

# 2016

Annual & sustainability report



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# The year in brief

## Q1

- > Sales amounted to SEK 1,567 M, corresponding to growth of 16 percent.
- > Operating profit totaled SEK 153 M, corresponding to an operating margin of 9.8 percent
- > Profit after tax amounted to SEK 114 M.
- > Acquisition of the French company Citilog, which is specialized in intelligent transport solutions.
- > Launch of the Axis SITE Designer Tool application, offering an effective method for design of total surveillance solutions for small and medium-sized installations.
- > Release of AXIS Camera Station 5 – a professional video management system with a free mobile viewing app for iOS and Android.

## Q2

- > Sales amounted to SEK 1,763 M, corresponding to growth of 9 percent.
- > Operating profit totaled SEK 167 M, corresponding to an operating margin of 9.5 percent
- > Profit after tax amounted to SEK 123 M.
- > Acquisition of 2N, which is ranked as a leading company in IP intercom, and Cognimatics, whose products are successful in the retail segment.
- > Release of advancement of the proprietary Zipstream technology and Axis Companion Line, which targets smaller businesses.
- > Agreement signed with the Norwegian building company HENT for construction of Axis' new headquarters in Lund, which is planned to be ready by spring 2019.

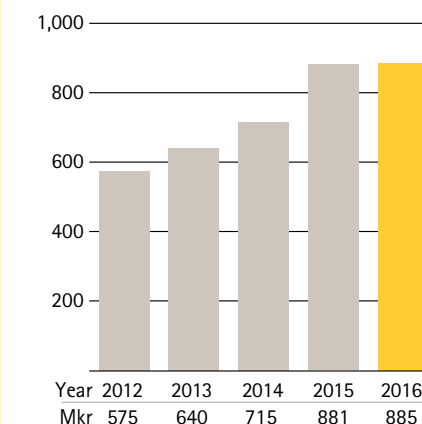
## Q3

- > Sales amounted to SEK 1,997 M, corresponding to growth of 5 percent.
- > Operating profit totaled SEK 312 M, corresponding to an operating margin of 15.6 percent.
- > Profit after tax amounted to SEK 233 M.
- > Agreement that Axis will take over sales, marketing and service in North America and EMEA for Canon's combined portfolio of network video products.
- > Release of two models of network speakers – AXIS C1004-E Network Cabinet Speaker and AXIS C2005 Network Ceiling Speaker, primarily targeted towards retail.
- > Unveiling of laser focus technology for PTZ cameras (Pan-Tilt-Zoom), improving image quality regardless of lighting conditions through laser technology.

## Q4

- > Sales amounted to SEK 2,059 M, corresponding to growth of 17 percent.
- > Operating profit totaled SEK 253 M, corresponding to an operating margin of 12.3 percent.
- > Profit after tax amounted to SEK 169 M.
- > Release of updates to two of Axis' most important network camera series – AXIS Q35 and AXIS P32.
- > New employee survey showed continued high ratings for Axis as a workplace.

## Operating profit/EBIT



## Key ratios

| Group, SEK<br>(unless otherwise stated)            | 2016  | 2015  |
|--|-------|-------|
| Net sales  | 7,386 | 6,635 |
| Operating profit                                   | 885   | 881   |
| Profit before tax                                  | 884   | 881   |
| Profit after tax                                   | 639   | 652   |
| Earnings per share, SEK                            | 9.20  | 9.39  |
| Cash and cash equivalents at the end of the period | 858   | 1,016 |
| Dividend paid, SEK                                 | 0.64  | 0.31  |

## Sales per region, SEK M

| Region   | 2016  | 2015  |
|----------|-------|-------|
| Americas | 3,856 | 3,490 |
| EMEA     | 2,646 | 2,366 |
| Asia     | 884   | 779   |

# 507

new employees

# 2,646

new employees in total

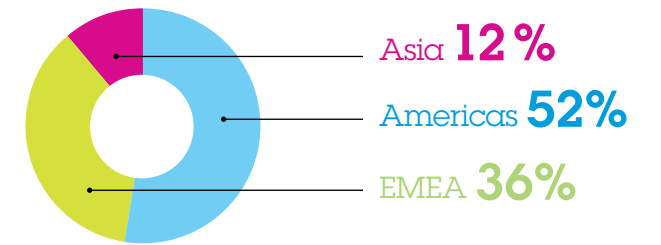


# Axis at a glance

Axis offers intelligent security solutions that enable a smarter and safer world. As the market leader in network video, Axis is driving the development in the industry by continually introducing innovative network products based on open platforms, which deliver value to customers and are distributed through a global partner network.

**#1** Market leader in network video and video encoders in Americas and EMEA

Invoiced sales per region 2016

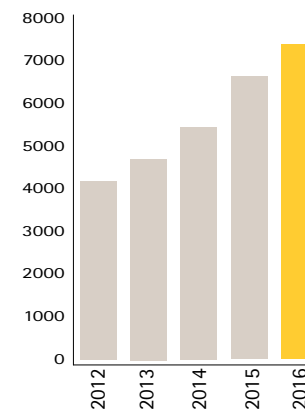


over **50** countries with Axis employees



**2,646** employees in the Axis group

Sales 2016



**7,386** SEK Million

**179** countries in Axis partner network



**+11%** Sales growth 2016



More than **90,000** partners

Follow Axis on: [www.axis.com](http://www.axis.com)



# A year dominated by development and growth

The network video market has become tougher in recent years. It has matured, price competition has increased and customer expectations have changed. Against this backdrop, I can happily and proudly state that in 2006, we delivered in a way that meets the changing market and further strengthens Axis' position.



Ray Mauritsson  
President and CEO

We have continued to pursue our strategy that was formulated in connection with broadening our vision. Our current strategy is about meeting customers' security needs through overall solutions in a world where devices are increasingly connected. We should have a broad range of relevant products and together with our partners supply product packages and services relating to security solutions that contain more than just network video. After almost 20 years' working with the Internet of Things, Axis is not just prepared to take a leading role in developments, we can also look forward to a market that is many times bigger than the one we have been active on to date.

Our path towards a solution-oriented business model means that Axis has to take greater and broader service responsibility in relation to partners and end customers. Meanwhile, it is critical for us to remain at the cutting edge with high-tech, innovative and competitive products. This combination is crucial for our strategy.

#### Several new releases during the year

On the product side, during the year we delivered e.g. improved "Zipstream" technology, enabling greater data transfer without increased bandwidth and storage requirements. We also introduced a laser focus function that enhances our cameras in poor lighting conditions and developed network-connected speakers that extend our offering, particularly in the key retail segment.

Sales to our three customer groups – small, medium-sized and large systems, all developed positively. For smaller installations, we released an end-to-end solution during the year under the

name Axis Companion Line. The reception was very positive and the project is an example of what we can achieve when different departments and competencies at Axis work creatively together. For medium-sized customers, we released Site Designer software, which helps partners and customers to design a security solution based on each customer's individual requirements. As regards large customers, we are continuing our close collaboration with partners in order to meet customer needs. We are working hard to combine more products and software to create good overall solutions.

#### Acquisitions are contributing positively to developments

Axis' growth strategy is primarily to grow organically, but during the year we made our first major strategic acquisitions and welcomed three new companies to the Axis family. The acquisitions show that we are serious in our ambition of broadening our overall offering.

Early in the year, we made the acquisition of the French company Citilog, which has specialist expertise in intelligent video monitoring of traffic and transport. The acquisition does not just strengthen our offering in the transportation segment, it also gives us opportunities to provide overall solutions in the growing traffic analytics market.

During the second quarter, we acquired the Czech company 2N and the Swedish company Cognimatics. 2N is a leader in IP intercom, in other words, IP door stations and the company also works with IP audio and communication solutions for elevators. Cognimatics develops software for the retail segment, with applications e.g. for

counting customers and queue measurement and analysis, which add value to our network video cameras solutions.

We are continuing to look for acquisitions to broaden our overall offering and that make us relevant for customers in a rapidly changing world.

Our principal owner Canon also provides us with opportunities to broaden our offering, through Axis taking over sales of Canon's network video products in EMEA and North America, and also through innovative collaboration. One example is our network camera featuring Canon optics and 20MP resolution. It may be used for surveillance of, for instance, stadiums, where the camera can zoom in on objects from a very long distance.

#### Continued sustainability focus

Sustainability is an important and integrated part of Axis' operations and has great importance for our successful development. We want to act as a model in sustainability questions, and as market leader, we have good opportunities to influence our external environment. We take long-term economic, social and environmental responsibility for how our operations impact our stakeholders and we act in an ethical, responsible and transparent way in our business relationships.

Our sustainability work and our sustainability strategy are based on the UN Global Compact's ten principles in the areas of environment, labor, human rights and anti-corruption. We signed the UN Global Compact in 2007 and since then its principles have provided guidance for how we conduct our sustainability work.

Some of the measures carried out during the year to reduce environment impacts include phasing out PVC from new camera models, drawing up a new environmental policy and stricter requirements on suppliers to even more clearly show traceability of minerals, to ensure they only use conflict-free minerals.

In the social area, our qualified employees and our strong corporate culture have been very important for Axis' successful growth. We aim to advance our positions when it comes to promoting equality and diversity and we participate in initiatives to boost interest in technology among girls, and in Commitment Skåne to help integrate new arrivals into the labor market.

"We are working hard to combine more products and software to create good overall solutions."



Customers and partners are increasingly requesting more environmentally friendly products, and they are imposing demands that we act sustainably in all respects. Axis is well-positioned to meet these demands.

Our challenges include maintaining our strong corporate culture while we expand, and continuing to advance the business ethics work in the entire value chain.

We are continuing to further integrate sustainability considerations into our business and in our day-to-day work, in order to reach our goal of reducing the products' environmental impact, to have an attractive and safe workplace defined by equality and diversity and to have an ethical approach in our business relationships. In this way, we are creating sustainable solutions for a smarter and safer world.

#### Stable foundation for continued growth

Our markets, EMEA, Americas and Asia, showed a stable performance during the year but with some variations. Asia is extra challenging due to intense local competition and strong price pressure. In the mature markets in Europe and the US, we are placing a special focus on products

for smaller installations. In growth countries, the market is still primarily concentrated on large installations.

We can look back on a 2016, that once again delivered record earnings. The Swedish krona weakened slightly during the year but in local currencies we can confirm a higher growth rate than the previous year.

In 2017, we are well-equipped to meet increasing customer demands, to develop existing and new products into even more sophisticated and smart parts of our overall solution. With the competencies, innovation and dedication that exists at Axis and among our partners, I have high expectations of our strategy.

I am delighted to see how the Axis family is growing. At year-end, we had 500 more people than at the start of the year and the number of employees on December 31, 2016 was 2,646.

In conclusion, I would like to thank all Axis' customers and partners for the past year, and express an extra warm thank you to all the employees who pass on our culture in a growing organization.

# Axis' operations and financial goals

## Vision

Innovating for a smarter, safer world.

## Mission

Together, we pioneer intelligent network technology creating unique possibilities for partners, end users and employees.

## Business concept

Axis enables a smarter and safer world by developing intelligent network solutions. Axis' business concept is to drive developments in the industry by acting as a pioneer and market leader in network video. Through continual innovation, Axis can offer customers all the benefits of complete intelligent network video solutions via a global partner network.

## Financial goals

Axis's financial goals aim to create a good basis for safeguarding shareholders' interests for a long-term increase in value. The financial goals for growth and profitability enable continual investments in line with the company's strategies. Axis' market-leading position creates a good basis for achieving growth, profitability and financial stability.

### Profit margin of at least 10 percent.

Over a business cycle, Axis shall display a profit margin of at least 10 percent. The goal is formulated on the basis of the market trend in the longer term. The profit margin was 12.0 percent in 2016.

### Total average annual growth of at least 20 percent.

Axis operates in a growing market and the goal is to grow faster, or in line with the market in the long term. Growth is generated by underlying demand for network security solutions and Axis is driving the shift from analog to digital video surveillance. Growth was 11 percent in 2016.

# Successful strategy

Axis is driving the global development of network security solutions. The company's offering is based on a global market presence, long-term collaboration and continual development of innovative products and solutions. Together with a broad network of partners, leading products are combined with in-depth market knowledge. This makes it possible for end users all over the world to take more well-informed decisions and create the most effective solution.

## Achieved in 2016

- **More than 2,000** new partners all over the world
- **More than 60** new products were released in the market
- **More than 1,500** new Axis Certified Professionals

### Global market presence

Axis is driving the global development of network security solutions. The company's offering is based on a global market presence, long-term collaboration and continual development of innovative products and solutions. Together with a broad network of partners, leading products are combined with in-depth market knowledge. This makes it possible for end users all over the world to take more well-informed decisions and create the most effective solution.

#### Achieved in 2016:

- > Several new expansions and upgrades of Axis' offices
- > The global organization outside Sweden increased with about 340 people
- > Continuing leading position in several network video markets, while the offering has been broadened with further products and solutions
- > Three acquisitions

### Stronger partner network

Long-term and loyal partnerships enable mutual exchange of competencies, a strong market presence and common development of the market. As Axis' offering expands, collaboration is strengthened with existing players while new strategic partners are added. Through open and close dialogue, new customer segments, trends and business opportunities are identified rapidly.

#### Achieved in 2016:

- > More than 2,000 new partners
- > More than 8,000 participants in training
- > Continued expansion of the overall offering

### Smart, innovative products and solutions

Axis' ambition is to drive the rapid global development of network security solutions. The offering is continually broadened with new products and accessories. As the market grows and matures, investments are continually being made to strengthen the overall offering and assume greater responsibility in installations.

#### Achieved in 2016:

- > More than 60 new products
- > Broadened overall offering
- > Focused investments in small and medium-sized installations

# A changing market

Global mega trends such as the Internet of Things, cloud services and big data entered the market in earnest during 2016. Customers are increasingly requesting integrated solutions for their security systems where network video is one component. Axis is well-equipped to meet this demand, both with proprietary solutions and through collaboration with partners. Mature markets such as the US and Europe continued to drive sales growth while countries that faced macroeconomic turbulence or were affected by the oil price displayed a weaker performance.

The expanded and solution-oriented product range has delivered continued strong sales growth among large customers with major installations. Axis is well-positioned to meet future needs in global companies that are requesting company-wide, integrated and cost-efficient solutions. Meanwhile, medium-sized and smaller end users are increasingly important for Axis' products and solutions in network video.

#### Local presence

The local market presence is still very important through all of Axis' partners. A number of new Experience Centers were established during the year, where Axis' products are displayed in a solution-oriented environment. These centers aim to serve as a meeting place for both partners and end customers, where we can discuss needs and solutions. Six Experience Centers were established in the US, where the last one was completed in early 2017. In total, there are now 15 centers worldwide.

Some other important market trends are sustainability and internet security. Customers are increasingly requesting sustainable solutions from an environmental, ethical and social perspective. One example is Axis' products, which are totally free from PVC plastic. Axis also attaches great importance to ensuring that customer solutions are protected against hacking i.e. cyber security.

#### Continued expansion of the sales organization

During the year, the global organization outside Sweden increased with about 340 people. Sales growth has been mainly driven by countries with stable economies such as the US, France, Germany, UK and Australia, but also the Southeast Asia region. Countries that have faced macroeconomic turbulence and that were affected by the falling oil price early in 2016 performed weaker. This includes countries such as Brazil, Saudi Arabia and Canada. However, relatively small fluctuations in exchange rates in relation to the Swedish krona, had a stabilizing effect.

During the year, Axis took over responsibility for marketing and sales of Canon's network video portfolio, which further broadens Axis' market offering.

In five years, the video surveillance market is expected to grow by 6 percent annually, while the network video market is expected to grow by 12 percent per year over the same period. By 2020, network video is expected to account for about 95 percent of surveillance camera sales, compared to 80 percent in 2015.\*

\* IHS Video Surveillance Intelligence Service - 2016



## Large installations

This is Axis' largest market segment and consists for example of hospitals, airports, cities and universities. The segment is characterized by complex solutions that aim to create reliable installations and flexible integration with other security systems.

## Medium-sized installations

Medium-sized installations are a fragmented segment with many different types of end customers. Schools, stores and offices with about 10-100 cameras are typical here. Axis has a broad range of solutions to meet all the various needs in the segment – all from advanced surveillance solutions to standardized smaller solutions.

## Small installations

In this segment, for example stores and offices with up to about 10 cameras, the penetration rate for network video is still low. Therefore in the coming years, the growth rate in this segment is expected to increase faster than the overall market, and Axis is continuing to deliver cost-efficient solutions.

## Case Axis' market segments



Nobina provides contracted bus services for more than 20 of Sweden's transportation companies. Older analog cameras were installed on the buses. Nobina required a high-quality turnkey security video solution, which was reliable and secure and that increased safety and security for both passengers and staff, and they chose a network camera system from Axis Communications. More than 7,000 cameras were installed on 2,000 buses in total in Denmark, Finland, Norway and Sweden. Apart from increased safety and security for both passengers and drivers, the new surveillance system also makes it easy for police to immediately and remotely access high-quality image material to help solve crimes.



When Rixin Elementary School in Taipei, Taiwan, decided to install a new network video surveillance system, they wished to leverage their existing, well-developed IT infrastructure. The aim was to improve campus security and allow security guards and staff to monitor real-time videos. Axis outdoor-ready cameras with IR LED were installed along with AXIS Camera Station video management software. Compared to the traditional analog system, the Axis solution provides superior image quality, even at night or in bad weather. Meanwhile, the system became more efficient and flexible for the school to administer.



When the Department of Theology and Religious Studies at John Carroll University in Ohio, USA was going to host a traveling museum exhibition, they requested network video cameras to help staff monitor the venue during and after visiting hours. The University installed four HDTV-resolution network cameras from Axis. The cameras were connected to the university's existing network and live video was streamed 24/7 to authorized university staff so they could remotely monitor exhibit activity. In the six weeks that the university hosted the exhibition, not a single incident was reported.

# Business model for global success

The IP landscape is converging. This means that more and more components are becoming network-based and interconnected. This implies an increased need for integration of customer components in a connected information system. This changes Axis' market role in a crucial way. Growing sales areas, besides network cameras, are therefore IP lock systems, speakers and software. In this way, Axis is offering integrated overall solutions in one ecosystem.

The need for overall solutions is increasing in all customer segments. This may concern a store that wants video surveillance, counting the number of visitors, a speaker system for background music and customer announcements integrated in the same solution. It may involve critical infrastructure, e.g. a power station, which needs a large-scale surveillance and access control system. Axis can harmonize customers' existing security systems, replacing analog devices with IP-based ones and integrating them in an overall IP-based solution. One example is the Site Designer software, which helps the integrator to customize a system for the customer.

In this solution-oriented business model, Axis is mainly focusing on four industrial segments:

### Retail

Stores have a need for security, customer information and to create a pleasant store environment. Axis offers an overall IP-based solution for this. Customers may be global retail chains or small individual traders. Today stores' speaker systems are largely analog and will be replaced gradually.

### Traffic systems

The smart city is a growing concept, meaning solutions for control and management of traffic. Efficient traffic monitoring can contribute to the environment, e.g. by preventing queues of cars.

### Transport

Public transport and freight traffic have a growing need for smart systems for monitoring and traffic planning. In this area, Axis is an established supplier in a market that is expected to grow further.

### Critical infrastructure

Axis' Perimeter Defender system is an example, where a power station, an airport or other critical area is protected through broad suite of Axis' products in an overall solution.

Axis' scalable sales model with distributors, resellers and integrators remains crucial for creating a local presence in all markets. A global partner network with a good knowledge of local trends is still a cornerstone in Axis' strategy.

Sales of Axis' products and solutions reach end customers via distributors that in turn sell on to resellers and security system integrators. Long-term collaboration and continual exchange of knowledge create the foundation for this loyal partnership. The overall knowledge in all stages is what creates Axis' powerful offering. Collaboration with partners has been crucial in the shift from analog to network security solutions in large installations.

It is Axis' distributors that store products and create logistics chains. Distributors can be local and global. They ensure market reach and access for Axis' products and have expertise in the contact with resellers. With their local presence, distributors also have a good insight into market trends and demand in the specific market. Forecasts of inventory levels, provides Axis with good market intelligence of demand for individual projects. Axis evaluates its distributor network on an ongoing basis to ensure that it is optimized for a growing market.

### Partner model increasingly important

Axis' global network consists of more than 90,000 partners. It is mainly these players that meet end users and have an important role in creating the most relevant security solutions for each individual customer through installation, system integration and service. IP convergence in new areas is also creating more business opportunities for Axis' partners.

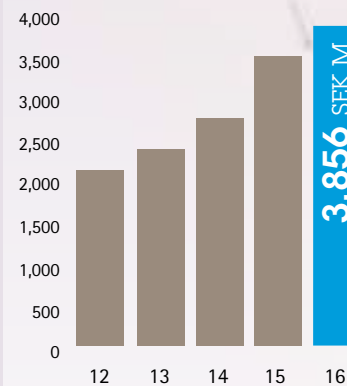
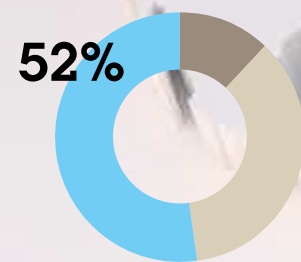
The importance of collaboration with our partners is further emphasized in the new solution-oriented market. The business model of selling "security as a service", in other words as a service rather than through a number of products, means new challenges in our collaboration with partners. This new trend also means that Axis' own experts will gain a much bigger role in direct contacts with end customers.





# Axis worldwide

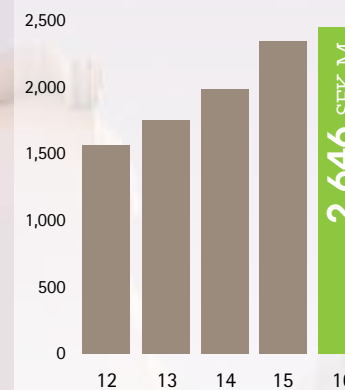
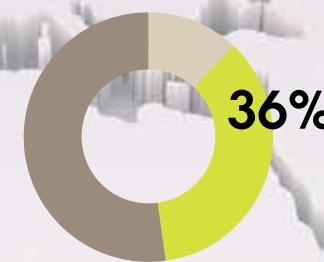
## Americas



In North and Central America, Axis has a market-leading position and the countries in these regions also represent Axis' largest market. The countries in South America are still considered to have huge potential, since urbanization and IT development are crucial factors for increased demand for network security solutions.

Growth 2016:  
**+10%**

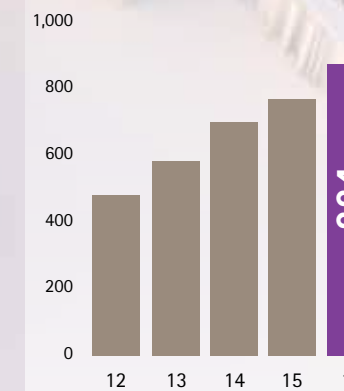
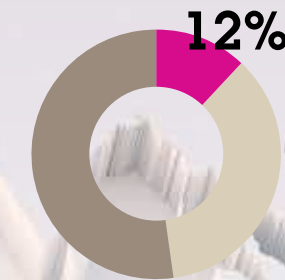
## EMEA



Axis still has a market-leading position in EMEA. Europe is a fragmented market, and demand differs among the countries. In the Middle East, demand in 2016 was reduced somewhat by financial turbulence and investment restraints.

Growth 2016:  
**+12%**

## Asia



China is now the world's largest market for network video and has great potential along with the rest of Asia. It was the region that showed the largest percentage growth for Axis in 2016. There is increased interest for city surveillance in many parts of the region. Axis is continuing to invest in the region, to a large extent by increasing its local presence.

Growth 2016:  
**+14%**

# Innovation and development

Axis' product development is based on in-depth knowledge of customer needs. Axis creates innovative product leadership where simplicity is the guiding principle for both installation engineers and end customers. This occurs not just by meeting customer requirements for security solutions today, but also seeing what needs will arise tomorrow.

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Rapid technological development in the entire IT industry is helping to boost the release rate in terms of new functionality and enhanced performance. The Internet of Things is no longer a trendy issue, but is part of every company's day-to-day working environment. Since Axis

should be the most innovative supplier of network security solutions, this imposes strict demands on the company's R&D operations. A critical success factor is that Axis maintains and improves simplicity and user friendliness during installation and handling, while the products are becoming increasingly sophisticated and technologically advanced.

