

Corporate governance report

Corporate governance is an umbrella term for the division of responsibilities between various parts of the Group, and is based on applicable regulations, processes and laws. In practice, it deals with the structure of the systems in place for both decision-making and direct and indirect shareholder governance.

Corporate governance is mainly exercised in Gunnebo through the shareholders via the Annual General Meeting (AGM), the Board of Directors and the CEO. Gunnebo AB is listed on the OMX Nordic Exchange, and therefore the Group's corporate governance is based on Swedish rules and Swedish legislation, the listing agreement with the OMX Nordic Exchange, the Swedish Code of Corporate Governance (the Code), the company's Articles of Association and other relevant rulings.

Gunnebo's Board and management strive to ensure that the company lives up to the demands which OMX Nordic Exchange, shareholders and other stakeholders make of the company. The Board also follows debate in this area and studies the recommendations issued by various players.

Internally, operations are based on policies and directives, including a Code of Conduct which indicates how Gunnebo employees should behave in order to comply with laws and regulations and live up to the ethical values of the Group. The Group also has fundamental values to support it, with five Core Values providing guidance for the management and employees in their day-to-day work: Customer Focus, Commitment to Quality, Professionalism, Integrity and Cooperation.

Gunnebo complies with the terms of the Code in all respects except for one:

- The Code indicates that the members of the Nominations Committee must be announced at the latest six months before the Annual General Meeting. The members of the Nominations Committee must also be announced in connection with the interim report for the third quarter. As the Gunnebo Annual General Meeting takes place relatively early in the year, the members of the Nominations

Committee are announced around five and a half months before the Annual General Meeting.

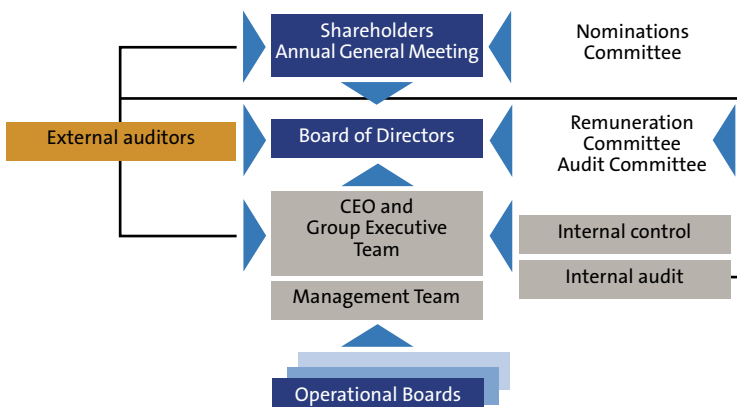
This report is not part of the formal Annual Report and has not been reviewed by the company's auditors.

Control and distribution of responsibilities

Gunnebo is controlled via a number of different bodies which distribute responsibility for control amongst themselves:

- **Shareholders.** Shareholders exercise control at the Annual General Meeting through their entitlement to vote on issues such as the composition of the Board of Directors, election of the Chairman and election of external auditors. A Nominations Committee consisting of representatives and a Chairman from the three biggest shareholders proposes candidates for Board representatives, Chairman of the Board and external auditors.
- **Board of Directors.** The Board of Directors is elected by shareholders at the Annual General Meeting and is responsible for the long-term development and strategy of the Group, and for constantly monitoring and assessing the operations of the company. The Board of Directors appoints the President and CEO. The Board of Directors also appoints within itself representatives to the Remuneration Committee and the Audit Committee. More information on the committees can be found on pages 78-79.
- **CEO and Group Executive Team.** The President (who is also the CEO) manages the Group's ongoing operations in accordance with the guidelines of the Board of Directors. The Group Executive Team consists of four people, including the CEO.
- **Group Management Team.** Gunnebo's management team is made up of members of the Group Executive Team and a further 14 senior executives. The management team is a forum for supporting and providing information on the decisions of the Group Executive Team.
- **Operational Boards.** Every Customer and Competence Centre has an operational board. There are 20 operational boards within the Group at present. These are responsible for managing the Customer and Competence Centres. The CEO is the Chairman of all the Boards of the Competence Centres, while the Chairmanships of the Boards of the Customer Centres are distribu-

Corporate governance model



ted equally among the CEO, CFO and General Counsel.

