

Corporate Governance Report 2016

Axis Aktiebolag's (publ) (hereafter "Axis") Corporate Governance Report for 2016 is presented below, and has been reviewed by the company's auditor. The report describes the division of responsibilities within Axis and also how the company's three decision-making bodies – the annual general meeting, board of directors and President – operate and interact.

Introduction

Corporate governance is the system whereby the owners, directly or indirectly, govern and control the company. At Axis, governance, management and control are distributed among the shareholders, the board of directors and the President in accordance with prevailing laws, regulations and instructions.

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 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 Stockholm's rules and regulations or of best practice in the stock market.

Axis applies the Swedish Code of Corporate Governance (hereafter the "Code"). Axis does not deviate from the Code, with the exception of what is expressly stated below. Information about the Code may be found on www.bolagsstyrning.se.

Control model



Deviations from the Code

In light of the ownership structure in Axis where Canon Inc. for some time owns 86.6 percent of the shares and votes, the 2016 Annual General Meeting (AGM), like the 2015 AGM, did not appoint a nomination committee. The company thus deviates from the Code's rules with regard to a nomination committee. The duties of the nomination committee under the Code will be performed instead, where appropriate, by Axis' largest shareholder Canon Inc. or by the company's board of directors. As far as election and remuneration of auditors is concerned, the board has appointed a special group that prepares the procurement process. This group has special experience in questions relating to appointment and remuneration of auditors, which is considered to be of benefit to Axis and raises the quality level.

Share capital, voting rights and ownership

Axis had 1,726 shareholders at the end of 2016 according to the share register maintained by Euroclear Sweden AB. The company's largest owner is Canon Inc. (86.6 percent). Foreign investors' equity interest was 99.5 percent. The five largest owners had total holdings corresponding to 97.9 percent of the share capital. For additional ownership data see pages 24 and 105 in the printed annual report. The company's share capital totaled SEK 0.7 M at year-end. At December 31, 2016, the number of shares amounted to 69,461,250, all shares carry one vote and equal right to share in the company's assets and earnings.

Principal owners

	Number of shares	Share of equity and votes
Canon Inc.	60,175,282	86.6 %
BNYMSANV RE GCLB RE BARCLAYS CAPITA	3,479,569	5.0 %
JP MORGAN CHASE BANK NA, W9	2,615,418	3.8 %
CREDIT SUISSE SEC EUROPE LTD	960,079	1.4 %
BNYMSANV RE GCLB RE BNY GCM CLIENT	759,984	1.1 %
Other	1,470,918	2.1 %
Total	69,461,250	100.0 %

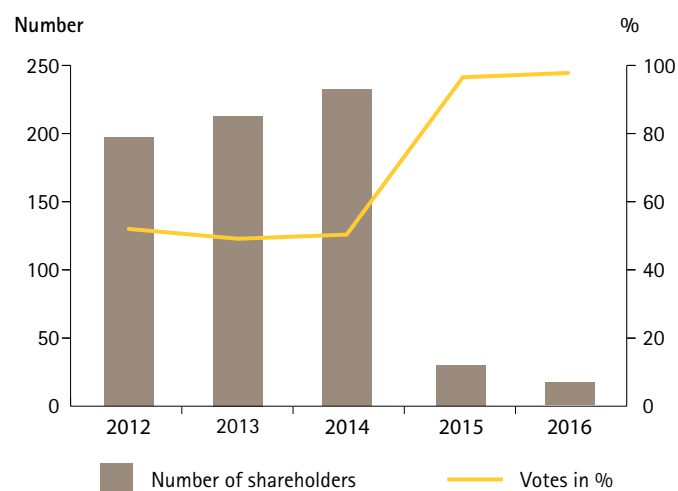
Provisions in Articles of Association

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.

