

**RECOMMENDATION BY THE BOARD OF DIRECTORS OF ASSA ABLOY AB
(PUBL) TO ISSUE CONVERTIBLE BONDS AND TO APPROVE AN INCENTIVE
PROGRAM FOR SENIOR EXECUTIVES**

The Board of Directors has decided to recommend the Annual General Meeting to adopt a resolution on the issue of convertible bonds according to Section 1 below and further to approve the measures described in Section 2 for the implementation of a global incentive program in the ASSA ABLOY Group for individuals in group management and division management as well as individuals with a corresponding position ("Entitled Subscribers"). The proposal by the Board of Directors has been prepared by the Remuneration Committee and been discussed with the major shareholders of the company.

1. Issue of Convertible Bonds

The Board of Directors of ASSA ABLOY AB recommends the Annual General Meeting to resolve:

- that the company shall issue convertible bonds in four (4) series, each with a maximum nominal value of EUR 12,500,000, in series 2006/2011:1, 2006/2011:2, 2006/2011:3 and 2006/2011:4;
- that the subscription price for each convertible bond shall be equal to its nominal value;
- that the convertible bonds will rank *pari passu*, and without any preference among themselves, with other un-subordinated and unsecured obligations of the company;
- that with disregard to the present shareholders' priority rights, ASSA ABLOY Incentive 2006 Holding S.A. ("InvestCo") shall be granted the right to subscribe for all four (4) series of the convertible bonds;
- that subscription can be made for all series of the convertible bonds only, or for equal parts thereof, as *one* unit;
- that subscription and payment for the convertible bonds shall be made on 30 June 2006 at the latest;
- that the convertible bonds shall bear an annual interest of 90 per cent of "3 months' EURIBOR plus 0.45 per cent";
- that the interest shall become due for payment quarterly as specified in "TERMS AND CONDITIONS FOR ASSA ABLOY AB's CONVERTIBLE BONDS SERIES 2006/2011:1-4";

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- that the convertible bonds shall become due for redemption on the date falling five years from the date of subscription and payment for the convertible bonds, to the extent that conversion has not occurred before then;
- that the convertible bonds shall be convertible into new shares of series B in ASSA ABLOY AB at the earliest 90 days prior to the date when the convertible bonds are due for redemption and at the latest 14 days prior to the date when the convertible bonds are due for redemption;
- that the rate at which conversion can be made shall correspond to an amount totalling the following percentage of the average of the last quoted transaction price for shares of series B in ASSA ABLOY AB on the Stockholm Stock Exchange during five business days prior to the date of subscription and payment for the convertible bonds (the "Measure Period"):
- 110 per cent for convertible bonds of series 2006/2011:1,
 - 120 per cent for convertible bonds of series 2006/2011:2,
 - 130 per cent for convertible bonds of series 2006/2011:3,
 - 140 per cent for convertible bonds of series 2006/2011:4;
- in the absence of a price quotation for any of the days in question, the purchase price quoted as the final rate shall be applied. A day when there is neither a buying rate nor a purchase rate available shall not be included in the calculation. The calculated conversion rate shall be rounded to the nearest whole number of Swedish ören, whereby a half öre shall be rounded downwards and thereafter be recalculated into EUR applying the exchange fixing rate SEK/EUR quoted by the Swedish commercial banks on the date of subscription and payment for the convertible bonds, without the conversion rate being less than the ratio value of a share in ASSA ABLOY AB. The conversion rate thus calculated in EUR shall be rounded to the nearest whole number of 10 cents, whereby five cents shall be rounded downwards;
- that a share obtained due to conversion shall entitle to profit distribution for the first time on the record day for distribution occurring immediately after the execution of the conversion;
- that the nominal share capital on conversion can as a maximum be increased by an amount corresponding to SEK 6 million, and should such amount be exceeded at the application of the abovementioned basis of calculation and the share and exchange prices applicable at the time of subscription and payment for the convertible bonds, the measure rate shall be increased in a way that the share capital increase on conversion will not exceed the amount indicated; and
- that in all other respects, the terms and conditions evident from "TERMS AND CONDITIONS FOR ASSA ABLOY AB's CONVERTIBLE BONDS – SERIES 2006/2011:1-4" shall apply.

