

Report of the Board of Directors

Corporate governance

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

The corporate governance of ASSA ABLOY 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 2011.

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.

Important external rules and regulations

- Swedish Companies Act
- NASDAQ OMX Stockholm Rule Book for Issuers
- Swedish Code of Corporate Governance

Important internal rules and regulations

- Articles of association
- Board of Directors' rules of procedure
- Financial policy, accounting manual, communications policy, and insider policy
- Internal control procedures
- Code of Conduct and anti-bribery policy



Shareholders

At year-end ASSA ABLOY had 18,697 shareholders (20,199). The principal shareholders are Investment AB Latour (9.5 percent of the share capital and 29.6 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 64 percent (63) of the share capital and around 44 percent (43) of the votes. The ten largest shareholders accounted for around 38 percent (31) of the share capital and around 58 percent (53) of the votes. For further information on shareholders, see page 121.

A shareholders' agreement exists between Gustaf Douglas, Melker Schörling and related companies and includes, among other things, an agreement on right of first refusal if any party disposes of Series A shares. The Board of Directors of ASSA ABLOY is not aware of any other shareholders' agreements or other agreements between shareholders in ASSA ABLOY.

Share capital and voting rights

ASSA ABLOY's share capital amounted at year-end to SEK 368,250,378 distributed among 19,175,323 Series A shares and 349,075,055 Series B shares. The total number of votes was 540,828,285. 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 of Directors has requested and received a mandate from the Annual General Meeting to buy back and transfer ASSA ABLOY shares. The aim has been to be able to adjust the company's capital structure, 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 ensure the company's undertakings under long-term incentive programs. The 2011 Annual General Meeting authorized the Board of Directors 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 400,000 (300,000) Series B shares after repurchase to secure the company's undertakings in connection with the company's long-term incentive programs (LTI 2010 and LTI 2011). These shares account for 0.1 percent (0.1) of the share capital and each share has a par value of SEK 1.00. The purchase consideration amounted to SEK 65 M (48).

Of the above shares, 100,000 (300,000) Series B shares were repurchased in 2011. These account for 0.03 percent (0.1) of the share capital and each share has a par value of SEK 1.00. The purchase consideration amounted to SEK 17 M (48).

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 63,560 M. The Board of Directors' objective is that, in the long term, the dividend should be equivalent to 33–50 percent of income after standard tax, but always taking into account ASSA ABLOY's long-term financing requirements.

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 who 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.

2011 Annual General Meeting

The Annual General Meeting in April 2011 was attended by shareholders representing 54.5 percent of the share capital and 69.0 percent of the votes.

At the Annual General Meeting, Gustaf Douglas, 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. Gustaf Douglas was re-elected as Chairman of the Board of Directors.

The Annual General Meeting approved a dividend of SEK 4.00 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 2011) for senior management and other key staff in the Group, as well as appointing members of the Nomination Committee prior to the 2012 Annual General Meeting.

Nomination Committee

The Nomination Committee prior to the 2012 Annual General Meeting comprises Mikael Ekdahl (Melker Schörling AB), Gustaf Douglas (Investment AB Latour), Liselott Ledin (Alecta), Marianne Nilsson (Swedbank Robur Fonder) and Per-Erik Mohlin (SEB Fonder/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 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 2012 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 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.

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

Prior to the 2012 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.

The Nomination Committee's proposals for changes in the Board of Directors at the 2012 Annual General Meeting were published on 21 December 2011. After over 17 years as a member of the Board of Directors of ASSA ABLOY, including the past six years as Chairman, Gustaf Douglas will leave the Board of Directors at the 2012 Annual General Meeting. The Nomination Committee intends to propose Lars Renström as the new Chairman, Carl Douglas as Vice Chairman and Jan Svensson as a new member of the Board of Directors. The Nomination Committee's other 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 2012.

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 of Directors' 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

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Board of Directors is evaluated annually, and that new members of the Board of Directors receive appropriate training.

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 relating to each point 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.

The Board of Directors' work in 2011

During the year the Board of Directors held 12 meetings (five scheduled meetings, one statutory meeting and six extraordinary meetings), including four by telephone and two *per capsulam*. One member was absent at two meetings, two members were absent at two meetings and three members were absent at one meeting. All board members were present at the other meetings. At the scheduled board meetings, the CEO has 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 the completion of the acquisition of Cardo, including the divestments of Cardo Flow Solutions and Lorentzen & Wettre. In addition, the Board of Directors dealt with a further number of acquisitions including Albany Door Systems and FlexiForce. During the year the Board of Directors conducted in-depth reviews of the Group's operations in Entrance Systems and HID Global and visited Crawford and FlexiForce's operations in the Netherlands. The Board of Directors also decided to adopt an updated anti-bribery policy during the year.

Remuneration Committee

During 2011 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 of Directors proposes to the Annual General Meeting for resolution. The Board of Directors' proposal for

guidelines to the 2012 Annual General Meeting is set out on page 75.

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 three meetings in 2011, including one by telephone, at which all members were present.

During the year 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 2012. The meetings of the Remuneration 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 2011 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. The Audit Committee held four meetings in 2011 at which all members, the company's auditor and representatives of the Executive Team 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 Audit 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 2011 Annual General Meeting passed a resolution on board fees totaling SEK 4,000,000 (excluding remuneration for

committee work), to be allocated between the members as follows: SEK 1,000,000 to the Chairman and SEK 500,000 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 pay agreements. The CEO and employee representatives do not receive board fees. For further information on the remuneration of board members in 2011, see Note 32.

