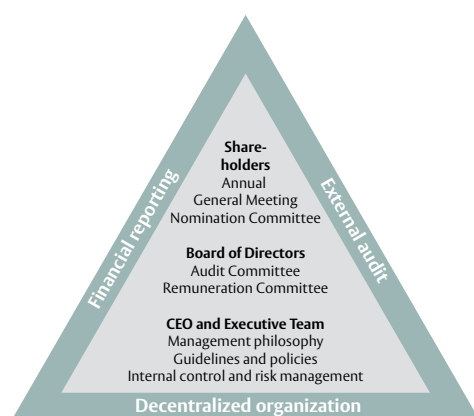


ASSA ABLOY is a Swedish public limited liability company with registered office in Stockholm, Sweden.

The Group's corporate governance is based on, among other things, its articles of association, the Swedish Companies Act and the rules and regulations of the NASDAQ OMX Stockholm (Stockholm Stock Exchange). ASSA ABLOY applies the Swedish Code of Corporate Governance and is considered, at the end of 2008, to be in compliance with all of its provisions.

The Corporate Governance Report describes how the work of corporate governance has been conducted at ASSA ABLOY during the 2008 financial year. This report has not been examined by the company's auditors.

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 22,921 shareholders. ASSA ABLOY's principal shareholders are Investment AB Latour and Säkl AB (9.7 percent of the capital and 29.8 percent of the votes) and Melker Schörling AB (4.0 percent of the capital and 11.6 percent of the votes). Foreign shareholders accounted for 50 percent of the share capital and 34 percent of the votes. The ten largest shareholders accounted for 41 percent of the share capital and 60 percent of the votes.

### Share capital and voting rights

ASSA ABLOY's share capital at year-end amounted to SEK 365,918,034, distributed among 19,175,323 Series A shares and 346,742,711 Series B shares. Each Series A share carries ten votes and each Series B share one vote. All shares give the shareholders equal rights to the company's assets and earnings.

### Share and dividend policy

ASSA ABLOY's Series B share is quoted on the Large Cap list of the Stockholm Stock Exchange. ASSA ABLOY's market capitalization at year-end amounted to SEK 32,383 M. The aim of the Board is that, in the long term, the dividend

should be equivalent to 33–50 percent of ASSA ABLOY's earnings after standard tax, but always taking into account ASSA ABLOY's long-term financing requirements.

### Annual General Meeting

Shareholders' rights to decide on the affairs of ASSA ABLOY are exercised at the Annual General Meeting. Shareholders who are registered in the share register on the record day and have duly notified their intention to attend are entitled to take part in the Annual General Meeting, either in person or via a proxy. Resolutions at the General Meeting are normally passed by simple majority. However, on certain matters 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 Annual 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: a dividend; 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; 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.

### Annual General Meeting 2008

The Annual General Meeting in April 2008 was attended by shareholders representing 49 percent of the company's capital and 66 percent of the votes.

At the Meeting, Gustaf Douglas, Carl Douglas, Sven-Christer Nilsson and Johan Molin were re-elected as members of the Board. Moreover, Birgitta Klasén, Eva Lindqvist, Jorma Halonen, Lars Renström and Ulrik Svensson were elected as members of the Board. Gustaf Douglas was re-elected as Chairman of the Board.

It was noted that the 2006 Annual General Meeting had appointed PricewaterhouseCoopers as auditors, with authorized public accountant Peter Nyllinge as Auditor in Charge, for the four-year period up to the 2010 Annual General Meeting.

The Meeting approved a dividend of SEK 3.60 per share, in accordance with the proposal of the Board and the CEO. In addition, the Meeting passed a resolution on remuneration guidelines for senior management and fees payable to the Board and the auditors and appointed the members of the Nomination Committee up to the 2009 Annual General Meeting.

