

# Report of the Board of Directors

## Corporate governance

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 NASDAQ OMX Stockholm. ASSA ABLOY applies the Swedish Code of Corporate Governance and is considered, at the end of 2010, to be in compliance with all of its provisions.

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 20,199 shareholders (22,014). The principal shareholders are Investment AB Latour and Säkl (9.6 percent of the share capital and 29.7 percent of the votes) and Melker Schörling AB (4.0 percent of the share capital and 11.6 percent of the votes). Foreign shareholders accounted for around 63 percent (53) of the share capital and around 43 percent (36) of the votes. The ten largest shareholders accounted for around 31 percent (37) of the share capital and 53 percent (57) of the votes.

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 366,177,194 distributed among 19,175,323 Series A shares and 347,001,871 Series B shares. The total number of votes was 538,755,101. 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 the shareholders equal rights to the company's assets and earnings.

### Repurchase of own shares

The 2010 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 ten percent of the total number of shares in the company.

ASSA ABLOY holds a total of 300,00 Series B shares, which were repurchased in Q2 2010 to secure the company's obligations, including the cost of social security contributions, in connection with the company's long-term incentive program (LTI 2010). These shares account for 0.1 percent of the share capital and each share has a par value of SEK 1.00. The purchase consideration amounted to SEK 48 M.

### 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 69,391 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 day 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. 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 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: 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.

### 2010 Annual General Meeting

The Annual General Meeting in April 2010 was attended by shareholders representing 52.3 percent of the company's share capital and 67.6 percent of the votes.

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

Jorma Halonen left ASSA ABLOY's Board at his own request.

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 resolutions on fees payable to the Board, remuneration guidelines for senior executives, authorization of the Board regarding repurchase and transfers of own Series B shares, and the implementation of a long-term incentive program (LTI 2010) for senior executives and other key staff in the Group, as well as appointing members of the Nomination Committee in advance of the 2011 Annual General Meeting.

#### **Nomination Committee**

The Nomination Committee prior to the 2011 Annual General Meeting comprises Gustaf Douglas (Investment AB Latour and Säkl), Mikael Ekdahl (Melker Schörling AB), Liselott Ledin (Alecta), Marianne Nilsson (Swedbank Robur Funds) and Per-Erik Mohlin (SEB Funds/SEB Trygg Liv). 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 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 Committee before the 2011 Annual General Meeting for any other reason.

The Nomination Committee has the task of preparing, on behalf of the shareholders, decisions on the election of the 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 2011 Annual General Meeting, the Nomination Committee has made an assessment of whether the current Board is appropriately composed and fulfils 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 is carried out 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 e-mailing to: [nomination-committee@assaabloy.com](mailto:nomination-committee@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 30 March 2011.

#### **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, divestments and investments. The Board 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:

- 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'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 annually, and that new members of the Board receive appropriate training.

The Board has 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 once a year the Board visits, and makes 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. Prior to 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 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 2010**

During the year the Board held ten meetings, including three by telephone and one per capsulam. Two members were absent at one of these meetings. All board members

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were present at the other 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 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. This amount presumes that the matter relates to acquisitions or divestments within the framework of the strategy agreed by the Board.

More important matters dealt with by the Board during the year included the acquisition of Cardo, Paddock and ActivIdentity. During the year the Board conducted in-depth reviews of the Group's Asia Pacific and Entrance Systems operations and visited the Group's sales and production units in Italy. Furthermore, it was decided on the basis of the authorization of the 2010 Annual General Meeting to repurchase a maximum 300,000 Series B shares in the company.

### *Remuneration Committee*

During 2010 the Remuneration Committee comprised Gustaf Douglas (Chairman) and Sven-Christer Nilsson.

The Remuneration Committee's task is to draw up remuneration guidelines for senior management, which the Board proposes to the Annual General Meeting for resolution. The Board's proposal for guidelines prior to the 2011 Annual General Meeting can be seen on page 73.

The Remuneration Committee also prepares, negotiates and evaluates matters regarding salaries, bonus, pension, severance pay and incentive programs for the CEO and other senior management.

The Committee held two meetings during the year at which all members were present. The remuneration Committee has during the year, inter alia, evaluated existing incentive programs and prepared the proposal for a long-term incentive programme (LTI 2011). 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.

### *Audit Committee*

During 2010 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 operations. At least one of the Committee's members has accounting or auditing competence.

The Audit Committee held four meetings during the year at which all members, the company's auditor and representatives of senior 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 a review of new financial reporting standards relating to acquisitions and the Group's new insurance package.

### *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 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*

The Annual General Meeting passes a resolution on the remuneration to be paid to board members. The 2010 Annual General Meeting passed a resolution on Board fees totaling 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 is to 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 Board fees. For further information about the remuneration of board members in 2010, see Note 32.

The Board of Directors of ASSA ABLOY meets the requirements for independence, in accordance with the rules and regulations of NASDAQ OMX Stockholm and the Swedish Code of Corporate Governance.

### Independence of the Board

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

### The Board's composition and shareholdings

Name	Position	Elected	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 of the Board	1994	1938	Chairman of the Board	–	13,865,243	21,300,000	–
Carl Douglas	Board member	2004	1965	–	–	–	–	–
Birgitta Klasén	Board member	2008	1949	–	Board member	–	5,000	–
Eva Lindqvist	Board member	2008	1958	–	–	–	–	–
Johan Molin	Board member, President and CEO	2006	1959	–	–	–	506,699	440,000
Sven-Christer Nilsson	Board member	2001	1944	Board member	–	–	3,500	–
Lars Renström	Board member	2008	1951	–	Board member	–	10,000	–
Ulrik Svensson	Board member	2008	1961	–	Chairman of the Board	–	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	–

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

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### Board members elected at the 2010 Annual General Meeting



Gustaf Douglas

#### Gustaf Douglas

Chairman of the Board  
Board member since 1994  
Born 1938  
MBA, Harvard Business School 1964.  
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 Moderate Party.

