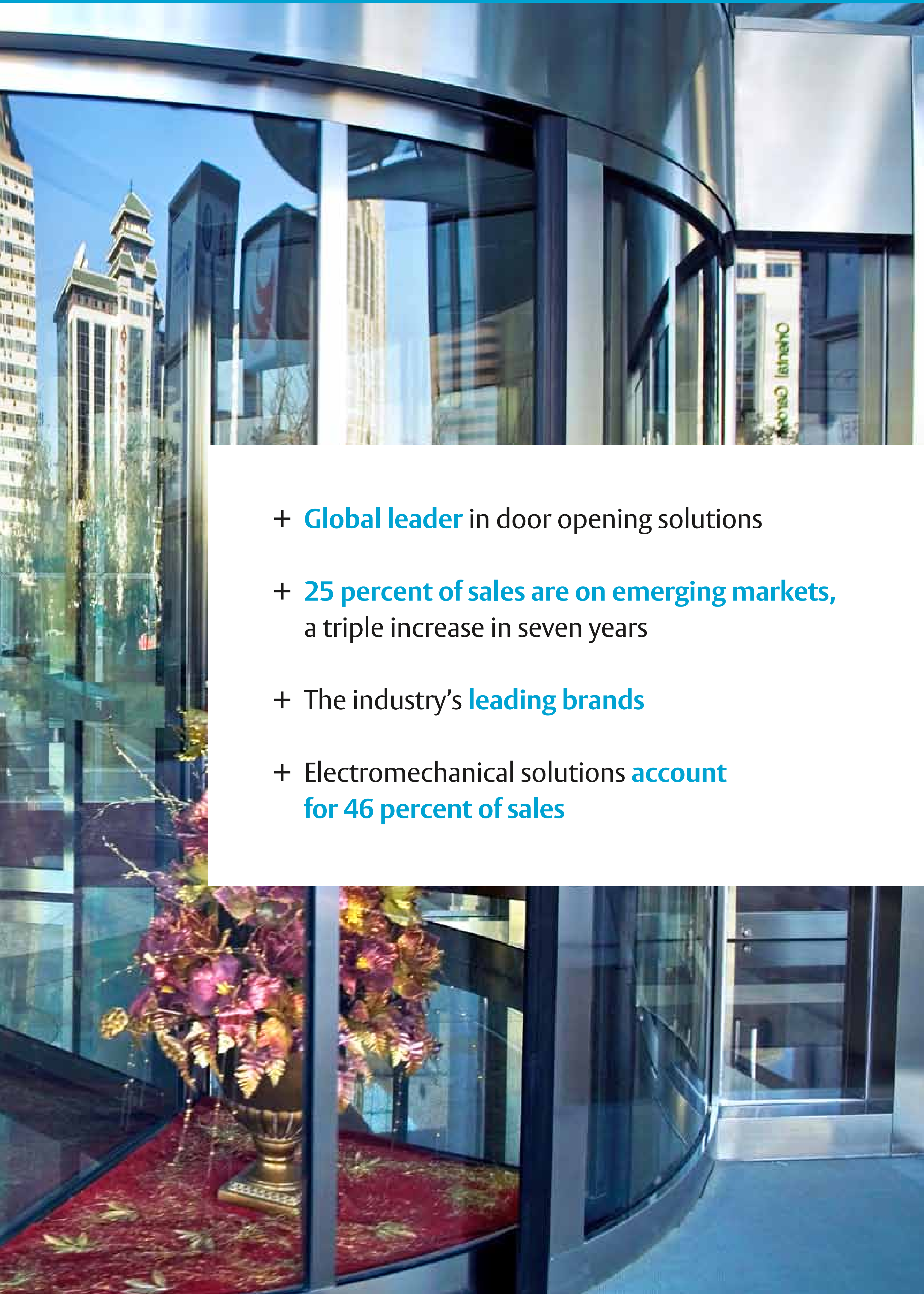
The Group's overall focus is to spearhead the trend towards increased security with a product-driven offering centered on the customer. The primary product areas are the traditional segments of mechanical locks and security doors, as well as the fast-growing segments of electromechanical and electronic locks, access control, identification technology and entrance automation.

ASSA ABLOY's strong development is based on long-term structural growth in demand on mature markets in Europe, North America, Australia and New Zealand, increasing demand on emerging markets in Asia, eastern Europe, Africa and South America, and successes in fast-growing product segments.

The strategic action plans have been divided into three focus areas: market presence, product leadership and cost-efficiency.

Strategy						Goal
Market presence pages 10–21	+	Product leadership pages 22–29	+	Cost-efficiency pages 30–35	=	Growth and profitability pages 36–39

Market presence



+ **Global leader** in door opening solutions

+ **25 percent of sales are on emerging markets,** a triple increase in seven years

+ The industry's **leading brands**

+ Electromechanical solutions **account for 46 percent of sales**

Market expansion for profitable growth

ASSA ABLOY's world-leading market presence is based on three strategies:

- **Exploiting the strength of the brand portfolio,**
- **Increasing growth in the core business and**
- **Expanding into new markets and segments.**

These market strategies have been successful through a combination of organic and acquired growth focused on profitable, expanding markets and segments.

Drivers

The need for security in workplaces and homes is growing in pace with increased welfare and technological development. Demand is driven by:

Increased prosperity and urbanization, particularly in emerging markets, lead to new construction and increased demand for doors, locks and access control systems.

The need for increased security drives more advanced solutions and upgrades of existing security systems.

Technological development meets the demand for solutions offering increased convenience and user-friendliness in addition to high security.

ASSA ABLOY is focusing its operations on electromechanical and mechanical security products as well as entrance automation and security doors for the global market. The Group has a global market share of over 10 percent but with large variations between different markets.

CUSTOMERS

DID YOU KNOW THAT?

The institutional and commercial market accounts for 75% of sales.

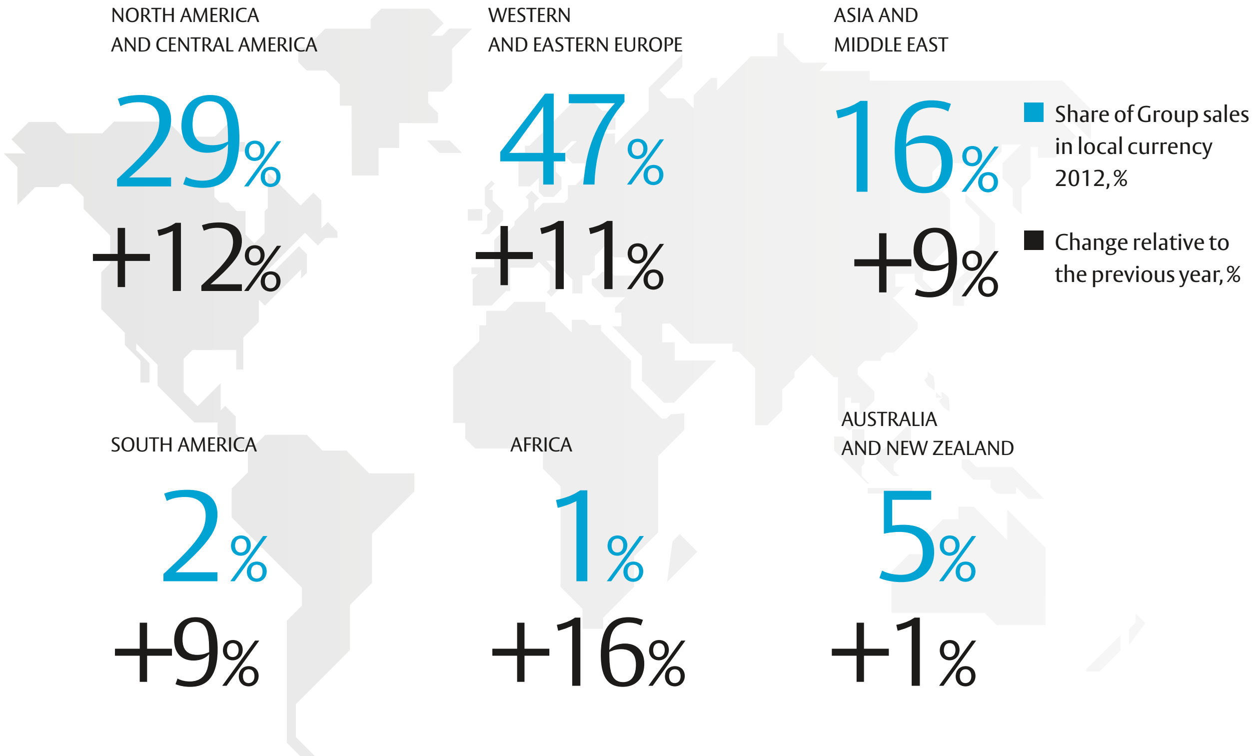
Private customers and the residential market account for 25% of sales.

ASSA ABLOY has a large number of end-customers with very varied requirements. Products and solutions are distributed to the customer in cooperation with a number of different players and through a variety of distribution channels (see illustration on pages 14–15).

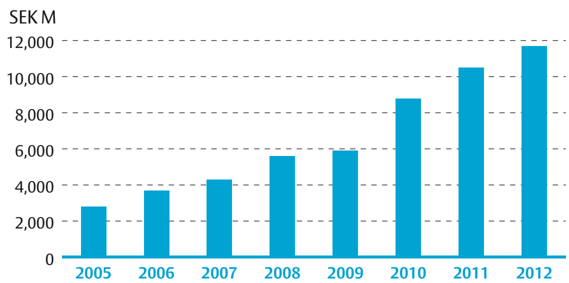
Institutional and commercial market – complex, demanding projects

The most demanding and dynamic customer segment is institutional and commercial customers, which account for around 75 percent of sales. This segment includes universities, hospitals, offices, airports and shopping malls used by a large number of people daily. The driver for electromechanical and advanced solutions is strong. The procurement of these projects is often complex and involves many stakeholders on the customer side, such as property and security managers. ASSA ABLOY's common sales force has developed expertise in understanding the multifaceted needs of end-customers and has contact with many stakeholders in the value chain to develop optimal solutions for the customer. Distribution and installation are largely handled by installers and locksmiths.

Share of Group sales by region 2012



SALES ON EMERGING MARKETS[1]



[1] Emerging markets comprise Africa, Asia, the Middle East, South America and eastern Europe.

Small and medium-sized customers – professional advice and installation assistance

This segment consists of institutional, commercial and residential customers, who generally need professional advice and installation, which is primarily met by specialized distributors and installers, such as locksmiths. ASSA ABLOY is working actively to train distributors and to develop more standardized solutions for small and medium-sized companies, such as stores and offices.

Consumer market – replacement and upgrade with advice and installation

The majority of sales are replacements or upgrades of existing security products. However, an increasing number of private individuals want electronic locks, providing major growth potential for ASSA ABLOY. Private customers have a considerable need for advice and installation assistance. The Group has therefore developed a number of home security concepts to meet consumer needs. In some geographical markets, ASSA ABLOY also works with door and window manufacturers or specialized distribution channels such as DIY stores and locksmiths.

Market presence

DISTRIBUTION

ASSA ABLOY collaborates with architects and installers.

ASSA ABLOY reaches its end-customers through a variety of distribution channels at various stages in the supply chain depending on customer needs, the product and solution, and national and local requirements and standards. The Group has a competitive edge due to its well-developed cooperation with all distribution players, and seeks to offer its competence as early as possible in the planning and specification of door opening solutions.

Distributors – a close partner

ASSA ABLOY works closely with its distribution channels to offer end-customers the right products, correct installation, and consequently a well-functioning security solution. Distributors also have a key role in providing service and support after installation. This role may vary between different customer segments.

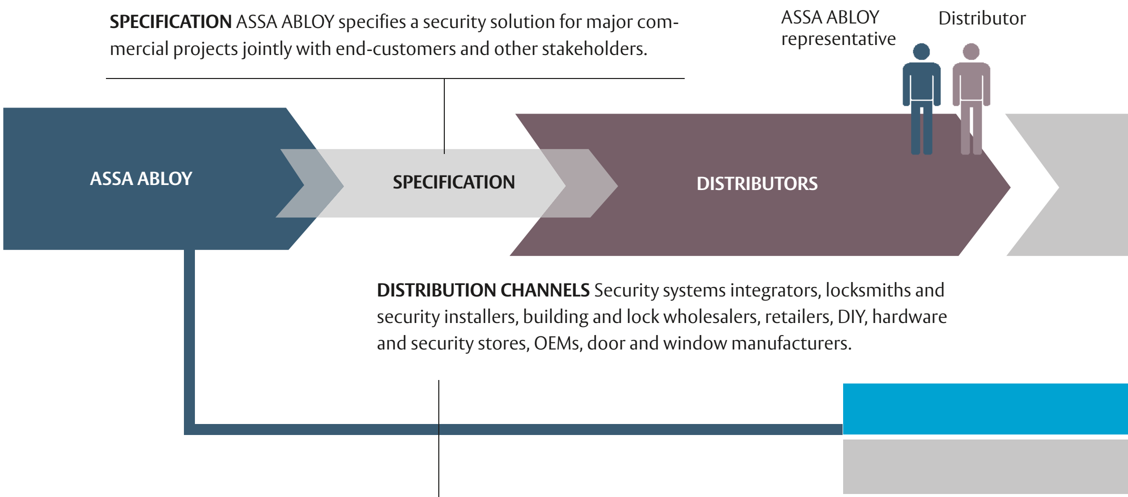
In the commercial segment, distributors in some markets act as consultants and project managers to create good security solutions. They have a good knowledge of the customer's needs and ensure that the products comply with local regulations.

Electromechanical security products mainly reach the end-user via security installers and specialized distributors. These products are also sold through security systems integrators who offer a total solution for the installation of perimeter protection, access control and increasingly also computer security.

Distribution channels for the security market

Electronic security products mainly reach the end-user via security installers and specialized distributors. These products are also sold through integrators who often offer a total solution for the installation of perimeter protection, access control and increasingly also computer security.

SPECIFICATION ASSA ABLOY specifies a security solution for major commercial projects jointly with end-customers and other stakeholders.



DISTRIBUTION CHANNELS Security systems integrators, locksmiths and security installers, building and lock wholesalers, retailers, DIY, hardware and security stores, OEMs, door and window manufacturers.

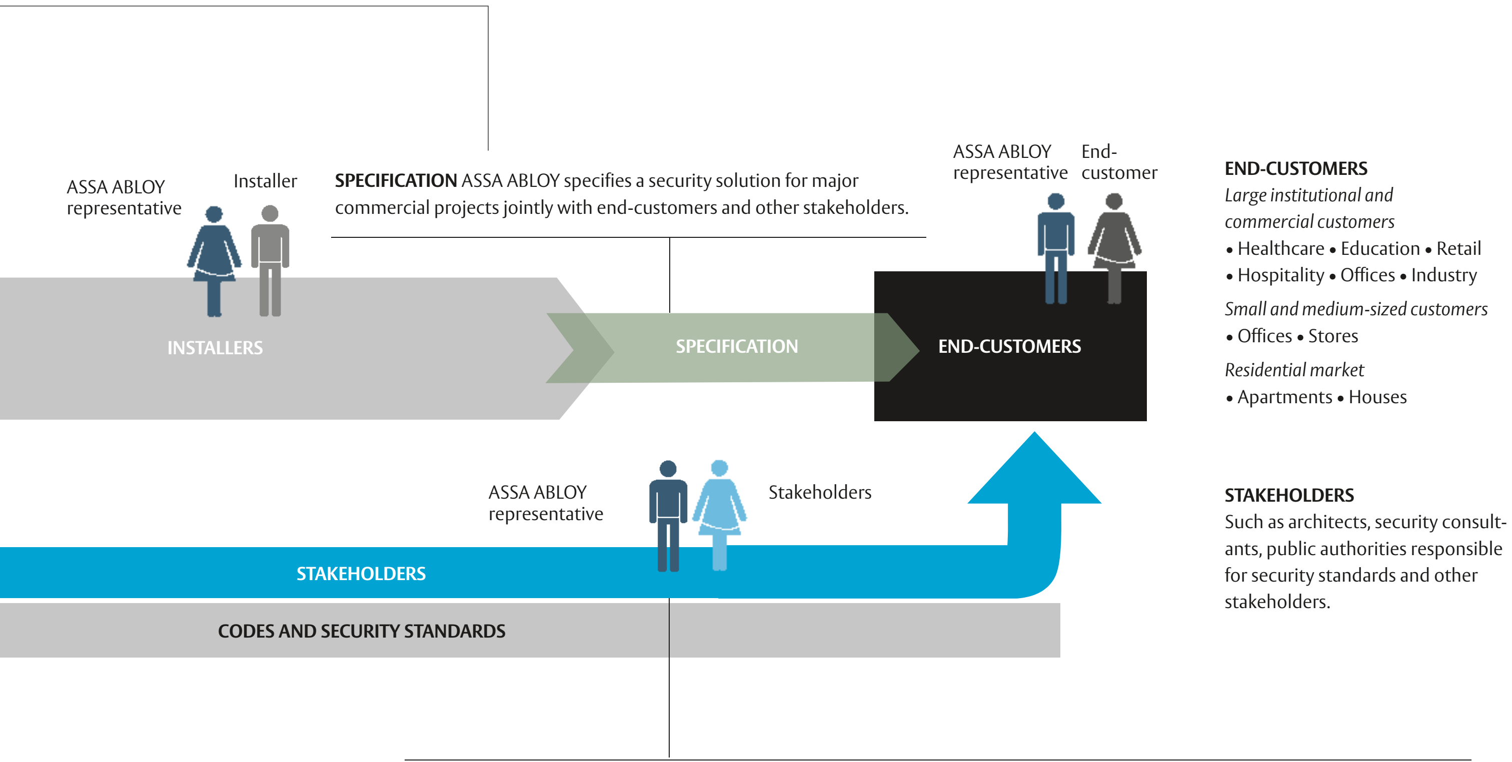
Building and lock wholesalers, security consultants and locksmiths have a key role in delivering the products specified for various construction projects.

Specification of door opening solutions – competence increasingly important

In order to market innovative new solutions, ASSA ABLOY collaborates with architects, security consultants and major end-users to specify appropriate products and achieve a well-functioning security solution. Building and lock wholesalers, security consultants and locksmiths have a key role in supplying the products specified for various construction projects. Many door and window manufacturers install lockcases and hardware in their products before delivering them to customers.

The trend towards more complex security solutions is increasing the competence required by distributors. To support the customer in choosing a security solution, ASSA ABLOY has special specification teams that can offer total security solutions under the ASSA ABLOY brand to major end-customers. These specification teams also collaborate with other key groups early on in the order chain, such as building consultants, architects and building standards authorities to create demand for innovative competence. The service offering includes telephone support, technical drawings, product configuration and e-commerce.

ASSA ABLOY develops the competence of locksmiths, a key distributor of mechanical and electromechanical security products on many markets. They buy direct from ASSA ABLOY or via 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.



ASSA ABLOY has developed close collaboration with architects and security consultants to specify appropriate products and achieve a well-functioning security solution. Many door and window manufacturers install lockcases and hardware in their products before delivering them to customers.

Market presence

MARKETS

The global market for door opening solutions is disparate and fragmented. ASSA ABLOY is the industry's most global player, with sales in more than 70 countries. The mature markets of North America and Europe account for three quarters of Group sales, and demand is growing slightly faster than national GDP. Asia, the Middle East, Russia, South America and Africa are emerging markets with considerably higher growth.

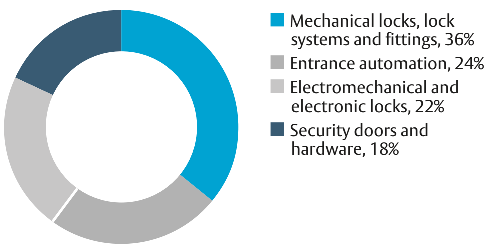
Major differences – advantage for global ASSA ABLOY

The difference in demand between continents and countries is significant due to different regulations, standards and requirements. As the most globally established player, this gives ASSA ABLOY competitive advantages. There is also a trend among multinationals towards a more consistent security approach in some customer segments.

North Americans spend more than twice as much on emergency exit devices as Europeans, while northern Europeans spend three to four times as much on high-security locks for their homes as North Americans. Entrance automation is also considerably more widespread in Europe than in the USA. The same size market for security and emergency exit solutions in Europe and the USA would roughly double the total market.

Electromechanical solutions are considerably more widespread in the commercial segment than in the residential segment. However, an increasing number of private individuals want electronic locks for their homes, providing a major growth opportunity for ASSA ABLOY.

SALES BY PRODUCT GROUP



Fragmented competition – continued consolidation

The global door opening solutions market remains fragmented, despite consolidation over the past 10 years. However, the market in each country is relatively consolidated. Companies in the industrialized world are generally still family-owned and leaders on their home markets. They are often well established and have strong ties with local distributors. In less developed countries, however, established lock standards and brands are less common.

ASSA ABLOY is the global market leader and has five main competitors, which partly operate in its segment: Ingersoll-Rand (USA), Stanley Black & Decker (USA), Dorma (Germany), Kaba (Switzerland) and Hörmann (Germany). After the market leader ASSA ABLOY, these five are strong local players on their home markets and also have an international presence. The Asian market is still very fragmented; even the largest manufacturers have modest market shares.

Asia, the Middle East, eastern Europe, South America and Africa are emerging markets with considerably higher growth.

DID YOU KNOW THAT?

North Americans spend more than twice as much on emergency exit devices as Europeans. Conversely, northern Europeans spend three to four times as much on high-security locks for their homes as North Americans.

The majority of Group sales are for use in existing buildings and therefore less sensitive to cyclical fluctuations.

Renovations, refurbishments, extensions, replacements and upgrades account for 67 percent of ASSA ABLOY's sales.

67%

New construction accounts for 33 percent of ASSA ABLOY's sales.

33%

Stability and profitability

Due to its unique global market penetration and the world's largest installed base of door opening solutions, two-thirds of ASSA ABLOY's sales are to the aftermarket, which consists of renovations, refurbishments, extensions, replacements and upgrades. Demand in the aftermarket is more stable than in new construction, and the Group is therefore less sensitive to cyclical fluctuations.

The Group's strategies also prioritize commercial and institutional customers with a higher demand for electronic products and complex solutions, and therefore higher profitability.

STABILITY IN THE AFTERMARKET

Aftermarket[1], 67%
New construction, 33%

[1]The aftermarket consists of renovations, refurbishments, extensions, replacements and upgrades.

BREAKDOWN BY CUSTOMER SEGMENT

Commercial and institutional customers, 75%
Private customers – residential market, 25%

ASSA ABLOY supplies total solution to Cisco

Customer:	Cisco is the world's largest supplier of network equipment and systems. ASSA ABLOY Australia and ASSA ABLOY Singapore have supplied all the locks, hardware and fittings for over 300 doors in Cisco's new Singapore office, a project completed in November 2012.
Solution:	The ability to deliver a total solution was a contributory factor in ASSA ABLOY's appointment as supplier of all the hardware for over 300 doors, of which 55 are connected to an access control system. The products used included electric mortice locks for doors connected to the access control system and Synergy mechanical mortice locks for doors not connected to this system, as well as master key cylinders and Besam swing door operators. ASSA ABLOY has now implemented 16 successful projects for Cisco in Asia and the Pacific region.

Market presence

MARKET STRATEGIES

ASSA ABLOY's world-leading market presence is a strategic cornerstone in the Group's ambition for profitable growth. Market strategy is based on long-term structural demand growth on mature markets in Europe and North America, and fast-growing demand on emerging markets. In order to increase its market presence, ASSA ABLOY is exploiting the strength of the brand portfolio, increasing growth in the core business, and expanding into new markets and segments.

Increasing growth in the core business by segmentation

Over the past seven years ASSA ABLOY has made a significant strategic shift to an increasingly market-oriented organization in close collaboration with architects, security consultants, major end-users and distributors. The main growth potential is found in existing market channels and an increased share of distributors' sales.

One important initiative is the focus on increased customer relevance through market segmentation. Sales teams are focusing on different customer segments to gain the industry's best understanding of customer needs, build relationships and generate demand, thereby becoming the end-user's door opening solution expert. Segmentation aims at total door opening solutions customized to the doors' applications, security and convenience aspects, special requirements for compliance with standards and regulations, and the need for integration with new or existing security systems and IT networks.

This focus includes investments in employees with a clear, direct demand-generating responsibility. In the Americas division, for example, the share of customer-facing staff rose from 35 percent in 2004 to 56 percent in 2012. In the EMEA division, the share of customer-facing staff has risen from 42 percent to 48 percent in three years. This trend is ongoing.

DID YOU KNOW THAT?

A large aftermarket, combined with global sales across countries with different economic cycles, contributes to stable sales and profitability.

DID YOU KNOW THAT?

A large percentage of ASSA ABLOY's products are sold in small volumes to a large number of end-customers with very different needs.

The common sales organization operates under the ASSA ABLOY master brand, while acting as representatives of the local product brands already recognized by the customer.

The spectacular opening of Friends Arena

Sweden's new national arena, Friends Arena, opened in autumn 2012 and can accommodate 65,000 concertgoers. Apart from concerts, the arena will host various sports events such as football and speedway. ASSA ABLOY has supplied cylinders, lockcases, handles, door closers, emergency exit devices, access control, card readers and industrial doors for the arena.

75%

Around 75 percent of products are co-branded with the local brand and the ASSA ABLOY master brand.

ASSA ABLOY's brand strategy

The ASSA ABLOY master brand

ASSA ABLOY

Product brands, (examples)

Well-known product brands benefit from the large installed base and are adapted to comply with local regulations and safety standards. The product brands are combined with the ASSA ABLOY master brand.

Global brands with a unique market position

Products brands, non endorsed by ASSA ABLOY, (examples)

Exploiting the strength of the brand portfolio and the sales force

ASSA ABLOY has grown as a result of its many acquisitions and today the brand portfolio consists of leading brands. In order to exploit this valuable brand asset while benefiting from the Group's size, ASSA ABLOY's logotype is combined with the individual product brands. The latter are well known and rooted in local regulations and security standards. The Group thus capitalizes on its large global installed base, while increasing the visibility of the ASSA ABLOY master brand, which unites the Group's sales departments and represents competence in total door opening solutions. Around 75 percent of Group sales are co-branded with the master brand and local brands.

The ASSA ABLOY master brand is complemented by four global brands, which are all leaders in their respective market segments: HID in access control, secure card issuance and identification technology, Yale in the residential market, Mul-T-Lock for locksmiths, and ABLOY in high-security locks. The Group also has non endorsed product brands that are not directly associated with ASSA ABLOY, such as Entrematic, Flexiforce and Helton. These brands have a leading position and a unique market positioning, which is therefore important to exploit.

In order to compete effectively on a global market, the sales force operates as an integrated organization and representatives of the ASSA ABLOY master brand. They create solutions for the customer using various products manufactured under established local brands. Consequently, customers can be offered total door opening solutions, while recognizing the local brands.

Market presence

The Group sees good expansion opportunities in new markets and segments

Geographical expansion

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. These markets have increased their share of Group sales from 12 percent seven years ago to 25 percent in 2012.

OEM market

The OEM market for door and window manufacturers has considerable potential. The aim is to build a global presence through acquisitions and organic growth. Since 2000, Group sales of security doors have increased from SEK 2 billion to over SEK 8 billion, and accounted for 18 percent of total Group sales in 2012.

Residential market

Efforts to develop channels and products for ***the global residential market*** under the Yale brand are ongoing. The Group's leading competence and market presence in digital door locks in China and South Korea are also creating a significant basis for global expansion in this future technology.

Increased demand for electromechanical products

The increased demand for ***electromechanical products*** is a clear trend. Increased technical standardization is driving integration of various components in the security solution. ASSA ABLOY's products aim at open standards to facilitate integration with the customer's other security and administrative systems. The Group's strength in specific technologies is creating interesting new growth areas. One example is RFID, which enables hotel locks to be opened by a card or cell phone.

Well-functioning doors at Copenhagen airport

Customer:

Copenhagen's international airport, Kastrup, has 60 airlines in operation and over 62,000 passengers per day. In 2011, 22.7 million people passed through the airport, making Kastrup the largest Nordic airport. The airport has a maximum capacity of 83 take-offs and landings per hour and can accommodate 108 planes. Kastrup employs 2,060 people and a total of 22,000 people work at and around the airport. 500 companies operate in the area, including logistics companies, restaurants and cafes.

Challenge:

The 22.7 million people that pass through the airport each year want to make their way easily to get to their departures on time or to meet arriving friends and relatives.

It must be easy for airlines to move planes in and out of the hangars, and the planes must be kept secure even when they are not in the air. The airport's emergency services must be able to rely on the doors opening rapidly and at the right time. All the airport's operators must be able to move goods and staff in and out through the buildings efficiently in terms of time and energy.

Solution:

ASSA ABLOY Entrance Systems has in total over 1,200 pedestrian entrance solutions, over 500 door and docking solutions as well as many hangar doors and high-speed doors installed at Kastrup. These doors are branded Besam, Crawford, Albany and Megadoor.

ASSA ABLOY Entrance Systems and Kastrup Airport have now signed as a service frame agreement on all pedestrian doors/automatic entrance doors. Together with the service performed by ASSA ABLOY Entrance Systems already on a majority of the industrial, high-speed and hangar doors, ASSA ABLOY Entrance Systems makes life easier for the companies and passengers at Copenhagen Airport Kastrup.

Entrance automation

Entrance automation is a fast-growing market in which ASSA ABLOY has gained global market leadership through acquisitions, innovation and organic growth. The total market is estimated at EUR 20 billion with a growth rate above GDP and is still very fragmented. The largest potential is in retail, transport, logistics and manufacturing in the wake of increased globalization. ASSA ABLOY has a unique offering of total automatic door opening solutions and a comprehensive service concept.

Product leadership

+ **The most innovative supplier** of total door opening solutions

+ Products launched in the past three years **exceeded 25 percent of total sales**

+ Electromechanical products and entrance automation **have increased from 20 percent to 46 percent of sales in 10 years**

+ **Clear leadership in secure** identity solutions and entrance automation

Successful product development provides basis for organic growth

A constant flow of innovative new products to the market is the single most important driver of organic growth. Successful product development is therefore vital for the Group's future. In 2012 sales of products launched in the past three years exceeded 25 percent, which means that a first milestone has been reached.

PRODUCT LEADERSHIP

DID YOU KNOW THAT?

Group sales of electromechanical products including entrance automation have increased from 20 percent to 46 percent of sales in 10 years.

ASSA ABLOY's vision is to be the most innovative supplier of total door opening solutions, and R&D investments have increased substantially in recent years. ASSA ABLOY aims to double the innovation rate by means of a Group-wide structured innovation process.

Successful product development and leadership is the single most important driver for maintaining the target of 5 percent organic growth per year over an economic cycle. The focus on product leadership has been very consistent and is reflected in the number of product development engineers, which has risen by more then 30 percent to over 1,350 people in seven years. Sales of products launched in the past three years have reached the Group's target of 25 percent, a sharp increase in just a few years. This 25 percent target is a well-considered level in view of the 10 to 15-year product life cycle.

Docking solution from Entrance Systems.

Today's customer base helps develop tomorrow's security solutions

ASSA ABLOY has the world's largest base of installed locks and lock systems, and its products are well adapted to comply with local and regional standards. The Group builds on this installed lock base to develop tomorrow's solutions, in which electronic codes supplement or replace mechanical identification, such as metal keys. Electromechanical products including entrance automation have increased from 20 to 46 percent of Group sales in ten years.

This does not mean that sales of mechanical products are falling, but that electromechanical products are growing three to four times faster. An increased share of electromechanical products also means an increase in the sales value per door, as well as in the recurring revenue from service and upgrades. The number of installed doors in the market fitted with some form of electromechanical solution is estimated at 3 to 5 percent. This share may very well rise to 20 percent or more in the future, representing a very large potential for upgrades as well as new sales of these door opening solutions.

The implementation of Lean-Innovation has shown that development time can be halved, while results are improved. With this new approach, the Group has also seen the benefit of continuous parallel technology development.

The growing need for sustainable solutions is embedded in the Group's development processes. Product specifications and customer solutions may be based on life cycle costs, a reduction in energy consumption in buildings and other climate impact, as well as concrete savings in materials consumption.

TECHNICAL DEVELOPMENT

MECHANICAL PRODUCTS

The basic technical solution is simple: a lockcase in a wall or a door contains a bolt, which is advanced or retracted by a key. The ***pin-tumbler lock*** was invented by Linus Yale in the middle of the 1800's. It consists of an outer casing and a plug with drilled channels in which spring-loaded pins are lifted to the right height with the correct key that opens the lock. The ***wafer-tumbler lock*** contains circular wafers with holes for the key. The correct key turns the wafers to the right position and the lock can be opened or closed in combined action with a side bar. ***Lever tumbler locks*** have a number of locking levers built into the lockcase. The correct key lifts the levers and frees the bolt to open or close.

CHANGE IN PRODUCT MIX

- Mechanical products, 66%
- Electromechanical products, 20%
- Security doors,14%

- Mechanical products, 36%
- Entrance automation, 24%
- Electromechanical products, 22%
- Security doors, 18%

ELECTROMECHANICAL PRODUCTS

The first electromechanical locks were developed in the early 20th century, when the bolt was operated by an electric motor and/or electromagnet instead of muscular effort. Electromechanical technology has developed substantially over the past 20 years with various code systems. The lock itself is still based on mechanical principles, while the key element utilizes electronic codes and readers with a control unit that evaluates the read code. Electronic codes can be stored on cards, on mechanical keys with a chip or be transmitted wirelessly from a cell phone. The reader provides a signal to an electrically operated opening or closing mechanism.

ENTRANCE AUTOMATION

This is a fast-growing and global leading business within ASSA ABLOY. The technology is usually described as automatic as it is based on sensors, electronics and electric motors that open and close doors without direct user involvement. Typical application areas are large entrances to institutions, organizations and companies, which are used by many people daily. The technology has developed into central control and monitoring systems for whole building complexes for enhanced security, convenience and a better environment.

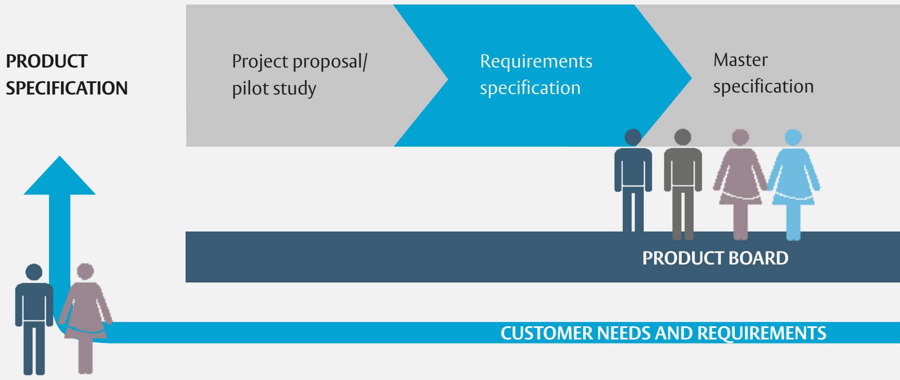
Product leadership

Product development process

The innovation strategy aims to create cost and quality benefits for the customer through constant small steps. The Group-wide product development process is based on ASSA ABLOY's global presence and strengthens local operations. The ambition is to halve development time and increase the number of new products. All new projects are driven by customer needs.

A common process with increased customer focus and better product planning

ASSA ABLOY continues to develop the Group-wide product development process with the goal of halving development time and increasing the number of new products. A clear gateway model with common terminology and interdisciplinary collaboration ensures the quality of the product development



PRODUCT LEADERSHIP

Product leadership is achieved and maintained through the continuous development of products offering enhanced customer value and lower product costs, often in close collaboration with ASSA ABLOY's end-users and distributors.

Customers are increasingly demanding more advanced lock and door products, and the technical level is constantly rising, with electromechanical door opening solutions growing considerably faster than traditional mechanical products. Global common product platforms adapted to the local markets have therefore become increasingly important. These platforms are developed by the Group product development function, Shared Technologies, and through collaboration within and between divisions.

Customer needs are integrated into the Group's product development and innovation processes as a result of systematic collaboration at many levels and in many dimensions. The Group conducts ongoing studies of various customer segments, giving rise to new product concepts. Future Lab is an internet forum in which ASSA ABLOY can ask customers questions about requirements, trends and product initiatives.

ASSA ABLOY strengthens its customer relevance through continuous multidimensional development. Customer needs are constantly developing with regard to functional integration, design, compliance with regulations and standards in other countries, openness to other systems, and simplicity in installation, operation and maintenance.

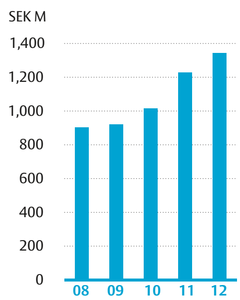
Substantial strengthening of entrance automation offering

ASSA ABLOY is a global leader in automatic doors through its Entrance Systems division. The division's annual sales have risen from SEK 3 billion to nearly SEK 11 billion in five years. As a result, the Group has gained clear product and market leadership in entrance automation.

Automatic doors have sensors and electronics that ensure a convenient and energy-saving door environment in, for example, stores, hotels and hospitals. It is increasingly important to be able to offer a total entrance automation solution comprising both automatic door opening solutions and industrial doors. The

Brighthandle designed door handles communicate with colored light.

INVESTMENTS IN RESEARCH AND DEVELOPMENT[1]

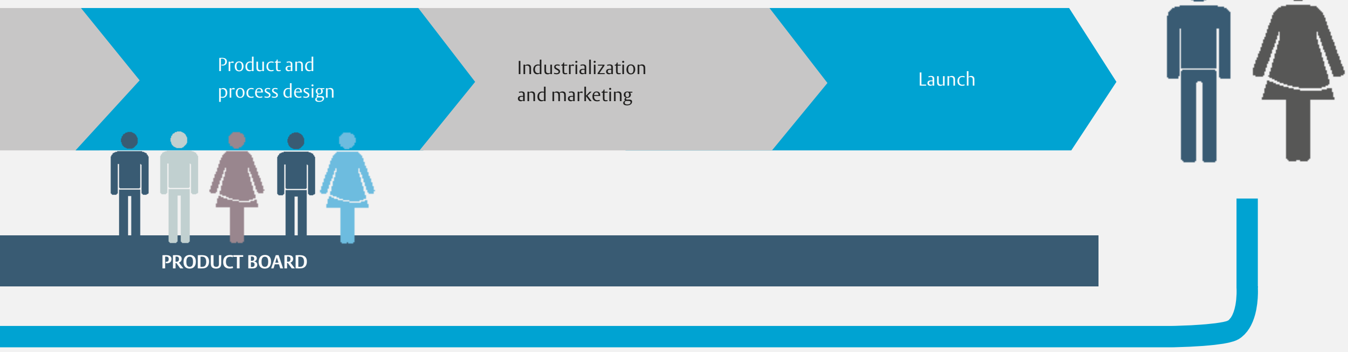


[1] Reclassification has been made for 2008 and 2009.

process. Product management is a very important factor, and the number of product managers increased sharply during the year.

Customer requirements and views are a natural part of the Group's process for strengthening customer relationships and integrating customers into the Group's product development process, thereby increasing the fitness for purpose of the product offering.

A number of in-depth studies conducted jointly with customers have resulted in the development of many new concepts and products.



service offering can therefore be expanded to include automatic entrances for pedestrian traffic at the front of a commercial building and for goods deliveries at the rear of the building. A number of acquisitions in recent years have strengthened the product range with solutions for all entrances and doors in which central control systems can minimize drafts and energy losses in buildings.

The year 2012 saw the launch of Seos, the world's first commercial ecosystem for issuing and managing digital keys on cell phones with NFC technology.

