EXAMINATION REPORT

Special examination of Axis AB (publ)

Submitted 26 March 2018

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1 SUMMARY OF CONCLUSIONS

The result of the special examination in respect of Axis AB, hereinafter "**Axis**" or the "**Company**", can be briefly summarised as follows:

- Axis has been accommodating and, as far as can be determined, provided all of the documentation and information requested for the examination.

- Neither the information provided nor anything which was otherwise disclosed in interviews during the examination affects the view of the management of Axis and the Axis Group during the examination period as communicated through the auditor's report in respect of the annual accounts and consolidated accounts for the 2016 financial year which was submitted by Ernst & Young AB (auditors elected by the annual general meeting) and Grant Thornton Sweden AB (minority auditors) on 29 March 2017.

- The examination has not disclosed anything which gives cause to believe or suspect that the main shareholder, Canon Inc. (hereinafter "**Canon**") through instructions or establishment of any form of hierarchy or corporate culture, has affected how Axis conducts its business in general (in any way other than through customary representation on Axis' board of directors) or in relation to Canon.

- Canon's representative on Axis' board of directors has not participated in the deliberations or resolutions pertaining to contracts or other projects in relation to Canon. The Canon-related projects which have come to light and which have been examined, also including preliminary studies for possible new projects, were initiated and conducted by Axis' company management independently of Canon. Nothing has been discovered which indicates that Canon, directly or indirectly, attempted to steer or exercise authority over Axis in the Canon-related projects.

- According to the documents and information which have been made available, agreements and pricing in respect of all Canon-related projects were determined based on negotiations between Axis and Canon. Contractual terms and conditions are, as far as can be determined, based exclusively on customary commercial considerations, as usually applied in contract negotiations between independent parties, and with application of the so-called arm's-length principle.

- The reviewed agreements between, on the one hand, Axis or other Axis Group companies and, on the other hand, Canon or other Canon Group companies, contain customary provisions to protect Axis' intellectual property rights. In this respect, Axis appears to have applied the same precautionary measures

in respect of Canon as in respect of other third parties with the intention of protecting Axis' intellectual property rights, both within and beyond the scope of specific projects. Moreover, nothing has been discovered which indicates that Axis would have handled intellectual property rights belonging to the Axis Group in any way which would deviate from what can be expected between independent parties applying commercial terms and conditions and operating at arm's length.

- The company acquisitions carried out by Axis do not give rise to any comments in the course of the examination.

- In summary, it can be observed that Axis has efficient routines for board work and the Company's management in general and that, during the examination period, Axis' board of directors and company management acted in the interests of the Company and all shareholders, with due regard for the Company's and the Axis Group's ownership structure, operations, and financial position, as well as in accordance with the Swedish Companies Act and other applicable rules and regulations.

2 THE INSTRUCTION

2.1 Appointment

At the request of The Liverpool Limited Partnership and Elliott International, L.P. (hereinafter jointly referred to as "**Elliott**"), the 20 April 2017 annual general meeting of Axis addressed a proposal for appointment of a special examiner by the Swedish Companies Registration Office. The proposal was supported by shareholders representing more than one-tenth of all shares of Axis. Following the application, the Swedish Companies Registration Office, through a decision dated 26 June 2017, appointed *advokat* Harry Bergman as special examiner pursuant to Chapter 10, sections 21-22 of the Swedish Companies Act (hereinafter "**Companies Act**").

2.2 Examination theme

A description of the examination theme, consistent with the proposal which Elliott presented at the annual general meeting held on 20 April 2017 and which was the subject of resolution by the general meeting, was attached to the aforementioned decision of the Swedish Companies Registration Office and provides as follows:

The special examiner shall perform an examination of the following (examination theme):

a. *The Company's and the group's (i.e. the Company's and its subsidiaries') management and accounts for the financial year 2016 and the period up until the annual general meeting (20 April 2017).*

b. *The Company's and/or the group's (i.e. the Company's and its subsidiaries') completed, on-going and planned arrangements, development collaborations, sales collaborations, promises, undertakings, discussions, and/or resolutions, measures or actions (or non-resolutions, non-measures, or non-actions) in relation to Canon or any entity or person affiliated with Canon, in order to investigate whether the board of directors, any sole board member, the CEO and/or other persons of the senior management have acted i) with due regard of the business and financial position of the Company and the group (i.e. the Company and its subsidiaries) and ii) in the Company's and the shareholders' interests and in accordance with the Companies Act and other relevant regulations.*
c. *The board of directors', sole board member's, the CEO's end other persons in the senior management's decisions and other actions in relation to the Company's acquisition of 2N and Cognimatics during the second quarter of 2016 and furthermore, during the period from 13 April 2016 up until the annual general meeting (20 April 2017), in relation to mergers, acquisitions, financing, capitalization and/or re-structurings that the Company and/or the group (i.e. the Company and its subsidiaries) have carried out, planned or are planning, in order to investigate whether the board of directors, sole board members, the CEO and/or other person of the* senior *management have acted i) with due regard of the business and financial position of the Company and the group (i.e. the Company and its subsidiaries) and ii) in the Company's and the shareholders' interests and in accordance with the Companies Act and other relevant regulations.*
d. *The Company's and/or the group (i.e. the Company and its subsidiaries) carried out, on-going and/or planned development collaborations (e.g. research and development) and/or sales collaborations regarding Axis' or third party's current and/or future products, or otherwise, with a third party, in order to investigate whether the board of directors, any sole board member, the CEO and/or other persons of the senior management have acted i) with due regard of the business and financial position of the Company and the group and ii) in the Company's and the shareholders' interests and in accordance with the Companies Act and other relevant regulations.*

3 THE EXAMINATION

3.1 Purpose and focus of the examination

3.1.1 *The legal parameters for a special examination*

Under the Companies Act, a wide variety of measures and circumstances can become subject to special examination. The legal bases are stated, relatively succinctly, in Chapter 10, section 21 of the Companies Act:

A shareholder may submit a proposal for an examination through a special examiner. Such an examination may relate to:
1. *the company's management and accounts during a specific period of time in the past; or*
2. *certain measures or circumstances within the company.*

When the examination theme for the special examination in accordance with Chapter 10, section 21, subsection 1 of the Companies Act pertains to the management and accounts of the company (and the group) during a specific period of time in the past, the nature of the examination is the same as that of a customary management audit.

3.1.2 *Previous special examination and minority audit of Axis*

Axis has been the subject of special examination in respect of periods of time and circumstances attributable to the period prior to 1 January 2016. Following resolutions of Axis' annual general meetings held on 15 June 2015 and 13 April 2016, *advokat* Urban Båvestam, Advokatfirman Westermark Anjou AB, was appointed as special examiner by the Swedish Companies Registration Office to conduct an examination of, among other things, certain circumstances and measures related to Canon's public tender offer for all shares of Axis which was announced on 10 February 2015 ("**First Examination Period**"), as well as, among other things, the board of directors' management of the Company during the period 1 January 2015 – 13 April 2016 ("**Second Examination Period**"). On 29 March 2017, Urban Båvestam submitted a joint report for both examination instructions, hereinafter referred to as the "**Båvestam report**".