### Nomination Committee

The Nomination Committee prior to the 2009 Annual General Meeting comprises Mikael Ekdahl (Melker Schörling AB), Gustaf Douglas (Investment AB Latour and Säkl),

Staffan Grefbäck (Alecta), Mats Tunér (SEB Fonder) and Marianne Nilsson (Swedbank Robur). Mikael Ekdahl 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 elect another representative of one of the major shareholders to take the place of such a member. The same applies if a member of the Nomination Committee ceases to be employed by such a shareholder or leaves the Nomination Committee before the 2009 Annual General Meeting for any other reason. During the year the Nomination Committee appointed Mats Tunér (SEB Fonder) to replace Björn Lind (SEB Fonder). The Nomination Committee has the task of preparing, on behalf of the shareholders, decisions on the election of the Chairman, Vice Chairmen 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. Prior to the 2009 Annual General Meeting, the Nomination Committee has made an assessment of whether the current Board is appropriately composed and fulfills the demands made on the Board by the company's present situation and future direction. The annual evaluation of the Board was part of the basis for this assessment. The search for suitable board members continues throughout the year and proposals for new board members are based in each individual case on a profile of requirements laid down by the Nomination Committee.

Shareholders who wish to submit proposals to the Nomination Committee can do so by e-mailing [nominationcommittee@assaabloy.com](mailto: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 20 March 2009.

#### 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 decides on the Group's overall objectives, strategies and policies as well as on acquisitions, disposals and investments. The Board approves the Annual Report and Interim Reports, recommends a dividend and guidelines for the remuneration of senior management to the Annual General Meeting and takes decision concerning the Group's financial structure.

The Board's other duties include:

- 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 and financial position with reference to its stated objectives
- ensuring that the company's external provision of information is marked by openness and objectivity

- ensuring that there is satisfactory control of the company's compliance with laws and other regulations applying to the company's operations
- ensuring that necessary ethical guidelines for the company's conduct are established

The Board's rules of procedure and instructions for the division of duties between the Board and the CEO are updated and approved at least once a year. The Board has also issued written instructions specifying how financial reporting to the Board should be carried out. In addition to leading the work of the Board, 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 is evaluated each year and that new members of the Board receive appropriate training.

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

The Board has a Remuneration Committee and an Audit Committee. The purpose of these Committees is to deepen and streamline the work of the Board and to prepare matters in these areas. The Committees themselves have no decision-making powers. The members of the Committees are appointed annually by the Board at the board meeting following election. Instructions for the Committees are included in the Board's working procedures.

#### *The Board's work during 2008*

During the year the Board held nine meetings, including two by telephone. At two meetings one board member was absent and at one meeting two board members were absent. Otherwise all members were present at all meetings. At the scheduled board meetings, the President and CEO reported on the Group's performance and financial position, including the outlook for the coming quarters. Investments, acquisitions and disposals were also considered. The Board takes decisions on all acquisitions and disposals with a value (on a debt-free basis) exceeding SEK 100 M. This amount presumes that the matter involves acquisitions or disposals that fall within the framework of the strategy as agreed by the Board.

More important matters dealt with by the Board during the year included the acquisitions of Rockwood, Gardesa, Shenfei and Valli&Valli, as well as the restructuring program announced during 2008. During the year the Board also

conducted in-depth reviews of the Group's activities in the Americas and HID Global and visited several of the Group's sales and production units in China and the Czech Republic.

#### *Remuneration Committee*

During 2008, the Remuneration Committee comprised Gustaf Douglas (Chairman) and Sven-Christer Nilsson.

The Remuneration Committee's task is to draw up guidelines for the remuneration of senior management, which the Board proposes to the Annual General Meeting for resolution. The Board's proposal for guidelines prior to the 2009 Annual General Meeting can be seen on page 39. The Remuneration Committee also addresses matters pertaining to salaries, bonus, pension, severance pay and incentive programs for the CEO and other senior management.

The committee held one meeting during the year at which all members were present. The meetings of the Remuneration Committee are minuted; the minutes are sent out with material for the Board and a verbal report is given at board meetings.

#### *The Audit Committee*

During 2008 the Audit Committee comprised Ulrik Svensson (Chairman), Birgitta Klasén and Lars Renström.

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 operation.

