

# Corporate Governance Report 2011

## Corporate Governance Report

Corporate governance defines the decision systems by which the owners, directly or indirectly, manage the company. In a stock corporation such as Axis, governance, management and control are distributed among the shareholders, the board of directors, the President and group management in accordance with prevailing laws, regulations and instructions.

Axis AB (publ) (hereafter "Axis") is a public Swedish stock corporation with its registered office in Lund, Sweden. Axis was floated on the Stockholm Stock Exchange in 2000 and is currently listed on NASDAQ OMX Stockholm's main market. The company follows the provisions of the Swedish Companies Act as well as the stock exchange regulations for listed companies in Sweden. The company has not committed any breaches of NASDAQ OMX Stockholm's rules and regulations or of best practice in the labor market.

The corporate governance report describes how corporate governance has been conducted in Axis during the fiscal year 2011. The corporate governance report is reviewed by the company's auditors as it is part of the company's administration report.

Axis applies the Swedish Code for Corporate Governance (hereafter the "Code") according to which this corporate governance report is prepared, and follows it with the exception of what is expressly stated below. Information about the Code may be found on [www.bolagsstyrrning.se](http://www.bolagsstyrrning.se).

### Deviations from the Code

The company deviates in relation to item 2.1 (the nomination committee shall submit proposals regarding appointment and remuneration of auditors) with the explanation that the board prepares and conducts procurement in consultation with the nominating committee. The board considers that it has the appropriate qualification to do so by virtue of its composition and skills.

### Share capital, voting rights and ownership

Axis had 16,597 shareholders at the end of 2011 according to the share register maintained by Euroclear Sweden AB. The company's principal owner is Inter Indu AB (14.4 percent of the share capital). Foreign investors' equity interest was 19.6 percent. The ten largest owners had total holdings corresponding to 61.8 percent of the share capital. For additional ownership data see page 40 in the printed annual report. The company's share capital totaled SEK 694,612 at year-end, distributed among 69,461,250 shares. All shares (as at December 31, 2011) carry one vote and equal right to share in the company's assets and earnings.

	Number of shares	Share of equity and votes
C Brandberg, privately and via company (Inter Indu AB)	10,016,667	14.4 %
T Karlsson, privately and via company (LMK Industri AB)	10,000,000	14.4 %
M Gren, via company (Grenspecialisten AB)	7,357,471	10.6 %
Robur	4,428,408	6.4 %
Didner Et Gerge Mutual fund	3,316,844	4.8 %
Others	34,341,860	49.4 %
<b>TOTAL</b>	<b>69,461,250</b>	<b>100.0 %</b>

### Provisions in Articles of Association

The company's articles of association do not contain any limitations in respect of how many votes each shareholder may cast at a general meeting of shareholders.

There are no special provisions in the company's articles of association regarding appointment and dismissal of board members or regarding amendment of the articles of association.

### General meeting of shareholders

The general meeting is Axis' highest decision-making body, and the forum through which the shareholders can exercise their influence over the company. The ordinary general meeting where the board shall submit the annual report and consolidated financial statements is called the Annual General Meeting. The auditors submit the audit report and the audit report for the group at the annual general meeting. The particulars of the annual general meeting are governed by the Swedish Companies Act and by the articles of association. The annual general meeting in Axis AB is held annually in the Lund area during the first half of the year. The venue and date of the annual meeting will be announced in connection with the interim report for the third quarter in the preceding year. Information regarding the shareholders' right to have matters addressed at the annual meeting is published in the interim report for the third quarter in the year before the meeting and is available on the company's website from the time of the report's publication. The notice convening the annual meeting is published no later than four weeks prior to the annual general meeting. At the annual general meeting, information is provided about the company's performance during the past year and resolutions are passed on important questions. The shareholders are given the opportunity at the annual general meeting to ask questions about the company and the results for the year in question. In order for shareholders to attend the general meeting and vote for their shares held, they must be registered in the share register and have given notice of participation within a specified time. Those shareholders who cannot personally attend may exercise their votes by proxy. The company does not apply any special arrangements as regards the running of the general meeting of shareholders, either on account of provisions in the articles of association or, as far as the company knows, shareholders' agreements.