Direct shareholder governance through the Annual General Meeting

The influence of the shareholders is exercised at the Annual General Meeting (AGM), which is Gunnebo's highest decision-making body. The AGM elects the Chairman, Board and auditors, adopts the accounts, decides on any dividend and other distribution of earnings, and decides on discharge from liability for the Board. In addition, the AGM also decides on guidelines for pay and other remuneration to senior executives, any new share issues and the introduction of share-related incentive schemes in the form of stock option programmes, for example.

The Annual General Meeting was held on 28 March 2007 at the Bergakungens cinema in Göteborg. 187 shareholders, representing 62.5 per cent of the number of votes and shares, took part in the AGM. Roger Holtback, Mikael Jönsson, Martin Svalstedt, Bjarne Holmqvist, Lena Olving, Björn Eriksson and Bo Dankis were reappointed as members of the Board of Directors. The AGM elected Roger Holtback as Chairman of the Board.

The AGM decided on a cash dividend of SEK 1.60 (1.60) per share to shareholders. The Annual General Meeting authorised the Board to make decisions regarding new share issues of up to 1,200,000 shares until the next Annual General Meeting. This authorisation has not been utilised to date.

In addition, an Extraordinary General Meeting was held on 24 October 2007 which made a decision to introduce an incentive programme for senior executives and a Board Programme. More information on the incentive programmes can be found in note 32. For more information on Gunnebo's largest shareholders, ownership structure and dividend policy, see pages 70-71.

Indirect shareholder governance

Gunnebo's indirect shareholder governance is exercised by the Board of Directors, the Group Executive Team and the Management Team.

Nominations Committee

The Nominations Committee's task is to submit proposals regarding – among other things – the Chairman and other members of the Board, fees for Board members and remuneration for committee work ahead of the next Annual General Meeting. The Annual General Meeting in 2007 resolved to elect the Chairman – as the convener – and a representative for each of the three biggest shareholders at the end of the third quarter of 2007 onto the Nominations Committee.

The Nominations Committee is made up of Dan Sten Olsson, Stena Adactum AB, Nils-Olov Jönsson, Vätterledens Invest AB, Nils Petter Hollekim, Odin Forvaltning AS, and Roger Holtback, Chairman of the board and convener. Gunnebo's third largest shareholder, IF Skadeförsäkring, has declined to take part and has been replaced with the fourth largest owner, Odin Forvaltning AS. The Nominations Committee has had two meetings prior to the presentation of this annual report. The chairman of the Nominations Committee is Dan Sten Olsson. Gunnebo pays no remuneration to the members of the Nominations Committee.

Board of Directors

Gunnebo's Board of Directors includes seven members elected by the Annual General Meeting for the period to the next meeting. In addition, two members and two deputies are elected by Gunnebo's Swedish union organisations. The Chairman of the Board has been appointed by the Annual General Meeting.

None of Gunnebo's current senior executives are on the Board. Gunnebo President and CEO