The Audit Committee held four meetings during the year at which all members, the company's auditor and representatives from corporate management were present. The meetings of the Audit Committee are minuted; the minutes are sent out with material for the Board and a verbal report is given at board meetings.

More important matters dealt with by the Audit Committee during the year included monitoring accounting aspects of the restructuring program, the adoption of

new guidelines for appointing external auditors locally, and the procurement of services other than auditing from the company's auditors. In addition to this, the Audit Committee was kept updated on the move of Treasury operations from Geneva to Stockholm, and also monitored the Group's financing situation, given the turbulence in the credit markets during the year. The Audit Committee also initiated an overview of the Group's policies and guidelines for management of funds allocated to meet the Group's pension liability.

#### *ASSA ABLOY's Board of Directors*

The Board consists of 11 members. Nine members are elected by the Annual General Meeting for a period of one year and two of the members are appointed by the employee organizations in accordance with Swedish law. The employee organizations also appoint two deputies. 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*

The Annual General Meeting passes a resolution on the remuneration to be paid to board members. The 2008 Annual General Meeting decided that fees paid to the Board should comprise a total sum of SEK 4,050,000 (excluding remuneration for committee work), to be allocated between the members as follows: SEK 900,000 to the Chairman and SEK 450,000 to each of the other members not employed by the company. As remuneration for committee work, the Chairman of the Audit Committee should receive SEK 200,000, the Chairman of the Remuneration Committee SEK 100,000, members of the Audit Committee SEK 100,000 and members of the Remuneration Committee SEK 50,000.

The Chairman and other board members have no pension benefits or severance payment agreements. The CEO and employee representatives do not receive any remuneration. For more information about remuneration to Board members for 2008, please see Note 33.

### Independence of the Board

The Board of Directors of ASSA ABLOY meets the requirements for independence according to the rules and regulations of NASDAQ OMX Stockholm and the Swedish Code of Corporate Governance.

Name	Position	Independent of the company and its management	Independent of the company's major shareholders
Gustaf Douglas	Chairman	Yes	No
Carl Douglas	Board member	Yes	No
Jorma Halonen	Board member	Yes	Yes
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
Lars Renström	Board member	Yes	Yes
Ulrik Svensson	Board member	Yes	No

### The Board's composition and shareholdings

Name	Position	Appointed	Born	Remuneration Committee	Audit Committee	Series A shares <sup>1</sup>	Series B shares <sup>1</sup>	Incentive program Series B shares
Gustaf Douglas	Chairman	1994	1938	Chairman	–	13,865,243	21,750,000	–
Carl Douglas	Board member	2004	1965	–	–	–	–	–
Jorma Halonen	Board member	2008	1948	–	–	–	1,000	–
Birgitta Klasén	Board member	2008	1949	–	Member	–	4,000	–
Eva Lindqvist	Board member	2008	1958	–	–	–	–	–
Johan Molin	Board member, President and CEO	2006	1959	–	–	–	500,000	440,000
Sven-Christer Nilsson	Board member	2001	1944	Member	–	–	2,500	–
Lars Renström	Board member	2008	1951	–	Member	–	10,000	–
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 Hjälml	Deputy, employee representative	2005	1964	–	–	–	–	–
Per Edvin Nyström	Deputy, employee representative	1994	1955	–	–	–	7,727	7,800

<sup>1</sup> Including family and through companies.

## Board members elected at the 2008 Annual General Meeting



Gustaf Douglas

### **Gustaf Douglas, Chairman**

Board member of ASSA ABLOY AB since 1994.

Born 1938.

MBA, Harvard Business School.

Principal shareholder of Investment AB Latour and Säkl AB. Self-employed since 1980.

*Other appointments:* Chairman of Säkl AB. Board member of Stiftelsen Svenska Dagbladet and the Swedish Conservative Party.

*Shareholdings (including family and through companies):* 6,746,425 Series A shares and 19,450,000 Series B shares through Investment AB Latour, and 7,118,818 Series A shares and 2,300,000 Series B shares through Säkl AB.



Carl Douglas

### **Carl Douglas**

Board member of ASSA ABLOY AB since 2004.

Born 1965.

