



Corporate governance

The Swedish code for corporate governance came into force on 1 July 2005. The code, which is based on self-regulation on the "follow or explain" principle, deals primarily with the organisation and work of the annual general meeting, the Board of Directors and the company management, and the inter-relationship between them.

The Swedish code for corporate governance includes rules on the appointment of the Board and the auditors, the responsibility of the Board for internal controls, the process of appointing and remunerating the company's management and information on corporate governance. The implementation of the corporate code will be completed with the annual general meeting relating to 2006. The corporate governance report has not been reviewed by the auditors.

CORPORATE GOVERNANCE REPORT

During the period between the annual general meetings, the Board of Directors of Axis AB (publ) constitutes the highest decision-making body within the company. The duties of the Board of Directors are laid down in the Swedish Companies Act and in the Articles of Association of the company. The work of the Board is controlled in addition by the formal work plan adopted annually by the Board itself. This formal work plan also determines the division of work and responsibility between the Board, its Chairman and the President and CEO, and also includes the financial reporting procedures for the President and CEO.

The corporate governance report in its entirety is available at www.axis.com/investor. The current corporate governance report was adopted at the annual general meeting in 2005.

ANNUAL GENERAL MEETING

The annual general meeting of Axis AB (publ) is the highest decision-making body in the company, and the forum through which the shareholders can exercise their influence over the company. The duties of the annual general meeting are laid down in the Swedish Companies Act and in the Articles of Association of the company.

The ordinary general meeting for 2005 was held in Lund on 20 April 2006. All the nominated ordinary members of the Board, with the exception of Nils Rydbeck, were present. In accordance with the Articles of Association, the meeting elected five ordinary members of the Board, with no deputies. The Board members Martin Gren, Nils Rydbeck and Lars-Erik Nilsson were re-elected, and Charlotta Falvin and Olle Isberg were elected for the first time. Lars-Erik Nilsson was re-elected Chairman of the Board.

The meeting further resolved:

- that a dividend of SEK 1.00 per share be paid, of which SEK 0.50 is an additional dividend in the light of the company's strong financial position.
- to authorize the Board to resolve on a new issue. In addition, the Board was authorized, during the period until the next annual general meeting, deviating from the shareholders' right of first refusal, on one or more occasions to make a new issue of a maximum of 6,823,500 shares in total. The purpose of the authorisation is to facilitate corporate acquisitions with payment wholly or partly in Axis shares.
- to reduce the company's statutory reserve by SEK 293,319,079 from SEK 293,319,079 to SEK 0, and to transfer an amount equivalent to the reduction to non-restricted equity.

- that the Articles of Association be amended to comply with the new Companies Act which came into force on 1 January 2006.

THE RESPONSIBILITY OF THE BOARD OF DIRECTORS

Under the Swedish Companies Act and the formal work plan of the Board of Directors, the Board is responsible for drawing up and evaluating Axis' overall, long-term strategies and goals, adopting the budget and taking decisions affecting the operation and major investments in the Axis organisation and operation.

THE FORMAL WORK PLAN OF THE BOARD

The formal work plan of the Board is adopted annually by the Board at an inaugural meeting after the annual general meeting. This formal work plan sets out the division of work and responsibility 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 meeting. The notification and decision data are to be circulated to the members of the Board in good time. The minutes are to be circulated to the members of the Board after the meeting, and a copy stored securely by the company.

THE ROLE OF THE CHAIRMAN OF THE BOARD

The role of the Chairman of the Board of Axis AB is to monitor the progress of the business and to be responsible for ensuring that the other directors receive the information they require to carry out the work of the Board effectively and in accordance with the Companies Act.

THE WORK OF THE BOARD DURING 2006

During the year, the Board devoted a great deal of its work to advancing the focused strategy in the network video area. Through monthly reports and submissions by the Group's Chief Financial Officer at all Board meetings, the Board has carefully followed the Group's financial progress during the year. In addition, the Board has dealt with questions such as;

- the strategy for growth within product area video
- organisational matters to meet the expected strong growth, and
- continuous monitoring of the performance of the Group's sales channels.

