Auditor’s report

To the general meeting of the shareholders of ASSA ABLOY AB (publ),
corporate identity number 556059-3575

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of ASSA ABLOY AB (publ) for the year 2016, except for the corporate governance statement on pages 46–54. The annual accounts and consolidated accounts of the company are included on pages 39–98 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 46–54. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the Parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor’s Responsibilities section. We are independent of the Parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

The ASSA ABLOY Group is comprised of a large number of companies. None of these companies have, individually, been deemed to be of major significance in the audit of the group. For the group audit, we have selected the Parent company and treasury company and some 70 companies spread across the group’s five divisions, which are audited according to a group-wide audit program. The audit program includes the assessment of the design and operating effectiveness of selected controls in processes significant to the financial reporting and also includes audit procedures in the form of test of details supplemented with analytical procedures applied to the group’s significant income statement and balance sheet items. The majority of the subsidiaries in the group are also the subject of statutory audits according to local requirements.

During 2016, the Auditor-in-Charge and co-signing auditor visited the audit teams in China and the US to participate, on site, in the audit, and to take part in the meetings with representatives from ASSA ABLOY’s local companies and ASSA ABLOY’s head office. The operations in China and the US have been selected as they are the countries with the largest external sales. In addition, the Chinese operations represent an increased risk exposure in the form of weak compliance with regulatory requirements and deviations from ASSA ABLOY’s internal control framework for financial reporting. As stated in the Report of the Board of Directors, such deviations have resulted in corrections of errors.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.
Key audit matters

Key audit matters of the audit are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

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<th>Key audit matter</th>
<th>How our audit addressed the Key audit matter</th>
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<td>Goodwill and intangible assets with indefinite useful lives</td>
<td>ASSA ABLOY’s annual test of goodwill and other intangible assets with indefinite useful lives can be traced to observable market data and to the company’s own business plans and forecasts on future development. Through test of details we have examined whether ASSA ABLOY’s assessment of whether there is any indication that an asset may be impaired, is based on the company’s financial budgets approved by management. We have also assessed the growth rate that the company has used to forecast cash flows beyond the first three-year period. In conjunction with this, we have compared management’s assumptions regarding the sustainable growth rate and the operating margin against actual growth and the actual operating margin during recent years. Our assessment of the discount rate applied in management’s calculations reflects the specific risks found in the cash generating units. We have reconciled the data in the calculations and checked it against external sources and have found that the determination of the discount rate is based on established theory. In this part of the audit, we have utilized PwC’s valuation experts. We have evaluated the company’s sensitivity analysis of the valuation to changes in significant parameters, which, individually or on a collective basis, could imply the existence of an impairment requirement.</td>
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ASSA ABLOY is an acquisition-intensive company that has an established and structured acquisition process. During the 2016 financial year, a total of 13 acquisitions were consolidated.

ASSA ABLOY’s goodwill of SEK 47.5 billion and intangible assets with indefinite useful lives of SEK 6.3 billion, are allocated to the group’s five cash-generating units which are equivalent to the group’s five divisions.

In our audit, we have focused on the valuation of goodwill and intangible assets with indefinite useful lives as these items involve a large degree of judgement on behalf of management in assessing future cash flows.
Key audit matter

Provisions – restructuring program

The restructuring program is described in the Report of the Board of Directors in the annual report and in Note 25.

A restructuring program was launched during the current financial year and total restructuring costs are expected to amount to SEK 1,597 million.

In our audit, we have focused on the restructuring program and determined whether the program is qualified to be reported as a provision as the program is based on management’s estimates of future costs.

Key audit matter

Financial reporting – Chinese operations

Corrected errors in China are described in the Report of the Board of Directors.

As seen in the annual report, weaknesses in regulatory compliance and internal control, as well as errors in the financial reporting of parts of the Chinese operations within the Asia Pacific division, have been identified during the year.

With the help of external expertise, ASSA ABLOY has undertaken special investigations in response to the identified errors in the financial reporting. Our audit has had a special focus on these corrected errors. As portions of these errors refer to revenue, we have had a special focus on revenue recognition in China.

How our audit addressed the Key audit matter

We have examined the company’s process for identifying projects and the estimated costs of these projects.

Our audit measures include an evaluation of whether the restructuring program complies, in all significant aspects, with the group’s accounting principles for reporting provisions.

Furthermore, we have challenged management’s assumptions that are the basis for the restructuring provision with the aim of assessing the reasonability of the provision. Based on risk and materiality, we have reconciled the parameters in the calculations against supporting documentation. This includes, amongst other things, the examination of minutes, agreements, calculations and communication with employees.

In order to ensure the accuracy of the adjusted errors, we have studied the company’s investigation. We have also met with the investigation experts contracted by the company. Furthermore, we have performed tests on a selection of revenue items, whereby we have reconciled the revenue against the price agreed in the contract or with the purchase order. Where possible, we have checked the delivery documents signed by third parties. For instances where the third party had not signed the document, we have checked the warehouse delivery note. We have also checked the quantity on the delivery note to the quantity recorded as sales.

In order to examine the correct cut-off of revenue, we have reconciled, for a selection of items, the recorded sales value against goods delivered, invoice date and reporting date. For the period after closing date, we have obtained lists of goods delivery notes and have traced these to the dates on the delivery documents and related invoices.

We have contacted a selection of customers to obtain independent confirmations of the existence of outstanding accounts receivable. For instances where we did not receive an answer, we have performed tests that invoices have been paid after the balance sheet date, or tested the delivery of goods against delivery documents.
Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found in the sections Report on operations and Divisions. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information. In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company’s and the group’s ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director’s responsibilities and tasks in general, among other things oversee the company’s financial reporting process.

Auditor’s responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden’s website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor’s report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of ASSA ABLOY AB (publ) for the year 2016 and the proposed appropriations of the company’s profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor’s Responsibilities section. We are independent of the Parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.
Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company’s profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company’s and the group’s type of operations, size and risks place on the size of the Parent company’s and the group’s equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company’s organization and the administration of the company’s affairs. This includes among other things continuous assessment of the company’s and the group’s financial situation and ensuring that the company’s organization is designed so that the accounting, management of assets and the company’s financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors’ guidelines and instructions and among other matters take measures that are necessary to fulfil the company’s accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor’s responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

• has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
• in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company’s profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company’s profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisornämnden’s website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor’s report.

The auditor’s examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 46–54 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR’s auditing standard RevU 16 The auditor’s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm 1 February 2017

PricewaterhouseCoopers AB

Bo Karlsson
Authorised Public Accountant
Auditor in charge

Linda Corneliusson
Authorised Public Accountant