Bachelor of Arts. Self-employed.

*Other appointments:* Vice Chairman of Securitas AB. Board member of Investment AB Latour, Niscayah Group AB, Swegon AB and Säkl AB.

*Shareholdings (including family and through companies):* —



Jorma Halonen

### **Jorma Halonen**

Board member of ASSA ABLOY AB since 2008.

Born 1948.

Bachelor of Science in Economics.

Executive Vice President of AB Volvo and Deputy CEO of the Volvo Group 2004–2008. President and CEO of Volvo Truck Corporation 2001–2004. Prior to that, a number of senior posts at Scania, such as President of Saab-Scania in Finland 1990–1996, Vice President 1996–1998 and President 1998–2001 of Scania Latin America. Prior to that, senior posts in the telecommunication and computer industry 1972–1990.

*Other appointments:* Chairman of the Board of Niscayah Group AB and CPS Color. Board member of SEMCON AB and NICDP (Advisory Board to the Saudi Arabian Government).

*Shareholdings (including family and through companies):* 1,000 Series B shares.



Birgitta Klasén

### **Birgitta Klasén**

Board member of ASSA ABLOY AB 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 and prior to that, CIO at Telia. Held various posts at IBM 1976–1994.

*Other appointments:* Board member of Acando AB and BISNODE AB.

*Shareholdings (including family and through companies):* 4,000 Series B shares.



Eva Lindqvist

### **Eva Lindqvist**

Board member of ASSA ABLOY AB since 2008.

Born 1958.

Master of Science in Engineering and Bachelor of Science in Economics.

Senior Vice President of Mobile Business at TeliaSonera AB 2006–2007. Prior to that several senior posts at TeliaSonera AB, such as President and Head of Business Operation International Carrier, and various posts in the Ericsson Group 1981–1999.

*Other appointments:* Chairman of the Board Xelerated AB and Admeta AB, as well as Board Member of companies including Schibstedt, Niscayah Group AB, Transmode AB and Nordia Innovation AB. Member of the Royal Swedish Academy of Engineering Sciences (IVA).

*Shareholdings (including family and through companies):* —



Johan Molin

### **Johan Molin**

Board member of ASSA ABLOY AB since 2006.

Born 1959.

Bachelor of Science in Economics.

President and CEO of ASSA ABLOY AB since 2005. CEO of Nilfisk-Advance 2001–2005. Various posts mainly in finance and marketing, later divisional head in the Atlas Copco Group 1983–2001.

*Other appointments:* Board member of AB Electrolux.

*Shareholdings (including family and through companies):* 500,000 Series B shares as well as Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 440,000 Series B shares.



Sven-Christer Nilsson

**Sven-Christer Nilsson**

Board member of ASSA ABLOY AB since 2001.

Born 1944.

Bachelor of Science, Lund University.

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

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

*Shareholdings (including family and through companies):* 2,500 Series B shares.



Lars Renström

**Lars Renström**

Board member of ASSA ABLOY AB since 2008.

Born 1951.

Master of Science in Engineering and Bachelor of Science in 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 family and through companies):* 10,000 Series B shares.



Ulrik Svensson

**Ulrik Svensson**

Board member of ASSA ABLOY AB since 2008.

Born 1961.

Bachelor of Science in Economics.

President of Melker Schörling AB. CFO of Swiss International Airlines Ltd. 2003–2006. CFO of Esselte AB 2000–2003 and CFO of the Stenbeck Group's foreign telecom ventures 1992–2000.

*Other appointments:* Board member of AAK AB, Loomis AB, Niscayah Group AB, Hexpol AB and Flughafen Zürich.

*Shareholdings (including family and through companies):* 3,000 Series B shares.

*Board members appointed by  
employee organizations*



Seppo Liimatainen

**Seppo Liimatainen**

Board member of ASSA ABLOY AB 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 of ASSA ABLOY AB since 1994.

Born 1955.

Employee representative, Swedish Metal Workers Union.

*Shareholdings:* —

*Deputy board members appointed by  
employee organizations*



Rune Hjälms

**Rune Hjälms**

Deputy board member at ASSA ABLOY AB since 2005.