### Annual General Meeting April 14, 2011

The annual general meeting which was held in Lund on April 14, 2011 resolved as follows:

- > that six (6) ordinary board members be elected without any deputy board members,
- > to re-elect the board members Lars-Erik Nilsson, Charlotta Falvin, Martin Gren, Olle Isberg, Göran Jansson and Roland Vejdemo,
- > to re-elect Lars-Erik Nilsson as Chairman of the Board, and
- > that directors' fees of SEK 1,250,000 in total should be paid to be allocated among board members not employed in the company as follows, SEK 450,000 to the chairman of the board and SEK 200,000 to each one of the other members.

The annual general meeting has not authorized the board to resolve that the company should issue new shares or acquire its own shares.

### Nominating Committee 2011

The annual general meeting resolves how the nominating committee shall be appointed, and at the annual general meeting it was resolved that Axis shall have a nominating committee comprising representatives of the three largest shareholders in the company as at August 31, in the year before the annual general meeting. These shareholders shall each appoint a representative to the nominating committee by September 30, in the year before the annual general meeting or at the latest six months prior to the annual general meeting. Axis' nominating committee is composed of representatives from the three largest shareholders; Christer Brandberg (Inter Indu AB), Therese Karlsson (LMK Industri AB) and Martin Gren (AB Grens Specialisten). Christer Brandberg is Chairman and Convener.

#### *The work of the Nominating Committee*

The sole task of the nominating committee is to prepare resolutions for the general meeting in respect of election and remuneration questions, as well as certain procedural matters for the next nominating committee. The nominating committee shall also submit proposals regarding appointment and remuneration of auditors. The nominating committee shall give an account of its work at the annual general meeting. Its proposals are presented in the notice convening the annual general meeting and on the company's website. As a basis for its proposals, the nominating committee shall consider to what extent the present board meets the demands that will be made of the board, as a consequence of the company's situation and future direction, by acquainting themselves with the result of the evaluation of the board that has taken place, among other things. Proposals and viewpoints from shareholders concerning the composition of the board of directors may be submitted in writing to the following address: Axis AB, attn. Adrienne Jacobsen, Emdalavägen 14, 223 69 Lund, Sweden, or by phone +46 46 272 18 00.

### The Board of Directors

During the period between the annual general meetings, the board of directors of Axis constitutes the highest decision-making body in the company. The duties of the board are governed by the Swedish Companies Act and by the articles of association. The current Articles of Association were adopted at the annual general meeting 2011 and are available in their entirety on [www.axis.com](http://www.axis.com) (select Investor Relations). According to the company's articles of association, the board of directors shall consist of a minimum of three and a maximum of seven members, with a maximum of three deputy board members.

All nominated board members were present at the annual general meeting on April 14, 2011. The board members Charlotta Falvin, Martin Gren, Olle Isberg, Göran Jansson, Roland Vejdemo and Lars-Erik Nilsson were re-elected. Lars-Erik Nilsson was re-elected as chairman of the board. Martin Gren is employed by the subsidiary Axis Communications AB and via company is one of the three largest owners of the company. Olle Isberg is employed by the shareholder LMK Industri AB. The other board members Lars-Erik Nilsson, Charlotta Falvin, Göran Jansson and Roland Vejdemo are independent in relation to Axis, the company management and the major shareholders. Information regarding the remuneration to the board members resolved upon by the annual general meeting may be found in note 19, Personnel. Other information about the board members may be found on page 43 of the printed annual report.

### *The formal work plan of the Board of Directors*

Under the Swedish Companies Act, the board is responsible for drawing up and evaluating Axis' overall, long-term strategies and goals, adopting the budget and taking decisions affecting the operations and major investments in Axis' organization and operations.

