

ASSA ABLOY remuneration report 2020

Introduction

This remuneration report describes how ASSA ABLOY AB's guidelines for remuneration to senior executives, adopted by the Annual General Meeting 2020, were implemented in 2020. The report also provides information on remuneration to the CEO and a summary of the company's outstanding share and share-price related incentive programs. The report has been prepared in accordance with Chapter 8, Sections 53 a and 53 b of the Swedish Companies Act (2005:551) and the Remuneration Rules issued by the Swedish Corporate Governance Board.

Information required by Chapter 5, Sections 40-44 of the Annual Accounts Act (1995:1554) is available in note 34 (*Employees*) on pages 87-88 in the company's annual report for 2020 (the "**Annual Report 2020**").

Information on the work of the Remuneration Committee in 2020 is set out in the corporate governance report available on pages 47-57 in the Annual Report 2020.

Remuneration of the Board of Directors is not covered by this report. Such remuneration is resolved annually by the Annual General Meeting and disclosed in note 34 (*Employees*) on page 87 in the Annual Report 2020.

Key developments 2020

The CEO summarizes the company's overall performance in his statement on pages 6-7 in the Annual Report 2020.

ASSA ABLOY's remuneration guidelines: scope, purpose and deviations

With the objective that ASSA ABLOY shall continue to be able to recruit and retain competent employees, the basic principle being that remuneration and other employment conditions shall be offered on market conditions and be competitive. The remuneration guidelines enable ASSA ABLOY to offer senior executives a total remuneration that is on market conditions and competitive. Prerequisites are thereby established for successful implementation of the Group's business strategy as well as safeguarding ASSA ABLOY's long-term interests, including its sustainability. Under the remuneration guidelines, the total yearly remuneration to the senior executives shall be on market conditions and be competitive and also reflect each senior executive's responsibility and performance. The total yearly remuneration shall consist of fixed base salary, variable cash remuneration, pension benefits and other benefits. The variable cash remuneration shall be linked to predetermined and measurable financial targets and can also be linked to strategical and/or functional targets individually adjusted on the basis of responsibility and function. These targets shall be designed so as to contribute to ASSA ABLOY's business strategy and long-term interests, including its sustainability, by for example being linked to the business strategy or promote the senior executive's long-term development within ASSA ABLOY.

The remuneration guidelines are found in note 34 (*Employees*) on pages 87-88 in the Annual Report 2020. During 2020, the company has complied with the applicable remuneration guidelines adopted by the General Meeting. No deviations from the remuneration guidelines have been decided and no derogations from the procedure for implementation of the remuneration guidelines have been made. The auditor's report regarding whether the company has complied with the remuneration guidelines is available on the company's website www.assaabloy.com. No remuneration has been reclaimed.

In addition to remuneration covered by the remuneration guidelines, the Annual General Meetings of ASSA ABLOY AB have resolved to implement share-based long-term incentive programs (LTIs) and on remuneration to the Board of Directors.

Table 1 – Total remuneration of the CEO in 2020 (SEK thousands)

Name of Director (position)	Financial year	1 Fixed remuneration		2 Variable remuneration		3	4	5	6
		Base salary	Other benefits	One-year variable	Multi-year variable ¹	Extraordinary items ²	Pension expense	Total remuneration	Proportion of fixed and variable remuneration
Nico Delvaux (CEO)	2020	18,389	152	1,350	6,482	2,000	6,446	34,820	72%/28%

Share based remuneration

Outstanding share and share-price related incentive programs

ASSA ABLOY has three outstanding share-based long-term incentive programs (LTI 2018, LTI 2019 and LTI 2020) for senior executives and other key employees in the Group that have been resolved at Annual General Meetings (2018-2020). In April 2020, vesting of the remaining parts of the 2017 share-based long-term incentive program (LTI 2017) took place.

LTI 2018-LTI 2020

For each Series B share acquired by the CEO within the framework of LTI 2018, LTI 2019 and LTI 2020, the company has awarded six performance-based share awards. For each Series B share acquired by other members of the Executive Team, the company has awarded five performance-based share awards. For other participants, the company has awarded four performance-based share awards. Each performance-based share award entitles the holder to receive one Series B share in the company free of charge three years after the award date, provided that the holder, with certain exceptions, at the time of the release of the interim report for the first quarter 2021 (LTI 2018), first quarter 2022 (LTI 2019) and first quarter 2023 (LTI 2020) still is employed by the Group and has maintained the shares acquired within the framework of the respective long-term incentive program. In addition to these vesting conditions, the number of performance-based share awards that entitles the holder to Series B shares in the company depends on the annual development of ASSA ABLOY's earnings per share based on the target levels, as defined by the Board of Directors, during the measurement period 1 January 2018 – 31 December 2020 (LTI 2018), the measurement period 1 January 2019 – 31 December 2021 (LTI 2019) and the measurement period 1 January 2020 – 31 December 2022 (LTI 2020) where each year during the measurement period is compared to the previous year. The outcomes are calculated yearly, whereby one third of the performance-based share awards is measured against the outcome for the first year in the measurement period, one third is measured against the outcome for the second year in the measurement period and one third is measured against the outcome for the third year in the measurement period. The outcome