The company's annual accounts and bookkeeping, as well as the management by the board of directors and the CEO for the 1 January – 31 December 2016 financial year, have been audited by Ernst & Young AB, in their capacity as auditors elected by the general meeting, with authorised public accountant Johan Thuresson as auditor-in-charge. A proposal regarding appointment of a minority auditor to participate in the audit together with the Company's auditors for the period up to and including the 2017 annual general meeting was presented at the annual general meeting which was held on 13 April 2016. The proposal was supported by shareholders representing more than one-tenth of the shares in the Company. The Company's Registration Office appointed Grant Thornton Sweden AB as a so-called minority auditor pursuant to Chapter 9, section 9 of the Companies Act, and authorised public accountant Stefan Hultstrand was appointed as auditor-in-charge. The joint auditor's report submitted by Ernst & Young AB and Grant Thornton Sweden AB (report regarding annual accounts and consolidated accounts) for the 1 January – 31 December 2016 financial year was submitted on 29 March 2017. Grant Thornton Sweden AB had previously, in the same manner, been appointed by the Companies Registration Office as minority auditor of the Company following a resolution adopted at the annual general meeting held in 2015 and, thus, also participated in the audit for the 1 January – 31 December 2015 financial year, together with the Company's auditors at the time, PriceWaterhouseCoopers AB.

3.1.3 *Considerations regarding the current examination*

The Båvestam report extensively and clearly described the legal parameters applicable to an instruction for a special examination under the Companies Act. The opinions regarding the examination and the purpose of the examination described under section 3.1 of that report have corresponding relevance to this report. Accordingly, there is no reason to describe and expand on this further.

The special examination which is the subject of this report has been primarily based on the following considerations in respect of the purpose and focus of the examination.

A shareholder's justified interest in an examination can be expected to focus primarily on circumstances of a financial nature, such as information and assessments regarding whether the company's representatives have, for example, taken measures which can lead to their liability in damages to the company or the shareholders. This does not *per se* preclude the possibility that the examination can include the assessment of circumstances which do not directly, or perhaps at all, comprise financial aspects.

The examiner is required to conduct an independent assessment of the extent to which the management measures or circumstances proposed as the subject of the examination appear relevant and reflect an objective interest in examination. This requires a decision as to whether the individual interest in looking into measures or circumstances appears justified, taking into consideration, among other things, the costs which the special examination imposes on the company and, thus, indirectly on all of the shareholders, and ultimately on the selection of the overall assessment criteria, such as materiality and risk to the business of the examined company.

However, this does not entail that the management of the company, measures taken, or circumstances in general are not to be examined merely because no demonstrable financial benefit of doing so can be found. This can be assumed in particular when the examination theme, in accordance with Chapter 10, section 21, subsection 2 of the Companies Act, relates to certain specific measures or circumstances of the company. An examination theme can indeed be quite consistent with Chapter 10, section 21 of the Companies Act, even if it focuses on clarifying the mere presence of certain conditions in the company, for example on assessment of the occurrence and legal and financial import of certain agreements which affect the examined company. On the other hand, even in these cases, the special examiner must determine the extent to which considerations of reasonableness – based primarily on aspects of materiality and risk – would result nevertheless in limiting an examination of circumstances which are covered under the wording of the examination theme as ordered by the Companies Registration Office's order.

It must be emphasised in this context that when administering an application for appointment of a special examiner, the Companies Registration Office does not conduct any independent assessment of the content or suitability of the proposed examination theme. Current legislation also does not impose any requirements that a request for examination state any reasons for the special examination. Accordingly, the Companies Registration Office's assessment does not include the extent to which a request for special examination is, or is not, justified; instead, it is limited to an essentially formal determination that the proposal was addressed at a general meeting, that the resolution of the general meeting was sufficiently supported, and

that the proposal contains an examination theme which is deemed to fall within the scope of an acceptable subject for special examination under the Companies Act.

3.2 Interpretation of the examination theme

3.2.1 *The examination period*

The examination theme (see section 2.2 above) primarily describes an examination of management for the period 1 January 2016 – 20 April 2017 (see, in particular, paragraph *a* under the heading "Examination theme"). The examination theme is specified and elaborated upon in paragraphs *b* – *d*, which relate, among other things, to measures taken or not taken, undertakings, collaborations, and relations in general to Canon and its affiliated parties (paragraph *b*), company acquisitions, financing and capitalization measures, restructurings, and so forth (paragraph *c*), and development and sales collaborations with third parties (paragraph *d*).

In respect of paragraphs *b* and *d* of the examination theme, neither the proposal nor the resolution of the general meeting indicates the relevant time periods, but predominant reasons mitigate in favour of interpreting the examination theme in these respects as a specification of paragraph *a*, i.e. as comprising the time periods stated in that paragraph. The measures, circumstances, and so forth described in paragraphs *b* and *d* are, per se, attributable to the general examination of management and one cannot assume the intent – and in any event it does not appear to be objectively justified – that the examination would refer to circumstances which had already been the subject of a special examination and thus comprised by the Båvestam report, unless the examination revealed circumstances which shed new light on the information provided in the Båvestam report. Such an interpretation is also consistent with paragraph c of the examination theme which, with the exception of two specific company acquisitions during the second quarter of 2016, refers to resolutions and other acts in relevant respects during the period as from 13 April 2016 (i.e. the closing date for the Second Examination Period as defined in the Båvestam report), up to and including the day of the annual general meeting held on 20 April 2017.

In respect of the period to which the examination can relate, the statutory language can be deemed to require that the examination be retrospective. Even if one considers allowing the absolute final date of the examination to be determined as occurring as of the date of the Swedish Companies Registration Office's order, the predominant understanding in practice is that the examination cannot pertain to any time period after the general meeting which addressed the question of an examination. Irrespective of whether any final date is stated, the examination theme under all of paragraphs *a-d* is interpreted as referring to a period up to and including 20 April 2017.

In this context, it can be observed that even if the above interpretation of the examination theme is applied, a certain overlap for the period 1 January 2016 – 13 April 2106 arises because the most recent contiguous examination periods (the Second Examination Period under the Båvestam report and the examination under this report) do not exclusively refer to the current financial year, but also to the period until the next annual general meeting. According to the precise wording, this period should be included in both the Second Examination Period under the Båvestam report and the examination theme presented here. For the purpose of avoiding unwarranted duplication of the special examination, the basis throughout this examination has been to focus on what occurred after the end of the Second Examination Period, i.e. as from 13 April 2016, until the final date of the examination period, 20 April 2017. Since a primary element in the examination has involved the collaboration with Canon, certain information has been provided in this report pertaining to circumstances after the end of the examination period, in order to communicate a more complete picture of, above all, the development of certain Canon-related projects.