The formal work plan of the board is adopted annually by the board. This formal work plan sets out the division of work and responsibilities between the board and the President and CEO. It is incumbent on the President and CEO, in consultation with the chairman of the board, to prepare the decision data, the notification and the agenda for each board meeting. The notification and decision data are to be circulated to the board members in good time. The minutes are to be circulated to the board members after the meeting, and a copy stored securely by the company.

The role of the chairman of the board of Axis AB, among other things, is to monitor the progress of the business, to organize and lead the work of the board and to be responsible for ensuring that the other directors continually receive the information they require to carry out the work of the board with quality maintained and in accordance with the Swedish Companies Act. In addition to this, the work of the board is regulated by statutory instructions for the President and CEO and instructions on financial reporting.

#### *The work of the Board during 2011*

During the year, the board devoted a considerable part of its work to advancement of the focused strategy in the network video area and the impact of financial developments on the company's business. The board has closely followed the group's financial performance during the year through monthly reports and submissions by the group's CFO at all board meetings, among other ways.

Furthermore, the board has dealt with questions such as;

- > the growth strategy for the Video product area,
- > development activities, and
- > establishment of subsidiaries/sales structure.

The board conducts an annual evaluation of its work through the agency of the chairman, which has been carried out without the participation of external parties. According to the formal work plan of the board at least five ordinary meetings must be held annually in addition to the statutory meeting. In addition to this, the board may convene when circumstances so require. During 2011, the board held eight board meetings including the statutory meeting. See table below for meeting attendance.

Board member	Meeting	1	2	3	4	5	6	7	8
Lars-Erik Nilsson (chairman)		X	X	X	X	X	X	X	X
Charlotta Falvin		X	X	X	X	X	X	X	X
Martin Gren		X	X	X	X	X	X	X	X
Olle Isberg		X	X	X	X	X	X	X	X
Göran Jansson		X	X	X	X	X			X
Roland Vejdemo		X	X	X	X	X		X	X

A presentation of the board may be found on page 43 in the printed annual report.

## Committees

### *Remuneration Committee*

The Board has appointed a Remuneration Committee. The task of the remuneration committee is to prepare the board's decisions and guidelines relating to salary and other terms of employment for the company management (including President) and other employees. The committee shall ensure that the guidelines for determination of salaries and other remuneration to the President and other members of the company management, which have been adopted by the annual general meeting are followed. The remuneration committee shall report to the board on an ongoing basis. The committee is appointed at the statutory meeting following the annual general meeting and in 2011 was composed of Lars-Erik Nilsson (chairman and convener) and Olle Isberg. The two members of the committee held 2 meetings during the year. Information regarding remuneration and other terms of employment for the company management may be found in note 19, Personnel. There are no outstanding incentive programs.

### *Audit committee*

Questions relating to internal control and audit are handled by the board in its entirety, for which reason no special audit committee has been appointed. The reason for this is that the board has particular experience of such questions and this competence is considered to be of benefit to Axis.

## The President & CEO and Group Management

Axis' group management consists of eight members, and is led by the President and CEO, Ray Mauritsson (born 1962). Ray Mauritsson holds a Master of Science, Engineering physics from Lund University, and an Executive MBA from the Institute of Economics, at Lund University. He joined Axis in 1995, and took over as President and CEO in 2003. Prior to this, Ray Mauritsson held leading positions at TAC (now Schneider Electric). Ray Mauritsson is a director of HMS Industrial Networks.

For information regarding shareholdings, see page 44 in the printed annual report.

The President and CEO manages the day-to-day work, and is responsible for keeping the board informed of the performance of the operations, and for ensuring that they are being conducted in accordance with the board's guidelines and instructions. The President keeps the board and the chairman continually informed of the company's and the group's financial position and performance. The Group management team held 12 formal and a large number of informal meetings during the year.