¹ Multi-year variable remuneration is defined as the company's personnel cost, excluding social charges, related to the CEO for all the existing long-term share incentive programs (LTIs) for the current year (i.e. IFRS2 cost).

² Cash compensation for share incentive programs from a previous employer.

for each year is measured linearly. Unless the minimum target level in the interval is achieved for the year, all of the relevant performance-based share awards will lapse. If the maximum target level in the interval is achieved, each performance-based share award linked to the relevant year entitles the holder to one Series B share at the end of the three-year vesting period provided the other vesting conditions are met.

In accordance with the terms of LTI 2018, LTI 2019 and LTI 2020, employees have acquired a total of 369,906 Series B shares in ASSA ABLOY AB. The CEO, Nico Delvaux, has acquired 12,648 Series B shares in LTI 2018, 13,050 Series B shares in LTI 2019 and 14,825 Series B shares in LTI 2020.

Fulfilment of the performance-based condition for LTI 2018, LTI 2019 and LTI 2020, respectively, is intended to be presented in the annual report for the financial year in which the relevant program vests.

The total number of outstanding performance-based share awards for LTI 2018, LTI 2019 and LTI 2020 amounted to 1,409,499 on the reporting date of 31 December 2020.

Fair value is based on the share price on the respective award date. The present value calculation is based on data from an external party. Fair value is also adjusted for performance-based share awards not expected to be realized at the end of the vesting period of the respective program. The company further assesses the probability of the performance targets being met when calculating the compensation expense. The fair value of ASSA ABLOY's Series B share on the award date for LTI 2020, 28 May 2020, was SEK 196.25. The fair value of ASSA ABLOY's Series B share on the award date for LTI 2019, 24 May 2019, was SEK 194.23. The fair value of ASSA ABLOY's Series B share on the award date for LTI 2018, 25 May 2018, was SEK 191.63.

The total cost of LTI 2017-LTI 2020 excluding social security costs amounted to SEK 49 million in 2020.

LTI 2017

For each Series B share acquired within the framework of LTI 2017, the company has awarded one matching share award and one to four performance-based share awards. Each matching share award entitled the holder to receive one Series B share in the company free of charge three years after the award date, provided that the holder, with certain exceptions, at the time of the release of the interim report for the first quarter 2020 was still employed by the Group and had maintained the shares acquired within the framework of LTI 2017. Each performance-based share award entitled the holder to receive one Series B share in the company free of charge three years after the award date, provided that the above vesting conditions have been fulfilled. In addition, the maximum level in a range determined by the Board of Directors for the performance of the company's earnings per share must have been fulfilled during the first year of the program in order to receive full outcome at the end of the three year vesting period. The performance condition was 100 percent fulfilled for LTI 2017. The fair value of ASSA ABLOY's Series B share on the award date for LTI 2017, 26 May 2017, was SEK 192.10. In April 2020, vesting of the remaining parts of LTI 2017 took place equivalent of 126,551 shares at a total market value at the time of vesting of SEK 22 million. The CEO, Nico Delvaux, did not take part in LTI 2017.

Table 2 – Share award plans (LTI)

Name of Director (position)	The main conditions of share award plans					Information regarding the reported financial year 2020					
						Opening balance	During the year		Closing balance		
	1	2	3	4	5	6	7	8	9	10	11
Name of plan	Performance period ³	Award date performance awards	Vesting Date	End of retention period	Performance awards held at the beginning of the year	Number of performance awards awarded	Number of shares vested	Performance awards subject performance condition in order to be awarded ⁴	Performance awards awarded and unvested at year end ⁵	Performance awards subject to a retention period ⁶	
Nico Delvaux (CEO)	LTI 2018	2018-2020	25 May 2018	As soon as possible after the release of the interim report for Q1 2021	Vesting Date	75,888	-	-	-	75,888	-
	LTI 2019	2019-2021	24 May 2019	As soon as possible after the release of the interim report for Q1 2022	Vesting Date	78,300	-	-	-	78,300	-
	LTI 2020	2020-2022	28 May 2020	As soon as possible after the release of the interim report for Q1 2023	Vesting Date	-	88,950	-	-	88,950	-
Total						154,188	88,950	-	-	243,138	-

³ Measurement period.