3.2.2 *Relationship to the management audit*

As discussed above, a general examination of management within the scope of an instruction for a special examination is, in material respects, comparable to the management audit conducted by an auditor. The examination period is, for the most part, the same as the 2016 financial year, for which management was audited by both the Company's ordinary auditor, Ernst & Young AB, and the minority auditor appointed by the Companies Registration Office, Grant Thornton Sweden AB. It also generally extends to that part of 2017 which is covered by the ordinary auditors' mandate period and the minority auditors' appointment. With this in mind, and taking into consideration that which came to light during the examination in respect of the performance of the management audits of both accounting firms, it does not seem reasonable or otherwise objectively justified to burden Axis with the work and expense associated with yet another management audit in respect of the examination period. This assessment is consistent with the considerations undertaken by Urban Båvestam in respect of the examination regarding the Second Examination Period and which were described in the Båvestam report, specifically sections 3.2 and 8.6.

In conjunction with the assessment of the focus of the examination, a certain level of weight has also been attributed to the fact that the Company is a listed company, whose shares are listed on the Large Cap segment of Nasdaq Stockholm, and thus it is bound by regulatory requirements of transparency to the market and symmetric disclosure. Moreover, weight was also attributed to information which was received during the examination regarding how the Company manages the disclosure of information in relation to the rules of the stock exchange and which disclosure, as a rule, appears to take place with the assistance of external legal experts.

3.2.3 *Delimitation of the examination theme*

The examination theme under paragraphs *b* – *d* can be said to specify and, at the same time, fall under section *a* (management and accounts). As a result, it appears objectively justified and consistent with the shareholders' legitimate interest in the examination to place emphasis, when assessing the examination theme, on the circumstances in the Company and the Axis Group which, in any respect, have a connection with the majority owner Canon and to the Canon Group or other Canon affiliate (paragraph *b*), since the relationship to a majority owner can always be said to contain a risk of potential conflicts of interest which may, in turn, be of importance to the Company's minority shareholders. The "**Axis Group**" or the "**Group**" in this report refers to the group of which Axis is the ultimate parent; the "**Canon Group**" means the group, with the exception of the Axis Group as a subsidiary group, for which Canon is the ultimate parent.

In a similar way, an examination of company acquisitions undertaken during the examination period stands out as the primary area for examination under paragraph *c*, not in the least because the Axis Group carried out a number of external acquisitions. At the same time, other circumstances described under paragraph *c*, for example financings, capitalizations, and restructurings, have not been the subject of any detailed examination, since no circumstances emerged during the overall assessment of the management audit for the 2016 financial year (as conducted by the auditors and the minority auditor) which would give rise to a more in-depth examination.

In respect of paragraph *d* of the examination theme, it can be noted at the outset that it has the potential to encompass extensive material since this part of the examination theme, with certain specifications, refers to completed, ongoing, and planned development collaborations and sales collaborations between, on the one hand, a given Axis Group company and, on the other hand, each and every third party. According to its wording, this can be perceived as comprising all development and sales collaborations with external parties which involve companies in the Axis Group. This could potentially involve an extremely broad range of material in respect of sales and development collaboration projects in various jurisdictions and for widely disparate parts of the world. In light of the considerations described in section 3.1 above and the previous discussion in this section 3.2, the examination in these respects has been limited to primarily assess whether there were development or sales structures in collaboration with a third party which directly or indirectly can be deemed to have been influenced by the relationship to Canon.

Otherwise, the examination in respect of both paragraph *a* and paragraph *d*, the examination themes of which are essentially deemed to constitute a part of the examination of management described under paragraph *a*, have been limited to an overall assessment of the management audit conducted by the auditors and the minority auditor for the 2016 financial year.

Throughout, the examination has been conducted with the goal of examining relevant circumstances at both Axis (the parent company) and the Swedish and foreign subsidiaries of the Group. In this context, it can be noted that the majority of the circumstances which have been reviewed naturally pertain to the operating subsidiary, Axis Communications AB, through which most of the Axis Group's Swedish and international activities are controlled.

3.3 Implementation of the examination

The examination was conducted over an extended period and has involved review of comprehensive written material, as well as interviews with individuals who were deemed relevant to the examination. The work was performed by *advokat* Harry Bergman, assisted by *advokat* Erik Hygrell and *advokat* Louise Rodebjer, of Wistrand Advokatbyrå in Stockholm.

Based on a compiled questionnaire, Axis has provided requested written material through an electronic data room. The data room has contained, among other things, minutes of board meetings with appendices, agreements and undertakings, reports, internal logs, email correspondence and copies of other written documents, as well as responses to questions and follow-up questions. In addition, certain publicly available information has been collected and reviewed, including parts of the financial information, the general meeting documentation, and so forth which the Company provides on its website under the "Investerarrelationer" (Investor Relations") tab.

During the examination, interviews were conducted with individuals, including the following:

Biörn Riese, Chairman of the board
Ray Mauritsson, CEO
Johan Paulsson, Chief Technology Officer
Per Ädelroth, Chief Operating Officer (Vice President, Operations)
Linda Hallencreutz, Head of Legal Department
Fredrik Sjöstrand, Vice President and Chief Financial Officer
Johan Thuresson, authorised public accountant, Ernst & Young AB
Ola Larsmon, authorised public accountant, Ernst & Young AB
Stefan Hultstrand, authorised public accountant, Grant Thornton Sweden AB

In addition, interviews have been conducted with, or certain information has been otherwise provided by, certain other employees of the Axis Group, the Company's external legal advisors, Elliott's legal counsel, and the Company's previous special examiner, Urban Båvestam, and his colleague, *advokat* Lisa Gabrielsson, of Advokatfirman Westermark Anjou. The interviews were primarily conducted during the period August – December 2017.

The Company has been accommodating and facilitated the examination through interaction in both written and oral contacts characterised by transparency in respect

of the actual disclosure of information, prompt responses to questions, and production of requested information. The Company and the representatives who provided information about the Company's affairs have provided responses to all questions which have been asked and the Company has, so far as can be determined, provided all written information which was requested.

3.4 The examination report

This examination report (the special examiner's statement pursuant to Chapter 10, section 23 of the Companies Act) was submitted to Axis' board of directors through the chairman of the board on 26 March 2018. The report will be presented at the annual general meeting of Axis which is scheduled to be held on 18 April 2018, in accordance with Chapter 10, section 23 of the Companies Act.

In preparation for the annual general meeting, this examination report has also been translated into English for the ease of the Company's foreign shareholders and in accordance with the principles of dual language document versions applied by the Company within the scope of its corporate governance. The Swedish language version of this report shall, however, take precedence over the English translation.

This examination report has been formulated with deference to the confidentiality which applies to the special examiner as a consequence of the instruction. To the extent specific information has been excluded due to the risk of loss for Axis, any such circumstance has not been deemed to have any significance in respect of the conclusions from the examination which is presented in this report.

This examination report is structured such that the Company's business and management are described in section 4, in which a brief description of the operations of the Company and the Axis Group are followed by a description of certain overall observations in respect of the management by the board of directors, including, among other things, its working methods in relation to Canon. The various projects and other collaboration with Canon which, in essence, fall under paragraph *b* of the examination theme are thereafter described in section 5, followed in section 6 by an account of completed acquisitions and other matters related to paragraph *c* of the examination theme.

