

# 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 Group's corporate governance is based on the Swedish Companies Act, the NASDAQ OMX Stockholm Rule Book for Issuers 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 2013.

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 ([www.bolagsstyrning.se](http://www.bolagsstyrning.se))

### Important internal rules and regulations

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



### Shareholders

At year-end ASSA ABLOY had 17,199 shareholders (17,591). The principle shareholders are Investment AB Latour (9.5 percent of the share capital and 29.5 percent of the votes) and Melker Schörling AB (3.9 percent of the share capital and 11.5 percent of the votes). Further, Capital Group Fonder accounted for 10.7 percent of the share capital and 7.3 percent of the votes. Foreign shareholders accounted for around 67 percent (68) of the share capital and around 46 percent (46) of the votes. The ten largest shareholders accounted for around 37 percent (38) of the share capital and 57 percent (58) of the votes. For further information on shareholders, see page 123.

A shareholders' agreement exists between Gustaf Douglas, Melker Schörling and related companies and includes an agreement on right of first refusal if any party disposes of Series A shares. The Board of 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 370,858,778 distributed among 19,175,323 Series A shares and 351,683,455 Series B shares. The total number of votes was 543,436,685. Each Series A share carries ten votes and each Series B share one vote. All shares have a par value

of SEK 1.00 and give shareholders equal rights to the company's assets and earnings.

### Repurchase of own shares

Since 2010 the Board of Directors has requested and received a mandate from the Annual General Meeting to repurchase and transfer ASSA ABLOY shares. The aim has been to be able to adapt the company's capital structure thereby contributing to increased shareholder value, to be able to exploit acquisition opportunities by fully or partly financing company acquisitions with its own shares, and to secure the company's long-term incentive programs (LTI). The 2013 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 600,000 (600,000) Series B shares after repurchase to secure the company's undertakings in connection with its long-term incentive programs (LTI). These shares account for around 0.2 percent (0.2) of the share capital and each share has a par value of SEK 1.00. The purchase consideration amounted to SEK 103 M (103). No shares were repurchased in 2013.

### 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 125,814 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 date and have duly notified their intention to attend are entitled to take part in the General Meeting, either in person or by 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.

#### **2013 Annual General Meeting**

The Annual General Meeting in April 2013 was attended by shareholders representing 60.2 percent of the share capital and 73.0 percent of the votes.

At the Annual General Meeting, Lars Renström, Carl Douglas, Birgitta Klasén, Eva Lindqvist, Johan Molin, Sven-Christer Nilsson, Jan Svensson and Ulrik Svensson were re-elected as members of the Board of Directors. Further, Lars Renström was re-elected as Chairman and Carl Douglas as Vice Chairman.

The 2013 Annual General Meeting approved a dividend of SEK 5.10 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 2013) for senior management and other key staff in the Group, as well as appointing members of the Nomination Committee prior to the 2014 Annual General Meeting.

#### **Nomination Committee**

The Nomination Committee prior to the 2014 Annual General Meeting comprises Gustaf Douglas (Investment AB Latour), Mikael Ekdahl (Melker Schörling AB), Liselott Ledin (Alecta), Marianne Nilsson (Swedbank Robur fonder) and Johan Strandberg (SEB fonder/SEB Trygg Liv). Gustaf Douglas is Chairman of the Nomination Committee. If a shareholder represented by one of the members of the Nomination Committee ceases to be among the major shareholders in ASSA ABLOY, the 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 2014 Annual General Meeting for any other reason.

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

Prior to the 2014 Annual General Meeting, the Nomination Committee has made an assessment of whether the current Board of Directors is appropriately composed and fulfills the demands made on the Board of Directors by the company's present situation and future direction. The annual evaluation of the Board of Directors was part of the basis for this assessment. The search for suitable board members is carried on throughout the year and proposals for new board members are based in each individual case on a profile of requirements established by the Nomination Committee.

Shareholders wishing to submit proposals to the Nomination Committee can do so by emailing: [nominationcommittee@assaabloy.com](mailto:nominationcommittee@assaabloy.com).

The Nomination Committee's proposals for the 2014 Annual General Meeting are published at the latest in conjunction with the formal notification of the Annual General Meeting, which is expected to be issued around 2 April 2014.