RFID enhances security and is more user-friendly

Since the acquisition of HID Global ten years ago, ASSA ABLOY has had clear market and product leadership in secure identity solutions. Products and services include keys, keycards and other identity carriers that are encoded, giving access to doors and computers. The codes and the electronic keys are managed securely and distributed encrypted.

In North America, HID Global products are estimated to account for 70 percent of the installed base in secure identity solutions. The position is also strong on other markets. Acquisitions during the year have further strengthened ASSA ABLOY's position in this area.

Radio frequency identification (RFID) and wireless communication allow the Group to create new security applications, while offering services that are user-friendly. RFID technology is also the basis for the rapid expansion of logical access control, in which computers are provided with ASSA ABLOY's software that prevents start-up if the user fails to present the right access card.

This technology has allowed HID Global to become the global leader in ePassport programs and national programs for various types of ID cards and driving licenses, including the very advanced US Green Card (a permit allowing a foreign national to live and work permanently in the USA). Deliveries also include a range of very high capacity ID printers, Fargo. The year 2012 saw the launch of a new model, which is particularly suitable for major ID card programs in the public sector, universities and large companies.

Wireless Aperio technology allows cost-effective connection of several doors in an existing access control system. Battery-operated electromechanical cylinders and locks communicate wirelessly with the existing network, avoiding expensive installation costs, new keycards and new access systems. Today many leading manufacturers of access control systems have integrated Aperio technology into their systems.

Cell phone replaces key

VingCard uses RFID and the wireless technology offered by mobile telephony in combination with near field communication (NFC). The hotel guest can use their cell phone to book and pay online. The cell phone serves as a code carrier, and guests can also use their cell phone to unlock the door of their hotel room by holding the phone close to the lock. More than half a million hotel rooms out of ASSA ABLOY Hospitality's installed base of over 7 million rooms have been recently fitted with or upgraded to RFID solutions, and interest in the technology continues to grow.

The year 2012 saw the launch of Seos, the world's first commercial ecosystem for issuing and managing digital keys on cell phones with NFC technology. Seos provides the customer with a complete system in which cell phones replace ordinary keys and keycards for opening doors in homes, workplaces, hotels, offices, hospitals, universities, and industrial and other commercial buildings. Access control can be centrally managed and security staff can, for example, send temporary digital keys to visitors and service staff. Seos digital keys can be protected by PIN codes.

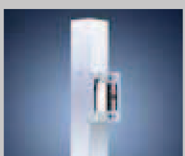
Total door opening solutions are ASSA ABLOY's strength

ASSA ABLOY's sales are not only based on new innovations. The Group' strength is the variety of traditional and new products that can be combined to create a large number of different door environments. ASSA ABLOY has products for different climates, different types of buildings, and plants with varied security and safety requirements. By combining hundreds of thousands of different components to meet the needs of consumers, architects and installers, the Group creates products with the right quality, design and price, which are ideal for both new buildings and renovations.

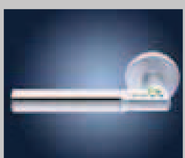
In recent years a number of products have been launched with the aim of reducing energy consumption in buildings. By using doors with improved insulation together with new sealing products, loss of heat to a cooler environment can be reduced, while in hot climates air conditioning costs can be cut. In addition, the use of recycled materials in doors is increasingly possible and desirable.

Total door opening solution


Magnetic lock


Electronic strike plate


Access control


Handle


Electromechanical cylinders


Automatic door closer


Electronic lockcase


Emergency exit device


Electronic hardware

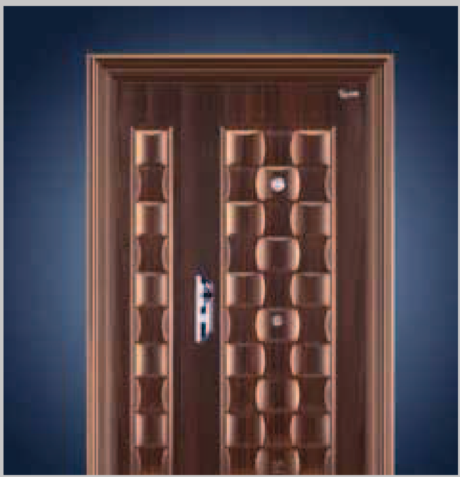
New innovations drive growth

ASSA ABLOY is leading development in fast-growing electromechanical and entrance automation technologies. New products and solutions that create cost and quality benefits for the customer drive growth.

The Essence hotel lock is the ultimate minimalist lock solution. All the lock's electronic components are housed in the door and are RFID and NFC controlled.

Albany insulated door for cold stores from ASSA ABLOY Entrance Systems, designed for increased security, improved productivity and lower maintenance costs. The system is remotely controlled and validated in accordance with the customer's own rules.

Double-leaf door from ASSA ABLOY's Group company Pan Pan in China. An extra lock in the middle of the door enhances security.



ASSA ABLOY's Aperio wireless cupboard lock makes it simple and cost-efficient to link access control to cupboards and pedestals requiring control and verification.

CLIQ Remote allows access to be controlled and managed from remote locations. The keys are programmed remotely via the administration system and validated in accordance with the customer's own rules.

FARGO Industrial Series is a new advanced printer for card personalization and issuance suitable for customers requiring high card volumes and extra durability, such as government ID cards, universities and large companies.

Cost-efficiency

+ **Constant major cost reductions** a strategic priority

+ **Production restructuring program** providing significant results

+ **Number of suppliers reduced** by 17 percent in five years

+ Price management for **price leadership**

Successful restructuring programs

ASSA ABLOY is endeavoring to radically reduce the breakeven point through cost-efficiency and improved processes, to achieve the operating margin target of 16-17 percent. Restructuring programs are continuously improving the production structure and product costs. Flexible final assembly close to the customer is combined with the transfer of standard production to low-cost countries. Lean programs, outsourcing and automated flows are further increasing cost-efficiency, which is a condition for ASSA ABLOY being a price leader and contributing to sustainable development.

PRODUCTION STRUCTURE

ASSA ABLOY is moving from manufacturing everything itself to concentrating efficient assembly plants in high-cost countries, transferring production to low-cost countries, and sourcing more non-critical components.

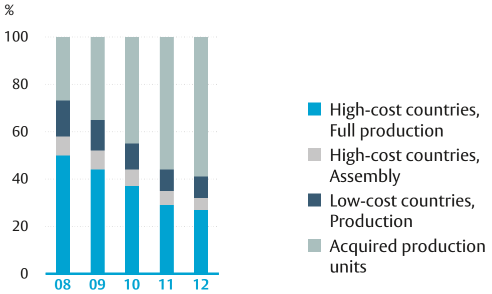
The restructuring programs have been very successful, resulting in considerable savings and increased efficiency in the production units. Four programs launched between 2006 and 2009 have led to the closure of 53 production units. The majority of the remaining production units in high-cost countries have switched from full production to mainly final assembly and customization. As a result of this restructuring, 6,765 employees have left the Group.

Ongoing restructuring activities include closures or switching another 34 plants in high-cost countries from full production to assembly and customization, affecting 770 employees.

Standard production has been increasingly transferred to internal and external production units in low-cost countries. Today 55 percent of products are manufactured in low-cost countries, compared with 43 percent five years ago. This is also reflected in the distribution of the Group's staff, with 48 percent of total employees now located in low-cost countries, compared with 38 percent five years ago. The production process has been improved, while local presence on end-customer markets in both high- and low-cost countries has been strengthened for fast delivery and efficient assembly of customized products.

Automated production in ASSA ABLOY's Americas division.

CHANGE IN PRODUCTION STRUCTURE



An increasing volume of standard production has been transferred to internal and external units in low-cost countries. The production process has been improved, while local presence on end-customer markets ensures fast delivery and efficient assembly of customized products.

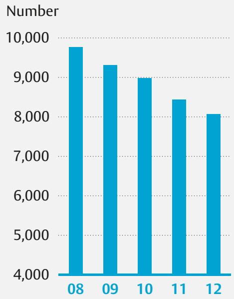
PROFESSIONAL SOURCING

A sharp increase in sourcing is an important element in a more cost-efficient structure in which assembly is concentrated in high-cost countries. The ambition is to have a limited number of high-quality suppliers as strategic partners based on delivery contracts, category management, and development, quality and sustainability guidelines.

Extensive work is in progress to develop competence, create category responsibility, and coordinate and streamline purchases of raw materials and components. This is driven by the outsourcing of component supply to external suppliers in low-cost countries and the ambition to exploit economies of scale.

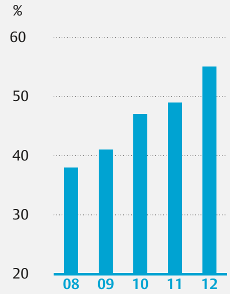
Increased outsourcing has resulted in material costs rising from 28 to 36 percent of sales in five years, or an increase of 85 percent in absolute terms. This makes totally new demands on the purchasing organization, which has moved from simple call off to professional sourcing. Today the divisions have specialized purchasing managers for each component category. Central purchasing centers in the Group efficiently manage different component categories. These activities have resulted in a 17 percent reduction in the number of suppliers over the past five years, despite a 34 percent increase in sales over the same period as a result of organic and acquired growth.

NUMBER OF SUPPLIERS



Reducing the number of suppliers helps to cut costs and improve quality. By active efforts, ASSA ABLOY has reduced the total number of suppliers by 17 percent over the past years.

SHARE OF TOTAL PURCHASES IN LOW-COST COUNTRIES



The share of the Group's total purchases of raw materials, components and finished goods from low-cost countries has increased from 38 percent to 55 percent over the past five years.

Cost-efficiency increases with a larger share of purchases from a smaller number of high-quality suppliers, based on delivery contracts and development, quality and sustainability guidelines.

Cost-efficiency

PROCESS DEVELOPMENT

ASSA ABLOY applies a number of tested methods to increase cost-efficiency. Lean methods include all processes and result in increased customer value using less resources at all stages. Value Analysis and Value Engineering (VA/VE) involve in-depth analyses of products and production processes to avoid materials waste. Seamless Flow optimizes the Group's flows through IT standardization and integration of information dissemination.

Today all ASSA ABLOY's major workplaces have well-functioning ***Lean*** programs and organization for both production and administration. Implementation is ongoing. The results show more efficient production flows, better materials cost control, improved decision-making procedures, shorter development times, and increased collaboration with the marketing and sales organization. In 2012 the Group implemented more Lean projects than in any previous year.

Value Analysis focuses on eliminating materials waste, improving products and increasing customer value in existing products through a structured process. The same applies to ***Value Engineering***, which is part of the product development process. ASSA ABLOY can point to results involving product cost savings of between 25 and 40 percent. A total of over 124 studies were conducted during the year involving 1,200 employees. Since the methodology was introduced in 2007, the Group has made savings of more than SEK 570 M as a result of VA/VE.

ASSA ABLOY aims to maximize resources for innovation, product development, production and sales. Other operations, i.e. administrative support functions, account for 30 percent of all staff and more than 40 percent of the total personnel cost. This is equivalent to around 25 percent of sales. The most important activity for streamlining these functions across the business is automated flows, known as ***Seamless Flow***. The goal is to reduce or totally eliminate manual work in all processes so that more resources can be transferred to production and sales. Seamless Flow is a process project in which a coordinated and optimized IT structure is fundamental.

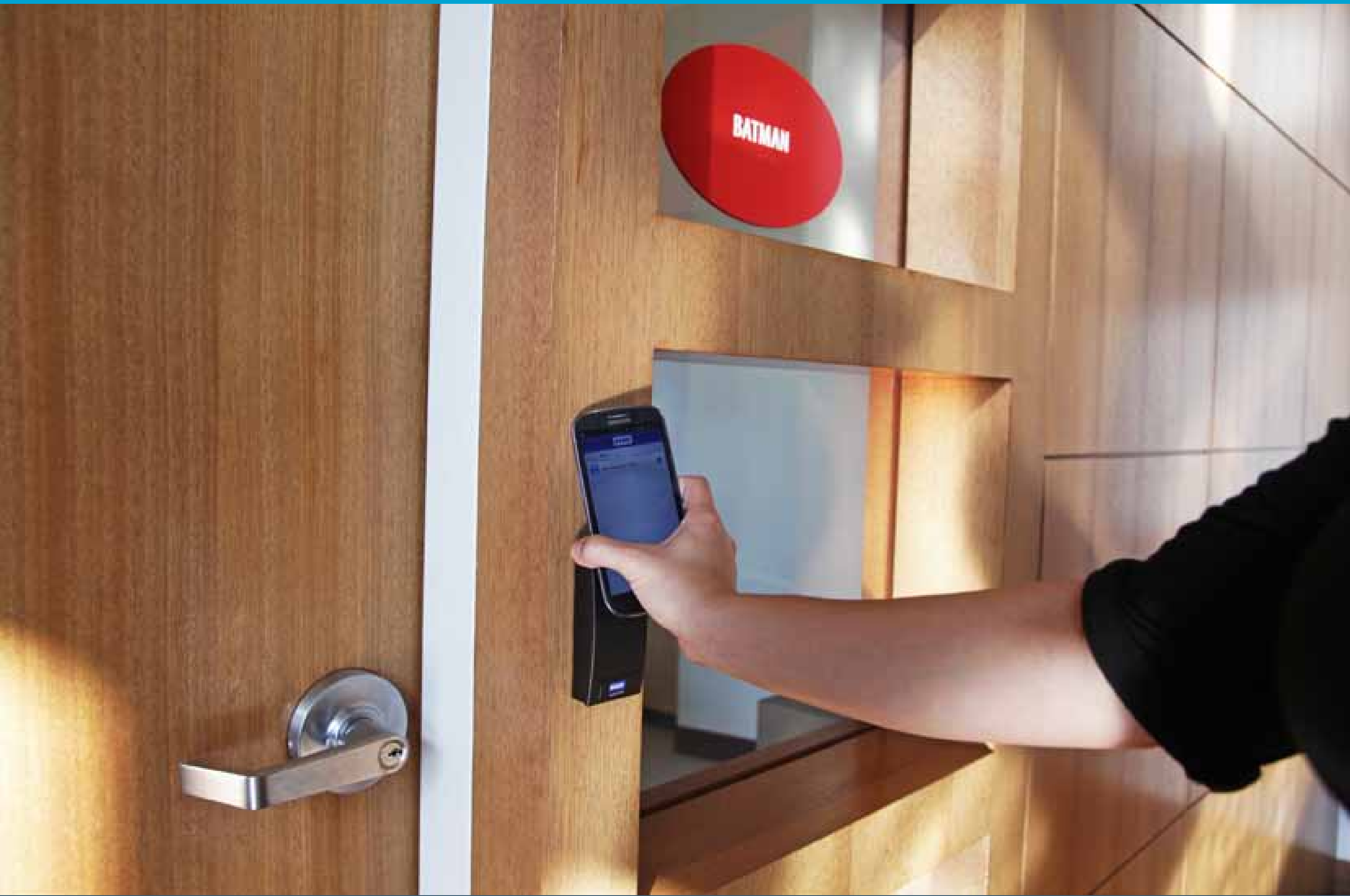
On the customer side, this includes e-ordering, while on the supplier side, e-purchasing projects are in progress. Manufacturing, product development, logistics and other internal processes are now included in Seamless Flow.

The most important activities in IT optimization include a reduction in the number of ERP systems from more than 120 to six. The number of data centers is to be reduced from 55 to five worldwide, while today's more than 80 networks are to be consolidated into just one. The implementation of Seamless Flow and the coordination and optimization of the IT structure will also enable the more efficient coordination of support functions.

Price management

As a market leader, ASSA ABLOY also has the role of a price leader. A high innovation and product development rate and constant streamlining of all areas of the business provide the basis for the best value at the best price for customers. ASSA ABLOY operates an active price management program, with a shift from cost-based to value-based pricing, systematic and fact-based monitoring of price trends and discounting, a detailed calculation of shipping costs, and a price strategy that manages the significant differences between new sales and the aftermarket.

Lean methods are used to increase efficiency in all major workplaces and administrative processes.



Mobile access control prized at Netflix

Netflix, founded 1997, is the leading online subscription service streaming TV episodes and movies over the internet. As Netflix has a mobile, global work force, the company recently began exploring various ways of using cell phones for physical and logical access control. A pilot project for mobile access control was implemented in collaboration with HID Global.

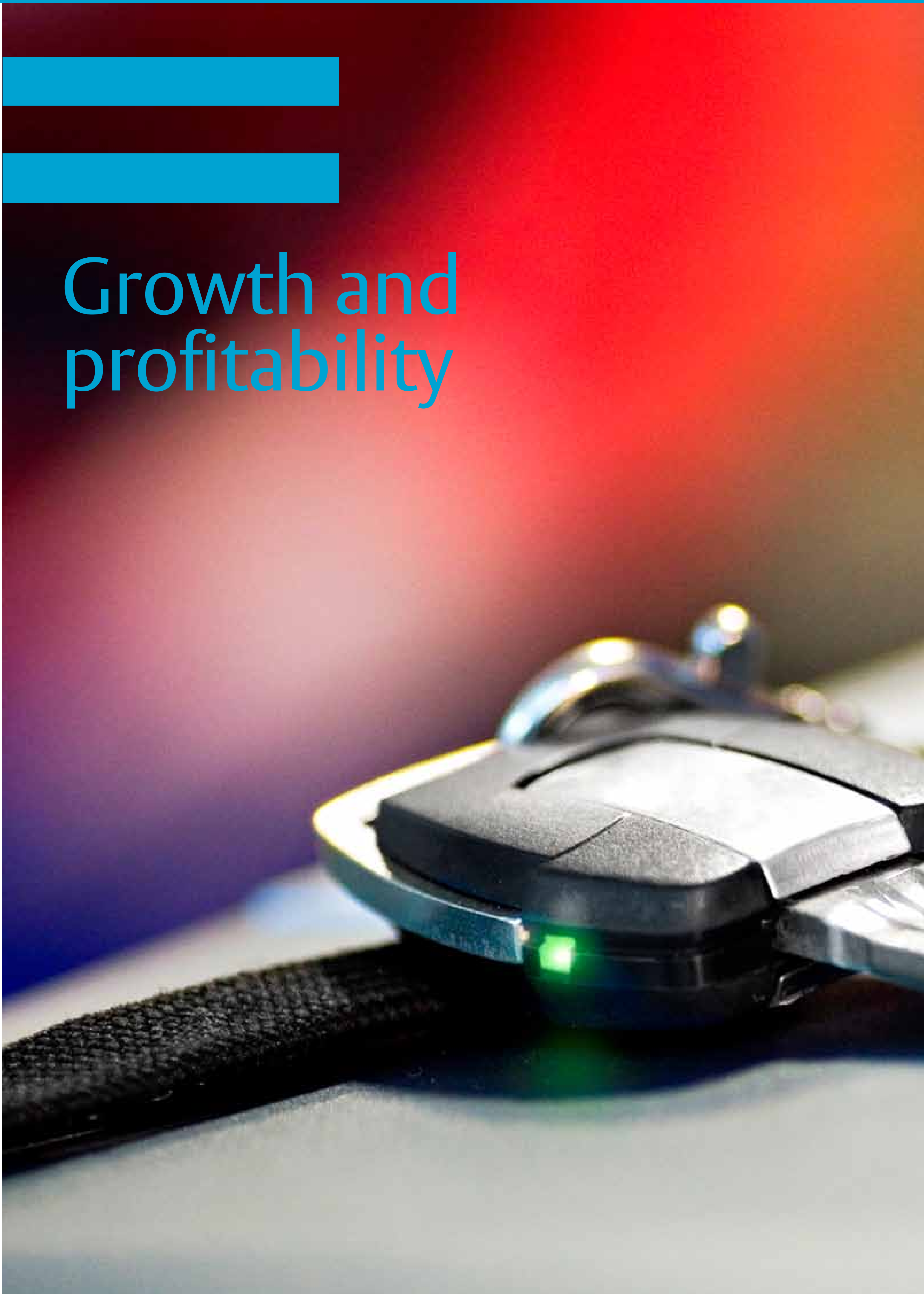
Challenge:

Unlike many other companies, Netflix's over 1,000 employees at headquarters do not need to use photo ID badges. Instead they have been using pocket-size ProxKey key fobs from HID Global, which offer contactless technology smoothly and conveniently. Netflix has a totally paperless employee induction system, which is entirely online.

Solution:

HID Global's solution of sending digital keys direct to new employees' cell phones was intended to help further streamline this process. multiCLASS SE readers were configured to read both contactless keycards and NFC-enabled smartphones with Seos digital keys. Participants in the pilot project emphasized the increased security as one of the many advantages of using smartphones for opening doors. In addition, 90 per cent of participants found the solution user-friendly, while 88 percent stated that they would like to use a smartphone to open all locked doors at Netflix. According to 81 percent of the respondents, the fact that Netflix is testing and implementing mobile access solutions makes the company a more fun and exciting workplace.

Growth and profitability



+ **Sales growth from SEK 3 billion to SEK 47 billion** in 18 years

+ **Total average sales growth** of 16 percent since 1994

+ **Operating income** (EBIT), excluding items affecting comparability, **has increased from SEK 156 M to SEK 7,501 M, by more than 4,700 percent, since 1994**

+ **Earnings per share has increased** by 1,300 percent to SEK 13.84 since 1994

Growth and profitability

Strategy to deliver stable, long-term value

Value-creating strategies for all the Group's stakeholders have enabled ASSA ABLOY to become by far the largest global supplier of door opening solutions since its formation in 1994. Organic growth and acquisitions, market-leading technological development and cost-efficiency have transformed the company from a traditional, regional lock company into a modern, multinational security company in intelligent door opening solutions.

Growth from SEK 3 billion to SEK 47 billion in 18 years

Since ASSA ABLOY's formation in 1994, Group sales have risen from SEK 3 billion to SEK 47 billion. Today the Group has around 43,000 employees, compared with 4,700 employees in 1994. Operating income (EBIT) excluding items affecting comparability has increased from SEK 156 M in 1994 to SEK 7,501 M in 2012, an increase of over 4,700 percent.

ASSA ABLOY was founded when Securitas (Sweden) and Metra (Finland) merged their lock businesses. The company had operations in Sweden, Finland, Norway, Denmark and Germany at that time. The strategy of increasing market presence through organic and acquired growth has been successful. Global market leadership involves Group operations in 70 countries and sales worldwide. Since 2007, the Group has focused on enhancing its presence on emerging markets in Asia, eastern Europe, the Middle East, Africa and South America. Sales on these markets are growing rapidly and account for 25 percent of total Group sales, while China accounts for 9 percent. Sales on emerging markets totaled SEK 115 M or 3 percent of total Group sales 18 years ago.

Today more than one in ten lock purchasers worldwide chooses a lock from ASSA ABLOY, which has the world's largest installed base of locks and lock systems. Demand for safety and security is constantly increasing worldwide, and the Group has never had a wider product range, higher market penetration and so many innovative new products.

At the start, the product range largely consisted of mechanical security products such as traditional locks and handles for entrance doors, with market penetration mainly in northern and central Europe. ASSA ABLOY has become the industry's global technology leader as a result of its product leadership strategy combined with acquisitions. The product offering has gradually widened from traditional lock products to include security doors, entrance automation and secure identity solutions.

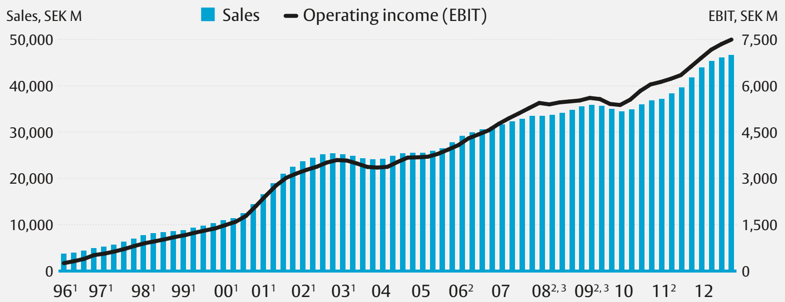
New technology areas

New technology areas and innovative products are the most important sources of organic growth. The Group

4,700%

Operating income (EBIT) has increased by over 4,700 percent in 18 years.

SALES AND OPERATING INCOME (EBIT)



[1] 1996–2003 have not been adjusted for IFRS.
[2] Excluding items affecting comparability.
[3] Reclassification has been made.

Strategy

Market presence

Increasing growth in the core business.

Exploiting the strength of the brand portfolio and the sales force.

Expanding into new markets and segments.

Product leadership

Developing products with enhanced customer value in close collaboration with end-users and distributors.

Innovation and product development to increase cost-efficiency.

Quality product development – for quality products.

Cost-efficiency

Continuous streamlining of the production structure, with flexible assembly and final assembly in high-cost countries close to the customer and the transfer of standard production to low-cost countries.

Cost benefits from a substantial increase in outsourcing.

Increased cost-efficiency through methods and processes such as Lean, VA/VE and Seamless Flow.

Efficient price management for price leadership.

Targets

Growth and profitability

10 percent annual growth through a combination of organic and acquired growth.

An operating margin of 16 to 17 percent.

The financial targets are long-term and should be regarded as an average over an economic cycle.

therefore invests heavily in R&D. Investments in product development have increased by between 10 and 20 percent per year in recent years, and products launched in the past three years account for a quarter of sales. The Group employs over 1,350 development engineers. Electromechanical products now account for 46 percent of Group sales, and the growth rate remains high.

Value creation is driven by clear cost-efficiency strategies. Group-wide programs to streamline products and the production structure, and cost savings in production processes, sourcing and administration are prerequisites for good profits, high profitability and stable finances. As a result, ASSA ABLOY contributes to long-term sustainable business, which creates value for customers, employees and shareholders, and to social sustainable development.

ASSA ABLOY'S DEVELOPMENT AND ACQUISITIONS 2008-2012

2008 – Wireless technology launched
The new Aperio wireless technology is launched, making it easy for customers to upgrade their access control systems. *Other acquisitions:* Beijing Tianming and Shenfei (China), Gardesa and Valli & Valli (Italy), Copiax (Sweden), Cheil (South Korea) and Rockwood (USA).

2009 – Strong results despite weak market
Acquisition of the Ditec Group, a leading company in automatic doors, industrial doors, high-performance doors and gate automation. *Other acquisitions:* Portsystem 2000 (Sweden), Maiman (USA) and Cerracol (Colombia).

2010 – Acquisitions strengthen customer offering in Asia
Acquisition of Pan Pan, China's largest manufacturer of high-security steel doors, King Door Closers, South Korea's leading manufacturer of door closers, Paddock, the UK's leading manufacturer of multi-point locks, ActivIdentity, a leader in secure identity solutions (USA), Security Metal Products (USA) and LaserCard (USA). *Other acquisitions:* Interest in Agta Record (Switzerland).

2011 – Global leader in entrance automation
Acquisition of Crawford Entrance Solutions and FlexiForce, which strengthen the customer offering in industrial doors, docking solutions and garage doors. *Other acquisitions:* Swesafe (Sweden), Portafeu (France), Metalind (Croatia), Electronic Security Devices (USA), and Angel Metal (South Korea).

2012 – Acquisitions strengthen Entrance Systems range
The acquisition of Albany Door Systems, a global leader in high-performance doors, is completed. ASSA ABLOY also acquires 4Front (USA), a leader in docking systems, Securistyle Group Holdings Limited and Traka (UK), Frameworks Manufacturing (USA), and Helton (Canada), which manufactures overhead door hardware. In China, the Group acquires the hardware manufacturer Shandong Guoqiang. *Other acquisitions:* Dynaco (Belgium) and Shantou Longhu Sanhe Metal Holdings (China).

In addition to the acquisitions listed above, ASSA ABLOY has acquired a number of smaller companies.

ASSA ABLOY's divisions

ASSA ABLOY is divided into three regional and two global 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.

Americas

Share of sales | Share of operating income

21% | 25%

Read about the division's operations and performance on pages 44–45

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

Global Technologies

Share of sales | Share of operating income

13% | 14%

Read about the division's operations and performance on pages 48–50

EMEA

Share of sales **Share of operating income**

28% 29%

Read about the division's operations and performance on pages 42–43

Asia Pacific

Share of sales **Share of operating income**

14% 12%

Read about the division's operations and performance on pages 46–47

Entrance Systems

Share of sales **Share of operating income**

24% 20%

Read about the division's operations and performance on pages 52–53

Growth and continued good profitability in a year of challenging market conditions

2012 was a challenging year with continuing weak economic activity and austerity measures seen across many European countries. Emerging markets in Eastern Europe, the Middle East, Turkey and Africa experienced strong demand growth. The division's investments in new products and market leadership contributed to increased sales. Operating income and margin remained at a good level due to intensive efforts on market presence, cost-efficiency and price management.

The Cliq Remote key management system is controlled by cell phone.

Report on the year

- Sales: SEK 13,382 M (13,030) with 1 percent organic growth.
- Operating income (EBIT) excluding restructuring costs: SEK 2,279 M (2,203).
- Operating margin: 17.0 percent (16.9).

Market development

The mature markets were marked by subdued demand for most of the year, affected by the fiscal problems and tough austerity measures in southern Europe and a deepening economic slowdown in western Europe. The Nordic and German-speaking countries showed strong growth in the first half of the year, which weakened in the second half. France and the UK showed weak growth. Sales fell relatively sharply in southern Europe. The emerging markets in Eastern Europe, the Middle East, Turkey and Africa continued to grow rapidly, resulting in strong sales growth for the division.

Market presence

EMEA's markets are very diverse, with a major difference in product demand due to local differences in building and security standards and climate. ASSA ABLOY's local companies have a good knowledge of local lock standards and long-term relationships with their distributors, stabilizing demand. In addition, the aftermarket is important, with a large installed lock base.

The sales organizations are coordinated under the ASSA ABLOY master brand. Market presence was strengthened through the continued consolidation of brands and products. A more complete product program now reaches more customers. Trade fair participation under the ASSA ABLOY brand was more intensive than ever. Marketing was further developed through unique online and offline campaigns for Yale, including TV advertising that attract much attention.

Successful specification sales of total door opening solutions continued. The division has 240 dedicated specification sales representatives, a sharp increase. Contacts with key partners, such as architects and security experts, were continuously strengthened. During the year more than 12,000 projects were specified, involving more than 1,400,000 doors. A large proportion of these projects were in the commercial sector, such as universities, hospitals and major commercial buildings.

Demand in Eastern Europe, Turkey the Middle East and Africa, which jointly account for around 17 percent of sales, is growing substantially. Sales in these emerging markets rose more than 13 percent during the year and were particularly strong in Russia. This is the result of a deliberate investment in a larger distribution network for ABLOY products. Electromechanical locks and solutions for the commercial sector account for a substantial fast-growing share of sales. Several large deliveries are being made to the sports facilities in Sochi, Russia for the 2014 Winter Olympics.

In Africa sales rose by 11 percent. The African continent is expected to have major potential due to its rapid urbanization rate and increased standard of living. EMEA

FACTS ON EMEA

Offering: Mechanical and electromechanical locks, digital door locks, security doors and fittings.

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 and also directly to end users.

Brands: ABLOY, ASSA, IKON, Mul-T-Lock, TESA, UNION, Vachette and Yale.

Acquisitions: Traka and Securistyle (UK).

is positioning itself on the markets, which are expected to account for 90 percent of Africa's GDP by 2015.

Two acquisitions of British companies complemented the product portfolio. Securistyle strengthens the division's position in window hardware on mature markets. The company has sales of around SEK 225 M. Traka is a leader in electronic key management and secure storage solutions, with high innovation competence and growth. Sales total around SEK 140 M.

Product leadership

Efficient product development is the most important activity for creating organic growth. The Group's new development process focuses on enhanced customer value, while the products are more cost-efficient and maintain a higher quality. Group-wide product platforms with fewer components contribute to enhanced customer value and lower costs. Substantially increased investment in R&D in recent years has increased the share of products launched in the past three years to over 25 percent, a doubling in three years.

The division's High Impact products were a major success during the year. There are currently six such products, which have been developed in the past two years. Particular importance has been placed on a high technical standard and modern design. Marketing is coordinated across the whole division with special competence teams that cooperate closely with the local sales teams.

The new door closer range under the ASSA ABLOY brand – a High Impact product – has been a major success. Launched in 2011, sales have now reached over EUR 15 M or around 1 percent of the division's sales. Demand for the other five High Impact products is increasing sharply: *Aperio*, an electromechanical lock that can be wirelessly connected to networks; *Cliq Remote*, another innovative mobile electromechanical cylinder system; *Smartair*, an access control system; *DDL*, digital door locks, and *Code Handle*, a digital door and window handle. Additional products launches and further product development are in progress.

Cost-efficiency

Cost-efficiency efforts have focused on the division's production structure. The relocation of component production to low-cost countries continued during the year. The remaining plants in western Europe are being rapidly transformed into fewer, more efficient plants for final assembly and product customization in close contact with demand growth.

The number of production plants has almost halved since 2005. The Group's broad, deep programs for Lean production methods, Seamless Flow in various administrative processes, as well as outsourcing and more efficient supply management run parallel to the rationalization of the production structure. The program to reduce the number of ERP systems and harmonize IT use is progressing country by country and is estimated to be completed with a common ERP system by 2016. Several important steps were taken in supply management during the year. The share of purchases in low-cost countries continued to increase and is beginning to approach the short-term target of 40 percent. The share of external suppliers is in the process of being halved, compared with 2005. The division coordinates purchases in major categories and is changing the procurement process from tendering to target cost contracts.

Implementation of VA/VE methods continued to yield positive results. Product development aims for major cost savings through a sustainable approach to materials consumption, logistics and packaging. Sustainability efforts were intensified through several program activities across the whole division, especially the introduction of better measuring methods. Investments are being made to reduce energy consumption and CO_2 emissions in production plants, while new methods were introduced for process water purification.

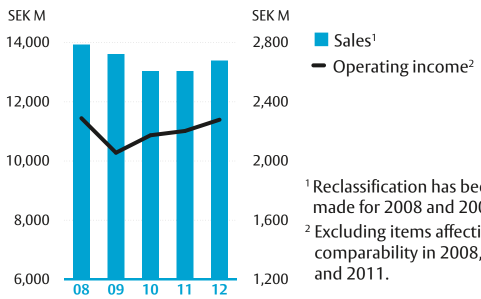
The number of specification sales representatives has increased sharply.

KEY FIGURES

SEK M	2011	2012
Income statement		
Sales	13,030	13,382
Organic growth, %	0	1
Operating income (EBIT)[1]	2,203	2,279
Operating margin (EBIT)[1], %	16.9	17.0
Capital employed		
Capital employed	8,950	9,217
– of which goodwill	5,564	5,846
Return on capital employed[1], %	22.0	22.6
Cash flow		
Cash flow[2]	2,142	2,241
Average number of employees	10,071	10,260

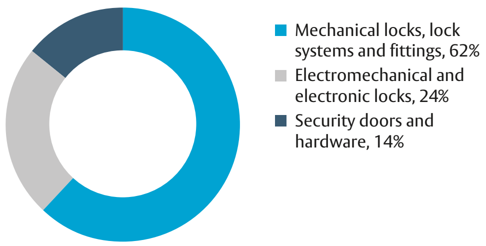
[1] Excluding items affecting comparability of SEK 587 M in 2011.
[2] Excluding restructuring payments.

SALES AND OPERATING INCOME



[1] Reclassification has been made for 2008 and 2009.
[2] Excluding items affecting comparability in 2008, 2009 and 2011.

SALES BY PRODUCT GROUP



Increased market presence and innovation strengthen sales and earnings

Sales rose mainly due to growth in high-security and electromechanical products, as well as a recovery in the North American residential market. Apart from Brazil, demand continued to grow in Latin America. Several years of considerable investments in market presence and product development resulted in a strengthened market position. Continued cost-efficiency measures and increased customer activities contributed to an increased operating margin.

Security Metal Products steel security door with frosted glass with Sargent Harmony Wiegand lock from Americas division.

Report on the year

- Sales: SEK 9,671 M (8,906) with 4 percent organic growth.
- Operating income (EBIT) excluding restructuring costs: SEK 2,007 M (1,812).
- Operating margin: 20.8 percent (20.3).

Market development

This year was the second year of growth following the deep recession of 2009–2010. Sales growth was strong overall in Central and South America, and additionaly for high-security and electromechanical products in the institutional and commercial segments. Demand for mechanical lock products and security doors was stable. The division was able to meet increased demand and strengthen its market presence with a number of new products and solutions in both North and Latin America.

The residential market in North America showed strong growth. Renovations and upgrades have shown relatively stable growth in recent years, which strengthened in 2012.

The Latin American markets showed stable growth with increased demand driven by urbanization and growing prosperity. The exception was Brazil, where new construction fell due to high interest rates.

Market presence

In the North American market there is a clear distinction between products for the residential segment and those for the commercial segment. The distribution channels are also separate. Safety and security requirements are higher in the commercial segment, particularly regarding fire and evacuation safety. The division has therefore had a segmented marketing and sales organization for a number of years to meet each customer group's specific demands, combined with experts in a number of areas such as electronic access control.

Considerable investments have been made in recent years to strengthen the division's market presence. In the USA, direct sales people account for 60 percent of marketing and sales staff, compared with 30 percent in 2004. The number of specification sales representatives and specialist teams has increased sharply. These target leading architectural firms with training and the introduction of new products and solutions in their role as the end-customer's door solution expert. A large training program has been devoted to the latest electromechanical products and solutions. These have experienced strong demand growth on the replacement market in recent years.

ASSA ABLOY has the industry's leading brands in North America. The main emphasis in brand management is on the overall message that ASSA ABLOY is the leading player in total door opening solutions. During the year the division took part in over 50 trade fairs. Fixed and mobile exhibitions continued to attract an increased number of visitors in over 300 cities in North America.

The acquisition of Frameworks Manufacturing and Alarm Controls Corporation strengthen the division's offering of total door opening solutions for commercial and institutional customers in the USA and Canada.

Product leadership

The division has doubled its R&D investments since 2009. The main focus is on the fast-growing electromechanical area and products that support the devel-

FACTS ON AMERICAS

Offering: Mechanical and electromechanical locks, cylinders, door fittings, security doors and door frames.

Markets: US, Canada, Mexico, Central America and South America. 88 percent of sales are in the USA 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 and account for 90 per cent of sales. The private residential segment is accounts for 10 percent of sales. Sales in South America and Mexico take place mainly through distributors, wholesalers and DIY stores. Sales in these markets are more evenly distributed between the commercial and residential segments.

Brands: Some of the leading brands are Ceco, Corbin Russwin, Curries, Emtek, Medeco, Phillips, SARGENT and La Fonte.

Acquisitions: Frameworks Manufacturing Inc. and Alarm Controls Corporation (USA).

Mobile Innovation Showrooms bring door opening solutions to architects, end-users, integrators and other customers.

opment of building standards. Nearly 300 significant products and solutions have been launched in the past three years. Design and climate-smart solutions are increasing in importance. The share of overall sales from new products exceeded 20 percent during the year, contributing substantially to a stronger market position.

The year saw the launch of new wireless-controlled digital locks for the residential segment. Consequently, the division has strengthened its product offering for the fast-growing home automation market (systems to control and monitor a number of different functions in the home via electronic networks).

Increased commitment to sustainable construction practices is a significant trend. Buildings account for 40 percent of all energy consumption in the USA, with 5 percent leakage through doors. ASSA ABLOY has the widest offering of certified doorway products designed to meet sustainable construction regulations and guidelines, including energy efficiency, materials and resources, and indoor environmental quality. This offering experienced considerable demand during the year.

Cost-efficiency

Americas division's production structure has been undergoing major rationalization since 2005. The number of production plants has been reduced by 40 percent, including 14 acquisitions during the period. A total of 16 factories have been consolidated and a number of centers of excellence for development and manufacturing have been created. Implementation of Lean projects continued at an undiminished rate not only in production but also in administration, where more than one-third of the projects are being implemented. A large number of products have been reviewed and processes simplified using VA/VE methods in product development. The number of parts in a SARGENT electromechanical lock has, for example, been reduced from 48 to 20, with improvements in the performance.