4 THE OPERATIONS AND MANAGEMENT OF THE COMPANY AND THE GROUP

4.1 The Axis Group's operations

4.1.1 *Overview*

Axis, the shares of which are listed under the Large Cap segment on Nasdaq Stockholm's main market, offers so-called intelligent security solutions and is a market leader in the network video segment. Axis is the parent company of a group with subsidiaries in more than 30 countries. The parent company's business is

primarily focused on groupwide management. The operating activities are sited in subsidiaries, both in Sweden and abroad, including the Axis Group's wholly-owned subsidiary, Axis Communications AB, with its registered office in Lund.

According to the year-end report for January – December 2017, the Axis Group had net turnover in excess of SEK 8.6 billion, net profits of approximately SEK 4.46 billion, and an operating result of approximately SEK 1.01 billion for the whole of 2017. At the end of 2017, the Axis Group had approximately 2,900 employees.

Following a public tender offer during 2015, Canon holds the majority of the shares and voting interests in Axis. As of 29 December 2017, Canon's ownership interest amounted to 86.6 per cent of the shares and voting interests in the Company. At the end of 2016, the Company had a total of 1,726 shareholders, which increased to 1,767 as of 31 August 2017 (as per statistics from Euroclear Sweden AB). At the end of 2017, Axis had no outstanding option programmes.

4.1.2 *The Axis Group's business model*

Axis conducts extensive research and development work and the majority of the Axis Group's employees work with technical development and sales. Manufacturing takes place exclusively through a number of external manufacturers (contract manufacturers), spread out over various parts of the world. The manufacturing agreements primarily comprise framework agreements which require orders from Axis. Most production takes place through independent contract manufacturers, but some manufacturing and installation currently also takes place in Canon's factories.

The Axis Group conducts sales primarily by means of a partner model, which comprises agreements with a very large number of global and local distributors who warehouse products and manage logistics *vis-à-vis* a global network of system integrators and distributors who, in turn, provide Axis' products and security solutions to end customers. Sales encompass both products and services and, according to the Company's estimates, the global sales network includes more than 90,000 partners. The majority of sales take place in North and South America (the "Americas") and Europe, including the Middle East and Africa ("EMEA"), with a relatively smaller percentage of sales attributable to Asia.

4.1.3 *The Axis Group's acquisitions in 2016*

During the 2016 financial year, the Axis Group carried out a number of company acquisitions, as set forth below. These will, in part, be addressed in detail later in the report. The acquisitions were made through various companies within the group.

- Citilog SA (hereinafter "**Citilog**"), France: a supplier of surveillance solutions to the transport sector, among other things, comprising transport surveillance and advanced traffic analysis.

- Axis Stockholmsledet 11 AB (previously Sagax Stockholm 11 AB): the company owns land in Lund where Axis is currently constructing new headquarters, which are estimated to be completed during 2019.
- 2N Telekomunikace a.s. and 2N USA LLC (hereinafter jointly referred to as "**2N**"), Czech Republic and United States: 2N is active in the field of so-called IP intercom as well as in other areas such as IP audio and communication solutions for lifts.
- Cognimatics AB (hereinafter "**Cognimatics**"), Lund: a company which conducts software development and, among other things, markets video analysis applications for the retail industry.

4.2 Management of the Company

4.2.1 *Overall assessment*

As a supplement to the written material which was provided in respect of management of the Company during the examination period, also including audit memoranda and other documentation regarding the auditors' work and conclusions, the examination has also included an interview held with representatives of the Company's elected auditors, Ernst & Young AB, and the minority auditor, Grant Thornton Sweden AB. The information learned in that context is consistent with the examined written material, as well as with the view of the management and operation of the Company and Axis Group which was received through interviews with the chairman of the board, the CEO, and other representatives of company management.

4.2.2 *Management issues involving Canon*

In the course of the interviews with various representatives of the Company, it has been clearly stated that Axis conducts its business operations with a substantial measure of independence in respect to its main owner, Canon. Nothing has come to light in the interviews or follow-up regarding certain issues which gives reason to believe or suspect that the main owner, Canon, through instructions or by establishing any form of hierarchies or corporate culture, in any way affects how Axis conducts its business, either in general or in relation to Canon. A similar observation was already reported in the Båvestam report, section 8.4.5, as follows (page 49 in the Swedish version of the Båvestam report):

"Ray Mauritsson, Johan Paulsson and Biörn Riese have stated that Axis treated Canon as any ordinary supplier or contracting party. All agreements entered into between Axis and Canon are the subject of customary negotiations and whatever Canon is offering is compared with the terms and conditions of Axis' other suppliers. Consequently, the negotiations take place at arm's length and it is the benefit to Axis which is decisive. In cases where Axis believes a project with Canon would not be profitable, Axis shuts the project down. Correspondingly, Axis does not provide any information to any party without there being a benefit for Axis in doing so. Johan Paulsson has described for us the position of the engineering employees regarding the sharing of information constituting corporate trade secrets as characterized by

unwillingness, which applies to the relationship with Canon just as much as to any other cooperating partner."

This quote reflects, in all material respects, the perception obtained during the current examination and is thus of corresponding relevance to the examination period comprised by this report. One can add that maintaining such a working method with a majority shareholder holding 85 per cent of the shares and voting interests reasonably requires the majority owner's consent to application of this working method. As stated, nothing has come to light in the examination which indicates that the description is erroneous or misleading in respect of the management of the Axis Group during the examination period.

In conjunction with the interviews of representatives of the Company, it has been stressed that there are strict routines for handling disclosure of information in respect of Canon. Both oral and written material provided have shown that the board of directors and company management follow up to ensure that these routines are maintained, for example by also ensuring that no unintentional exchange of information takes place in connection with reporting or audit work. According to the available information and documentation, there been no specific questions regarding the disclosure of information which have appeared problematic from a shareholder perspective. The routines regarding which financial information Company representatives are prepared to share with Canon in conjunction with closing of annual accounts or interim reporting have, as far as can be determined, been maintained during the examination period (cf. the description in section 8.4.5 of the Båvestam report in respect of corresponding questions during the closing of the annual accounts for the 2015 financial year). This also applies, as far as can be determined, in respect of the exchange of information which occurs between various research and development departments in the Axis Group and the Canon group, and the conclusion is thus that Axis continually upholds the principle that Canon and its employees are regarded in this respect as external parties, which entails that disclosure of confidential information requires express approval of a responsible senior executive.

During the examination period, the board of directors has continued to maintain a log which lists ongoing projects and activities between Axis and Canon (the "**Log Book**"). The Log Book is maintained by company management and an updated version is presented to the board of directors as a standing item on the agenda at the final ordinary board meeting of the financial year. In addition, the Log Book is updated on a continuing basis in connection with the development of relevant projects.

Section 4.3 below describes certain central aspects concerning Axis' management, based on the board of director's handling of company formalities and, specifically, its handling of issues related to Canon.