#### **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 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

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an approved agenda. Prior to each meeting, a draft agenda including documentation is sent to all board members.

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

### *Board of Directors' work in 2013*

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

More important matters dealt with by the Board of Directors during the year included, among other things, ASSA ABLOY's brand strategy and product development. The Board of Directors also dealt with the new restructuring program during the year. In addition, the Board of Directors dealt with a number of acquisitions including Ameristar, Amarr and Mercor. During the year, the Board of Directors conducted an in-depth review of the Group's operations in Asia Pacific and visited EMEA's operations in Bucharest, Romania.

### *Remuneration Committee*

During 2013 the Remuneration Committee comprised Lars Renström (Chairman), Jan Svensson and Sven-Christer Nilsson.

The Remuneration Committee's task is to draw up remuneration guidelines for senior management, which the Board of Directors proposes to the Annual General Meeting for resolution. The Board of Directors' proposal for guidelines prior to the 2014 Annual General Meeting is set out on page 77.

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

The Committee held two meetings in 2013, one of which was by phone. One member was absent at one of the meetings. All members were present at the other meeting.

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 2014. The meetings of the Committee are minuted, the minutes are distributed with material for the Board of Directors and a verbal report is given at board meetings.

### *Audit Committee*

During 2013 the Audit Committee comprised Ulrik Svensson (Chairman), Birgitta Klasén and Jan Svensson.

The duties of the Audit Committee include the continuous quality assurance of ASSA ABLOY's financial reporting. Regular communication is maintained with the company's auditor on matters including the focus and scope of the audit. The Audit Committee is also responsible for evaluating the audit assignment and informing the Board of Directors and the Nomination Committee of the results, as well as continuously monitoring the current risk status of legal risks in the operations. The Audit Committee held four meetings in 2013 at which all members, the company's auditor and representatives of senior management were present. More important matters dealt with by the Audit Committee during the year included internal control, financial statements and valuation matters, tax matters, insurance and risk management matters, and legal risk areas.

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

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

The Board of Directors is elected annually at the Annual General Meeting for the period until the end of the next Annual General Meeting and shall, according to the articles of association, comprise a minimum six and a maximum ten members elected by the Meeting. Two of the members are appointed by the employee organizations in accordance with Swedish law. The employee organizations also appoint two deputies. The Board of Directors currently consists of eight elected members and two employee representatives. With the exception of the CEO, none of the board members are members of the Executive Team. The CEO has no significant shareholdings or partnerships in companies with significant business relationships with ASSA ABLOY.

### *Remuneration of the Board of Directors*

The Annual General Meeting passes a resolution on the remuneration to be paid to board members. The 2013 Annual General Meeting passed a resolution that board fees should remain unchanged in relation to the previous year at a total amount of SEK 4,600,000 (excluding remuneration for committee work), to be allocated between the members as follows: SEK 1,350,000 to the Chairman, SEK 750,000 to the Vice Chairman and SEK 500,000 to each of the other members appointed by the Annual General Meeting and not employed by the company. As remuneration for committee work, the Chairman of the Audit Committee is to receive SEK 200,000, the Chairman of the Remuneration Committee SEK 100,000, members of the Audit Committee (except the Chairman) SEK 100,000, and members of the Remuneration Committee (except the Chairman) 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 2013, see Note 33.

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

### Independence of the Board of Directors

Name	Position	Independent of the company and its management	Independent of the company's major shareholders
Lars Renström	Chairman	Yes	Yes
Carl Douglas	Vice Chairman	Yes	No
Birgitta Klasén	Board member	Yes	Yes
Eva Lindqvist	Board member	Yes	Yes
Johan Molin	Board member, President and CEO	No	–
Sven-Christer Nilsson	Board member	Yes	Yes
Jan Svensson	Board member	Yes	No
Ulrik Svensson	Board member	Yes	No