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



Carl Douglas

#### Carl Douglas

Board member 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):** –



Birgitta Klasén

#### 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 and prior to that, CIO at Telia. Held various posts at IBM 1976–1994.

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

**Shareholdings (including family and through companies):** 5,000 Series B shares.



Eva Lindqvist

#### 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, such as President and Head of Business Operation International Carrier, and various posts in the Ericsson Group 1981–1999.

**Other appointments:** Chairman of Xelerated AB and board member of companies including Tieto OY, 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

Board member 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 and Nobia AB.

**Shareholdings (including family and through companies):** 506,699 Series B shares as well as Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 440,000 Series B shares.

#### Sven-Christer Nilsson

Board member since 2001  
Born 1944  
B.Sc.

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

**Other appointments:** Chairman of the National Swedish Public Service Broadcasting Foundation and the Swedish National Defence Materiel Administration (FMV). Board member of Sprint Nextel Corporation and CEVA, Inc.

**Shareholdings (including family and through companies):** 3,500 Series B shares.



Johan Molin



Sven-Christer Nilsson



Lars Renström

**Lars Renström**

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



Ulrik Svensson

**Ulrik Svensson**

Board member since 2008  
Born 1961  
Bachelor of Science in 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 AAK AB, Loomis AB, Niscayah Group AB, Hexagon AB, Hexpol AB and Flughafen Zürich AG.  
**Shareholdings (including family and through companies):** 3,000 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 Hjälms

**Rune Hjälms**

Deputy board member 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 since 1994  
Born 1955  
Employee representative, Swedish Metal Workers Union.  
**Shareholdings:** 7,727 Series B shares.

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### *The Executive Team*



Johan Molin



Tomas Eliasson



Denis Hébert



Thanasis Molokotos



Jonas Persson



Tim Shea



Ulf Södergren



Juan Vargues



Tzachi Wiesenfeld

#### **Johan Molin**

Born 1959  
Bachelor of Science in Economics  
President and CEO and Head of Global Technologies division  
*Employed since:* 2005  
*Shareholdings:* 506,699 Series B shares. Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 440,000 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:* 2,674 Series B shares. Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 56,200 Series B shares.

#### **Jonas Persson**

Born 1969  
Master of Science in Engineering  
Executive Vice President  
Head of Asia Pacific division  
*Employed since:* 2009  
*Shareholdings:* 1,722 Series B shares.

#### **Ulf Södergren**

Born 1953  
Master of Science in Engineering, Bachelor of Science in Business Administration and Economics  
Executive Vice President  
Chief Technology Officer (CTO)  
*Employed since:* 2000  
*Shareholdings:* 1,810 Series B shares. Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 139,800 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:* 2,709 Series B shares. Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 144,900 Series B shares.

#### **Tomas Eliasson**

Born 1962  
Bachelor of Science in Economics  
Executive Vice President  
Chief Financial Officer (CFO)  
*Employed since:* 2006  
*Shareholdings:* 2,072 Series B shares. Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 108,600 Series B shares.

#### **Thanasis Molokotos**

Born 1958  
Master of Science in Engineering  
Executive Vice President  
Head of Americas division  
*Employed since:* 1996  
*Shareholdings:* 28,407 Series B shares. Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 74,300 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:* 1,604 Series B shares. Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 27,700 Series B shares.

#### **Juan Vargues**

Born 1959  
Degree in Mechanical Engineering, MBA  
Executive Vice President  
Head of Entrance Systems division  
*Employed since:* 2002  
*Shareholdings:* 2,484 Series B shares. Incentive 2006 and Incentive 2007 corresponding, on full conversion, to 182,900 Series B shares.

### **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 these divisions should be responsible, as far as possible, for business operations, while various functions at headquarters 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 staff 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 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, as well as ensuring compliance with other legal requirements. 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, 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.

### **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 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 regarding financial reporting**

ASSA ABLOY's process for internal control regarding 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 the Board's 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 established a Management Assurance function, with the primary goal of providing reliable financial reporting. This function is managed by the Group Controller and reports to the Executive Team and the Audit Committee.

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 has been reviewed and updated, and compliance is monitored systematically in operations.

### **Risk assessment**

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

A systematic comprehensive risk assessment of financial reporting has been implemented and is monitored at Group level.

### **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 Management Assurance 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 2010 are submitted to the Audit Committee and the auditors. Group-wide internal control guidelines are reviewed annually. These guidelines affect various processes, such as orders and purchasing (including payments), procedures for finalizing accounts and facilities, as well as compliance with various relevant policies 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's 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 operating review. Operating reviews conform to a long-established structure – LockPack – 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 and budgeting process and quarterly detailed forecasts of all the financial parameters for the current calendar year.

Group-wide internal control guidelines were reviewed during the year in all operating companies through self-assessment and 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, PricewaterhouseCoopers (PwC) were appointed as the company's external auditors for a four-year period up to 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 Securitas and Säkl 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 carried out in accordance with good auditing practice in Sweden. The audit of the financial statements for legal entities outside Sweden is carried out 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 during the last three financial years, see Note 3 and the Annual Report for 2009 Note 3.