## Audit

Axis' auditors are elected by the annual general meeting normally for a period of four years. The company's auditors are PricewaterhouseCoopers AB, with Ola Bjärehäll as Chief Auditor. Ola Bjärehäll was born in 1974 and has been an Authorized Public Accountant since 2004. PricewaterhouseCoopers AB have been Axis' auditors since 1996 and Ola Bjärehäll since 2011.

According to item 2.1 of the Code, proposals for appointment and remuneration of auditors should be submitted by the company's nominating committee. Axis' board has, however, in deviation from the above-mentioned provision in the Code, decided that the board shall prepare and conduct procurement in consultation with the nominating committee. The procurement shall be prepared by a group specially appointed by the board, comprising representatives from the board and Axis' management. The reason for the

deviation is that the above-mentioned group has particular experience of questions relating to appointment and remuneration of auditors. This competence is considered to be of benefit to Axis.

## The company's internal control report over the financial reporting 2011

### *Introduction*

The board of directors is responsible for the internal control in Axis AB under the provisions of the Swedish Companies Act and the Swedish Code of Corporate Governance. The board's report is drawn up in accordance with section 7.4 of the Swedish Code of Corporate Governance, and has therefore, been limited to only covering the internal control over the financial reporting. The information in this internal control report applies to both the parent company and the group. The company's processes and systems for ensuring effective internal controls have been designed with the intention of managing and limiting the risks of material errors in the reporting of financial data, and, consequently, ensuring that operational and strategic decisions are based on accurate financial information.

Axis' process for the internal control over the financial reporting is structured in accordance with the COSO framework (Committee of Sponsoring Organizations of the Treadway Commission), with the control environment as a base for other components and activities; risk assessment, control activities, information and communication as well as monitoring and reporting.

### *Control environment*

The board of directors has overall responsibility for establishing and maintaining an effective system for risk assessment and internal control. The board has adopted a formal work plan for its activities, in which the mutual division of work between the chairman of the board and its members is defined. The day-to-day work of maintaining an effective internal control environment and continuous risk assessment in respect of the financial reporting has been delegated to the President and CEO, who in turn has delegated function-specific responsibility to managers at appropriate levels within the group.

A detailed delegation plan has been drawn up, with well-defined attestation and decision levels. This is applied throughout the Axis Group.

### A. Corporate culture

Axis has a strong and firmly-established corporate culture, which fundamentally encourages all employees to think creatively and innovatively, and to show respect for each other's diversity. Everyone is encouraged to question, take the initiative and take responsibility, and to strive at all times towards the common goals, guided by our watchwords – "act as one", "think big" and "always open". The corporate culture is founded on confidence, trust and personal responsibility. In the recruitment process, great weight is placed on ensuring that the applicants appointed, share the fundamental values on which the corporate culture is built. The majority of new recruits in Sweden as well as internationally, complete introductory training at Axis' headquarters in Lund. The training aims to increase the understanding of Axis' operating procedures and corporate values.

### B. Guidelines and policies

Responsibility and authority are defined in the delegation plan adopted by the board, attestation instructions, handbooks, other policies and codes. The group's most important guidelines and policies relate to financial control, communications issues, business ethics and environmental matters.

The basis for financial control and follow up consists of the group's overall finance and accounting policies. The aim of Axis' communications policy is to ensure that external and internal information disclosure is based on facts, is accurate and uniformly structured. Part of the communications policy deals with Investor Relations, IR, and is intended to ensure compliance with the appropriate laws and stock exchange rules, and to provide a reliable and accurate view of Axis and its operations to players in the financial market. Axis has a Code of Conduct. The purpose of the Code is to set out the approach, values and guidelines that Axis' employees shall apply in matters of business ethics and also the approach to human freedom and human rights. The objective of Axis' environmental policy is to ensure that the company supplies products and solutions in an efficient and environmentally low-impact way, and that legal obligations and environmental regulations are complied with.