⁴ All performance awards are granted at the launch of the relevant program.

⁵ All performance awards remain unvested until the relevant Vesting Date. To make the participants' interest equal with the shareholders' the company will compensate the participants for distributed dividend during the vesting period ((i.e. until the relevant Vesting Date) by increasing the number of Series B shares that each performance award gives right to after the vesting period for the relevant program. Hence, the final number of Series B shares received at vesting will be adjusted at the time of vesting.

⁶ Neither the performance awards nor the Series B shares received upon vesting are subject to post-vesting retention.

Application of performance criteria

The performance measures for the CEO's variable remuneration have been selected to deliver ASSA ABLOY's business strategy and to encourage behavior which is in ASSA ABLOY's long-term interest, including its sustainability. In the selection of performance measures, the strategic objectives and short-term and long-term business priorities for 2020 have been taken into account. Please refer to page 97 *Definitions of key ratios* in the Annual Report 2020 for a general description of financial performance measurements.

Table 3 a – Performance of the CEO in the reported financial year 2020 - short-term variable compensation (STI)

Name of Director (position)	1 Description of the criteria related to the remuneration component	2 Relative weighting of the performance criteria	3	
			a) Measured performance and	b) actual award/ remuneration outcome, SEK thousands
Nico Delvaux (CEO)	Improvement earnings per share (EPS) ⁷	90%	a) EPS year on year improvement	b) -
			a) Operating cash flow/income before tax ⁸	b) 1,350
	Operating cash flow/income before tax ⁸	10%	a) EPS year on year improvement	b) -
			a) Operating cash flow/income before tax ⁹	b) 1,350

Table 3 b – Performance of the CEO in the reported financial year 2020 - long-term variable compensation (LTI)

Name of Director (position)	Name of the plan	1 Description of the criteria related to the remuneration component	2 Relative weighting of the performance criteria	3	
				a) Measured performance and	b) actual award/ remuneration outcome, SEK thousands ¹⁰
Nico Delvaux (CEO)	LTI 2018	Improvement earnings per share (EPS) ¹¹ over three years	100%	a) EPS year on year improvement	b) -
				a) EPS year on year improvement	b) -
	LTI 2019	Improvement earnings per share (EPS) ¹² over three years	100%	a) EPS year on year improvement	b) -
				a) EPS year on year improvement	b) -
	LTI 2020	Improvement earnings per share (EPS) ¹³ over three years	100%	a) EPS year on year improvement	b) -
				a) EPS year on year improvement	b) -

⁷ Earnings per share is defined as the company's earnings per share after tax and dilution, excluding items affecting comparability and currency effects.

⁸ Operating cash flow in relation to income before tax excluding items affecting comparability.

⁹ See footnote 8.

¹⁰ The performance awards remain unvested till the end of the relevant vesting period (i.e. until the relevant Vesting Date set out in Table 2). In 2020 no performance awards for LTI 2018, LTI 2019 and LTI 2020 have vested. The cost of LTI 2018-LTI 2020, set out in Table 1, are allocated over the three year vesting period, calculated in accordance with IFRS2.

¹¹ Earnings per share is defined as the company's earnings per share after tax and dilution, excluding items affecting comparability and currency effects.

¹² Earnings per share is defined as the company's earnings per share after tax and dilution, excluding items affecting comparability and currency effects.

¹³ Earnings per share is defined as the company's earnings per share after tax and dilution, excluding items affecting comparability and currency effects.

Table 4 – Remuneration and company performance in the reported financial year (RFY)

Remuneration and company performance	RFY 2020
CEO remuneration	SEK 34.8 M
Group operating income ¹⁴	SEK 12,458 M
Average remuneration on a full-time equivalent basis of employees of the company (ASSA ABLOY AB)	2.5% ¹⁵

Additional information

Call options issued by shareholders to the CEO

Pursuant to an agreement dated 7 February 2018 between the CEO, Nico Delvaux, and Latour Förvaltning AB ("**Latour**") and Melker Schörling AB ("**MSAB**"), Latour and MSAB have issued in total 94,787 call options to Nico Delvaux with the right to acquire the same number of Series B shares in ASSA ABLOY AB from Latour and MSAB. The purchase price was SEK 21.10 per call option and the transaction date was 7 February 2018. The call options were sold at market price, ensured through an external independent valuation.

CEO's total holdings of shares and call options in ASSA ABLOY AB

The CEO, Nico Delvaux, holds in total 59,623 Series B shares and 94,787 call options as at 31 December 2020.

¹⁴ Group operating income is defined as income before financial net, and taxes on income, including items affecting comparability.

¹⁵ Percentage of CEO remuneration.