4.3 The Board's work

4.3.1 *General observations*

The Company has provided board of directors' minutes and appurtenant appendices with decision-making documentation for all Company board meetings which were held during the period 1 January 2016 – 20 April 2017 (up until the time of the annual general meeting), as well as minutes from an additional board meeting which was held later during 2017 and addressed certain issues which were deemed relevant to the examination theme.

The board of directors held 16 board meetings during the examination period, 12 of which were held during the 2016 financial year (in addition to the ordinary board meetings, the initial meeting and three extraordinary board meetings were held), as well as four ordinary board meetings during the period 1 January – 20 April 2017. Some meetings were held by telephone.

In order to prepare issues in respect of resolutions and guidelines regarding remuneration and other employment terms and conditions for company management (including the CEO) and other employees, the board of directors established a separate remuneration committee. The members of the remuneration committee as of the initial meeting of the board of directors in 2016 were Biörn Riese, chairman of the board, and Bert Nordberg. Issues regarding internal control and audit were addressed by the entire board of directors and, consequently, the board of directors did not appoint a separate audit committee.

The reviewed minutes of board of directors' meetings are consistently dated, attested, and otherwise prepared in a manner which clarifies the items for decision and information, as well as the decision-making documentation for adopted resolutions. As is customary, the minutes are formulated more as minutes of resolutions than as minutes of discussion, but are nevertheless sufficiently detailed to enable an outsider to form an understanding of the board work and decision-making in the Company.

As best as can be determined, the board of directors has handled issues of conflict of interest correctly in connection with its work, for example in such a way that CEO Ray Mauritsson and the board's secretary, CFO Fredrik Sjöstrand, have not participated in the evaluation of the board and CEO or issues regarding remuneration to the CEO.

During the examination period, the board has had sound routines for following up on outstanding issues and has been determined, in all material respects, to have complied with its rules of procedure adopted for the board's work; however, in certain respects, it has handled issues pursuant to other procedures. During 2016, a remuneration committee was formed, and this is reflected in the rules of procedure which were subsequently adopted in 2017. In addition, it can be noted that the

minutes of the directors' meeting do not make entirely clear the extent to which the board of directors met with the auditors without the CEO or other senior executives in attendance in connection with the presentation of the auditors' observations during the ordinary audit work. Such a procedure is described both in the board of directors' rules of procedure and in section 7.5 of the Swedish Corporate Governance Code. According to the Company's corporate governance report for 2016, the Company deviates from the rules of the Code only in respect of the appointment of a nominating committee and purchasing of audit services, and thus not in this respect. However, this fact does not affect the assessment made that the procedure has been consistently compliant with the disqualification rules under the Companies Act.

In respect of minutes kept at board meetings, it has been noted that on the few occasions when the chairman of the board or the board secretary were not present for a certain item on the agenda (due to a potential conflict of interest), in some cases there is no clear explanation of who took over the roles of the chairman of the board or the keeper of the minutes, respectively, during the relevant part of the meeting. However, this fact does not lead to any ambiguity regarding the validity of the decision adopted in connection therewith.

In light of the above, it can be determined that Axis handles the work of its board and the appurtenant corporate documentation in an efficient manner.

4.3.2 *The board's handling of Canon-related issues*

The board minutes provided show that Canon's representative on Axis' board of directors, Toshizo Tanaka, did not participate in the board's work in respect of issues which involved business relationships and agreements between Axis and Canon. Accordingly, Toshizo Tanaka did not, for example, participate in the agenda items involving the Zoo and Orwell projects (for more details on these projects, see sections 5.3 and 5.4 below) or contract manufacturing at Canon's factories (so-called EMS agreements, see section 5.6 below for more detail). Moreover, it was specifically noted in the minutes of a board meeting that, at the meeting, Toshizo Tanaka emphasised that Axis is an independently governed subsidiary group in the Canon Group and that in the event of a difference of opinion in the collaboration with Canon, company management assumed that Axis would take its own decisions.

Until 20 February 2017, the chairman of the board, Biörn Riese, was employed by Mannheimer Swartling Advokatbyrå and, in light of the fact that Mannheimer Swartling (through other partners) served as Canon's legal counsel, during that portion of the examination period he refrained from participating in board matters relating to Canon to the same extent as did Toshizo Tanaka. Once Biörn Riese started his own law firm practice on the aforementioned date, he was no longer subject to any corresponding potential conflicts of interest. Accordingly, it seems correct (as stated in Axis' corporate governance report for 2016) to regard Biörn Riese, as of 1 March 2017, as an outside director in relation to the Company, company management and its largest shareholders, i.e. an outside director to the same extent

as directors Bert Nordberg and Håkan Kirstein. Consequently, there was also no impediment to Biörn Riese participating in the board's handling of the matter regarding manufacturing at Canon's factories (the EMS agreement) which took place in April 2017 (see section 5.6).

According to what was learned during the course of the examination, the board meetings are customarily prepared by means of the CEO, in consultation with the chairman of the board, preparing and distributing notices to attend as well as proposed agenda items with accompanying decision-making documentation to the board of directors. No notation was made at the board meetings which were held during the examination period to the effect that Toshizo Tanaka, or Canon in general, initiated any matter, with the exception of the board's decision not to propose a dividend to the 2017 annual general meeting. This was occasioned by a letter from Canon to Axis' board of directors, in which Canon stated that it intended to vote against a payment of a dividend at the annual general meeting to an extent other than that which follows from mandatory provisions of law. The board of directors' decision not to propose any dividend payment at that juncture is completely reasonable and gives no rise to comment. The annual general meeting subsequently adopted a resolution for a minimum dividend in accordance with a proposal from Elliott.

During the examination period, issues involving Canon have been regularly handled at the Company's ordinary and extraordinary board meetings. This has involved both specific issues within the scope of a particular project, which necessitated an approval or other decision on the part of the board, as well as day-to-day points of information regarding the status of various projects (the main points of these are presented in section 5). In addition, one can note the board's annual review of the Log Book as described above. The board of directors handling of matters connected to Canon are characterised almost exclusively by self-initiated matters, i.e. issues addressed on Axis' own initiative and thus which were not precipitated by proposals on the part of Canon.

5 THE COLLABORATION WITH CANON

5.1 Introduction

During the examination period, the Company has conducted a number of projects connected to Canon. These projects have been logged in the Log Book which the Company has prepared and regularly maintained, as was previously mentioned in section 4.2.2. The Log Book is also mentioned in the Båvestam report (section 8.4.5) and it can be observed that there has been no major expansion of the Log Book following the Second Examination Period. The reason is, as stressed by representatives of Axis on a number of occasions during the examination, that it is not a given that Axis will maximise the number of Canon-related projects; instead, a critical evaluation of whether a collaboration project with Canon is effective and profitable for Axis must be undertaken before a project is both initiated and further

developed. The Log Book contains a short description of the on-going projects, in certain cases broken down into project groups, as well as, among other things, business model, status, and any agreements which have been reached.