Born 1964.

Employee representative, Swedish Metal Workers Union.

Chairman of ASSA ABLOY European Works Council (EWC).

*Shareholdings:* —



Per Edvin Nyström

**Per Edvin Nyström**

Deputy board member at ASSA ABLOY AB since 1994.

Born 1955.

Employee representative, Swedish Metal Workers Union.

*Shareholdings:* 7,727 Series B shares and Incentive 2004 corresponding, on full conversion, to 7,800 Series B shares.



From the left: Åke Sund, Ulf Södergren, Denis Hébert, Tim Shea, Johan Molin, Martin Brandt, Juan Vargues, Thanasis Molokotos, Tzachi Wiesenfeld, Tomas Eliasson.

### Johan Molin

Born 1959  
Bachelor of Science in Economics  
President and CEO and Head of Global Technologies division  
Employed since 2005  
**Shareholdings:** 500,000 Series B shares. Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 440,000 Series B shares.

### Martin Brandt

Born 1960  
M.Sc. Engineering, MBA  
Executive Vice President  
Head of Asia Pacific division  
Employed since 1996  
**Shareholdings:** Incentive 2006 corresponding, on full conversion, to 60,700 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:** Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 62,200 Series B shares.

### Tomas Eliasson

Born 1962  
Bachelor of Science in Economics  
Executive Vice President  
Chief Financial Officer (CFO)  
Employed since 2006  
**Shareholdings:** Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 108,600 Series B shares.

### Thanasis Molokotos

Born 1958  
M.Sc. Engineering  
Executive Vice President  
Head of Americas division  
Employed since 1996  
**Shareholdings:** 25,000 Series B shares. Incentive 2004, Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 105,400 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:** Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 21,500 Series B shares.

### Åke Sund

Born 1957  
Graduate Diploma in Marketing  
Executive Vice President  
Director for Market and Business Development  
Employed since 1994  
**Shareholdings:** Incentive 2004, Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 223,900 Series B shares.

### Ulf Södergren

Born 1953  
Master of Science in Engineering, Bachelor of Science in Economics  
Executive Vice President  
Chief Technology Officer (CTO)  
Employed since 2000  
**Shareholdings:** Incentive 2004, Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 217,600 Series B shares.

### Juan Vargues

Born 1959  
Degree in Mechanical Engineering, MBA  
Executive Vice President  
Head of Entrance Systems division  
Employed since 2002  
**Shareholdings:** Incentive 2004, Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 229,600 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:** Incentive 2004, Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 183,800 Series B shares.

### **The Executive Team and organization**

The Executive Team (Group Management) consists of the CEO, the heads of the Group's divisions, the Chief Financial Officer, the Director for Technology and Product Development and the Director for Market and Business Development. ASSA ABLOY's operating activities are divided into five divisions, where the fundamental principle is that these divisions should be responsible, as far as is possible, for business operations, while various functions at headquarters are responsible for coordination, monitoring, policies and guidelines at a comprehensive level. The composition of this group gives a geographical and strategic spread of responsibility designed to ensure short decision-making paths. The Group's management philosophy is based on trust, as well as 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 staff development. These principles are described in the publication 'Strategy to Action', which has been provided to all employees in the Group. Other important guidelines and policies concern financial control, communication matters, the Group's brands, business ethics and environmental issues. Common financial, accounting and investment policies provide the framework for financial control and monitoring. ASSA ABLOY's communication policy aims to provide essential information at the right time and in compliance with stock market rules and regulations, as well as to ensure compliance with other legal requirements. Guidelines for brands aim to protect and develop the major assets that the Group's brands represent.

ASSA ABLOY has adopted a Code of Conduct that applies to the whole Group. The Code, which is based on a set of internationally accepted conventions, defines the values and guidelines that should apply within the Group with regard to the environment, health, safety, working conditions, human rights and business ethics. Application of the Code of Conduct in the Group's different units is monitored regularly with the purpose of ensuring compliance and relevance.