Annual General Meeting

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 (AGM). The auditors submit the audit report and the audit report for the group at the AGM. The particulars of the AGM are governed by the Swedish Companies Act and by the articles of association. Axis' AGM is held annually in the Lund area during the first half of the year. When and where the meeting will be held 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 AGM, is available on the company's website from the time of the report's publication. The notice convening the AGM is published no later than four weeks prior to the AGM. At the AGM, information is provided about Axis' performance during the past year and resolutions are passed on important questions. The shareholders are given the opportunity at the AGM to ask questions about the Axis group and the results for the past year. Apart from the legal requirements concerning the right of shareholders to participate in the AGM, preregistration for the AGM is required under Axis' articles of association within the period specified in the convening notice. When applicable, notification should also be provided if the shareholder intends to take along assistants. Those shareholders who cannot personally attend may be represented by proxy.

Attendance Annual General Meetings 2012-2016



Axis does not apply any special arrangements as regards the running of the AGM, either on account of provisions in the articles of association or, as far as the company knows, shareholders' agreements.

Annual General Meeting, April 13, 2016

The AGM, which was held in Lund on April 13, 2016 resolved as follows:

The AGM resolved in accordance with the principal owner's proposals, namely to elect five ordinary board members without any deputy board members, to re-elect the board members Bert Nordberg, Biörn Riese, Håkan Kirstein, Martin Gren and Toshizo Tanaka, to re-elect Biörn Riese as Chairman of the Board, and that directors' fees shall be paid of SEK 2,000,000 in total to be allocated as follows: SEK 800,000 to the chairman of the board and SEK 400,000 to each of the other members, however, fees shall not be paid to Toshizo Tanaka.

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

Nomination Committee

The AGM resolves on the appointment of a nomination committee in applicable cases. In light of the ownership in Axis where Canon Inc. owns 86.6 percent of the shares and votes, no nomination committee was appointed at the 2016 or 2015 AGMs.

Proposals and views from shareholders concerning the composition of the board may either be submitted in writing to the address: Axis AB, attn. Adrienne Jacobsen, Emdalavägen 14, 223 69 Lund, Sweden, or by phone +46 46 272 18 00.

Board of Directors

During the period between AGMs, 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 AGM 2015 and are available in their entirety on www.axis.com. 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.

The board members Bert Nordberg, Biörn Riese, Håkan Kirstein and Martin Gren were present at the AGM on April 13, 2016. The board member Toshizo Tanaka was not present.

Re-election occurred of the board members Bert Nordberg, Biörn Riese, Håkan Kirstein, Martin Gren and Toshizo Tanaka, Biörn Riese was re-elected as Chairman of the Board. The board of directors thus consists of five members elected by the AGM.

The board members Bert Nordberg, Håkan Kirstein and Biörn Riese (since March 1, 2017) are deemed to be independent in relation to Axis, the company management and to the major shareholders. Martin Gren is employed by the subsidiary Axis Communications AB and is thus not deemed to be independent in relation to Axis and the company management but is deemed to be independent in relation to the major shareholders. Toshizo Tanaka is deemed to be independent in relation to Axis and the company management but not independent in relation to the company's largest shareholder Canon Inc.

Information regarding the remuneration to board members approved by the AGM may be found in the table below and in Note 19, Personnel. Other information about the board members may be found on page 111 of the printed annual report. Information about the shareholdings of board members may be found on page 111 of the printed annual report and on the company's website.

Composition of the Board of Directors

Name	Year elected	Independent	Total fees	Attendance		
				Remuneration Committee	Board meetings	Committee meetings
Biörn Riese (Chairman of the Board)	2015	Yes	800,000	x	12 (12)	2
Bert Nordberg	2015	Yes	400,000	x	11 (12)	2
Martin Gren	1984	No	400,000	-	10 (12)	-
Håkan Kirstein	2015	Yes	400,000	-	12 (12)	-
Toshizo Tanaka	2015	No	-	-	9 (12)	-
Haris Mustafic (employee representative for IF Metall)	2015	-	-	-	5 (12)	-
Cristian Ionescu-Ildbohrn (employee representative for SACO, deputy)	2013	-	-	-	8 (12)	-
Madhavi Kagganti (employee representative for SACO)	2015	-	-	-	12 (12)	-
Marie Nässlind (employee representative for Unionen)	2015	-	-	-	9 (12)	-
Mats Friberg (employee representative for Unionen, deputy)	2015	-	-	-	10 (12)	-

During 2016, 12 board meetings were held in total.