The product release rate accelerated during the year. Some 60 new products were released in the market where innovations included entirely new applications and even better performance in existing solutions. Network cameras remain the dominant product category, but software

and solutions are gradually representing a larger part of the product portfolio. In this way, the intelligent content in Axis' cameras and products is increasing and contributing to an overall solution for the customer's security needs.

A prioritized product category during the year was M-line, which offers good value solutions for smaller customers. The Companion Line product package has introduced simplicity and practicality as a guiding principle in smaller installations.

Other examples are the next generation of Zipstream, which significantly reduces the quantity of data generated by cameras without

affecting information content, as well as laser focus that provides Axis' cameras with further enhanced image quality in poor lighting conditions. Existing product series have received substantial upgrades in the Mark II and Mark III programs.

Almost 1,000 people, including consultants, worked at the company-wide research and development department in Lund at year-end. In addition, about 20 people work in this area in Shanghai.

## Technology

Axis' innovation is based on continually improving performance and finding new applications through technological advances. The prioritized technology areas are appropriate image quality, data storage, analytics applications and cyber security.

## Network cameras and Encoders

Axis identifies trends and customer needs in close collaboration with partners and local sales organizations. A large number of new products reached the market during the year where increasingly sophisticated image sensors and chips are providing added value to customers in all price segments. A focus on sustainability also means more PVC-free network cameras.

## Software and solutions

The need for overall solutions is growing in all customer segments. Companion Line is the product that offers the small customer, e.g. a retail store, a good value and scalable solution with one to eight cameras, network switch and video recorder. In medium-sized installations, we released the S20 video recorder, which in practice is a computer and along with our different cameras creates a simple overall "out of the box" solution for network video. The Site Designer software is a valuable tool for optimizing and planning larger installations.

## New Business

Here Axis is focusing on broadening our product range beyond network video. Examples of this are network connected-speakers, IP door stations and analytics software. New Business is part of Axis' strategy of taking a more holistic approach to the customer's security needs.

## AXIS Companion



# New Business meets more customer needs

Axis New Business is the business area that underwent the greatest change in 2016. This is completely in line with our strategy of broadening our customer offering. The strongly expanding organization includes both newly acquired units and our innovative product development of new security solutions.

Axis New Business in Lund is the center for product development of new solutions and employs some 150 people. Here is research & development, product management, the product team for Axis' cloud solutions known as AVHS, a project office and a group specialized in identifying, managing and integrating strategic acquisitions.

During the year, Axis made three acquisitions, Czech company 2N with about 220 employees in Prague, French company Citilog with about 30 employees in Paris, and Sweden-based Cognimatics. 2N and Citilog are continuing to operate as independent companies but are wholly-owned by Axis and classified under New Business. Cognimatics has been absorbed into the video organization in Lund.

New Business has thus grown from about 100 people early in the year to 400 at year-end.

Acquisitions are a new strategic pillar for Axis, even though organic growth is still the main focus. However, acquisitions will continue to supplement Axis' overall offering by adding new products, knowledge and customers in more fields of application.

Axis' core business, network video, is now surrounded by other IP-based applications. A common feature of these is that they are compatible with mega trends such as cloud technology, the Internet of Things and big data.

Physical access control systems, PACS, are assuming a greater role where easy installation, scalability and network connectivity are creating connected systems for control of entry and exit. Axis' software ensures that people with the right authority gain access to the right place.

NDS, Network Door Stations, involve network-connected entry phones. In this field, Axis' acquisition of 2N has generated a rapid entry into this market, together with Axis' existing offering. Applications can include factory areas, warehouse or retail properties where the solutions are "many-to-one", which means a number of access points are connected to a monitoring point. 2N also offers "one-to-many", which is applied in residential properties, for example.

IP Audio has a great many applications, both in surveillance and in relation to comfort. Axis' horn speakers are designed for announcements and warning messages, while the market for the company's growing range of indoor speakers includes background music and customer

messages for the retail segment. These are all IP-connected. The number of speakers in a system thus offers unlimited scalability and can be controlled remotely. They also have built-in amplifier, which enables both remote system testing and setting of sound quality. The installation is easy and requires a much smaller number of components than today's analog speaker systems.

AVHS contains Axis' technology for cloud-based connection of the company's products, from video and thermal cameras to access control systems, door stations and speakers. This provides the opportunity to offer the customer an efficient overall solution. This also means that Axis can sell solutions as a service rather than as a number of individual products.

The acquisitions of Citilog and Cognimatics have also provided valuable analytics tools that supplement Axis' network cameras. Citilog is specialized in traffic analytics, where applications can include automatic detection of accidents or queue formation connected to programming of traffic lights, while Cognimatics has software for analysis of store flows and people counting. Both retail and traffic are prioritized customer segments.

While Axis' products are becoming more technologically advanced, it is crucial that they are designed in a way that makes them easy to install and handle for both partners and end customers, and that they are designed with open IP protocols enabling third party development. This imposes strict requirements on Axis' product development in order for the company to continue to be the leading and most innovative supplier of security solutions.

## Customer segments for New Business:

- > Retail
- > Transport
- > Urban security, traffic
- > Banks & finance
- > Critical infrastructure
- > Property management
- > Public sector, schools, healthcare
- > Industries
- > Casinos
- > Hotel & restaurants
- > Arenas & theaters



# A strong, flexible and sustainable chain

Axis' supply chain (Operations) includes the flow from order, sourcing, production, assembly, quality control, logistics and final distribution of the product to the customer.

As a growth company, Axis has a supply chain that is so strong, flexible and sustainable that it can deliver products in an effective way while demand is rapidly increasing. Axis shall guarantee quality in deliveries and reliability in the information customers receive about them.

The supply chain always has customer needs in focus. It should be cost-efficient – it may not cost too much to produce products for customers. It should also be capital-efficient, there should not be too many products in the inventory, and environmentally efficient, the chain should have as small a carbon footprint as possible.

#### Manufacturing takes place at partners

Axis' manufacturing takes place at several specialized partners. Axis works according to a well thought-out strategy for its partners. Some are called "10-35", which means that Axis will account for between 10 and 35 percent of the partner's capacity at a given facility. Axis shall be one important customer of the partner, but not a dominant one.

The partner-oriented strategy is based on a long-term approach and clarity. Suppliers should be exposed to competition. At the same time Axis wants to get to know their processes, integrate with them in order to develop an efficient flow and create transparency and proximity in both directions.

Axis' development work of new products is based on market inputs and insights about the strengths of proprietary products. The innovation process is driven by a continual interplay between internal stakeholders in order to maintain high transparency, quality and speed in the development work. The entire process is pervaded by making the right products in the right way.

#### Customer segmentation in the value chain

The customer segmentation, which Axis has worked with in recent years, is also used by Operations. The segmentation in relation to enterprise customers, large customers, for example means enhanced service for this group. If the quality of the product does not correspond to expectations, Axis' support organization steps in and solves the problem. It is important to correct the error as quickly as possible and capture the opportunity for a dialogue with the customer.

Another example is that the supply chain for small customers was overhauled and more of the configuration occurs in factories. This lowers the total costs, but reduces flexibility in the chain. The promised delivery time is then four weeks instead of two, which improves Axis' freedom of action.

In 2016, Axis carried out benchmarking with its principal owner Canon on some component sourcing. Canon has much higher purchasing volumes than Axis, which can allow Axis to reduce its costs for certain sourcing activities.

#### Environmental efficiency = cost efficiency

Environmental efficiency and cost efficiency often go hand in hand. For example transportation of goods. Distributing products by sea has advantages from an environmental standpoint and is at the same time cost efficient. Axis' supply chain for products targeted towards smaller customers almost exclusively uses sea and road freight, which improves environmental efficiency.

## Axis won!

### Supply Chain Professional of the Year 2016

Axis' Vice President, Operations Per Ädelroth was named Supply Chain Professional of the Year 2016 for Swedish companies with more than SEK 5 billion in sales. The competition was arranged by the training company Silf and the consulting firm Accenture. Great importance was attached to how companies are working to improve their processes. Axis has several parallel cross-functional improvement projects and there is an internal culture to work collectively, proactively and with employees that have training and the capabilities to drive improvements across various departments.

Axis won with the motivation:

"The supply Chain Professional of the Year 2016, has with a clear focus on the overall picture, differentiation and sustainability, implemented changes that clearly demonstrated how the modern value chain can contribute to both increased efficiency and growth.

The changes have been advanced in a convincing way through a combination of power of initiative, new thinking and perseverance. The work is contributing to the company's long-term competitiveness through reduced costs, improved delivery capacity, customer satisfaction and sales."

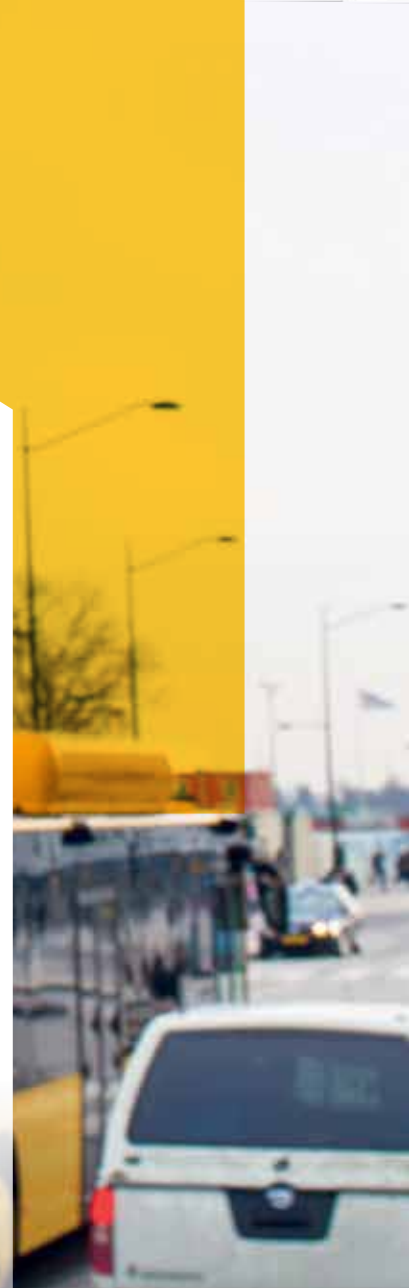
# 247

Suppliers

More than

# 90,000

partners



# The share

## The share's performance in 2016

Axis was listed in 2000 and since January 1, 2013 is part of the Large Cap segment on the Nasdaq Stockholm exchange. The final price paid on December 31, 2016 was SEK 340.60 (343.40). The highest market price, SEK 434.40, was recorded on August 8. The lowest market price of the year, SEK 301.00 was recorded on March 11. The number of outstanding shares amounted to 69,461,250 on December 31, 2016. The total share turnover on Nasdaq Stockholm during the period January 1, 2016–December 31, 2016 amounted to 1.4 million shares (37.7). This is equivalent to a turnover rate of 2 percent of the total number of shares. The average number of shares traded per day during the period amounted to 5,683 to a value of SEK 1.9 M. The market capitalization on December 31, 2016 amounted to SEK 23,659 M (23,853), a decrease of 1 percent.

## Dividend

Axis' majority owner Canon Inc has informed the company's board of directors that Canon Inc at the 2017 Annual General Meeting (AGM) will vote that no dividend shall be paid to the shareholders. In light of this information, Axis' board of directors and President have decided not to propose any dividend at the 2017 AGM and that the earnings at the disposal of the AGM shall be carried forward.

## Total yield

Total yield refers to the real performance of an equity investment and consists of alteration in price including reinvested dividends. Axis' total yield for 2016 was -0.6 percent. The annual total yield has amounted to 25.1 percent over the past five years.

## Ownership

At year-end, Axis had 1,726 registered shareholders (1,667). The largest individual shareholders at year-end were Canon Inc with 86.6 percent of the share capital, followed by BNYMSANV RE GCLB RE BARCLAYS CAPITA with 5.0 percent and JP MORGAN CHASE BANK NA, W9 with 3.8 percent. The combined holdings of

the ten largest owners represented 99.2 percent (98.8) of the number of outstanding shares in terms of capital and votes. The proportion of shareholders resident outside Sweden was 7.1 percent (123 persons), with a combined shareholding of 99.5 percent. The largest shareholder countries were Japan, UK and USA. The proportion of shareholders resident in Sweden was 92.9 percent (1,603 persons) with a combined shareholding of 0.5 percent.

## Employee stock option program

Axis has no outstanding stock option programs.

## Financial information

Axis' ambition is to continually provide the stock market, shareholders and other stakeholders with correct, consistent and relevant information with the aim of increasing understanding of the company. Financial information is mainly provided in interim reports, year-end reports and annual reports. Major events that can materially impact Axis' business are communicated via press releases to the media, capital market and other stakeholders. Printed versions of interim reports and the annual report are distributed to shareholders upon request.

Press releases, interim reports, year-end reports and annual reports are available on the company's website [www.axis.com](http://www.axis.com) in Swedish and English in accordance with the regulations of the stock exchange.

## Shareholders December 30, 2016

|                                     | Number of shares  | Share capital 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 %                   |
| <b>Total</b>                        | <b>69,461,250</b> | <b>100.0 %</b>          |

## Ownership December 30, 2016

| Holding       | Number of shareholders | Number of shares  | Holding (%)  | Votes (%)    | Market value (SEK '000) |
|---------------|------------------------|-------------------|--------------|--------------|-------------------------|
| 1–500         | 1,557                  | 163,213           | 0.23         | 0.23         | 55,590                  |
| 501–1,000     | 88                     | 70,838            | 0.10         | 0.10         | 24,127                  |
| 1,001–5,000   | 60                     | 127,274           | 0.18         | 0.18         | 43,350                  |
| 5,001–10,000  | 6                      | 49,679            | 0.07         | 0.07         | 16,921                  |
| 10,001–15,000 | 0                      | 0                 | 0.00         | 0.00         | 0                       |
| 15,001–20,000 | 2                      | 38,042            | 0.05         | 0.05         | 12,957                  |
| 20,001–       | 13                     | 69,012,204        | 99.35        | 99.35        | 23,505,557              |
| <b>Total</b>  | <b>1,726</b>           | <b>69,461,250</b> | <b>100.0</b> | <b>100.0</b> | <b>23,658,502</b>       |

## Trend in share capital

| Year        | Number of shares  | Nominal amount (SEK) | Share capital (SEK) |
|-------------|-------------------|----------------------|---------------------|
| 2000–2004   | 68,900,000        | 0.01                 | 689,000             |
| 2005        | 68,925,000        | 0.01                 | 689,250             |
| 2006        | 69,252,700        | 0.01                 | 692,527             |
| 2007        | 69,372,200        | 0.01                 | 693,722             |
| 2008        | 69,373,700        | 0.01                 | 693,737             |
| 2009        | 69,375,700        | 0.01                 | 693,757             |
| 2010        | 69,461,250        | 0.01                 | 694,612             |
| 2011        | 69,461,250        | 0.01                 | 694,612             |
| 2012        | 69,461,250        | 0.01                 | 694,612             |
| 2013        | 69,461,250        | 0.01                 | 694,612             |
| 2014        | 69,461,250        | 0.01                 | 694,612             |
| 2015        | 69,461,250        | 0.01                 | 694,612             |
| <b>2016</b> | <b>69,461,250</b> | <b>0.01</b>          | <b>694,612</b>      |

## Per-share data

|  | 2016   | 2015   |
|--|--------|--------|
| Profit after financial items, SEK        | 12.73  | 12.67  |
| Cash flow, SEK                           | -2.27  | 8.65   |
| Shareholders' equity                     | 33.87  | 25.06  |
| Share price at end of period, SEK        | 340.60 | 343.40 |
| Price/equity, percent                    | 1,006  | 1,370  |
| Dividend paid, SEK                       | 0.64   | 0.31   |
| P/E ratio                                | 37     | 37     |
| P/S ratio                                | 3.20   | 3.60   |
| Result, SEK                              | 9.20   | 9.39   |
| Number of outstanding shares (thousands) | 69,461 | 69,461 |
| Average number of shares (thousands)     | 69,461 | 69,461 |

# Sustainability report

## 2016

Significant highlights during the year



**85%**  
of all cameras  
and encoders are  
**PVC free.**

An investigation of the possibility to produce products totally **free from halogen**, that is with neither **chlorine** nor **bromine**, has been carried out.



A new  
**Environmental policy**  
has been developed.



Axis was awarded  
**Sustainability Leadership Award.**



**Recycled plastic**  
is used in even greater extent in Axis products.



A survey showed that  
**91%**  
of the employees are very satisfied with Axis as a workplace.



Contributed to the  
**integration of immigrants**  
into the labor market.



Advanced its positions and pushed **ethical** and other **sustainability-related** issues of suppliers, distributors and partners.

# Sustainability strategy and governance

Sustainability is an important and natural part of Axis' operations, in order to contribute to a smarter and safer world. Axis takes long-term responsibility in relation to end customers, distributors, partners, suppliers, employees, investors and owners and also takes a social responsibility.

As a leading market player, Axis acts from a position of strength and has good opportunities to influence those around it in sustainability matters. Axis strives to be the driving force in the industry when it comes to technological innovations and business ethics. The company takes environmental, social and economic responsibility and acts in an ethical, transparent and responsible way in relation to its target groups. Axis strives to minimize its climate impact, pursue good working conditions and also oppose corruption and violations of human rights. This work is conducted through sound corporate governance.

Axis' goal is to take sustainability into consideration in all business processes and to promote sustainable conduct in the entire value chain. Product development, manufacturing, distribution and sales shall occur in a sustainable way.

The sustainability work and strategy are based on the UN Global Compact's ten principles in the areas of human rights, labor, environment and anti-corruption. Axis signed the UN Global Compact in 2007 and its principles have provided guidance for how Axis conducts its sustainability work ever since.

Axis also follows regulations such as the Swedish Code of Corporate Governance, and works to implement and test a framework for internal control over financial reporting based on COSO's (Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework.

Axis' Code of Conduct defines the values and guidelines upon which Axis conducts its business. All employees and the board shall comply with the Code of Conduct. The Code of Conduct

is based on the UN Global Compact's ten principles, the UN Declaration of Human Rights and the International Labor Organization's (ILO) Declaration on Fundamental Principles and Rights at Work.

The company management ensures that business is conducted in an ethical way and in accordance with the company's ethical guidelines. The company's policies are continually reviewed.

Axis strives to make sustainability into an integrated part of the business strategy and operations, where continual improvements occur at all levels of the organization. Each department is responsible for the sustainability work in its unit. This work is coordinated by the Environmental Council together with the Sustainability Project Group, and going forward also by the Council for Social Responsibility, when it is in place. The steering group for sustainability has overall responsibility for Axis' sustainability work. The organizational framework has the following structure:

#### Sustainability council

The sustainability council has overall responsibility for sustainability questions. This includes ensuring that Axis' Code of Conduct is implemented in the organization as well as checking and monitoring the work and activities conducted. The sustainability council is mainly composed of representatives from the company management.

#### Sustainability project group

The sustainability project group is responsible for the development of sustainability initiatives and activities in various areas, and to ensure that the sustainability reporting meets the UN Global Compact's requirements. The group is composed

of representatives from the following functions: Human Resources, Sales, Quality and environment and Communication.

#### Environmental council

Axis' Environmental Council works with overall environmental issues and initiates projects aimed at minimizing Axis' environmental impacts and integrating environmental aspects into the product development process. The Environmental Council is composed of representatives from the following functions: R&D, Quality and environment, Product management, Communication and Operations and representatives from the company management.

#### Social responsibility council

During the year, work was initiated to start a social responsibility council. The council will drive sustainability efforts in the social responsibility area. It will set goals, be responsible for following up targets, have an advisory and decision-making role and also promote cooperation between various departments on questions such as working environment, diversity, anti-corruption and sponsorship etc. The functions proposed for inclusion in the council are representatives from the company management, Global sales, Human Resources, R&D, Communication and Legal.

#### Safety committees in the health and safety area

Axis has two health and safety committees in Sweden. A safety committee is composed of the managers of each CLC (Configuration and Logistics Center), a trade union representative, a safety representative and a representative from Human Resources. The other safety committee is composed of representatives from Facilities, Human Resources and a safety representative.



#### Sustainability council

##### Per Adelroth

Vice President Operations

"I'm overall responsible for Axis' supply chain and I am part of the Management team as well as the Sustainability Council. In the Sustainability Council, my role is to bring knowledge in matters regarding environment and business ethics with focus on the relationships with our suppliers."

"Axis' Environmental Council works with overall environmental issues and initiates projects aimed at minimizing Axis' environmental impacts and integrating environmental aspects into the product development process."



#### Social responsibility council

##### Louise Dolck Strömberg

Director, Human Resources Operations

"In the Social responsibility council, different parts of the organization are represented to drive Axis' social responsibility matters. My role is to represent the HR department and to contribute with knowledge about working environment, diversity and anti-corruption from an HR perspective."

#### Sustainability project group

##### Per Björkdahl

Director, Business Development

"To be able to cover various areas, the project group has representatives from different parts of the organization. With my vast experience of global business development, I offer knowledge about business ethics and sound business relationships."



#### About Axis' Sustainability report 2016

Axis has produced sustainability reports according to GRI's (Global Reporting Initiative) guidelines for sustainability reporting since 2010. For the third consecutive year, Axis reports according to GRI level G4 Core. The report also constitutes Axis' Communication on Progress report to UN Global Compact. It is not externally audited.

The report covers the 2016 fiscal year. Axis publishes a sustainability report annually.

During the year, Axis carried out three acquisitions: Citilog was acquired in February, 2N in May and Cognimatics in June. As Axis does not have complete information from the acquired companies regarding the indicators that Axis reported on in 2016, these companies are not included in this year's sustainability reporting. The acquisitions will be part of the sustainability report for 2017.



Axis participates in the above organizations.



#### Environmental council

##### Austra Reinap

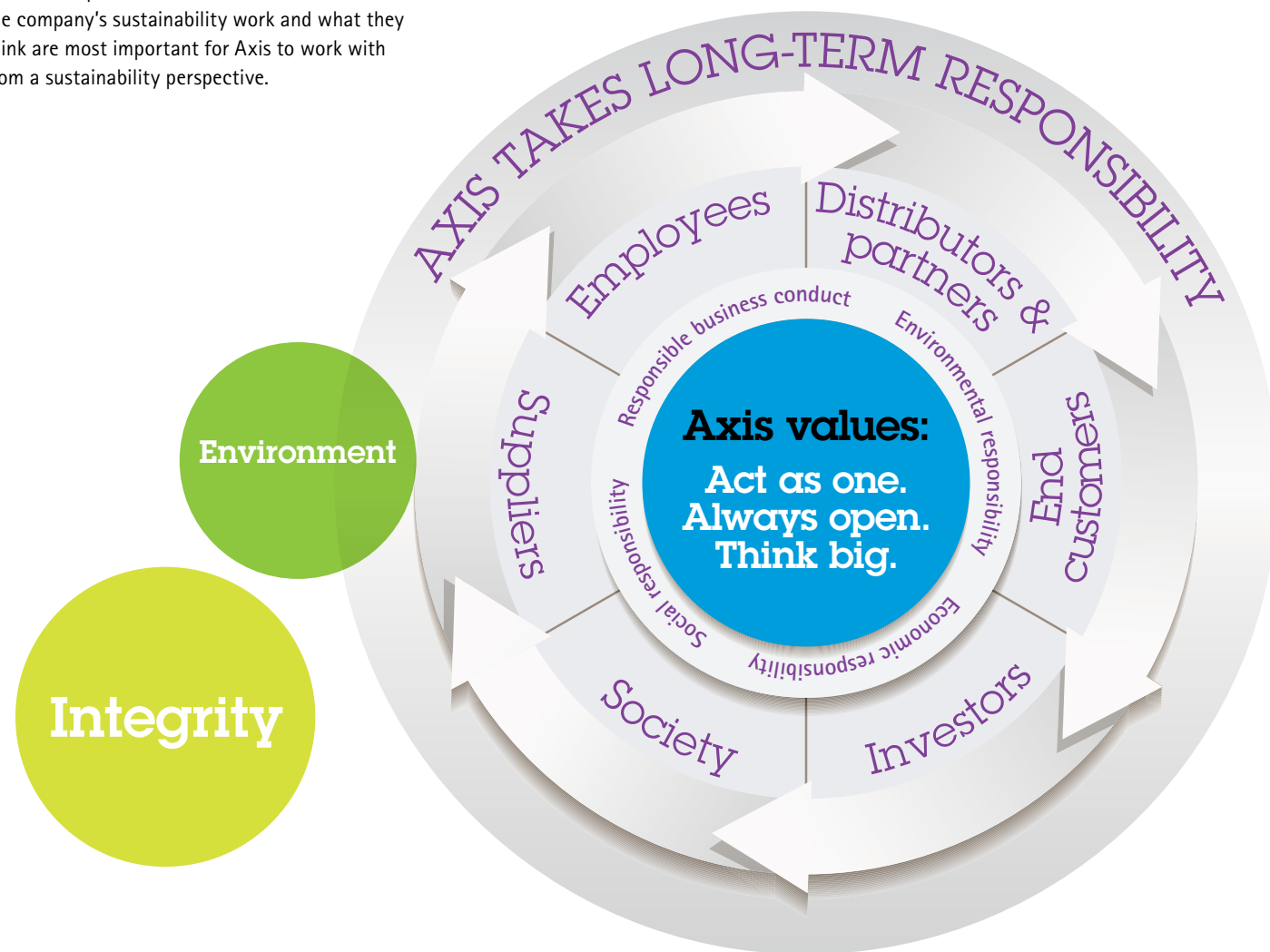
Environmental Engineer, Quality & Environment

"I am an Environmental Engineer and part of Axis' Environmental council. I represent the Quality and Environment function in matters regarding Axis' environmental impact, green product development and legal compliance."