The Board of Directors, or a person authorised by the Board of Directors, is recommended to be entitled to make such minor adjustments to the resolution passed by the General Meeting regarding the resolution on the issue of convertible bonds that may be necessary in connection with the registration of the bonds with the Swedish Companies Registration Office and the VPC AB.

The reason for disregarding the shareholders' priority rights is that ASSA ABLOY AB wishes to introduce a global incentive program for senior executives and key employees in the group, whereby they will be offered the opportunity to take part in an increase in value of the ASSA ABLOY share. This is expected to increase the interest in the profitability and the share price development of ASSA ABLOY AB and to stimulate a continued company loyalty over the forthcoming years.

As part of two global employee incentive programs in the group with the same structure as the one now recommended, ASSA ABLOY AB has on two previous occasions issued totally eight convertible bonds in series 2001/2006:1-4 and series 2004/2009:1-4, each with a nominal value of EUR 25 million.

The increase of the share capital of ASSA ABLOY AB will at a full subscription and conversion of the convertible bonds, respectively, and based on a share rate of the company of SEK 140, a SEK-EUR-rate of 9.45 and a conversion rate determined in accordance with what has been stated above, be approximately SEK 2.7 million, which at a full conversion of the company's present outstanding convertible bonds issued in 2001 and 2004, corresponds to a dilution of approximately 0.7 per cent of the share capital and approximately 0.5 per cent of the total number of votes. The aggregate dilution that may follow together with the outstanding convertible bonds will be approximately 4.1 per cent of the share capital and approximately 2.8 per cent of the total number of votes. A full conversion would change the key ratio earnings per share from 6.97 to 6.95.

2. The Incentive Program

The incentive program shall be implemented mainly in accordance with what is described below.

Entitled Subscribers within the Group will be offered the opportunity to acquire shares ("Shares") in InvestCo, a Special Purpose Vehicle established for the intended purpose. InvestCo is a company (Société Anonyme) having its registered office in Luxembourg. For practical and legal reasons, the acquisition of the Shares in the United States and Canada will be made indirectly through a subsidiary. The offer is expected to comprise less than 100 persons in 15 countries.

The allotment of Shares in InvestCo will be determined by the Board of Directors of ASSA ABLOY AB in accordance with the following guidelines:

- (a) A right to acquire the Shares will, subject to information below and any adjustments required pursuant to local legal and regulatory requirements, be granted all current and permanent Entitled Subscribers in the ASSA ABLOY Group of Companies at the end of the subscription period (for the Shares in

InvestCo), provided that a notice of termination of employment has not been given on or prior to such a date, and to such Entitled Subscribers who at this time have signed employment contracts for permanent positions with companies in the ASSA ABLOY Group.

- (b) A right to subscribe for Shares will also be granted Société Générale (or a company in the ASSA ABLOY Group), however, not exceeding an investment amount of EUR 500 000, for further transfer to new Entitled Subscribers in the ASSA ABLOY Group or to persons promoted to such position before 31 December 2007 in accordance with the principles of allotment.
- (c) Subscription for Shares may take place in different preset tranches. The price of each Share will be EUR 250. All Entitled Subscribers will have the same right to purchase Shares, however, no Entitled Subscriber will have the right to acquire Shares equal to an amount exceeding 50 % of his/her estimated fixed annual salary. In the event of an over-subscription and a demand for a number of Shares which exceeds the actual number of Shares in InvestCo, allotment will take place by a proportional reduction of the number of oversubscribed Shares in relation to the number of Shares each Entitled Subscriber wishes to acquire.
- (d) Board members of ASSA ABLOY AB, who are not employed in the ASSA ABLOY Group, will not be entitled to acquire Shares in InvestCo or otherwise participate in the incentive program.

The sale of Shares is expected to take place from 5 May to 15 May 2006 and at all events before the end of June 2006.