More efficient supply management and increased outsourcing to low-cost countries have helped to nearly double cost savings since 2008. The number of suppliers has fallen by 30 percent, while the share of materials and components sourced from low-cost countries has increased substantially.

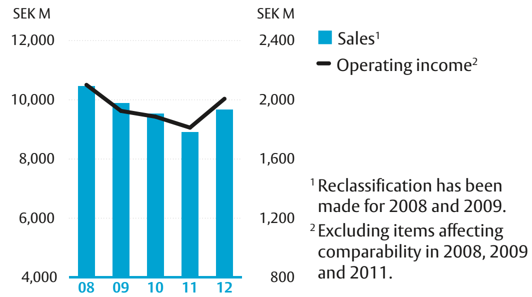
The implementation of Seamless Flow activities continued to give positive results. Production is moving towards the 'paperless plant'. A large number of workstations have been modernized, with robots and semi- or fully automated machinery. Order management has been streamlined, not least due to the introduction of fully automated e-commerce mainly for sales of standardized products to wholesalers, where the share of e-commerce has risen to over 50 percent in just a few years.

KEY FIGURES

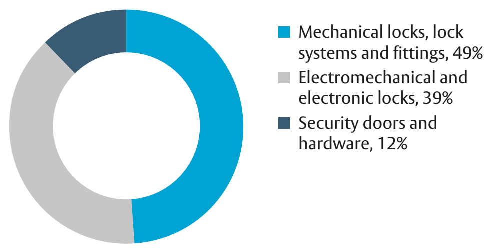
SEK M	2011	2012
Income statement		
Sales	8,906	9,671
Organic growth, %	2	4
Operating income (EBIT)[1]	1,812	2,007
Operating margin (EBIT)[1], %	20.3	20.8
Capital employed		
Capital employed	8,468	8,301
– of which goodwill	6,041	5,913
Return on capital employed[1], %	22.8	23.6
Cash flow		
Cash flow[2]	1,731	1,797
Average number of employees	6,658	6,620

[1] Excluding items affecting comparability of SEK 150 M in 2011.
[2] Excluding restructuring payments.

SALES AND OPERATING INCOME

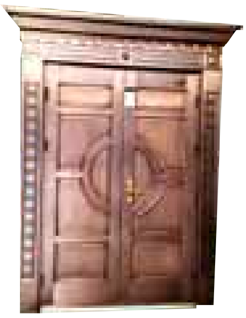


SALES BY PRODUCT GROUP



Continued expansion in Asia and rapid growth in digital lock solutions

The division's sales increased on the important Chinese market, where demand slowed during the year. Growth was strong on the Southeast Asian emerging markets, while it was negative in Australia, which resulted in a somewhat lower operating margin but improved operating income. Demand for digital lock solutions increased rapidly in Asia where the Group is the clear market leader.



Door designed by ASSA ABLOY's Group company Pan Pan in China.

Report on the year

- Sales: SEK 7,224 M (6,633) with 3 percent organic growth.
- Operating income (EBIT) excluding restructuring costs: SEK 978 M (933).
- Operating margin: 13.5 percent (14.1).

Market development

The high growth rate in China slowed during the year. The underlying growth factors in the country – the urbanization trend, industrialization, new construction and increased prosperity – continue to be important growth drivers. The credit restrictions imposed by the Chinese government in late 2011 to avoid overheating in the economy resulted in a lower investment tempo in the domestic economy, while the export sector continued to grow strongly. All ASSA ABLOY's product areas experienced strong growth. The Group has a strong and clearly leading position on the advanced South Korean market, with a wide product range of total door opening solutions. The domestic market was weak, while the considerable export sales of the Group companies iRevo and King continued to grow at a high rate. Demand for digital door locks is considerable in South Korea and iRevo is the market leader. The company collaborates with other Group companies to adapt and export digital door locks to the residential markets in China, Southeast Asia, India, Australia, Singapore, and the EMEA and Americas divisions, a successful expansion that is ongoing.

Growth in India and several other countries in Southeast Asia continued to increase at a high rate. The division's sales in India increased by 18 percent following significant investments in market presence and the marketing of new products. Sales also increased rapidly in Vietnam and Indonesia from low levels.

The Australian market position is very strong. Demand, which has been weak since 2011 due to a low level of new construction and fewer government stimulus measures, improved towards the end of the year.

Market presence

ASSA ABLOY has a very strong position on the major emerging market of China. The need for security is increasing strongly in pace with urbanization, prosperity and new housing construction. Demand for security doors is increasing rapidly and the division sold over two million units in 2012. There is tough competition from a very large number of small local firms, whose main weapon is low prices, but business failure has accelerated in the wake of lower growth and higher costs. ASSA ABLOY's market share remains small, but expansion potential is strengthened by the increased need for consolidation.

The division continued to make major investments in the specification of door opening solutions and training. The number of specification sales representatives doubled during the year.

Market presence in China strengthened as a result of the acquisition of Sanhe Metal, with sales of SEK 130 M. This gives the division a comprehensive position in the fire door segment in the fast-growing coastal regions. The acquisition of Guoqiang, with sales of around SEK

FACTS ON ASIA PACIFIC

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

Markets: China accounts for 50 percent of sales, South Korea and the rest of Asia for 20 percent, Australia and New Zealand for 20 percent, and exports to the rest of the world for 10 percent. The Asian countries are emerging markets without established security standards. New construction accounts for around three-quarters of sales. In China, the same types of lock, handle and hardware are often used in both homes and workplaces. The production units in China also supply ASSA ABLOY's other divisions. Australia and New Zealand are mature markets with established lock standards. Renovations and upgrades account for the majority of sales.

Brands: In China Baodean, Guli, Pan Pan, Liyi (Shenfei), Doormax, Beijing Tianming, Golking, Sahne and Longdian. In South Korea Gateman, Angel and King and the global Yale brand. In Australia and New Zealand, the largest brands are Lockwood and Interlock.

Acquisitions: Sanhe Metal and Guoqiang (China). Sale agreement: Wangli (China).

Airports are an important customer segment for ASSA ABLOY.

600 M, opens up a new, growing segment for the division in window hardware in China. Guoqiang is one of China's leading manufacturers of window hardware with a strong patent portfolio. In 2012, an agreement was reached to sell the co-owned Chinese company Wangli, with annual sales of SEK 600 M.

Following substantial sales growth, the division established its own sales companies in the highly populated countries of Vietnam and Indonesia, which have a population of 85 million and 220 million respectively. Urbanization, industrialization and rapidly rising prosperity provide significant growth potential on these markets.

Product leadership

The Group's product leadership is an important factor for market penetration in Asia. Demand for digitalization and access control is increasing rapidly and sales more than doubled in the region. In China, the number of digital door lock distributors rose from 50 to 100, with major successes on the residential market.

The investment in India was strengthened by the development of several unique products for this major market, contributing to the division's high share of products launched in the past three years of 31 percent.

Cost-efficiency

The division's Chinese production units account for a large share of the Group's production and employees. The division had about 14,600 employees in China. More than 90 percent of the Chinese production is sold on the domestic market and less than 10 percent is exported to other regions.

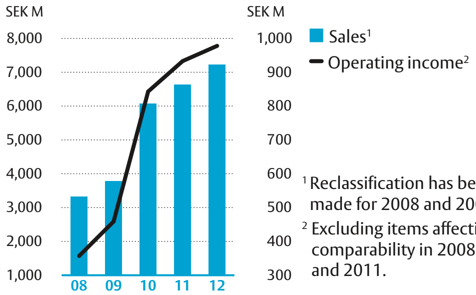
The number of employees fell by around 1,300 people, excluding acquisitions, compared with 2011, as a result of intensified implementation of Lean processes, an increased share of purchases and outsourcing, and the automation of production processes. These efficiency measures are necessary to meet increased cost pressure particularly from wage increases in China, but also to reduce the division's sensitivity to cyclical fluctuations, thereby improving margin growth. Systematic efforts to increase the share of coordinated purchases are increasing rapidly and give positive results. The efforts will continue in 2013.

KEY FIGURES

SEK M	2011	2012
Income statement		
Sales	6,633	7,224
Organic growth, %	9	3
Operating income (EBIT)[1]	933	978
Operating margin (EBIT)[1], %	14.1	13.5
Capital employed		
Capital employed	4,278	5,168
– of which goodwill	3,410	4,326
Return on capital employed[1], %	23.6	20.7
Cash flow		
Cash flow[2]	912	1 348
Average number of employees	15,784	15,284

[1] Excluding items affecting comparability of SEK 48 M in 2011.
[2] Excluding restructuring payments.

SALES AND OPERATING INCOME



[1] Reclassification has been made for 2008 and 2009.
[2] Excluding items affecting comparability in 2008, 2009 and 2011.

SALES BY PRODUCT GROUP

- Mechanical locks, lock systems and fittings, 54%
- Electromechanical and electronic locks, 8%
- Security doors and hardware, 38%

Continued good growth with new products and services

Demand was strong in the markets for upgrading and supplementing existing systems. Sales increased, driven by launches of new products and services and successful expansion in emerging markets. Continued streamlining and cost-efficiency programs contributed to a significant profit increase and a strong margin improvement.

HID Global's iCLASS SE technology contributes to increased security, mobility and flexibility.

Report on the year

- Sales: SEK 6,262 M (5,756) with 6 percent organic growth.
- Operating income (EBIT) excluding restructuring costs: SEK 1,073 M (897), a 20 percent increase.
- Operating margin: (EBIT): 17.1 percent (15.6)

Global Technologies division consists of two business units: HID Global and ASSA ABLOY Hospitality.

HID GLOBAL

Market development

Demand remained strong in all markets for upgrading and supplementing existing systems. The traditional product areas in identity and access management showed strong, stable demand. Sales rose as a result of a successful focus on emerging markets, such as China, Indonesia, Russia and Brazil, and marketing of new products and services in recent years. The division made a strong contribution to the Group's core operations in electronic door opening solutions, with high growth in physical access control, accounting for 40 percent of the Group's sales in 2012.

Demand for secure identity solutions is increasing in all markets. HID Global improved its market-leading position through the launch of innovations in mobile access and identity solutions, more efficient card printers, and new technology in converged access solutions combining physical with logical access control and other integrated solutions.

Market presence

HID Global is making a long-term investment in its global leading market presence, with considerable success in the institutional and commercial markets. Increased emphasis on unique selling points, a scalable ecosystem of security solutions, and a global partner program further strengthened the brand position. Brand consolidation has been very successful, resulting in the consolidation of 17 brands into a single HID Global brand in just five years. All product lines have gained wider distribution worldwide, strengthening brand loyalty while a complete product portfolio can be offered to all customers. The focus on market segmentation continued and resulted in deeper customer dialogue and a stronger customer offering across all product lines. The development of specification expertise continues with investments in special teams for global advice and development in cooperation with end-customers. For example, the focused sales initiative in Government ID Solutions has resulted in a leading position in four key segments: e-documents, ID readers, personalization and issuance solutions, and professional support solutions. HID Global's solutions are in many important national programs for various types of ID cards, passports, driving licenses and vehicle registration, including 27 ePassport programs and 49 national ID/eID programs. HID Global reader technology is used by the world's five largest document reader suppliers.

The American company EasyLobby, a specialist in visitor management solutions, was acquired at the end of 2011. The Group company was successfully integrated in 2012.

Product leadership

The global product strategy is to offer a complete ecosystem for secure identity management with solutions for all parts of the value chain. In 2012 the main focus

FACTS ON GLOBAL TECHNOLOGIES

Offering: HID Global is a global leader in secure identity solutions, primarily in identity and access management, and in contactless identification technology solutions.

ASSA ABLOY Hospitality is a global leader in electronic lock systems and safes for hotels and cruise ships.

Markets: Customers are mainly in the institutional and commercial sectors worldwide.

Brands: HID Global and VingCard.

Acquisitions: Codebench, USA.

was on improving convenience in use and installation, product and system security, and systems integration. Quality assurance work showed positive results. Customer satisfaction with delivered quality was very high.

ASSA ABLOY has a world-class product development process. HID Global has broadened the innovation process to include systems integration and an overall approach comprising development platforms, as well as collaborations with external partners, customers and other parts of the Group.

Several new products and solutions were launched during the year. FARGO HDP8500 is an industrial class ID printer, which is particularly suitable for large government ID card programs and other demanding environments. It allows considerable reductions in materials costs and initial investments in printer hardware.

pivCLASS is an extensive range of security solutions, which make it easier for the US Federal Government, its subcontractors and others to comply with high security requirements and use personal ID cards for physical access control. The new EDGE EVO and VertX EVO IP-enabled platforms, forms a unique portfolio of advanced, networked solutions. The year also saw the launch of Seos, the worlds first commercial ecosystem for digital keys in NFC cell phones, which was met with considerable interest. Seos enables doors to be opened by holding the cell phone in front of the lock. Private individuals and security staff can send temporary digital keys to visitors via their cell phone.

Cost-efficiency

Efforts to reduce inventories and optimize working capital across all product areas and geographical regions continued with positive results in 2012. HID Global began consolidation of distribution and production plants in the USA, with the announced closure of four units and the construction of a new plant in Austin, Texas, that is due for completion in 2014. A new production plant is under construction in Malaysia for deliveries to the fast-growing Asian markets. This consolidation will contribute significant cost savings in future years.

A major global project has begun to consolidate the number of strategic suppliers. Work will continue in 2013, resulting in greater flexibility, an increased rate of development and launch of new products in the market, better quality and reduced costs.

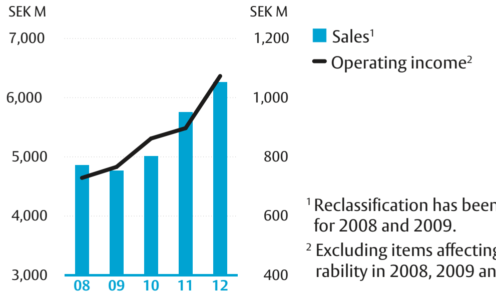
The new plants in the USA and Malaysia are being built to the highest sustainability and high energy efficiency standards to comply with the requirements of ISO 14001. Continuous sustainability audits of important suppliers now cover 98 percent of the annual materials flow. Sustainability is a criterion in the development of new products and solutions. Examples include low-energy access control readers, ENERGY STAR compliant card printers, and biodegradable cards.

KEY FIGURES

SEK M	2011	2012
Income statement		
Sales	5,756	6,262
Organic growth, %	11	6
Operating income (EBIT)[1]	897	1,073
Operating margin (EBIT)[1], %	15.6	17.1
Capital employed		
Capital employed	6,449	5,717
– of which goodwill	4,846	4,524
Return on capital employed[1], %	14.3	17.3
Cash flow		
Cash flow[2]	933	1 140
Average number of employees	2,819	3,029

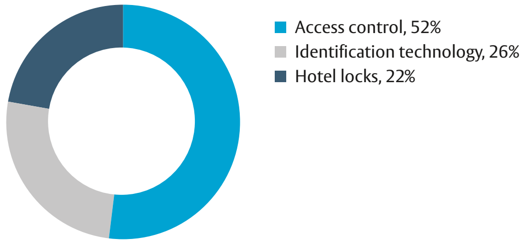
[1] Excluding items affecting comparability of SEK 87 M in 2011.
[2] Excluding restructuring payments.

SALES AND OPERATING INCOME



[1] Reclassification has been made for 2008 and 2009.
[2] Excluding items affecting comparability in 2008, 2009 and 2011.

SALES BY PRODUCT GROUP



HID GLOBAL

HID Global supplies solutions for secure identity creation and management to commercial companies, healthcare, educational and financial institutions as well as government and state institutions. HID Global's open technology platforms provide significant benefits.

PRODUCT AND SERVICE OFFERING

Physical access control: cards, card readers and networked access control units.
Secure issuance: card printers and software.
Identity assurance: smart cards, readers and credential management and other software.
Government ID: cards, card printers, readers, software and professional services for government-issued credentials.
Managed Services: customized smart cards and secure identity issuance, such as mobile keys.
Mobile access control: digital keys and reader technology for NFC cell phones.
Contactless identification: RFID tags, readers and embedded solutions for identification.

Global Technologies

VingCard's RFID (radio frequency identification) lock system offers functions such as contactless access control using encoded communication and secure, copy protected software.

ASSA ABLOY HOSPITALITY

Report on the year

ASSA ABLOY Hospitality experienced strong growth, despite an economic slowdown that affected demand for hotel rooms in mature markets. Sales growth was driven by increased global demand for renovation and upgrade projects. Active market development in recent years led to several major contracts for deliveries to global hotel chains.

The market for new hotel construction remained weak. Demand from the cruise ship market declined due to a more subdued global economy. The aftermarket's good margins further strengthened operating profit and operating margin.

ASSA ABLOY Hospitality's customers are a clear example of the rapid market trend towards increasingly advanced electromechanical technology and entrance automation. In recent years marketing efforts have focused on promoting the replacement or upgrade of installed lock systems that use magnetic strip cards.

The latest contactless RFID (radio frequency identification) technology provides hotels and hotel guests with considerably more secure, flexible and user-friendly locks, which also create opportunities for major energy savings.

ASSA ABLOY Hospitality has established itself as a market leader with a clear hi-tech image. Today nearly three-quarters of sales are RFID-based systems and more than 750,000 VingCard RFID locks have now been installed globally. The new VISIONLINE system is also attracting considerable interest. It is integrated with the hotel's other operating systems to add efficient new housekeeping, security, front desk and maintenance functions. This allows the front desk to cancel keys and authorize room changes, extension of stay and access to conference rooms without the guest needing to hand in or exchange their key.

VingCard Elsafe has also established itself as an important supplier of energy management systems for the hotel market through its Orion range launched in 2010. Sensors that can detect guest presence in the room and information from the door lock when the guest enters and leaves the room allow Orion to efficiently manage energy consumption. The technology can contribute to energy cost savings of up to 20-30 percent.

Market presence

Global market presence has gradually strengthened in recent years, with deliveries to 166 countries. Sales have increased rapidly on new emerging markets due to targeted marketing initiatives. Market presence in China, for example, strengthened during the year and sales rose sharply, due to a high level of investment in the country and modernization in the hotel sector.

Product leadership

Product development continued at a high rate during the year. One important launch was Seos, the world's first commercial ecosystem for digital keys in NFC (Near Field Communication) cell phones. The hotel guest can check in and receive their electronic key using their cell phone. On arrival the guest can enter their hotel room using their cell phone. RFID technology was further developed with a new common electronic platform. This is suitable for both old and new locks and provides better performance. The newly developed concept of loyalty cards was launched by several major global hotel chains during the year. The Hotel's guest's loyalty card acts as a room key, the booking confirmation and room number are sent by SMS or Email, the guest skips the front desk and uses their loyalty card to open the assigned door. Booking confirmation and room number are sent to the guest by SMS or email. VingCard Elsafe launched a new electronic concept, Essence by VingCard. All lock components are housed in the door, a new stage in the development of door design.

Cost-efficiency

ASSA ABLOY Hospitality continued its successful relocation of component production to high-quality suppliers in low-cost countries, mainly China. The program to streamline production and product development in the new Shanghai production plant yielded positive results. It included major efforts to reduce environmental impact. VA/VE methods have contributed to considerable materials savings in production, as well as a life cycle perspective. Implementation of the global ERP system also continued, which will strengthen Hospitality's Seamless Flow program to automate an increasing number of process flows. This system will be taken into use in the beginning of 2013.

FACTS

ASSA ABLOY HOSPITALITY

ASSA ABLOY Hospitality manufactures and sells electronic lock systems, safes, energy management systems and minibars for hotels and cruise ships under the VingCard Elsafe brand. It is the world's best-known brand for hotel lock systems and in-room safes, with products installed in over seven million hotel rooms in more than 42,000 hotels worldwide.

VingCard Elsafe security solution for Park Inn Trysil Mountain Resort

On 19 December 2011 the Rezidor Hotel Group, SkiStar and Peab opened Park Inn Trysil Mountain Resort in the Norwegian ski resort of Trysil. The hotel has 369 rooms and is part of the Park Inn by Radisson chain, Rezidor's young and dynamic mid-priced brand. Guests are offered a carefree stay, a relaxed and personal atmosphere, and comfortable modern rooms.

Challenge:

The 33,000 square meter Park Inn Trysil Mountain Resort has four apartment wings, which are connected to the main building with its conference facilities, lobby, restaurant and spa via a 30 meter long glazed bridge. The hotel complex is located around 800 meters above sea level, and it is a challenge to service and maintain all these buildings in low temperatures. VingCard Elsafe was commissioned to develop an access control solution, which makes it easier for technicians and reception staff, while providing guests with increased security and flexibility.

Solution:

VingCard Elsafe supplied 471 electromechanical locks and 32 wall-mounted RFID (radio frequency identification) readers, which are all wirelessly connected to an access control system. The company's R&D department developed new software, which enables guests to use their SKIDATA lift pass to open the door of their hotel room at Park Inn Trysil Mountain Resort and other participating facilities. The Rezidor Hotel Group, SkiStar and Peab are extremely satisfied with this solution and VingCard Elsafe's continuous control of the facility.

Entrance Systems

More growth platforms for continued global expansion

Demand was weak in Europe but continued at a stable level in North America, while growing strongly on emerging markets. The division has successfully integrated the many acquisitions made in recent years and continued to acquire companies to strengthen its global leading position in entrance automation. Operating income increased, while the operating margin weakened somewhat.

Besam revolving door in a hospital environment.

Report on the year

- Sales: SEK 10,979 M (8,278) with -2 percent organic growth.
- Operating income (EBIT) excluding restructuring costs: SEK 1,546 M (1,197).
- Operating margin: 14.1 percent (14.5).

Market development

Growth declined in western Europe, which accounts for the majority of sales, but the picture was diverse. Sales in Germany, Austria, Switzerland and the Nordic countries grew in the first half of the year, but weakened gradually during the year. Sales fell sharply in the crisis-hit countries in southern Europe. Demand remained at a stable level in North and South America, with all the division's companies reporting positive growth. Asia also showed positive growth particularly in the industrial segment.

The strongest segment during the year was industrial customers, with strong demand on the whole for Crawford, Albany and the newly acquired Dynaco. The healthcare and transport sectors were negatively impacted by fiscal restrictions and fewer investments in major public projects, which affected Besam. The residential segment also experienced weakening demand, while demand in the retail trade was stable.

Nearly 40 percent of the division's sales are generated by the comprehensive service offering, with its high and regular sales. This has helped to counterbalance equipment sales, which are more cyclical.

The division has grown very strongly in recent years mainly through acquisitions. Sales have nearly tripled since 2010, and ASSA ABLOY has consequently achieved a global leading position. The year was marked by intensive integration activities. The division now has a number of geographically and technologically well-positioned platforms for continued rapid global growth. It has also invested in the development of new products, solutions and service, which provided strength in the weakened business climate in 2012.

Market presence

A significant trend is that the entrance automation market is developing from a large number of regional markets to a more global market. The division is driving this development through acquisitions and global growth platforms. The year saw the start of major organization development to further strengthen market presence. The division's companies are organized into three groups focusing on direct sales, indirect sales via distributors and component sales. Within these groups, sales activities for both products and service will be segmented even more effectively, with specialist teams for large end-customer segments, providing customers with their own problem solvers.

The Key Account Management concept for selected customers continued its successful development. This is an answer to the globalization of major industrial, transport and retail companies, which are aiming for harmonized total door opening systems for their facilities worldwide. The service concept continued to be developed with solutions for regular preventive service.

The acquisition of Albany Door Systems was completed during the year, as was the acquisition of Dynaco, a leading manufacturer of automatic high-performance

FACTS ON ENTRANCE SYSTEMS

Offering: Entrance automation products, components and service. The product range includes automatic swing, sliding and revolving doors, air curtains, gate automation, garage doors, high-performance doors, industrial doors, docking solutions and hangar doors.

Markets: Entrance Systems is a global leader with sales worldwide. It has sales companies in 30 countries and distributors in 60 countries. Service operations account for nearly 40 percent of sales.

The products are sold through two channels. In the direct channel, new equipment and comprehensive service are sold direct to the end-customer, while in the indirect channel, products and components are sold to end-customers through distributors.

Brands: Besam, Crawford, Megadoor, Albany, FlexiForce, Normstahl, Ditec and EM.

Acquisitions: Albany and 4Front (USA), Dynaco (Belgium) and Helton (Canada).

doors specializing in sales to a global distributor network. The acquisition of Helton fits well with the acquisition of FlexiForce in 2011. Helton manufactures overhead door components for private and industrial customers on the North American market. The American company 4Front, a leader in docking systems, was acquired at the end of the year. The company offers a complete product range of docking systems and a large range of fittings for increased safety in the loading bay area.

Product leadership

Investments in new product development continued to increase. Strengthening product development competence and increasing the rate of new product launches are an important part of the integration of acquired companies. The new product development organization established in recent years has considerably streamlined the development of new products and shortened the lead times to market. Product development and production are achieving significant economies of scale in resource and component utilization, due to an increasing number of common product platforms and modular solutions for more and more products.

Environmental considerations and energy efficiency are strong sales arguments. VA/VE methods in the product development phase reduce energy and raw material consumption in the production process, reducing product cost and increasing customer value. The division has also begun the development of new service concepts, increasing focus on preventive and improvement service. The aim is to offer customers total modernization solutions for the division's door opening solutions and those of its competitors. This involves extensive upgrades of old installations with a series of new products and components. This type of major renovation and modernization requirement is expected to increase in the coming years.

Cost-efficiency

An important task during the year, in the wake of the many acquisitions, was simplifying the complexity and streamlining the structure of production and administration. The extensive program to rationalize the production structure of the newly acquired units accelerated. A number of production plants are being closed, with production transferred between existing plants in both high- and low-cost countries. Meanwhile investments are being made in five final assembly plants in strategic locations in Europe. Complementary programs are coordinating supply management to reduce the number of suppliers. Many administrative functions can likewise be coordinated and concentrated to increase efficiency. A large number of IT-based systems are set to be replaced by fewer systems.

Megadoor hangar door.

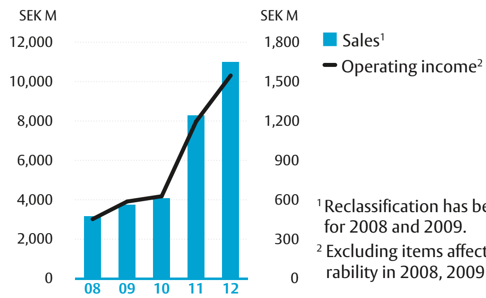
Dynaco high speed doors.

KEY FIGURES

SEK M	2011	2012
Income statement		
Sales	8,278	10,979
Organic growth, %	5	–2
Operating income (EBIT)[1]	1,197	1,546
Operating margin (EBIT)[1], %	14.5	14.1
Capital employed		
Capital employed	10,837	13,189
– of which goodwill	7,153	8,323
Return on capital employed[1], %	12.2	12.3
Cash flow		
Cash flow[2]	1,317	1,648
Average number of employees	5,605	7,429

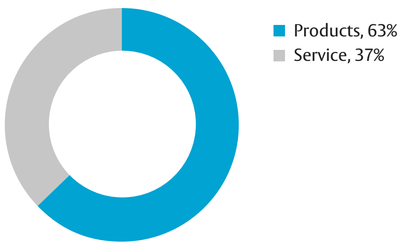
[1] Excluding items affecting comparability of SEK 423 M in 2011.
[2] Excluding restructuring payments.

SALES AND OPERATING INCOME



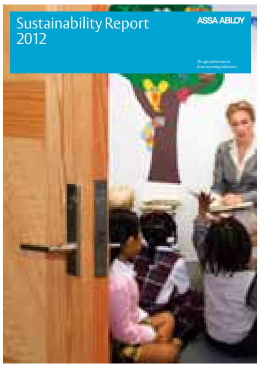
[1] Reclassification has been made for 2008 and 2009.
[2] Excluding items affecting comparability in 2008, 2009 and 2011.

SALES BY PRODUCT GROUP



Corporate responsibility drives a more profitable ASSA ABLOY

ASSA ABLOY's sustainability initiatives are based on the operations impact of the environment, increasing demand for sustainable products, and the intention to be a responsible and attractive company. Work on relevant sustainability issues is integrated across the value chain – from product development to recycling.



Further information about ASSA ABLOY's sustainability initiatives is to be found in the 2012 Sustainability Report, which will be published in connection with the 2013 Annual General Meeting.

ASSA ABLOY has a Group-wide Code of Conduct that provides the basis for everyone's behavior. The Group identifies continuing risks and opportunities to be managed in dialogue with internal and external stakeholders. It helps customers reduce their energy consumption and environmental impact through continuing improvements to production processes, and the development of new products and solutions. Sustainable products account for an ever-increasing share of Group sales.

The drivers for ASSA ABLOY's sustainability initiatives are risk management and reduction, streamlining production and administration, and the management of opportunities. This approach enables ASSA ABLOY to meet customer expectations, expand market share and create value.

Control of sustainability initiatives

The Code of Conduct is Group-wide and establishes the principles that ASSA ABLOY has defined for the Group's employees, suppliers and other stakeholders. The Code is based on international standards and is available in 22 languages. ASSA ABLOY monitors compliance with the Code of Conduct. Action is taken in case of non-compliance with the Code.

The Code is available to all employees. It forms part of the induction of new employees, and it is every employee's responsibility to read and comply with the Code and related policies. Whistle-blowing procedures are in place to enable all employees to report suspected infringements. Reported cases are investigated by a special committee headed by ASSA ABLOY's HR director.

Suppliers are informed of ASSA ABLOY's Code of Conduct and undertake in writing to comply with it in their collaboration with the Group. Since 2011, the Code of Conduct has been supplemented with a separate anti-corruption policy, which is now being implemented across the Group.

SOME OF THE RESULTS OF THE SUSTAINABILITY PROGRAM

Deterioration Unchanged Improvement

Targets	Results 2008	Results 2009	Results 2010	Results 2011	Results 2012	Trend
Energy consumption – 15 percent reduced consumption 2015 compared with 2010, based on normalized values.	482 GWh	491 GWh	605 GWh	632 GWh[1]	633 GWh	
Organic solvents – Phase out all use of perchloroethylene and trichloroethylene.	42 tonnes	44 tonnes	32 tonnes	22 tonnes	17 tonnes[2]	
Health and safety Zero vision and targets for improvement: – IR, injury rate = number of injuries per million hours worked. – ILDR, injury lost day rate = number of days lost due to injuries per million hours worked.	IR: 8.7 ILDR: 166	IR: 8.4 ILDR: 150	IR: 7.8 ILDR: 141	IR: 8.9 ILDR: 161	IR: 9.0[3] ILDR: 173[4]	
ISO 14001 – Compliance at all factories with significant environmental impact.	63	62	69	75	91[5]	
Suppliers – Sustainability appraisals – Code of Conduct requirement for all suppliers. Sustainability audits of suppliers in risk category.	100 sustain-ability audits in China	178 sustain-ability audits in China	376 sustain-ability audits in China	493 sustain-ability audits in Asia	795 sustain-ability audits in Asia	
Gender equality – Improve current levels of gender equality at senior levels.	Level 2: 0% Level 3: 11% Level 4: 17% Level 5: 23%	Level 2: 0% Level 3: 15% Level 4: 18% Level 5: 20%	Level 2: 0% Level 3: 16% Level 4: 18% Level 5: 24%	Level 2: 0% Level 3: 15% Level 4: 19% Level 5: 26%	Level 2: 18% Level 3: 16% Level 4: 18% Level 5: 23%	

[1] For comparable units. Total energy consumption amounted to 692 GWh including units acquired during the year and increased reporting.

[2] For comparable units. Total consumption amounted to 20 tonnes including units aquired during the year and increased reporting.

[3] For comparable units. The total injury rate (IR) was 9.1 including units acquired during the year and increased reporting.

[4] For comparable units. The total injury lost day rate (ILDR) was 171 including units acquired during the year and increased reporting.

[5] For comparable units. Number of certificates and corresponding certifiable systems for North American units amounted to 100. The change is due to the closure of plants under the restructuring program and to the addition of a number of new plants with certificates. Sales companies with ISO 14001 certification are included in the reports from 2012.

ASSA ABLOY's way of working

The Board of Directors has the overall responsibility, while the Executive Team is responsible for operational management of relevant sustainability issues and the Group's strategies.

Appointed coordinators at divisional and company level are responsible for the availability and implementation of environmental guidelines, programs and tools. HR functions at Group and divisional level are responsible for the same in the management of social and business ethical issues. The divisions and Group companies are responsible for compliance with the Group's Code of Conduct.

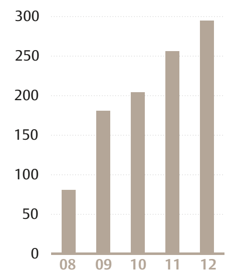
ASSA ABLOY provides information, guidelines and tools to support the Group companies in their work on relevant sustainability issues. There is a Group-wide database for reporting and monitoring of the sustainability program. This database is a knowledge bank that employees working with sustainability can access.

A target-based activity

ASSA ABLOY has been working in accordance with a sustainability program since 2007. The program has been revised regularly; the last time was in 2010. In 2012, the Group continued working to achieve the targets and to integrate newly acquired companies into the Group reporting. In 2012, 293 companies were included in the Group reporting, an increase of 15 percent on 2011. ASSA ABLOY has gradually increased the accuracy and the level of detail of internal reporting to increase control and ensure continuous progress with the Group's sustainability initiatives.

The targets now governing the work apply until 2015 and have been formulated for all the Group's divisions. These targets include ASSA ABLOY's most important sustainability issues: water consumption, chemicals management, energy efficiency, health and safety, employee issues, supplier relations, and the overall control of sustainability initiatives. The program has been part of creating a structure for sustainability initiatives.

REPORTING UNITS



The number of reporting units in the Group has increased to 293 (256).

SUSTAINABILITY INITIATIVES ARE INTEGRATED ACROSS THE VALUE CHAIN

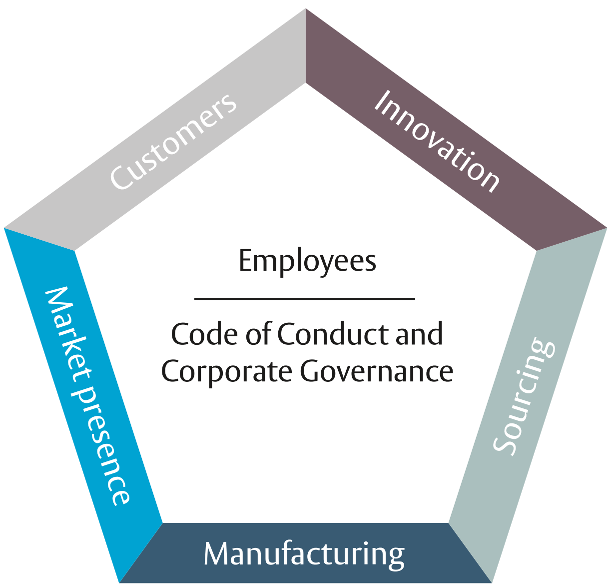
INNOVATION
New products are evaluated from a life cycle perspective. Many recently developed products save energy as a result of improved insulation and intelligent control of various door opening solutions.

SOURCING
The Group's suppliers in risk areas are evaluated from a sustainability perspective. Suppliers failing to comply with the Group's requirements are requested to make improvements or will otherwise be phased out.

MANUFACTURING
The manufacture of the Group's products should be carried out safely and with minimal environmental impact. Hazardous processes are gradually being phased out and replaced by eco-friendly alternatives.

MARKET PRESENCE
ASSA ABLOY respects the laws and regulations governing business ethics in the countries in which it operates, and requires all partners to act in the same way.

CUSTOMERS
ASSA ABLOY's ambition is to supply high-quality products that fulfill customer needs, have a long service life and are manufactured with minimal resource consumption and environmental impact over their life cycle.



ASSA ABLOY's customer offering

Sales of products and solutions with a sustainable profile are increasing.

Development of energy-efficient products is a central part of ASSA ABLOY's product development. Energy-efficient products account for an ever-increasing share of Group sales. Understanding and satisfying customer needs is crucial for retaining a strong market position.

Demand for sustainable products is increasing, and it is important for the Group to develop products that meet customer expectations, and get them certified and included in the databases used by architects for building specification. The increased use of various certifications for sustainable and green construction means that the characteristics of ASSA ABLOY's products are increasing in importance and make them more attractive to the market.

ASSA ABLOY has a number of climate-smart products, which combined with increased security help the customer to reduce energy consumption and create a better quality indoor environment.

Progress towards more sustainable products

ASSA ABLOY's ambition is to have world-class product development. This requires a good knowledge of customer needs today and tomorrow, as well as knowledge of the product's value chain. Group companies use the Group's product innovation process and environmental checklist for all new product development.

The product innovation process has three important stages:

- Product management – refers to the strategic aspects of the process.
- Involving customers in product development. Voice of the Customer ensures ASSA ABLOY develops products that customers want.
- The Gateway process – ensures that development projects are structured and efficient.

The Group has carried out product life cycle analyses to evaluate where the largest environmental impact occurs. The amount of materials used accounts for a significant part of a product's environmental impact, and this is something ASSA ABLOY has successfully addressed in Value Analysis/Value Engineering (VA/VE) in product development. In the case of electromechanical products, standby power consumption has a relatively large environmental impact. ASSA ABLOY has therefore launched a number of products with considerably reduced energy consumption in standby mode.

ASSA ABLOY can reduce its environmental impact and costs through a reduced and efficient use of chemicals, energy and materials in the production process. The Group's environmental checklist provides a structured review of materials selection, design and manufacturing processes to reduce the amount of hazardous materials and ensure sustainable and efficient processes. Reducing the amount of packaging materials for different customer groups and forms of delivery is an important issue in working towards more resource-efficient operations.

SUSTAINABLE DEVELOPMENT PROGRAM IN BRIEF

2004–2008

- Code of Conduct with updates
- Whistle-blowing
- Internal audits
- Due diligence directive
- Tools for supplier control
- Employee survey
- Sustainability strategy for product development including checklists
- Marketing and sales training
- Training in supplier control

2009

- Sales companies and offices are included in reported figures
- Increased monitoring of energy consumption and CO_2
- Launch of joint recruitment and selection guide

2010

- Increased audit of suppliers in low-cost countries
- Targets for 2015 are defined for all monitored areas

2011

- Increased reporting of environmental data
- 25 percent more Group companies included in reporting
- Improved analysis and benchmarking opportunities between Group companies
- Updated Code of Conduct
- Implementation of an anti-bribery policy across the Group
- Target of 30 percent women in management positions within ASSA ABLOY

2012

- Increased reporting of environmental data on water usage and greenhouse gases[1]
- 15 percent more Group companies included in reporting
- Internal semi-annual reporting for increased internal control
- More than 6,000 employees participated in anti-bribery training

[1] The Increased reporting is presented in ASSA ABLOY's Sustainability Report 2012.

Energy-efficient door system from Entrance Systems

Challenge: The ICA Group has set a target to reduce its carbon emissions by 30 percent between 2006 and 2020. ICA has made a strategic investment in a pilot project, the ICA store at Sannegården in Gothenburg, using energy reducing technology.

Solution: Part of the solution is that ASSA ABLOY Entrance Systems has supplied two energy-efficient Besam RD3L revolving doors to ICA. This is a high-capacity door opening solution, which is 20 percent more energy-efficient than any other current automatic door system, due to enhanced insulation and the use of low-energy bulbs. The door design ensures separation between internal and external environments.