# Stakeholder dialogue

Axis has a major impact on many people's lives and takes a long-term responsibility for how the operations affect its stakeholders. Axis creates value for its stakeholders and conducts a continual dialogue with them. The aim is building long-term relationships, increasing understanding of what is important for stakeholders and continually improving the company's sustainability efforts.

Axis aims to conduct a regular and open dialogue with its stakeholders: employees, distributors and partners, end customers, suppliers, investors and owners as well as society in order to find out what expectations the stakeholders have of the company's sustainability work and what they think are most important for Axis to work with from a sustainability perspective.



During 2016, Axis' Sustainability Project Group held meetings to plan how the dialogue with the various stakeholder groups should be conducted. As a basis for identification and subsequent prioritization of key aspects, Axis drew on the stakeholder dialogues, which were conducted in previous years. Axis has also taken account of regulations such as GRI (Global Reporting Initiative), UN Global Compact, the company's strategy and key external trends affecting the company.

As part of validating the aspects, Axis conducted a survey during the year among all stakeholder groups in order to investigate what sustainability questions are most important for the various groups.

Further dialogues with stakeholder groups were conducted in the form of meetings, discussions, various types of collaboration etc. See table below for information about the dialogue with each stakeholder group.

The result of the survey and other dialogues were compiled and analyzed by the Sustainability Project Group and then discussed by the Sustainability Council, which is mainly composed of representatives from Axis' company management. Read more under Materiality analysis.



| Stakeholder group         | Dialogue  | Key aspects   |
|---------------------------|---|---|
| Employees                 | Web survey with all employees, Great Place To Work survey, development discussions  | <ul style="list-style-type: none"> <li>&gt; Occupational health and safety</li> <li>&gt; Non-discrimination of employees</li> <li>&gt; Child labor and compulsory labor</li> <li>&gt; Customer satisfaction</li> </ul>  |
| Distributors and partners | Web survey with distributors and partners in all regions where Axis has operations, training, webinars, customer surveys                                  | <ul style="list-style-type: none"> <li>&gt; Customer satisfaction</li> <li>&gt; Market presence</li> <li>&gt; Protection of customer privacy</li> <li>&gt; Anti-corruption</li> <li>&gt; Child labor and compulsory labor</li> </ul>  |
| End customers             | Web survey with end customers in all regions where Axis has operations  | <ul style="list-style-type: none"> <li>&gt; Energy consumption in the products</li> <li>&gt; Non-discrimination of employees</li> <li>&gt; Direct and indirect greenhouse gas emissions</li> <li>&gt; Personal integrity among users of Axis' products</li> </ul>   |
| Suppliers                 | Web survey of contract manufacturers and other suppliers, training programs, webinars   | <ul style="list-style-type: none"> <li>&gt; Evaluation of environmental impacts, human rights and labor law and supply chain conditions</li> <li>&gt; Child labor and compulsory labor</li> <li>&gt; Customer satisfaction</li> <li>&gt; Anti-corruption</li> <li>&gt; Compliance with laws and regulations</li> </ul>                    |
| Investors and owners      | Web survey, board meetings, annual general meeting  | <ul style="list-style-type: none"> <li>&gt; Customer satisfaction</li> <li>&gt; Compliance with laws and regulations</li> <li>&gt; Product environmental impact</li> <li>&gt; Energy consumption in the products</li> <li>&gt; Direct and indirect greenhouse gas emissions</li> <li>&gt; Energy consumption in own operations</li> </ul> |
| Society                   | Web survey with representatives from trade association and university, collaboration with university, trade exhibitions and other activities for students | <ul style="list-style-type: none"> <li>&gt; Anti-corruption</li> <li>&gt; Personal integrity</li> <li>&gt; Environmental impact from products and services</li> <li>&gt; Compliance with laws and regulations</li> </ul>  |



# Materiality analysis

The materiality analysis is based on the outcome of the dialogues with Axis' stakeholders and shows the most important questions for stakeholders and for the company.

Through the stakeholder dialogues, Axis finds out what economic, environmental and social issues and aspects are most important for the company's different stakeholder groups. Axis has also reviewed the aspects regarding the company's impacts, and has analyzed and weighed up these results. The materiality analysis was carried out by the Sustainability Project Team and was performed in accordance with the GRI G4 guidelines. The materiality analysis is validated every year.

The aspects ranked as most important for the stakeholders and that have the greatest impact on and importance for the company are divided into the following focus areas: Environment, Social responsibility and Business ethics.

Apart from the aspects Axis reports on in its sustainability report, in accordance with the principle of materiality, Axis also describes other areas in the report, which are of importance for the operations, such as compliance with laws and regulations.

For Axis, it is a minimum requirement to comply with applicable laws and the company will continue to report whatever is required to comply with these rules – but the goal with the sustainability report is to raise the bar further. One example is that Axis has signed the UN's Global Compact, whose ten principles in the areas of human rights, labor, environment and anti-corruption provide guidance for how Axis should pursue its sustainability work.

Enduring profitability, creating economic value and reaching financial goals are of central importance for Axis and for the company's stakeholder groups. This also constitutes the basis for Axis' long-term sustainability efforts.

The aspects ranked as most important for the stakeholders and that have the greatest impact on and importance for the company:

## Environment

Axis' environmental responsibility ranges from a direct responsibility in the company's own operations to an indirect one outside of the organization. A large part of the environmental impact is indirect, related to product manufacturing and to energy consumption during the lifetime of the products. Axis works to reduce environmental impacts in the entire value chain, with a focus on the areas where the company has the greatest potential to exert an influence and make a difference. Read more on page 38.

The most important aspects are:

- > Carbon footprint:
  - Emissions
  - Energy consumption in own operations
  - Transports
- > Material in the products
- > Product environmental impact
- > Energy consumption in the products
- > Supplier environmental performance

## Social responsibility

Axis' social responsibility involves safeguarding human rights and ensuring good working conditions in the company's own operations and at suppliers. This also means taking a long-term responsibility to contribute to society in the markets where the company operates. Read more on page 52.

The most important aspects are:

- > Diversity and equal opportunities for employees
- > Non-discrimination of employees
- > Occupational health and safety
- > Human rights in the supply chain
- > Labor law and working conditions in the supply chain

## Business ethics

Axis has long relationships with its distributors, partners and suppliers and this is a central part of the company's business model. Close collaboration helps to ensure compliance with applicable laws and regulations as well as ethical conduct in the entire value chain. Read more on page 58.

The most important aspects are:

- > Anti-corruption
- > Customer satisfaction
- > Customer privacy
- > Personal integrity among users of Axis' products

# Responsibility along the entire value chain

Axis' business model with long and close relationships with its partners is and has been very important for the company's successful growth. The value chain extends from suppliers of components, and contract manufacturers and sales through distributors and partners, such as resellers and system integrators, to end users of the company's products.

Axis has six contract manufacturers, a large number of strategic component suppliers all over the world and more than 90,000 partners in 179 countries.

Axis' indirect business model constitutes a core part of the company's strategy. Sales of Axis' products and solutions take place via distributors that sell on to resellers and system integrators that in turn sell to end customers. This indirect business model means that direct responsibility for manufacturing, sales, distribution and installation largely rests with suppliers, distributors and partners.

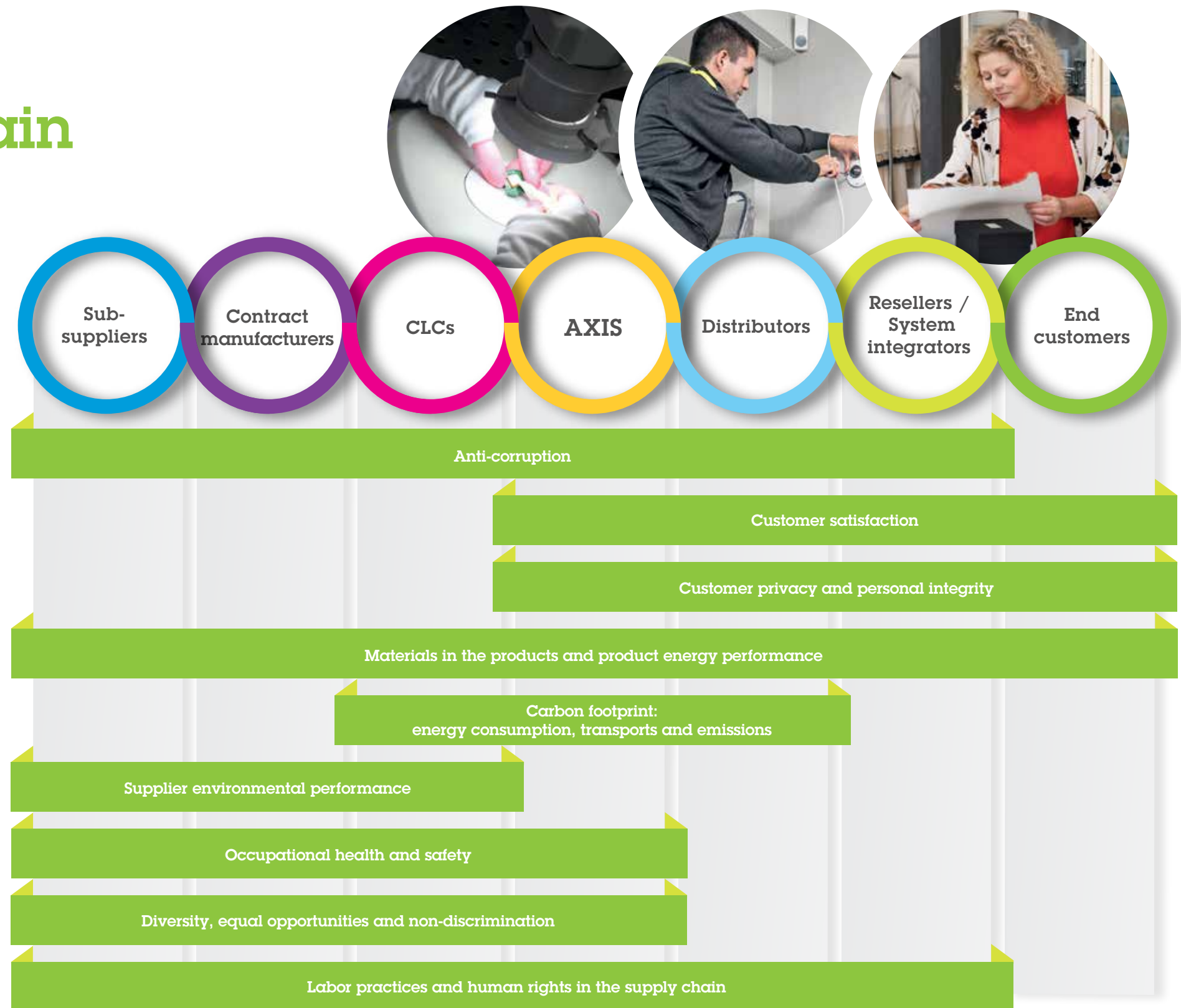
Axis is actively engaged in all parts of the value chain and works to ensure that all suppliers, distributors and partners minimize their environmental impacts and take an economic and social responsibility, including acting ethically.

Axis informs and regularly audits suppliers, trains distributors and informs its partners. In this way, sourcing, manufacturing, sales, distribution and use can occur in as responsible a way as possible.

Through long-term and close collaboration with suppliers, distributors and partners, risks can be minimized and the company can focus on taking advantage of opportunities, continued innovation, global expansion and sustainable growth.

### Important aspects

The aspects, which are most important for Axis from a sustainability perspective impact all or parts of the value chain. Axis has reviewed where the risks in the value chain are greatest from a sustainability perspective and where the aspects have the most impact.



The image illustrates where in the value chain the aspects are relevant.

## Case

### Sustainable solutions for a smarter and safer world



#### More efficient healthcare with IP video

**Recorded training optimizes medical staff training. Treatment methods at hospitals can be safer and more efficient thanks to SIMStation's simulation solution and Axis network video cameras.**

In medical emergencies, split-second decisions often make the difference between life and death for a patient. Every move has to be right; there's no time for mistakes. 60 percent of all incidents in emergency situations can be traced back to non-technical causes, such as a team leader giving vague instructions or poor team management. In such cases, a professional audio video system for simulations and proper training of specialized staff is important and may very well be a lifesaver.

In day-to-day hospital work, experience is usually gained through direct encounters with patients. Inexperienced staff may inadvertently make mistakes.

Axis cameras, monitors and microphones are used in combination with software developed by SIMStation, based in Vienna, Austria, in order to educate healthcare staff.

"We tested a number of cameras from different manufacturers. We considered it particularly important to be able to transmit multiple video streams without delay or disturbance. In addition, good image quality is a must so that small details can be viewed as necessary. The network cameras from Axis have met all of our requirements and have now also passed the practical test with flying colors," says Joachim Hilbrand, SIMStation.

Practice situations and other medical procedures are filmed using Axis' network cameras. Through the cameras, the doctor in the adjacent room observes the action with the help of a monitor. The doctor uses a microphone to provide instructions, which are communicated to the team over a speaker.

Afterwards, participants can look at the recording, observe their own behaviors, detect any errors, and discuss ways in which these can be avoided. This means that hospital procedures can be made safer and more efficient.

#### Reduced power consumption and more efficient use of office space

**Axis' network cameras and Cognimatics' software in the future can enable presence detection lighting, ventilation and heating control systems and more efficient office space use. Power consumption may be reduced by up to 18 percent.**

Aalto University conducted a study aimed at investigating how a company could reduce energy consumption and use office space more efficiently. For example, lights should only be turned on when people are on the premises and only in the places where they are. Desks should be used more efficiently by getting employees to share desk space, since they are not all on the premises at the same time. Aalto University wanted to obtain accurate information about how and when people spent time on the surveyed company's premises.

Previously the property managers at the surveyed building tried to manually calculate and estimate when people arrive at and exit from buildings, but people's individual patterns of movement are impossible to anticipate. Aalto University chose Axis network cameras along with Cognimatics' software.

The preliminary results from the study show a power consumption saving of 15-18 percent, if the intelligent solution had been connected to all energy consumption systems in the entire building. More efficient utilization of office space means that you can save a lot of desk space. The analyzed company could reduce its desk space by a third.

"We are very satisfied with the results," says Dooley. "Far too much energy is consumed unnecessarily when people are not on the premises, such as during weekends and outside regular business hours," says Ken Dooley, PhD student at Aalto University in Helsinki, Finland.

*Note: Cognimatics is part of Axis since 2016.*

#### Safer traffic in Melbourne

**EastLink is the 39 km freeway in Melbourne's South East suburbs. The freeway passes through two 1.6 km tunnels and carries more than 240,000 vehicles per day. In those tunnels, EastLink has an Automatic Video Incident Detection System as part of its critical safety systems.**

This system is paramount in detecting stopped or slowing vehicles in the tunnels, enhancing road user safety and providing EastLink's traffic control center with vital real time information through video analytics.

When EastLink wanted to upgrade their existing system supplied by Citilog, they wanted to include new hardware and migrate to an IP solution. EastLink installed Citilog's Automatic Incident Detection System in combination with AXIS P7216 Video Encoders.



"The result has been excellent with this solution and we have great confidence when it comes to reliability and security. Everything has been fantastic," says Stuart Lindsey, Engineering Manager at EastLink. "What has impressed us the most was the level of technical support that has been offered and continues to be offered."

The new solution has meant a seamless migration to a digital solution. This flexibility provides a fully functional AVID system and enables safe operation. The system has delivered a higher reliability compared with the legacy system and is more robust.



#### Safer and more efficient lumber mill production

**Hampton Affiliates identifies security risks and gains a more efficient manufacturing process in its lumber mills with Axis' network cameras and Axis Camera Station.**

Hampton Affiliates is one of the largest manufacturers of forest products across North America and operates nine lumber mills spread through Oregon, Washington and Canada. With a focus on natural renewable resources, these mills primarily produce lumber used in construction and other projects.

Each mill spans huge areas. Close to 100 individuals appear at each mill on a daily basis. Many areas require remote monitoring. Massive pieces of machinery and heavy equipment involve a great many risks, and it is top priority for operators to maintain a safe workspace for their staff.

Management wanted to identify safety hazards before any of the employees risked injuring themselves, and be able to also monitor machinery in places, which are not always manned by personnel.



Axis network cameras and Axis Camera Station were installed. Engineers are now able to proactively address mechanical concerns across the mills and depend on the cameras daily for assistance. The entire process has become extremely simple and streamlined, allowing resources to be reallocated in a more productive manner.

The system has already proved to pay dividends. When a saw blew up in a remote space, a data recording showed operators multiple camera angles of exactly what happened.

"It's always humbling to see things occur, but we are able to use the footage to troubleshoot as happens nearly every day at all of the mills," a network engineer at Hampton Affiliates remarked. "The engineers absolutely depend on this system to work and to work well."

# Long-term environmental responsibility

Axis strives to minimize the environmental impact from its own operations and in the company's products and solutions. Most of Axis' environmental impact occurs indirectly and is related to manufacturing, transports and to energy consumption when the products and solutions are used. This means that Axis aims for improvements along the entire value chain and throughout the entire lifecycle of the products and solutions.

91 percent of all cameras and encoders sold during 2016 were PVC free.

In total, 85 percent of all Axis network cameras and encoders are PVC free.

## Environmental impact

Axis works with suppliers, distributors and partners in order to minimize direct and indirect environmental impacts. This involves systematic work to ensure that product development, material choice, material origin, components and packaging meet quality and functionality requirements, while minimizing environmental impacts.

Among other things, this includes using recycled material, reducing the number of product parts, choosing low-weight components, minimizing material waste, optimizing packaging, improving energy consumption efficiency in own operations and in the company's products, streamlining logistics flows and as far as possible choosing environmentally friendly transports.

Axis performs life cycle analysis on various products, in order to see where the greatest environmental impact lies in the products' life cycle.

## Environmental initiatives 2016

During the year, Axis carried out a number of measures to reduce its environmental impact.

These included:

- > mapping the potential of producing entirely halogen-free products
- > continuing to phase out PVC from products
- > using recycled plastics in products to an even greater extent
- > implementing the Greensoft system solution, to promote the choice of environmentally friendly materials in product development processes
- > conducting environmental training of personnel in Operations, Research and Development, Marketing, Sales, Logistics and of other persons who in their role can contribute to reducing the company's environmental impacts
- > drawing up a new Environmental policy

## New environmental policy

Axis new environmental policy entered into force in 2017. The environmental policy stipulates that Axis should be a leader in the environmental field.

Axis should contribute to an environmentally sustainable development by minimizing environmental impacts throughout its product and solution life cycles and along the entire value chain. This work will be conducted through continual improvements in order to gradually bring about major change.

## The Green Design Evaluation Form

The Green Design Evaluation Form is Axis' scorecard for evaluation of the products' environmental impact. The aim is to establish even clearer goals, requirements and guidelines in Axis' product specifications.

The scorecard makes it easier to evaluate different aspects, for example, use of recycled material, optimization of product weight and volume and reduced material waste. It is used in all development projects. In this way, environmental considerations are integrated in an even better way into the product development process.

## Smart material choice – greener products

Axis' products contain different materials such as aluminum, zinc, steel, stainless steel,

polycarbonate and acrylonitrile-butadiene-, butadiene -and styrene polymer, polycarbonate, polyamide, polymethylmethacrylate, polyurethane, silicone, thermoplastic elastomer and rubber.

Axis works systematically to ensure that material choice and material origins meet quality and functionality requirements, while minimizing environmental impacts.

This includes using recycled instead of newly produced plastic, minimizing material waste, ensuring that only conflict-free minerals are used, ensuring that products do not contain any substances that are hazardous for people or the environment and phasing out health-impairing material.

Furthermore, about 95 percent of the material in Axis' products is recyclable or combustible in accordance with Swedish recycling standards. Recycling can occur either in the form of energy or reuse of material.



**Halogen-free material**

Axis has a long-term goal to offer halogen-free products.

According to the International Electrochemical Commission's (IEC) definition, the material should contain less than 900 ppm of chlorine or bromine, or less than 1500 ppm of halogens in total, in order to be halogen-free. Axis has decided to apply this definition to all the material in the products.

Chlorine is mainly found in polyvinyl chloride (PVC) and chlorinated flame retardants, bromine is found in brominated flame retardants, among other things.

**PVC**

PVC can emit toxic substances, is harmful to both human health and the environment and is difficult to recycle. PVC is found in outdoor cables for Axis cameras, among other things. Axis aims to phase-out PVC from its products and has been successful in these efforts. During the year, several new PVC-free camera models were developed, such as AXIS Q3615-VE, AXIS Q3617-VE, AXIS P3707-PE, several variants of the AXIS Q35 series and the AXIS M304X series.

In 2016, 91 percent of camera and encoder sales were PVC-free. In total, about 85 percent of Axis' network cameras and encoders are PVC-free.

**Bromine**

Bromine and brominated flame retardants may be hazardous for the environment and human health. Bromine and brominated flame retardants are mainly found in printed circuit boards, in electronic components containing chips, transistors and cables.

Axis conducts surveys of bromine and chlorine in components in the company's products, with the aim of reducing the use of bromine and chlorine as well as brominated and chlorinated flame retardants in product components.

During the year, Axis also mapped the potential of producing entirely halogen-free products.

**Recycled material**

Recycled material conserves natural resources and reduces environmental impacts. Axis works continually to find and phase in new recycled material into its material library, in order to increase the proportion of recycled material in its products.

The material library used by the research and development department was expanded with several recycled plastic materials during the year.

Axis has continued to develop products with recycled plastic. In 2016, Axis developed five new products with recycled plastic, where Axis has increased the proportion of recycled plastic from about 40 to more than 60 percent compared to previous similar products (read more under Camera models with environmental considerations in focus).

The packaging material for the products is composed of recycled material to some extent.

**Legislation, guidelines and Greensoft**

Axis complies with applicable legislation and rules, such as the EU's RoHS directive (Restriction of Hazardous Substances) and the EU's REACH regulation (Registration, Evaluation, Authorization and restriction of Chemicals). Axis also applies a precautionary approach, for example when it comes to choice of material.

In addition, Axis restricts the use of other substances, such as antimony and nickel. The list of substances where use should be restricted is updated regularly and was updated during the year.

**Greensoft**

During the year, Axis created totally new processes to improve its use of the Greensoft system solution. Greensoft makes it possible for Axis to more systematically collect and validate data relating to product content.

Axis thereby gains a better overview of the content in various materials, which helps to increase use of materials with lower environmental impact.

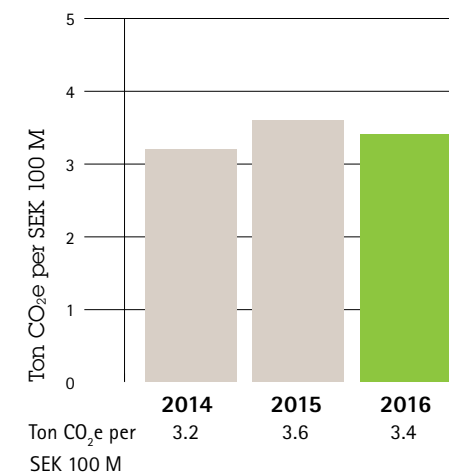
**Energy consumption in products and solutions**

The cameras' energy consumption is a significant part of the cameras' total environmental impact.