The following is a description of the most prominent projects presented in the Log Book and which were thus examined in closer detail, namely project group Workgroup 1 ("**WG1**") which, during the examination period, primarily related to the three projects described in section 5.3 (Project Zoo) and 5.5, the free-standing Project Orwell (section 5.4), and Workgroup 0 ("**WG0**"), which is described in section 5.6 and primarily relates to manufacturing of Axis products at Canon's factory in Nagasaki, Japan.

Under WG1, Axis investigates various possibilities to use Canon-owned technology in combination with Axis-owned technology in specific products.

WG0 was started during the Second Examination Period and initially involved an evaluation of the possibility for Axis to purchase components at a lower cost with the support of Canon's purchasing capacity. During the examination period, WG0 has primarily involved discerning the extent to which Axis can reduce its manufacturing costs, as well as benefit from Canon's expertise, by outsourcing some manufacturing to Canon.

5.2 Relevant questions

A number of different questions regarding the close relationship between Axis and Canon arise in conjunction with examination of the Company's Canon-related projects. The most prominent questions under examination are how these collaborations are documented and controlled, how they are priced, and how intellectual property rights are handled.

A common question for all Canon-related projects is whether there is any element of price management on the part of Canon. It was previously reported that the examination of the board's work disclosed no such management (cf. section 4.3 above).

Certain questions regarding pricing at the project level, costs of goods sold, and margins, are addressed below. These questions are also part of the management audit and, in this respect, nothing has come to light which indicates that Axis applies anything other than market terms in respect of Canon, and vice versa.

5.3 Project Zoo

5.3.1 *Description of Project Zoo*

Project Zoo was initiated even before Canon acquired shares in Axis. The Båvestam report (section 8.4.2) describes the contacts and collaboration between the two companies during that time. In addition, it also describes the letter of intent, the confidentiality agreement and collaboration agreement which were entered into both before and during the First and Second Examination Periods. This examination report does not repeat this account. Rather, it focuses on the development of Project Zoo during the examination period and, to some extent, thereafter, since certain agreements involving the project were executed after the end of the examination period.

Project Zoo consists of collaboration between Canon and Axis, where Canon provides a camera part in the form of an optical lens and Axis manufactures a circuit board for this camera part. Axis' circuit board is sent to Canon to be installed with Canon's camera part and Canon then sells the completed product to Axis which, in turn, markets the product through its marketing channels. In the interviews, Axis' personnel have described the process as "axifying" a Canon product. The completed product, a network camera with 20 megapixel resolution (cf. Axis' 2016 Annual Report, note 28), is also referred to as Q1659 ("**Q1659**"). The product was launched in 2016.

5.3.2 *Purchasing process during the examination period*

There was no specific written purchasing agreement between Axis and Canon for Project Zoo during the examination period (however, for an extended period there was a draft of such an agreement, and it was subsequently executed, see section 5.3.4). Axis instead purchased Q1659 from Canon after an offer from Canon and on Axis' purchase orders, applying Axis' general standard terms and conditions for product purchasing. The standard terms and conditions have, as far as can be determined, customary wording for product purchasing from a third party.

The absence of a more comprehensive purchasing agreement for Project Zoo during the examination period is deemed not to have influenced Axis in any negative manner, *inter alia* since the signed confidentiality and collaboration agreements include protection for Axis' intellectual property rights and since Axis has been able to apply its own standard terms and conditions for product purchasing.

It is also noted that Axis did not have any volume commitment to Canon. Rather, Axis unilaterally determined the time and scope of the order Axis wished to place with Canon.

5.3.3 *Pricing*

The price which Axis pays for Q1659 in conjunction with exercise of offers and individual purchase orders varies, depending on which lens is included and which, at the same time, meets Axis' general margin requirements. The price is calculated on the basis of customary commercial considerations.

Axis has determined that Q1659 is, in essence, a niche product which complements Axis' range of products, rather than a volume product. This means that there is additional value, beyond sales revenues, which make it worthwhile for Axis to continue to place orders for the product. It is worth noting that the sales volume for Q1659 is low as compared to Axis' other sales; calculated on an annual basis, it was less than 0.5 per cent of the Axis Group's total sales during the examination period.

5.3.4 *Agreements*

As mentioned previously, Axis and Canon have entered into a letter of intent, a confidentiality agreement, and a collaboration agreement to govern the parties' collaboration in respect of Project Zoo. The confidentiality agreement and the collaboration agreement have been provided in the data room and are also described in section 8.4.2 of the Båvestam report. During the examination period, Axis and Canon negotiated a purchase agreement, called the General Purchase Agreement, which was subsequently signed by Axis and Canon in December 2017 ("**GPA**"). The GPA applies to all markets, with the exception of Japan (where a purchase agreement on roughly comparable terms and conditions was entered into in February 2018). It is noted that the negotiation process has been relatively protracted, but that the execution of the agreement, albeit after the examination period, entails that Axis and Canon have purchase agreements in force which govern the purchase of Q1659. Axis has stated that one of the reasons for the protracted contract negotiations was that many entities within the Canon Group participated in the process.

The GPA states the commercial terms and conditions which apply to purchasing of Q1659. These terms and conditions are essentially equivalent to those in respect of the purchase agreement for the Japanese market. The term of the agreement is retroactive as from 1 December 2016 and extends for 36 months. The purchasing process will also continue through individual purchase orders. The agreement does not contain a volume undertaking on the part of Axis, although Axis must provide a non-binding purchase forecast. Under the GPA, Axis will continue to distribute Q1659 in its own name. The agreement does not constitute any change in respect of the allocation of existing intellectual property rights and the import of this is that each party retains title to its respective intellectual property rights. It can be noted that the previous collaboration agreement also governs the situation which may arise when technology is developed jointly within the scope of the project; where applicable this is presumed to vest in the parties jointly. No such joint technology appears to have been developed in the project during the examination period.

Canon must purchase the Axis component of Q1659 directly from Axis or from a third party indicated by Axis. If the price of the Axis component increases, the GPA provides that Axis and Canon must conduct good faith negotiations to determine how such a price increase will affect Axis' purchase price for Q1659. In addition to this provision, it states that the price shall be agreed separately between the parties. It is noted that the GPA has not changed the pricing model for Q1659. This pricing model does, in fact, lead to ambiguity regarding the price which will be applied on each given occasion since it requires that the parties agree, but this is no different than what can occur in conjunction with pricing between entirely independent parties where they have not agreed on a comprehensive pricing model.

5.3.5 *The future of Project Zoo*

Axis has stated that Axis and Canon are discussing how Project Zoo can be further developed and whether Axis can benefit from other technical collaboration where the parties link their product components which were developed in-house. However, no such development took place during the examination period in respect of Project Zoo but, on the other hand, it did occur in several other respects within WG1 (see section 5.5).

5.4 Project Orwell

5.4.1 *Description of Project Orwell*

Project Orwell was initiated as early as during the Second Examination Period and is described in section 8.4.6 of the Båvestam report. The project resulted in Axis, as from the autumn of 2016, taking over the marketing and sales of some of Canon's Network Video Solutions products ("**NVS products**") in the United States and Europe.