The purchase price for the acquired Shares shall correspond to the fair market value during the Measure Period, which value is expected to correspond to the net worth of the Shares. The valuation of the Shares shall be performed by Société Générale in its capacity as an independent valuation institute. The valuation of the Shares shall be performed in accordance with standard methodologies including the application of Black & Scholes, adjusted to take into consideration specific terms for this incentive program.

InvestCo will issue different series of shares. ASSA ABLOY AB will possibly hold shares in InvestCo of a series of shares that in that event in principle will not entitle ASSA ABLOY AB to any voting right or any right to profit from the value development in InvestCo. The Shares acquired by Entitled Subscribers and in accordance with the hedge arrangement described below, will be of a series that will provide an entitlement to a voting right as well as profit from the value development in InvestCo. ASSA ABLOY AB's share holding will not on any account be more than 10 per cent of the share capital of InvestCo. The acquisition of Shares of the Entitled Subscribers is expected to correspond to approximately 60 per cent of the Shares while the indirect holding through the hedge arrangement is expected to correspond to 40 per cent of the Shares. The Shares will be transferable among the circle of shareholders and the Entitled Subscribers in the ASSA ABLOY Group.

InvestCo intends to finance its subscription for the convertible bonds to an amount equal to 90 per cent of the value of the convertible bonds by raising a bank loan of maximum EUR 45

million (the “Loan”) and for the remaining 10 per cent by the capitalization which will take place through the acquisition of Shares by Entitled Subscribers and the hedge arrangement described below. Consequently, InvestCo will have equity of maximum EUR 5 million. InvestCo intends to divest its assets (convertible bonds and/or shares) in 2011 and repay all its debts, whereupon InvestCo’s remaining proceeds, less possible repayment of the nominal value of the shares held by ASSA ABLOY AB, will be distributed among such Entitled Subscribers who, directly or indirectly, participate in the incentive program. The accrued interest from the convertible bonds is intended to cover interest paid under the Loan and certain administrative costs.

Decisions relating to conversion, sale or other management issues concerning the convertible bonds and/or shares in ASSA ABLOY AB held by InvestCo shall be made by Société Générale at its own discretion. The Board of Directors of InvestCo shall consist of five board members, whereof one representative of ASSA ABLOY AB, one representative of the Entitled Subscribers and three independent board members. ASSA ABLOY AB will neither through its shareholding nor through its board representation have any control over InvestCo.

ASSA ABLOY AB will issue Stock Appreciation Rights to Entitled Subscribers in the United States and Canada, having economic rights and obligations basically corresponding to those of the Shares in InvestCo through a local subsidiary and in principle on the same terms as for the sale of the Shares. In order to hedge any increase in value of the Stock Appreciation Rights, ASSA ABLOY AB intends to arrange a hedge by acquiring a number of call options corresponding to the number of issued Stock Appreciation Rights from Société Générale. The call options will be cash settled, i.e. not result in any delivery of Shares. Société Générale will acquire Shares in InvestCo at the same price as the Entitled Subscribers to the extent required in order to have a cash settlement for the issued call options. In addition, ASSA ABLOY AB intends to hedge certain social security contributions arising. The total hedging costs after tax are expected to amount to an insignificant amount from an ASSA ABLOY Group perspective. The costs of the program are not expected to be materially affected by a possible increase in value, as an increase in value of the Stock Appreciation Rights and the social security contributions in the main are intended to be secured by a hedge.

3. Opinion of the Board of Directors

The Board of Directors considers the incentive program to be a reasonable proposal with regard to the Entitled Subscribers, the terms and conditions of the proposal, the size of the allotment, the existence of other share related incentive programs and other relevant factors.

4. Voting Majority

The Board of Directors proposes that the resolution on the issue of convertible bonds and the approval of the measures described above for the implementation of the incentive program shall be valid only if supported by shareholders holding at least nine tenths of the voted shares and nine tenths of all shares present or represented at the General Meeting,

since the issue and the measures described above form part of one integrated incentive program.

Stockholm in March 2006
ASSA ABLOY AB (publ)
The Board of Directors