Result: In this pilot project, ICA has managed to reduce energy consumption by around 35 percent, compared to a five-year-old ICA store. Besam's revolving doors are responsible for about a third of this energy reduction. The reduction is equivalent to the annual energy consumption of two medium-sized Swedish households. In addition, the indoor environment has improved, due to a more even indoor climate and a reduction in noise and exhaust fumes from the exterior.

The pilot project was successful and ICA estimates that it could reduce its carbon emissions by 30 percent. ICA intends to apply these energy-reducing principles in the construction of new ICA stores.

Security Intersects with Sustainability

Challenge: Facilities are faced with the challenge of increasing security within the restraints of their existing budget with minimal disruption to the building. Together with the growing trend of sustainable building design, many facilities seek to leverage existing infrastructure while maximizing energy efficiency and achieving sustainability goals.

Solution: To meet this end-user security challenge, Group brands Corbin Russwin and SARGENT have developed IP-enabled Power over Ethernet (PoE) and WiFi locking solutions that utilize existing infrastructure to expand access control. These high performing electronic access control solutions, particularly PoE locks, help achieve numerous sustainability goals. The Corbin Russwin Access 800 IP1 PoE lock easily brings online access control to more doors and provides substantial advantages, including minimized components – access control functions (e.g. door position monitoring and request to exit sensor) are incorporated in one lock body rather than separately purchased and installed components. This PoE lock uses 50% less power per activation than traditional access control solutions using PoE, and significantly less standby power than traditional access control. Facilities also re-use existing building infrastructure adding to the overall ROI savings.

Result: The Access 800 IP1 exemplifies a new generation of energy-efficient, sustainable access control products. When the total Life Cycle Assessment of a PoE system is considered, the result is less energy and material used during manufacturing, shipping, installation and use.

Sustainable development

Development of supplier relations

Evaluation and improvement of the supplier base is a continuous process. Supplier selection is based on standardized criteria for both quality and work on relevant sustainability issues. Good supplier control and working in accordance with jointly agreed action plans result in increased product quality and more sustainable processes.

ASSA ABLOY's suppliers are required to comply with its Code of Conduct. Quality and sustainability audits are carried out before new suppliers are approved. Suppliers deemed to be in a risk category are prioritized for audit.

The system used to monitor suppliers' compliance with the Code of Conduct includes factors such as wages, overtime, noise levels, protective equipment, chemicals management, accident reporting, environmental management systems, and health and safety training.

Any supplier failing to comply with these requirements is requested to implement necessary improvements in accordance with an action plan. The contract is terminated if action is not taken.

Supplier selection process

The process has three stages:

- Supplier self-assessment – the supplier assesses its ability to meet ASSA ABLOY's requirements, using a form from ASSA ABLOY.
- On-site audit – a sustainability audit assesses how well a potential supplier meets ASSA ABLOY's requirements.
- Extended sustainability audit – this complements the standard audit.

Following the audit, the supplier is graded green, yellow or red. Green means the supplier is approved; yellow means the supplier needs to improve within a specific time frame; and red means the supplier is not approved.

A red or yellow grade can be upgraded through an improvement plan. If no action is taken, the supplier is immediately classed as red. All purchases from the supplier are then stopped until a green grade has been achieved.

Audits conducted

In 2012 ASSA ABLOY conducted 795 (493) sustainability audits. At year-end, 806 (461) active suppliers had satisfied the minimum standards for quality and relevant sustainability issues, and were therefore considered reliable. 10 (19) suppliers were blacklisted. Sustainability audits have been gradually extended to cover a larger geographical area. In 2012 suppliers in all low-cost countries were included.

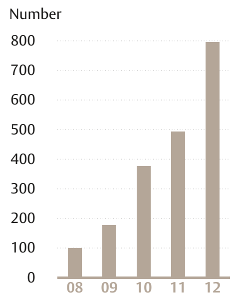
All new suppliers in low-cost countries carry out a self-assessment of their sustainability, in accordance with a standardized process, before they can be considered as potential suppliers to ASSA ABLOY. This is followed by an on-site audit. ASSA ABLOY annually monitors previously approved suppliers.

ASSA ABLOY's supplier database

The Group's suppliers are listed, graded and monitored in a supplier database. Audit reports on both quality and relevant sustainability issues are regularly entered into the database. Suppliers are listed with a standardized name, geographical location, type of products and other information, in order that green suppliers can be used by many group companies with similar needs.

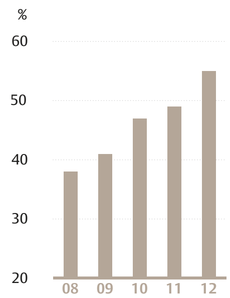
The database also lists non-approved and blacklisted suppliers to ensure that they are not used again. Sustainability audit results override quality audit results regarding non-compliance. This means that a supplier rejected for poor management of relevant sustainability issues is either stopped immediately or must wait until the deficiencies have been addressed for approval.

SUSTAINABILITY AUDITS OF SUPPLIERS IN ASIA



In 2012 ASSA ABLOY conducted 795 (493) sustainability audits.

SHARE OF TOTAL PURCHASES IN LOW-COST COUNTRIES



The share of the Group's total purchases of raw materials, components and finished goods that comes from low-cost countries has risen from 38 percent to 55 percent in the past five years.

More efficient production

Energy

ASSA ABLOY's ambition is to reduce energy consumption and emissions of harmful greenhouse gases. The Group is therefore implementing a three-stage approach to reduce energy consumption.

The first stage is to concentrate manufacture in as few plants as possible, in order to maintain full capacity, efficient working practices and high quality.

The second stage is to introduce smart solutions that reduce energy and water consumption in both offices and plants.

The third stage is to evaluate alternative energy sources, which combined with innovative product design, can make manufacturing processes even more energy-efficient.

Water consumption

Efforts to improve water use efficiency have focused on plants with surface treatment processes, which account for the bulk of consumption. Technical improvements in the purification and reuse of water in the production process have reduced water consumption.

Waste management

The Reduce, Reuse, Recycle principle is applied across the organization. This principle means that ASSA ABLOY works systematically to reduce the amount of materials in products, develop products that can be upgraded rather than replaced, and enable recycling of both production waste and the finished products at the end of their life cycle. The Group has refined its monitoring of waste in various types of materials with the aim of better monitoring and reducing the amount of waste.

Hazardous chemicals

ASSA ABLOY works continuously to reduce the use of hazardous substances in the production process and find substitutes for them. Most production plants have phased out chlorinated organic solvents successfully.

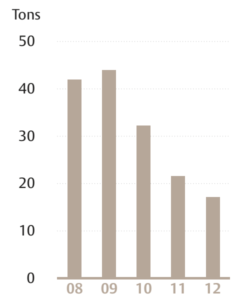
Health and safety

ASSA ABLOY should offer a safe working environment and has a zero vision for accidents at work. The goal is to create a culture where each individual contributes to a safe workplace and good health.

ASSA ABLOY has defined a number of targets intended to lead to ongoing improvements. These targets are based on the zero vision.

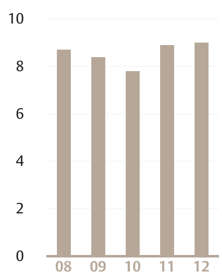
Health and safety audits are included in the internal audits, and risk assessment is carried out routinely. Incident reporting and analysis are used to identify preventive measures.

USE OF CHLORINATED ORGANIC SOLVENTS (PER AND TRI)



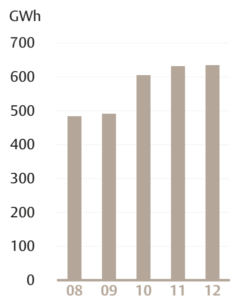
2012 represents development for comparable units from 2011.

INJURIES PER MILLION HOURS WORKED



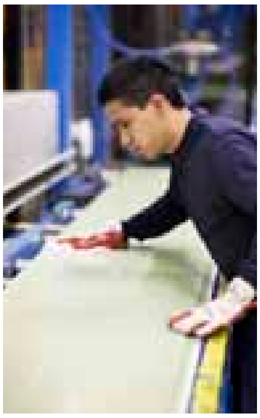
2012 represents development for comparable units from 2011.

ENERGY USE



2012 represents development for comparable units from 2011.

Sustainable development



Manufacture of industrial doors at the Entrance Systems plant at Torslanda, Sweden.

Employees generate success

ASSA ABLOY's vision and ambition is to be an attractive company to work for. Each individual has responsibility for his/her professional development. It is important that all employees feel that they contribute. Competition for talent is intensifying and ASSA ABLOY is investing globally and locally to offer stimulating assignments with clear responsibility, good development opportunities, and a positive, engaging work situation.

ASSA ABLOY Employee Survey

The ASSA ABLOY Employee Survey is an efficient means of finding out what the employees think about their work situation, how they perceive ASSA ABLOY as an employer, how they perceive health and safety in their workplace and if everyone is given equal opportunities. The survey is carried out every 18–24 months. The most recent survey took place in March 2012, and received responses from nearly 28,000 employees. The results in 2012 show a slight improvement in all areas compared to the previous survey (2010).

The results have been broken down into 275 units, making them more relevant to all employees and enabling appropriate actions to be taken at the local level to achieve further improvements.

Common knowledge base

A good knowledge of the company in which you work and an understanding of how your own efforts relate and contribute to the overall goals are crucial for motivation and commitment. One way to achieve this is that all employees have a common understanding of what ASSA ABLOY's business is and how the goals are to be achieved. To create this basic knowledge all employees complete the interactive induction program 'Entrance to ASSA ABLOY'. This program is available in 15 languages and covers the Group's history, organization, products, strategy and Code of Conduct.

Gender equality

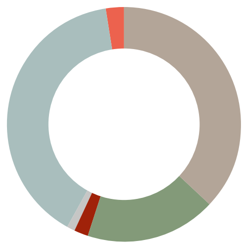
ASSA ABLOY's ambition is to achieve a better gender balance at all levels in the organization. In 2011, the Group set a target of 30 percent women in management positions at levels 2 to 5 by 2020. A gender equality policy is already in place to direct these efforts.

The trend in the share of women at management level is monitored in connection with the Talent Management Process. Other measures include prioritizing the underrepresented gender in the recruitment process provided they have equal qualifications, and aiming for at least one person from the underrepresented gender among the final candidates.

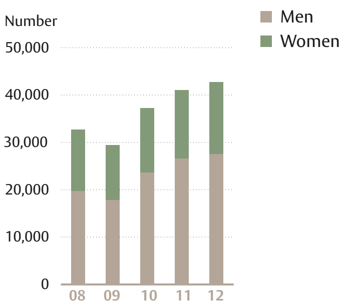
Growing with care

ASSA ABLOY is an acquisition-intensive Group, and it is important to monitor how monitor how new units are operating in relation to ASSA ABLOY's Code of Conduct and policies. Third party social audits in accordance with internationally accepted methods have been conducted for several years for this purpose. These audits cover areas such as working conditions, human rights, the work environment, workplace culture and skills development. During the year audits were conducted at one production plant in China and one in Romania. The audits are followed by measures to implement improvements where needed.

NUMBER OF EMPLOYEES BY REGION



AVERAGE NUMBER OF EMPLOYEES



WOMEN AT DIFFERENT LEVELS OF THE ORGANIZATION

	Share of women, %				
Level	2008	2009	2010	2011	2012
2 – reports to CEO	0	0	0	0	18
3 – reports to level 2	11	15	16	15	16
4 – reports to level 3	17	18	18	19	18
5 – reports to level 4	23	20	24	26	23
Levels 2 – 5	–	–	–	**24**	**22**
Average number of employees	**40**	**39**	**37**	**35**	**35**

In 2012, the definition has been revised to include only managerial and specialist positions. This has had a negative impact on levels 4 and 5.

Management training

Every year ASSA ABLOY offers a number of senior managers the opportunity to take part in one of the Group's two senior management development programs: ASSA ABLOY Management Training (MMT) and ASSA ABLOY 'Boosting Market Leadership Program'

MMT is intended to provide participants with an increased knowledge of all areas of ASSA ABLOY's operations, develop their internal contact network, and contribute to sharing best practices and identifying new business opportunities. This is of particular importance for ASSA ABLOY in view of its continuing acquisition of companies.

The ASSA ABLOY 'Boosting Market Leadership Program' was launched in 2011. This is a tailor-made program developed in collaboration with IMD in Lausanne, Switzerland. The program's main aim is to support the implementation of ASSA ABLOY's strategy.

Scholarship Program

ASSA ABLOY's Scholarship Program offers employees the opportunity to work for a short period at another Group company, in order to share knowledge and experience and learn about other cultures and working practices. This program is open to all employees.

Employee development

ASSA ABLOY has a well-established global employee development process at all levels, the Talent Management Process. The aim is to support career development in a structured way, optimize the utilization of the Group's total resources, and ensure that the skills needed to meet future requirements are available.

Recruitment and future supply of competence

ASSA ABLOY has great confidence in its employees, and it is up to each individual to take responsibility for their career. A basic principle of ASSA ABLOY's recruitment policy is to give priority to internal candidates provided they have equal qualifications to external applicants. All job vacancies are advertised on the Group's global intranet to encourage and facilitate internal mobility. Recruitment takes place locally in the majority of cases.

Dialogue with external stakeholders

ASSA ABLOY's stakeholders in sustainability issues are shareholders, investors, analysts, customers, suppliers, employees, local communities, NGOs and the media. The Group's policy of openness means that we listen to these stakeholders and take on board their views.

During the year ASSA ABLOY held a round-table discussion with investors on ASSA ABLOY's management of sustainability issues. Round-table discussions have been held annually for a number of years. Requests from investors have generally concerned more externally available information on suppliers in low-cost countries, procedures for establishing new operations and the acquisition process. Investors have also requested increased transparency with regard to the targets for each monitored area. These meetings have proved valuable and given the Group important feedback.

Learning and networking

A new IMD program is bringing ASSA ABLOY's senior managers together for an intensive and informative week with lots of learning and networking.

More than 250 of ASSA ABLOY's senior managers from 32 countries have taken part in IMD programs since 2005, when ASSA ABLOY began collaboration with the world-leading Swiss business school, IMD. A new program, Boosting Market Leadership, was launched in 2011.

This program is held once or twice a year and focusses on key strategic issues, such as market leadership, innovation and growth. The aim is to give ASSA ABLOY's senior managers an inspirational and informative experience.

Allen Wong, Vice President of Operations and Technology, ASSA ABLOY Asia Pacific, has taken part in two IMD programs.

"It was a fantastic experience," said Allen. "I learned a lot and it was quite intensive but very enjoyable. I learned just as much from my course colleagues as from the program itself."

Allen has already applied two models he learned on the course; one concerns motivation and the other concerns values. "The program is very relevant to our job and our leadership development," he said. Allen considers that in particular he learned to think on new lines, introduce new models and develop a more effective leadership style.

Allen Wong, Vice President of Operations and Technology, ASSA ABLOY Asia Pacific.

Report of the Board of Directors and Financial statements

Contents

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 financial year 1 January to 31 December 2012. ASSA ABLOY is the global leader in door opening solutions, dedicated to satisfying end-user needs for security, safety and convenience.

Significant events

Sales and income

Sales for the year totaled SEK 46,619 M (41,786), with organic growth of 2 percent (4) and acquired growth of 9 percent (17). Operating income (EBIT) excluding restructuring costs rose 13 percent to SEK 7,501 M (6,624), equivalent to an operating margin of 16.1 percent (15.9). Income before tax excluding restructuring costs totaled SEK 6,731 M (5,979).

Operating cash flow excluding restructuring payments remained strong and amounted to SEK 7,044 M (6,080). Earnings per share after full dilution excluding restructuring costs were SEK 13.84 (12.30), an increase of 13 percent.

Restructuring

The restructuring programs launched during the period 2006–2007 have been completed. The activity level in the remaining restructuring programs remained high during the year and is expected to continue in the same way during the years 2013–2014.

At year-end 2012, 6,765 employees had left the Group as a result of the changes in the production structure since the programs began, of which 896 employees left during the year. A total of 53 production plants closures have been implemented and a large number of plants in high-cost countries have switched from production to final assembly. A total of 28 offices have also closed during the equivalent period. The Group's production is increasingly concentrated to its own plants in China, central and eastern Europe and to external suppliers in low-cost countries.

Payments related to the restructuring programs totaled SEK 498 M (373) for the full year. At year-end 2012, the remaining provisions for restructuring measures amounted to SEK 1,068 M (1,665).

Acquisitions and divestments

On 11 January 2012, 100 percent of the share capital was acquired in Albany Door Systems (USA), a global leader in automatic high-performance doors. The company has global market penetration in industrial automatic high-performance doors. The products are used for industrial applications and in logistics centers, where there is a major need for customized automatic high-performance doors with high security and access control. Albany also offers service and maintenance on the company's principal markets. The company is headquartered in Georgia, USA.

On 1 March 2012, 100 percent of the share capital was acquired in Dynaco (Belgium). Dynaco is a leading manufacturer of automatic high-performance doors specializing in sales to a global distributor network. The acquisition of Dynaco further strengthens ASSA ABLOY's position in the fast-growing market segment of high-performance doors. Dynaco adds manufacturing expertise, with many leading patented products and a global distribution channel. The company is headquartered in Moorsel, Belgium.

On 29 May 2012, 100 percent of the share capital was acquired in Guoqiang, a Chinese manufacturer of window hardware. Guoqiang offers a complete range of window hardware mainly for the Chinese market. The company has a good market presence in China through an extensive network of sales offices. Guoqiang provides a good fit with the existing offering in total door opening solutions in China and gives access to the Chinese window hardware market. The company is headquartered in Leling, Shandong Province, China.

On 24 December 2012, 100 percent of the share capital was acquired in 4Front, a leading American player in docking systems. The company offers a complete product range of docking systems and a large range of fittings. The acquisition increases the strategic foothold on the important North American entrance automation market, and provides an excellent fit with the Group's growing product portfolio in docking systems.

A total of 13 acquisitions, including minor acquisitions, were consolidated during the year. The total purchase price of these acquisitions was SEK 4,799 M, and preliminary acquisition analyses show that goodwill and other intangible assets with an indefinite useful life amount to SEK 3,768 M.

During the year an agreement was signed to sell the Group's 70-percent interest in Wangli Security Products Ltd in China. The business was not considered to be a good fit with ASSA ABLOY's operations in the long-term. The divestment is dependent on the approval of the authorities and is expected to be completed in 2013. The business has been shown as an asset in a disposal group held for sale. Sales and operating income have not been reported on a current basis. No significant capital gain/loss is expected to arise on the sale.

Research and development

ASSA ABLOY's expenditure on research and development during the year amounted to SEK 1,344 M (1,202), equivalent to 2.9 percent (2.9) of sales.

ASSA ABLOY has a central function, Shared Technologies, with responsibility for the standardization of electronics in the Group's common platforms. The objective is that standardization should result in lower development costs and a shorter development time for new products.

Report of the Board of Directors

Sustainable development

Four of ASSA ABLOY's subsidiaries in Sweden carry on licensable activities in accordance with the Swedish Environmental Code. The Group's licensable and notifiable activities have an impact on the external environment through the subsidiaries ASSA AB and ASSA OEM AB. These companies operate engineering workshops and associated surface-coating plants, which have an impact on the external environment through emissions to water and air as well as solid waste. The subsidiaries ASSA AB and ASSA OEM AB are actively addressing environmental issues and are certified in accordance with ISO 14001. Crawford Entrance Solutions also carries on licensable and notifiable activities in Gothenburg and Strömstad.

Most units outside Sweden carry on licensable activities and hold equivalent licenses under local legislation.

ASSA ABLOY's units worldwide are working purposefully to reduce greenhouse gas emissions. This applies to units on both mature and emerging markets, and to both existing and newly acquired companies.

The 2012 Sustainability Report, reporting on the Group's prioritized environmental activities and providing other information on sustainable development, will be published at the time of the Annual General Meeting in April 2013.

Transactions with related parties

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

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 of ASSA ABLOY AB.

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 the Group's strong position will accelerate growth and increase profitability.

Organic sales growth is expected to be strong. The operating margin (EBIT) and operating cash flow are expected to develop favorably.

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.

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 the Group, 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 level.

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.

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. The Group is therefore naturally exposed to both general business environment risks and country-specific risks, including political decisions and comprehensive changes in the regulatory framework etc. 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. As regards competitors, risk analyses are carried out both centrally and locally.

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. Generally speaking, ASSA ABLOY's good reputation is one of the Group's strengths and serves as a foundation for market leadership.

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. The Code is an expression of the Group's high ambitions with regard to social responsibility, commitment and environmental considerations.

Operational risks

Operational risks comprise risks directly attributable to business operations and with a potential impact on the Group's financial position and performance. They include legal and environmental 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 financial reporting and internal control are also included in this category.

The table on page 66 describes in more detail the management of these risks.

Financial risks

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

A financial policy, which is approved by the Board, regulates the allocation of responsibilities and control of the Group's financing activities. Group Treasury has the main

STRATEGIC RISKS

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

- Customer behavior
- Competitors
- Brand positioning
- Country-specific risks etc.

OPERATIONAL RISKS

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

- Legal and environmental risks
- Acquisition of new businesses
- Restructuring measures
- Availability and price fluctuations of raw materials
- Customer dependence etc.

FINANCIAL RISKS

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

- Financing risks
- Currency risks
- Interest rate risks
- Financial credit risks
- Risks associated with pension obligations

Report of the Board of Directors
Significant risks and risk management

Operational risks	Risk management	Comments
Legal risks	The Group continuously monitors anticipated and implemented changes in legislation in the countries in which it operates. A group-wide legal policy has been implemented, specifying the legal framework in which business operations may be conducted. Ongoing and potential disputes and other legal matters are reported regularly to the Group's central legal function. Guidelines on compliance with applicable competition, export control and anti-bribery legislation have been implemented. Legal risks associated with property and liability issues are continually evaluated.	At year-end 2012 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.
Acquisition of new businesses	Acquisitions are carried out by a number of people with considerable acquisition experience and with the support of, for example, legal and financial consultants. Acquisitions are carried out according to a uniform and predefined group-wide process. This consists of four documented phases: strategy, evaluation, implementation and integration.	The Group's acquisitions in 2012 are reported in the Report of the Board of Directors and in Note 30, Business combinations.
Restructuring measures The Group is implementing specific restructuring programs, which entail some production units changing direction mainly to final assembly while certain units are closed.	The restructuring programs are carried on as a series of projects with stipulated activities and schedules. The various projects are systematically monitored on a regular basis.	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.
Credit losses	Trade receivables are spread across a large number of customers in many markets. Commercial credit risks are managed locally at company level and monitored at division level.	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.
Insurance risks	A group-wide insurance program is in place, mainly relating to property, business interruption and liability risks. This program covers all business units. The Group's exposure to the risk areas listed above is regulated by means of its own captive insurance company.	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 of financial reporting	The organization is considered to be relatively transparent, with a clear allocation of responsibilities. Instructions about the allocation of responsibilities, authorization and other internal control procedures are laid down in an internal control manual. Compliance with internal control is evaluated annually for all operating companies.	Internal control and other related issues are reported in more detail in the Report of the Board of Directors, section on Corporate governance.
Risks relating to financial reporting	A well-established Controller organization at both division and Group level analyzes and monitors financial reporting quality. A comprehensive systematic risk assessment of financial reporting has been implemented.	See also the section 'Basis of preparation' in Note 1. Further information on risk management relating to financial reporting can be found in the Report of the Board of Directors, section on Corporate governance.

responsibility for financial risks within the framework established in the financial policy. A large number of financial instruments are used in this work. Accounting principles, risk management and risk exposure are described in more detail in Notes 1 and 34, as well as Note 24 regarding post-employment employee benefits.

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.

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 loans and a high 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 relatively limited in the Group, even though it is expected to increase over time due to rationalization of production and purchasing. In accordance with financial policy, the Group only hedged a very limited part of current currency flows in 2012. 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 14,732 M (14,207) at year-end 2012. Debt was mainly denominated in SEK, 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 derivatives are used to adjust interest rate sensitivity. At year-end, the average fixed interest term, excluding pension liabilities, was 32 months (16).

Credit risk

Credit risk arises in ordinary business operations and as a result of the financial transactions carried out by Group Treasury. Trade receivables are spread across a large number of customers, which reduces the 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 2012, ASSA ABLOY had obligations for pensions and other post-employment benefits of SEK 5,437 M (5,300). The Group manages pension assets valued at SEK 3,193 M (3,115). Provisions in the balance sheet for pension plans and post-employment healthcare benefits totaled SEK 1,224 M (1,173). Unrecognized actuarial losses and expenses relating to past service in accordance with applicable regulations, the so-called corridor, amounted at year-end 2012 to SEK 1,073 M. 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. These assumptions include discount rates, as well as anticipated inflation and salary increases.

Report of the Board of Directors
Corporate governance

Important external rules and regulations

- Swedish Companies Act
- NASDAQ OMX Stockholm Rule Book for Issuers
- Swedish Code of Corporate Governance (www.corporate-governanceboard.se)

Important internal rules and regulations

- Articles of association
- Board of Directors' rules of procedure
- Financial policy
- Accounting Manual
- Communications Policy
- Insider Trading Policy
- Internal control procedures
- Code of Conduct and Anti-Bribery Policy

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

The Group's corporate governance is based on the Swedish Companies Act, the rules and regulations of NASDAQ OMX Stockholm and the Swedish Code of Corporate Governance, as well as other applicable external laws, regulations and recommendations, and internal rules and regulations.

This Corporate Governance Report has been prepared as part of ASSA ABLOY's application of the Swedish Code of Corporate Governance. ASSA ABLOY reports no deviations from the Swedish Code of Corporate Governance for 2012.

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.

Shareholders

At year-end ASSA ABLOY had 17,591 shareholders (18,697). 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 (3.9 percent of the share capital and 11.5 percent of the votes). Foreign shareholders accounted for around 68 percent (64) of the share capital and around 46 percent (44) of the votes. The ten largest shareholders accounted for around 38 percent (38) of the share capital and around 58 percent (58) of the votes. For further information on shareholders, see page 123.

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 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 amounted at year-end to SEK 370,858,778 distributed among 19,175,323 Series A shares and 351,683,455 Series B shares. The total number of votes was 543,436,685. Each Series A share carries ten votes and each Series B share one vote. All shares have a par value of SEK 1.00 and give shareholders equal rights to the company's assets and earnings.

Repurchase of own shares

Since 2010 the Board has requested and received a mandate from the Annual General Meeting to repurchase and transfer ASSA ABLOY shares. The aim has been to be able to adapt the company's capital structure and thereby contributing to increased shareholder value, to be able to exploit acquisition opportunities by fully or partly financing company acquisitions with its own shares, and to secure the company's long-term incentive programs. The 2012 Annual General Meeting authorized the Board to repurchase, 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 600,000 (400,000) Series B shares after repurchase to secure the company's undertakings in connection with the company's long-term incentive programs (LTI 2010, LTI 2011 and LTI 2012). These shares account for around 0.2 percent (0.1) of the share capital and each share has a par value of SEK 1.00. The purchase consideration amounted to SEK 103 M (65).

Of the above shares, 200,000 (100,000) Series B shares were repurchased in 2012. These account for around 0.05 percent (0.03) of the share capital and each share has a par value of SEK 1.00. The purchase consideration amounted to SEK 38 M (17).

Share and dividend policy

ASSA ABLOY's Series B share is listed on the NASDAQ OMX Stockholm Large Cap list. At year-end ASSA ABLOY's market capitalization amounted to SEK 90,082 M. The Board's 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.

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 intention to attend are entitled to take part in the General Meeting, either in person or via a 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 have an issue raised at the General Meeting can apply 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 among other things: dividend distribution; adoption of the income statement and balance sheet; discharge of the Board of Directors and the CEO from liability; election of board members and Chairman of the Board of Directors; appointment of the Nomination Committee and auditors; determination of remuneration guidelines for senior management and fees for the Board of Directors and auditors. An Extraordinary General Meeting may be held if the Board of Directors considers this necessary or if ASSA ABLOY's auditors or shareholders holding at least 10 percent of the shares so request.

2012 Annual General Meeting

The Annual General Meeting in April 2012 was attended by shareholders representing 60.2 percent of the share capital and 73.0 percent of the votes.

At the Annual General Meeting, Carl Douglas, Birgitta Klasén, Eva Lindqvist, Johan Molin, Sven-Christer Nilsson, Lars Renström and Ulrik Svensson were re-elected as members of the Board of Directors. Jan Svensson was elected as a new member of the Board of Directors. Further, Lars Renström was elected as the new Chairman, and Carl Douglas as Vice Chairman. Gustaf Douglas declined re-election and was thanked for over 17 years' service as a member of the Board of Directors, including the past six years as Chairman.

The Annual General Meeting approved a dividend of SEK 4.50 per share, in accordance with the proposal of the Board of Directors and the CEO. In addition, the Annual General Meeting passed resolutions on fees payable to the Board of Directors, remuneration guidelines for senior management, authorization of the Board of Directors regarding repurchase and transfers of own Series B shares, and the implementation of a long-term incentive program (LTI 2012) for senior management and other key staff in the Group, as well as appointing members of the Nomination Committee prior to the 2013 Annual General Meeting.

Nomination Committee

The Nomination Committee prior to the 2013 Annual General Meeting comprises Gustaf Douglas (Investment AB Latour), Mikael Ekdahl (Melker Schörling AB), Liselott Ledin (Alecta), Marianne Nilsson (Swedbank Robur fonder) and Per-Erik Mohlin (SEB fonder/SEB Trygg Liv). Gustaf Douglas is Chairman of the Nomination Committee. If a shareholder represented by one of the members of the Nomination Committee ceases to be among the major shareholders in ASSA ABLOY, the Nomination Committee has the right to appoint another representative of one of the major shareholders to replace such a member. The same applies if a member of the Nomination Committee ceases to be employed by such a shareholder or leaves the Nomination Committee before the 2013 Annual General Meeting for any other reason.

The Nomination Committee has the task of preparing, on behalf of the shareholders, resolutions on the election of the Chairman, the Vice Chairman and other members of the Board of Directors, the appointment of the auditor, the election of the Chairman of the Annual General Meeting, the appointment of the Nomination Committee prior to the Annual General Meeting, and fees and associated matters.

Prior to the 2013 Annual General Meeting, the Nomination Committee has made an assessment of whether the current Board of Directors is appropriately composed and fulfills the demands made on the Board of Directors by the company's present situation and future direction. The annual evaluation of the Board of Directors was part of the basis for this assessment. 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 emailing: nominationcommittee@assaabloy.com.

The Nomination Committee's proposals 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 2013.

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 and policies, as well as on acquisitions, divestments and investments. 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's other duties include among other things:

- continuously evaluating the company's operational management, including the work of the CEO,
- ensuring that there are effective systems in place for monitoring and control of the company's operations,
- ensuring that the company's information provision is transparent, accurate, relevant and reliable,
- ensuring that there is satisfactory control of the company's compliance with laws and other regulations applying to the company's operations, and
- ensuring that necessary ethical guidelines for the company's conduct are established.

The Board of Directors' rules of procedure and instructions for the division of duties between the Board of Directors and the CEO are updated and approved at least once a year. The Board of Directors has also issued written instructions specifying how financial reporting to the Board of Directors should be carried out.

In addition to leading the work of the Board of Directors, the Chairman should continuously monitor the Group's operations and development through contact with the CEO. The Chairman should consult the CEO on strategic issues and represent the company in matters concerning the ownership structure. The Chairman should also, when necessary, take part in particularly important external discussions and, in consultation with the CEO, in other matters of particular significance. The Chairman should ensure that the work of the Board of Directors is evaluated annually, and that new members of the Board of Directors receive appropriate training.

Report of the Board of Directors Corporate governance

The Board of Directors has at least four scheduled meetings and one statutory meeting per year. The scheduled meetings take place in connection with the company's publication of its year-end or quarterly results. At least once a year the Board of Directors visits one of the Group's businesses, possibly combined with a board meeting. In addition, extra board meetings are held when necessary. All meetings follow an approved agenda. Prior to each meeting, a draft agenda including documentation is sent to all board members.

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 Committees have no decision-making powers. The members of the Committees are appointed annually by the Board of Directors at the statutory board meeting. Instructions for the Committees are included in the Board of Directors' rules of procedure.

Board of Directors' work in 2012

During the year the Board of Directors held nine meetings (five scheduled meetings, one statutory meeting and three extraordinary meetings). One board member was absent at two meetings. All board members were present at the other meetings. At the scheduled board meetings, the CEO reported on the Group's performance and financial position, including the outlook for the coming quarters. Investments, acquisitions and divestments were also considered. All acquisitions and divestments with a value (on a debt-free basis) exceeding SEK 100 M are decided by the Board of Directors. This amount presumes that the matter relates to acquisitions or divestments within the framework of the strategy agreed by the Board of Directors.

More important matters dealt with by the Board of Directors during the year included, among other things, ASSA ABLOY's investment in Seos, a commercial ecosystem for creating and managing digital keys in NFC cell phones. In addition, the Board of Directors dealt with a number of acquisitions, including Guoqiang and 4Front. During the year, the Board of Directors conducted in-depth reviews of the Group's operations in Entrance Systems and EMEA and visited Americas' operations Curries and Graham in the USA.

Remuneration Committee

During 2012 the Remuneration Committee comprised Lars Renström (Chairman), Jan Svensson and Sven-Christer Nilsson.

The Remuneration Committee's task is to draw 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 2013 Annual General Meeting can be seen on page 77.

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 held one meeting in 2012 at which all members were present.

The Remuneration Committee's work included, among other things, preparing a proposal for the remuneration of the Executive Team, evaluating existing incentive programs, and preparing a proposal for a long-term incentive program for 2013. The meetings of the Committee are minuted, the minutes are distributed with material for the Board of Directors and a verbal report is given at board meetings.

Audit Committee

During 2012 the Audit Committee comprised Ulrik Svensson (Chairman), Birgitta Klasén and Jan Svensson.

The duties of the Audit Committee include the continuous quality assurance of ASSA ABLOY's financial reporting. Regular communication is maintained with the company's auditor on matters including the focus and scope of the audit. The Audit Committee is also responsible for evaluating the audit assignment and informing the Board of Directors and the Nomination Committee of the results, as well as continuously monitoring the current risk status of legal risks in the operations. The Audit Committee held four meetings in 2012 at which all members, the company's auditor and representatives of senior management were present. More important matters dealt with by the Audit Committee during the year included internal control, financial statements and valuation matters, tax matters and legal risk areas.

The meetings of the Committee are minuted, the minutes are distributed with material for the Board of Directors and a verbal report is given at board meetings.

ASSA ABLOY's Board of Directors

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 six and a maximum 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 currently consists of eight elected members and two employee representatives. With the exception of the CEO, none of the board members are members of the Executive Team. The CEO has no significant shareholdings or partnerships in companies with significant business relationships with ASSA ABLOY.

Remuneration of the Board of Directors

The Annual General Meeting passes a resolution on the remuneration to be paid to board members. The 2012 Annual General Meeting passed a resolution on board fees totaling SEK 4,600,000 (excluding remuneration for committee work), to be allocated between the members as follows: SEK 1,350,000 to the Chairman, SEK 750,000 to the Vice Chairman and SEK 500,000 to each of the other members appointed by the Annual General Meeting and not employed by the company. As remuneration for committee work, the Chairman of the Audit Committee is to receive SEK 200,000, the Chairman of the Remuneration Committee SEK 100,000, members of the Audit Committee (the Chairman excluded) SEK 100,000, and members of the Remuneration Committee (the Chairman excluded) SEK 50,000.

The Chairman of the Board of Directors and other board members have no pension benefits or severance pay agreements. The CEO and employee representatives do not receive board fees. For further information on the remuneration of board members in 2012, see Note 33.

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

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
Birgitta Klasén	Board member	Yes	Yes
Eva Lindqvist	Board member	Yes	Yes
Johan Molin	Board member, President and CEO	No	–
Sven-Christer Nilsson	Board member	Yes	Yes
Jan Svensson	Board member	Yes	No
Ulrik Svensson	Board member	Yes	No

The Board of Directors' composition and shareholdings

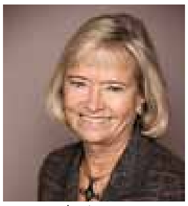
Name	Position	Elected	Born	Remuneration Committee	Audit Committee	Series A shares[1]	Series B shares[1]
Lars Renström	Chairman of the Board	2008	1951	Chairman	–	–	10,000
Carl Douglas	Vice Chairman	2004	1965	–	–	13,865,243	21,300,000
Birgitta Klasén	Board member	2008	1949	–	Member	–	7,000
Eva Lindqvist	Board member	2008	1958	–	–	–	2,300
Johan Molin	Board member, President and CEO	2006	1959	–	–	–	526,267
Sven-Christer Nilsson	Board member	2001	1944	Member	–	–	5,000
Jan Svensson	Board member	2012	1956	Member	Member	–	2,000
Ulrik Svensson	Board member	2008	1961	–	Chairman	–	3,000
Seppo Liimatainen	Board member, employee representative	2003	1950	–	–	–	2,600
Mats Persson	Board member, employee representative	1994	1955	–	–	–	–
Rune Hjälm	Deputy, employee representative	2005	1964	–	–	–	–
Per Edvin Nyström	Deputy, employee representative	1994	1955	–	–	–	5,727

[1] Including related parties and through companies. Shareholdings as at 31 December 2012. This information is updated regularly at *www.assaabloy.com*

Report of the Board of Directors
Corporate governance Board of Directors

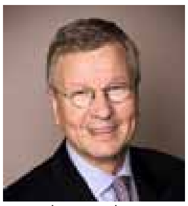

Lars Renström


Carl Douglas


Birgitta Klasén


Eva Lindqvist


Johan Molin


Sven-Christer Nilsson

Board members elected at the 2012 Annual General Meeting

Lars Renström
Chairman.
Board member since 2008.
Born 1951.
Master of Science in Engineering and Bachelor of Science in Business Administration and Economics. President and CEO of Alfa Laval AB since 2004. President and CEO of Seco Tools AB 2000–2004. President and Head of Division of Atlas Copco Rock Drilling Tools 1997–2000. Prior to that, a number of senior posts at ABB and Ericsson.
Other appointments: Board member of Alfa Laval AB.
Shareholdings (including related parties and through companies): 10,000 Series B shares.

Carl Douglas
Vice Chairman.
Board member since 2004.
Born 1965.
BA (Bachelor of Arts).
Self-employed.
Other appointments: Vice Chairman of Securitas AB. Board member of Investment AB Latour and Swegon AB.
Shareholdings (including related parties and through companies): 13,865,243 Series A shares and 21,300,000 Series B shares through Investment AB Latour.

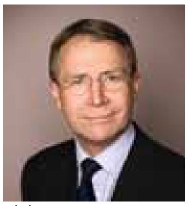
Birgitta Klasén
Board member since 2008.
Born 1949.
Master of Science in Engineering.
Independent IT consultant (Senior IT Advisor). Chief Information Officer (CIO) and Head of Information Management at EADS (European Aeronautics Defence and Space Company) 2004–2005. CIO and Senior Vice President of Pharmacia 1996–2001. Prior to that, CIO of Telia. Held various posts at IBM 1976–1994.
Other appointments: Board member of Acando AB and IFS AB.
Shareholdings (including related parties and through companies): 7,000 Series B shares.

Eva Lindqvist
Board member since 2008.
Born 1958.
Master of Science in Engineering and Bachelor of Science in Business Administration and Economics.
Senior Vice President of Mobile Business at TeliaSonera AB 2006–2007. Prior to that, several senior posts at TeliaSonera AB, including President and Head of Business Operation International Carrier, and various posts in the Ericsson Group 1981–1999.
Other appointments: Board member of companies including Tieto Oy, Transmode AB and Episerver AB. Member of the Royal Swedish Academy of Engineering Sciences (IVA).
Shareholdings (including related parties and through companies): 2,300 Series B shares.