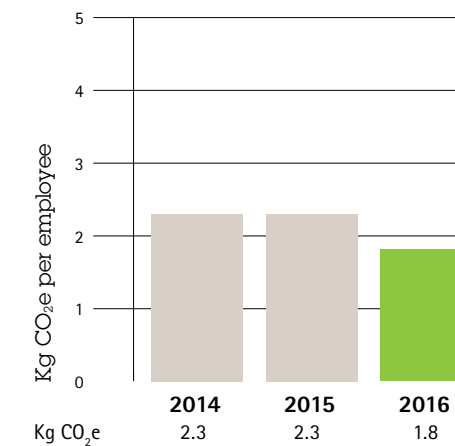
Life cycle analysis performed by Axis, show that between 60 and 80 percent of the total environmental impact of network cameras is related to energy consumption by end users.

Axis continually works to further improve energy efficiency in surveillance systems, while retaining functionality, which can be challenging. Some

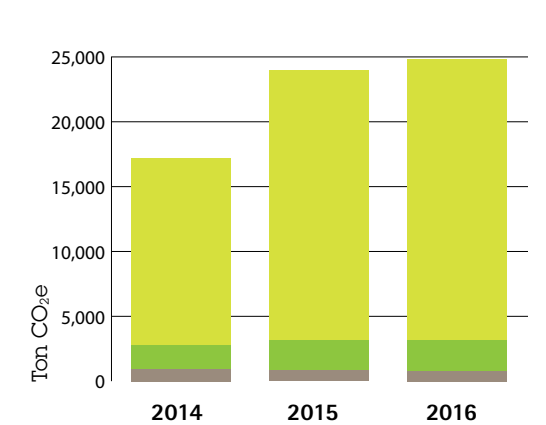
Ton CO<sub>2</sub>e per sales



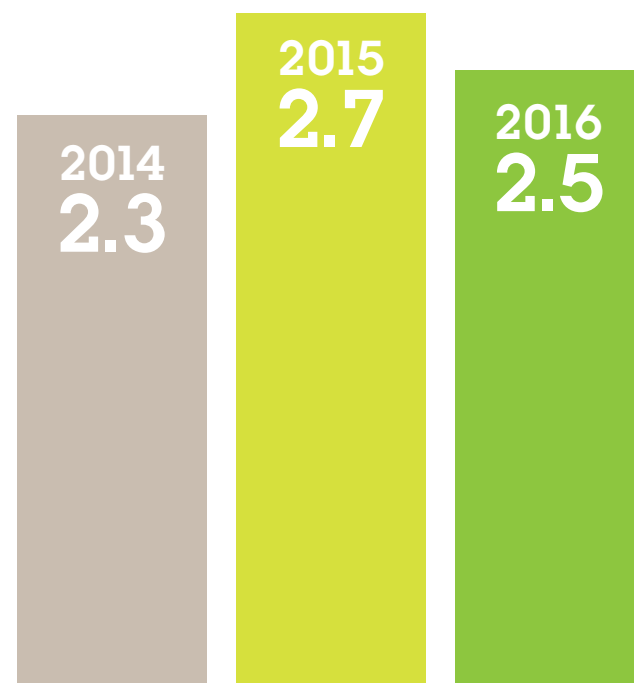
Kg CO<sub>2</sub>e per employee



Ton CO<sub>2</sub>e per scope



Energy consumption Axis globally (MWh/employee)



of the technologies developed by Axis, help to reduce energy consumption in the product use phase. These include Axis' Zipstream technology, which reduces bandwidth and storage requirements by at least 50 percent in video surveillance applications, and thus energy consumption. Axis' Lightfinder technology enables cameras to reproduce sharp color images even when it is dark, at 0.18 lux and even lower. This eliminates the need for external illumination.

**Lower carbon footprint**

Several activities related to Axis' operations generate carbon dioxide emissions, which have an impact on the global climate. Therefore, Axis ambition is to take responsibility in these areas, to the same extent as for the manufacturing and design of our products. Part of this work is to reduce our overall carbon footprint and to impose stringent demands on our suppliers.

Through annual monitoring and reporting of carbon dioxide emissions, Axis gains insight into which processes that generate the most emissions and where Axis needs to focus its efforts to reduce its impact.

The 2016 Carbon Footprint report focuses on emissions related to transports, energy consumption of premises, leased cars, business travel and paper consumption

According to the GHG Protocol, a company is accountable for emissions resulting from

operations over which it has control, in either financial or operational terms. Axis' report also includes emissions from all inbound transports, in other words transports from contract manufacturers to Axis' Configuration and Logistics Centers (CLC) and from all outbound transports, in other words transports from CLCs to distributors. The choice of system boundaries has an impact on the results of the analysis, which needs to be taken into consideration when comparing Axis' results with those of other Carbon Footprint reports.

A new requirement for this year's report, is that under the GHG Protocol, companies should report their electricity consumption using both a location-based and market-based method. This means that companies should report if they have purchased electricity with guarantees of origin. In those cases where the company knows what type of electricity is involved e.g. hydroelectric power, nuclear power or a specific mix, the special emission factor is used just for that electricity. In those cases where no active choice was made, and the company does not know the type of electricity used, the calculations are based on the so-called residual mix for each country.

**Carbon footprint**

Axis' carbon emissions increased slightly from 23,940 to 24,840 tons CO<sub>2</sub>e<sup>1</sup>, an increase of about 4 percent compared to 2015. The increase was due to the company's growth during 2016,

including considerable increases in product sales, (net sales increased by 11 percent during 2016), in the number of employees, and more offices.

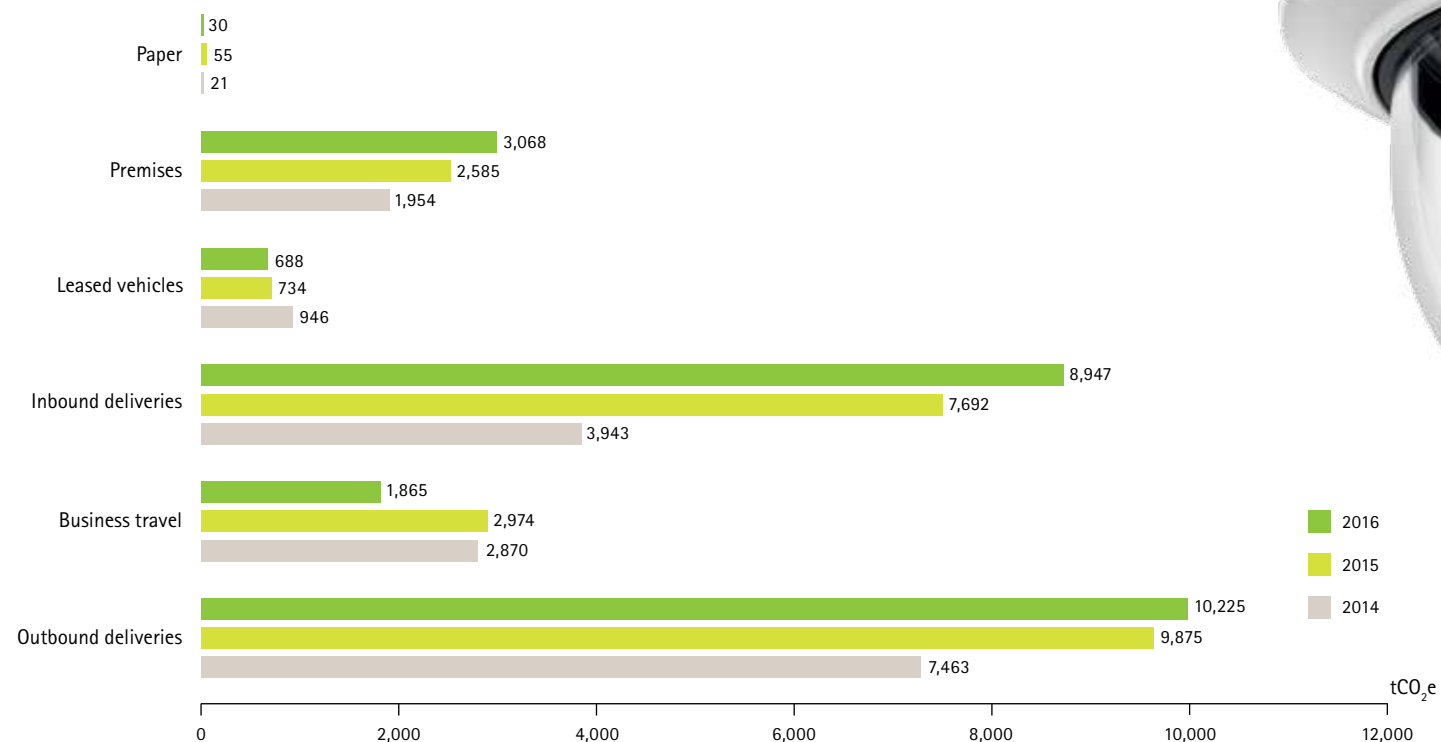
As in previous years, in the report for 2016, indirect upstream emissions in Scope 3, in other words indirect emissions due to sourcing of goods or services (that are not included in Scope 2), are included for transports from suppliers.

Upstream emissions, for example in connection with sourcing of transports and energy, are reported in Scope 3. These emissions have been added in data for 2015 and 2016 but were not included in the figures for 2014. Updates in the calculation tool can occur in the future when new emission factors are added.

Emissions due to third party deliveries contribute most to Axis total carbon emissions and accounted for 77 percent of total CO<sub>2</sub>e emissions. In 2016, emissions from inbound and outbound freights increased by 9 percent compared to 2015. Outbound transports accounted for most of this increase. For more information about Logistics and transports, see page 42.

<sup>1</sup> Carbon dioxide equivalent or CO<sub>2</sub>e is a metric for describing how different greenhouse gases, of a given quantity, contribute to the greenhouse effect and impact global warming, measured in the equivalent amount of CO<sub>2</sub>.

tCO<sub>2</sub>e per activity



Emissions related to sales decreased from 3.6 tons CO<sub>2</sub>e to 3.4 tons CO<sub>2</sub>e per SEK 100 million.

Despite the growth in emissions generated by Axis employees<sup>2</sup>, due to energy consumption in the business, paper use, leased cars and business travel etc., emissions decreased from 2.3 tons CO<sub>2</sub>e to 1.8 tons CO<sub>2</sub>e per employee as a result of measures implemented in 2016 and increased awareness among employees.

Business trips represent a large part of the greenhouse gas emissions generated by Axis' employees. This is the fourth largest source of Axis' total emissions, accounting for approx. 8 percent of all emissions.

To address this Axis initiated carbon offsets in 2015 for all business travel. In 2016, the offset was 2,917 tons of CO<sub>2</sub>e from business trips. If this figure is deducted from Axis' total CO<sub>2</sub>e emissions, the emissions per employee would be 0.9 ton CO<sub>2</sub>e per employee. To read more about carbon offsetting at Axis please see page 43.

Axis' travel policy encourages less travel, whenever possible. During the year, Axis conducted thousands of hours of webinar training seminars and virtual meetings around the world, which helped reduce business trips. During 2016, the installation began of videoconference systems

in conference rooms at the headquarter in Lund.

**Energy consumption in operations**

Energy consumption in the operations increased globally, due to the expansion of activities in the company's logistics centers and in the number of offices globally. This is the third largest source of Axis total emissions, accounting for about 12 percent of all emissions.

In terms of energy intensity, the energy consumption per employee has fallen, thanks to our energy saving measures. Energy consumption per full time employee globally, excluding logistics centers decreased from 2.7 MWh per full time employee in 2015 to 2.5 MWh in 2016.

At the Lund headquarters, where 63 percent of all Axis employees are based, the goal is to reduce electricity consumption by five percent per employee compared to 2015. During the year, Axis reduced electricity consumption per employee from 2.8 MWh to 2.6, in other words by 7 percent. This was due to increased awareness among employees and to the energy saving measures implemented.

**Green leases**

Axis has a green lease since 2015 with one of its property owners for the headquarters in Lund. The lease means that Axis and the

property owner shall work actively together to reduce the environmental impact of the premises and property. In 2016, an action plan was produced. This means that the property owner will survey what areas that are not in use, conduct office lighting controls, review the ventilation and arrange bicycle service. During the year, Axis carried out the following energy saving measures: replaced 90 percent of the light sources in the headquarters canteen with LED lighting, continued to change to LED lighting in the common areas of the premises and installed motion detectors where possible.

**Logistics and transports**

Axis continually reviews and streamlines its logistics chain, including transports from contract manufacturers to the company's Configuration and Logistics Centers (CLC) and transports from CLCs to distributors.

Axis uses sea and road transports rather than air freight as far as possible. Configuration of the products at various CLCs and manufacturing should occur as close to the markets as possible, in order to have good flexibility as well as short transport times and lead times. Axis aims to keep

<sup>2</sup> Inbound and outbound transports are excluded.



down transports costs and carbon emissions, caused by product transports.

Customer needs and requirements should be met while reaching the set environmental targets.

**Less air freight**

During the year, Axis decreased the proportion of bulky inbound goods, in other words, goods from contract manufacturers to Axis' CLCs, due to improved routines and planning for inbound goods from Asia. This contributed to a reduction in carbon emissions by 14 percent per ton-km<sup>3</sup> in total freight transports until the end of 2016, compared to 2011, which can be compared to the goal of 20 percent.

Carbon emissions for outbound transports, in other words, transports from CLCs to distributors, decreased by 5 percent compared to the carbon emissions in 2011.

During the year, Axis used more sea and road transports than air freight; 68 percent of all

inbound transports measured in ton-km were sea or road transports and 32 percent were air transport. This can be compared to the goal that more than 60 percent of inbound transports measured in ton-km should consist of sea and road freight.

**Carbon offsetting**

Axis continues to carbon offset all courier freight. Carbon offsetting occurs in accordance with the independent international standard the CarbonNeutral Protocol.

**Compact packaging**

Newly released products have increasingly optimized packaging. Firstly, Axis has worked to make the actual products smaller, and secondly, the company has optimized the packaging boxes to correspond more closely to the products' size. This has meant that carbon emissions measured per dispatched unit have decreased, and that transport costs for the products have become lower.

<sup>3</sup> Ton kilometer (ton-km) is a vehicle's weight multiplied by the distance.

# Carbon offsets for business trips

Axis has used carbon offsets for all business trips since 2015. In 2016, Axis offset 2,917 tons CO<sub>2</sub> equivalents from business trips. The carbon offsetting is conducted through Plan Vivo, in the Trees of Hope in Malawi project, where trees such as mangos, citrus fruits and acacia are planted in cooperation with small farmers. In 2016, 16,033 trees were planted. This means that a further 14 hectares of land have been covered with forest, equivalent to an area of 19 football pitches.

Apart from the fact that the trees absorb CO<sub>2</sub>, this project has many environmental and social benefits. The project provides food for consumption and sale, wood

and fodder for livestock, preserves biological diversity, reduces exposure to extreme weather conditions and soil erosion, protects the soil and conserves water in the ground better, which is important as Malawi occasionally faces severe droughts.

With income from the project, farmers can buy livestock, food, seeds for planting and fertilizer, and also pay school fees and material for their children.

In 2016, this delivered direct assistance to 40 farmers and their family members and to society at large.

## Goals and target fulfilment

### Product environmental impact

Reducing the overall environmental impact of the products.

- > Axis has performed life cycle analysis in order to see where in the products' overall life cycle the environmental impact is the greatest and to take measures to reduce it, such as reducing energy consumption, phasing in recycled material, phasing out hazardous substances and reducing material waste.
- > During the year, Axis mapped the potential of producing entirely halogen-free product and have launched several new PVC-free models: AXIS Q3615-VE, AXIS Q3617-VE, AXIS P3707-PE, several variants of the AXIS Q35 series and also the AXIS M3044 series and AXIS M304X series.

### Material

Increasing the proportion of recycled material in its products.

- > In 2016, Axis developed five new products with recycled plastic, where Axis has increased the proportion of recycled plastic from about 40 to more than 60 percent compared to previous similar products.

### Energy consumption in products and solutions

Minimizing energy consumption throughout the product's entire life cycle, from product development to end of life.

- > Axis continually works to further improve energy efficiency in the cameras, while optimizing functionality.

### Energy consumption in the operations

Reducing electricity consumption by five percent per employee at the headquarters in Lund compared to 2015.

- > During the year, Axis reduced electricity consumption per employee from 2.8 MWh to 2.6, in other words by 7 percent. In 2016, electricity consumption in the headquarters increased by 3 percent compared to the previous year. In 2015, electricity consumption per employee increased by 7.7 percent compared to 2014.

Reducing electricity consumption per employee at Axis Configuration and Logistics Center, CLC, in Lund.

- > During the year, Axis' electricity consumption per employee increased from 5.1 to 5.7 MWh. Total energy consumption at Axis' CLC in Lund decreased from 437 MWh in 2015 to 404 MWh in 2016. The number of employees also decreased, which meant that electricity consumption per employee increased. In 2014, electricity consumption per employee was 5.3 MWh.

### Transports

Reducing carbon emissions by 20 percent per ton-km in total freight transports by the end of 2016, compared to 2011.

- > In 2016, carbon emissions decreased by 14 percent per ton-km in total freight transports compared to 2011. In 2015, carbon emissions per ton-km increased by 9.1 percent and in 2014 carbon emissions decreased by 13 percent per ton-km compared to the previous year.

Reducing carbon emissions for outbound transports, in other words, transports from CLCs to distributors, by an average of 5 percent compared to 2011.

- > Carbon emissions for outbound transports decreased by 5 percent compared to the carbon emissions in 2011.

More than 60 percent of inbound transports measured in ton-km should consist of sea and road freight.

- > Overall, 68 percent of all transports measured in ton-km were sea or road transports and 32 percent were air transports during the year. In 2015, 65 percent of all transports measured in ton-km were sea or road transports and 35 percent were air transports. In 2014, 76 percent of all transports measured in ton-km were sea or road transports and 24 percent were air transports.

## Camera models with environmental considerations in focus

Axis has launched five new camera models where special focus has been placed on an environmentally-friendly design during the development process: AXIS M1065-LW, AXIS M1045-LW, AXIS M1065-L, AXIS Companion Cube LW and AXIS Companion Cube L.

Environmental aspects were taken into consideration by evaluating the design based on the criteria in the Green Design Evaluation Form, without compromising on the requirements otherwise imposed on the cameras.

These environmental aspects include using recycled plastic instead of virgin plastic raw material, simplifying assembly and disassembly in order to facilitate camera recycling and optimizing product packaging.

Overall, about 64 percent of each camera is made with recycled plastic. Moreover, wall mounts and stands are made with recycled plastic. The plastic largely comes from CDs, water bottles and personal computers.

Recycled plastic means that material, which is not renewable, is utilized, saving natural resources and reducing the climate impact, among other ways through lower CO<sub>2</sub> emissions, compared to virgin plastic raw material.

The wall mount also features a totally new design, which means that the cameras can be easily mounted on a wall and easily taken down.

The cameras have a simple design and are easy to disassemble, which is an advantage during repairs and for recycling in the final stage.

The packaging is also minimal. The stand has been designed so that it can fit existing cardboard boxes. Low packaging weight and volume reduces fuel consumption during transports, saving transport costs and reducing environmental impacts.

### Green Product Design group

Axis works systematically on integrating environmental aspects into the product development processes. Axis Green Product Design group, which is composed of environmental and product development engineers, aims to make design decisions in the product development stage that minimize the products' environmental impact.

64%  
recycled  
plastics



# Long-term responsibility in the supply chain

Axis has long-term collaboration with its suppliers. Suppliers are regularly audited to ensure that they meet Axis' requirements relating to social and environmental responsibility in their operations.

Axis' ambition is that all product manufacturing should occur in an environmentally, socially and ethically responsible way. The company aims to have long-term collaboration and partnership with its suppliers.

Axis' customers in turn impose requirements on how the company works with its suppliers; for instance, control by Axis that manufacturing occurs in a responsible way and that suppliers work with social and environmental questions.

Axis has a total of 247 suppliers, of which 75 are in China, 67 in the rest of Asia, 83 in Europe and 22 in Central and North America. Six of these are contract manufacturers, which are located in China, Korea, Mexico, Thailand as well as two in Poland. Contract manufacturers produce printed circuit boards and assemble the products. Axis' strategic component suppliers, which cast chassis and manufacture camera lenses and electronic components, among other things, are found all over the world.

102 of the 247 suppliers are considered to have a major impact on Axis from a sustainability perspective. During the year, Axis gained 20 new suppliers.

Axis carefully selects its suppliers for manufacturing and assembly of the company's products. The selection is made according to the criteria: quality, price, business ethics, environmental impact, flexibility, employee working conditions such as the right to sign collective agreements and freedom to join a trade union, and respect for human rights, in no particular order of importance. When selecting suppliers, selection criteria include closeness

to a contract manufacturer, a Configuration and Logistics Center (CLC), a purchasing office or a research and development department.

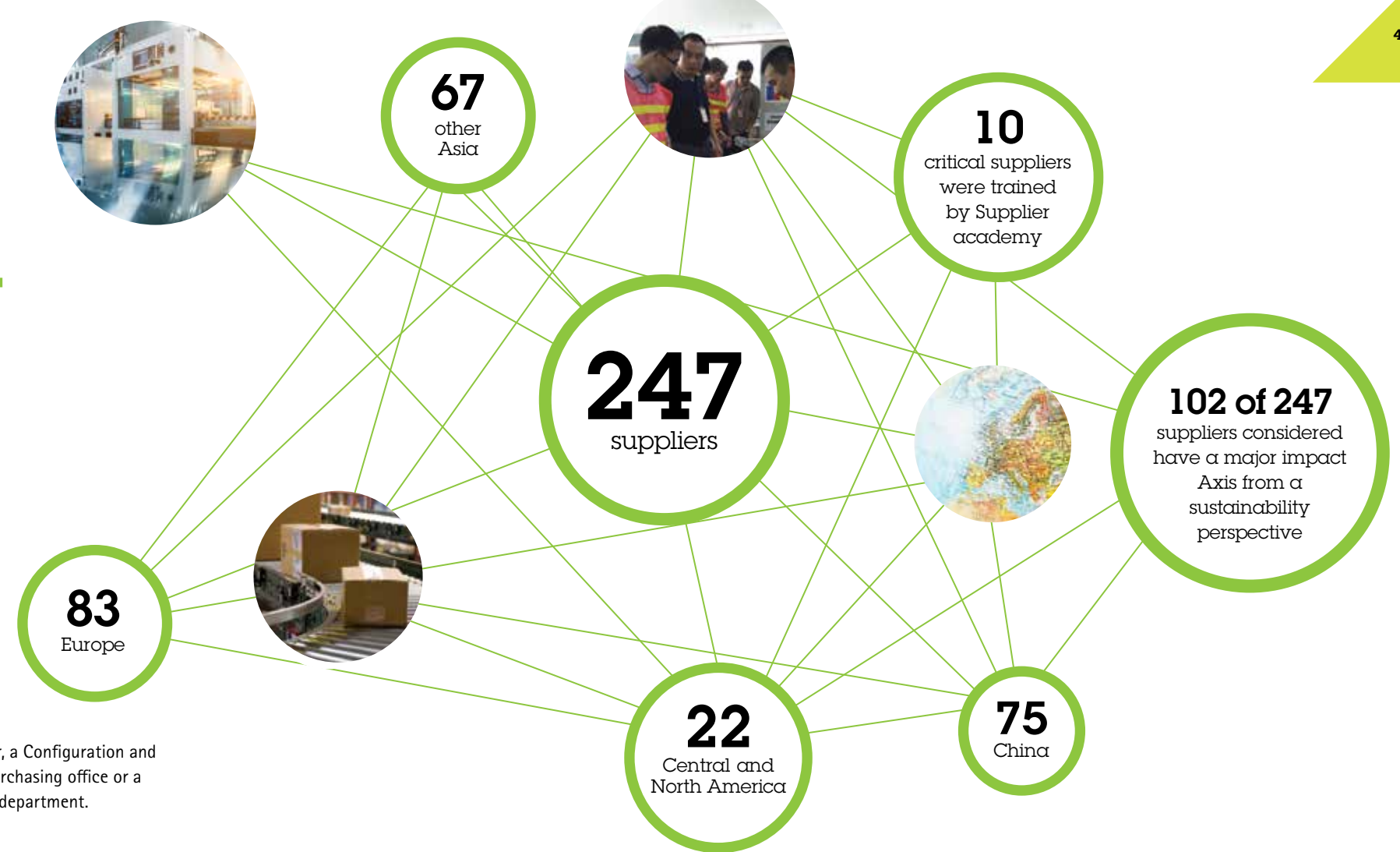
#### Initiatives 2016

During the year, Axis held internal training for the 20 inspectors who perform on-site audits at suppliers. Axis has also produced a new questionnaire, which all suppliers must answer before collaboration starts.