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. The duties of the board and the division of responsibilities between the board and the President and CEO are described in the formal work plan and in the board's instructions to 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 maintained quality and in accordance with the Swedish Companies Act.

The work of the Board during 2016

During the period since the 2016 AGM, the board has continually followed and discussed Axis' performance based on monthly reporting of the Axis group's financial situation and its operations. In addition, the board regularly received and discussed reports from the Axis group's various lines of business.

During 2016, the board also continued to focus on the strategy for the network video field, and on the constant changes in external factors and competition. The geographical and product-related growth strategy was discussed in light of the opportunities generated by collaboration with and support from the company's largest owner Canon Inc., on market-related terms. In addition, the board also discussed and decided on the acquisitions which were made during the year and also followed the progress in constructing Axis' new office building in Lund.

The board discussed compliance with the Swedish Code of Corporate Governance and continually handled other questions, which are the responsibility of the board in order to ensure good governance and control in the company. The board conducts an annual evaluation of its work through the agency of the chairman. Such an evaluation was carried out within the board without the involvement of external parties. In the evaluation carried out for 2016, each board member answered a questionnaire in order to get an idea of the board members' opinions about how the board work has been conducted, what measures can be taken to improve the board work and what issues should be given more attention, among other things.

According to the formal work plan of the board at least five ordinary meetings must be held annually in addition to the statutory meeting. Apart from this, the board may convene when circumstances so require. During 2016, the board held twelve board meetings including the statutory meeting. See table on page 106 for in the printed annual report for meeting attendance.

A presentation of the board may be found on page 111 in the printed annual report.

Committees

Remuneration Committee

Questions relating to decisions and guidelines regarding salary and other terms of employment for the company management (including President) and other employees are handled by a special remuneration committee. The committee is composed of Biörn Riese, Chairman, and Bert Nordberg. President and CEO Ray Mauritsson is a co-opted member when dealing with certain issues. Employees from Axis' HR department attend in a reporting capacity.

The board follows and evaluates the application of 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 AGM and also follows and evaluates any ongoing and completed during the year programs for variable remuneration to the company management. The board also monitors remuneration structures and rates of compensation in the company.

Audit Committee

Questions relating to internal control and audit are handled by the board in its entirety and therefore no special audit committee has been appointed. During 2016, Axis was also audited by a special auditor and a minority auditor.

The President & CEO and Group Management

Axis' group management consists of ten 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, Mauritsson held leading positions at TAC (now Schneider Electric). He has a directorship in HMS Industrial Networks but has no other significant assignments outside of Axis. Neither Ray Mauritsson nor related parties to him have any substantial shareholding or partnership in companies that Axis has significant business relations with.

For information about the President's and Group Management's shareholdings see pages 112-113 of the printed annual report and the company's website.

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 Axis' and the group's financial position and performance. The group management team held eleven formal and a number of informal meetings during the year. Two of these were extended strategy meetings where areas dealt with included; the long-term innovation- and growth agenda, core values and their development, organization and employee development and efficient processes.

Remuneration to the Board, Auditor, President and Senior Executives

Board of Directors

Directors' fees of SEK 2,000,000 are payable, according to the resolution of the AGM on April 13, 2016. The chairman receives fees of SEK 800,000 and each of the other board members receives fees of SEK 400,000, however, no fees shall be paid to Toshizo Tanaka.

Auditor

Fees to auditors and minority auditors are payable according to approved invoice, pursuant to the resolution of the AGM on April 13, 2016.

President and Senior Executives

The principles for remuneration of the President and other persons in the company management were determined by the AGM on April 13, 2016. The guidelines essentially correspond to the principles that have been applied to date. The objective of Axis AB's remuneration policy for senior executives shall be to offer compensation that helps to recruit skills and expertise and to retain it in the company.

Remuneration to the President and other members of the company management (namely, the nine persons who together with the President comprise the group management) may consist of basic salary, variable remuneration, "stay on board" remuneration and pension.