Board member attendance statistics and independence

Attendance statistics 2007				Independent of:			
Name Elected by the Annual General Meeting	Elected	Board meetings	Remuneration Committee	Audit Committee	The company and corporate management	The company's larger shareholders	Total remuneration, TSEK
Roger Holtback	1993	10 (C)	5 (C)		No (Board member for more than 12 years)	Yes	400
Bjarne Holmqvist	1993	10 (M)			No (Board member for more than 12 years and former President)	Yes	150
Martin Svalstedt	2003	10 (M)	6 (M)	3 (C)	Yes	No	175
Mikael Jönsson	2000	10 (M)	6 (M)	3 (M)	Yes	No	175
Lena Olving	2004	9 (M)			Yes	Yes	150
Björn Eriksson	2006	10 (M)			Yes	Yes	150
Bo Dankis	2006	10 (M)		2 (M)	Yes	Yes	175
Employee representatives							
Bo Anders Hansson	1999	9 (M)					34
Claes-Göran Karlsson	2005	8 (M)					34
Christer Grimståhl	2000	10 (D)					26
Lars-Olof Larsson	2005	9 (D)					26
		10	6	3			1,495

C = Chairman M = Member D = Deputy

Meeting date 2007	Schedule
7 February	Accounts for fourth quarter and annual accounts for 2006 Plan 2007 Investments Board assessment 2006 Committee reports
28 March	Monthly reports, January and February Report from the development team SafePay report Presentations: Customer Centre France and Competence Centre Access Control
28 March	Statutory Board meeting
25 April	Interim report, January-March 2007 Financial report Committee reports Presentation: Competence Centre Outdoor Perimeter Security and Customer Centre Nordic Region
28-29 May	Gunnebo's future marketing and product strategies
18 July	Interim Report January-June 2007 Long-term incentives programme Committee reports Investments
23 August	Long-term incentives programme
18 September	Long-term incentives programme
24 October	Interim report, January-September 2007 Amendments to legal structure Committee reports Code of Conduct for Gunnebo
18 December	Results to November 2007 and full-year forecast Committee reports Investments Management recruitment matters Gunnebo's capital market day Board assessment 2007

Göran Gezelius, CFO Hans af Sillén and General Counsel Lars Wallenberg do, however, take part in Board meetings, the latter also as secretary. Senior executives also take part when necessary.

Ten Board meetings have been held during the year, dealing with the main issues as outlined in the table above.

The independence of the Board members

According to the Code, the majority of Board members elected by the Annual General Meeting must be independent of the company and its executive management. At least two members who are independent of the company and its executive management must also be independent of the company's larger shareholders. The independence of Board members is shown in the table on page 77.

Board's procedures

The Board's main task is to be responsible for the company's organisation and administration. The work of the Board is governed by the Swedish Companies Act and by the set of written procedures assumed by the Board at the statutory Board meeting each year. These procedures include how often the Board will meet and the subjects dealt with at each meeting. They also set out the division of labour and responsibility between the Board, its Chairman and the CEO.

The Board is charged with drawing up strategies, business plans, interim reports and year-end releases. In addition, the Board will appoint and dismiss the CEO and make decisions on significant changes to the Gunnebo organisation and operations. Moreover, the Board decides on corporate acquisitions and other major investments and financing, for example.

Assessment of Board work

The work of the Board is assessed each year by means of an anonymous questionnaire, and the results of this form the basis for continuous improvement of Board work. This assessment includes issues relating to the Board, its composition, Board meetings, committees and how well the Chairman and the Board perform their primary tasks in accordance with the Swedish Code of Corporate Governance. The Nominations Committee, work on the Group's strategic targets, structural plans and decisions on discontinuing operations are also assessed.

Chairman

Roger Holtback was elected as Chairman of the Board at the Annual General Meeting on 28 March 2007.

It is the responsibility of the Chairman to ensure that Board work is performed efficiently. This involves – among other things – ensuring that the Board is complying with its undertakings and monitoring business development, as well as ensuring that other members are regularly given the information they need to be able to do their Board work while maintaining its quality, and in accordance with the Swedish Companies Act, the Articles of Association and the Swedish Code of Corporate Governance.

The Chairman does not take part in the operational management of the company. Roger Holtback has been Chairman of the Board since 1993.

Committees

The Board at Gunnebo currently has two committees: the Remuneration Committee and the Audit Committee. Representatives of these committees are appointed by the Board members amongst themselves.