### The Board of Directors' composition and shareholdings

Name	Position	Elected	Born	Remuneration Committee	Audit Committee	Series A shares <sup>1</sup>	Series B shares <sup>1</sup>
Lars Renström	Chairman	2008	1951	Chairman	–	–	10,000
Carl Douglas	Vice Chairman	2004	1965	–	–	13,865,243	21,300,000
Birgitta Klasén	Board member	2008	1949	–	Member	–	7,000
Eva Lindqvist	Board member	2008	1958	–	–	–	2,300
Johan Molin	Board member, President and CEO	2006	1959	–	–	–	533,542
Sven-Christer Nilsson	Board member	2001	1944	Member	–	–	5,000
Jan Svensson	Board member	2012	1956	Member	Member	–	2,000
Ulrik Svensson	Board member	2008	1961	–	Chairman	–	3,000
Kurt Hellström	Board member, employee representative	2013	1957	–	–	–	–
Mats Persson	Board member, employee representative	1994	1955	–	–	–	–
Rune Hjälms	Deputy, employee representative	2005	1964	–	–	–	–
Seppo Liimatainen	Deputy, employee representative	2013	1950	–	–	–	2,600

<sup>1</sup> Including related parties and through companies. Shareholdings as at 31 December 2013. This information is updated regularly at [www.assaabloy.com](http://www.assaabloy.com).

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### Board members elected by the 2013 Annual General Meeting



Lars Renström

#### Lars Renström

Chairman.

Board member since 2008.

Born 1951.

Master of Science in Engineering and Bachelor of Science in Business Administration and Economics. President and CEO of Alfa Laval AB since 2004. President and CEO of Seco Tools AB 2000–2004. President and Head of Division of Atlas Copco Rock Drilling Tools 1997–2000. Prior to that, a number of senior posts at ABB and Ericsson.

**Other appointments:** Board member of Alfa Laval AB and Tetra Laval Group.

**Shareholdings (including related parties and through companies):** 10,000 Series B shares.



Carl Douglas

#### Carl Douglas

Vice Chairman.

Board member since 2004.

Born 1965.

BA (Bachelor of Arts).

Self-employed.

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

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



Birgitta Klasén

#### 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 of Telia. Held various posts at IBM 1976–1994.

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

**Shareholdings (including related parties and through companies):** 7,000 Series B shares.



Eva Lindqvist

#### Eva Lindqvist

Board member since 2008.

Born 1958.

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

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

**Other appointments:** Board member of companies including Tieto Oy, Sweco AB and Episerver AB. Member of the Royal Swedish Academy of Engineering Sciences (IVA).

**Shareholdings (including related parties and through companies):** 2,300 Series B shares.

#### Johan Molin

Board member since 2006.

Born 1959.

Bachelor of Science in Business Administration and Economics.

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

**Other appointments:** Chairman of Nobia AB.

**Shareholdings (including related parties and through companies):** 533,542 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 Defence Materiel Administration (FMV). Board member of CEVA, Inc.

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



Sven-Christer Nilsson



Ulrik Svensson

**Ulrik Svensson**

Board member since 2008.  
Born 1961.  
Bachelor of Science in Business Administration and Economics.  
CEO of Melker Schörling AB since 2006. CFO of Swiss International Airlines Ltd. 2003–2006. CFO of Esselte AB 2000–2003 and Controller/CFO of the Stenbeck Group's foreign telecoms ventures 1992–2000.

*Other appointments:* Board member of AarhusKarlshamn AB, Loomis AB, Hexagon AB, Hexpol AB and Flughafen Zürich AG.  
*Shareholdings (including related parties and through companies):* 3,000 Series B shares.



Jan Svensson

**Jan Svensson**

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

*Board members appointed by employee organizations*



Kurt Hellström

**Kurt Hellström**

Board member since 2013.  
Born 1957.  
Employee representative, Federation of Salaried Employees in Industry and Services (PTK).  
*Shareholdings (including related parties and through companies):* –



Mats Persson

**Mats Persson**

Board member since 1994.  
Born 1955.  
Employee representative, Swedish Metal Workers Union.  
*Shareholdings (including related parties and through companies):* –



Rune Hjälml

**Rune Hjälml**

Deputy board member since 2005.  
Born 1964.  
Employee representative, Swedish Metal Workers Union.  
Chairman of European Works Council (EWC) in the ASSA ABLOY Group.  
*Shareholdings (including related parties and through companies):* –



Seppo Liimatainen

**Seppo Liimatainen**

Deputy board member since 2013.  
Born 1950.  
Employee representative, Federation of Salaried Employees in Industry and Services (PTK).  
*Shareholdings (including related parties and through companies):* 2,600 Series B shares

Shareholdings as at 31 December 2013. This information is updated regularly at [www.assaabloy.com](http://www.assaabloy.com).