During the period between the annual general meeting

and the adoption of this annual report, the Board held seven meetings including the inaugural Board meeting following election. There is a presentation of the Board of Directors on page 56.

ATTENDANCE AT BOARD MEETINGS

Member	Meeting	1	2	3	4	5	6	7
Lars-Erik Nilsson		•	•	•	•	•	•	•
Nils Rydbeck	By telephone	•	•			•		
Martin Gren		•	•	•	•	•	•	•
Charlotta Falvin (elected at annual general meeting, 2006)				•	•	•	•	•
Olle Isberg (elected at annual general meeting, 2006)				•	•	•	•	•
Patrik Tigterskjöld (retired at annual general meeting, 2006)		•	•					

Information on outstanding share and share-price related incentive schemes is on page 48.

THE CEO AND THE MANAGEMENT TEAM

Axis' management team consists of seven members, and is led by the President and CEO, Ray Mauritsson. Ray Mauritsson is a graduate engineer, with a degree in Technology and Physics from the University of Lund, and an Executive MBA from the Business School at the University of Lund. He joined Axis in 1995, and took over as President and CEO in 2003. Ray Mauritsson has no appointments with other companies outside the Axis Group, and has no significant holdings in associated companies.

The President and CEO manages the day-to-day work of the operation, and is responsible for keeping the Board informed of the progress of the operation, and that it is being carried on in accordance with the Board's guidelines and instructions. The Managing Director keeps the Board and the Chairman informed of the company's and the Group's financial position and progress. The company management team held 13 formal and a large number of informal meetings during the year.

AUDITS

Axis' auditors are elected by the company's general meeting for a period of four years. The company's auditors are Öhrlings PricewaterhouseCoopers AB, with Anders Lundin as Chief Auditor. Öhrlings PricewaterhouseCoopers AB have been Axis' auditors since 1996. At the annual general meeting relating to financial year 2006, a new Chief Auditor will be elected.

COMPOSITION OF THE NOMINATIONS COMMITTEE

Axis' Nominations Committee consists of representatives from the three largest shareholders. The three largest shareholders in the company on 31 August of the year before the annual general meeting shall, on 30 September of the year before the annual general meeting or at the latest six months before the annual general meeting, each appoint a representative to be a member of the Nominations Committee. The Nominations Committee shall appoint one of its members Chairman. In the event that one of the three largest shareholders waives its right to appoint a member to the Nominations Committee, the fourth largest shareholder shall appoint a member instead. If the fourth largest shareholder also waives its right, the right of appointment will pass down the shareholders in order of size of shareholding until three members have been appointed.

In the event that a member leaves the Nominations Committee before the committee's work has been completed, the shareholder who appointed that member shall appoint a new member. Should that shareholder waive its right to appoint a new member, the fourth largest shareholder shall appoint a member, or, if the fourth largest shareholder also does not appoint a member, the right of appointment will pass down the shareholders in order of size of shareholding until a new member has been appointed. Information on the composition of the Nominations Committee shall be published in the company's interim report for the third quarter and on the company's website six months before the annual general meeting.

The Nominations Committee shall present a report of its work to the annual general meeting.

NOMINATIONS COMMITTEE 2006

During the year, the Nominations Committee consisted of Therese Karlsson (LMK Industri AB), Christer Brandberg (Inter Indu S.P.R.L) and Martin Gren (AB Grenspecialisten). Christer Brandberg is Chairman and Convener. The Nominations Committee held two physical meetings during the year and three review meetings by telephone. After an inaugural meeting by telephone in September, physical meetings were held, at which the Nomination Committee evaluated the Board and identified requirement profiles. Suitable candidates were then identified and interviewed by members of the Nomination Committee.

Proposals and observations from shareholders in respect of the composition of the Board may be made

either in writing to: Axis AB, attn. Adrienne Jacobsen, Emdalavägen 14, 223 69 Lund, Sweden, or by telephone on +46 46 272 18 00.

REMUNERATION COMMITTEE

The task of the Remuneration Committee is to prepare matters relating to salary and employment conditions for the President and CEO and key management personnel. The committee is appointed at the inaugural Board meeting after the annual general meeting. In 2006, the committee consisted of Lars-Erik Nilsson and Olle Isberg. During the year, the Remuneration Committee held three minuted meetings.