Remuneration Committee

The Remuneration Committee is tasked with preparing issues relating to the managers' employment conditions, succession planning and other personnel development issues drafted by the Group Executive Team. Over the year, the issue of incentive programmes for senior executives is one of those that have been prepared.

The Remuneration Committee met on six occasions in 2007. The members of the committee have been Roger Holtback, Mikael Jönsson and Martin Svalstedt, with Roger Holtback as Chairman.

The attendance of the members of the Remuneration Committee is shown in the table on page 77.

Audit Committee

The primary task of the Audit Committee is to serve as a planning body in contact between the auditors and the Board, and between the Board and the internal audit function.

The Audit Committee follows a written charter. Its tasks include reviewing the Group's financial reporting, external accounting, internal control and ensuring the handling and reporting of financial risks. The Audit Committee has regular meetings with the external auditors, internal auditors and the company's executive management. Martin Svalstedt, Mikael Jönsson and Bo Dankis were the members of the Audit Committee for 2007.

Martin Svalstedt has been Chairman of the Audit Committee. The committee met on three occasions during the year. The auditors have also participated in a Board meeting to report on the results of their examination. The attendance of the members of the Audit Committee is shown in the table on page 77.

Chief Executive Officer

The Group's President and CEO Göran Gezelius took over on 2 May 2005. The CEO manages operations in accordance with the working procedures adopted by the Board. The CEO is also responsible for ensuring that the Board receives information and the necessary decision data, provides reports at Board meetings and keeps the Board and Chairman regularly informed of the financial position and development of the company and the Group. The CEO, together with the CFO and the General Counsel, also manages the work on several of the internal boards appointed for Gunnebo Competence Centres and Customer Centres.

Management team

Over the year, the Gunnebo management team has consisted of the Group Executive Team and a management team, as shown on pages 84-85. Over the year, the Group Executive Team has held 12 minutes meetings and the Group Management Team has held four full-day meetings.

External audit

Gunnebo's auditors are selected by the AGM for a period of four years. The current period began in 2004 and will remain in force until the 2008 Annual General Meeting.

At the 2004 Annual General Meeting, PricewaterhouseCoopers AB was selected as the auditing company. Bror Frid has been the Principal Auditor since 2005. The auditors report to the Board on their findings and pass judgment on the internal control.

In addition to standard audit tasks, PricewaterhouseCoopers also assists primarily with renewals of acquisitions, so called Due Diligence. The assignments carried out have not been judged to cause any conflict of interest. Details of remuneration to the auditors can be found in note 33.

Internal audit

Gunnebo's internal audit function works on behalf of the Board's Audit Committee, and its objective is to add value to the operational processes by independently and objectively reviewing operations, identifying weaknesses and suggesting improvements.

Planned internal audits are carried out in accordance with an annual audit plan, compiled on the basis of a risk analysis and approved by the Audit Committee. In addition, audits may also be initiated for other reasons such as structural changes to the operational unit, managerial changes, suspected irregularities or remarks from external auditors. The audits are carried out by employees at Gunnebo in accordance with prepared instructions and standardised reporting templates. The audit is summarised in a report distributed to the parties concerned. Overall responsibility for follow-up rests with the respective management teams and their operational boards. Regular follow-up of reports will also be performed by the internal audit function.

Report on internal control over financial reporting

This report has been prepared in accordance with the Swedish Code of Corporate Governance (the Code) and the guidelines produced by FAR (the institute for the accountancy profession in Sweden) and the Confederation of Swedish Enterprise. The scope of this report is limited to a description of how internal control of financial reporting is organised and does not contain any statement on its performance. The report has not been reviewed by the company's auditors.

Organisation for internal control and internal audit

In February 2007, Gunnebo AB set up a function for internal control and internal audit. Internal control is defined as the process executed by the Board, Group Executive Team, operational management and other affected company personnel with the aim of ensuring that the Group's targets are being met in respect of efficient processes, and that this is happening in accordance with applicable laws and regulations in order to reasonably guarantee reliable financial reporting.