### C. Operational control

Axis' management team (group management) consists, in addition to the President and CEO, of the managers of the various central functions within the group, such as sales, marketing, research and development, operations, human resources, information systems and finance. Within and between the various functions there are a number of control groups, committees and project groups, formed with the aim of creating short decision paths and ensuring that the operations are managed effectively towards the group's defined goals.

#### *Risk assessment*

The risk assessment involves identifying, measuring and recording the sources of risk. The material risks which affect the internal control over the financial reporting are identified at a group and company level, as well as at a regional level. The process of risk assessment also includes risks of impropriety and undue favoritism to another party at the company's expense. The risk assessment procedure results in measures that aim to strengthen the level of control and to support the fulfillment of the fundamental requirements of the financial reporting.

#### *Control activities*

There are both general and more detailed control activities, aimed at preventing, discovering and correcting faults and deviations. The activities include manual controls, controls embedded in IT systems and controls in the underlying IT environment, i.e. general IT controls. The global controller organization is composed of regional controllers with responsibility for different sales regions, business controllers with dedicated function responsibility and a number of controllers with company-wide areas of responsibility. Regional controllers formally report to the regional sales director but also report operationally to the financial department at headquarters.

#### *Information and communication*

Important guidelines, handbooks and similar information relating to the financial reporting are updated and communicated to the employees concerned on an ongoing basis. There are both formal and informal information channels to the company management and to the board for important information from the employees. The board meets regularly with representatives of the various central functions within the Axis Group when they attend board meetings as well as through individual meetings. The President and CEO and the CFO keep the board continuously informed of the group's financial position, performance and any areas of risk.

The company's auditors attend at least two board meetings per year, at which the auditors give their assessment and observations on the business processes, accounts and reporting. The chairman of the board also maintains continuous contact with the auditors.

#### *Monitoring and financial reporting*

The control organisation is evaluated on an ongoing basis by the Group Controller and CFO with the aim of ensuring quality and efficiency. Compliance with internal routines and processes is validated annually through documented visits by representatives from the group controller function. The CFO actively participates in the recruitment process of all qualified controllers.

Axis does not have a separate internal audit function. Based on a good control environment and external audits by auditors, the board has decided that there are no special operational circumstances or other factors which would justify setting up such a function.

The financial reporting and financial control are conducted in accordance with well-defined guidelines and policies. The various processes are thoroughly supported by complex, purpose-designed IT systems. The company's financial performance is monitored continuously by the board through comprehensive monthly report packages, and through reports by the CFO at all board meetings. Compliance with the company's finance policy is followed up monthly in the report package. A high level of transparency in the report material and financial processes enables any deficiencies in internal control to be identified and rectified.

The reporting structure is based on two principal dimensions, geographical and functional, which are followed up by the group finance and controller functions. A monthly income statement is prepared for each dimension, and these are followed up together with the responsible managers. At present, the geographical dimension consists of three regions. The smallest components of the functional dimension are the cost centers which, in the aggregate, consist of the three categories Marketing and Sales, Research and Development and Administration. The total number of cost centers with individual income statements and separate follow up amounts to 172. The company's geographical spread creates ideal conditions for comparative analyses between the regions. The key ratios for the different regions constitute a part of the monitoring and analysis work performed by the above-mentioned functions.

Another significant company-wide part of the internal control is the rolling forecast process. Monthly sales forecasts are prepared, with a 12-month horizon and at product level, by the managers of the various regions. The sales forecasts are consolidated and validated by the group's finance department in connection with production of detailed forecasts for the operations. Detailed forecasts are produced twice a year; in May and November, and refer to the next twelve-month period. These are built up from each individual cost center in the group's companies, and then combined with the monthly sales forecasts, and are consolidated, analyzed and compiled by the group's finance department. The forecast drawn up in November, which relates to the next calendar year, is ratified by the board meeting in December. In addition to twelve-month forecasts, the group management team works continuously on overall strategic 3–5 year scenarios.