AUDIT COMMITTEE

The company has decided not to appoint an Audit Committee. These matters will be dealt with by the full Board.

INTERNAL CONTROL REPORT

Introduction

Under the provisions of the Companies Act and the Swedish Code of Corporate Governance, the Board of Directors is responsible for internal controls at Axis AB. This report is drawn up in accordance with sections 3.7.2 and 3.7.3 of the *Swedish Code for Corporate Governance*, and has, therefore, been limited to covering only internal controls of financial reporting. 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, lead to both operational and strategic decisions being based on accurate financial information.

Axis process for the internal control of 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 and follow ups.

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 members of the Board is defined. The day-to-day work of maintaining an effective internal control environment and continuous risk assessment in respect of 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.

The Board of Directors of Axis AB has drawn up a detailed delegation plan, with well-defined attestation and decision levels. This is applied throughout the Axis Group.

Operational management

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 and marketing, product management, research and development, operations, strategy and finance. Within and between the various functions there are a number of control groups, committee and project groups, formed with the aim of creating short decision paths and ensuring that the operation is managed effectively towards the attainment of the Group's defined goals.

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 – “dare to win” and “never satisfied”. 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. During 2006, a Group-wide project aimed at updating and embedding the corporate culture was initiated.

Guidelines and policies

Responsibility and authority are defined in the delegation plan adopted by the Board, instructions for attestation, handbooks, other policies and codes. The Group's most important guidelines and policies relate to financial control, communications, business ethics and environmental matters. The basis for financial control and follow-ups consists of the Group's overall finance and accounting policies. The aim of Axis' communications policy is to ensure that external and internal information provision 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 give a reliable and accurate picture of Axis and its operations to players in the financial market. During the year,



Axis' network cameras produce high-quality video and a clear overview of the area, independently of geographical location. An excellent computer interface makes surveillance from the control room easy.

Axis revised the company's Code of Conduct. The purpose of the Code is to set out the approach, values and guidelines Axis' personnel will apply in business ethics and in 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.

Risk assessment

Risk assessment involves identifying, measuring and recording the sources of risk. The significant risks which affect the internal control of financial reporting are identified at Group and company level, as well as at regional level. The process of risk assessment also includes risks of impropriety and undue favouritism to another party at the company's expense. The risk assessment procedure results in measures to strengthen the level of control and to aid in the fulfilment of the fundamental requirements of financial reporting.

Control activities

There are both overall 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.

Axis does not have a separate internal audit function. The Board has decided that there are no special factors in the operation or other circumstances which would justify setting up such a function.

Information and communication

Important guidelines, handbooks and similar information relating to financial reporting is updated and communicated to the staff involved on a continuous basis. There are both formal and informal information channels to the company management and to the Board for important information from staff. The Board meets regularly with representatives of the various central functions in the Axis Group, partly by them attending Board meetings and partly through individual meetings. The President and CEO and the CFO keep the Board continuously informed of the Group's financial position, progress 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 reports. The Chairman of the Board also maintains continuous contact with the auditors.

Financial reporting and follow up

Financial reporting and financial control is carried on 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 quarterly in special reports. A high level of transparency in the report material and financial processes enables deficiencies in internal control to be identified and rectified.

The reporting structure is based on two principal dimensions, geographical and functional. A monthly income statement is prepared for each dimension, and these are followed up with the appropriate managers and controllers. At present, the geographical dimension consists of four regions and 19 sub-regions. The smallest components of the functional dimension are the cost centres which, in aggregate, add up to the three functions of Marketing and Sales, Research and Development and Administration. The total number of cost centres with individual income statements and separate follow up is around 130. The company's geographical spread creates ideal conditions for comparative analyses between the regions. The key ratios for the regions and sub-regions constitute a central part of the follow up and analysis procedure.

Another significant Group-wide factor in internal control is the rolling forecast process. Monthly sales forecasts are prepared, with a twelve-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. Detailed forecasts for the whole operation are produced three times a year, in April, August and November, and refer to the next twelve-month period. These are built up from each cost centre in the Group's companies, and then combined with the monthly sales forecasts, and are consolidated, analysed 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. ■