Both functions are undergoing a structuring phase and will be assessed – and, where necessary, developed – in line with the company's strategies and risks.

As Gunnebo AB has opted to combine the functions for internal control and internal audit, it is important to ensure that no conflict of interests occurs. Therefore, the manager responsible for these two functions may only act as advisors and not take part in decision-making processes or audit areas which may impair the independence. In addition, responsibilities and authorisations are clearly documented and defined for both roles in the function and work descriptions and the Internal Audit

Charter. Consequently, the responsible manager reports administratively to the CFO and periodically to the Audit Committee. For more details on reporting paths for the two functions, see the figure on page 76.

Internal audit

The initial work involved drawing up of important governing documents, such as the description of roles and responsibilities mentioned above, templates and other standardised documents for audit plan, audit processes and reporting. Reviews and a general risk analysis of all companies have formed the basis for this year's audit plan. Ten companies were audited over the year, of which nine have been tested and verified with regard to self-assessment. This has then been reported to the parties concerned in accordance with the above principles, as well as to the Audit Committee and the external auditors for the Group.

Internal control

The internal control function works on behalf of the Group Executive Team with a view to improving quality and creating added long-term value for the Group by means of an internal control structure involving standardised controls, continuously tested and reported, which facilitate follow-up at all levels. Its responsibilities include giving advice and support to the operational units in respect of internal control, production of templates for guidelines and policies, and comparison of best practice within and outside the Group, thereby creating greater understanding of internal control. This function is a support and a complement to the line organisation and so does not replace the responsibilities which each individual manager, controller and staff member has for ensuring that adequate control procedures and the Group's policies are introduced, that regular follow-up takes place, and that deviations and risks are reported.

Over the year, the function – besides producing functional and responsibilities descriptions – has also provided support in connection with the updating of policies and authorisation regulations and provided advice on various internal control issues within the company.

Control environment

Gunnebo's internal management is based on a control environment with clear responsibilities and clear authorisations and decision paths within the organisation. This structure is documented in various governing documents such as internal rules, guidelines and instructions, as well as manuals. The distribution of roles and responsibilities is assured at a general level via the Board's work procedures and instructions for the CEO and the Board's committees. This helps to ensure that the work between the Board and the Company Management is carried out efficiently. This work involves – among other things – ensuring that

the company's assets and resources are protected, minimising any risks and reviewing operations by means of regular follow-ups with a view to protecting the investments of the shareholders. Clear guidelines also indicate the configuration of the Group Executive Team and Group Management Team and their cooperation with the operational management.

Moreover, the Board and Group Executive Team have established governing documents at both a general and a more detailed level, which aim to prevent, detect and correct errors and deviations. Authorisation rules, instructions and guidelines for investments, accounting and financial reporting are examples of governing documents. Gunnebo's ethical values are documented in the Group's Code of Conduct, where personnel policies supplement other rules and instructions for employees, as well as in the Group's five Core Values.

The governing documents are followed up and updated regularly or as required.

Internal control is carried out by the following functions:

Board of Directors, Audit Committee, management teams and staff functions, operational management, controllers, other employees, internal audit and internal control.

Control activities

The control activities at Gunnebo are performed at a general level by the Board, the Group Executive Team and the management team, and at a detailed level via the operational organisation in the form of operational boards (which do not replace the legal Boards) and financial functions at Customer Centres and Competence Centres. These activities are also performed at Group level via the internal control and internal audit functions. The control activities aim to prevent, detect and correct errors and deviations.

In the operational organisation, the respective staff functions at each Customer Centre and Competence Centre are responsible for ensuring that the Group's governing documents are implemented and complied with, and that any deviations are reported in respect of financial reporting. Standardised reporting procedures are in place for monthly, quarterly and annual reports, and Gunnebo uses a collective system for consolidation. Standardised reports and key ratios are used for follow-up, analysis and control at both a legal and an operational level.