In addition, Axis has altered the planning and follow-up of on-site supplier audits so that they address in an even better way the suppliers where Axis sees the greatest risks. In cases where deviations are found during an audit, these should result in an action plan, which should be implemented by the supplier within three months. New this year was an internal measure to confirm that all discrepancies have been corrected, verified and completed within six months.

Other initiatives include drawing up a new overtime policy in accordance with EICC's (Electronic Industry Citizenship Coalition) guidelines, which will be implemented at all suppliers during 2017.

Axis has also imposed stricter requirements on suppliers to more clearly show the traceability of minerals. Axis is sending out a new document in order to ensure that the minerals they use are conflict-free, supplementing the Supplier Code of Conduct. Read more under Conflict minerals.



#### Impacts and risks

Environmental impacts in the supply chain include mining of minerals and metals, extraction of oil for plastic, consumption of biomaterial and timber and use of chemicals. Energy is consumed in manufacturing and hazardous waste and pollution occurs.

Employee risks include heavy work, exposure to chemicals and long working days with a lot of overtime. Overtime implies a risk to employee health and safety as well as a risk in terms of product quality. Thus it is extremely important to have thorough health and safety directives at the workplaces.

All Axis suppliers are expected, besides complying with laws and regulations, to follow Axis' Supplier Code of Conduct.

#### Supplier Code of Conduct

Suppliers are expected to sign and comply with Axis' Supplier Code of Conduct, which is based on Axis' Code of Conduct and the UN Global

Compact's ten principles in the areas of human rights, labor, environment and anti-corruption. This includes requirements prohibiting any form of child or compulsory labor, ensuring good working conditions, keeping control on environmental impacts such as energy consumption, management of waste, chemicals and emissions and having a well-functioning water purification system. Other requirements are responsible sourcing of minerals in order to avoid conflict minerals.

In some cases, suppliers do not sign Axis' Supplier Code of Conduct, but instead refer to their own code of conduct. This is reviewed by Axis in order to verify that it corresponds with requirements stated in Axis' Supplier Code of Conduct.

Axis introduced its Supplier Code of Conduct in 2011 in order to increase and clarify supplier requirements. The introduction has meant that most suppliers collaborating with Axis have improved their sustainability work.

Furthermore, suppliers when appropriate should provide Axis with a declaration of materials listing substances that Axis does not allow and that are thus prohibited for suppliers to use in the company's products.

Suppliers should either be ISO 14001 certified or have a management system in accordance with ISO 14001, and otherwise meet Axis' requirements.

#### Initial evaluation

All new suppliers should sign Axis' Supplier Code of Conduct and are initially evaluated using a self-assessment questionnaire, before collaboration is initiated. The questionnaire, which suppliers should fill in, contains information about environmental considerations such as chemical management, air and water emissions and social responsibility, including working conditions such as working hours and employee health and safety.



“The seminar about the Supplier Code of Conduct was very informative and the content was delivered in a simple and easy to comprehend manner.”

Andrew Arulnathan  
Group Quality Assurance Manager, EKO

Contract manufacturers and strategic component suppliers to be audited also need to fill in a further document regarding how they meet Axis' requirements relating to the environment, quality and employee safety.

#### Thorough supplier audits

The supplier audits aim to follow up and ensure that suppliers meet the requirements in the Supplier Code of Conduct.

Both first-tier suppliers and contract manufacturers are screened as well as second-tier component suppliers. Suppliers are classified based on risk level, taking account of country, credibility and previous evaluations.

Of 20 new Axis suppliers during the year, 11 have a material impact on Axis' operations from a sustainability perspective, and all of them were screened in respect of environmental impacts, labor conditions, human rights and anti-corruption.

The audits are followed up regularly. This ensures that the supplier meets Axis' requirements and in those cases where measures are needed that they are also implemented.

During the actual inspection, environmental and quality engineers from Axis visit the factory. The inspections usually take one or two days. Axis examines the supplier's entire production process right up to final delivery. The audit covers the factory's environmental impact and employee working conditions. This includes working hours and routines, whether child labor or compulsory labour occurs, noise levels, fire safety, waste and chemical management as well as identifying and measuring different types of emissions. Axis also ensures that only conflict-free minerals are used. Furthermore, Axis reviews that processes and systems are in place to ensure that the operations are conducted in an ethical way in every respect. Interviews are conducted with the management and employees.

If it should become apparent that a supplier does not meet Axis' requirements, then the supplier has three months to implement corrective actions. If the measures are not carried out after further discussions with Axis, then the supplier will not get any new business. In the next stage, the supplier will be phased out.

Positive effects from Axis audits include reduced chemical emissions in waste water and better safety for employees in their workplaces, with reduced risk of accidents and an improved working environment generally. Axis ensures that suppliers address and handle environmental risks, which are considered to be significant, resulting in fewer risks in these areas.

Axis has 20 inspectors. They have undergone environmental audit training, among other things.

#### Audits during 2016

During the year, Axis had a die-casting supplier in China under observation that needed to make major changes in line with Axis' requirements. The supplier needed to correct waste management, chemical management and also improve employee safety. Axis was prepared to terminate the agreement with the supplier. Axis provided advice in relation to drawing up an action plan and defined what measures the supplier was obliged to implement for Axis to continue working with them. The supplier was under observation for a period and received no new orders from Axis during this time. As the die-casting supplier has made comprehensive improvements, the collaboration will continue.

No collaboration with suppliers was terminated during the year due to suppliers failing to meet Axis' requirements.

Apart from audits, Axis also conducts supplier training in order to inform them about the company's values and requirements, including within the Axis Supplier Academy framework.

#### Supplier Academy

Axis Supplier Academy is a program where Axis trains suppliers locally in environmental, working environment and other sustainability matters. The training program aims to increase awareness and understanding of the requirements imposed by Axis and is particularly addressed towards the suppliers that are most critical from a sustainability perspective.

During the year, Axis trained 10 suppliers in China and Malaysia within the Supplier Academy framework, mainly casting shops. The training relates to the requirements Axis imposes under the Supplier Code of Conduct.

# Goals

## and target fulfilment

### Suppliers

- > At least 95 percent of the suppliers that have a major impact on Axis from a sustainability perspective should have a management system in place for environmental and other sustainability questions, which should be approved by Axis, or they should be certified according to ISO 14001.
- > 85 percent have such an Axis-approved management system in place, or are ISO 14001 certified. In 2015, 83 percent of suppliers had such a management system in place or were ISO 14001 certified.
- > Axis also had a goal in 2016 to train at least six suppliers, which are critical from a sustainability perspective. During the year, 10 critical suppliers were trained.



# Conflict minerals

Axis works systematically to ensure that the company's products do not contain any conflict minerals, in other words gold, tantalum, tin, or tungsten that finance conflicts in the Democratic Republic of the Congo or from any of the neighboring countries.



Conflict minerals are a very important social and ethical question. Their extraction creates disputes and trading in the minerals finances armed conflicts and can result in child and compulsory labor.

During the year, Axis imposed stricter requirements on suppliers to more clearly show the traceability of the minerals. From 2016, Axis is sending out a new document, "The Confirmation of Agreement Concerning Conflict Minerals", where suppliers sign that they investigate their own supply chain and advise Axis if conflict minerals are discovered. Axis also collects further information from contract manufacturers.

Axis' conflict mineral policy prescribes that Axis does not accept, tolerate or engage in any sourcing activities, which may finance conflicts or involve any form of violation of human rights or compulsory labor.

Axis follows recommendations and guidelines from the electronic industry organization Electronic Industry Citizenship Coalition (EICC) and the Global e-Sustainability Initiative (GeSI) regarding taking social responsibility in the entire supply chain.

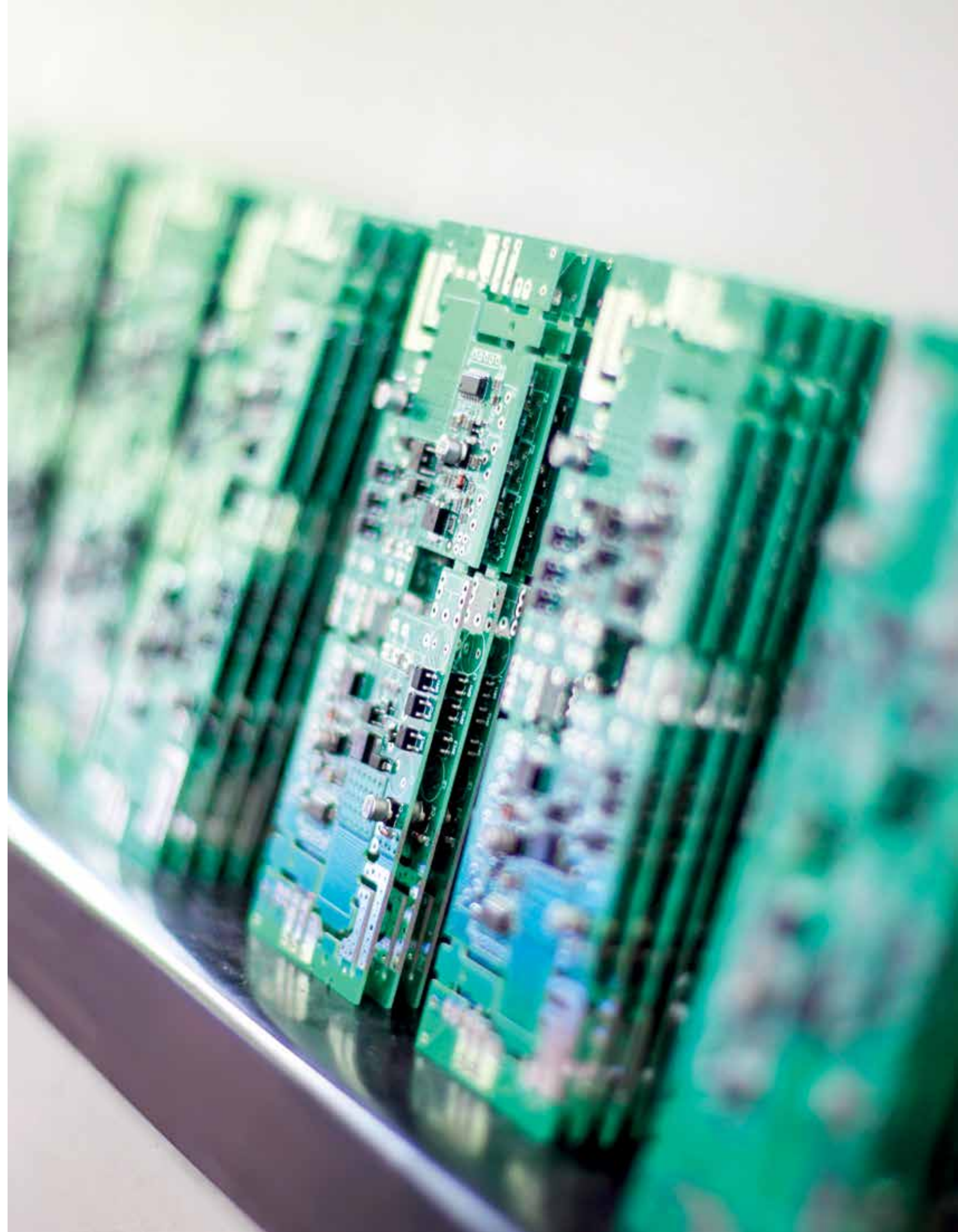
Axis has a well-established process for ensuring that the minerals used by suppliers and subcontractors are conflict free. In accordance with Axis' Supplier Code of Conduct, all suppliers have undertaken to obtain necessary information about their supply chain in order to ensure that conflict minerals are not used.

Suppliers must report the origin of the minerals and describe how they are working to ensure that their components and products only contain conflict-free minerals. This means that suppliers must identify and inform Axis about all smelters in the value chain that supply gold, tantalum, tin and tungsten.

Furthermore, Axis expects all suppliers to act in accordance with Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, when applicable. Suppliers must also have policies and measures of due diligence in place, enabling Axis to ensure that the products and components supplied to Axis are conflict free.

Suppliers are expected to report where the minerals in the products and the various components come from and any measures taken, by using the Conflict-Free Sourcing Initiatives (CFSI) reporting tool – Conflict Minerals Reporting Template. More than 80 percent of Axis' suppliers have reported via this reporting tool.

Upon preparation of this sustainability report, Axis did not find any case during 2016 where conflict minerals were used in the components of products supplied to the company. If Axis would discover that conflict minerals are used by any supplier, Axis will send a document to the supplier, providing details and an action plan to end this practice. If the measures are not implemented, Axis will suspend collaboration with the supplier in question.



# Social responsibility

Axis is the market leader in network video and has employees in more than 50 countries. The company's products and solutions have a great impact on many people's lives. Axis aims to act as a model and to offer an attractive and safe workplace. Axis takes long-term social responsibility and invests in social initiatives that positively impact the company's own operations and surroundings in the markets where the company operates. Axis should adopt a long-term approach in everything it does – in order to create a smarter and safer world.

"Axis has a plural workforce in terms of cultural background, gender and age. Job opportunities are not affected by prejudice such as against sexual orientation and there is a general atmosphere of acceptance and embracing differences."

*Rodrigo Guedes, PR specialist in South America*

## Employees

Committed and well-qualified employees are important factors behind Axis' successful growth. Motivated employees and clear leadership are also crucial for Axis to reach its goals.

Axis should be an attractive employer and offer a safe working environment, where employees are happy and feel pride in what they do. All employees should have good opportunities to develop, irrespective of gender or background.

Axis offers a safe and healthy working environment with a strong corporate culture, good career and development opportunities and competitive terms of employment. The company works actively to promote increased diversity and equality.

Continual and careful recruitment in all markets is crucial for Axis' continued growth and to further strengthen its position in the network video market. During the year, Axis employed 391 people, of whom 106 were women and 285 were men. In addition, the company also acquired the companies Citilog, 2N and Cognimatics during the year, which meant that the total number of employees at year-end amounted to 2,646 (2,139).

Axis also collaborates with schools, colleges and universities and offers internships for thesis work. Axis employees provide instruction at schools in order to inspire and explain how it is to work as an engineer and about technology and also contribute to research projects at Lund University.

## Health and safety – a good and safe workplace

Axis wants to be an employer where people feel happy and remain for a long time. The company's view is that healthy employees do a better job; leading to greater creativity, more innovation and better results. Keeping down sickness rates benefits both Axis as a company and society.

## Discussions, training and follow-up

Axis follows national laws and sector guidelines in all the countries where the company operates and imposes the same demands on its suppliers and partners. Axis works strategically and proactively on continually improving its working environment. As part of these efforts, collaboration with a new occupational health service partner was initiated in Sweden during the year.

Axis is carrying out a number of initiatives with the aim of being a good and safe workplace:

- > The occupational health service is offered at many offices and employees can do regular health checks.
- > HR managers ensure that all offices respect the working hours and that employees receive reasonable salaries which follow agreements and local legislation.
- > Regular safety and fire prevention training is conducted at most offices.
- > All employees have annual career development discussions, where they have an opportunity to give their view of Axis as a workplace. Action plans are developed in connection with development discussions.
- > Annual safety inspections and safety committee meetings are held in Sweden.
- > All managers in Sweden participate in regular working environment training.
- > Employee surveys are conducted regularly in order to gain an insight into and knowledge of the employees' view of the leadership and other workplace-related questions. In 2016, A Great Place To Work surveys (AGPTW) were conducted in Sweden, USA and Central

Europe. The Swedish survey had a response rate of 89 percent (2014:78 percent). The high response rate points to dedicated employees. Axis' average trust index was 83 percent (2014: 82 percent). 91 percent of employees think that Axis is a very good workplace (2014: 91 percent). Axis has improved in leadership and has received very good results in the areas of work environment, equal treatment, pride and wellbeing. Areas for improvement include clarifying goals.

All employees, managers and the board are covered by policies such as the company's Working environment policy, Alcohol and drugs policy, Policy against harassment and Policy for safety during trips, where Axis collaborates with SOS International and the security company Control Risks. In Sweden there is also a Rehabilitation policy and Policy against victimization.

## Collective agreements and freedom to join a trade union

All employees in Sweden and 75 percent of the total number of employees are covered by collective agreements. All employees have

# Think Big. Act as one. Always open.

the right to join trade unions and to negotiate collective agreements, in accordance with local legislation and what is applicable in each country.

## **Non-discrimination, diversity and equal opportunities**

Axis does not tolerate any form of discrimination or harassment whatsoever, for example based on gender, sexual orientation, ethnicity, national origins, religious belief, age, civil status or functional impairment.

Axis' view is that equality and diversity regarding background, competencies or other attributes fosters innovation, new thinking and employee wellbeing. This is a competitive advantage and helps the employees to feel proud about Axis – that Axis takes responsibility and upholds the equal value of all people. In turn, this results in employees becoming ambassadors, models and good advocates for Axis.

Women and men should have the same opportunities to make a career. Axis aims to ensure that all employees with identical qualifications should have the same salary for identical performance and responsibility.

During the year, a number of initiatives were implemented in order to promote greater equality and diversity:

- > Axis in Sweden participated in initiatives to integrate newly arrived persons into society such as Commitment Skåne and Talent without borders. Read more about Axis' engagement to get new arrivals into the labor market on page 57.
- > Axis has expanded its collaboration with the Employment Service in Sweden in order to recruit new arrivals and people with various types of functional impairments.

- > A new policy against victimization was drawn up for Axis in Sweden.

As regards equality, Axis has a network, the Axis Q Network, for female employees in Sweden. The aim is for women to meet, exchange experience and ideas with other women outside their own department and facilitate career development. During the year, Axis continued to participate in initiatives to increase interest in technology among girls such as Flickor på Teknis and Datatjej, and also participated as a speaker at Lund University Lund and at the Female Engineering Network.

## **Policies and Code of Conduct**

All employees, managers and the board comply with policies such as the company's Harassment and equality policy and Code of Conduct. The policies clearly lay down the responsibilities of each person.

## **Good career and development opportunities**

Axis offers good career and training opportunities and competitive working conditions in order to attract and retain committed and knowledgeable employees. The company's bonus program covers all employees. Salaries for all employees are reviewed annually.

As a global expanding company, good career development opportunities exist for employees. During the year, Axis had a strong focus on improving internal mobility and internal career paths, which meant that a number of employees changed positions in the company.

## **Training**

The company provides several training courses for employees as well as managers. During the year, Axis mapped the training needs and what training was carried out. Together with an external partner, Axis quality assured and matched training needs with conducted training in an even better way.

Another new initiative this year was recruitment training for all managers, with definite tips and advice for what to consider in order to ensure that the right person is recruited to the right position.

Training programs include:

- > An introduction program at the headquarters in Lund for all new employees, so that they will learn the corporate culture, core values,

business strategy and gain an insight into the various operational areas.

- > IP@Axis (Internal Projects at Axis), a job rotation and international exchange program where employees get the chance to travel and work in another Axis office globally during a limited period, either as part of a project or to learn something specific. The program aims to improve the utilization of different employee competencies and learn from each other in order to become even more efficient, increase networking, strengthen the corporate culture and enables personal and career development for the employees.
- > Axis Win Win Academy, a program for all Key Account Managers and regional sales managers.

Further training and initiatives, particularly for salespeople and managers is conducted in all regions and adapted to the needs of the various regions and countries.

Training adapted to individual needs is also offered to employees, in consultation with their respective managers.

Axis also offers the following training initiatives in order to strengthen leadership:

- > International Program for New Leaders, a 10 month management training program.
- > New managers at Axis, leadership training for managers at the headquarters in Lund.
- > Axis Leadership Program, a leadership program for all managers in Sweden.
- > Mentorship program.

## **Corporate culture and values**

Axis' corporate culture, with strong values, represents the basis for all operations and is constantly present in the day-to-day work and in the leadership. All employees and the board should comply with the Code of Conduct, act according to it and take responsibility for upholding the company's values.

This unique corporate culture is a key factor behind Axis' successful performance and provides a basis for continued strong global growth and for reaching the company's goals. The corporate culture is characterized by an entrepreneurial spirit, openness and responsibility and is and has been crucial to maintaining innovation and

dynamism in a rapidly growing organization like Axis. All employees are expected to be engaged and take responsibility for what they do.

Axis works systematically to strengthen the corporate culture as it is of critical importance that the employees share the company's values. This cultural matching during recruitments is therefore extremely important and the recruitment process is extremely thorough. The corporate culture and values are important parts of the introduction program for new employees, and also in other training and employee programs.

Axis' core values Always open, Act as one and Think big are cornerstones in the culture work.

This means being open to the ideas of colleagues and customer needs, working together to reach the company's established goals, remaining at the leading edge and creating the best products and solutions for customers. The values are also a key part of kickoff events, criteria in setting of salaries and in career development discussions etc. All employees should understand Axis' goals, vision and values.

All the company's policies are based on the core values. Last year, a core value toolbox was launched and is used by managers in the organization. This includes modules containing problems in order to conduct exercises and to facilitate discussions with their teams and departments.

## **Ethics and anti-corruption**

Part of the corporate culture is to be a company pervaded by good ethics. Axis has zero tolerance against all types of bribery and corruption. Essentially all employees have signed an agreement whereby they undertake not to accept bribes or participate in corruption, in accordance with the company's anti-corruption policy. New employees sign the agreement when they are hired by Axis, after participating in anti-corruption training (see below). The agreement is continually renewed after this.

Employees and managers should participate in anti-corruption training on a regular basis. Almost all employees and managers completed web-based training during the year. Even employees in the companies acquired during the year have started anti-corruption training and have signed Axis' anti-corruption policy.

# Goals and target fulfilment

## **Non-discrimination, diversity and equal opportunities**

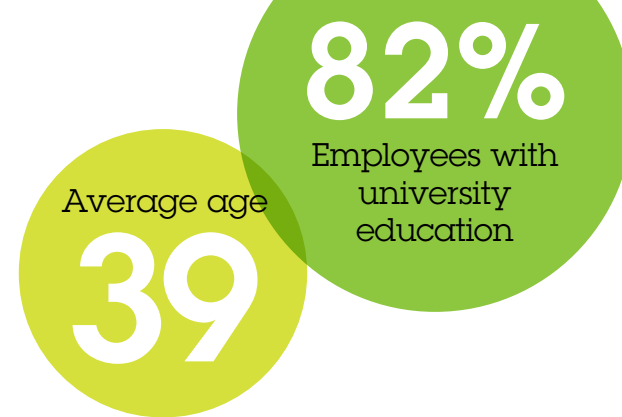
- > Advancing the company's position as an employer with regard to equality and diversity.
  - > During the year, Axis participated in initiatives to improve diversity at the workplace such as Commitment Skåne and Talent without borders.
  - > Axis' female network – Axis Q Network has promoted exchange of knowledge and women's careers.
- > Promoting external initiatives to raise the status of women in technology in society. During the year, Axis helped with financing and participated in Flickor på Teknis and Datatjej, among other initiatives.

- > Zero tolerance towards discrimination and harassment. No incidents of discrimination were reported during the year. Nor did any such incidents occur during 2015 or 2014.

## **Health and safety**

- > An absence due to illness rate of 2.2 percent. In 2016, absence due to illness amounted to 2.5 percent. In 2015, the figure was 2.4 percent and in 2014 it was 2.2 percent.
- > Work even more strategically and proactively with working environment questions. Axis has initiated collaboration with a new occupational health service partner in Sweden.
- > Managers and employees should have a good insight into how Axis works with working environment questions. The company has conducted global information campaigns during the year.