# Report of the Board of Directors

## Corporate governance Executive Team

### Executive Team



Johan Molin



Tzachi Wiesenfeld

**Johan Molin**  
Born 1959.  
Bachelor of Science in Business Administration and Economics.  
President and Chief Executive Officer (CEO).  
Head of Global Technologies division.  
*Employed since:* 2005.  
*Shareholdings:* 533,542 Series B shares.

**Tzachi Wiesenfeld**  
Born 1958.  
Bachelor of Science in Industrial Engineering, MBA.  
Executive Vice President.  
Head of EMEA division.  
*Employed since:* 2000.  
*Shareholdings:* 11,321 Series B shares.



Carolina Dybeck Happe



Thanasis Molokotos

**Carolina Dybeck Happe**  
Born 1972.  
Bachelor of Science in Business Administration and Economics.  
Executive Vice President and Chief Financial Officer (CFO).  
*Employed since:* 2012.  
*Shareholdings:* 7,719 Series B shares.

**Thanasis Molokotos**  
Born 1958.  
Master of Science in Engineering.  
Executive Vice President.  
Head of Americas division.  
*Employed since:* 1996.  
*Shareholdings:* 36,785 Series B shares.



Denis Hébert



Tim Shea

**Denis Hébert**  
Born 1956.  
Bachelor of Science in Business Administration and Economics, MBA.  
Executive Vice President.  
Head of Global Technologies business unit HID Global.  
*Employed since:* 2002.  
*Shareholdings:* 22,730 Series B shares.

**Tim Shea**  
Born 1959.  
Master of Science in Engineering, MBA.  
Executive Vice President.  
Head of Global Technologies business unit ASSA ABLOY Hospitality.  
*Employed since:* 2004.  
*Shareholdings:* 8,647 Series B shares.



Magnus Kagevik



Juan Vargues

**Magnus Kagevik**  
Born 1967.  
Master of Science in Mechanical Engineering.  
Executive Vice President.  
Head of Asia Pacific division.  
*Employed since:* 2007.  
*Shareholdings:* 5,749 Series B shares.

**Juan Vargues**  
Born 1959.  
Degree in Mechanical Engineering, MBA.  
Executive Vice President.  
Head of Entrance Systems division.  
*Employed since:* 2002.  
*Shareholdings:* 24,149 Series B shares.



Ulf Södergren

**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:* 12,377 Series B shares.

### Changes in the Executive Team

Jonas Persson, Executive Vice President and Head of Asia Pacific division during the period 2009–2013, left ASSA ABLOY on 31 December 2013. He is succeeded by Magnus Kagevik as from 1 January 2014.

Shareholdings as at 31 December 2013. This information is updated regularly at [www.assaabloy.com](http://www.assaabloy.com).

### **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, export control, and environmental issues. ASSA ABLOY's financial policy and accounting manual provide the framework for financial control and monitoring. The Group's communications policy aims to ensure that essential information is provided at the right time and in compliance with applicable rules and regulations. ASSA ABLOY has adopted an insider policy to complement applicable Swedish insider legislation. This policy applies to all persons reported to the Swedish Financial Supervisory Authority as holding an insider position in ASSA ABLOY AB (including subsidiaries) as well as certain other categories of employees. Brand guidelines aim to protect and develop the major assets that the Group's brands represent.

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

### **Decentralized organization**

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

ASSA ABLOY's operating structure is designed to create maximum transparency, to facilitate financial and operational monitoring, and to promote the flow of information and communication across the Group. The Group consists of five divisions, which are divided into around 40 business units. These consist in turn of a large number of sales and production units, depending on the structure of the business unit concerned. Apart from monitoring by unit, monitoring of products and markets is also carried out.