Johan Molin
Board member since 2006.
Born 1959.
Bachelor of Science in Business Administration and Economics.
President and CEO of ASSA ABLOY AB since 2005. CEO of Nilfisk-Advance 2001–2005. Various senior positions mainly in finance and marketing, later divisional head in the Atlas Copco Group 1983–2001.
Other appointments: Chairman of Nobia AB.
Shareholdings (including related parties and through companies): 526,267 Series B shares.

Sven-Christer Nilsson
Board member since 2001.
Born 1944.
Bachelor of Science.
President and CEO of Telefonaktiebolaget LM Ericsson 1998–1999, various executive positions mainly in marketing and general management in the Ericsson Group 1982–1997.
Other appointments: Chairman of the Swedish Defence Materiel Administration (FMV). Board member of Sprint Nextel Corporation and CEVA, Inc.
Shareholdings (including related parties and through companies): 5,000 Series B shares.

Shareholdings as at 31 December 2012. This information is updated regularly at *www.assaabloy.com*

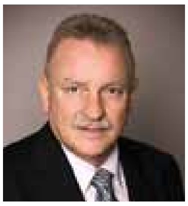

Ulrik Svensson


Jan Svensson

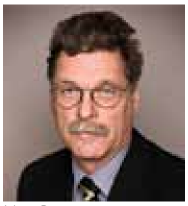
Ulrik Svensson
Board member since 2008.
Born 1961.
Bachelor of Science in Business Administration and Economics.
CEO of Melker Schörling AB. CFO of Swiss International Airlines Ltd. 2003–2006. CFO of Esselte AB 2000–2003 and Controller/CFO of the Stenbeck Group's foreign telecoms ventures 1992–2000.
Other appointments: Board member of AarhusKarlshamn AB, Loomis AB, Hexagon AB, Hexpol AB and Flughafen Zürich AG.
Shareholdings (including related parties and through companies): 3,000 Series B shares.

Jan Svensson
Board member since 2012.
Born 1956.
Mechanical Engineer and Bachelor of Science in Business Administration and Economics.
President and CEO of Investment AB Latour since 2003.
Other appointments: Chairman of AB Fagerhult, Nederman Holding AB and Oxeon AB. Board member of Loomis AB, Investment AB Latour and Tomra Systems ASA.
Shareholdings (including related parties and through companies): 2,000 Series B shares.

Board members appointed by employee organizations


Seppo Liimatainen

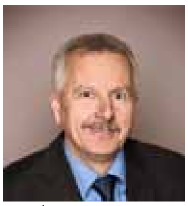
Seppo Liimatainen
Board member since 2003.
Born 1950.
Employee representative, Federation of Salaried Employees in Industry and Services.
Shareholdings: 2,600 Series B shares.


Mats Persson

Mats Persson
Board member since 1994.
Born 1955.
Employee representative, Swedish Metal Workers Union.
Shareholdings: –


Rune Hjälm

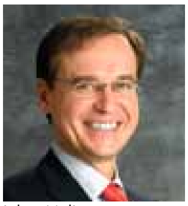
Rune Hjälm
Deputy board member since 2005.
Born 1964.
Employee representative, Swedish Metal Workers Union.
Chairman of EWC, European Works Council in the ASSA ABLOY Group.
Shareholdings: –

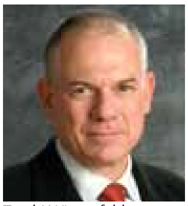

Per Edvin Nyström

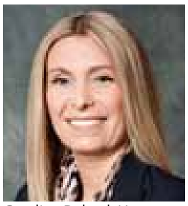
Per Edvin Nyström
Deputy board member since 1994.
Born 1955.
Employee representative, Swedish Metal Workers Union.
Shareholdings: 5,727 Series B shares.

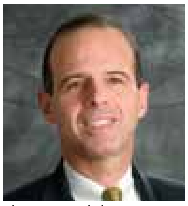
Shareholdings as at 31 December 2012. This information is updated regularly at ***www.assaabloy.com***

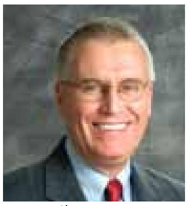
Corporate governance The Executive Team

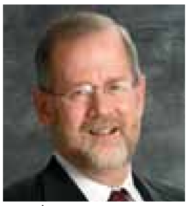

Johan Molin


Tzachi Wiesenfeld


Carolina Dybeck Happe

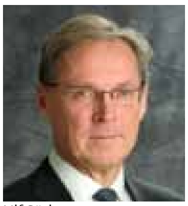

Thanasis Molokotos


Denis Hébert


Tim Shea


Jonas Persson


Juan Vargues


Ulf Södergren

The Executive Team

Johan Molin
Born 1959.
Bachelor of Science in Business Administration and Economics.
President and CEO.
Head of Global Technologies division.
Employed since: 2005.
Shareholdings: 526,267 Series B shares.

Carolina Dybeck Happe
Born 1972.
Masters degree in Finance.
Executive Vice President and Chief Financial Officer (CFO).
Employed since: 2012.
Shareholdings: 5,769 Series B shares.

Denis Hébert
Born 1956.
Bachelor of Commerce, MBA.
Executive Vice President.
Head of Global Technologies business unit HID Global.
Employed since: 2002.
Shareholdings: 9,301 Series B shares.

Jonas Persson
Born 1969.
Master of Science in Engineering.
Executive Vice President.
Head of Asia Pacific division.
Employed since: 2009.
Shareholdings: 13,333 Series B shares.

Ulf Södergren
Born 1953.
Master of Science in Engineering and Bachelor of Science in Business Administration and Economics.
Executive Vice President.
Chief Technology Officer (CTO).
Employed since: 2000.
Shareholdings: 6,907 Series B shares.

Tzachi Wiesenfeld
Born 1958.
Bachelor of Science in Industrial Engineering, MBA.
Executive Vice President.
Head of EMEA division.
Employed since: 2000.
Shareholdings: 11,113 Series B shares.

Thanasis Molokotos
Born 1958.
Master of Science in Engineering.
Executive Vice President.
Head of Americas division.
Employed since: 1996.
Shareholdings: 37,157 Series B shares.

Tim Shea
Born 1959.
Degree in Mechanical Engineering, MBA.
Executive Vice President.
Head of Global Technologies business unit ASSA ABLOY Hospitality.
Employed since: 2004.
Shareholdings: 5,584 Series B shares.

Juan Vargues
Born 1959.
Degree in Mechanical Engineering, MBA.
Executive Vice President.
Head of Entrance Systems division.
Employed since: 2002.
Shareholdings: 10,677 Series B shares.

Shareholdings as at 31 December 2012. This information is updated regularly at *www.assaabloy.com*

The Executive Team and organization

The Executive Team consists of the CEO, the heads of the Group's divisions, the Chief Financial Officer and the Chief Technology Officer. ASSA ABLOY's operations are divided into five divisions, where the fundamental principle is that the divisions should be responsible, as far as possible, for business operations, while various functions at headoffice are responsible for coordination, monitoring, policies and guidelines at an overall level. The Group's structure results in a geographical and strategic spread of responsibility ensuring short-decision-making paths. The Group's management philosophy is based on trust and respect for local cultures and conditions.

Guidelines and policies

The Group's most important guidelines and policies define the product areas in which the Group should operate and describe the principles for market development, growth, product development, organization, cost-efficiency and employee development. These principles are described in the publication 'Our Road to the Future', which has been provided to all employees in the Group. Other important guidelines and policies concern financial control, communication issues, insider issues, the Group's brands, business ethics, export control, and environmental issues. ASSA ABLOY's financial policy and accounting manual provide the framework for financial control and monitoring. The Group's communications policy aims to ensure essential 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 Swedish insider legislation. This policy applies to all persons reported to the Swedish Financial Supervisory Authority as holding insider position in 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 has adopted a Code of Conduct that applies to the whole Group. The Code, which is based on a set of internationally accepted conventions, defines the values and guidelines that should apply within the Group with regard to the environment, health and safety, business ethics, working conditions, human rights and social responsibility. Application of the Code of Conduct in the Group's different units is monitored regularly to ensure compliance and relevance. ASSA ABLOY has also adopted an anti-bribery policy and an export control policy that applies to the whole Group.

Decentralized organization

ASSA ABLOY's operations are decentralized. Decentralization is a deliberate strategic choice based on the industry's local nature and a conviction of the benefits of a divisional control model.

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 Group consists of five divisions, which are divided into around 30 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.

Internal control of financial reporting

ASSA ABLOY's process for internal control of 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. The process is based on the internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). It can be divided into a number of sub-components, as defined in the above framework, and is described in more detail below.

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, among other things, the Board of Directors' rules of procedure and instructions to the CEO, the Code of Conduct, financial policy, and an annual financial evaluation plan. Regular meetings are held with the Audit Committee. The Group has an internal control function whose primary objective is ensuring reliable financial reporting.

ASSA ABLOY's effective decentralized organizational structure makes a substantial contribution to a good control environment. All units in the Group apply uniform accounting and reporting instructions. Minimum levels for internal control of financial reporting have been established and are monitored annually for all operating companies. The Code of Conduct was previously 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. 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 level 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 for 2012 are submitted to the Audit Committee and the auditors. Group-wide internal control guidelines are reviewed annually. These guidelines affect various procedures, such as ordering and purchasing (including payments), finalizing accounts and plants, as well as compliance with various relevant policies, legal issues and HR issues.

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 level 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 monthly and quarterly forecasts.

The Group-wide internal control guidelines were reviewed during the year in all operating companies through self-assessment and in some cases a second opinion from external auditors. These self-assessments are then reviewed at division and Group level to further improve the reliability of the financial reporting.

External audit
At the 2010 Annual General Meeting, Pricewaterhouse-Coopers (PwC) were appointed as the company's external auditors for a four-year period up to the end of the 2014 Annual General Meeting, with authorized public accountant Peter Nyllinge as the auditor in charge. PwC have been the Group's auditors since the Group was formed in 1994. Peter Nyllinge, born 1966, is responsible for auditing SEB, Securitas and Ericsson as well as ASSA ABLOY.

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 company's auditor 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), which has been good auditing practice in Sweden since 2011. 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 2011, Note 3.

Report of the Board of Directors

Remuneration guidelines for senior management

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

The Board of Directors of ASSA ABLOY proposes that the 2013 Annual General Meeting adopts the following guidelines for the remuneration and other employment conditions of the President and CEO and the other members of the Executive Team. The proposed guidelines below do not involve any material change, compared with the guidelines adopted by the 2012 Annual General Meeting. The basic principle is that remuneration and other employment conditions should 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 should consist of basic salary, variable components in the form of annual and long-term variable remuneration, other benefits and pension.

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

Fixed and variable remuneration

The basic salary should 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 should be able to receive variable cash remuneration, based on the outcome in relation to financial targets and, when applicable, individual targets. This remuneration should be equivalent to a maximum 75 percent of the basic salary (excluding social security costs).

In addition, the Executive Team should, 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 outcome in relation to a range determined by the Board of Directors for the performance of earnings per share during 2013. This remuneration model also includes the right, when purchasing a share under certain conditions, to receive a free matching share from the company. This remuneration should, if the share price is unchanged, be equivalent to a maximum 75 percent of the basic salary (excluding social security costs).

The cost of variable remuneration for the Executive Team as above, assuming maximum outcome, totals around SEK 61 M (excluding social security costs). 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 should be covered by defined contribution pension plans, for which pension premiums are allocated from the executive's total remuneration 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 24 months' basic 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' basic salary and other employment benefits plus an additional 12 months' basic salary.

Deviations from guidelines

The Board of Directors should have the right to deviate from these guidelines if there are particular reasons for doing so in an individual case.

Sales and income

- Organic growth was 2 percent (4), while acquired growth was 9 percent (17).
- Operating income (EBIT) increased by 13 percent to SEK 7,501 M (6,624), equivalent to an operating margin of 16.1 percent (15.9).
- Earnings per share after full dilution increased by 13 percent to SEK 13.84 (12.30).

Sales

The Group's sales amounted to SEK 46,619 M (41,786). Exchange rate effects had an impact on sales of SEK 290 M (–2,309).

Change in sales

%	2011	2012
Organic growth	4	2
Acquired growth	17	9
Exchange rate effects	–8	1
Total	**13**	**12**

The total change in sales for 2012 was 12 percent (13). Organic growth was 2 percent (4) and acquired units made a positive contribution of 9 percent (17).

Sales by product group

Mechanical locks, lock systems and fittings accounted for 36 percent (38) of total sales. Electromechanical and electronic locks rose to 46 percent (42) of sales, of which entrance automation accounted for 24 percentage points (20). Security doors and hardware accounted for 18 percent (20) of sales.

Cost structure

Total wage costs, including social security expenses and pension expenses, amounted to SEK 12,705 M (11,835), equivalent to 27 percent (28) of sales. The average number of employees in the Group was 42,762 (41,070).

The Group's material costs amounted to SEK 16,111 M (14,655), equivalent to 35 percent (35) of sales.

Other purchasing costs totaled SEK 9,256 M (7,616), equivalent to 20 percent (18) of sales.

Depreciation and amortization of non-current assets amounted to SEK 1,034 M (1,022), equivalent to 2 percent (2) of sales.

Operating income

Operating income (EBIT) excluding restructuring costs rose to SEK 7,501 M (6,624), due to efficiency savings and continued growth in operations. The corresponding operating margin was 16.1 percent (15.9). Exchange rate effects amounted to SEK 37 M (–430).

Operating income before depreciation and amortization (EBITDA) excluding restructuring costs totaled SEK 8,536 M (7,646). The corresponding margin was 18.3 percent (18.3).

Items affecting comparability

Operating income for the year was not reduced by restructuring costs (–1,420). Net income for the year from assets held for sale and discontinued operations amounted to SEK 11 M (404). In 2011 Cardo Flow Solutions and Lorentzen & Wettre were divested, giving rise to a capital gain of SEK 404 M.

Income before tax

Income before tax excluding restructuring costs totaled SEK 6,731 M (5,979). The exchange rate effect amounted to SEK 28 M (–399). Net financial items amounted to SEK –770 M (–645). The change in net financial items is mainly due to increased pension and interest expenses. The profit margin, defined as income before tax in relation to sales, was 14.4 percent (14.3) excluding restructuring costs.

The parent company's income before tax was SEK 3,507 M (2,297).

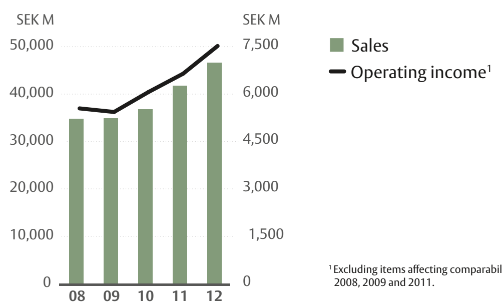
Tax

The Group's tax expense totaled SEK 1,617 M (1,095), equivalent to an effective tax rate of 24 percent (24).

Earnings per share

Earnings per share after full dilution, excluding items affecting comparability, amounted to SEK 13.84 (12.30), an increase of 13 percent.

SALES AND OPERATING INCOME



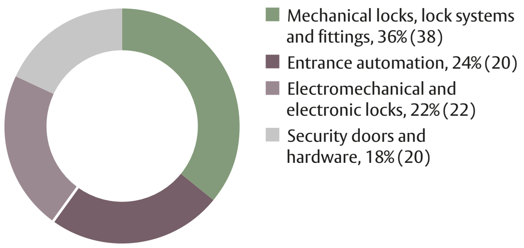
[1] Excluding items affecting comparability 2008, 2009 and 2011.

Consolidated income statement and Statement of comprehensive income

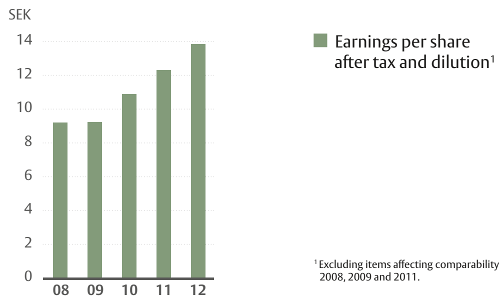
Income statement, SEK M	Note	2011	2012
Sales	2	41,786	46,619
Cost of goods sold		–26,829	–28,190
Gross income		**14,957**	**18,429**
Selling expenses		–6,408	–7,162
Administrative expenses	3	–2,109	–2,410
Research and development costs		–1,202	–1,344
Other operating income and expenses	4	–77	–82
Share of earnings in associates	5	43	70
Operating income	6–9, 33	**5,204**	**7,501**
Financial income	10	59	32
Financial expenses	9, 11	–704	–802
Income before tax		**4,559**	**6,731**
Tax on income	12	–1,095	–1,617
Net income from continuing operations		**3,465**	**5,114**
Net income of disposal group classified as held for sale and discontinued operations	31	404	11
Net income		**3,869**	**5,125**
Net income attributable to:			
Parent company's shareholders		3,843	5,112
Non-controlling interest		26	14
Earnings per share			
before dilution, SEK	13	10.45	13.85
after dilution, SEK	13	10.33	13.84
after dilution and excluding items affecting comparability, SEK	13	12.30	13.84

Statement of comprehensive income, SEK M	2011	2012
Net income	**3,869**	**5,125**
Other comprehensive income		
Share of other comprehensive income of associates	21	–96
Cashflow hedges	–30	–1
Net investment hedges	–108	181
Exchange rate differences	327	–978
Total comprehensive income	**4,079**	**4,232**
Total comprehensive income attributable to:		
– Parent company's shareholders	4,040	4,226
– Non-controlling interest	39	6

SALES BY PRODUCT GROUP, 2012



EARNINGS PER SHARE AFTER TAX AND DILUTION



[1] Excluding items affecting comparability 2008, 2009 and 2011.

Comments by division

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

EMEA

Sales totaled SEK 13,382 M (13,030), with organic growth of 1 percent (0). Acquired units contributed 4 percent (5) to sales. Operating income excluding restructuring costs amounted to SEK 2,279 M (2,203), with an operating margin (EBIT) of 17.0 percent (16.9). Return on capital employed excluding restructuring costs was 22.6 percent (22.0). Operating cash flow before interest paid was SEK 2,241 M (2,142).

Demand on mature European markets remained weak during the year. Continued intensive efforts on market presence, cost-efficiency, and the launch of new products improved the operating margin.

Americas

Sales totaled SEK 9,671 M (8,906), with organic growth of 4 percent (2). Acquired units contributed 1 percent (1) to sales. Operating income excluding restructuring costs amounted to SEK 2,007 M (1,812), with an operating margin (EBIT) of 20.8 percent (20.3). Return on capital employed excluding restructuring costs was 23.6 percent (22.8). Operating cash flow before interest paid was SEK 1,797 M (1,731).

Sales rose mainly in high-security products and electromechanical products, combined with a recovery on the American residential market. The operating margin remained high due to strengthened market presence and a broad product portfolio.

Asia Pacific

Sales totaled SEK 7,224 M (6,633), with organic growth of 3 percent (9). Acquired units contributed 1 percent net (4) to sales. Operating income excluding restructuring costs amounted to SEK 978 M (933), with an operating margin (EBIT) of 13.5 percent (14.1). Return on capital employed excluding restructuring costs was 20.7 percent (23.6). Operating cash flow before interest paid was SEK 1,348 M (912). Sales rose further in China, where market demand slowed during the year. Demand was strong on the majority of other Asian markets, but negative in Australia. Operating margin and cash flow were maintained at a good level.

Global Technologies

Sales totaled SEK 6,262 M (5,756), with organic growth of 6 percent (11). Acquired units contributed 1 percent (13) to sales. Operating income excluding restructuring costs amounted to SEK 1,073 M (897), with an operating margin (EBIT) of 17.1 percent (15.6). Return on capital employed excluding restructuring costs was 17.3 percent (14.3). Operating cash flow before interest paid was SEK 1,140 M (933).

The division showed continued strong organic growth during the year for both business units, HID Global and Hospitality, driven by new products and services. Operating margin and operating cash flow increased considerably.

Entrance Systems

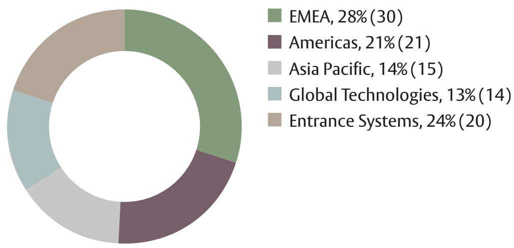
Sales totaled SEK 10,979 M (8,278), with organic growth of –2 percent (5). Acquired units contributed 37 percent (110) to sales. Operating income excluding restructuring costs amounted to SEK 1,546 M (1,197), with an operating margin (EBIT) of 14.1 percent (14.5). Return on capital employed excluding restructuring costs was 12.3 percent (12.2). Operating cash flow before interest paid was SEK 1,648 M (1,317).

Demand was stable but weak in Europe during the year. The market position continued to strengthen considerably due to major acquisitions. Sales and operating cash flow increased substantially, compared with the previous year.

Other

The costs of group-wide functions, such as corporate management, accounting and finance, supply management and group-wide product development, amounted to SEK 382 M (418). Elimination of sales between the Group's segments and restructuring costs are included in 'Other'.

EXTERNAL SALES, 2012



Results by division

SEK M	EMEA[1]		Americas[2]		Asia Pacific[3]		Global Technologies[4]		Entrance Systems		Other		Total	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Sales, external	12,762	13,177	8,867	9,623	6,243	6,705	5,688	6,191	8,226	10,923	–	–	41,786	46,619
Sales, internal	268	204	39	48	391	518	67	71	52	57	–817[7]	–898[7]	–	–
Sales	**13,030**	**13,382**	**8,906**	**9,671**	**6,633**	**7,224**	**5,756**	**6,262**	**8,278**	**10,979**	**–817**	**–898**	**41,786**	**46,619**
Organic growth	0%	1%	2%	4%	9%	3%	11%	6%	5%	–2%	–	–	4%	2%
Share of earnings in associates	2	–6	–	–	–	5	–	–	41	71	–	–	43	70
Operating income (EBIT) excluding items affecting comparability	**2,203**	**2,279**	**1,812**	**2,007**	**933**	**978**	**897**	**1,073**	**1,197**	**1,546**	**–418**	**–382**	**6,624**	**7,501**
Operating margin (EBIT) excluding items affecting comparability	16.9%	17.0%	20.3%	20.8%	14.1%	13.5%	15.6%	17.1%	14.5%	14.1%	–	–	15.9%	16.1%
Items affecting comparability[6]	–587	–	–150	–	–48	–	–87	–	–423	–	–125	–	–1,420	–
Operating income (EBIT)	**1,616**	**2,279**	**1,662**	**2,007**	**885**	**978**	**810**	**1,073**	**774**	**1,546**	**–543**	**–382**	**5,204**	**7,501**
Operating margin (EBIT)	12.4%	17.0%	18.7%	20.8%	13.3%	13.5%	14.1%	17.1%	9.3%	14.1%	–	–	12.5%	16.1%
Net financial items													–645	–770
Tax on income													–1,095	–1,617
Net income from discontinued operations													404	11
Net income													**3,869**	**5,125**
Capital employed	8,950	9,217	8,468	8,301	4,278	5,168	6,449	5,717	10,837	13,189	–1,041	–518	37,942	41,073
–of which goodwill	5,564	5,846	6,041	5,913	3,410	4,326	4,846	4,524	7,153	8,323	–	–	27,014	28,932
–of which other intangible and tangible assets	2,590	2,556	1,484	1,442	2,464	2,488	1,258	1,133	2,237	3,377	93	97	10,126	11,093
–of which shares in associates	33	22	–	–	–	315	–	–	1,178	1,182	–	–	1,211	1,519
Return on capital employed excluding items affecting comparability	22.0%	22.6%	22.8%	23.6%	23.6%	20.7%	14.3%	17.3%	12.2%	12.3%	–	–	17.4%	18.2%
Operating income (EBIT)	1,616	2,279	1,662	2,007	885	978	810	1,073	774	1,546	–543	–382	5,204	7,501
Restructuring costs	587	–	150	–	48	–	87	–	423	–	125	–	1,420	–
Depreciation	385	353	182	176	148	162	169	172	126	164	12	6	1,022	1,034
Investments in fixed assets	–331	–441	–140	–211	–215	–203	–98	–112	–111	–113	–3	–7	–898	–1,086
Sales of fixed assets	8	128	5	9	10	274	0	0	19	109	10	9	52	530
Change in working capital	–123	–79	–128	–185	35	135	–35	8	86	–59	–73	102	–238	–77
Cash flow[5]	**2,142**	**2,241**	**1,731**	**1,797**	**912**	**1,348**	**933**	**1,140**	**1,317**	**1,648**	**–472**	**–272**	**6,563**	**7,902**
Adjustment for non-cash items											0	–312	0	–312
Interest paid and received											–482	–546	–482	–546
Operating cash flow[5]													**6,080**	**7,044**
Average number of employees	10,071	10,260	6,658	6,620	15,784	15,284	2,819	3,029	5,605	7,429	133	140	41,070	42,762

[1] Europe, Middle East and Africa.
[2] North and South America.
[3] Asia, Australia and New Zealand.
[4] ASSA ABLOY Hospitality and HID Global.
[5] Excluding restructuring payments.
[6] Items affecting comparability consist of restructuring costs.
[7] Of which eliminations SEK 898 M (817).

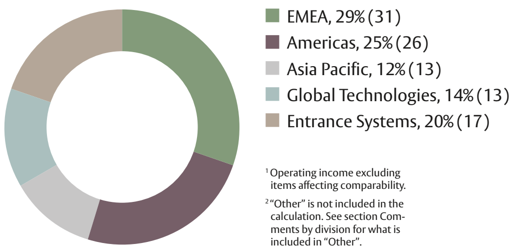
The segments have been determined on the basis of reporting to the CEO, who monitors the overall performance and makes decisions on resource allocation.

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.

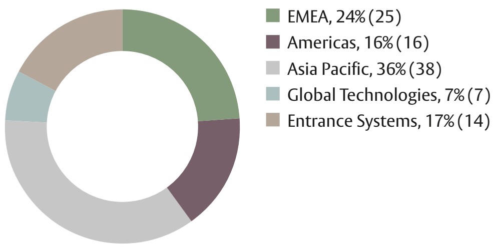
For further information on sales, see Note 2.

OPERATING INCOME, 2012 [1, 2]



[1] Operating income excluding items affecting comparability.
[2] "Other" is not included in the calculation. See section Comments by division for what is included in "Other".

AVERAGE NUMBER OF EMPLOYEES, 2012



Financial position

- Capital employed amounted to SEK 41,073 M (37,942).
- Return on capital employed remained high at 18.2 percent (17.4).
- The net debt/equity ratio was 0.55 (0.60).

SEK M	2011	2012
Capital employed	37,942	41,073
– of which goodwill	27,014	28,932
Assets and liabilities of disposal group held for sale	–	384
Net debt	14,207	14,732
Equity	23,735	26,725
–of which non-controlling interests	208	183

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 41,073 M (37,942). The return on capital employed excluding items affecting comparability was 18.2 percent (17.4).

Intangible assets amounted to SEK 34,422 M (31,455). 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 3,768 M as a result of completed acquisitions. 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.

Tangible assets amounted to SEK 5,603 M (5,684). Capital expenditure on tangible and intangible assets, less sales of tangible and intangible assets, totaled SEK 556 M (846). Depreciation amounted to SEK 1,034 M (1,022).

Trade receivables amounted to SEK 7,557 M (6,924) and inventories totaled SEK 5,905 M (5,704). The average collection period for trade receivables was 51 days (47). Material throughput time was 98 days (97). The Group is making systematic efforts to increase capital efficiency.

Net debt

Net debt amounted to SEK 14,732 M (14,207), of which pension commitments and other post-employment benefits accounted for SEK 1,224 M (1,173).

Net debt was increased by acquisitions and the dividend to shareholders and reduced by the continued strong positive operating cash flow. The net increase is mainly due to increased acquisition activity.

External financing

The Group's long-term loan financing mainly consists of a Private Placement Program in the USA totaling USD 750 M, of which USD 698 M (500) is long-term, a GMTN program of SEK 5,392 M (2,656), and a loan from the European Investment Bank of EUR 110 M (110). During the year new issues were made under the Private Placement Program in the USA. A total of USD 250 M was raised divided into three tranches of 7, 10 and 12 years. In addition, nine issues were made under the GMTN program for a total amount of around SEK 2,800 M. Other changes in long-term loans are mainly due to some of the original long-term loans now having less than one year to maturity.

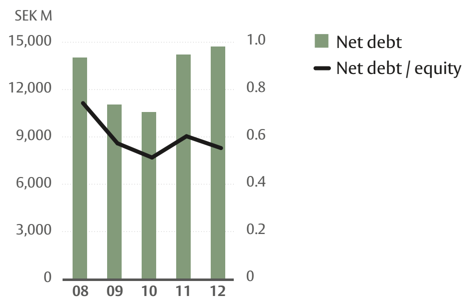
The Group's short-term loan financing mainly consists of two Commercial Paper Programs for a maximum USD 1,000 M (1,000) and SEK 5,000 M (5,000) respectively. At year-end, SEK 2,152 M (4,242) of the Commercial Paper Programs had been utilized. In addition, substantial credit facilities are available, mainly in the form of a Multi-Currency Revolving Credit Facility of EUR 1,100 M (1,100), which was wholly unutilized at year-end. The reduction in short-term financing is mainly linked to the increase in long-term capital market issues implemented to extend the Group's maturity structure. The interest coverage ratio, defined as income before tax plus net interest, divided by net interest, was 10.4 (8.8). Fixed interest terms fell somewhat during the year, with an average term of 32 months (16) at year-end.

Cash and cash equivalents amounted to SEK 907 M (1,665) 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

The Group's equity totaled SEK 26,725 M (23,735) at year-end. The return on equity was 20.1 percent (16.7). The equity ratio was 44.6 percent (42.9). The debt/equity ratio, defined as net debt divided by equity, was 0.55 (0.60).

NET DEBT



CAPITAL EMPLOYED AND RETURN ON CAPITAL EMPLOYED

[1] Excluding items affecting comparability 2008, 2009 and 2011.

Consolidated balance sheet

SEK M	Note	2011	2012
ASSETS			
Non-current assets			
Intangible assets	14	31,455	34,422
Tangible assets	15	5,684	5,603
Investments in associates	17	1,211	1,519
Other financial assets	19	164	89
Deferred tax assets	18	786	1,370
Total non-current assets		**39,301**	**43,003**
Current assets			
Inventories	20	5,704	5,905
Trade receivables	21	6,924	7,557
Current tax receivables		325	336
Other current receivables		620	822
Prepaid expenses and accrued income		551	578
Derivative financial instruments	34	234	114
Short-term investments	34	50	24
Cash and cash equivalents	34	1,665	907
Assets of disposal group classified as held for sale	31	–	610
Total current assets		**16,072**	**16,853**
TOTAL ASSETS		**55,373**	**59,856**
EQUITY AND LIABILITIES			
Equity			
Parent company's shareholders			
Share capital	23	368	371
Other contributed capital		9,227	9,675
Reserves		–287	–1,173
Retained earnings		14,219	17,670
		23,527	**26,543**
Non-controlling interest		208	183
Total equity		**23,735**	**26,725**
Non-current liabilities			
Long-term loans	34	7,422	11,194
Deferred tax liabilities	18	497	1,226
Pension provisions	24	1,173	1,224
Other non-current provisions	25	1,315	1,871
Other non-current liabilities	34	2,668	704
Total non-current liabilities		**13,075**	**16,219**
Current liabilities			
Short-term loans	34	6,531	3,301
Convertible debentures	34	896	–
Derivative financial instruments	34	179	87
Trade payables		3,796	3,883
Current tax liabilities		330	822
Current provisions	25	2,028	1,204
Other current liabilities	26	1,642	3,991
Accrued expenses and deferred income	27	3,161	3,397
Liabilities of disposal group classified as held for sale	31	–	226
Total current liabilities		**18,563**	**16,911**
TOTAL EQUITY AND LIABILITIES		**55,373**	**59,856**

Cash flow

- Operating cash flow remained very strong and amounted to SEK 7,044 M (6,080).
- Net capital expenditure totaled SEK 557 M (846).

Operating cash flow

SEK M	2011	2012
Operating income (EBIT)	5,204	7,501
Restructuring costs	1,420	–
Depreciation	1,022	1,034
Net capital expenditure	–846	–557
Change in working capital	–238	–77
Interest paid and received	–482	–546
Non-cash items	0	–312
Operating cash flow[1]	**6,080**	**7,044**
Operating cash flow/ Income before tax	1.02[2]	1.05

[1] Excluding restructuring payments.
[2] Excluding restructuring costs.

The Group's operating cash flow amounted to SEK 7,044 M (6,080), equivalent to 105 percent (102) of income before tax excluding restructuring costs.

Net capital expenditure

Net capital expenditure on intangible and tangible assets totaled SEK 556 M (846), equivalent to 54 percent (83) of the depreciation on intangible and tangible assets. The low net capital expenditure is mainly due to real estate sales during the year. In addition, the Group's long-term efforts to streamline the production structure contributed to the low net capital expenditure.

Change in working capital

SEK M	2011	2012
Inventories	–32	0
Trade receivables	–249	–192
Trade payables	235	–22
Other working capital	–192	136
Change in working capital	**–238**	**–77**

The material throughput time was 98 days (97) at year-end. Capital tied up in working capital increased to a lesser extent during the year, which had an impact on cash flow of SEK –77 M (–238) overall.

Relationship between cash flow from operating activities and operating cash flow

SEK M	2011	2012
Cash flow from operating activities	5,347	5,990
Restructuring payments	373	498
Net capital expenditure	–846	–557
Reversal of tax paid	1,206	1,113
Operating cash flow	**6,080**	**7,044**

Investments in subsidiaries

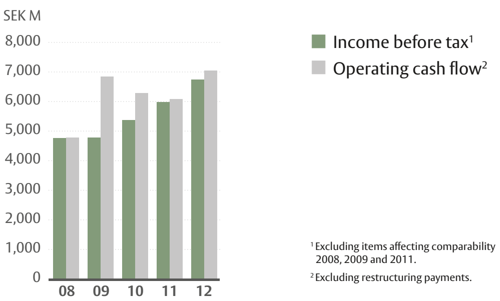
The total purchase price of investments in subsidiaries amounted to SEK 4,799 M (13,600), of which the cash flow effect was SEK –3,836 M (–12,297). Acquired cash totaled SEK 345 M (411).

Change in net debt

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

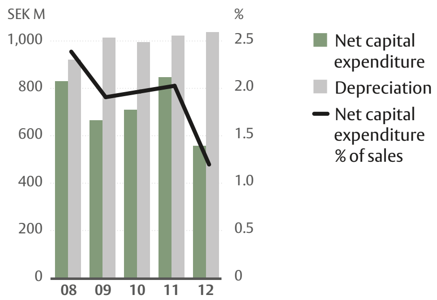
SEK M	2011	2012
Net debt at 1 January	10,564	14,207
Operating cash flow	–6,080	–7,044
Restructuring payments	373	498
Tax paid	1,206	1,113
Acquisitions/Disposals	6,511	4,619
Dividend	1,472	1,683
Share issue	–308	–450
Purchase of treasury shares	17	38
Exchange rate differences and others	452	–321
Cash and cash equivalents of disposal group classified as held for sale	–	390
Net debt at 31 December	**14,207**	**14,732**

INCOME BEFORE TAX AND OPERATING CASH FLOW



[1] Excluding items affecting comparability 2008, 2009 and 2011.
[2] Excluding restructuring payments.

CAPITAL EXPENDITURE



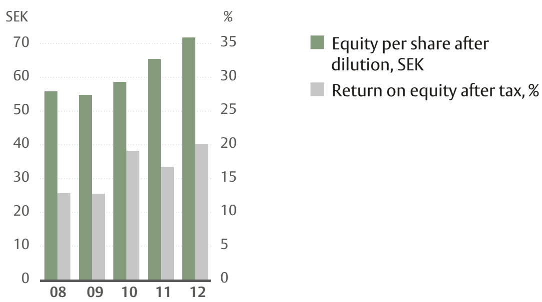
Consolidated cash flow statement

SEK M	Note	2011	2012
OPERATING ACTIVITIES			
Operating income		5,204	7,501
Depreciation	8	1,022	1,034
Reversal of restructuring costs		1,420	–
Restructuring payments		–373	–498
Other non-cash items	32	0	–312
Cash flow before interest and tax		**7,273**	**7,726**
Interest paid		–512	–596
Interest received		30	50
Tax paid on income		–1,206	–1,113
Cash flow before changes in working capital		**5,585**	**6,067**
Changes in working capital	32	–238	–77
Cash flow from operating activities		**5,347**	**5,990**
INVESTING ACTIVITIES			
Investments in tangible and intangible assets	14, 15	–898	–1,086
Sales of tangible and intangible assets	14, 15	52	530
Investments in subsidiaries	32	–12,297	–3,836
Investments in associates		–	–352
Disposals of subsidiaries	32	6,690	–12
Other investments	32	–904	19
Cash flow from investing activities		**–7,357**	**–4,738**
FINANCING ACTIVITES			
Dividends		–1,472	–1,683
Long-term loans raised		1,512	4,507
Long-term loans repaid		–646	–2,169
Share issue		308	450
Purchase of treasury shares		–17	–38
Net cash effect of changes in other borrowings		2,641	–2,632
Cash flow from financing activities		**2,326**	**–1,564**
CASH FLOW		**316**	**–312**
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		**1,302**	**1,665**
Cash flow		316	–312
Effect of exchange rate differences		47	–56
Cash and cash equivalents of disposal group held for sale		–	–390
Cash and cash equivalents at 31 December	34	**1,665**	**907**

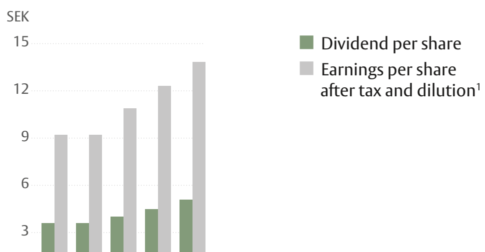
Changes in consolidated equity

		Parent company's shareholders					
SEK M	**Note**	**Share capital**	**Other contributed capital**	**Reserves**	**Retained earnings**	**Non-controlling interest**	**Total**
Opening balance 1 January 2011	23	**366**	**8,921**	**–484**	**11,849**	**169**	**20,821**
Net income					3,843	26	3,869
Other comprehensive income				197		13	210
Total comprehensive income				**197**	**3,843**	**39**	**4,079**
Dividend for 2010	23				–1,472		–1,472
Stock purchase plans					16		16
Share issue		2	306				308
Purchase of treasury shares					–17		–17
Total transactions with parent company's shareholders		**2**	**306**		**–1,473**		**–1,165**
Closing balance 31 December 2011	23	**368**	**9,227**	**–287**	**14,219**	**208**	**23,735**
Opening balance 1 January 2012	23	**368**	**9,227**	**–287**	**14,219**	**208**	**23,735**
Net income					5,112	14	5,125
Other comprehensive income				–886		–7	–893
Total comprehensive income				**–886**	**5,112**	**6**	**4,232**
Dividend for 2011	23				–1,655	–27	–1,683
Stock purchase plans					27		27
Share issue		3	448				450
Purchase of treasury shares					–38		–38
Change in non-controlling interest					5	–4	1
Total transactions with parent company's shareholders		**3**	**448**		**–1,660**	**–32**	**–1,242**
Closing balance 31 December 2012	23	**371**	**9,675**	**–1,173**	**17,670**	**183**	**26,725**

EQUITY PER SHARE AFTER DILUTION AND RETURN ON EQUITY AFTER TAX



DIVIDEND



[1] Excluding items affecting comparability 2008, 2009 and 2011.