In 2017, Project Orwell's product portfolio contained approximately 30 Canon NVS products. It has been noted that most of these products were not the subject of any appreciable sales for Axis. Canon continually adds product updates to this product portfolio, which indicates that Project Orwell will continue for the foreseeable future, despite the consistently relatively low level of sales volume of NVS products since the project began. Calculated on an annual basis, the sales are assessed to correspond to less than one (1) per cent of the total turnover of the Axis Group. As far as can be determined, Axis has a stronger trade mark within this product market, although Axis' own range of products does not have a counterpart to certain of Canon's NVS products and thus Axis can be assumed to benefit by being able to offer a more complete range of products. Taken as a whole, Project Orwell has led to an increase in sales for Axis because the range has been increased by Canon's NVS products at the same time as Axis' sale of own products has continued to grow. In other words, Project Orwell has not had any visible negative impact on the sales of Axis' own products.

5.4.2 *Purchasing process during the examination period*

There was no specific written purchase agreement in force between Axis and Canon in respect of Project Orwell during the examination period. Instead, Axis purchased NVS products from Canon after an offer from Canon and on purchase orders by Axis, applying Axis' general standard terms and conditions for product purchasing. These standard terms and conditions are the same as those used for sales under Project Zoo. Axis has no volume undertaking in respect of Canon, but provides a non-binding purchase forecast on an ongoing basis.

The absence of a more comprehensive purchase agreement for Project Orwell during the examination period is deemed not to have influenced Axis in any negative manner, since Axis has been able to apply its own standard terms and conditions for product purchasing.

5.4.3 *Pricing*

In respect of the pricing of Canon's NVS products under Project Orwell, Axis has stated that commercial pricing mechanisms on such products are applied in a manner which corresponds to that applied to Axis' own products. In addition, Axis' CEO Ray Mauritsson stated that the pricing is driven by the principles of maintaining Canon's existing customers, using Axis' established pricing and distribution models, and ensuring that Axis obtains a positive contribution from the sales of the NVS products. Axis negotiated the prices of the NVS products with Canon when Axis took over the sales of the NVS products in 2016, and these prices have thereafter applied during the examination period. The prices include Axis' sales costs and, since Axis does not have any development cost for the product portfolio, the margin for the NVS products is somewhat lower than the margin Axis normally requires for products it develops in-house. Axis has stated that there have been some smaller project updates to Canon's NVS products since 2016, which has led to separate price negotiations. Information has been provided that these price negotiations followed the same principles as those previously applied for the NVS products.

5.4.4 *Agreements*

After the end of the examination period in February 2018, two distribution agreements in respect of Project Orwell were entered into between Canon and Axis, as was a supplemental agreement regarding product liability for Canon.

The first distribution agreement, which relates to the American market, is applied retroactively as from 1 October 2016, and the second distribution agreement, which relates to EMEA, applies retroactively as from 1 September 2016, i.e. after the launching of Axis' sales of NVS products within the scope of Project Orwell in the territory for each market. The agreements do not entail any change to the pricing of

the NVS products, nor any material change in respect of the sales process. Under the agreements, Canon and Axis are free to agree, on an on-going basis, on which NVS products are to be included in Axis' sales. Since Project Orwell relates to distribution of Canon's NVS products, the issues regarding title to intellectual property rights are not at issue, as is the case in Project Zoo. It can be noted that the negotiations in respect of the distribution and supplemental agreements for Project Orwell were conducted parallel to the negotiations of the GPA for Project Zoo, which, according to information, led to the agreements being completed during the same time period.

5.4.5 *The future of Project Orwell*

During the examination period, Axis received product updates which Canon developed for NVS products in its range. Axis has however not taken on any newly developed NVS products from Canon.

5.5 Development services for the M50 & P39 products

5.5.1 *Description of M50 & P39*

The M50 and P39 network cameras are included in two similar projects under WG1. The projects relate to development and manufacturing services which Axis has outsourced to Canon, where Canon manufactures the products in its Nagasaki factory. Axis owns major portions of the technology in the products and Canon can thus be equated with Axis' other contract manufacturers, as a so-called "**EMS partner**" (Electronics Manufacturing Services partner), i.e. Canon is only responsible for the manufacturing and certain development. The background to the project is that Axis believed that the development cost for these product areas was too high and thus did not meet Axis' turnover and margin requirements. Accordingly, Axis calculated what it was willing to pay for development and manufacturing services (see further section 5.5.3), and Canon accepted this.

These products differ in that, among other things, the M50 products contain an image sensor optic component which Canon has developed and to which it holds the rights, while the P39 products are based exclusively on Axis' technology. Sales of the M50 and P39 product areas were initiated late in 2017 and thus did not take place during the examination period.

5.5.2 *Agreements*

In June 2016, Axis and Canon entered into a confidentiality agreement in respect of both the M50 and P39 development projects. This confidentiality agreement differs from Axis' standard terms and conditions for such agreements in that the agreement strictly regulates the persons at Canon who have access to Axis' confidential information. Within the scope of these two projects, an agreement was also entered into in October 2016 which related to lending of computers ("Computer Loan Agreement"). The aim of this agreement was to establish a computer environment at Canon to which Canon's engineers gained access without the need to transfer any

program code to Canon's computers. Information has been given that the purpose of this arrangement was to ensure that Axis' program code was not spread electronically.

The parties thereafter entered into a development agreement in June 2017, with a start date of September 2017, i.e. after the examination period. However, the development agreement was provided in the data room. Under this agreement, Canon is to develop Axis' M50 and P39 product areas. The development agreement states that if the development is successful, a purchase agreement shall be entered into to govern, *inter alia*, manufacturing and sales. Axis and Canon have agreed that, subject to certain specified exceptions, intellectual property rights which arise as a consequence of the agreement will vest in Axis.

It can be observed that the M50 and P39 product areas are not presently covered by any formal purchase agreements or suchlike. However, no sales have taken place during the examination period. Axis has stated that it is negotiating a purchase agreement – which is intended to be consistent with other EMS agreements – with Canon. According to information from the Company, such purchase agreement is not anticipated to contain any purchase or volume undertakings on the part of Axis, nor to change anything in relation to the allocation of intellectual property rights agreed in the development agreement.

5.5.3 *Pricing*

M50 and P39 are two product areas which, according to Axis, did not meet the requirements for turnover and margins which Axis imposes for in-house product development. Accordingly, Axis calculated what it would be willing to pay for the products and for the development services which Canon carries out within the scope of these projects. Accordingly, Axis' price is not affected by the fact that Canon manufactures the products at a lower or higher price or has greater development costs than Canon. The issue of pricing was not, however, relevant during the examination period, since no sales took place.

5.6 Contract manufacturing in Canon's factories

5.6.1 *Collaboration criteria*

In WG0, Axis evaluates the possibilities of outsourcing certain production to Canon.

According to information, Axis' business model is based on Axis not having its own manufacturing. Instead, Axis engages outside manufacturers, which Axis calls EMS partners. Axis enters into manufacturing agreements (EMS agreements) for these manufacturing services, which agreements include customary commercial terms and conditions providing protection for intellectual property rights and know-how. This means, among other things, that Axis protects its source code *vis-à-vis* its EMS partners.