### **Internal control of financial reporting**

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

### **Control environment**

The Board of Directors is responsible for effective internal control and has therefore established fundamental documents of significance for financial reporting. These documents include, among other things, the Board of Directors' rules of procedure and instructions to the CEO, the Code of Conduct, financial policy, and an annual financial evaluation plan. Regular meetings are held with the Audit Committee. The Group has an internal audit 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 for accounting, financial statements, 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. In 2013 separate compliance testing of the Group's anti-corruption policy was performed in four operating companies. The results of the financial evaluations and the compliance evaluation of the anti-corruption policy are submitted to the Audit Committee and the auditors. Group-wide internal control guidelines are reviewed annually. These guidelines affect various procedures, such as order, purchase, financial statements, plant management, compliance with various policies, legal issues and HR issues.

### **Information and communication**

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

### **Review process**

The Board of Directors and the Audit Committee evaluate and review the Annual Report and Interim Reports prior to publication. The Audit Committee monitors the financial reporting and other related issues, and regularly discusses these issues with the external auditors.

All business units report their financial results monthly in accordance with the Group's accounting principles. This reporting serves as the basis for quarterly reports and a

monthly legal and operating review. Operating reviews conform to a structure in which sales, earnings, cash flow, capital employed and other important key figures and trends for the Group are compiled, and form the basis for analysis and actions by management and controllers at different levels. Financial reviews take place quarterly at divisional board meetings, monthly in the form of performance reviews and through more informal analysis. Other important group-wide components of internal control are the annual business planning process and monthly and quarterly forecasts.

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

### **External audit**

At the 2010 Annual General Meeting, 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. PwC have been the Group's auditors since its formation in 1994. In connection with the 2013 Annual General Meeting, the authorized public accountant Bo Karlsson became the auditor in charge, replacing the authorized public accountant Peter Nyllinge. In addition to ASSA ABLOY, Bo Karlsson, born 1966, is responsible for auditing SKF and Fagerhult.

PwC submits the audit report for ASSA ABLOY AB, the Group and a large majority of the subsidiaries worldwide. The audit of ASSA ABLOY AB also includes the administration by the Board of Directors and the CEO.

The company's auditor attends all Audit Committee meetings as well as the February board meeting, at which he reports his observations and recommendations concerning the Group audit for the year.

The external audit is conducted in accordance with International Standards in Auditing (ISA), which has been good auditing practice in Sweden since 2011. The audit of the financial statements for legal entities outside Sweden is conducted in accordance with statutory requirements and other applicable rules in each country. For information about the fees paid to auditors and other assignments carried out in the Group in the past three financial years, see Note 3 and the Annual Report for 2012, Note 3.

# Report of the Board of Directors

## Remuneration guidelines for senior management

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

The Board of Directors of ASSA ABLOY proposes that the Annual General Meeting adopts the following guidelines for the remuneration and other employment conditions of the President and CEO and the other members of the Executive Team. The proposed guidelines below do not involve any material change, compared with the guidelines adopted by the 2013 Annual General Meeting. The basic principle is that remuneration and other employment conditions should be in line with market conditions and competitive. ASSA ABLOY takes into account both global remuneration practice and practice in the home country of each member of the Executive Team. The total remuneration of the Executive Team should consist of basic salary, variable components in the form of annual and long-term variable remuneration, other benefits and pension.

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

### ***Fixed and variable remuneration***

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

In addition, the Executive Team should, within the framework of the Board of Directors' proposal for a long-term incentive program, be able to receive variable remuneration in the form of shares, based on the outcome in relation to a range determined by the Board of Directors for the perfor-

mance of earnings per share during 2014. This remuneration model also includes the right, when purchasing a share under certain conditions, to receive a free matching share from the company. This remuneration should, if the share price is unchanged, be equivalent to a maximum 75 percent of the basic salary (excluding social security costs).

The cost of variable remuneration for the Executive Team as above, assuming maximum outcome, totals around SEK 54 M (excluding social security costs). This calculation is made on the basis of the current members of the Executive Team.

### ***Other benefits and pension***

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

### ***Notice and severance pay***

If the CEO is given notice, the company is liable to pay the equivalent of 24 months' basic salary and other employment benefits. If one of the other members of the Executive Team is given notice, the company is liable to pay a maximum six months' basic salary and other employment benefits plus an additional 12 months' basic salary.

### ***Deviation from guidelines***

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