ASSA ABLOY secures state-of-the-art hospital

St. Alexius Medical Center and its recently constructed Women & Children's Hospital, supports the prevention, treatment and elimination of pediatric disease through its 60 medical and surgical specialties. This state-of-the-art, child-friendly environment also offers flexible visiting hours, convenient meal options, and private spaces meeting the needs of Chicago's northwest suburbs.

Challenge:

Having established door opening standards for its facilities, St. Alexius Medical Center sought to balance this consistency with the evaluation and integration of relevant life-safety and security solutions to help the new facility meet its goals for the patient experience. Since it was a pediatric facility, it was equally important that safety and security be seamless.

Solution:

ASSA ABLOY, with a close end-user relationship, proposed the use of new product innovations to modernize the safety and security of the 500 door opening facility. The new Medeco X4 key system with patent protection until 2027, allowed the facility to update its mechanical security and also allow for future upgrade of other hospital facilities.

New SARGENT wireless access control solutions extended the reach of the EAC system and provided the security and audit capabilities necessary to meet healthcare privacy requirements. Electromechanical exit devices and the recently designed push/pull trim, all with the MicroShield antimicrobial finish became new standards for the facility.

Product Brands – Hardware and Access Control: HES, Markar, McKinney, Norton, Rixson, Rockwood, Sargent; Hollow Metal Doors and Frames: Curries; Key System: Medeco; Solutions: MicroShield.

Parent company financial statements

Income statement – Parent company

SEK M	Note	2011	2012
Administrative expenses	3, 6, 8, 9	–662	–775
Research and development costs	6, 8, 9	–297	–313
Other operating income and expenses	4	1,808	1,938
Operating income	9, 33	**849**	**850**
Financial income	10	2,394	9,975
Financial expenses	9, 11	–714	–6,970
Group contributions		–232	–348
Income before tax		**2,297**	**3,507**
Tax on income	12	–29	–11
Net income		**2,268**	**3,496**

Statement of comprehensive income – Parent company

SEK M	2011	2012
Net income	**2,268**	**3,496**
Other comprehensive income		
Changes in value of financial instruments	258	84
Total comprehensive income	**2,526**	**3,580**

Balance sheet – Parent company

SEK M	Note	2011	2012
ASSETS			
Non-current assets			
Intangible assets	14	109	923
Tangible assets	15	3	3
Shares in subsidiaries	16	31,789	28,100
Other financial assets	19	1,141	1,489
Total non-current assets		**33,042**	**30,515**
Current assets			
Receivables from subsidiaries		2,825	2,411
Other current receivables		45	38
Prepaid expenses and accrued income		27	17
Cash and cash equivalents		0	4
Total current assets		**2,897**	**2,470**
TOTAL ASSETS		**35,939**	**32,985**
EQUITY AND LIABILITIES			
Equity	22		
Restricted equity			
Share capital	23	368	371
Statutory reserve		8,905	8,905
Non-restricted equity			
Share premium reserve		340	788
Retained earnings		2,261	2,947
Net income		2,268	3,496
Total equity		**14,142**	**16,507**
Provisions			
Other provisions	25	76	73
Total provisions		**76**	**73**
Non-current liabilities			
Long-term loans	34	2,646	5,386
Total non-current liabilities		**2,646**	**5,386**
Current liabilities			
Short-term loans	34	549	–
Convertible debentures	34	896	–
Trade payables		65	55
Current liabilities to subsidiaries		17,413	10,779
Other current liabilities		7	4
Accrued expenses and deferred income	27	145	181
Total current liabilities		**19,075**	**11,019**
TOTAL EQUITY AND LIABILITIES		**35,939**	**32,985**
Assets pledged	29	–	–
Contingent liabilities	28	10,613	9,405

Cash flow statement – Parent company

SEK M	Note	2011	2012
OPERATING ACTIVITIES			
Operating income		849	850
Depreciation	8	157	250
Cash flow before interest and tax		**1,006**	**1,100**
Interest paid and received		–558	–473
Dividends received		2,280	9,775
Tax paid and received		–1	3
Cash flow before changes in working capital		**2,727**	**10,405**
Changes in working capital		–86	–242
Cash flow from operating activities		**2,641**	**10,163**
INVESTING ACTIVITIES			
Investments in tangible and intangible assets		–117	–1,063
Sales of tangible and intangible assets		0	0
Investments in subsidiaries		–11,825	–2,592
Other investments		–951	–331
Cash flow from investing activities		**–12,893**	**–3,986**
FINANCING ACTIVITIES			
Dividends		–1,472	–1,655
Loans raised		13,050	4,109
Loans repaid		–1,617	–9,039
Share issue		308	450
Purchase of treasury shares		–17	–38
Cash flow from financing activities		**10,252**	**–6,173**
CASH FLOW		**0**	**4**
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		**0**	**0**
Cash flow		0	4
Cash and cash equivalents at 31 December		**0**	**4**

Change in equity – Parent company

		Restricted equity			Non-restricted equity		
SEK M	Note	Share capital	Statutory reserve	Fair value reserve	Share premium reserve	Retained earnings	Total
Opening balance 1 January 2011		**366**	**8,905**	**–**	**34**	**3,476**	**12,781**
Net income						2,268	2,268
Hedge accounting						–17	–17
Write-up of shares in subsidiaries						275	275
Total comprehensive income						**2,526**	**2,526**
Dividend for 2010	23					–1,472	–1,472
Stock purchase plans						16	16
Share issue		2			306		308
Purchase of treasury shares						–17	–17
Total transactions with parent company's shareholders		**2**			**340**	**–1,473**	**–1,165**
Closing balance 31 December 2011	23	**368**	**8,905**	**–**	**340**	**4,529**	**14,142**
Opening balance 1 January 2012		**368**	**8,905**	**–**	**340**	**4,529**	**14,142**
Net income						3,496	3,496
Hedge accounting						84	84
Total comprehensive income						**3,580**	**3,580**
Dividend for 2011	23					–1,655	–1,655
Stock purchase plans		3				27	27
Share issue					448		450
Purchase of treasury shares						–38	–38
Total transactions with parent company's shareholders						**–1,666**	**–1,215**
Closing balance 31 December 2012	23	**371**	**8,905**	**–**	**788**	**6,443**	**16,507**

Notes

Note 1 Significant accounting and valuation principles

The Group

ASSA ABLOY applies International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), the Swedish Annual Accounts Act and standard RFR 1 of the Swedish Financial Reporting Board. The accounting principles are based on IFRS as endorsed by 31 December 2012 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 appearing on pages 63–120.

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 regarding financial assets and liabilities (including derivatives) measured at fair value through profit and loss.

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 that appears in the financial statements. Thus changes in estimates and assessments may lead to changes in the financial statements.

Estimates and assessments play an important part in the valuation of items such as identifiable assets and liabilities in acquisitions, impairment testing of goodwill and other assets, in determining actuarial assumptions for calculating employee benefits and other types of provisions, as well as in the valuation of deferred taxes. Estimates and assessments are continually reassessed and are based on a combination of 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 benefits to employees also have material importance for the consolidated financial statements. Information on these actuarial assumptions is to be found in Note 24.

New and revised standards applied by the Group

None of the standards and interpretations to be applied for the first time for the financial year beginning 1 January 2012 had a significant impact on the consolidated financial statements.

New and revised IFRS not yet effective

The following new IFRS and revisions to current IFRS have been published but are not yet effective, and have not been applied in the preparation of the financial statements.

- IAS 1 (Revised) Presentation of Financial Statements
- IAS 19 (Revised) Employee Benefits.
- IFRS 9 Financial instruments.
- IFRS 10 Consolidated financial statements.
- IFRS 12 Disclosures of interests in other entities.
- IFRS 13 Fair value measurement.

The above new and revised standards apply from 1 January 2013, with the exception of IFRS 10 and 12 which become effective on 1 January 2014, and IFRS 9 which becomes effective on 1 January 2015. All the standards except IFRS 9 have been adopted by the EU. Management analyzes the impact of the new and revised IFRS on the financial statements. The new IFRS 10 and the revised IAS 19 require retroactive application, while the other standards are applied prospectively, and consequently have no impact on financial statements prepared before the respective effective date.

The agreed revision of IAS 19 Employee Benefits means that the 'corridor' method is no longer applicable. Instead actuarial gains and losses are to be recognized in other comprehensive income when they arise, and expenses relating to service provided in previous years are to be recognized immediately. In addition, interest expenses and anticipated return on plan assets are replaced by a net interest rate, which is to be equivalent to the discount rate. These changes are being implemented retroactively, which means that comparative information for the financial year 2012 is to be recalculated when preparing the financial statements for 2013. In this recalculation, unrecognized expenses relating to service provided in previous years and unrecognized actuarial losses as at 31 December 2011 are accounted for as an adjustment of opening equity after taking into account tax effects. These items total SEK 1,092 M as at 31 December 2011 and SEK 1,073 M as at 31 December 2012. The Group's total pension provision, adjusted for amounts in the 'corridor', consequently totals SEK 2,297 M (2,265) at year-end 2012 (see Note 24).

In other respects, none of the new IFRS listed above are considered to have a significant impact on the consolidated financial statements.

Consolidated financial statements

The consolidated financial statements include ASSA ABLOY AB (the Parent company) and companies in which the Parent company held, directly or indirectly, more than 50 percent of the voting rights at the end of the period, as well as companies in which the Parent company otherwise has a controlling interest, for example by having the right to formulate financial and operating strategies. Companies acquired during the year are included in the consolidated financial statements with effect from the date when a controlling interest was obtained. Companies sold 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.

Additional purchase considerations for acquisitions completed after 1 January 2010 are classified as financial lia-

Note 1 cont.

bilities and revalued through profit or loss in operating income. Substantial additional purchase considerations are discounted to present value. Acquisition-related transaction costs are expensed as incurred. Revaluation of additional purchase considerations for acquisitions completed before 1 January 2010 is recognized as a change in goodwill.

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 subsidiaries' accounts with application of fair value adjustments resulting from a completed acquisition analysis. Non-controlling interests' share in subsidiaries' earnings is shown 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 shown separately in consolidated equity. Transactions with non-controlling interests are shown as transactions with the Group's shareholders.

Associates

Associates are defined as companies which are not subsidiaries but in which the Group has a significant, but not a controlling, interest. This is usually taken to be companies 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 reported at cost, and the carrying amount is adjusted for the share of associates' earnings after the acquisition date. Dividends from associates are reported as a reduction in the carrying amount of the holdings. The share of associates' earnings is reported 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' products are 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 reported 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 reported in comprehensive income. Receivables and liabilities are valued 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. Foreign exchange differences arising from the translation of foreign subsidiaries are reported as translation differences in comprehensive income.

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

		Average rate		Closing rate	
Country	**Currency**	**2011**	**2012**	**2011**	**2012**
Argentina	ARS	1.57	1.48	1.61	1.32
Australia	AUD	6.73	6.98	7.03	6.76
Brazil	BRL	3.88	3.46	3.71	3.18
Canada	CAD	6.57	6.74	6.78	6.54
Switzerland	CHF	7.31	7.22	7.36	7.13
Chile	CLP	0.013	0.014	0.013	0.014
China	CNY	1.01	1.07	1.10	1.04
Colombia	COP	0.0035	0.0037	0.0036	0.0037
Czech Republic	CZK	0.37	0.35	0.35	0.34
Denmark	DKK	1.21	1.17	1.20	1.16
Euro zone	EUR	9.02	8.71	8.96	8.62
United Kingdom	GBP	10.38	10.70	10.68	10.49
Hong Kong	HKD	0.83	0.87	0.89	0.84
Hungary	HUF	0.032	0.030	0.029	0.030
Israel	ILS	1.81	1.75	1.82	1.74
India	INR	0.139	0.126	0.130	0.119
Kenya	KES	0.074	0.080	0.081	0.076
South Korea	KRW	0.0059	0.0060	0.0060	0.0061
Lithuania	LTL	2.61	2.52	2.59	2.50
Mexico	MXN	0.52	0.51	0.49	0.50
Malaysia	MYR	2.12	2.18	2.18	2.12
Norway	NOK	1.16	1.16	1.15	1.17
New Zealand	NZD	5.16	5.46	5.35	5.34
Poland	PLN	2.19	2.08	2.04	2.12
Romania	RON	2.13	1.96	2.08	1.95
Russia	RUB	0.22	0.22	0.22	0.21
Singapore	SGD	5.16	5.39	5.33	5.32
Thailand	THB	0.21	0.22	0.22	0.21
Turkey	TRY	3.88	3.74	3.61	3.63
USA	USD	6.50	6.74	6.92	6.51
South Africa	ZAR	0.90	0.82	0.85	0.77

Revenue

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

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 reported when there is reasonable assurance that the company will comply with the conditions attaching to the grant and that the grant will be received. Grants relating to assets are reported after reducing the carrying amount of the asset by the amount of the grant.

Note 1 cont.

Research and development

Research costs are expensed as they are incurred. Development costs are reported in the balance sheet only to the extent that they are expected to generate future economic benefits for the Group and provided such benefits can be reliably measured.

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 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 relating to acquisition, construction or production of a qualified asset (an asset that necessarily takes a substantial period of time to complete for its intended use or sale) are capitalized as part of the cost of that asset. Other borrowing costs are recognized as expenses in the period in which they are incurred.

Tax on income

The income statement includes all tax that is to be paid or received for the current year, adjustments relating to tax due for previous years, and changes in deferred tax. Tax sums have been calculated 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 reported in the income statement, associated tax effects are also reported in the income statement. The tax effects of items reported directly against equity or comprehensive income are themselves reported against equity or comprehensive income. Deferred tax is accounted for using the liability method. This means that deferred tax is accounted for on all temporary differences between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets relating to tax losses carried forward or other future tax allowances are reported to the extent that it is probable that the allowance can be offset against taxable income in future taxation. Deferred tax liabilities relating to temporary differences resulting from investments in subsidiaries are not reported in the consolidated financial statements, since the Parent company can control the time at which the temporary differences are 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 the deferred tax amounts concern the same tax authority.

Cash flow statement

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

Cash and cash equivalents

'Cash and cash equivalents' covers cash and bank balances and short-term financial investments with durations of less than three months from the acquisition date.

Goodwill and acquisition-related intangible assets

Goodwill represents the positive difference between the cost of acquisition and the fair value of the Group's share of the acquired company's net identifiable assets at the acquisition date, and is reported 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 reported 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. 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 reported only if it is likely that the future economic benefits associated with the asset will flow to the Group, and if the cost of the asset can be measured reliably. Such an asset is initially recognized at cost and is amortized over its estimated useful life, usually between three and five years. Its carrying amount is cost less accumulated amortization and impairment losses.

Tangible assets

Tangible assets are reported at cost less accumulated depreciation and impairment losses. Cost includes expenditure that can be directly attributed to the acquisition of the asset. Subsequent expenditure is 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 it is incurred. Depreciable amount is the cost of an asset less its estimated residual value. No depreciation is applied to land. For other assets, cost is depreciated over the estimated useful life, which for the Group results in the following average depreciation periods:

- Office buildings 50 years.
- Industrial buildings 25 years.
- Plant and machinery 7–10 years.
- Equipment and tools 3–6 years.

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

Leasing

The Group's leasing is chiefly operating leasing. The lease payments are expensed at a constant rate over the period of the contract and are reported 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.
When an impairment loss has been established, the value of the asset is reduced to its recoverable amount. The recover-

Note 1 cont.

able amount is the higher of the 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 year-end. Deductions are made for internal profits arising from deliveries between Group companies. Work in progress and finished goods include both direct costs incurred and a fair allocation of indirect manufacturing costs.

Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. A provision is recognized when there is objective evidence that the Group will not be able to collect recorded amounts. The year's change in such a provision is reported in the income statement as selling expenses.

Financial assets

Financial assets include cash and cash equivalents, trade receivables, short-term investments and derivatives and are classified in the following categories; financial assets valued at fair value through the income statement, available-for-sale assets, loan receivables and trade receivables. Management determines the classification of its financial assets at initial recognition.

Financial assets valued at fair value through the income statement

This category has two sub-categories: financial assets held-for-trading and those designated at fair value through income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also classified as held-for-trading unless they are designated 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 reported in Other comprehensive income.

Loan receivables and trade receivables

Trade receivables and short-term investments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets.

Financial liabilities

Financial liabilities include additional purchase considerations, loan liabilities, trade payables and derivative instruments. Reporting depends on how the liability is classified.

Financial liabilities valued at fair value through the income statement

This category includes derivatives with negative fair value that are not used for hedging, additional purchase considerations and financial liabilities held for trading. Liabilities are measured at fair value on a continuous basis and changes in value are reported in the income statement as a financial item.

Loan liabilities

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

Trade payables

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

Recognition and measurement of financial assets and liabilities

Regular purchases and sales of financial assets are recognized on the trade date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through the income statement, where the transaction cost is reported in the income statement. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using various valuation techniques. These include the use of available information on recent arm's-length transactions, reference to other instruments that are substantially the same and discounted cash-flow analysis. The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is derecognized 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 when the obligation is fulfilled, cancelled or expires, see above.

Derivative instruments and hedging

Derivatives are recognized in the balance sheet at transaction date and are measured at fair value, both initially and on subsequent revaluations. The method of reporting profit or loss depends on whether the derivative is classified as a hedging instrument, and if so, the nature of the item being hedged. Derivatives are classified within the Group as either fair value hedges of recognized assets or liabilities or a firm commitment (fair value hedge).

For fair value hedges, changes in value of both the hedged item and the hedging instrument are reported in the income statement (financial items) in the period in which they arise. Changes in fair value of derivatives not designated as hedging instruments are reported on a continuous basis in the income statement (financial items). For net investment hedges, the part of changes in fair value classified as effective is recognized in other comprehensive income. The ineffective part of the profit or loss is recognized immediately in the income for the period as financial items. Accumulated profit or loss in other comprehensive income is recognized in the income for the period when foreign operations, or part thereof, are sold.

Changes in fair value for derivatives not designated as hedging instruments are reported on a continuous basis in the income statement (financial items).

When the transaction is entered into, the Group documents the relationship between the hedging instrument and the hedged item, as well as the Group's risk management objectives and risk management strategy as regards the hedging. The Group also documents its assessment, both when

Note 1 cont.

hedging is entered into and on a regular basis, of whether the derivative instruments used in hedge transactions are effective in counteracting changes in fair value that relate to the hedged items. The fair value of currency derivatives is calculated at net present value based on prevailing forward contract prices on the reporting date, while interest rate swaps are valued using estimates of future discounted cash flows.

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 can be made of the amount. Provisions are reported at a value representing the probable outflow of resources that will be needed to settle the obligation. The amount of a provision is discounted to present value where the effect of time value is material.

Assets and liabilities in disposal groups classified as held for sale

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

Employee benefits

Both defined contribution and defined benefit pension plans exist in the Group. Comprehensive defined benefit plans are found chiefly in the USA, the UK and Germany. Post-employment medical benefits also exist, mainly in the USA, which are reported in the same way as defined benefit pension plans. Calculations 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. Unrecognized actuarial gains and losses lying outside the so-called corridor (exceeding the higher of 10 percent of the present value of the obligation or the fair value of plan assets) are spread over the expected average remaining working lives of the employees. Pension expenses for defined benefit plans are spread over the employee's service period. The Group's payments relating to defined contribution pension plans are reported as an expense in the period to which they refer, based on the services performed by the employee. Swedish Group companies apply UFR 4, which means that tax on pension costs is calculated on the difference between pension expense in accordance with IAS 19 and pension expense determined in accordance with local regulations.

Equity-based incentive programs

Equity-based remuneration refers to remuneration to employees, including senior executives, in accordance with ASSA ABLOY's long-term incentive program presented for the first time at the 2010 Annual General Meeting. A company must report the personnel costs relating to equity-based incentive programs based on a measure of the value to the company of the services provided by the employees during the programs. Since the value of the employees' services cannot be reliably calculated, the cost of the program is based on the value of the assigned share instrument. Since the long-term incentive program in its entirety is equity regulated, an amount equivalent to the personnel cost is reported in the balance sheet as equity in retained earnings. The personnel cost is also reported in the income statement, where it is allocated to the respective function.

Long-term incentive program

ASSA ABLOY has equity-based remuneration plans where settlement will be in the form of shares. For the long-term incentive program, personnel costs during the vesting period are reported based on the shares' fair value on the assignment 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 comprises 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.

Fair value is based on the share price on the assignment 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 issue 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 reported as a provision for social security contributions.

Earnings per share

Earnings per share before dilution is calculated by dividing the net income attributable to the Parent company's shareholders 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 reported if their conversion to ordinary shares would lead to a reduction in earnings per share after dilution.

Dividend

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

The Parent company

The Group's Parent company, ASSA ABLOY AB, is responsible for the management of the Group and 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 standard RFR 2 of the Swedish Financial Reporting Board. RFR 2 requires the Parent company, in its annual accounts, to apply all the International Financial Reporting Standards (IFRS) endorsed by the EU in so far as this is possible within the framework of the Annual Accounts Act and with regard to the relationship between accounting

Note 1 cont.

and taxation. The recommendation states what 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 reported in the income statement as 'Other operating income' to make it clear that the Parent company has no product sales similar to those of other group companies with external business.

Pension obligations

Pension obligations for the Parent company are accounted for in accordance with FAR RedR 4 and are covered by taking out insurance with an insurance company.

Dividend

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

Research and development costs

Research and development costs are expensed as they are incurred.

Intangible assets

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

Tangible assets

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

Leasing

In the Parent company all lease agreements are treated as rental agreements (operating leases) regardless of whether they are financial or operating leases.

Shares in subsidiaries

Shares in subsidiaries are reported 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 reported in Earnings from participations in subsidiaries, which is included in Financial items in the income statement.

Financial instruments

Derivative instruments are recorded at fair value. Changes in the fair values of derivative instruments are reported in the income statement with the exception of exchange rate changes relating to a monetary item that forms part of a net investment in a foreign operation, which are reported in the fair value reserve.

Group contributions

The parent company reports group contributions in accordance with RFR 2. Group contributions received and paid are recognized as financial income and financial expenses respectively 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 allowed exception in RFR 2, reporting these guarantees as a contingent liability.

Note 2 Sales

Customer sales by country

	Group	
SEK M	**2011**	**2012**
USA	9,772	11,220
China	3,861	4,304
France	2,979	3,147
Sweden	2,652	2,986
Germany	2,192	2,567
United Kingdom	1,977	2,354
Australia	1,793	1,869
Canada	1,273	1,659
Netherlands	1,462	1,548
Norway	1,049	1,221
Finland	1,068	1,118
Denmark	852	927
South Korea	793	906
Belgium	726	895
Italy	903	748
Spain	820	727
Mexico	614	624
Austria	526	602
Switzerland	522	531
Czech Republic	396	388
Saudi Arabia	277	374
Poland	308	333
New Zealand	284	311
United Arab Emirates	281	296
South Africa	297	284
Brazil	284	272
Russia	199	264
Indonesia	173	234
Hong Kong	230	234
Romania	236	226
India	214	212
Israel	195	193
Turkey	176	188
Singapore	159	176
Portugal	195	167
Thailand	116	162
Colombia	136	158
Chile	125	147
Ireland	91	111
Croatia	51	103
Slovakia	91	102
Estonia	92	99
Japan	66	95
Other countries	1,280	1,537
Total	**41,786**	**46,619**

Sales by product group

	Group	
SEK M	**2011**	**2012**
Mechanical locks, lock systems and fittings	15,877	16,762
Entrance automation	8,444	11,100
Electromechanical and electronic locks	9,044	10,193
Security doors and hardware	8,421	8,564
Total	**41,786**	**46,619**

Note 3 Auditors' fees

	Group		Parent company	
SEK M	2011	2012	2011	2012
Audit assignment				
PwC	30	37	3	3
Other	11	10	–	–
Audit related services in addition to audit assignment				
PwC	1	1	1	1
Other	–	–	–	–
Tax advice				
PwC	8	13	1	2
Other	2	2	–	–
Other services				
PwC	19	14	15	5
Other	3	1	–	–
Total	**74**	**78**	**20**	**11**

Note 4 Other operating income and expenses

	Group	
SEK M	2011	2012
Rent received	12	18
Business-related taxes	–20	16
Transaction expenses from acquisitions	–22	–39
Impairment of tangible asset	–37	–
Exchange rate differences	–15	–11
Other, net	5	–66
Total	**–77**	**–82**

Parent company

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

Note 5 Share of earnings in associates

	Group	
SEK M	2011	2012
Agta Record AG	37	69
Saudi Crawford Doors Factory Ltd	4	1
Låsgruppen Wilhelm Nielsen AS	2	3
Goal Co., Ltd	–	5
Tallares Agui S.A.	–	–9
Other	0	0
Total	**43**	**70**

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 2012.

Note 6 Operating leases

	Group		Parent company	
SEK M	2011	2012	2011	2012
Lease payments during the year	463	466	16	13
Total	**463**	**466**	**16**	**13**
Nominal value of agreed future lease payments:				
Due for payment in (2012) 2013	423	419	15	15
Due for payment in (2013) 2014	331	304	15	16
Due for payment in (2014) 2015	235	237	15	16
Due for payment in (2015) 2016	177	161	15	16
Due for payment in (2016) 2017	128	121	16	17
Due for payment in (2017) 2018 or later	126	112	16	17
Total	**1,420**	**1,354**	**92**	**97**

Note 7 Expenses by nature

In the income statement costs are broken down by function. Cost of goods sold, Selling expenses, Administrative expenses and Research and development costs amount to SEK 39,106 M (36,548). Below, these same costs are broken down by nature:

	Group	
SEK M	2011	2012
Remuneration of employees (Note 33)	11,835	12,705
Direct material costs	14,655	16,111
Depreciation (Note 8, 14, 15)	1,022	1,034
Other purchase expenses	7,616	9,256
Restructuring costs	1,420	–
Total	**36,548**	**39,106**

Note 8 Depreciation and amortization

	Group		Parent company	
SEK M	2011	2012	2011	2012
Intangible assets	183	222	156	249
Machinery	452	443	–	–
Equipment	228	218	1	1
Buildings	157	148	–	–
Land improvements	2	3	–	–
Total	**1,022**	**1,034**	**157**	**250**

Note 9 Exchange differences in the income statement

	Group		Parent company	
SEK M	2011	2012	2011	2012
Exchange differences reported in operating income	–15	–11	0	0
Exchange differences reported in financial expenses (Note 11)	7	10	9	11
Total	**–8**	**0**	**9**	**11**

Note 10 Financial income

	Group		Parent company	
SEK M	2011	2012	2011	2012
Earnings from investments in subsidiaries	–	–	2,256	9,750
Earnings from investments in associates	–	–	24	25
Intra-group interest income	–	–	114	200
Other financial income	23	14	–	–
External interest income and similar items	36	18	0	0
Total	**59**	**32**	**2,394**	**9,975**

Note 11 Financial expenses

	Group		Parent company	
SEK M	2011	2012	2011	2012
Intra-group interest expenses	–	–	–429	–534
Interest expenses, convertible debentures	–14	–5	–14	–5
Interest expenses, other liabilities	–562	–652	–226	–148
Interest expenses, interest rate swaps	–8	10	–	–
Interest expenses, foreign exchange forwards	–41	–83	–	–
Exchange rate differences on financial instruments	7	10	9	11
Fair value adjustments on derivatives, hedge accounting	–1	–20	–	–
Fair value adjustments on derivatives, non-hedge accounting	–18	–8	–	–
Fair value adjustments on borrowings, hedge accounting	1	20	–	–
Fair value adjustments on shares and interests	–	–	–22	–6,280
Other financial expenses	–68	–74	–32	–14
Total	**–704**	**–802**	**–714**	**–6,970**

Fair value adjustments on shares and interests relate to impairment losses in connection with dividends received.

Note 12 Tax on income

	Group		Parent company	
SEK M	2011	2012	2011	2012
Current tax	–1,048	–1,776	–30	–11
Tax attributable to prior years	–142	8	5	–
Foreign withholding tax	–	–	–4	–
Deferred tax	95	151	–	–
Total	**–1,095**	**–1,617**	**–29**	**–11**

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

	Group		Parent company	
Percent	2011	2012	2011	2012
Swedish rate of tax on income	26	26	26	26
Effect of foreign tax rates	4	4	–	–
Non-taxable income/non-deductible expenses, net	–5	–3	–25	–26
Deductible goodwill	0	0	–	–
Utilized loss carry-forward not recognized in prior period	–2	–3	–	–
Non-deductible restructuring costs	1	–	–	–
Other	0	0	–	–
Effective tax rate in income statement	**24**	**24**	**1**	**0**

Note 13 Earnings per share

Earnings per share before dilution

	Group	
SEK M	2011	2012
Earnings attributable to the Parent company's shareholders	3,843	5,112
Weighted average number of shares issued (thousands)	367,833	369,185
Earnings per share before dilution (SEK per share)	**10.45**	**13.85**
of which from continuing operations	*9.35*	*13.82*
of which from discontinued operations	*1.10*	*0.03*

Earnings per share after dilution

	Group	
SEK M	2011	2012
Earnings attributable to the Parent company's shareholders	3,843	5,112
Interest expenses for convertible debentures, after tax	11	4
Net profit for calculating earnings per share after dilution	3,854	5,116
Weighted average number of shares issued (thousands)	367,833	369,592
Assumed conversion of convertible debentures (thousands)	4,680	–
Stock purchase plan	114	–
Weighted average number of shares for calculations (thousands)	372,627	369,592
Earnings per share after dilution (SEK per share)	**10.33**	**13.84**
of which from continuing operations	*9.24*	*13.81*
of which from discontinued operations	*1.09*	*0.03*

Earnings per share after dilution and excluding items affecting comparability

	Group	
SEK M	2011	2012
Earnings attributable to the Parent company's shareholders	3,843	5,112
Interest expenses for convertible debentures, after tax	11	4
Items affecting comparability, after tax	736[1]	–
Net profit for calculating earnings per share after dilution	4,590	5,116
Weighted average number of shares issued (thousands)	367,833	369,592
Assumed conversion of convertible debentures (thousands)	4,680	–
Stock purchase plan	114	–
Weighted average number of shares for calculations (thousands)	372,627	369,592
Earnings per share after dilution and excluding items affecting comparability (SEK per share)	**12.30**	**13.84**
of which from continuing operations	*11.21*	*13.81*
of which from discontinued operations	*1.09*	*0.03*

[1] Items affecting comparability for 2011 consist of restructuring costs and net income from discontinued operations.

Note 14 Intangible assets

2012, SEK M	Group			Parent company
	Goodwill	Intangible assets	Total	Intangible assets
Opening accumulated acquisition value	**27,080**	**5,521**	**32,599**	**1,060**
Purchases	–	152	152	1,063
Acquisitions of subsidiaries	3,146	1,062	4,208	–
Sales/disposals	–	–12	–12	–
Reclassifications	–	433	433	–
Reclassification to assets of disposal group held for sale	–104	–31	–135	–
Adjustments for acquisitions in the prior year	–177	276	99	–
Exchange rate differences	–947	–225	–1,172	–
Closing accumulated acquisition value	**28,998**	**7,176**	**36,174**	**2,123**
Opening accumulated amortization/impairment	**–66**	**–1,079**	**–1,143**	**–951**
Acquisitions of subsidiaries	–	–7	–7	–
Sales/disposals	–	9	9	–
Reclassifications	–	–433	–433	–
Impairment	–	–10	–10	–
Amortization	–	–222	–222	–249
Exchange rate differences	0	56	56	–
Closing accumulated amortization/impairment	**–66**	**–1,686**	**–1,752**	**–1,200**
Carrying amount	**28,932**	**5,490**	**34,422**	**923**

2011, SEK M	Group			Parent company
	Goodwill	Intangible assets	Total	Intangible assets
Opening accumulated acquisition value	**22,343**	**3,789**	**26,132**	**945**
Purchases	–	112	112	115
Acquisitions of subsidiaries	4,584	1,590	6,174	–
Adjustments for acquisitions in the prior year	–34	–	–34	–
Exchange rate differences	187	30	215	–
Closing accumulated acquisition value	**27,080**	**5,521**	**32,599**	**1,060**
Opening accumulated amortization/impairment	**–64**	**–875**	**–939**	**–795**
Impairment	–2	–	–	–
Amortization	–	–183	–183	–156
Exchange rate differences	–	–21	–21	–
Closing accumulated amortization/impairment	**–66**	**–1,079**	**–1,143**	**–951**
Carrying amount	**27,014**	**4,442**	**31,455**	**109**

Intangible assets consist mainly of brands and licenses. The carrying amount of intangible assets with an indefinite useful life amounts to SEK 4,026 M (3,412) 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.

Amortization and impairment of intangible assets are mainly recognized as cost of goods sold in the income statement.

The item *Adjustments for acquisitions in the prior year* refers to changes in connection with adoption of a final acquisition analysis for acquisitions completed in the previous year.

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.

Note 14 cont.

2012

Overall, the discount rate used varied between 9.0 and 10.0 percent (EMEA 9.0 percent, Americas 9.0 percent, Asia Pacific 10.0 percent, Global Technologies 10.0 percent and Entrance Systems 9.0 percent).

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

SEK M	EMEA	Americas	Asia Pacific	Global Technologies	Entrance Systems	Total
Goodwill	5,846	5,913	4,326	4,524	8,323	28,932
Intangible assets with indefinite useful life	198	221	1,160	349	2,098	4,026
Total	**6,044**	**6,134**	**5,486**	**4,873**	**10,421**	**32,958**

2011

Overall, the discount rate used varied between 9.0 and 10.0 percent (EMEA 9.0 percent, Americas 9.0 percent, Asia Pacific 10.0 percent, Global Technologies 10.0 percent and Entrance Systems 9.0 percent).

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

SEK M	EMEA	Americas	Asia Pacific	Global Technologies	Entrance Systems	Total
Goodwill	5,564	6,041	3,410	4,846	7,153	27,014
Intangible assets with indefinite useful life	241	245	1,022	346	1,558	3,412
Total	**5,805**	**6,286**	**4,432**	**5,192**	**8,711**	**30,426**

Sensitivity analysis

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

2012

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 5 percent, Americas 4 percent, Asia Pacific 7 percent, Global Technologies 5 percent, and Entrance Systems 6 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 13 percent lower (EMEA 13 percent, Americas 13 percent, Asia Pacific 11 percent, Global Technologies 11 percent, and Entrance Systems 13 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 9.0 to 10.0 percent, the total recoverable amount would be 14 percent lower (EMEA 14 percent, Americas 14 percent, Asia Pacific 13 percent, Global Technologies 13 percent, and Entrance Systems 14 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.

2011

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 5 percent lower (EMEA 5 percent, Americas 5 percent, Asia Pacific 6 percent, Global Technologies 5 percent, and Entrance Systems 6 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 13 percent lower (EMEA 13 percent, Americas 13 percent, Asia Pacific 11 percent, Global Technologies 11 percent, and Entrance Systems 13 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 9.0 to 10.0 percent, the total recoverable amount would be 14 percent lower (EMEA 14 percent, Americas 14 percent, Asia Pacific 13 percent, Global Technologies 13 percent, and Entrance Systems 14 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.

Note 15 Tangible assets

2012, SEK M	Group: Buildings	Group: Land and land improvements	Group: Machinery	Group: Equipment	Group: Construction in progress	Group: Total	Parent company: Equipment
Opening accumulated acquisition value	**4,121**	**839**	**6,629**	**2,314**	**555**	**14,458**	**18**
Purchases	129	1	311	196	297	934	1
Acquisitions of subsidiaries	52	57	296	99	56	560	–
Sales/disposals	–399	–73	–527	–261	–67	–1,327	–
Reclassification to assets of disposal group held for sale	–	–	58	–	–	58	–
Reclassifications	295	67	–15	24	–371	0	–
Exchange rate differences	–153	–21	–452	–146	20	–752	–
Closing accumulated acquisition value	**4,045**	**870**	**6,300**	**2,226**	**490**	**13,931**	**19**
Opening accumulated depreciation/impairment	**–1,992**	**–142**	**–4,852**	**–1,786**	**–**	**–8,773**	**–15**
Acquisitions of subsidiaries	–28	–2	–106	–71	–	–207	–
Sales/disposals	158	–	511	234	–	903	–
Depreciation	–148	–3	–443	–218	–	–812	–1
Reclassification to assets of disposal group held for sale	–	–	–41	–	–	–41	–
Reclassifications	–14	–1	4	11	–	0	–
Exchange rate differences	72	3	393	133	–	602	–
Closing accumulated depreciation/impairment	**–1,952**	**–145**	**–4,534**	**–1,697**	**–**	**–8,328**	**–16**
Carrying amount	**2,093**	**725**	**1,766**	**529**	**490**	**5,603**	**3**

2011, SEK M	Group: Buildings	Group: Land and land improvements	Group: Machinery	Group: Equipment	Group: Construction in progress	Total	Parent company: Equipment
Opening accumulated acquisition value	**3,706**	**820**	**6,272**	**2,244**	**382**	**13,042**	**17**
Purchases	61	7	232	166	318	784	1
Acquisitions of subsidiaries	338	51	142	69	–	600	–
Sales/disposals	–23	–1	–210	–167	–6	–407	–
Reclassifications	56	0	148	–21	–234	–51	–
Exchange rate differences	–18	–38	44	22	95	106	–
Closing accumulated acquisition value	**4,121**	**839**	**6,629**	**2,314**	**555**	**14,458**	**18**
Opening accumulated depreciation/impairment	**–1,728**	**–139**	**–4,436**	**–1,698**	**–**	**–8,002**	**–14**
Sales/disposals	11	0	173	153	–	337	–
Impairment	–104	0	–99	–9	–	–212	–
Depreciation	–157	–2	–452	–228	–	–840	–1
Reclassifications	0	0	–11	12	–	0	–
Exchange rate differences	–14	–1	–27	–15	–	–56	–
Closing accumulated depreciation/impairment	**–1,992**	**–142**	**–4,852**	**–1,786**	**–**	**–8,773**	**–15**
Carrying amount	**2,128**	**697**	**1,777**	**528**	**555**	**5,684**	**3**

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
Timelox AB	556214-7735, Landskrona	15,000	100	22
ASSA ABLOY Entrance Systems AB	556204-8511, Landskrona	1,000	100	181
ASSA ABLOY Kredit AB	556047-9148, Stockholm	400	100	3,036
ASSA ABLOY Försäkrings AB	516406-0740, Stockholm	60,000	100	60
ASSA ABLOY Identification Technology Group AB	556645-4087, Stockholm	1,000	100	220
ASSA ABLOY Svensk Fastighets AB	556645-0275, Stockholm	1,000	100	0
ASSA ABLOY Asia Holding AB	556602-4500, Stockholm	1,000	100	189
ASSA ABLOY IP AB	556608-2979, Stockholm	1,000	100	0
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	–	36[2]	567
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	3,077
ITG (UK) Ltd	5099094, Haverhill	1	100	1
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	184
ASSA ABLOY Inc	039347-83, Oregon	100	100	2,237
Fleming Door Products, Ltd	147126, Ontario	25,846,600	100	0
ABLOY Holdings Ltd	1148165260, St Laurent, Quebec	1	100	13
AAC Acquisition Inc.	002098175, Ontario	1	100	17
ASSA ABLOY Australia Pacific Pty Ltd	ACN 095354582, Oakleigh, Victoria	48,190,000	100	242
ASSA ABLOY South Asia Pte Ltd	199804395K, Singapore	4,300,000	100	48
Grupo Industrial Phillips, S.A de C.V.	GIP980312169, Mexico	27,036,635	100	765
Cerraduras de Colombia S.A.	Public Deed 2798, Bogota	2,201,670	71[1]	142
ASSA ABLOY Innovation AB	556192-3201, Stockholm	2,500	100	105
ASSA ABLOY Hospitality AB	556180-7156, Göteborg	1,000	100	14
ASSA ABLOY North America AB	556671-9851, Stockholm	1,000	100	0
WHAIG Limited	EC21330, Bermuda	100,100	100	303
ASSA ABLOY Asia Pacific Ltd	53451, Hong Kong	1,000,000	100	72
Cardo AB	556026-8517, Malmö	27,000,000	100	5,093
ASSA ABLOY Portugal, Unipessoal, Lda (Portugal)	PT500243700, Alfragide	1	100	0
ASSA ABLOY Entrance Systems Italy S.p.A.	IT06698790968, Milano	50,000	100	0
ASSA ABLOY Holding Italia S.p.A.	IT01254420597, Rome	650,000	100	973
Total				**28,100**

1 The Group's holdings amount to 100 percent. 2 The Group's holdings amount to 70 percent.

Note 17 Investments in associates

2012 Company name	Country of registration	Group Number of shares	Share of equity %	Carrying amount, SEK M
Agta Record AG	Switzerland	5,077,964	38	1,163
Goal Co., Ltd	Japan	2,300,790	38	315
Låsgruppen Wilhelm Nielsen AS	Norway	305	50	15
SARA Loading Bay Ltd	United Kingdom	4,999	50	13
Talleres Agui S.A.	Spain	4,800	40	7
Saudi Crawford Doors Ltd	Saudi Arabia	800	40	5
Other				1
Total				**1,519**

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 2012. For the period January to June, the company's revenue totaled SEK 1,081 M (1,019) and income after tax was SEK 65 M (41). The company's assets totaled SEK 2,095 M (2,007)and total liabilities amounted to SEK 722 M (720).