## Axis in figures



|  | 2016   | 2016   | 2015  | 2014  |
|--|--|--|---|---|
|  |  | incl. Citilog, 2N and Cognimatics                                      |   |   |
| Number of employees                                | 2,365  | 2,646  | 2,139   | 1,941   |
| Proportion women/men, %                            | 27/73  | 26/74  | 27/73   | 27/73   |
| Group Management                                   | 2 women, 8 men   | 2 women, 8 men   | 2 women, 7 men  | 2 women, 7 men  |
| Board of Directors                                 | 2 women, 8 men, a of whom 2 women and 3 men are employee representatives | 2 women, 8 men, of whom 2 women and 3 men are employee representatives | 1 woman, 7 men of whom 1 woman and 2 men are employee representatives | 1 woman, 7 men of whom 2 men are employee representatives |
| Employee turnover, %                               | 7.7  | 8.6  | 7.3   | 6.8   |
| Workplace accidents                                | 15 of which 0 fatal accidents  | 17 of which 0 fatal accidents  | 7 of which 0 fatal accidents  | 9 of which 0 fatal accidents                              |
| Number of accidents with lost workdays as a result | 6  | 8  | N/A   | N/A   |
| Number of lost workdays                            | 44   | 61   | N/A   | N/A   |
| Absence due to illness, %                          | 2.5  | N/A  | 2.4   | 2.2   |
| Average age  | 39   | 39   | 39  | 38  |
| Age distribution, employees, %                     |  |  |   |   |
| Under 30 years                                     | 14   | 16   | 14  | 17  |
| 30-50 years  | 75   | 73   | 76  | 75  |
| Over 50 years                                      | 11   | 11   | 10  | 8   |
| Age distribution, group management %               |  |  |   |   |
| Under 30 years                                     | 0  | 0  | 0   | 0   |
| 30-50 years  | 80   | 80   | 80  | 80  |
| Over 50 years                                      | 20   | 20   | 20  | 20  |
| Age distribution, board of directors %             |  |  |   |   |
| Under 30 years                                     | 0  | 0  | 0   | 0   |
| 30-50 years  | 50   | 50   | 50  | 40  |
| Over 50 years                                      | 50   | 50   | 50  | 60  |
| Employees with university education, %             | 82   | 79   | 80  | 81  |

## Trainee positions for new arrivals

Axis participates in initiatives to get new arrivals into the labor market faster. This work occurs as part of the Commitment Skåne framework. In this way, Axis makes a contribution to society while it is also a good opportunity to find potential employees, since the company has a continual recruitment need.

Since fall 2015, Axis has participated in the Commitment Skåne initiative whose purpose is to facilitate and shorten the time it takes for new arrivals to enter the labor market and promote faster integration into society.

When new arrivals have obtained their residence permit, they can register with the Swedish Employment Service (Arbetsförmedlingen). After this companies, including Axis, are offering trainee positions via Commitment Skåne – collaboration between companies and Arbetsförmedlingen in the southern Swedish province of Skåne.

"Trainee positions are a good way to judge people's professional skills, instead of needing to wait to get their competencies and certificates translated and evaluated," says Matilda Magnusson, HR Coordinator whose remit includes diversity questions.

Axis was one of the first companies to get involved in Commitment Skåne, and today a number of companies participate.

"For recent arrivals, trainee positions are a way to experience Swedish organizational culture, which can be very different from the culture they are used to. It is also a way for new arrivals to gain an insight into how Swedish working life operates," says Magnusson.

Apart from recruitment, trainee positions and evaluation of professional skills, Commitment Skåne works with study visits, mentorship and on creating meeting places.

"This initiative is a fantastic way to make a social contribution. We are contributing our knowledge while it also an excellent opportunity to find people with good and relevant skills and experience," says Magnusson.

Axis has displayed strong growth and has a continual recruitment need.

Up to the time of preparing this report, Axis had two trainees, both engineers. The trainee positions create the basis for people to gain permanent employment, either with Axis or with some other company, by getting a reference in the labor market. One person who is gaining work experience at Axis has a trainee position that extends into 2017 and another person has obtained permanent employment.

"There has been increasing interest and involvement internally and we expect to receive further trainees," says Magnusson.

Axis also participates in the Talent without borders project, which is part of Commitment Skåne. Under the Talent without borders framework, Axis offers interview training and help with CV reviews. Nine people have received help to date.

"Internally, people are proud that Axis is taking its social responsibility," says Magnusson.



"Internally, people are proud that Axis is taking its social responsibility."

Matilda Magnusson, HR-koordinator

# Business ethics

## in the entire value chain

Axis is a market leader and drives the development of innovative and intelligent security solutions. Axis has long and close relationships with its distributors, partners and suppliers, which helps to ensure ethical business conduct in the entire value chain. All business relationships should be handled in a responsible, transparent, credible and consistent way.

During the year, Axis advanced its positions and worked in an even more focused way on prioritizing sustainability questions and increasing awareness of them, not just in its own operations but also among other players in the value chain. Axis' sustainability efforts are appreciated and have been well-received by the company's stakeholders.

Customers are increasingly asking for eco-friendly products, for example network cameras, which are PVC-free with low energy consumption. Distributors seek assistance from Axis with their sustainability efforts, in order to ensure long-term sustainable conduct, right up to how end customers use Axis products. Axis has regular meetings with its distributors, where sustainability – from an environmental, social and ethical perspective – is an important item on the agenda. Regular end customers meetings also take place at Axis ensuring a continual dialogue regarding sustainability.

### Long-term partner relationships

Long-term relationships with partners is one of the cornerstones of Axis' business model. Axis has more than 90,000 partners in 179 countries. Together with its partners, Axis has a global base of installed network video products and solutions. A key part of the collaboration with partners is the sharing of knowledge. Axis offers its partners a number of different training courses and programs. Read more about the collaboration with partners on page 10, 15 and 34.

Axis informs its partners about its sustainability work with the aim that all parties should act in an ethical and sustainable way.

### Ethical guidelines, policies and regulations

All business should be conducted in a responsible way, be in accordance with applicable laws and regulations and be consistent with the company's policies.

An ethical approach is a part of the day-to-day work, where all employees are expected to work according to the company's core values and act

on the basis of watchwords such as responsibility, professionalism, openness and honesty.

### Axis Code of Conduct

Axis' Code of Conduct lays down the values and guidelines upon which Axis conducts its business. The Code of Conduct is based on the UN Global Compact's ten principles, the UN Declaration of Human Rights and the International Labor Organization's (ILO) Declaration on Fundamental Principles and Rights at Work. All employees and the board should comply with the Code of Conduct, which sets out how employees should act in business-related situations, internally and externally. Information about what is implied by the Code of Conduct is included as part of the introduction program for new employees. Axis' core values and strong corporate culture help to ensure openness and honesty.

### Supplier Code of Conduct

Axis' suppliers for manufacturing and assembly of the company's products are carefully selected. All suppliers are expected to sign and comply with Axis' Supplier Code of Conduct, which is based on

Axis' Code of Conduct. In some cases, suppliers do not sign Axis' Supplier Code of Conduct, but instead refer to their own Code. This is reviewed by Axis in order to verify that it corresponds with Axis' Supplier Code of Conduct in terms of content.

### UN Global Compact

The UN Global Compact is the world's biggest sustainability initiative and is based on ten principles in the areas of human rights, labor, environment and anti-corruption. Axis signed the UN Global Compact in 2007 and has worked according to its guidelines ever since. The principles provide guidance for how Axis conducts its sustainability work. For a list of the ten principles, see page 67.



# Zero tolerance against corruption

Axis has a policy of zero tolerance against all types of corruption. During the year, Axis further advanced its position in relation to its anti-corruption work. Upon preparation of this sustainability report, there were no known cases of bribes or corruption during 2016.

“In order to meet and exceed our customers’ expectations for quality and reliability, we must ensure a sustainable supply chain that meets our requirements for ethical and responsible procurement. Our suppliers, such as Axis, must have the same focus on quality and sustainable production as we have.”

*Tomi Rintanen, Sustainability Manager, Vaisala*

Axis as a company and all its employees shall maintain the very highest standards when it comes to correct ethical and moral conduct, in all business relationships. In the business environment where Axis operates, it is not possible to rule out that Axis employees can come into contact with corruption. Axis therefore works actively to identify and handle risks relating to bribes, corruption and conflicts of interest, in order to protect both the individual and Axis as a company.

#### **Policies and training for employees, distributors, partners and suppliers.**

Axis’ anti-corruption policy prescribes that all business relationships should occur in a responsible, transparent, consistent and credible way. This policy is part of Axis’ program against bribes, corruption and conflicts of interests, and helps to clarify Axis’ position on these questions. The policy covers all employees and the board.

The anti-corruption policy stipulates that Axis’ employees should not offer, accept or participate in any activity that includes any form of bribe. Almost all employees have signed a document where they undertake to comply with Axis’ anti-corruption policy. All employees receive compulsory training in what Axis’ anti-corruption policy implies. The board has also revised and approved the anti-corruption policy.

Working actively with anti-corruption questions is also part of Axis’ obligations under the UN Global Compact’s anti-corruption principle.

Axis also has an e-mail address which employees can write to in order to obtain support and ask questions relating to corruption as well as ethical dilemmas and challenges. Employees can ask questions and send in information they want to share regarding resolved problems. They can

also report suspected cases of irregularities concerning the company, and if they should become aware of anything that violates the company’s Code of Conduct.

The aim of the e-mail function is to obtain information if anything happens that may contravene the anti-corruption policy or Code of Conduct, improve sharing of knowledge and create an understanding of what issues are relevant for employees. This also helps to develop working methods for how Axis can improve its work on ethical questions, and to ensure continual further training.

A description of the e-mail function and how it works is available on the Intranet. The e-mail address goes to representatives from Human Resources and to the company management.

The company’s distributors and partners, in addition to opposing corruptions and bribes, are expected to follow applicable laws and regulations. Axis informs its partners so that they act in accordance with anti-corruption legislation in the best possible way. For example, this occurs at partner conferences, through web seminars and in newsletters to partners.

Essentially all distributors have signed a supplement to the distributor agreement where they undertake to act according to applicable laws and rules relating to bribes and corruption.

The Supplier Code of Conduct also includes zero tolerance against bribes and corruption. If a supplier should breach the Code of Conduct, it gets the chance to implement improvements. If this does not happen, the supplier is phased out and replaced.



# Protection of customer privacy and personal integrity

Axis' intelligent security solutions enable a smarter and safer world. Use of surveillance solutions for increased security and protection as well as smart solutions, e.g. for traffic monitoring and for various types of intelligent analysis shall always safeguard personal integrity and customer privacy.

For Axis and the company's partners, it is extremely important that both personal integrity and customer privacy are handled correctly. This is essential in order to comply with laws and rules and is crucial for having loyal customers and maintaining long-term competitiveness.

During the year, Axis further increased its focus on IT security. Questions relating to IT security have also gained an increasingly prominent role in the dialogue with distributors and partners.

## Protected systems

Axis' network cameras and solutions are components in security systems. Network devices may be exposed to threats. Axis strives to eliminate all types of vulnerability before an incident is likely to occur, regardless of whether it concerns an individual camera or a larger solution.

In order to ensure customer privacy and confidential information, all information about customers and partners is handled in very well-protected systems. Axis works continually

to further enhance security in order to protect customer information.

Axis' research and development department always attaches the highest priority to security and works to ensure that firmware and interfaces are robust.

Axis' products and solutions support encryption, IP address filtering and also enable user authentication protection, multi-stage logins and other forms of data protection. Axis also offers training to its installation engineers to ensure that video surveillance system installations are as safe as possible.

## Secure use and storage

End users are responsible for how surveillance cameras are utilized and for how video material is stored, which are the two most important aspects of personal integrity. Axis is careful with its choice of partners, and works actively to inform them in order to ensure as far as possible that the company's network cameras and solutions are installed and used properly. The risk of improper camera use is reduced by partners and end users acting in accordance with Axis' recommendations and guidelines and with national and international laws.

Technological innovations in network video enable anonymization and functionality restrictions, which increase personal integrity protection. Together with its partners, Axis has developed advanced software solutions, which when implemented in surveillance systems, may be used to further enhance data protection and to ensure that the cameras only record what is necessary.

Privacy masking may be used in order to protect personal integrity. This automatically blurs faces and hides some parts of the images and also includes time restrictions for recording.

Legal restrictions for use of surveillance technologies and international trade restrictions such as sanctions and embargoes, affect exports and sales of certain products to some countries.

By carefully following national and international laws, applying sector-specific best practice and using technical innovations, Axis strives to ensure the least possible impact on personal integrity. Meanwhile, users can still obtain the increased security and protection offered by video surveillance solutions.

## Openness and dialogue

Axis safeguards openness and invites its distributors to inspect and check how Axis stores and handles information. No distributors have elected to do so to date.

At Axis' partner meetings, questions relating to personal integrity and IT security in the company's products are continually discussed.

Questions relating to customer privacy and personal integrity are dealt with immediately by the company and taken extremely seriously. During 2016, one incident occurred where a gap was found in the security system in some of Axis' products. As soon as it was discovered, Axis immediately updated its software and corrected the problem. Axis had processes in place and could rapidly inform all partners and customers that could have been affected.

# Customer satisfaction

Axis has long-lasting and close collaboration with its customers. Long-lasting customer relationships and satisfied customers are of great importance for Axis' long-term growth and success.

Axis conducts regular customer surveys among distributors and partners all over the world in the markets where the company operates, in order to understand customers and meet their needs. The surveys measure how satisfied customers are with Axis and how they think that Axis can improve its working methods, products and solutions. The result is evaluated against previously conducted surveys. The information is then circulated to the relevant departments in the organization, so that Axis can make improvements. The objective is to always be able to improve the offering.

Global customer surveys are conducted among sales channel participants every second year. The latest customer survey was carried out in 2015 and more than 11,000 partners in 47 countries responded. 81 percent of respondents were very satisfied with Axis. A large proportion of those who answered the latest survey considered that product quality, services and people were Axis' greatest assets. Among other things, Axis received high ratings for its IP technology leadership and understanding of the market. The next global customer survey is planned to be conducted in 2017.

Furthermore, worldwide users of Axis' support have the opportunity to provide feedback from their experience. This occurs on a regular basis after cases are closed. The information is compiled every quarter.

If a customer is not satisfied, a follow-up takes place if possible. If the product in some respect is not perceived as satisfactory by the customer, including documentation or the handling of a case, the information is relayed to the relevant development.

As a part of Axis' corporate culture, employees are encouraged to interact with customers in order to obtain first hand information about how they perceive the collaboration with the company as well as the company's products and solutions. In this way, Axis can further develop and improve its customer relationships, to ensure continued satisfied customers.

**81%**  
81% very satisfied with Axis

**57%** NPS\*

\* Net Promoter Score (NPS) is a method for measuring customer loyalty. It is calculated as follows:

NPS = % Promoters - % Detractors. The index ranges from -100 to 100, which means that a figure over 0 is positive and a result over 50 percent is very good.

# Goals and target fulfilment

## Anti-corruption

Axis has zero tolerance against all types of corruption and bribes.

> Almost all employees, including the company management, have signed the company's anti-corruption policy and have participated in training in these questions. In 2014 and 2015, practically all employees received training in Axis' anti-corruption policy and signed the policy.

> Almost all of the company's distributors have signed a supplement to the distributor agreement where they undertake to act according to applicable laws and rules relating to corruption and bribes. The supplementary agreement was introduced in 2014.

> Almost all suppliers have signed the Supplier Code of Conduct, where they undertake to oppose bribes and corruption and have zero tolerance against corruption. In those cases where suppliers have not signed, but instead refer to their own Code of Conduct, Axis has reviewed it.

Upon preparation of this sustainability report, no known cases of bribes or corruption had occurred during the year. Nor did the company become aware of any cases of corruption during 2014 or 2015.

## Customer satisfaction

Axis aims to have long and close customer relationships. The latest global customer survey, which was conducted in 2015, showed at 81 percent of customers were very satisfied with Axis.

## Customer privacy and personal integrity

Axis shall handle customer privacy and personal integrity in a correct and secure manner. During 2016, one incident occurred that concerned customer privacy. The problem was rectified immediately. No such incidents or complaints occurred in 2015 or 2014.



# Axis in society - charity and sponsorship

Axis' social responsibility includes charity and sponsorship. Axis contributes to the local community in the markets where the company operates, including through sponsorship of educational projects and sports associations, local environmental initiatives and donations to charitable organizations.

Taking social responsibility and having a social commitment are part of Axis' strategy. Charitable initiatives and sponsorship are usually initiated and conducted at a local level. The projects contribute to the local community and also benefit Axis and the company's employees. Some of the initiatives undertaken and projects completed during the year are described below.

## USA

In the USA, Axis was involved in a number of charitable initiatives. These included Mission 500, a not-for-profit organization, which helps children in need. Axis participated in Security 5K, Security Softball Game, the annual Golf Classic and in the Security Industry Hockey Classic in order to raise money for the organization. Axis also participated in Mission 500's annual trip to the Appalachia region of West Virginia, where employees spent three days together with volunteers helping families in need, including repairing trailers to make them safer. Food is also donated to children in need through the Mission 500 framework.

## Mexiko

Together with the IT and security company Suro Systems, Axis donated network cameras and a security installation to Imagina Centro Comuniario, an ecological and cultural center for children and young people. This allows children and young people with limited educational opportunities to develop their cultural skills. The solution has created a safe and secure environment for staff, children and young people.

Denisse Bistré Foundation is a home for girls and boys who have been abandoned and/or subjected to violence. The Foundation offers training, psychological help, food, clothes etc. until the children reach the age of 18. Axis has given them cameras, in order to create a safer environment, and also contributed food and shoes to a Christmas party.

Furthermore, Axis is donating sanitary articles every month, such as schampoo and soap, to the Red Cross. These necessities are intended for the patients who are treated there.

## Sweden

Axis sponsors sports associations, sporting and cultural events such as the Lundaloppet run and educational initiatives such as Flickor på Teknis, aimed at encouraging girls to apply to technical training courses. Instead of giving Christmas presents to personnel, Axis provided money to a girls' school in Hekima, Tanzania, to the Swedish Cancer Society and to Doctors Without Borders.

Axis participates in Commitment Skåne, whose purpose is to facilitate and shorten the time it takes for new arrivals to enter the labor market and promote faster integration into society (see separate article).

## Czech Republic

Axis in the Czech Republic donated Christmas presents to Children Safety Line, an organization, which supports children and young people up to the age of 26 with family problems or psychological/personal problems. Children Safety Line has certified psychologists and specialists who can assist and solve difficult life situations, anonymously.

Axis employees also spent a day cleaning the Prokopské údolí nature reserve in Prague, where they cut the grass, cleared leaves and twigs and picked up rubbish.

## Poland

In Poland, Axis donated money to the charitable organization Mimo Wszystko, instead of giving Christmas presents. Mimo Wszystko helps adults that have intellectual functional impairments, with medical treatment and rehabilitation, among other things.

Axis employees spent a day cleaning the Prokopské údolí nature reserve in Prague.

Axis employees knitted caps for Save the Children.

## Republic of Korea

In the Republic of Korea, Axis employees knitted woollen caps for the non-governmental organization Save the Children. The caps are used to keep infants warm at night and thus prevent deaths, which can occur when children suffer a chill during winter nights.

## Singapore

The not-for-profit organization Children Cancer Foundation aims to improve quality of life for children with cancer and their families. Axis has worked together with Children Cancer Foundation and financed a terrarium with plants that the children built, and also provided the children with gift vouchers for books. Axis also donated refurbished cameras to Angkor Hospital.



Axis donates sanitary articles every month, such as schampoo and soap, to the Red Cross.



# About the sustainability report

The sustainability report follows Global Reporting Initiative's (GRI) guidelines for sustainability reporting, G4.

Axis reports according to the Core standard. The sustainability report also constitutes Axis' Communication on Progress report to UN Global Compact.

The sustainability report contains the sustainability aspects, which are most important for Axis and the company's stakeholders, the aspects' boundaries and a description of how Axis handles these aspects. Certain indicators that Axis reports on refer to the 2016 Annual Report. Explanatory comments are provided for some of the indicators.

During the year, Axis acquired Citilog, 2N and Cognimatics, but these companies are not included in the reported figures. The figures include Axis' own operations, unless otherwise stated.

## GRI index

### GENERAL STANDARD DISCLOSURES

| Description                                       | Page   | Description   | Page |
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| G4-1  | Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy   | 6             |      |
| <b>ORGANIZATIONAL PROFILE</b>                     |  |               |      |
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| G4-5  | Location of organization's headquarters  | 115           |      |
| G4-6  | Number of countries where the organization operates  | 5             |      |
| G4-7  | Nature of ownership and legal form   | 104-105       |      |
| G4-8  | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)  | 5,13-17       |      |
| G4-9  | Scale of the reporting organization  | 5             |      |
| G4-10   | Breakdown of workforce   | 56            |      |
| G4-11   | Percentage of total employees covered by collective bargaining agreements  | 53            |      |
| G4-12   | The organization's supply chain  | 34-35,46-48   |      |
| G4-13   | Significant changes during the reporting period regarding size, structure, ownership, or supply chain  | 3,29,46       |      |
| G4-14   | Report whether and how the precautionary approach or principle is addressed by the organization.   | 40            |      |
| G4-15   | Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses   | 28,40<br>50   |      |
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| <b>IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES</b> |  |               |      |
| G4-17   | All entities included in the organization's consolidated financial statements or equivalent documents and whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report | 29            |      |
| G4-18   | Process for defining the report content, the Aspect Boundaries and how the organization has implemented the Reporting Principles for Defining Report Content   | 31-32         |      |
| G4-19   | Material aspects identified  | 33            |      |
| G4-20   | Aspect Boundary within the organization for each Material Aspect   | 34-35         |      |
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| G4-27   | Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to these key topics and concerns  | 31            |      |
| <b>REPORT PROFILE</b>                             |  |               |      |
| G4-28   | Reporting period   | 29            |      |
| G4-29   | Date of most recent previous report. Comment: April 7, 2016.   |               |      |
| G4-30   | Reporting cycle  | 29            |      |
| G4-31   | Contact point for questions regarding the report or its contents   | 115           |      |
| G4-32   | 'In accordance' option the organization has chosen, GRI Content Index for the chosen option and reference to the External Assurance Report, if the report has been externally assured  | 29,66         |      |
| G4-33   | Policy and current practice with regard to seeking external assurance<br>Comment: Axis has not sought external assurance for the report. The report has been prepared with guidance from external consultants with GRI expertise.                  |               |      |
| <b>GOVERNANCE</b>                                 |  |               |      |
| G4-34   | Governance structure   | 28-29         |      |
| <b>ETHICS AND INTEGRITY</b>                       |  |               |      |
| G4-56   | The organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics  | 28, 54-55, 59 |      |

## SPECIFIC STANDARD DISCLOSURES

| DMA & indicator  | Description  | Page           |
|--|--|----------------|
| <b>ENVIRONMENTAL IMPACT</b>                                    |  |                |
| Material aspect: Materials (DMA)                               |  |                |
| EN2  | Percentage of materials used that are recycled input materials   | 40             |
| Material aspect: Energy (DMA)                                  |  |                |
| EN5  | Energy intensity   | 40,42          |
| EN6  | Reduction of energy consumption  | 42             |
| EN7  | Reductions in energy requirements of products and services<br>Comment: No indicator data available for 2016.   | 40             |
| Material aspect: Emissions (DMA)                               |  |                |
| EN15   | Direct greenhouse gas (GHG) emissions (Scope 1)  | 41-44          |
| EN16   | Energy indirect greenhouse gas (GHG) emissions (Scope 2)   | 41-42,44       |
| EN17   | Other indirect greenhouse gas (GHG) emissions (Scope 3)  | 41-44          |
| EN18   | Greenhouse gas (GHG) emissions intensity   | 41-42,44       |
| EN19   | Reduction of greenhouse gas (GHG) emissions  | 41-44          |
| Material aspect: Products and services (DMA)                   |  |                |
| EN27   | Extent of impact mitigation of environmental impacts of products and services  | 38-40,44       |
| Material aspect: Transport (DMA)                               |  |                |
| EN30   | Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce  | 41-44          |
| Material aspect: Supplier environmental assessment (DMA)       |  |                |
| EN32   | Percentage of new suppliers that were screened using environmental criteria  | 46-49          |
| EN33   | Significant actual and potential negative environmental impacts in the supply chain and actions taken  | 46-49          |
| <b>SOCIAL IMPACT</b>   |  |                |
| Material aspect: Occupational health and safety (DMA)          |  |                |
| LA6  | Type of injury and rates of injury, occupational diseases, lost days, absenteeism and total number of work-related fatalities, by region and by gender.<br>Comment: The data were not found to be relevant to break down further.                              | 52-53<br>55-56 |
| Material aspect: Diversity and equal opportunity (DMA)         |  |                |
| LA12   | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.<br>Comment: Only gender and age have been found relevant for breakdown of data | 54-56          |
| Material aspect: Supplier assessment for labor practices (DMA) |  |                |
| LA14   | Percentage of new suppliers that were screened using labor practices criteria  | 46-50          |
| LA15   | Significant actual and potential negative impacts for labor practices in the supply chain and actions taken  | 46-50          |
| Material aspect: Non-discrimination (DMA)                      |  |                |
| HR3  | Total number of incidents of discrimination and corrective actions taken   | 54-55          |
| Material aspect: Supplier human rights assessment (DMA)        |  |                |
| HR10   | Percentage of new suppliers that were screened using human rights criteria   | 46-50          |
| HR11   | Significant actual and potential negative human rights impacts in the supply chain and actions taken   | 46-50          |
| Material aspect: Anti-corruption (DMA)                         |  |                |
| SO4  | Communication and training on anti-corruption policies and procedures  | 55,60,63       |
| SO5  | Confirmed incidents of corruption and actions taken  | 63             |
| Material aspect: Product and service labeling (DMA)            |  |                |
| PR5  | Results of surveys measuring customer satisfaction   | 63             |
| Väsentlig aspekt: Customer privacy (DMA)                       |  |                |
| PR8  | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data  | 62,63          |

## Global Compact Index

| Principle              | Description  | Page           |
|------------------------|--|----------------|
| <b>HUMAN RIGHTS</b>    |  |                |
| Principle 1            | Businesses should support and respect the protection of internationally proclaimed human rights; and                     | 28,47,50       |
| Principle 2            | make sure that they are not complicit in human rights abuses.  | 46-50          |
| <b>LABOR</b>           |  |                |
| Principle 3            | Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; | 53-54          |
| Principle 4            | the elimination of all forms of forced and compulsory labor;   | 46-50          |
| Principle 5            | the effective abolition of child labor; and  | 46-50          |
| Principle 6            | the elimination of discrimination in respect of employment and occupation.   | 46-49<br>54-55 |
| <b>ENVIRONMENTAL</b>   |  |                |
| Principle 7            | Businesses should support a precautionary approach to environmental challenges;  | 40             |
| Principle 8            | undertake initiatives to promote greater environmental responsibility; and   | 38-45          |
| Principle 9            | encourage the development and diffusion of environmentally friendly technologies.  | 38-45          |
| <b>ANTI-CORRUPTION</b> |  |                |
| Principle 10           | Businesses should work against corruption in all its forms, including extortion and bribery                              | 55,60          |

DMA=Disclosure on Management Approach

# Administration report

Axis AB is a public Swedish stock corporation with its registered office in Lund, Sweden. The company is registered in Sweden under the corporate identity number 556241-1065. Since 2015, Axis AB is part of the Canon group with Canon Inc as the ultimate parent company. The hedge fund Elliott Capital holds, through direct or indirect ownership, an equity interest that exceeds 10 percent. These financial statements were approved by the board of directors on March 29, 2017.