Basic salary

The basic salary should be determined on the basis that it should be competitive. The absolute level should depend on the specific position and the individual's performance.

Variable remuneration

Variable remuneration (bonus) to the President and other senior executives shall be based on the financial goals of the group and shall be calculated as a function of the sales growth and the profit margin for the year in question. The bonus to the President shall be maximized at 240 percent of the annual salary and for the other senior executives the highest individual bonus amount shall be maximized at 80 percent of the annual salary. Other benefits and other remuneration shall be received on the same basis as for other employees.

Pension

The retirement age for the President shall be 65. The pension insurance premium shall amount to 35 percent of the pensionable salary up to a maximum of 28.5 basic amounts. For a salary in excess of 28.5 basic amounts, a premium of 25 percent shall be paid. The ITP agreement shall be applied for other senior executives, with a retirement age of 65.

Termination benefits

In the event of termination of employment, a six-month mutual notice period shall apply for the President. In the event of termination of employment of the President by the company, termination benefits corresponding to up to twelve cash monthly salaries may be paid after the end of the notice period. In the event of termination by the President, no termination benefits shall be payable. A mutual period of notice of three to six months shall apply between the company and the other senior executives. In the event of termination by the company, termination benefits corresponding to twelve cash monthly salaries can be paid. In the event of termination by any of the senior executives, no termination benefits shall be payable.

Persons who are resident outside of Sweden may be offered notice periods and termination benefits that are competitive in the country where the persons are or have been resident or to which they have a substantial connection, preferably solutions equivalent to what applies for managerial employees resident in Sweden.

Deviations from the principles described above may be approved by the board of directors, if there are specific reasons in individual cases. Prior to the Annual General Meeting 2015, a deviation was made from the principles adopted by the Annual General Meeting 2014, whereby a "stay on board" bonus was introduced for the then members of the management team. This was deemed particularly necessary due to the then outstanding public offer for the company made by Canon, whereby specific reasons existed. This "stay on board" bonus complies with the remuneration principles subsequently adopted by the Annual General Meeting. An additional "stay on board" bonus was later introduced for the members of the management team, pursuant to which payment will occur in two parts, on June 30, 2016 and on June 30, 2017, provided that the provisions on continued employment are fulfilled. The part that became due on June 30, 2016 has been paid.

The company does not operate any outstanding share-related or share-price related incentive programs.

The company's system for variable remuneration to senior executives

The President and CEO and the company management are covered by the same bonus program as other employees. The program is based on financial targets for the group and is based on sales growth and profit margin. For the 2016 fiscal year, the bonus amounts were maximized at 240 percent of an annual salary for the President and CEO and the highest individual amount for the other senior executives was 80 percent of an annual salary. Resolutions regarding bonus programs are approved by board for one year at a time.

Audit

Axis' auditors are elected by the AGM. At the AGM on June 15, 2015, the provision in the company's articles of association about the auditor's term was changed and the option to elect a deputy auditor was removed. The articles of association prescribe that the election of auditor should now occur for one year.

At the AGM 2016, Ernst & Young Aktiebolag were elected as auditors with Johan Thuresson as auditor in charge for the period until the end of the next AGM. Thuresson was born in 1964 and has been an Authorized Public Accountant since 1995. At the same AGM, shareholders representing approximately 10.2 percent of the shares in the company, proposed that a minority auditor should be appointed by the Swedish Companies Registration Office, to participate in the audit together with the company's auditor for the period until the next AGM. The proposal was supported by owners representing approximately 10.2 percent of the shares in the company. Shareholders have subsequently made an application to the Swedish Companies Registration Office that a minority auditor should be appointed and the Swedish Companies Registration Office has subsequently appointed a minority auditor, Grant Thornton Sweden AB with Stefan Hultstrand as auditor in charge. Hultstrand was born in 1955 and has been an Authorized Public Accountant since 1995.