According to information, the object of the project is to enable Axis to outsource production to Canon when doing so is effective and profitable for Axis. Axis has described how Canon in this context is treated and evaluated in the same way as each other EMS partner, i.e. as a contracting party at arm's length.

In order to evaluate a production at Canon, Axis has developed a number of fundamental principles and criteria to determine when Canon satisfies its role as an EMS partner; these were addressed at the board meeting held on 20 April 2017. At this meeting, the board viewed a presentation of a preliminary study prepared by Axis regarding possible production in Canon's Nagasaki factory, as well as the cost savings which such production would result in when compared with manufacturing at other EMS partners. At the board meeting, the board of directors noted that significant cost savings could be realised for the products evaluated in the presentation when compared with manufacturing of these products by other EMS partners. The presentation has been provided in the data room and a description has been given in an interview. Furthermore, the board of directors adopted a principle that Canon's offer must be lower, with a specified margin, than the best offer which was received from competing EMS partners in order for Axis to accept an offer from Canon. According to information, the reason for this principle is that there must be an "extra margin" when Canon is retained in order to avoid calling into question the reasons underlying Canon's selection as manufacturer. The board of directors also decided that the CEO can take additional decisions regarding manufacturing by Canon when the CEO believes that the offer is advantageous to Axis, provided, however, that the margin set by the board of directors is always maintained. It was noted in the board of directors' minutes that Canon's representative, Toshizo Tanaka, was not present and did not participate in these board resolutions (see further section 4.3.2 above). According to information, Axis generally applies a principle to limit risk exposure *vis-à-vis* individual EMS partners, meaning that Axis does not want to represent more than 35 per cent of the EMS partner's capacity at a specific facility. This principle is also applied in relation to Canon.

5.6.2 *Current manufacturing*

Within the scope of WG0, Axis has conducted a preliminary study regarding manufacturing at Canon of five products.

According to information, the aim of this preliminary study includes determining whether Axis can benefit from Canon's manufacturing know-how in the field of cameras. Canon's production facilities are adapted to Canon's own cameras and Axis, in its study, has evaluated whether Axis can benefit from this. During this process, Axis found a number of technical items which needed to be addressed, since Axis' requirements did not align with Canon's manufacturing standards. At that time, Canon decided to adapt its manufacturing based on certain items so that Axis would consider outsourcing manufacturing services to Canon.

In addition to the know-how aspect, the cost aspect of manufacturing services was also evaluated. It proved to be the case that in its offer, Canon offered a lower price than other EMS partners for four of the five relevant products. Axis then chose to accept Canon's offer for the four products only, since it would realise savings which exceeded the minimum margin when compared with other EMS partners. The initial production collaboration was thus limited to these four products.

5.6.3 *Agreements*

During the preliminary study for WG0, Axis and Canon entered into several confidentiality agreements. The first agreement was entered into during the Second Examination Period and was described in section 8.4.7 of the Båvestam report. During the examination period, a confidentiality agreement in respect of WG0 was thereafter entered into in May 2016, followed by supplemental agreements in October 2016 and in March 2017. An additional supplemental agreement was entered into after the examination period, in June 2017.

In the confidentiality agreements, Axis lists the confidential information which is to be subject to confidentiality. The reason for supplemental agreements was that appendices with confidential information have been updated. Under the confidentiality agreements, Axis secures the intellectual property rights to the confidential information which is turned over. The agreements apply for a term of five years.

Manufacturing of the relevant products began during the third quarter of 2017 and, according to information, the intention is that Axis will begin sales during the second quarter of 2018. A manufacturing agreement between Axis and Canon was still in the negotiation phase at the end of February 2018 but, according to Axis, the content is anticipated to be consistent with the main principles which Axis applies in relation to other EMS partners.

5.7 Other ongoing collaboration with Canon

During the examination period, additional projects have been conducted with the Canon Group. These include a certain type of joint research regarding the conditions for future development of technology for network cameras, conducted by Canon and Axis. During the examination period, the project was conducted exclusively on the preliminary study level.

6 COMPANY ACQUISITIONS

6.1 Generally

During the examination period, Axis carried out two company acquisitions. Cognimatics was acquired on 3 June 2016. 2N was acquired on 30 May 2016. In addition, Axis acquired the French software company Citilog and Axis

Stockholmsledet 11 AB prior to the examination period (during the Second Examination Period). The businesses of the companies are described briefly in section 4.1.3.

Since the acquisitions were reviewed in the course of the ordinary management audit conducted by the auditors and the minority auditor for the 2016 financial year and nothing in particular emerged during the examination which changes the information which the acquiring party has communicated in Axis' annual accounts for the 2016 financial year, only a brief description of the acquisitions is provided here.

The acquisitions of Citilog, 2N, and Cognimatics, including costs for the acquiring party, have, *inter alia*, been described by Axis in note 29 to the annual report for the 2016 financial year. Axis has confirmed that none of the acquired companies have any previous ownership or other commercial connection to Canon.

6.2 2N

Axis evaluated a possible acquisition of 2N as early as in 2014. At that time, Axis chose not to go ahead with the acquisition due to various uncertainties in conjunction with the due diligence process. The planned acquisition was resumed in the spring of 2016 and, at the board of directors' meeting held on 3 February 2016, a report regarding 2N's business was presented, as was the due diligence which was conducted in anticipation of the acquisition of 2N. The report contains a description of the business, business model, financial information, the result of the legal due diligence, and the structure of a potential acquisition.

A status report regarding the acquisition of 2N, largely comprising the conclusions from the completed due diligence process, was presented at the board of directors' meeting held on 13 April 2016. At the meeting, the board of directors instructed the CEO to sign the share purchase agreement following approval of the agreement by the chairman of the board. The share purchase agreement was signed on 30 May 2016.

The examination of the agreement does not give rise to any comments other than that it contains customary commercial terms and conditions, including warranties. No warranty claims or other legal claims in respect of the acquisition have been brought during the examination period.

2N, which was acquired during the examination period, has confirmed that as of the period up to and including 20 April 2017, the company did not have any pending disputes with Canon, nor did it have any business relationship with Canon.

6.3 Cognimatics

At the board of directors' meeting held on 26 May 2016, the proposal was presented that Axis acquire Cognimatics. The board reviewed a presentation of Cognimatics,

with material motivations and risk assessments. The CEO received a mandate from the board to carry out the acquisition. The share purchase agreement was signed on 3 June 2016.

The examination of the agreement does not give rise to any comments other than that it contains customary commercial terms and conditions, including warranties. No warranty claims or other legal claims in respect of the acquisition have been brought during the examination period.

6.4 Citilog

Axis acquired Citilog on 31 January 2016. Since the acquisition was covered by the Second Examination Period, it was described in the Båvestam report (section 8.5.1). For this reason, no further description of the circumstances surrounding the acquisition are provided in this report.

Citilog has confirmed that the company has not had any business relationship with Canon during the examination period. No warranty claims or other legal claims in respect of the acquisition have been brought during the examination period.

Stockholm, 26 March 2018

Harry Bergman