2011 Company name	Country of registration	Group Number of shares	Share of equity %	Carrying amount, SEK M
Agta Record AG	Switzerland	5,077,964	38	1,171
Talleres Agui S.A	Spain	4,800	40	17
Låsgruppen Wilhelm Nielsen AS	Norway	305	50	15
Saudi Crawford Doors Ltd	Saudi Arabia	800	40	6
Ditec Istanbul Otomatik Gecis Sistemleri Ltd	Turkey	350	35	1
Other				1
Total				**1,211**

Note 18 Deferred tax

	Group	
SEK M	2011	2012
Deferred tax assets		
Tangible and intangible assets	183	279
Pensions	115	87
Tax losses and other tax credits	366	397
Other deferred tax assets	122	607
Deferred tax assets	786	1,370
Deferred tax liabilities	497	1,226
Deferred tax assets, net	**289**	**144**

Change in deferred tax	2011	2012
Opening balance	393	289
Acquisitions of subsidiaries, net	–205	–249
Reported in income statement	95	151
Reclassification to liabilities of disposal group held for sale	–	–27
Exchange rate differences	6	–20
Closing balance	**289**	**144**

The Group has tax loss carryforwards and other tax credits of SEK 2,400 M (3,500) for which deferred tax assets have not been recognized, as it is uncertain whether they can be offset against taxable income in future taxation.

Deferred tax assets and deferred tax liabilities, which were recognized net in the previous year, were recognized gross in 2012.

Note 19 Other financial assets

	Group		Parent company	
SEK M	2011	2012	2011	2012
Investments in associates in parent company	–	–	1,141	1,489
Other shares and interests	52	4	–	–
Interest-bearing non-current receivables	44	29	–	–
Other non-current receivables	68	56	–	–
Total	**164**	**89**	**1,141**	**1,489**

Note 20 Inventories

	Group	
SEK M	2011	2012
Materials and supplies	1,663	1,751
Work in progress	1,459	1,397
Finished goods	2,348	2,561
Advances paid	234	196
Total	**5,704**	**5,905**

Impairment of inventories amounted to SEK 181 M (43).

Note 21 Trade receivables

	Group	
SEK M	2011	2012
Trade receivables	7,461	8,127
Provision for bad debts	–537	–570
Total	**6,924**	**7,557**

Maturity analysis	2011	2012
Trade receivables not due	**5,075**	**5,279**
Trade receivables due not impaired:		
<3 months	1,675	2,064
3–12 months	371	447
>12 months	340	337
	2,386	**2,848**
Impaired trade receivables:		
<3 months	–84	–111
3–12 months	–174	–139
>12 months	–279	–320
	–537	**–570**
Total	**6,924**	**7,557**

Trade receivables per currency	2011	2012
EUR	2,374	2,349
USD	1,675	2,169
GBP	319	400
AUD	282	296
CNY	545	677
SEK	443	328
Other currencies	1,286	1,338
Total	**6,924**	**7,557**

Current year change in provision for bad debts	2011	2012
Opening balance	465	537
Acquisitions and disposals	77	30
Receivables written off	–80	–67
Reversal of unused amounts	–77	–72
Provision for bad debts	150	162
Exchange rate differences	2	–20
Closing balance	**537**	**570**

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 and the statutory reserve. Restricted funds must not be reduced by issue of dividends. Non-restricted equity consists of the share premium reserve, retained earnings and net income for the year.

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.

Note 23 Share capital, number of shares and dividend per share

	Number of shares (thousands)			
	Series A	Series B	Total	Share capital, SEK K
Opening balance at 1 January 2011	19,175	347,002	366,177	366,177
Share issue	–	2,073	2,073	2,073
Closing balance at 31 December 2011	**19,175**	**349,075**	**368,250**	**368,250**
Number of votes, thousands	191,753	349,075	540,828	
Opening balance at 1 January 2012	19,175	349,075	368,250	368,250
Share issue	–	2,609	2,609	2,609
Closing balance at 31 December 2012	**19,175**	**351,684**	**370,859**	**370,859**
Number of votes, thousands	191,753	351,684	543,437	

All shares have a par value of SEK 1.00 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 369,185 thousand (367,833) during the year. The weighted average number of shares after the effects of outstanding long-term incentive programs was 369,592 thousand (372,627) during the year.

The total number of treasury shares as at 31 December 2012 amounted to 600,000. A total of 200,000 shares were repurchased in 2012.

Dividend per share

The dividend paid during the financial year totaled SEK 1,655 M (1,472), equivalent to SEK 4.50 (4.00) per share. A dividend for 2012 of SEK 5.10 per share, a total of SEK 1,888 M, will be proposed at the Annual General Meeting on Thursday, 25 April 2013.

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 reported in the balance sheet mainly relate to defined benefit pension plans. ASSA ABLOY has defined benefit plans in a number of countries, those in the USA, the UK and Germany being the most significant ones. There are also plans for post-employment medical benefits in the USA.

Amounts recognized in the income statement

Pension costs, SEK M	2011	2012
Defined benefit pension plans (A)	80	163
Defined contribution pension plans	295	381
Post-employment medical benefit plans (A)	27	22
Total	**402**	**566**

Amounts recognized in the balance sheet

Pension provisions, SEK M	2011	2012
Provisions for defined benefit pension plans (B)	652	754
Provisions for post-employment medical benefits (B)	441	418
Provisions for defined contribution pension plans	80	52
Pension provisions	**1,173**	**1,224**
Financial assets	–23	–
Pension provisions, net	**1,150**	**1,224**

A) Specification of amounts recognized in the income statement

	Post-employment medical benefits		Defined benefit pension plans		Total	
Pension costs, SEK M	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
Current service cost	6	5	48	54	54	59
Interest on obligation	21	20	204	215	225	235
Expected return on plan assets	–	–	–176	–155	–176	–155
Actuarial losses (gains), net	0	1	28	69	28	70
Write-down/reversal of pension receivables [1]	–	–	–15	–	–15	–
Past service cost	0	0	1	–3	1	–3
Losses (gains) on curtailments/settlements	–	–5	–10	–17	–10	–21
Total	**27**	**22**	**80**	**163**	**107**	**185**
–of which, included in:						
Operating income	6	1	39	34	45	35
Net financial items	21	21	41	129	62	150
Total	**27**	**22**	**80**	**163**	**107**	**185**

[1] In accordance with limitation rule for the valuation of pension plan surplus, IAS 19 paragraph 58.

Actuarial gains/losses arising from changes in the actuarial assumptions for defined benefit pension plans are recognized to the extent that their accumulated amount exceeds a 'corridor', which is equivalent to 10 percent of the higher of the pension obligation's present value and the fair value of the plan assets. The surplus/deficit outside this 'corridor' is recognized over the expected average remaining service period as from the year after the actuarial gain/loss arose.

The actual return on plan assets for defined benefit plans amounted to SEK 274 M (32) in 2012.

Partly funded or unfunded pension plans are reported as provisions for pensions.

B) Specification of amounts recognized in the balance sheet

	Post-employment medical benefits		Defined benefit pension plans		Total	
Specification of defined benefits, SEK M	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
Present value of funded obligations (C)	–	–	4,046	4,083	4,046	4,083
Fair value of plan assets (D)	–	–	–3,115	–3,193	–3,115	–3,193
Net value of funded plans	–	–	*931*	*891*	*931*	*891*
Present value of unfunded obligations (C)	472	415	782	937	1,254	1,354
Unrecognized actuarial gains (losses)	–30	2	–1,033	–1,062	–1,063	–1,060
Unrecognized past service cost	–1	0	–28	–12	–29	–13
	441	**418**	**652**	**754**	**1,093**	**1,172**
Provisions for defined contribution pension plans					80	52
Total					**1,173**	**1,224**

C) Movement in obligations

	Post-employment medical benefits		Defined benefit pension plans		Total	
SEK M	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
Opening present value of obligations	438	472	4,046	4,828	4,484	5,300
Current service cost	6	5	48	54	54	59
Interest on obligation	21	20	204	215	225	235
Employee contributions	–	0	–	1	–	1
Actuarial losses (gains)	22	–27	327	267	349	240
Past service cost	–	0	–	–3	–	–3
Write-down/reversal of pension receivables	–	–	–15	–	–15	–
Curtailments	–	–5	20	–17	20	–22
Acqusitions/disposals	–	–	329	67	329	67
Payments	–26	–28	–192	–212	–218	–240
Exchange rate differences	11	–20	61	–180	72	–200
Closing present value of obligations	**472**	**417**	**4,828**	**5,020**	**5,300**	**5,437**

D) Movement in fair value of plan assets

	Defined benefit pension plans	
SEK M	**2011**	**2012**
Opening fair value of plan assets	2,854	3,115
Expected return on plan assets	176	155
Actuarial gains (losses)	–144	119
Curtailments	–5	–
Acqusitions/disposals	227	–
Net payments	–94	–83
Exchange rate differences	101	–113
Closing fair value of plan assets (E)	**3,115**	**3,193**

E) Plan assets allocation

Plan assets	**2011**	**2012**
Shares	1,547	1,695
Interest-bearing investments	1,187	1,107
Other assets	381	391
Total	**3,115**	**3,193**

F) Sensitivity analysis of medical benefits

The effect of a 1 percent change in the assumed medical cost trend, SEK M	**+1%**	**–1%**
Effect on the aggregate of the current service cost and interest expense	3	–2
Effect on the defined benefit obligation	45	–38

G) Key actuarial assumptions

	United Kingdom		Germany		USA	
Key actuarial assumptions (weighted average), %	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
Discount rate	4.7	4.5	4.5	3.2	4.6	4.0
Expected annual return on plan assets[1]	6.6	5.2	n/a	n/a	6.1	5.6
Expected annual salary increases	n/a	n/a	2.8	2.6	3.5	4.0
Expected annual pension increases	2.9	2.6	1.2	2.2	2.0	2.0
Expected annual medical benefit increases	n/a	n/a	n/a	n/a	9.2	9.0
Expected annual inflation	2.9	2.7	1.5	1.6	3.1	3.0

As at 31 December	**2008**	**2009**	**2010**	**2011**	**2012**
Present value of obligations (+)	3,963	4,696	4,484	5,300	5,437
Fair value of plan assets (–)	–2,604	–2,817	–2,854	–3,115	–3,193
Obligations, net	**1,359**	**1,879**	**1,630**	**2,185**	**2,244**

[1] The expected return on plan assets is determined on the basis of the expected returns on assets underlying the current investment policy. Plan assets chiefly consist of equity instruments and interest-bearing investments. The expected return is mainly based on risk premiums and indexes for interest-bearing investments on the market.

Pensions with Alecta

Commitments for old-age pensions and family pensions for salaried employees in Sweden are guaranteed in part through insurance with Alecta. According to UFR 3 this is a defined benefit plan that covers many employers. For the 2012 financial year the company has not had access to information making it possible to report this plan as a defined benefit plan. Pension plans in accordance with ITP that are guaranteed through insurance with Alecta are therefore reported as defined contribution plans. The year's pension contributions that are contracted to Alecta total SEK 23 M (28), of which SEK 8 M (6) relates to the Parent company. Alecta's surplus may be distributed to the policy-holders and/or the persons insured. As at 30 September 2012 Alecta's surplus expressed as the collective consolidation level amounted to 123 percent (113 as at 31 December 2011). 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 IAS19.

Note 25 Other provisions

	Group		
SEK M	Restruc-turing reserve	Other	Total
Opening balance at 1 January 2011	**924**	**1,640**	**2,564**
Provisions for the year	1,224	403	1,627
Deferred considerations acquisitions	1	65	66
Reversal of non-utilized amounts	–91	–194	–285
Utilized during the year	–403	–246	–649
Exchange rate differences	10	10	20
Closing balance at 31 December 2011	**1,665**	**1,678**	**3,343**

	Group		
SEK M	Restruc-turing reserve	Other	Total
Opening balance at 1 January 2012	**1,665**	**1,678**	**3,343**
Provisions for the year	133	553	686
Acquisitions of subsidiaries	–	39	39
Deferred considerations acquisitions	–	70	70
Reclassification to liabilities of disposal groups held for sale	–12	–	–12
Reclassifications	–62	62	–
Reversal of non-utilized amounts	–133	–167	–300
Utilized during the year	–498	–215	–713
Exchange rate differences	–25	–13	–38
Closing balance at 31 December 2012	**1,068**	**2,007**	**3,075**

	Group	
Balance sheet breakdown:	**2011**	**2012**
Other non-current provisions	1,315	1,871
Current provisions	2,028	1,204
Total	**3,343**	**3,075**

The restructuring reserve relates to the ongoing restructuring programs launched in 2008, 2009 and 2011. The closing balance is expected to be chiefly utilized in the next three years and mainly relates to severance payments. The non-current part of the restructuring reserve totaled SEK 373 M. For further information on the restructuring programs, see the Report of the Board of Directors. Other provisions relate to estimated deferred purchase considerations, taxes and legal obligations including future environment-related measures.

Parent company

Other provisions in the parent company relate to estimated deferred purchase considerations.

Note 26 Other current liabilities

	Group	
SEK M	2011	2012
VAT and excise duty	397	353
Employee withholding tax	25	83
Advances received	573	409
Social security contributions and other taxes	81	68
Deferred considerations	134	2,705
Other current liabilities	432	373
Total	**1,642**	**3,991**

Note 27 Accrued expenses and deferred income

	Group		Parent company	
SEK M	2011	2012	2011	2012
Personnel-related expenses	1,630	1,768	91	91
Customer-related expenses	611	547	–	–
Deferred income	126	201	–	–
Accrued interest expenses	131	98	40	48
Other	663	784	14	42
Total	**3,161**	**3,397**	**145**	**181**

Note 28 Contingent liabilities

	Group		Parent company	
SEK M	2011	2012	2011	2012
Guarantees	74	61	–	–
Guarantees on behalf of subsidiaries	–	–	10,613	9,405
Total	**74**	**61**	**10,613**	**9,405**

In addition to the guarantees shown in the table above, the Group has a large number of minor bank guarantees for performance of obligations in operating activities. No material liabilities are expected as a result of these guarantees.

	Group	
Maturity profile – guarantees, SEK M	**2011**	**2012**
<1 year	25	25
>1<2 year	10	9
>2<5 year	30	22
>5 year	9	5
Total	**74**	**61**

Note 29 Assets pledged against liabilities to credit institutions

	Group		Parent company	
SEK M	2011	2012	2011	2012
Real estate mortgages	305	106	–	–
Other mortgages	134	32	–	–
Total	**439**	**138**	**–**	**–**

Note 30 Business combinations

SEK M	2011	2012
Cash paid for acquisitions	12,599	3,876
Paid part for prior year	555	–
Deferred considerations	446	923
Total purchase price	**13,600**	**4,799**
Acquired assets and liabilities		
Intangible assets	1,590	1,055
Other non-current assets	843	410
Inventories	803	477
Receivables	1,371	818
Cash and cash equivalents	411	345
Interest-bearing liabilities	–244	–439
Other liabilities	–2,038	–1,000
Non-controlling interest	0	–13
Acquired net assets at fair value	**2,736**	**1,653**
Disposed acquired net assets	–6,280	–
Goodwill	**4,584**	**3,146**
Cash paid for acquisitions	12,599	3,876
Cash and cash equivalents in acquired subsidiaries	–411	–345
Paid deferred considerations for acquisitions in previous years	109	305
Change in cash and cash equivalents due to acquisitions	**12,297**	**3,836**
Net sales from acquisition date	5,143	2,830
EBIT from acquisition date	644	480
Net income from acquisition date	5,588	347

The net sales of acquired units for 2012 totaled SEK 4,487 M (6,601) and net income amounted to SEK 460 M (5,676). Acquisition-related costs for 2012 totaled SEK 39 M (22) and have been reported as other operating expenses in the income statement.

Acquisition analyses have been prepared for all acquisitions in 2012. The acquisition analysis for the acquisition of 4Front, which was completed on 24 December, is preliminary pending a final valuation of the fair value of acquired identifiable intangible assets.

See below for an account of all significant acquisitions completed in 2012 and 2011.

2012

Albany Doors

On 11 January 2012, 100 percent of the share capital was acquired in Albany Door Systems (USA), a global leader in automatic high-performance doors. The company has global market penetration in industrial automatic high-performance doors. The products are used for industrial applications and in logistics centers, where there is a major need for customized automatic high-performance doors with high security and access control. Albany also offers service and maintenance on the company's principal markets. The company is headquartered in Georgia, USA. Intangible assets in the form of the brand and customer relationships have been disclosed separately. Residual goodwill mainly relates to synergies and other intangible assets, which do not meet the criteria for separate recognition.

Dynaco

On 1 March 2012, 100 percent of the share capital was acquired in Dynaco (Belgium). Dynaco is a leading manufacturer of automatic high-performance doors specializing in sales to a global distributor network. The acquisition of Dynaco further strengthens ASSA ABLOY's position in the fast-growing market segment of high-performance doors. Dynaco provides manufacturing expertise, with many leading patented products and a global distribution channel. The company is headquartered in Moorsel, Belgium. Intangible assets in the form of the brand and customer relationships have been disclosed separately. Residual goodwill mainly relates to synergies and other intangible assets, which do not meet the criteria for separate recognition.

Guoqiang

On 29 May 2012, 100 percent of the share capital was acquired in Guoqiang, a Chinese manufacturer of window hardware. Guoqiang offers a complete range of window hardware mainly for the Chinese market. The company has a good market presence in China through an extensive network of sales offices. Guoqiang provides a good fit with the existing offering in total door opening solutions in China and gives access to the Chinese window hardware market. The company is headquartered in Leling, Shandong Province, China. The brand has been disclosed separately, and residual goodwill mainly relates to synergies and other intangible assets, which do not meet the criteria for separate recognition.

Other acquisitions

Other significant acquisitions during the year comprised Securistyle (UK), Traka (UK), Helton (Canada), Sanhe Metal (China) and 4Front (USA).

2011

LaserCard

On 31 January 2011 the Group acquired 100 percent of the share capital in LaserCard Corporation, a leading provider of secure ID solutions to government and commercial customers worldwide. LaserCard has a unique product portfolio of smart cards, services and product solutions for complex ID systems management, which are used by more than 400 customers in 44 countries. The company's strength lies in its knowledge and management of various types of secure identities and technologies, such as personal identification, border controls, secure government services, and access to buildings. Its product portfolio complements ASSA ABLOY's HID Global business unit. LaserCard is headquartered in California, USA. Intangible assets in the form of brand and customer relationships have been disclosed. Residual goodwill is mainly attributable to synergies and other intangible assets, which do not meet the criteria for separate recognition.

FlexiForce

On 6 April 2011 the Group acquired 100 percent of the share capital in FlexiForce, a global leader in components for industrial sectional doors and residential garage doors. FlexiForce specializes in the manufacture and distribution of components for overhead sectional doors and has a strong position in product development and marketing as well as a solid customer base.

FlexiForce adds a new and very important distribution channel for reaching industrial door manufacturers. The company is headquartered in the Netherlands. Intangible assets in the form of brand and customer relationships have been disclosed separately. Residual goodwill is mainly attributable to synergies and other intangible assets, which do not meet the criteria for separate recognition.

Swesafe

On 6 April 2011 the Group acquired 100 percent of the share capital in Swesafe, Sweden's largest locksmith. This acquisition is an important step in the development of the Swedish market in the fast-growing electromechanical segment. Ownership of the largest locksmith in Sweden means that locksmiths and systems integrators will become more project oriented and focused on electronic products and the service offering. In addition, it will provide a further understanding of end-customer needs. Goodwill is mainly attributable to synergies and other intangible assets, which do not meet the criteria for separate recognition.

Cardo Entrance Solutions

Cardo's Entrance Solutions division is a leading supplier of industrial doors, logistics systems, garage doors, customer service and other services. The acquisition of Cardo Entrance Solutions represents a strategically important step in the development of ASSA ABLOY's operations in the Entrance Systems division. Overall, this will strengthen the Group's product offering and create a strong entrance automation supplier with a wide range of products, customer service and other services. The acquisition of Cardo is expected to generate considerable synergies largely through a combination of the companies' respective offerings.

Cardo Entrance Solutions was created in 2010 through the coordination of two previous divisions, Door & Logistic Solutions and Residential Garage Doors. Under the Crawford and Megadoor brands, it offers total industrial door, docking and service solutions for service-intensive customers in transport, logistics and trade. The division also offers standardized and customized garage doors for the consumer market. The range includes up and over doors, overhead sectional doors, side sectional doors and the automation for these products. These doors are positioned as exclusive, offering good design, quality and high security. The main brands are Crawford and Normstahl.

Note 30 cont.

Intangible assets in the form of the brand and customer relationships have been disclosed separately. Residual goodwill mainly relates to synergies and other intangible assets, which do not meet the criteria for separate recognition.

The table below shows the final purchase price allocation for Cardo Entrance Solutions.

SEK M	2011
Cash paid	11,340
Less: Discontinued operations	–6,280
Total purchase price	**5,060**
Fair value of acquired net assets	–2,009
Goodwill	**3,051**
Acquired assets and liabilities in accordance with purchase price allocations	
Intangible assets	1,597
Other non-current assets	555
Inventories	515
Receivables	919
Cash and cash equivalents	176
Interest-bearing liabilities	–111
Other liabilities	–1,642
Acquired net assets at fair value	**2,009**
Purchase prices settled in cash	11,340
Purchase prices discontinued operations	–6,690
Cash and cash equivalents in acquired subsidiaries	–176
Change in Group cash and cash equivalents resulting from acquisitions	**4,474**
Net sales from acquisition date	3,709
EBIT from acquisition date	455
Net income from acquisition date	5,699

Note 31 Assets of disposal group classified as held for sale and discontinued operations

	Group	
SEK M	2011	2012
Assets of disposal group classified as held for sale		
Intangible assets	–	135
Tangible assets	–	17
Deferred tax assets	–	26
Inventories	–	33
Trade receivables	–	9
Cash and cash equivalents	–	390
Total	–	**610**
Liabilities of disposal group classified as held for sale		
Provisions	–	12
Trade payables	–	92
Current tax liabilities	–	9
Other current liabilities	–	80
Accrued expenses and deferred income	–	33
Total	–	**226**
Net income of disposal group classified as held for sale		
Sales	–	568
Costs	–	–542
Income before tax	–	**26**
Tax on income	–	–6
Impairment of assets of disposal group held for sale	–	–9
Net income of disposal group classified as held for sale	–	**11**
Cash flow from disposal group classified as held for sale		
Cash flow from operating activities	–	54
Cash flow from investing activities	–	–3
Cash flow from financing activities	–	3
Cash flow from disposal group classified as held for sale	–	**54**

Discontinued operations

In 2011, Cardo Flow Solutions and Lorentzen & Wettre, which were part of Cardo Entrance Solutions acquired during the year, were divested. These divestments were reported in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The cash flow effect and the result from divestments are shown in the table below:

	Group	
SEK M	2011	2012
Disposed net assets		
Assets of disposal group held for sale	–7,539	–
Liabilities of disposal group held for sale	1,161	–
Total	**–6,378**	–
Purchase prices received	6,690	–
Less: Cash and cash equivalents in disposed subsidiaries	–	–
Change in cash and cash equivalents due to disposal	**6,690**	–
Net income after tax from discontinued operations during the holding period	92	–
Net income from discontinued operations	**404**	–

Note 32 Cash flow

	Group	
SEK M	2011	2012
Adjustments for non-cash items		
Profit on sales of non-current assets	3	–347
Change in pension provision	40	48
Other	–43	–13
Adjustments for non-cash items	**0**	**–312**
Change in working capital		
Inventories increase/decrease (–/+)	–32	0
Trade receivables increase/decrease (–/+)	–249	–192
Trade payables increase/decrease (+/–)	235	–22
Other working capital increase/decrease (–/+)	–192	136
Change in working capital	**–238**	**–77**
Investments in subsidiaries		
Total purchase price	–13,600	–4,799
Less, part of purchase prices paid in prior year	555	–
Less, acquired cash and cash equivalents	411	345
Less, unpaid parts of purchase prices	446	923
Paid purchase prices relating to acquisitions in prior years	–109	–305
Investments in subsidiaries	**–12,297**	**–3,836**
Disposal of subsidiaries		
Purchase prices received	6,690	–12
Less, disposed cash and cash equivalents	–	–
Disposal of subsidiaries	**6,690**	**–12**
Other investments		
Investments in/sales of other shares and interests	–876	5
Investments in/sales of other non-current receivables	–28	14
Other investments	**–904**	**19**

Note 33 Employees

Salaries, wages, other remuneration and social security costs

	Group		Parent company	
SEK M	**2011**	**2012**	**2011**	**2012**
Salaries, wages and other remuneration	9,704	10,627	115	118
Social security costs	2,131	2,078	59	53
– of which pensions	402	416	21	24
Total	**11,835**	**12,705**	**174**	**171**

Fees to Board members in 2012 (including committee work), SEK thousand

Name and post	Board	Remuneration Committee	Audit Committee	Total
Lars Renström, Chairman	1,350	100	–	1,450
Carl Douglas, Vice Chairman	750	–	–	750
Birgitta Klasén, Member	500	–	100	600
Eva Lindqvist, Member	500	–	–	500
Johan Molin, President and CEO	–	–	–	–
Sven-Christer Nilsson, Member	500	50	–	550
Ulrik Svensson, Member	500	–	200	700
Jan Svensson, Member	500	50	100	650
Employee representatives (2)	–	–	–	–
Total	**4,600**	**200**	**400**	**5,200**

Total fees for Board members amounted to SEK 4.6 M in 2011.

Remuneration and other benefits of the Executive Team in 2012

SEK thousands	Fixed salary	Variable salary	Stockrelated benefits	Other benefits	Pension costs
Johan Molin	12,536	9,270	4,742	126	4,326
Other members of the Executive Team (8)	34,498	16,014	9,244	3,280	8,234
Total remuneration and benefits	**47,034**	**25,284**	**13,986**	**3,406**	**12,560**

Total remuneration and other benefits for the Executive Team amounted to SEK 90 M in 2011.

Salaries and remuneration for the Board of Directors and the parent company's Executive Team

Salaries and remuneration for the Board of Directors and the parent company's Executive Team totaled SEK 44 M (37). Social security costs amounted to SEK 33 M (20), of which 8 SEK M (7) were pension costs.

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 staff in the Group. The aim of LTI 2010 is to create the prerequisites for retaining and recruiting competent staff for the Group, providing competitive remuneration and uniting the interests of shareholders, senior executives and key staff.

At the 2011 and 2012 Annual General Meetings, it was decided to implement further long-term incentive programs for senior executives and other key staff in the Group. The new long-term incentive programs, LTI 2011 and LTI 2012, have been drawn up with similar terms to LTI 2010.

For each Series B share acquired by the CEO within the framework of LTI 2010, LTI 2011 and LTI 2012, the company awards one matching stock option and four performance-based stock options. For each Series B share acquired by other members of the Executive Team, the company awards one matching stock option and three performance-based stock options. For other participants, the company awards one matching stock option and one performance-based stock option. In accordance with the terms of the incentive programs, employees have acquired a total of 264,670 shares in ASSA ABLOY AB, of which 90,038 shares were acquired in 2012 within the framework of LTI 2012.

Each matching stock option entitles the holder to receive one free Series B share in the company after three years, provided that the holder, with certain exceptions, is still employed in the Group when the interim report for Q1 2013, 2014 and 2015 for the respective program is published, and has retained the shares acquired within the framework of the long-term incentive programs. Each performance-based stock option entitles the holder to receive one free Series B share in the company three years after allotment, provided that the above conditions have been fulfilled. In addition, the maximum level in a range determined by the Board for the performance of the company's earnings per share must have been fulfilled. The performance based condition for each respective year has been fulfilled for all three programs.

Outstanding matching and performance-based stock options for LTI 2012 total 264,027. The total number of outstanding matching and performance-based stock options for LTI 2010, LTI 2011 and LTI 2012 amounted to 701,941 on the reporting date.

Fair value is based on the share price on the allotment date. The present value calculation is based on data from an external party. Fair value is adjusted for participants who do not retain their holding of shares for the duration of the program. In the case of performance-based shares, the company assesses the probability of the performance targets

Note 33 cont.

being met when calculating the compensation expense.

The fair value of ASSA ABLOY's Series B share on the allotment date for LTI 2012 of 22 May 2012 was SEK 187.77. The equivalent value on the allotment date for LTI 2011 of 25 May 2011 was SEK 173.29. The equivalent value on the allotment date for LTI 2010 of 28 July 2010 was SEK 161.79.

The total cost of the Group's three long-term incentive programs amounted to SEK 27 M (16) in 2012.

Other equity-based incentive programs

ASSA ABLOY has previously issued a number of convertible debentures to employees in the Group. At year-end 2012, there were no outstanding convertible debentures issued to employees in the Group. For further information on other equity-based incentive programs, see the section on the ASSA ABLOY share (page 122).

Notice and severance pay

If the CEO is given notice, the company is liable to pay the equivalent of 24 months' basic 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' basic salary and other employment benefits plus an additional 12 months' basic salary.

Average number of employees per country, broken down by gender

	Group					
	2011			2012		
	Total	of which women	of which men	Total	of which women	of which men
China	14,781	6,083	8,698	14,545	6,293	8,252
USA	5,861	1,855	4,006	5,915	1,870	4,045
France	2,200	703	1,497	2,259	696	1,563
Sweden	1,857	517	1,340	2,156	569	1,588
Germany	1,453	475	978	1,788	530	1,257
United Kingdom	1,319	466	853	1,594	532	1,062
Czech Republic	1,139	550	586	1,188	583	605
Mexico	1,128	527	601	1,071	477	594
Netherlands	949	167	782	1,050	176	873
Finland	955	340	615	924	316	607
Australia	764	209	556	754	221	533
Italy	802	202	600	733	178	556
Romania	539	228	312	684	265	419
South Korea	669	255	414	678	242	436
Malaysia	472	260	212	655	421	233
Spain	733	183	550	650	165	485
Canada	434	104	330	645	157	488
Norway	550	139	411	580	134	446
Belgium	306	85	222	468	114	354
Denmark	448	131	317	462	188	274
Israel	353	102	251	405	122	283
South Africa	418	187	231	380	166	214
Brazil	336	74	262	356	92	264
Switzerland	343	112	231	319	101	218
New Zealand	316	108	208	300	95	205
Colombia	389	46	343	290	41	249
Austria	190	42	148	217	47	171
Ireland	208	88	120	215	77	138
Chile	167	37	130	175	42	133
Other	993	264	730	1,307	320	987
Total	**41,070**	**14,538**	**26,532**	**42,762**	**15,229**	**27,533**

	Parent company					
	2011			2012		
	Total	of which women	of which men	Total	of which women	of which men
Sweden	124	26	98	125	25	100
Total	**124**	**26**	**98**	**125**	**25**	**100**

Gender distribution of Board of Directors and Executive Team

	2011			2012		
	Total	of which women	of which men	Total	of which women	of which men
Board of Directors [1]	8	2	6	8	2	6
Executive Team	9	–	9	9	1	8
–of which Parent company's Executive Team	3	–	3	3	1	2
Total	**17**	**2**	**15**	**17**	**3**	**14**

[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. ASSA ABLOY's units have carried out financial risk management in accordance with the 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 benefit 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, other interest-bearing investments and positive market values of derivatives. The table 'Net debt and equity' shows the position as at 31 December.

Net debt and equity

	Group	
SEK M	**2011**	**2012**
Non-current interest-bearing receivables	–44	–29
Short-term interest-bearing investments incl. positive market values of derivatives	–284	–138
Cash and bank balances	–1,665	–907
Pension provisions	1,173	1,224
Non-current interest-bearing liabilities	7,422	11,194
Current interest-bearing liabilities incl. negative market values of derivatives	7,605	3,388
Total	**14,207**	**14,732**
Equity	**23,735**	**26,725**
Net debt/equity ratio, times	**0.60**	**0.55**

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 good 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.

Maturity profile – financial instruments

	31 December 2011				31 December 2012			
SEK M	**<1 year**	**>1<2 year**	**>2<5 year**	**>5 year**	**<1 year**	**>1<2 year**	**>2<5 year**	**>5 year**
Long-term bank loans	–7	–49	–341	–1,070	–9	–74	–538	–648
Long-term capital market loans	–284	–648	–3,804	–2,734	–351	–2,308	–4,764	–4,415
Convertible loans	–903	–	–	–	–	–	–	–
Short-term bank loans	–1,213	–	–	–	–804	–	–	–
Commercial papers and short-term capital market loans	–5,396	–	–	–	–2,519	–	–	–
Derivatives	20	29	65	–2	29	43	43	19
Total by period	**–7,781**	**–669**	**–4,080**	**–3,806**	**–3,654**	**–2,340**	**–5,259**	**–5,044**
Cash and cash equivalents incl. interest-bearing receivables	1,949	–	–	–	1,045	–	–	–
Non-current interest-bearing receivables	44	–	–	–	29	–	–	–
Deferred considerations	–134	–2,288	–166	–	–2,705	–257	–144	–8
Trade receivables	6,924	–	–	–	7,557	–	–	–
Trade payables	–3,796	–	–	–	–3,883	–	–	–
Net total	**–2,794**	**–2,957**	**–4,246**	**–3,806**	**–1,611**	**–2,596**	**–5,403**	**–5,052**
Confirmed credit facilities	10,306	–	–9,851	–	9,957	–9,485	–	–
Credit facilities maturing < 1 year	–455	–	–	–	–472	–	–	–
Adjusted maturity profile[1]	**7,057**	**–2,957**	**–14,097**	**–3,806**	**7,874**	**–12,081**	**–5,403**	**–5,052**

[1] For maturity structure of guarantees, see Note 28.

Note 34 cont.

External financing/net debt

Credit lines/facilities	Amount, SEK M	Maturity	Carrying amount, SEK M	Currency	Amount 2011	Amount 2012	Of which Parent company, SEK M
US Private Placement Program	521	May 2015	567 [1]	USD	80	80	
US Private Placement Program	491	Dec 2016	491	USD	76	76	
US Private Placement Program	325	Apr 2017	325	USD	50	50	
US Private Placement Program	325	May 2017	325	USD	50	50	
US Private Placement Program	794	Dec 2018	794	USD	122	122	
US Private Placement Program	163	Aug 2019	163	USD	0	25	
US Private Placement Program	456	May 2020	456	USD	70	70	
US Private Placement Program	976	Aug 2022	976	USD	0	150	
US Private Placement Program	488	Aug 2024	488	USD	0	75	
Multi–Currency RCF	9,485	Jun 2014	0	EUR	1,100	1,100	
Bank loan EIB	949	Jul 2018 [2]	948	EUR	110	110	
Global MTN Program	12,934	Mar 2014	388	EUR	45	45	388
		Jun 2014	1,293	EUR	150	150	1,293
		Dec 2014	300	SEK	0	300	300
		Jan 2015	259	EUR	0	30	259
		Aug 2015	248	SEK	0	250	250
		Oct 2015	500	SEK	0	500	500
		Oct 2015	226	JPY	0	3,000	226
		Jun 2016	304 [1]	NOK	250	250	286
		Jun 2016	117	NOK	100	100	117
		Aug 2016	250	SEK	0	250	250
		May 2017	500	SEK	0	500	500
		Jun 2018	500	SEK	500	500	500
		Dec 2020	257 [1]	EUR	0	30	259
		Feb 2027	261	EUR	0	30	259
Other long-term loans	259		259				
Total long-term loans/facilities	**28,165**		**11,194**				
US Private Placement Program	342	Dec 2013	342	USD	53	53	
Incentive Program	–		–	EUR	100	–	
Global CP Program	6,507		162	USD	220	25	
			948	EUR	10	110	
Swedish CP Program	5,000		1,042	SEK	2,650	1,050	
Other bank loans	201		201				
Overdraft facility	1,132		605				
Total short-term loans/facilities	**13,181**		**3,301**				
Total loans/facilities	**41,346**		**14,495**				
Cash and bank balances			–907				
Short-term interest-bearing investments			–24				
Long-term interest-bearing investments			–29				
Market value of derivatives			–27				
Pensions			1,224				
Net debt			**14,732**				

[1] The loans are subject to hedge accounting.
[2] The loan amortizes starting November 2016. In the table the average date of maturity of the loan has been stated.

Rating

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

In March 2012 Standard & Poor's revised the outlook on the long-term rating from negative to stable. This was confirmed in November 2012.

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 borrowing 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 should include a

Note 34 cont.

reserve (facilities available but not utilized) equivalent to 10 percent of the Group's total annual sales.

Maturity profile

The table 'Maturity profile' on page 110 shows the maturities for ASSA ABLOY's financial instruments, including confirmed credit facilities. During the year, the maturity profile was extended through a number of capital market transactions. The maturities are not concentrated to a particular date in the immediate future. When the refinancing requirement is assessed, the credit facility of EUR 1,100 M maturing in June 2014, which was wholly unutilized at year-end, is taken into account. Moreover, existing financial assets are also taken into account. The table shows undiscounted future cash flows relating to the Group's financial instruments at the reporting date, and these amounts are therefore not found in the balance sheet.

Interest-bearing liabilities

The Group's long-term loan financing mainly consists of a Private Placement Program in the USA totaling USD 750 M, of which USD 698 M (500) is long-term, a GMTN program of SEK 5,392 M (2,656), and a loan from the European Investment Bank of EUR 110 M (110). During the year new issues were made under the Private Placement Program in the USA. A total of USD 250 M was raised divided into three tranches of 7, 10 and 12 years. In addition, nine issues were made under the GMTN program for a total amount of around SEK 2,800 M. Other changes in long-term loans are mainly due to some of the original long-term loans now having less than one year to maturity.

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 2,152 M (4,242) 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 1,100 M (1,100), which was wholly unutilized at year-end. The reduction in short-term financing is mainly linked to the increase in long-term capital market issues implemented to extend the Group's maturity structure. At year-end the average time to maturity for the Group's interest-bearing liabilities, excluding the pension provision, was 47 months (31).

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.

Convertible debentures

Incentive 2006 matured in 2011 and the debentures were converted in full. Conversion was managed by an external party and began in 2010. A further 2,073,184 Series B shares were issued in 2011. A total of 2,332,344 Series B shares were issued in connection with Incentive 2006.