Read more about Axis' corporate governance

Read more about Axis' corporate governance on our website under About Axis/Investor relations/Corporate Governance where the following information may be found:

- > Corporate Governance Reports
- > Articles of Association
- > Information from previous AGMs (convening notices, minutes, resolutions)
- > Information about the nomination committee
- > Information about principles for remuneration to senior executives
- > The board's evaluation of guidelines for remuneration of variable remuneration programs
- > Report on variable remuneration schemes

Read more about how sustainability issues are a natural part of Axis' operations

Axis' sustainability report for 2016 may be found on pages 26–66 in this annual report. On Axis's website, under About Axis/Sustainability, you can read more about the company's sustainability work.

The company's report on internal control over financial reporting 2016

Introduction

The present report has been prepared in accordance with the Swedish Companies Act and the Swedish Code of Corporate Governance and is limited to internal control over financial reporting. Axis' process for internal control over 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.

Control environment

The board of directors has overall responsibility for establishing and maintaining an effective system for risk assessment and internal control. 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 in the group.

The basis of the control environment consists of a firmly-established corporate culture and a number of company-wide policies as well as the work of the internal control function.

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 core values – "Act as one", "Think big" and "Always open". The corporate culture is founded on confidence, trust and personal responsibility.

B. Various 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 policies relate to financial control, communications issues and business ethics. The basis for financial control and follow up consists of an overall group finance and accounting policy. The aim of Axis' communications policy is to ensure that external and internal information disclosure 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 operates 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 rights and freedoms. As part of the business ethics work, an anti-corruption policy has also been adopted and an internal channel has been established for questions about ethical business decisions or reporting of violations of the anti-corruption policy or other business ethics questions. This is handled by representatives from the management team and the group functions Legal and HR.

C. Internal control function

Axis' internal control function works on developing, improving and securing the internal control function in the group. This involves proactive efforts focused on the control environment as well as examining how the internal control works in practice. This work was intensified further during 2016.

Risk assessment

The Board carries out an overall risk inventory on a regular basis. This involves identifying, measuring and describing material risks related to the entire group. The internal control function uses the board's risk inventory and input from the controller functions in order to assess risks in the financial reporting and to compare them with established controls. Errors can arise in connection with bookkeeping or in valuation of assets, liabilities, revenue and expenses. The risk assessment also includes risks of e.g. fraud and favoritism to another party at the company's expense.

Control activities

The risks identified are handled by developing the control environment's various policies, but also by documenting and following up the most important business processes. There are both general and more detailed control activities, aimed at ensuring efficiency in the group's processes as well as preventing, discovering and correcting faults and deviations in the financial reporting. The activities include manual controls, controls embedded in IT systems and controls in the underlying IT environment, known as general IT controls. Appropriate control activities have also been designed for operations that are conducted by third parties on behalf of the company.

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.

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 in 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. There are guidelines for external communication that ensure that the company meets demands for correct information.

Monitoring

Observance of internal policies, manuals and codes and of the appropriateness and functionality of the established control activities is continually validated, through the financial reporting and control, as well as through documented audits carried out by the internal control function.

The annual risk assessment provides the basis for planning of follow-up activities. There is a special process for ensuring that reported deficiencies are remedied.

During 2016, the internal control function made five visits to subsidiaries and to regional offices. The focus has been on management testing, i.e. ensuring that critical controls for the financial reporting are performed in accordance with existing documentation. This work will continue during 2017. Companies that were not visited during the year participated in self-assessments.

The internal control function continually reports the result of the performed internal control activities to the CFO and annually to the board. The board of directors also approves the planning for the coming year based on the performed risk inventory and risk analysis.

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.

The controller organisation is evaluated on an ongoing basis by the Group Finance function and CFO with the aim of ensuring quality and efficiency. 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 at present there are no special operational circumstances or other factors which would justify setting up such a function.

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

To the general meeting of the shareholders of Axis AB (publ), corporate identity number 556241-1065.

Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the year 2016 on pages 104-110 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Lund, March 29, 2017
Ernst & Young Aktiebolag

Grant Thornton Sweden AB

Johan Thuresson
Authorized Public Accountant

Stefan Hultstrand
Authorized Public Accountant
Minority Auditor