## Operations

Axis offers intelligent security solutions that enable a smarter and safer world. As the market leader in network video, Axis is driving the trend in the industry by continually releasing innovative network products based on open platforms, which deliver increased value to customers and are distributed through a global partner network. Axis has long-term relationships with partners and provides them with knowledge and groundbreaking network products in existing and new markets.

Axis has more than 2,600 dedicated employees in more than 50 countries around the world, supported by a network of over 90,000 partners. Founded in 1984, Axis is a Sweden-based company and is listed on Nasdaq Stockholm under the ticker AXIS.

## Significant events during the fiscal year

Axis' current strategy involves meeting customers' security needs through overall solutions in a world where more and more devices are connected. The goal is to offer a broad range of the most relevant products and together with partners supply product packages and services relating to security solutions that contain more than just network video. After almost 20 years of work with the "internet of things", Axis is also well-equipped to take a leading role in future developments.

This solution-oriented business model means that Axis is taking greater and broader service responsibility in relation to partners and end customers. Meanwhile, it is critical to remain at the cutting edge with high-tech, innovative and competitive products.

On the product side during the year, Axis for example released improved "Zipstream" technology enabling greater data transfer without increased bandwidth and storage requirements, a laser focus function, which enhances camera image quality in poor lighting conditions and network-connected speakers that broaden Axis' offering in the retail segment, among other areas.

Sales to the customer groups small, medium and enterprise customers, all developed positively. For smaller installations, a packaged solution was released during the year under the name Axis Companion Line. This was very positively received and the project is an example of what can be achieved when different departments and competencies at Axis work creatively together. For medium-sized customers, releases included Site Designer software, which helps partners and customers to design security solutions based on unique customer needs and requirements. For large customers, the approach of assuming a greater overall responsibility was taken one step further, which means deeper collaboration with our partners and channel partners to solve end customer needs.

Axis' growth strategy is primarily to grow organically but also to work with acquisitions as a complement. During the year, we made three strategic acquisitions aimed at broadening our overall offering.

During the first quarter, Axis acquired the French company Citilog, which has specialist competence in intelligent video monitoring of traffic and transport. The acquisition strengthens both Axis offering in the transportation segment and the opportunities to provide overall solutions in the growing traffic analytics market. During the second quarter, Axis acquired the Czech company 2N and the Swedish company Cognimatics. 2N is a leader in IP intercom, in other words, IP entry phones and the company also works with IP audio and communication solutions for elevators. Cognimatics develops software for the retail segment, with applications e.g. for counting customers and queue measurement, which add value to Axis network video cameras.

Axis has taken over sales of Canon's network video products in EMEA and North America. During the second half of 2016, Axis released a network camera with 20MP resolution that was developed by Axis in collaboration with Canon. For instance, the camera may be used for detailed surveillance of large areas where the camera can zoom in on objects from a very long distance.

Axis geographical markets, EMEA, Americas and Asia, showed a stable performance during the year but with some variations. Asia is a region that is dominated by intense local competition and strong price pressure. In the mature markets in Europe and the US, special focus was placed on products for smaller installations. In growth countries, the market is still primarily concentrated on large installations.

The interest in network video and supplementary offerings is well spread over a number of sectors and fields of application. During the year, several interesting deals were completed with major chain stores, public authorities and within the transportation sector. The close collaboration with partners, distributors, resellers and application developers continued during 2016. Within the partner programs, members were trained in the benefits of network video in general and Axis' product range in particular. At the end of the year, over 90,000 companies were part of the various partner programs.

## Sustainability

Sustainability is an important and natural part of Axis' operations. The company takes environmental, social and economic responsibility. Axis acts in an ethical and transparent way in all its business relationships. Axis has high ambitions and customers are also imposing stricter requirements on the company to meet their expectations of being a sustainable supplier from an environmental, ethical and social perspective.

In 2007, Axis signed the UN's Global Compact, which means that Axis observes its ten principles in the areas of human rights, labor, environment and anti-corruption. Axis complies with global export control regulations in order to ensure that all business is conducted in a responsible and correct manner. A sustainability report has been compiled for the operations every year since 2010.

The Board of Directors and President submit the following financial statements and consolidated financial statements for the fiscal year January 1, 2016–December 31, 2016.

Unless otherwise stated, all amounts are in SEK millions. Information in parenthesis refers to the preceding year.

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For the third consecutive year, Axis reports according to Global Reporting Initiative's guidelines G4, Core level.

Axis implemented a number of measures during the year. These included climate-compensating for business trips, drawing up a new environmental policy, releasing several new camera models, which are PVC-free and conducting an employee survey. In addition, Axis trains suppliers and conducts audits to ensure that they meet Axis' strict requirements relating to environmental impacts, working conditions, human rights and anti-corruption.

## Research and development

During 2016, 17.7 percent (15.9) of the group's sales were invested in research and development within both hardware and software. Research and development expenditure increased by SEK 247 M (127) compared to the preceding year and amounted to SEK 1,233 M (986). Expenditure on development work totaling SEK 77 M (69) was capitalized during the year. The capitalization principle is described further in Note 1 to the financial statements. Axis' technology is based on the proprietary ASIC (Application Specific Integrated Circuit) platforms, which are at the heart of Axis' products. The ARTPEC® chips are optimized for effective image processing and image compression and are found in the majority of Axis' products. In conjunction with Axis' software platforms, they form a very flexible technology base on which world-leading products can be developed, rapidly and cost effectively. Work on development of future generations of ARTPEC® continued during 2016.

Axis conducts an active patent strategy in order to safeguard investments in core technology and intellectual capital. During the year, applications for 18 new design families and 47 new patent families were filed, chiefly related to camera technology. During 2016, 100 national patents and a number of registered designs were granted. Axis currently holds 333 active patent and registered design families.

Research efforts are focused on four strategic areas at present: image quality, image analysis, system solutions and network security. Long-term technological development is conducted in-house in all these areas. Research is largely carried out as an industrial undertaking in various national and local research programs.

## Personnel

The recruitment rate was relatively high during 2016. At year-end, the number of employees totaled 2,646, which represents a net increase of 507 people since December 31, 2015. During the year, acquired companies contributed with 281 people to the net increase. Most of the increase took place in sales and marketing as well as in research and development. Of the employees, 1,495 (1,323) people are employed in Sweden and 1,151 (816) in other countries.

## Financing and cash flow

Axis had a total of SEK 908 M at its disposal on December 31, 2016, of which cash and cash equivalents amounted to SEK 858 M and unutilized credit facilities totaled SEK 50 M. Consequently, Axis is in a very strong financial position approaching 2017. Cash flow from operating activities amounted to SEK 721 M (803). The strong cash flow was mainly due to strong operating profit. The continued expansion during 2016 impacted working capital, negatively by SEK 51 M (-57), net. Inventories and

current receivables made a negative contribution of SEK 25 M (-300) and SEK 261 M (-184) respectively, while current liabilities had a positive impact of SEK 236 M (59) on the net amount. The increase in inventories was largely explained by the appreciation of the USD in relation to the SEK as well as operational expansion. Net investments during the year amounted to SEK 832 M (181) driven by acquisitions and construction of the new office building. Total cash flow amounted to SEK -157 M (601) after dividends paid of SEK 44,5 M.

## Investments

Investments in property, plant and equipment amounted to SEK 215 M (111), and in intangible assets to SEK 82 M (69). Net investments for the year according to the consolidated cash flow statement amounted to SEK 832 M (181).

## Change of control clause

With the exception of the credit agreement relating to the credit facility of SEK 50 M, no significant agreements exist that the company is party to and which take effect, change or cease to be valid if the control over the company changes as a consequence of a public takeover bid or agreements of such a nature that a disclosure would be likely to occasion serious harm to the company.

## Long-term goals

Axis has two long-term financial goals:

- > total average annual sales growth of at least 20 percent and
- > a profit margin of at least 10 percent

## Corporate governance

Axis has chosen to prepare a Corporate Governance Report, which is separate from the Administration Report.

## Earnings and position

Sales during the year totaled SEK 7,386 M (6,635), which represented growth of 11 percent compared to the preceding year. Foreign currency effects had a positive impact on sales of SEK 86 M. The Video product area, which corresponds to 96 percent of sales, increased by 7 percent from SEK 6,579 M to SEK 7,068 M while other sales increased to SEK 318 M. Gross margin fell slightly but essentially remained at the same level as the preceding year and amounted to 50.2 percent compared to 50.8 percent in 2015.

The group's operating profit amounted to SEK 885M (881), which was an increase of SEK 4 M compared to the preceding year. Operating margin amounted to 12.0 percent compared to 13.3 percent in 2015. Foreign currency effects had a positive impact on operating profit of SEK 105 M. Profit before tax amounted to SEK 884 M (881), which represented an increase of SEK 3 M compared to the preceding year.

## Condensed income statement

|                          | Q1<br>2016 | Q2<br>2016 | Q3<br>2016 | Q4<br>2016 | TOTAL<br>2016 |
|--------------------------|------------|------------|------------|------------|---------------|
| Net sales, SEK M         | 1,567      | 1,763      | 1,997      | 2,059      | 7,386         |
| Gross profit, SEK M      | 786        | 876        | 989        | 1,056      | 3,707         |
| Gross margin, %          | 50.1       | 49.7       | 49.5       | 51.3       | 50.2          |
| Operating profit, SEK M  | 153        | 167        | 312        | 253        | 885           |
| Operating margin, %      | 9.8        | 9.5        | 15.6       | 12.3       | 12.0          |
| Profit before tax, SEK M | 153        | 166        | 312        | 253        | 884           |
| Profit margin, %         | 9.8        | 9.5        | 15.6       | 12.3       | 12.0          |

## Group key ratios

|   | 2016   | 2015   | 2014   | 2013   | 2012   |
|---|--------|--------|--------|--------|--------|
| Net sales, SEK M                            | 7,386  | 6,635  | 5,450  | 4,717  | 4,184  |
| Profit before tax, SEK M                    | 884    | 881    | 714    | 637    | 569    |
| Total assets, SEK M                         | 4,009  | 3,038  | 2,207  | 1,943  | 1,696  |
| Equity ratio, %                             | 58.7   | 57.3   | 49.7   | 48.2   | 47.7   |
| Return on equity, %                         | 33.7   | 48.4   | 54.8   | 56.9   | 53.1   |
| Earnings per share before dilution, SEK     | 9.20   | 9.39   | 7.76   | 6.89   | 6.15   |
| Earnings per share after dilution, SEK      | 9.20   | 9.39   | 7.76   | 6.89   | 6.15   |
| Shares before dilution, thousands (average) | 69,461 | 69,461 | 69,461 | 69,461 | 69,461 |
| Shares after dilution, thousands (average)  | 69,461 | 69,461 | 69,461 | 69,461 | 69,461 |
| Number of employees at year-end             | 2,646  | 2,139  | 1,941  | 1,627  | 1,403  |

Definitions are presented in Note 31.

## Proposal regarding principles for determination of salaries and other remuneration to the President and other members of the company management

The Board of Directors proposes the following principles for determination of salaries and other remuneration to the President and other members of the company management. The guidelines shall apply to employment contracts entered into according to the general meeting's resolutions and guidelines, and in cases where changes are made to existing terms and conditions according to resolutions of general meetings. The guidelines essentially correspond to the principles that have been applied to date. For information regarding terms of remuneration for 2016, please refer to Note 19, Personnel.

Remuneration to the President and other members of the company management (that is, the nine persons who together with the President comprise the group management) may consist of basic salary, variable remuneration and pension. The remuneration to nine persons in the group management also currently includes "stay on board" remuneration, that has been agreed and put in place in accordance with the remuneration guidelines adopted by the Annual General Meeting 2015. Other benefits and other remuneration shall be received on the same basis as for other employees. 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.

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. 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 (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.

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.

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.

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.

## Material risks and uncertainties

Axis is an international group with operations and customers all over the world and is thus exposed to a number of different risks in its everyday operations. Risk management at Axis aims to minimize the risks but also to ensure that opportunities are utilized in the best way in order to facilitate a continued rapid expansion of the business.

Axis' risks can be principally divided into external risk, business risk and financial risk. The work of managing and adapting to the risk exposure that the group is subject to continues on an ongoing basis.

- > External risk is primarily handled at a group management and board level.
- > Business risk is mainly handled at a group management and regional manager level.
- > Management and coordination of financial and insurable risks is mainly carried out by the group's finance department.
- > Function-specific risks in the company-wide functions, Finance, IT/ systems, HR and Operations are handled and coordinated within each function. Risks in the legal area are handled by Axis' legal department in cooperation with external lawyers.
- > The exposure to intellectual property risk in the patents area is managed by Axis' specialists, in collaboration with external lawyers and advisors. To date, a few disputes concerning patent infringement have arisen, however, these have not had any material consequences for Axis.

> CSR related risks are handled within the scope of Axis' general sustainability function. For further information regarding CSR, please refer to Axis' sustainability report.

The risks described below are not ranked in relation to one another and the account does not claim to be complete.

### External risk

Axis is impacted by global macroeconomic trends, like most multinational companies. Axis works on the basis of detailed monthly sales forecasts and carefully monitors global trends in order to take necessary measures if conditions should change.

Terrorism and political turbulence in many countries can naturally have an adverse impact on Axis' global expansion. Another, partly political question, is social acceptance of camera surveillance as well as the privacy issues which may arise in this context. Globally, Axis encounters everything from a very positive attitude to a more sceptical view of camera surveillance. There are no currently known plans for significant changes with regard to legal regulations or restrictions. As market leader, Axis continually strives to communicate the benefits of a safer and more secure environment with network video as a natural component.

### Business risk

Trust in and acceptance of new technology and applications in a high-tech market is strongly dependent on well-functioning products and solutions, which deliver high quality and performance. Axis' research and development department works continually to develop new high-tech products. The majority of Axis' products are built on the proprietary network and image compression chip, ARTPEC®. ARTPEC® is optimized and adapted for products and applications within network video, which gives Axis a distinct advantage over other players in the market. Quality is ensured through a well-defined quality and testing process as well as through skilled and careful subcontractors. In order to minimize risks in the supply chain, from supply of components to delivery, Axis works with a number of subcontractors that are equally important from a competency and capacity perspective.

The growing market is attracting more and more players, which is leading to increased competition. Market shares and market leadership can be maintained through careful competitive intelligence, a capable global sales force as well as vigorous and rapid product development. The group finance function continually monitors days sales outstanding and payment behavior etc. in all regions. Credit risks from operating flows are handled at a regional level. The group's credit policy establishes the framework for how credit risks and credit exposure should be handled

### Financial risks

The group's international operations involve a number of financial risks which are handled according to the policies adopted by the board. The overriding goal of the group's finance function is to provide financing to group companies on an ongoing basis and handle financial risks so that potential negative effects on the group's results are minimized. The group is primarily exposed to financing, foreign exchange and credit risk. Interest risk is assessed as being limited. For further information refer to Note 2 to the financial statements.

### Intellectual property risk

Axis is party to various disputes as part of its normal business operations, including in the patent field. These types of disputes can be costly and protracted. In addition, it is often difficult to predict the outcome of complex lawsuits. The exposure to intellectual property risk in the patents area is managed by Axis' specialists, in collaboration with external lawyers and advisors. To date, a few disputes concerning patent infringement have arisen, however, these have not had any material consequences for Axis.

### Outlook

The market activity and inflow of new projects means that Axis' view on the current market growth rate remains unchanged. An important factor for continued strong growth is increased penetration in installations for smaller systems and in emerging markets. In order to meet market demand and retain its position as the market-leading supplier of network video solutions, Axis will continue to develop and release a large number of innovative products, refine the partner network, recruit more employees and continue to expand globally.

### Parent Company

The parent company's operations are primarily focused on company-wide administration. The parent company has no employees. Sales to group companies amounted to SEK 119 M (108). Purchasing from group companies has not taken place. The parent company's operating profit amounted to SEK 58 M (-2).

### Proposed appropriation of profits in the Parent Company

At the disposal of the annual general meeting:

|  |                          |
|--|--------------------------|
| Accumulated profit and other non-restricted reserves | SEK 831,431,161          |
| Net profit for the year                              | SEK 445,351,467          |
| <b>TOTAL</b>   | <b>SEK 1,276,782,628</b> |

The board of directors and the President propose that the profits at the disposal of the annual general meeting be appropriated as follows:

|                       |                          |
|-----------------------|--------------------------|
| To be carried forward | SEK 1,276,782,628        |
| <b>TOTAL</b>          | <b>SEK 1,276,782,628</b> |

Axis' majority owner Canon Inc has informed the company's board of directors that Canon Inc at the 2017 Annual General Meeting (AGM) will vote that no dividend should be paid to the shareholders. Based on this information, the Board of Directors and the President have decided not to propose any declaration of dividend at the Annual General Meeting 2017 and that the profits at the disposal of the Annual General Meeting shall be carried forward.

### Consolidated statement of comprehensive income

(SEK M)

|   | Note           | 2016           | 2015           |
|---|----------------|----------------|----------------|
| Net sales   | 3              | 7,385.7        | 6,634.7        |
| Cost of goods and services sold                               |                | -3,678.9       | -3,262.2       |
| <b>Gross profit</b>   |                | <b>3,706.8</b> | <b>3,372.5</b> |
| Selling and marketing expenses                                |                | -1,353.0       | -1,180.8       |
| Administrative expenses                                       |                | -298.9         | -292.2         |
| Research and development expenses                             |                | -1,233.4       | -985.7         |
| Other income and changes in value                             | 8              | 63.5           | -32.6          |
| <b>Operating profit</b>                                       | <b>4,5,6,7</b> | <b>885.0</b>   | <b>881.2</b>   |
| Financial income  |                | 1.7            | 0.4            |
| Financial expenses  |                | -2.5           | -1.1           |
| <b>Financial items – net</b>                                  |                | <b>-0.8</b>    | <b>-0.7</b>    |
| <b>Profit before tax</b>                                      |                | <b>884.2</b>   | <b>880.5</b>   |
| Income tax  | 10             | -245.5         | -228.4         |
| <b>NET PROFIT FOR THE YEAR</b>                                |                | <b>638.7</b>   | <b>652.1</b>   |
| <b>Other comprehensive income*</b>                            |                |                |                |
| Items that later may be transferred to the income statement   |                |                |                |
| Exchange differences  |                | 16.6           | 13.8           |
| <b>Other comprehensive income for the year, net after tax</b> |                | <b>16.6</b>    | <b>13.8</b>    |
| <b>Total comprehensive income for the year</b>                |                | <b>655.3</b>   | <b>665.9</b>   |
| <b>Net profit for the year attributable to:</b>               |                |                |                |
| The parent company's shareholders                             |                | 638.7          | 652.1          |
| <b>Total comprehensive income attributable to:</b>            |                |                |                |
| The parent company's shareholders                             |                | 655.3          | 665.9          |
| Earnings per share before dilution, SEK                       | 11             | 9.20           | 9.39           |
| Earnings per share after dilution, SEK                        |                | 9.20           | 9.39           |
| Number of shares before dilution, average, thousands          |                | 69,461         | 69,461         |
| Number of shares after dilution, average, thousands           |                | 69,461         | 69,461         |

\*The items in other comprehensive income above are recognized net after tax. Disclosure is provided in Note 10 of the tax that is attributable to each component in other comprehensive income.