Incentive 2007 matured in 2012. Half of the convertible debentures relating to Incentive 2007 were converted. Conversion was managed by an external party and took place in 2012. A total of 2,608,400 Series B shares were issued in connection with Incentive 2007.

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' on page 113.

Cash and cash equivalents and other interest-bearing receivables

Short-term interest-bearing investments amounted to SEK 24 M (50) at year-end. In addition, ASSA ABLOY has long-term interest-bearing receivables of SEK 29 M (44) and financial derivatives with a positive market value of SEK 114 M (234) 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 1 day (1.0) at year-end 2012.

The parent company's cash and cash equivalents are held in a sub-account to the Group account.

	Group		Parent company	
SEK M	**2011**	**2012**	**2011**	**2012**
Cash and bank balances	1,665	907	4	42
Short-term investments with maturity less than 3 months	–	–	–	–
Cash and cash equivalents	**1,665**	**907**	**4**	**42**
Short-term investments with maturity more than 3 months	50	24	23	–
Long-term interest-bearing receivables	44	29	–	–
Positive market value of derivatives	234	114	–	–
Total	**1,993**	**1,074**	**27**	**42**

Note 34 cont.

Net debt by currency

SEK M	31 December 2011 Net debt excluding currency swaps	31 December 2011 Net debt including currency swaps	31 December 2012 Net debt excluding currency swaps	31 December 2012 Net debt including currency swaps
USD	5,937	5,465	5,488	6,406
EUR	4,510	2,399	5,314	4,882
SEK	3,913	5,791	3,497	2,045
AUD	–4	661	30	650
DKK	13	260	16	250
CZK	3	178	19	226
CAD	–29	–141	30	212
KRW	265	265	171	171
Other	–402	–672	169	–108
Total	**14,207**	**14,207**	**14,732**	**14,732**

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 investments are mostly short-term. The term for the majority of these investments is three months or less. The fixed interest term for these short-term investments was 1 day (1.0) at year-end 2012. A downward change in the yield curve of one percentage point would reduce the Group's interest income by around SEK 8 M (8) and consolidated equity by SEK 6 M (6).

Interest rate risks in borrowing

Changes in interest rates have a direct impact on ASSA ABLOY's net interest. Treasury is responsible for identifying and managing the Group's interest rate exposure. It 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 continuously 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 obligations, was around 34 months (16). An upward change in the yield curve of one percentage point would increase the Group's interest expense by around SEK 74 M (93) and reduce consolidated equity by SEK 56 M (71).

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 2011	Currency exposure 2012
AUD	410	325
CAD	439	537
CNY	–754	–1,094
CZK	–203	–165
EUR	742	1,049
GBP	357	459
PLN	91	145
RON	–41	–199
SEK	–756	–822

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, while all other variables remain constant.

Impact on income before tax of a 10 percent weakening of SEK

Currency, SEK M	2011	2012
AUD	38	39
CAD	16	18
CNY	53	51
EUR	151	158
GBP	18	26
HKD	6	22
NOK	23	26
USD	201	234

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. As far as possible, 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 to achieve appropriate financing and to eliminate undesirable currency exposure.

The table 'Net debt by currency' on page 113 shows the use of currency forward contracts in relation to financing in major currencies. These forward contracts are used to neutralize the exposure arising between external debt and internal requirements.

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 85 percent (85) of the Group's sales were settled through cash pools in 2012. However, the Group can in the short term invest surplus cash in banks to match borrowing and cash flow.

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 good credit rating.

ISDA agreements (full netting of transactions in case of counterparty default) have been entered into in the case of interest rate and currency derivatives.

Commercial credit risk

The Group's trade receivables are distributed across a large number of customers who are spread globally. The concentration of credit risk associated with trade receivables is therefore limited. The fair value of trade receivables corresponds to the carrying amount. Credit risks relating to operating activities are managed locally at company level and monitored at division level.

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 currency and interest rate forwards 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 115 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 represents the gross value of the contracts.

For accounting purposes, financial instruments are classified into measurement categories in accordance with IAS 39. The table 'Financial instruments' on page 115 provides an overview of financial assets and liabilities, measurement category, and carrying amount and fair value per item.

When calculating fair value only general changes in market rates are taken into account and not credit spread movements for the individual company.

Note 34 cont.

Outstanding derivative financial instruments at 31 December

Instrument, SEK M	31 December 2011 Positive fair value	31 December 2011 Negative fair value	31 December 2011 Nominal value	31 December 2012 Positive fair value	31 December 2012 Negative fair value	31 December 2012 Nominal value
Foreign exchange forwards, funding	106	–126	9,936	25	–34	2,688
Interest rate swaps	112	–37	14,845	89	–49	4,059
Forward Rate Agreements	16	–16	502	0	–4	1,295
Total	**234**	**–179**	**25,283**	**114**	**–87**	**8,042**

Financial instruments: carrying amounts and fair values by measurement category

SEK M	IAS 39 category*	2011 Carrying amount	2011 Fair value	2012 Carrying amount	2012 Fair value
Financial assets					
Other shares and interests	3	52	52	4	4
Other financial assets	1	112	112	1,519	1,519
Trade receivables	1	6,924	6,924	7,557	7,557
Derivative instruments – hedge accounting	5	95	95	75	75
Derivative instruments – held for trading	2	139	139	39	39
Derivative instruments, total		**234**	**234**	**114**	**114**
Short-term investments	1	50	50	24	24
Cash and cash equivalents	1	1,665	1,665	907	907
Financial liabilities					
Long-term loans – hedge accounting	2	922	922	2,041	2,041
Long-term loans – not hedge accounting	4	6,500	6,907	9,153	9,543
Long-term loans, total		**7,422**	**7,829**	**11,194**	**11,584**
Convertible debentures	4	896	896	–	–
Short-term loans – hedge accounting	2	562	562	65	65
Short-term loans – not hedge accounting	4	5,969	5,969	3,235	3,235
Derivative instruments – held for trading	2	179	179	87	87
Trade payables	4	3,796	3,796	3,883	3,883
Deferred considerations	2	2,531	2,531	3,114	3,114

* Applicable IAS 39 categories:
1 = Loan receivables and other receivables.
2 = Financial instruments at fair value through profit or loss.
3 = Available-for-sale financial assets.
4 = Financial liabilities at amortized cost.
5 = Derivative hedge accounting.

Financial instruments: measured at fair value

SEK M	2011 Carrying amounts	2011 Quoted prices	2011 Observ-able data	2011 Non-observ-able data	2012 Carrying amounts	2012 Quoted prices	2012 Observ-able data	2012 Non-observ-able data
Financial assets								
Derivative instruments	139	–	139	–	39	–	39	–
Other shares and interests	–	–	–	–	–	–	–	–
Financial liabilities								
Long-term loans – hedge accounting	917	–	917	–	2,041	–	2,041	–
Short-term loans – hedge accounting	562	–	562	–	65	–	65	–
Derivative instruments	179	–	179	–	87	–	87	–
Deferred considerations[1]	2,531	–	–	2,531	3,114	–	–	3,114

[1] Deferred considerations often depend on the earnings trend of an acquired business over a certain period. Measurement of the additional purchase consideration is based on the management's best judgment. Discounting to present value takes place in the case of significant amounts.

Comments on five years in summary

2008

2008 was a record year for ASSA ABLOY, with increased sales and profit due to focused efforts to increase demand mainly on the commercial and institutional markets. The Group increased its investments in product development and more products than ever were launched on the market. The economic situation weakened towards the end of the year as the financial crisis had a negative impact on investments in new construction.

2009

The financial crisis led to a downturn in both the housing and commercial construction markets worldwide, which was unprecedented in the Group's history. ASSA ABLOY was nevertheless able to maintain good profitability and strengthen its market position even under very trying market conditions. Efficient product development with a strong customer focus, a stronger market presence and continued cost cutting contributed substantially to the good performance. Cash flow and working capital utilization showed positive development during the year.

Cost adjustments in the form of staff redundancies and the relocation of components and basic products to low-cost countries continued at a high rate during the year. A third restructuring program was launched towards the end of the year. The new products launched were well received by customers and strengthened ASSA ABLOY's market-leading position in total door opening solutions.

Eight acquisitions were made during the year, consolidating the Group's position in industrial and automatic doors and increasing annual sales by around SEK 1,200 M.

2010

Organic growth was 3 percent, with Asia and South America reporting strong growth and North America showing good and increasing growth. Europe began the year well but growth gradually slowed. Continued investments in the marketing organization and the launch of new products strengthened the Group's market leadership. Acquired growth was 8 percent.

Operating income rose 12 percent and cash flow developed well during the year.

A total of 13 acquisitions were completed during the year, including Pan Pan (China), King Door Closers (South Korea), ActivIdentity (USA) and Paddock (UK). These acquisitions increase annual sales by SEK 2,880 M. An agreement was signed to acquire a majority shareholding in Cardo, a leading Swedish industrial door company.

2011

2011 was a successful year for ASSA ABLOY despite challenging market conditions and some slowdown in the second half of the year on mature markets. Organic growth was 4 percent, driven by continued investments in new products and the marketing organization. The year saw high acquisition activity in general, with 18 completed acquisitions, increasing sales by 17 percent. The acquisition of Crawford was the Group's largest ever structural transaction.

The year also saw two major disposals of acquired businesses, which were not considered to be a good fit with ASSA ABLOY in the long term.

A new restructuring program was launched during the year to further increase the Group's cost-efficiency. The previous programs have proved to be very successful, resulting in major savings and further increased efficiency in the production units.

Continued streamlining, a strengthened market position and the launch of innovative new products consolidated ASSA ABLOY's leading position and the Group is well positioned for long-term sustainable growth.

Operating income excluding restructuring costs increased 10 percent and cash flow remained strong. Earnings per share after full dilution excluding items affecting comparability increased 13 percent.

2012

Organic growth was 2 percent, despite the continued weak market conditions globally. The share of sales on emerging markets continued to increase to over 25 percent of total sales. The major investments in product development in recent years have been fruitful. This can be seen from the share of products launched in the past three years, which has increased considerably and currently accounts for around 25 percent of total sales.

Operating income excluding items affecting comparability increased by 13 percent during the year and operating cash flow remained very strong. Earnings per share after full dilution, excluding items affecting comparability, increased by 13 percent, compared with 2011.

A total of 13 acquisitions were completed during the year, which mainly strengthened the position in entrance automation for high-performance doors and docking systems. These acquisitions increase annual sales by a total of around SEK 4,500 M and provide important products and technology.

Activities in the ongoing restructuring programs remained at a high level during the year. The transfer of production to low-cost countries continued, combined with conversion of plants from production to assembly and installation. More than 6,700 employees have left the Group, as a result of these activities since the programs began in 2006.

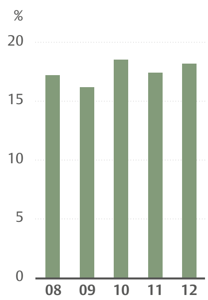
In summary, it may be stated that ASSA ABLOY continued gradually to expand and consolidate its leading market position during the year, and showed good earnings capacity under the prevailing economic circumstances.

Five years in summary

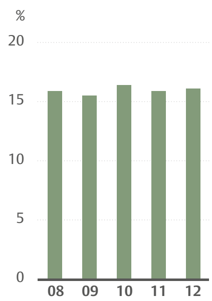
Amounts in SEK M unless stated otherwise	2008	2009	2010	2011	2012
Sales and income					
Sales	34,829[4]	34,963[4]	36,823	41,786	46,619
Organic growth, %	0	–12	3	4	2
Acquired growth, %	4	3	8	17	9
Operating income before depreciation/amortization (EBITDA)	6,447[1]	6,426[1]	7,041	7,646[1]	8,536
Depreciation	–921	–1,014	–995	–1,022	–1,034
Operating income (EBIT)	5,526[1]	5,413[1]	6,046	6,624[1]	7,501
Income before tax (EBT)	3,499	3,740	5,366	4,559	6,731
Net income	2,438	2,659	4,080	3,869	5,125
Cash flow					
Cash flow from operating activities	4,369	5,924	5,729	5,347	5,990
Cash flow from investing activities	–2,648	–1,835	–4,027	–7,357	–4,738
Cash flow from financing activities	–1,311	–3,741	–2,597	2,326	–1,564
Cash flow	410	348	–895	316	–312
Operating cash flow[3]	4,769	6,843	6,285	6,080	7,044
Capital employed and financing					
Capital employed	32,850	30,382	31,385	37,942	41,073
– of which goodwill	20,669	20,333	22,279	27,014	28,932
– of which other intangible and tangible assets	7,945	7,541	8,336	10,126	11,093
– of which investments in associates	38	39	37	1,211	1,519
Assets and liabilities of disposal group classified as held for sale	–	–	–	–	385
Net debt	14,013	11,048	10,564	14,207	14,732
Non-controlling interest	163	162	169	208	183
Shareholders' equity, excluding non-controlling interest	18,674	19,172	20,652	23,527	26,543
Data per share, SEK					
Earnings per share after tax and before dilution	6.60	7.18	11.07	10.45	13.85
Earnings per share after tax and dilution (EPS)	9.21[1]	9.22[1]	10.89	12.30[1]	13.84
Shareholders' equity per share after dilution	55.91	54.76	58.64	65.54	71.82
Dividend per share	3.60	3.60	4.00	4.50	5,10[2]
Price of Series B share at year-end	88.50	137.80	189.50	172.60	242.90
Key data					
Operating margin (EBITDA), %	18.5[1,4]	18.4[1,4]	19.1	18.3[1]	18.3
Operating margin (EBIT), %	15.9[1,4]	15.5[1,4]	16.4	15.9[1]	16.1
Profit margin (EBT), %	10.0	10.7	14.6	10.9	14.4
Return on capital employed, %	13.3	13.1	18.5	13.6	18.2
Return on capital employed excluding items affecting comparability, %	17.2	16.2	18.5	17.4	18.2
Return on shareholders' equity, %	12.8	12.7	19.1	16.7	20.1
Equity ratio, %	41.9	45.4	45.9	42.9	44.6
Net debt/equity ratio, times	0.74	0.57	0.51	0.60	0.55
Interest coverage ratio, times	5.7	7.2	10.1	8.8	10.4
Interest on convertible debentures net after tax	81.0	31.9	9.9	10.5	3.9
Number of shares, thousands	365,918	365,918	366,177	368,250	370,859
Number of shares after dilution, thousands	380,713	372,931	372,736	371,213	370,859
Average number of employees	32,723	29,375	37,279	41,070	42,762

[1] Excluding items affecting comparability in 2008, 2009 and 2011.
[2] For 2012, as proposed by the Board.
[3] Excluding restructuring payments
[4] Reclassification has been made for 2008 and 2009. Reclassification has not been made for 2007. The Group has made a reclassification that affects direct distribution costs and depreciation on capitalized product development expenditure. The reason is to give a true and fair view of the allocation between direct and indirect costs as well as for product development expenses. In order to maintain comparability, the financial statements for 2008 and 2009 have been adjusted. The reclassification involves the transfer of direct distribution costs from selling expenses and administrative expenses, and where appropriate from sales, to cost of goods sold. In addition, depreciation on product development has been moved from cost of goods sold to selling expenses and administrative expenses. Both these adjustments affect gross income. Operating income is not affected.

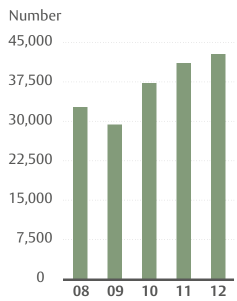
RETURN ON CAPITAL EMPLOYED[1]



OPERATING MARGIN (EBIT)[1]



AVERAGE NUMBER OF EMPLOYEES



[1] Excluding items affecting comparability 2008, 2009 and 2011.

Quarterly information

THE GROUP IN SUMMARY Amounts in SEK M unless stated otherwise	Q 1 2011	Q 2 2011	Q 3 2011	Q 4 2011	Full year 2011	Q 1 2012	Q 2 2012	Q 3 2012	Q 4 2012	Full year 2012
Sales	8,699	10,502	10,841	11,744	41,786	10,839	11,997	11,545	12,239	46,619
Organic growth	6%	5%	2%	4%	4%	3%	3%	1%	0%	2%
Gross income excluding items affecting comparability	**3,560**	**4,050**	**4,208**	**4,469**	**16,287**	**4,307**	**4,687**	**4,603**	**4,832**	**18,429**
Gross income/ Sales	40.9%	38.6%	38.8%	38.0%	39.0%	39.7%	39.1%	39.9%	39.5%	39.5%
Operating income before depreciation (EBITDA) excluding restructuring costs	**1,630**	**1,863**	**2,002**	**2,151**	**7,646**	**1,929**	**2,157**	**2,183**	**2,268**	**8,536**
Operating margin (EBITDA)	18.7%	17.7%	18.5%	18.3%	18.3%	17.8%	18.0%	18.9%	18.5%	18.3%
Depreciation	–253	–248	–251	–270	–1,022	–274	–272	–251	–238	–1,034
Operating income (EBIT) excluding items affecting comparability	**1,377**	**1,615**	**1,751**	**1,881**	**6,624**	**1,655**	**1,885**	**1,932**	**2,030**	**7,501**
Operating margin (EBIT)	15.8%	15.4%	16.2%	16.0%	15.9%	15.3%	15.7%	16.7%	16.6%	16.1%
Items affecting comparability [1]	–	–	–	–1,420	–1,420	–	–	–	–	–
Operating income (EBIT)	**1,377**	**1,615**	**1,751**	**461**	**5,204**	**1,655**	**1,885**	**1,932**	**2,030**	**7,501**
Net financial items	–162	–156	–169	–158	–645	–173	–208	–184	–205	–770
Income before tax (EBT)	**1,215**	**1,460**	**1,582**	**303**	**4,559**	**1,481**	**1,677**	**1,748**	**1,825**	**6,731**
Profit margin (EBT)	14.0%	13.9%	14.6%	2.6%	10.9%	13.7%	14.0%	15.1%	14.9%	14.4%
Tax	–268	–321	–348	–158	–1,095	–341	–385	–452	–439	–1,617
Net income of disposal group classified as held for sale and discontinued operations	–4	17	419	–27	404	–	4	7	–	11
Net income	**943**	**1,156**	**1,653**	**118**	**3,869**	**1,140**	**1,295**	**1,303**	**1,386**	**5,125**
Allocation of net income:										
Parent company shareholders'	941	1,143	1,644	114	3,843	1,138	1,293	1,294	1,386	5,111
Non-controlling interests	2	13	8	4	26	2	2	9	0	14

OPERATING CASH FLOW	Q 1 2011	Q 2 2011	Q 3 2011	Q 4 2011	Full year 2011	Q 1 2012	Q 2 2012	Q 3 2012	Q 4 2012	Full year 2012
Operating income (EBIT)	1,377	1,615	1,751	461	5,204	1,655	1,885	1,932	2,030	7,501
Restructuring costs	–	–	–	1,420	1,420	–	–	–	–	–
Depreciation	253	248	251	270	1,022	274	272	251	238	1,034
Net capital expenditure	–161	–223	–216	–245	–846	–183	–165	–265	57	–557
Change in working capital	–963	–181	–125	1,031	–238	–1,155	–300	266	1,112	–77
Interest paid and received	–74	–152	–121	–135	–482	–482	–180	–100	–154	–546
Non-cash items	16	4	–12	–8	0	4	–77	–116	–123	–312
Operating cashflow [2]	**448**	**1,311**	**1,528**	**2,794**	**6,080**	**483**	**1,435**	**1,967**	**3,160**	**7,044**
Operating cash flow / Income before tax	0.37	0.90	0.97	1.62[2]	1.02[3]	0.33	0.86	1.13	1.73	1.05

CHANGE IN NET DEBT	Q 1 2011	Q 2 2011	Q 3 2011	Q 4 2011	Full year 2011	Q 1 2012	Q 2 2012	Q 3 2012	Q 4 2012	Full year 2012
Net debt at start of period	10,564	21,586	23,403	16,159	10,564	14,207	15,749	18,003	16,509	14,207
Operating cash flow	–448	–1,311	–1,528	–2,794	–6,080	–483	–1,435	–1,967	–3,160	–7,044
Restructuring payments	48	67	75	183	373	92	86	118	202	498
Tax paid	235	363	190	418	1,206	360	341	173	239	1,113
Acquisitions/Disposals	11,606	996	–6,415	324	6,511	1,489	1,221	452	1,019	4,181
Dividend	–	1,472	–	–	1,472	–	1,655	28	–	1,683
Purchase of treasury shares	–	17	–	–	17	–	38	–	–	38
Share issue	–	–	–308	–	–308	–	–450	–	–	–450
Cash and cash equivalents of disposal group classified as held for sale	–	–	–	–	–	–	324	59	7	390
Exchange rate differences and other	–419	213	742	–84	452	83	474	–356	–84	118
Net debt at end of period	**21,586**	**23,403**	**16,159**	**14,207**	**14,207**	**15,749**	**18,003**	**16,509**	**14,732**	**14,732**
Net debt / equity ratio	1.03	1.10	0.69	0.60	0.60	0.64	0.72	0.66	0.55	0.55

NET DEBT	Q 1 2011	Q 2 2011	Q 3 2011	Q 4 2011	Q 1 2012	Q 2 2012	Q 3 2012	Q 4 2012
Long-term interest-bearing receivables	–64	–58	–49	–44	–32	–33	–30	–29
Short-term interest-bearing investments including derivatives	–378	–315	–488	–284	–202	–256	–211	–138
Cash and bank balances	–1,298	–1,299	–1,582	–1,665	–1,208	–1,143	–971	–907
Pension provisions	1,179	1,214	1,233	1,173	1,215	1,237	1,214	1,224
Long-term interest-bearing liabilities	7,479	6,582	6,535	7,422	8,153	8,726	10,028	11,194
Short-term interest-bearing liabilities including derivatives	14,668	17,279	10,510	7,605	7,824	9,472	6,479	3,388
Total	**21,586**	**23,403**	**16,159**	**14,207**	**15,749**	**18,003**	**16,509**	**14,732**

CAPITAL EMPLOYED AND FINANCING	Q 1 2011	Q 2 2011	Q 3 2011	Q 4 2011	Q 1 2012	Q 2 2012	Q 3 2012	Q 4 2012
Capital employed	36,267	38,232	39,667	37,942	40,193	42,603	41,285	41,073
– of which goodwill	25,343	25,663	27,138	27,014	27,824	29,924	28,635	28,932
– of which other intangible and tangible assets	8,496	10,129	10,043	10,126	10,436	10,599	10,917	11,093
– of which investments in associates	1,111	1,121	1,234	1,211	1,206	1,231	1,444	1,519
Assets and liabilities of disposal groups held for sale	6,299	6,379	–	–	–	396	382	385
Net debt	21,586	23,403	16,159	14,207	15,749	18,003	16,509	14,732
Non-controlling interests	198	301	201	208	214	211	183	183
Shareholders' equity, excluding non-controlling interests	20,783	20,907	23,308	23,527	24,231	24,785	24,975	26,543

DATA PER SHARE, SEK	Q 1 2011	Q 2 2011	Q 3 2011	Q 4 2011	Full year 2011	Q 1 2012	Q 2 2012	Q 3 2012	Q 4 2012	Full year 2012
Earnings per share after tax and before dilution	2.57	3.08	4.40	0.40	10.45	3.09	3.51	3.50	3.74	13.85
Earnings per share after tax and dilution	2.53	3.07	4.42	0.30	10.33	3.10	3.51	3.49	3.74	13.84
Earnings per share after tax and dilution excluding items affecting comparability [1]	2.52	3.05	3.30	3.43	12.30	3.10	3.51	3.49	3.73	13.84
Shareholders' equity per share after dilution	58.34	59.35	65.91	65.79	65.54	68.24	67.24	67.39	71.61	71.82

NUMBER OF SHARES	Mar 2011	Jun 2011	Sep 2011	Dec 2011	Full year 2011	Mar 2012	Jun 2012	Sep 2012	Dec 2012	Full year 2012
Number of shares before dilution, thousands	367,732	368,250	368,250	368,250	368,250	368,250	370,859	370,859	370,859	370,859
Weighted average number of shares after dilution, thousands	373,038	373,000	372,946	372,627	372,627	368,057	368,352	369,155	369,592	369,592

[1] Items affecting comparability consist of restructuring costs and net income from discontinued operations in 2011.
[2] Excluding restructuring payments.
[3] Operating income before tax excluding items affecting comparability.

Definitions of key data

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 (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 fixed assets less disposals of fixed assets.

Depreciation
Depreciation/amortization of tangible and intangible assets.

Net debt
Interest-bearing liabilities less interest-bearing assets.

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

Equity ratio
Shareholders' equity as a percentage of total assets.

Interest coverage ratio
Income before tax plus net interest divided by net interest.

Return on shareholders' equity
Net income excluding non-controlling interests, plus interest expenses after tax for convertible debentures, as a percentage of average shareholders' equity (excluding non-controlling interests) after dilution.

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

Earnings per share after tax and before dilution
Net income excluding non-controlling interests divided by weighted average number of shares before dilution.

Earnings per share after tax and dilution
Net income excluding non-controlling interests, plus interest expenses after tax for convertible debentures, divided by weighted average number of shares after dilution.

Shareholders' equity per share after dilution
Equity excluding non-controlling interests, plus convertible debentures, divided by number of shares after dilution.

Proposed distribution of earnings

The following earnings are at the disposal of the Annual General Meeting:

Share premium reserve: SEK 788 M
Retained earnings brought forward: SEK 2,947 M
Net income for the year: SEK 3,496 M
TOTAL: SEK 7,231 M

The Board of Directors and the President and CEO propose that a dividend of SEK 5.10 per share, a total of SEK 1,888 M, be distributed to shareholders and that the remainder, SEK 5,343 M, be carried forward to the new financial year. The dividend amount is calculated on the number of outstanding shares as per 6 February 2013.

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 600,000 treasury shares as at 6 February 2013.

Tuesday, 30 April 2013 has been proposed as the record date for dividends. If the Annual General Meeting confirms this proposal, dividends are expected to be distributed by Euroclear Sweden AB on Monday, 6 May 2013.

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, 6 February 2013

Lars Renström
Chairman of the Board

Carl Douglas
Vice Chairman of the Board

Birgitta Klasén
Board member

Eva Lindqvist
Board member

Johan Molin
President and CEO

Sven-Christer Nilsson
Board member

Jan Svensson
Board member

Ulrik Svensson
Board member

Seppo Liimatainen
Employee representative

Mats Persson
Employee representative

Our audit report was issued on 6 February 2013

PricewaterhouseCoopers AB

Peter Nyllinge
Authorized Public Accountant

Auditor's report

To the annual meeting of the shareholders of ASSA ABLOY AB, corporate identity number 556059-3575

Report on the annual accounts and consolidated accounts
We have audited the annual accounts and consolidated accounts of ASSA ABLOY AB for the year 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 63–120.

Responsibilities of the Board of Directors and the President and CEO for the annual accounts and consolidated accounts
The Board of Directors and the President and CEO are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards , as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President and CEO 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.

Auditor's responsibility
Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President and CEO, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions
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 2012 and of its financial performance and its cash flows 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 2012 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President and CEO of ASSA ABLOY AB for the year 2012.

Responsibilities of the Board of Directors and the President and CEO
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the President and CEO are responsible for administration under the Companies Act.

Auditor's responsibility
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President and CEO is liable to the company. We also examined whether any member of the Board of Directors or the President and CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions
We recommend to the annual 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 Directors and the President and CEO be discharged from liability for the financial year.

Stockholm, 6 February 2013

PricewaterhouseCoopers AB

Peter Nyllinge
Authorized Public Accountant

The ASSA ABLOY share

Share price trend in 2012

2012 was a good year on NASDAQ OMX Stockholm, with a 12 percent rise in the index. It was also a very good year for ASSA ABLOY's Series B share, whose value increased by fully 41 percent from SEK 172.60 to SEK 242.90. Market capitalization amounted to SEK 90,082 M (63,560) at year-end.

The lowest closing price during the year was SEK 171.70 recorded on 4 January, while the highest closing price was SEK 244.80 recorded on 27 December.

Listing and trading

ASSA ABLOY's Series B share has been listed on NASDAQ OMX Stockholm, Large Cap since 8 November 1994. Total turnover of the Series B share on all markets amounted to 746 million (918) shares in 2012, equivalent to a turnover rate of 201 percent (249). Turnover of the series B share on NASDAQ OMX Stockholm amounted to 270 million (391) shares, equivalent to a turnover rate of 73 percent (106). The average turnover rate was 74 percent (96) on NASDAQ OMX Stockholm, and 77 percent (101) on the Large Cap list.

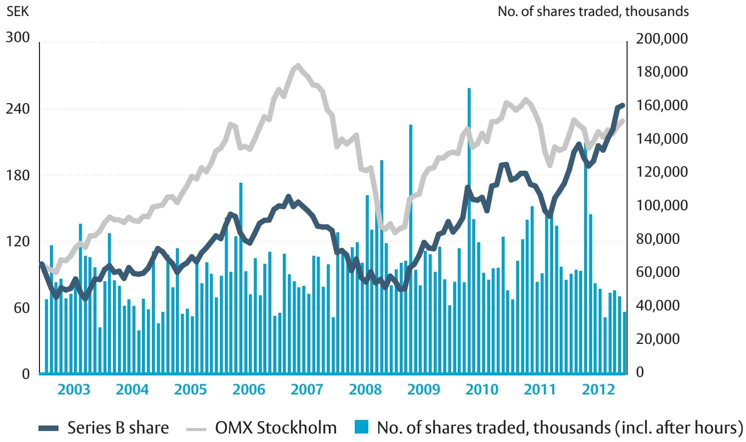
The implementation of the EU's Markets in Financial Instruments Directive (MiFID) in late 2007 has changed the structure of equity trading in Europe. Now that a share can be traded on markets other than the stock exchanges where it is listed, trading has become more fragmented, while the total turnover of many shares has increased. The ASSA ABLOY share is now not only traded on NASDAQ OMX Stockholm, but was traded on more than ten different markets in 2012, such as Boat, Bats Chi-X, Burgundy and Turquoise. Increasingly fragmented trading means that an ever-increasing share of trading in most Swedish shares takes place on markets other than NASDAQ OMX Stockholm. Trading on NASDAQ OMX Stockholm accounted for 36 percent of turnover of the share in 2012, compared with 43 percent in 2011, 51 percent in 2010, and 65 percent in 2009.

Ownership structure

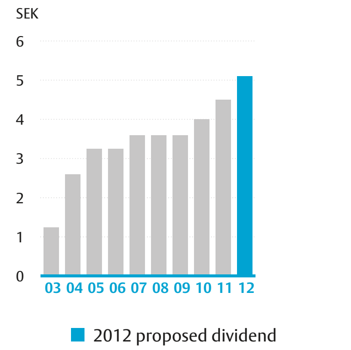
The number of shareholders at year-end was 17,591 (18,697) and the ten largest shareholders accounted for around 38 percent (38) of the share capital and 58 percent (58) of the votes. Shareholders with more than 50,000 shares, a total of 361 shareholders, accounted for 95 percent (97) of the share capital and 98 percent (97) of the votes.

Investors outside Sweden accounted for around 68 percent (64) of the share capital and 46 percent (44) of the votes, and were mainly in the USA and the United Kingdom.

SHARE PRICE TREND AND TURNOVER 2003–2012



DIVIDEND PER SHARE 2003–2012



Data per share

SEK/share [1]	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Earnings after tax and dilution [2]	3.31	6.33	6.97	7.99[3]	9.02	9.21[3]	9.22[3]	10.89	12.30[3]	13.84
Dividend	1.25	2.60	3.25	3.25	3.60	3.60	3.60	4.00	4.50	5.10[4]
Dividend yield, % [5]	1.5	2.3	2.6	2.2	2.8	4.1	2.6	2.1	2.6	2.1
Dividend, % [2, 6]	33.9	42.0	47.6	64.0	40.5	52.3	47.8	37.0	36.6	36.8
Share price at year-end	85.50	113.50	125.00	149.00	129.75	88.50	137.80	189.50	172.60	242.90
Highest share price	110.00	113.50	126.00	151.00	164.00	126.00	142.50	199.20	194.90	244.80
Lowest share price	67.00	84.00	89.25	109.00	124.50	69.75	71.50	126.60	133.50	171.70
Equity[2]	31.23	34.74	42.85	39.13	46.76	55.91	54.76	58.64	65.54	71.82
Number of shares, thousands [7]	370,935	378,718	378,718	376,033	380,713	380,713	372,931	372,736	371,213	370,859

[1] Adjustments made for new issues.
[2] 2003 has not been adjusted for IFRS.
[3] Excluding items affecting comparability 2006, 2008, 2009 and 2011.
[4] Proposed dividend by the Board.
[5] Dividend as percentage of share price at year-end.
[6] Dividend as percentage of adjusted earnings in line with dividend policy.
[7] After full dilution.

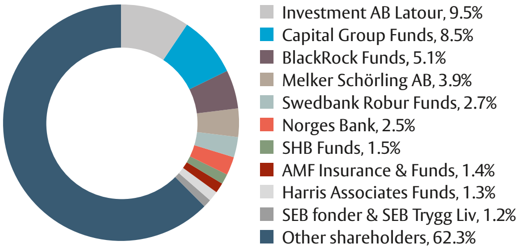
ASSA ABLOY's ten largest shareholders

Based on the share register at 31 December 2012.

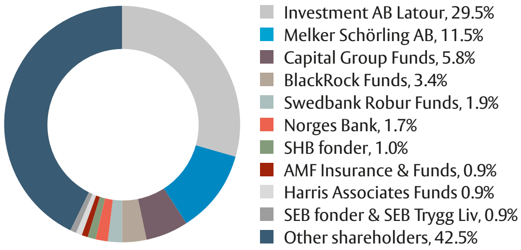
Shareholders	Series A shares	Series B shares	Total number of shares	Share capital, %	Votes, %
Investment AB Latour	13,865,243	21,300,000	35,165,243	9.5	29.5
Melker Schörling AB	5,310,080	9,162,136	14,472,216	3.9	11.5
Capital Group fonder		31,693,500	31,693,500	8.5	5.8
BlackRock fonder		18,730,437	18,730,437	5.1	3.4
Swedbank Robur fonder		10,135,991	10,135,991	2.7	1.9
Norges Bank		9,402,027	9,402,027	2.5	1.7
SHB fonder		5,542,930	5,542,930	1.5	1.0
AMF Försäkring & Fonder		5,046,500	5,046,500	1.4	0.9
Harris Associates fonder		4,894,400	4,894,400	1.3	0.9
SEB fonder & SEB Trygg Liv		4,622,692	4,622,692	1.2	0.9
Other shareholders		231,152,842	231,152,842	62.3	42.5
Total number	**19,175,323**	**351,683,455**	**370,858,778**	**100.0**	**100.0**

Source: SIS Ägarservice AB and Euroclear Sweden AB.

OWNERSHIP STRUCTURE (SHARE CAPITAL)



OWNERSHIP STRUCTURE (VOTES)



Share capital

The share capital amounted to SEK 370,858,778 at year-end, distributed among a total of 370,858,778 shares, comprising 19,175,323 Series A shares and 351,683,455 Series B shares.

All shares have a par value of SEK 1.00 and give shareholders equal rights to the company's assets and earnings. Each Series A share carries ten votes and each Series B share one vote.

Year	Transaction	Series A shares	Series C shares	Series B shares	Share capital, SEK
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 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		349,075,055	368,250,378
2012	Converted debentures	19,175,323		351,683,455	370,858,778
	Number of shares after dilution	19,175,323		351,683,455	370,858,778

The ASSA ABLOY share

Share capital and voting rights

The share capital amounted to SEK 370,858,778 at year-end, distributed among a total of 370,858,778 shares, comprising 19,175,323 Series A shares and 351,683,455 Series B shares. All shares have a par value of SEK 1.00 and give shareholders equal rights to the company's assets and earnings. The total number of votes amounts to 543,436,685. Each Series A share carries ten votes and each Series B share one vote.

Repurchase of own shares

Since 2010 the Board has requested and received a mandate from the Annual General Meeting to repurchase and transfer ASSA ABLOY shares. The aim has been to be able to adapt the company's capital structure, and thereby contributing to increased shareholder value, to be able to exploit acquisition opportunities by fully or partly financing company acquisitions with its own shares, and to secure the company's long-term incentive programs. The 2012 Annual General Meeting authorized the Board to repurchase, 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 600,000 (400,000) Series B shares after repurchase, to secure the company's obligations in connection with the company's long-term incentive programs (LTI). These shares account for 0.2 percent (0.1) of the share capital and each share has a par value of SEK 1.00. The purchase consideration amounted to SEK 103 M (65).

Of the above shares, 200,000 (100,000) Series B shares were repurchased in 2012. These account for 0.05 percent (0.03) of the share capital and each share has a par value of SEK 1.00. The purchase consideration amounted to SEK 38 M (17).

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 Precident and CEO propose that a dividend of SEK 5.10 per share (4.50) be paid to shareholders for the 2012 financial year, equivalent to a dividend yield on the Series B share of 2.10 percent (2.6).

Other equity-based incentive programs

ASSA ABLOY has issued a number of convertible debentures to employees in the Group.

In 2007 it was decided to launch an incentive program, Incentive 2007. The program matured in 2012. Half of the convertible debentures relating to Incentive 2007 were converted. Conversion was managed by an external party and took place in 2012. A total of 2,608,400 Series B shares were issued in connection with Incentive 2007.

At year-end 2012, there were no outstanding convertible debentures issued to employees in the Group.

For long-term incentive programs see Note 33.

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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 at 15.00 on Thursday, 25 April 2013. Shareholders wishing to attend the Annual General Meeting should:

- Be registered in the share register kept by Euroclear Sweden AB by Friday, 19 April 2013.
- Notify ASSA ABLOY AB of their intention to attend by Friday, 19 April 2013.

Registration in the share register

In addition to notification of intention to attend, shareholders whose shares are nominee registered must be temporarily registered in their own name in the share register (so called voting right registration) to be able to attend the Annual General Meeting. In order for this registration to be completed by Friday, 19 April 2013, the shareholder should contact his/her bank or nominee well in advance of this date.

Notification of intention to attend

- Website www.assaabloy.com
- Address ASSA ABLOY AB, Annual General Meeting
Box 7842, SE-103 98 Stockholm, Sweden
- Telephone +46 (0)8 506 485 14

The notification should state:

- Name
- Personal or corporate identity number
- Address and daytime telephone number
- Number of shares
- Any assistants attending

A shareholder who is to be represented by a proxy should submit the proxy in connection with the notification of intention to attend the Annual General Meeting. Proxy forms are available at: www.assaabloy.com.

Nomination Committee

The Nomination Committee has the task of preparing resolutions on the election of the Chairman, the Vice Chairman and other members of the Board of Directors, the appointment of the auditor, the election of the Chairman of the Annual General Meeting, and fees and associated matters.

The Nomination Committee prior to the 2013 Annual General Meeting comprises Gustaf Douglas (Investment AB Latour), Mikael Ekdahl (Melker Schörling AB), Liselott Ledin (Alecta), Marianne Nilsson (Swedbank Robur Fonder) and Per-Erik Mohlin (SEB Fonder/SEB Trygg Liv). Gustaf Douglas is Chairman of the Nomination Committee.

Dividend

Tuesday, 30 April 2013 has been proposed as the record date for dividends. If the Annual General Meeting approves the proposal, dividends are expected to be distributed by Euroclear Sweden AB on Monday, 6 May 2013.

Further information

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Third quarter: 28 October 2013
Fourth quarter and Year-end report: February 2014
Annual Report 2013: March 2014

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ASSA ABLOY is the global leader in door opening solutions, dedicated to satisfying end-user needs for security, safety and convenience

ASSA ABLOY

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» Future shareholder value is based on organic and acquired growth as well as continued rationalization and synergies in the Group «

– Johan Molin, President and CEO