Documented guidelines ensure clear responsibility and specify the methods for transparent working within the operational boards. Their responsibilities include ensuring that the Customer Centres and Competence Centres are complying with the Group's policies and guidelines for internal control, and that deviations reported by auditors are followed up. Other follow-up areas and areas of responsibility are clearly defined in the standardised agenda structure, e.g. risk analy-

ses, investments, sales development and financial follow-up.

In addition, the internal audit function carries out independent reviews of the staff functions in accordance with a set audit plan. This plan is reviewed annually in order to cover, e.g. any changes in the event of mergers, changes of management or other major events which may affect risk exposure within the Group.

The observations are communicated in audit reports, and include suggestions for improvements. These then form the basis of a tool for following up on internal control activities performed by the operational boards, as well as by an internal audit. In 2007, a self-assessment Internal Control Questionnaire was sent out to all the Customer Centres and Competence Centres. The purpose of this was to evaluate the internal control. Every company is responsible for producing action plans for deviations which are then followed up by the operational board. The internal audit function also tested the Customer Centres' and Competence Centres' self-assessment in connection with audit visits and communicated deviations in the audit reports to the parties concerned.

Control structures are developed in order to manage the risks which are deemed important to the internal control over financial reporting.

Risk assessment

Over the year, the internal audit function, in conjunction with its drawing up of the audit plan, took note of the risks which may arise for the following reasons: company mergers, changing audit systems, irregularities, staff turnover and competence, a lack of documented processes, etc.

Other risks in connection with financial reporting are fraud and misappropriation or loss of assets, unauthorised favouring of another party at the expense of the company and exceeding authorisations in respect of accounting and adjustment items. This will be an annual process which the Board will evaluate and approve once it has been dealt with by the Audit Committee.

In the company's operations these risks mainly arise in the valuation of inventories, accounts receivable and provisions. Moreover, a number of risk management processes have already been established which have a significant impact on the company's ability to ensure correct financial reporting. These procedures mainly encompass the following areas:

- Risk assessments in connection with strategic planning, budgeting/forecasts and acquisition activities which aim, amongst other things, to identify events on the market or in the operations which may cause changes in e.g. the valuation of assets.
- Processes for identifying changes in accounting rules and recommendations which ensure that these changes are correctly reflected in Gunnebo's financial reporting.

Information and communications

To ensure that the Group complies with the demands made by OMX Nordic Exchange on the provision of information in the listing agreement, Gunnebo has established procedures and channels for the production and communication of such information which must be communicated according to the agreement. A "log" is kept of which individuals have access to information likely to significantly influence the price of the company's shares.

There is an Information Policy to support information work within the Group. This stipulates clearly who is allowed to communicate specific types of information, and that the information must be correct, coordinated, consistent, quick and easy to understand, both internally and externally. This is achieved by constantly keeping the company's policies, guidelines and manuals up to date and communicating them to the relevant staff via the intranet and other channels.

The Group website – www.gunnebo.com – contains extensive information on the Group's organisation, operations, contact details and various publications.

Monitoring

Gunnebo company management reports regularly to the Board of Directors in respect of financial development, with analyses of and comments on results, plans and forecasts. The Board also receives feedback from the meetings held by the Audit Committee with external auditors, the internal audit function and the Group Executive Team. The Audit Committee's work includes continuously monitoring the efficiency of the internal control.

Internal audit has followed up compliance with internal rules, tested self-assessment and communicated shortcomings in respect of the internal control. Reporting on the relevant monitoring has taken place periodically to the Audit Committee and regularly to the CFO, units concerned and the operational board concerned.

In addition, there is continuous monitoring of the operational results at Group and Centre level via the operational boards and finance functions in accordance with set guidelines relating to accounting and financial reporting.

Göteborg, 7 February 2008
Gunnebo AB
Board of Directors