### **Decentralized organization**

ASSA ABLOY's operations are decentralized. Decentralization is a deliberate strategic choice based on the local nature of the lock industry and a conviction of the benefits of a divisional control model. Another contributory factor is that the Group has been built up over a relatively short period through a large number of acquisitions.

ASSA ABLOY's operating structure is designed to create the greatest possible transparency, to facilitate financial and operational monitoring and to promote the flow of information and communication across the Group. The Group consists of five divisions, which are divided into about 30 business units. These consist in turn of a considerable number of sales and production units, depending on the struc-

ture of the business unit concerned. Apart from monitoring by unit, monitoring of products and markets is also carried out.

### **Internal control and financial reporting**

ASSA ABLOY's process for internal control and financial reporting is designed to provide reasonable assurance of reliable financial reporting and that the information is prepared in compliance with generally accepted accounting principles, applicable laws and regulations and other requirements for listed companies. The process is based on the framework for internal control issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The process can be divided into several sub-components, such as those defined in the framework referred to above and described in greater detail below.

### **Control environment**

The Board of Directors is responsible for effective internal control and to this end has established fundamental documents of significance for financial reporting. These documents include the Board of Directors' rules of procedure and instructions to the Chief Executive Officer, as well as the Group's code of conduct, financial policy etc. Regular meetings are held with the Audit Committee, which also adopts the internal audit plan annually. The Group has an established internal audit function, with the primary goal of providing 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. A handbook was published in 2008 that established minimum levels for internal control of financial reporting. The Code of Conduct was also reviewed and updated during the year.

### **Risk assessment**

Risk assessment includes identifying and evaluating the risk of material error in the financial reporting and accounting systems at Group, division and local levels. A number of previously established documents govern the procedures to be used for accounting, finalizing accounts, reporting and monitoring. The entire Group uses a financial reporting system with predefined report templates.

A systematic comprehensive risk assessment of financial reporting was carried out during 2008, which will be regularly updated over the next few years.

### **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. Internal financial audits were carried out during the year in certain parts of the Group, where experienced financial personnel conduct audits in units other than the ones where they work. In 2009 the Group will review the structure and format of the internal audit. Group-wide guidelines for internal control were



adopted in 2008 and affect various processes such as orders and purchasing (including payments), procedures for finalizing accounts and facilities, as well as compliance with various relevant policies.

#### *Information and communication*

The Group's intranet provides all involved employees with information about reporting and accounting manuals as well as other guidelines for financial reporting. A regular review and analysis of financial outcomes is carried out at both business unit and division level and as part of the Board's established operating structure. The Group also has established procedures for external communication of financial information in accordance with regulations for listed companies.

#### *Follow-up*

The Board of Directors and the Audit Committee evaluate and review the Annual Report and Interim Reports prior to publication. The Audit Committee follows up on the financial reporting as well as 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 operating review. Operating reviews conform to a long-established structure - Lock-Pack - in which sales, income, 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 and monthly in the form of performance reviews and through more informal analysis. Particular attention is paid to the sales trend, and monitoring takes the form of daily sales reporting by all the units in the Group. Other important Group-wide components of

internal control are the annual business planning and budgeting process and quarterly detailed forecasts of all the financial parameters for the current calendar year. Internal control guidelines implemented during the year are also monitored in the large business units through self-assessments and a second opinion from external auditors. Self-assessments are usually followed up at division and Group level to further improve the reliability of the financial reporting.

#### **External audit**

At the 2006 Annual General Meeting, PricewaterhouseCoopers (PwC) were appointed as the company's external auditors for a four-year period up to the 2010 Annual General Meeting, with authorized public accountant Peter Nyllinge as the Auditor in Charge.

PwC have been the Group's auditors since the Group was formed in 1994. Peter Nyllinge, born in 1966, is responsible for auditing the following companies besides ASSA ABLOY: Securitas, Säkl, Bonnier and Skandinaviska Enskilda Banken. 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 carried out in accordance with good auditing practice in Sweden. The audit of annual accounts for legal units outside Sweden takes place according to 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 during the last three financial years, please see Note 3 of this Report and Note 3 on page 72 of the Annual Report for 2007.