Independence of the Board of Directors

The Board of Directors of ASSA ABLOY meets the requirements for independence, in accordance with 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 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 of Directors' composition and shareholdings

Name	Position	Elected	Born	Remuneration Committee	Audit Committee	Series A shares ¹	Series B shares ¹	Incentive program Series B shares
Gustaf Douglas	Chairman of the Board	1994	1938	Chairman	–	13,865,243	21,300,000	–
Carl Douglas	Board member	2004	1965	–	–	–	–	–
Birgitta Klasén	Board member	2008	1949	–	Member	–	7,000	–
Eva Lindqvist	Board member	2008	1958	–	–	–	1,000	–
Johan Molin	Board member, President and CEO	2006	1959	–	–	–	516,282	215,300
Sven-Christer Nilsson	Board member	2001	1944	Member	–	–	5,000	–
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 Hjälms	Deputy, employee representative	2005	1964	–	–	–	–	–
Per Edvin Nyström	Deputy, employee representative	1994	1955	–	–	–	7,727	–

¹ Including family and through companies. Shareholdings as of 31 December 2011. This information is updated regularly at www.assaabloy.com

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Corporate governance Board of Directors

Board members elected at the 2011 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.
Self-employed since 1980.

Other appointments: Board member of Stiftelsen Svenska Dagbladet and the Swedish Moderate Party.

Shareholdings (including family and through companies): 13,865,243 Series A shares and 21,300,000 Series B shares through Investment AB Latour.



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 and Swegon 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 at Pharmacia 1996–2001. Prior to that CIO at Telia. Held various posts at IBM 1976–1994.

Other appointments: Board member of Acando AB and IFS AB.

Shareholdings (including family and through companies): 7,000 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 Telia Sonera AB 2006–2007. Prior to that several senior posts at Telia Sonera 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 family and through companies): 1,000 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 posts mainly in finance and marketing, later divisional head in the Atlas Copco Group 1983–2001.

Other appointments: Chairman of Nobia AB.

Shareholdings (including family and through companies): 516,282 Series B shares. Incentive 2007 corresponding, on full conversion, to 215,300 Series B shares.



Johan Molin

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 National Defence Materiel Administration (FMV). Board member of Sprint Nextel Corporation and CEVA, Inc.

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



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 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 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 Hjälml

Rune Hjälml

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: 7,727 B-aktier.

Shareholdings as of 31 December 2011. This information is updated regularly at www.assaabloy.com

Report of the Board of Directors

Corporate governance **The Executive Team**

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 Business Administration and Economics.
President and CEO.
Head of Global Technologies division.
Employed since: 2005.
Shareholdings: 516,282 Series B shares.
Incentive 2007 corresponding, on full conversion, to 215,300 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: 5,802 Series B shares.
Incentive 2007 corresponding, on full conversion, to 44,000 Series B shares.

Jonas Persson

Born 1969.
Master of Science in Engineering.
Executive Vice President.
Head of Asia Pacific division.
Employed since: 2009.
Shareholdings: 10,836 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: 4,358 Series B shares.
Incentive 2007 corresponding, on full conversion, to 60,800 Series B shares.

Tzachi Wiesenfeld

Born 1958.
Bachelor of Science in Industrial Engineering, MBA.
Head of EMEA division.
Executive Vice President.
Employed since: 2000.
Shareholdings: 6,611 Series B shares.
Incentive 2007 corresponding, on full conversion, to 23,400 Series B shares.

Tomas Eliasson¹

Born 1962.
Bachelor of Science in Business Administration and Economics.
Executive Vice President.
Chief Financial Officer (CFO).
Employed since: 2006.
Shareholdings: Incentive 2007 corresponding, on full conversion, to 23,600 Series B shares.

Thanasis Molokotos

Born 1958.
Master of Science in Engineering.
Executive Vice President.
Head of Americas division.
Employed since: 1996.
Shareholdings: 32,635 Series B shares.
Incentive 2007 corresponding, on full conversion, to 25,700 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: 3,477 Series B shares.
Incentive 2007 corresponding, on full conversion, to 9,400 Series B shares.

Juan Vargues

Born 1959.
Degree in Mechanical Engineering, MBA.
Executive Vice President.
Head of Entrance Systems division.
Employed since: 2002.
Shareholdings: 6,124 Series B shares.
Incentive 2007 corresponding, on full conversion, to 79,600 Series B shares.

Changes in the Executive Team

¹Tomas Eliasson, Executive Vice President and Chief Financial Officer, is leaving ASSA ABLOY on 10 February 2012. He is succeeded by Carolina Dybeck Happe as from 1 March 2012.

Shareholdings as of 31 December 2011. 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 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 issues, insider issues, the Group's brands, business ethics 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 provide essential information 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. Further, ASSA ABLOY has adopted an anti-bribery policy that applies to the whole Group.

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.

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 the Board of Directors' rules of procedure and instructions to the CEO, the Code of Conduct, financial policy, and an annual financial evaluation plan etc. 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 2011 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 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, PricewaterhouseCoopers (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 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 carried out in accordance with International Standards on Auditing, ISA, which is considered good auditing practice in Sweden since 2011. 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 in the past three financial years, see Note 3 and the Annual Report for 2010, Note 3.