## Consolidated balance sheet

(SEK M)

| ASSETS                                  | Note | Dec 31, 2016   | Dec 31, 2015   |
|---|------|----------------|----------------|
| <b>Non-current assets</b>               |      |                |                |
| Property, plant and equipment           | 4    | 319.6          | 184.2          |
| Intangible assets                       | 5    | 791.4          | 225.6          |
| Deferred tax assets                     | 12   | 48.5           | 38.8           |
| Other financial assets                  | 15   | 8.4            | 4.3            |
| <b>Total non-current assets</b>         |      | <b>1,167.9</b> | <b>452.9</b>   |
| <b>Current assets</b>                   |      |                |                |
| Inventories                             | 13   | 1,106.5        | 1,022.2        |
| Trade receivables and other receivables | 14   | 876.7          | 547.4          |
| Cash and cash equivalents               | 16   | 858.3          | 1,015.8        |
| <b>Total current assets</b>             |      | <b>2,841.5</b> | <b>2,585.4</b> |
| <b>TOTAL ASSETS</b>                     |      | <b>4,009.4</b> | <b>3,038.3</b> |

| EQUITY & LIABILITIES                 | Note | Dec 31, 2016   | Dec 31, 2015   |
|--------------------------------------|------|----------------|----------------|
| <b>Equity</b>                        |      |                |                |
| <i>Capital and reserves</i>          |      |                |                |
| Share capital                        |      | 0.7            | 0.7            |
| Other paid-up capital                |      | 279.2          | 279.2          |
| Other reserves                       | 18   | 14.8           | -1.8           |
| Retained earnings                    |      | 2,057.6        | 1,463.4        |
| <b>Total equity</b>                  |      | <b>2,352.3</b> | <b>1,741.5</b> |
| <b>Liabilities</b>                   |      |                |                |
| <i>Non-current liabilities</i>       |      |                |                |
| Borrowing                            |      | 1.9            | -              |
| Retirement benefit obligations       | 19   | 10.8           | 3.7            |
| Deferred tax liabilities             | 12   | 282.5          | 217.3          |
| Other provisions                     | 20   | 76.2           | 61.2           |
| Other non-current liabilities        | 29   | 19.6           | -              |
| <b>Total non-current liabilities</b> |      | <b>391.0</b>   | <b>282.2</b>   |
| <i>Current liabilities</i>           |      |                |                |
| Borrowing                            |      | 1.2            | -              |
| Trade payables and other liabilities | 21   | 1,251.8        | 993.0          |
| Current tax liabilities              |      | 13.1           | 21.6           |
| <b>Total current liabilities</b>     |      | <b>1,266.1</b> | <b>1,014.6</b> |
| <b>Total liabilities</b>             |      | <b>1,657.1</b> | <b>1,296.8</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>  |      | <b>4,009.4</b> | <b>3,038.3</b> |

## Consolidated statement of changes in equity

(SEK M)

|   | Attributable to the parent company's shareholders |                       |                |                   | Total equity   |
|---|---|-----------------------|----------------|-------------------|----------------|
|   | Share capital                                     | Other paid-in capital | Other reserves | Retained earnings |                |
| <b>Opening balance at January 1, 2015</b>   | <b>0.7</b>  | <b>279.2</b>          | <b>-15.6</b>   | <b>832.8</b>      | <b>1,097.1</b> |
| <b>Comprehensive income</b>                 |   |                       |                |                   |                |
| Net profit for the year                     | -   | -                     | -              | 652.1             | 652.1          |
| <b>Other comprehensive income</b>           |   |                       |                |                   |                |
| Exchange differences                        | -   | -                     | 13.8           | -                 | 13.8           |
| <b>Total other comprehensive income</b>     | <b>-</b>  | <b>-</b>              | <b>13.8</b>    | <b>-</b>          | <b>13.8</b>    |
| <b>Total comprehensive income</b>           | <b>-</b>  | <b>-</b>              | <b>13.8</b>    | <b>652.1</b>      | <b>665.9</b>   |
| <b>Transactions with owners</b>             |   |                       |                |                   |                |
| Dividend                                    | -   | -                     | -              | -21.5             | -21.5          |
| <b>Total transactions with owners</b>       | <b>-</b>  | <b>-</b>              | <b>-</b>       | <b>-21.5</b>      | <b>-21.5</b>   |
| <b>Closing balance at December 31, 2015</b> | <b>0.7</b>  | <b>279.2</b>          | <b>-1.8</b>    | <b>1,463.4</b>    | <b>1,741.5</b> |
| <b>Opening balance at January 1, 2016</b>   | <b>0.7</b>  | <b>279.2</b>          | <b>-1.8</b>    | <b>1,463.4</b>    | <b>1,741.5</b> |
| <b>Comprehensive income</b>                 |   |                       |                |                   |                |
| Net profit for the year                     | -   | -                     | -              | 638.7             | 638.7          |
| <b>Other comprehensive income</b>           |   |                       |                |                   |                |
| Exchange differences                        | -   | -                     | 16.6           | -                 | 16.6           |
| <b>Total other comprehensive income</b>     | <b>-</b>  | <b>-</b>              | <b>16.6</b>    | <b>-</b>          | <b>16.6</b>    |
| <b>Total comprehensive income</b>           | <b>-</b>  | <b>-</b>              | <b>16.6</b>    | <b>638.7</b>      | <b>655.3</b>   |
| <b>Transactions with owners</b>             |   |                       |                |                   |                |
| Dividend                                    | -   | -                     | -              | -44.5             | -44.5          |
| <b>Total transactions with owners</b>       | <b>-</b>  | <b>-</b>              | <b>-</b>       | <b>-44.5</b>      | <b>-44.5</b>   |
| <b>Closing balance at December 31, 2016</b> | <b>0.7</b>  | <b>279.2</b>          | <b>14.8</b>    | <b>2,057.6</b>    | <b>2,352.3</b> |

**Consolidated cash flow statement**

|  | Note | 2016          | 2015           |
|--|------|---------------|----------------|
| <i>Operating activities</i>  |      |               |                |
| Cash flow from operations  | 27   | 931.6         | 995.4          |
| Interest paid  |      | -2.5          | -1.1           |
| Interest received  |      | 1.7           | 0.4            |
| Income taxes paid  |      | -209.4        | -191.5         |
| <b>Cash flow from operating activities</b>                           |      | <b>721.4</b>  | <b>803.2</b>   |
| <i>Investing activities</i>  |      |               |                |
| Acquisition of subsidiaries, less acquired cash and cash equivalents | 29   | -534.9        | -              |
| Purchase of property, plant and equipment                            | 4    | -214.7        | -111.0         |
| Purchase of intangible assets  | 5    | -82.3         | -69.0          |
| Other  |      | 0.3           | -0.5           |
| <b>Cash flow from investing activities</b>                           |      | <b>-831.6</b> | <b>-180.5</b>  |
| <i>Financing activities</i>  |      |               |                |
| Dividend paid  |      | -44.5         | -21.5          |
| Amortization of loans  |      | -2.7          | -              |
| <b>Cash flow from financing activities</b>                           |      | <b>-47.2</b>  | <b>-21.5</b>   |
| <b>Cash flow for the year</b>  |      | <b>-157.4</b> | <b>601.2</b>   |
| Cash and cash equivalents at the beginning of the year               |      | 1,015.8       | 414.6          |
| Change in cash and cash equivalents                                  |      | -157.4        | 601.2          |
| <b>Cash and cash equivalents at the end of the year</b>              | 16   | <b>858.3</b>  | <b>1,015.8</b> |

**Parent company income statement**

(SEK M)

|  | Note | 2016         | 2015         |
|--|------|--------------|--------------|
| Net sales                                |      | 118.6        | 108.3        |
| <b>Gross profit</b>                      |      | <b>118.6</b> | <b>108.3</b> |
| Administrative expenses                  |      | -60.6        | -110.2       |
| <b>Operating profit</b>                  | 5    | <b>58.0</b>  | <b>-1.9</b>  |
| Financial income                         | 22   | 0.9          | 0.5          |
| Financial expenses                       | 23   | -29.0        | -3.2         |
| <b>Financial items – net</b>             |      | <b>-28.1</b> | <b>-2.7</b>  |
| <b>Profit/loss after financial items</b> |      | <b>29.9</b>  | <b>-4.6</b>  |
| Appropriations                           | 24   | 542.2        | 614.4        |
| <b>Profit before tax</b>                 |      | <b>572.1</b> | <b>609.8</b> |
| Income tax                               | 10   | -126.7       | -135.1       |
| <b>Net profit for the year</b>           |      | <b>445.4</b> | <b>474.7</b> |

**Parent company statement of comprehensive income**

(SEK M)

|  | Note | 2016         | 2015         |
|--|------|--------------|--------------|
| <b>Net profit for the year</b>                 |      | <b>445.4</b> | <b>474.7</b> |
| <b>Total comprehensive income for the year</b> |      | <b>445.4</b> | <b>474.7</b> |

## Parent company balance sheet

(SEK M)

| ASSETS                              | Note | Dec 31, 2016   | Dec 31, 2015   |
|-------------------------------------|------|----------------|----------------|
| <b>Non-current assets</b>           |      |                |                |
| <i>Intangible assets</i>            |      |                |                |
| Patents and other rights            | 5    | 4.8            | 4.7            |
| Total intangible assets             |      | 4.8            | 4.7            |
| <i>Financial assets</i>             |      |                |                |
| Participations in subsidiaries      | 25   | 39.6           | 0.8            |
| Receivables from group companies    | 28   | 27.0           | -              |
| Total financial assets              |      | 66.6           | 0.8            |
| <b>Total non-current assets</b>     |      | <b>71.4</b>    | <b>5.5</b>     |
| <b>Current assets</b>               |      |                |                |
| <i>Receivables</i>                  |      |                |                |
| Receivables from group companies    | 28   | 1,902.7        | 1,168.8        |
| Prepaid expenses and accrued income |      | 1.3            | 2.3            |
| Total receivables                   |      | 1,904.0        | 1,171.1        |
| <i>Cash and bank balances</i>       |      |                |                |
| Cash and bank balances              | 16   | 312.1          | 578.2          |
| Total cash and bank balances        |      | 312.1          | 578.2          |
| <b>Total current assets</b>         |      | <b>2,216.1</b> | <b>1,749.3</b> |
| <b>TOTAL ASSETS</b>                 |      | <b>2,287.5</b> | <b>1,754.8</b> |

| EQUITY & LIABILITIES                 | Note | Dec 31, 2016   | Dec 31, 2015   |
|--------------------------------------|------|----------------|----------------|
| <b>Equity</b>                        | 17   |                |                |
| <i>Restricted equity</i>             |      |                |                |
| Share capital                        |      | 0.7            | 0.7            |
| Total restricted equity              |      | 0.7            | 0.7            |
| <i>Non-restricted equity</i>         |      |                |                |
| Accumulated profit                   |      | 831.4          | 401.2          |
| Net profit for the year              |      | 445.4          | 474.7          |
| Total non-restricted equity          |      | 1,276.8        | 875.9          |
| <b>Total equity</b>                  |      | <b>1,277.5</b> | <b>876.6</b>   |
| <b>Untaxed reserves</b>              |      |                |                |
| Tax allocation reserve               |      | 973.0          | 838.8          |
| Accumulated additional depreciation  |      | 3.0            | 4.7            |
| <b>Total untaxed reserves</b>        |      | <b>976.0</b>   | <b>843.5</b>   |
| <b>Liabilities</b>                   |      |                |                |
| <i>Current liabilities</i>           |      |                |                |
| Liabilities to group companies       | 28   | 2.3            | 1.0            |
| Tax liabilities                      |      | 13.8           | 23.6           |
| Other liabilities                    |      | 6.6            | 5.0            |
| Accrued expenses and deferred income |      | 11.3           | 5.1            |
| Total current liabilities            |      | 34.0           | 34.7           |
| <b>Total liabilities</b>             |      | <b>34.0</b>    | <b>34.7</b>    |
| <b>TOTAL EQUITY AND LIABILITIES</b>  |      | <b>2,287.5</b> | <b>1,754.8</b> |

## Parent company statement of changes in equity

(SEK M)

|   | Share capital | Share premium reserve | Accumulated profit | Total equity   |
|---|---------------|-----------------------|--------------------|----------------|
| <b>Opening balance at January 1, 2015</b>   | <b>0.7</b>    | <b>4.1</b>            | <b>418.6</b>       | <b>423.4</b>   |
| Net profit for the year                     | -             | -                     | 474.7              | 474.7          |
| Other comprehensive income                  | -             | -                     | -                  | -              |
| <b>Total comprehensive income</b>           | <b>-</b>      | <b>-</b>              | <b>474.7</b>       | <b>474.7</b>   |
| <b>Transactions with owners</b>             |               |                       |                    |                |
| Dividend                                    | -             | -                     | -21.5              | -21.5          |
| <b>Total transactions with owners</b>       | <b>-</b>      | <b>-</b>              | <b>-21.5</b>       | <b>-21.5</b>   |
| <b>Closing balance at December 31, 2015</b> | <b>0.7</b>    | <b>4.1</b>            | <b>871.8</b>       | <b>876.6</b>   |
| <b>Opening balance at January 1, 2016</b>   | <b>0.7</b>    | <b>4.1</b>            | <b>871.8</b>       | <b>876.6</b>   |
| Net profit for the year                     | -             | -                     | 445.4              | 445.4          |
| Other comprehensive income                  | -             | -                     | -                  | -              |
| <b>Total comprehensive income</b>           | <b>-</b>      | <b>-</b>              | <b>445.4</b>       | <b>445.4</b>   |
| <b>Transactions with owners</b>             |               |                       |                    |                |
| Dividend                                    | -             | -                     | -44.5              | -44.5          |
| <b>Total transactions with owners</b>       | <b>-</b>      | <b>-</b>              | <b>-44.5</b>       | <b>-44.5</b>   |
| <b>Closing balance at December 31, 2016</b> | <b>0.7</b>    | <b>4.1</b>            | <b>1,272.7</b>     | <b>1,277.5</b> |

Number of shares at December 31, 2016 totaled 69,461,250. The quota value was SEK 0.01 per share.

At the Annual General Meeting on April 20, 2017, the board of directors will propose that no dividend should be paid in respect of the 2016 fiscal year. During 2016, SEK 0.64 per share was paid in respect of the fiscal year 2015

## Parent company cash flow statement

(SEK M)

|  | Note | 2016          | 2015          |
|--|------|---------------|---------------|
| <b>Operating activities</b>  |      |               |               |
| Cash flow from operations  | 27   | 69.3          | -0.3          |
| Financial expenses paid  |      | -29.0         | -3.2          |
| Financial income received  |      | 0.9           | 0.5           |
| Income taxes paid  |      | -136.5        | -146.7        |
| <b>Cash flow from operating activities</b>                           |      | <b>-95.3</b>  | <b>-149.7</b> |
| <b>Investing activities</b>  |      |               |               |
| Acquisition of subsidiaries, less acquired cash and cash equivalents |      | -38.8         | -             |
| Purchase of intangible assets  | 5    | -2.5          | -             |
| <b>Cash flow from investing activities</b>                           |      | <b>-41.3</b>  | <b>-</b>      |
| <b>Financing activities</b>  |      |               |               |
| Dividend paid  |      | -44.5         | -21.5         |
| Group contributions received   | 24   | 676.1         | 820.2         |
| Group contributions paid   | 24   | -1.4          | -0.2          |
| Change in current receivables/liabilities, group companies           |      | -759.6        | -184.2        |
| <b>Cash flow from financing activities</b>                           |      | <b>-129.4</b> | <b>614.3</b>  |
| <b>Cash flow for the year</b>  |      | <b>-266.1</b> | <b>464.6</b>  |
| Cash and cash equivalents at the beginning of the year               |      | 578.2         | 113.6         |
| Change in cash and cash equivalents                                  |      | -266.1        | 464.6         |
| <b>Cash and cash equivalents at the end of the year</b>              | 16   | <b>312.1</b>  | <b>578.2</b>  |



# Notes

## Note 1 Accounting policies

### 1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the EU, and also in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 1. The most important accounting policies applied when these consolidated financial statements were prepared are presented below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. Areas which involve a high degree of judgment, which are complex or are areas where assumptions and estimates are of considerable significance for the consolidated financial statements, are specified where appropriate in the relevant note.

The financial statements of the parent company have been prepared in accordance with the Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2.

#### 1.1.1 Changes in accounting policies and disclosures

*(a) New and amended standards adopted by the group as of January 1, 2016*

No new or amended standards and interpretations are expected to have a material impact on the consolidated financial statements.

*(b) New and amended standards adopted by the parent company as of January 1, 2016*

No new or amended standards and interpretations are expected to have a material impact on the parent company's financial statements.

*(c) New standards and interpretations that will be adopted by the group from January 1, 2017 and subsequently*

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and measurement. IFRS 9 deals with classification and measurement of financial instruments, hedge accounting and impairment losses. The standard will be applied for annual periods beginning on or after January 1, 2018, but early adoption is permitted. The group does not plan to early adopt the standard. During 2016, the group evaluated the effects of introducing IFRS 9 on an overall level. The new standard is not expected to have a material impact on either the group's classification and measurement of financial instruments or on the group's hedge accounting. The new model for calculating credit loss provisions is based on expected credit losses, rather than actual losses, which may result in earlier recognition of credit losses, but the effect is expected to be insignificant as the group historically has reported few credit losses. The preliminary assessment is currently based, on the information available and is subject to change as a result of further analysis or as future information becomes available to the group.

IFRS 15 Revenue from Contracts with Customers replaces IAS 18 Revenue and IAS 11 Construction Contracts and all the related interpretations (IFRIC and SIC). Under IFRS 15, revenue is recognized when the customer obtains control over the sold goods or services, which replaces the previous principle that revenues are recognized when risks and rewards have been transferred to the purchaser. The core principle in IFRS 15 is that a company recognizes revenue in the way that best reflects the transfer of the promised goods or services to the customer. Recognition occurs using a five-step model framework; The standard will be applied for annual periods beginning on or after January 1, 2018, but early adoption is permitted. A company can choose between "full retroactivity" or to apply the standard prospectively with further disclosures. The group plans to apply the standard from January 1, 2018 and will then apply the standard prospectively. In 2016, Axis performed a preliminary assessment of the effects that IFRS 15 is expected to have on the consolidated financial statements. This assessment may change as the group plans to carry out a more detailed analysis during the coming year. Axis mainly supplies network video products, which are sold in separately identifiable contracts. In contracts with

customers where the sale of goods is the only performance obligation, the standard is not expected to have any effect on the consolidated income statement. Revenue will be recognized when the customer obtains control over the goods sold, which is generally when the goods are delivered. Some contracts with customers include the right to returns and discounts. The Group recognizes revenue from the sale of goods at the fair value of what was received or will be received, less returns and discounts. The transaction price thus contains, what IFRS 15, calls variable consideration. Variable consideration should only be included in the transaction price if it is very unlikely that a significant portion of the revenue will be reversed. Our current assessment is that IFRS 15, in this respect, will not lead to a significant change in when our revenue will be recognized in the group. IFRS 15, however, will result in increased disclosure requirements, which will have an effect on the group's financial reporting

IFRS 16 Leases replaces IAS 17 Leases and related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities relating to all leases, with some exceptions, to be recognized in the balance sheet. This recognition is based on the approach that the lessee has a right to use an asset for a specific period of time and concurrently has an obligation to pay for that right. Recognition for the lessor will be essentially unchanged. The standard will be applied for annual periods beginning on or after January 1, 2019, but early adoption is permitted. The group does not plan to early adopt the new standard. The introduction of IFRS 16 will have an effect on the group's financial reporting, but the extent has not yet been evaluated.

None of the other IFRSs or IFRIC interpretations which have not yet become effective, are expected to have any material impact on the group.

### 1.2 Consolidation

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when it is exposed to or has the right to a variable return from its holding in the entity and can affect the return through its control of the entity. Subsidiaries are included in the consolidated financial statements from and including the date on which control is transferred to the group. They are to be deconsolidated from and including the date on which that control ceases.

The purchase method is used for recognition of group's business combinations. The cost of an acquisition of a subsidiary consists of the fair value of the transferred assets, liabilities incurred by the group to the previous owner and the shares issued by the group. The cost also includes the fair value of assets or liabilities, which are a result of an agreement on conditional consideration.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition. For each acquisition, the group determines if non-controlling interests in the acquired entity are recognised at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Costs related to the acquisition are expensed as they arise.

The amount by which the consideration, any non-controlling interest and the fair value of previous shareholdings on the date of acquisition exceeds the fair value of the identifiable net assets acquired, is recognized as goodwill. If the amount is less than the fair value of the acquired net assets, in the event of a lower price, the difference is recognized directly in the statement of comprehensive income.

Inter-company transactions, balance sheet items, as well as unrealized gains and losses on transactions between group companies, are eliminated. Where appropriate, the accounting policies of subsidiaries have been changed to ensure the consistent application of the group's principles.

In the event of different measurements of assets and liabilities at group and company level, the tax effect is taken into account, and this is recognized as a long-term receivable or liability. No account, however, is taken of deferred tax on group goodwill.

### 1.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the function responsible for allocation of resources and evaluation of the operating segments' results. In the group, this function has been identified as the group management.

### 1.4 Foreign currency translation

Items included in the financial statements of the various units in the group are measured in the currency used in the economic environment in which the each company mainly operates (functional currency). In the consolidated financial statements, the Swedish krona (SEK) is the parent company's functional currency and the Group's presentation currency.

Subsidiaries' assets and liabilities are translated at the closing rate at the end of each reporting period. Items in the income statement are translated at the exchange rate on the transaction date approximated to the average exchange rates. The translation difference is recognized in other comprehensive income.

During consolidation, exchange differences, which arose in consequence of the translation of net investment in foreign operations and of borrowings and other currency instruments which have been designated as hedges of such investments, are recognized in other comprehensive income. On divestment of a foreign operation, in part or entirely, the exchange differences recognized in equity are posted to the income statement and recognized as a part of the capital gain/loss.

When the parent company or other group company carries out hedging measures to offset and protect against exchange differences on net investment in a subsidiary, the exchange difference on the hedging instrument is recognized against the equivalent translation difference for the subsidiary.

Exchange gains and exchange losses attributable to financial items are recognised in the consolidated statement of financial position as financial income or expenses. All other exchange gains and exchange losses are recognized in the item other income and changes in value in the operating profit.

### 1.5 Inventories

Goods for resale are valued at the lower of cost and the net realizable value (realizable value less estimated selling expenses) on the closing date using the FIFO principle. Internal profits on sales between group companies are eliminated.

### 1.6 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If payment is expected within one year, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are initially recognized at fair value and subsequently at amortized cost using the effective interest method, less any provision for impairment.

The group applies net accounting of trade receivables in cases where Axis' counterparty in turn has claims on Axis in the form of accrued discounts connected to purchasing from Axis. Trade receivables are also recognized net against any trade payables to Axis' counterparties.

### 1.7 Property, plant and equipment

Property, plant and equipment is recognized at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure which can be directly attributable to the acquisition of the asset.

Additional expenditure is added to the asset's carrying amount or is recognized as a separate asset, depending on what is most suitable, only if it is probable that the future economic benefits associated with the asset will accrue to the group and that the cost of the asset can be measured in a reliable manner. The carrying amount for the replaced portion is derecognized. All other forms of repair and maintenance expenditure are expensed during the period in which such expenditure arises.

Depreciation is calculated using the straight-line method on the original cost and is based on the estimated useful lives of the assets as follows:

|   |            |
|---|------------|
| Equipment and fittings                    | 3–5 years  |
| Improvement measures in leased properties | 3–10 years |

In the event that the carrying amount of an asset exceeds its estimated recoverable amount, the asset is immediately written down to its recoverable amount.

### 1.8 Intangible assets

*(a) Goodwill*

Goodwill resulting from business acquisitions is included in intangible assets. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate a possible impairment. Goodwill is measured at acquisition cost less any accumulated impairments..

*(b) Capitalized development work*

Axis' technology is based on the proprietary ASIC (Application Specific Integrated Circuit) platforms, which are at the heart of Axis' products. Research expenditure aimed at obtaining new technological knowledge is expensed as it arises. Development expenditure, where research results or other knowledge is applied in order to produce new or enhanced products, is recognized as an intangible asset if it is likely to generate future economic benefits for the group. In order to be capitalized, the intangible assets must be technical and commercially applicable and that the group has resources to complete development and subsequently use or sell the intangible asset. It must also be possible to reliably measure the expenditure during the development phase. The development of new platforms is continually capitalized over the development period. Network applications, based on created platforms, such as network cameras, are treated as adaptations of the core products. Adaptations of platforms for different network applications are not capitalized. Proprietary development work that is capitalized is recognized at cost less accumulated amortization and impairment. The carrying amount includes directly related expenditure such as for material and services and remuneration to employees. Capitalized development work is written off when the asset is ready for use. Amortization occurs on a straight-line basis over the useful live, which is deemed to be 3 years.

Capitalized development also includes know-how and technologies (such as source code) that were acquired as part of a business combination. Acquired development work is recognized at the fair value on the acquisition date and amortized over the useful life, which varies between 6 and 11 years.

*(c) Patents, trademarks and other rights*

Patents, trademarks and other rights that were acquired separately, are recognized at cost. Patents, trademarks and other rights that were acquired through a business combination are recognized at fair value on the acquisition date. Patents, trademarks and other rights are recognized at cost on the acquisition date less any accumulated amortization and impairment. Trademarks with an indefinite useful life are not amortized but tested annually for impairment in connection with testing goodwill for impairment. Patents, trademarks and other rights with definite useful lives are amortized over their useful lives, which vary between 3 and 20 years.

*(d) Customer contracts*

Customer contracts acquired as part of a business combination are recognized at fair value on the acquisition date and amortized over their useful lives, which vary between 6 and 7 years.

### 1.9 Impairment of non-financial assets

Goodwill and intangible assets with an indefinite useful life or intangible assets not ready for use are not amortized but are tested annually, or when there is an indication of a decrease in value for possible impairment. Assets which are impaired are assessed for a decrease in value whenever events or changes in circumstances indicate that the carrying value may not actually be recoverable. An impairment is made for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash flows (cash-generating units). For assets (other than goodwill), which have previously been amortized, a review is performed on each reporting date for possible reversal.

### 1.10 Cash and cash equivalents

Cash and cash equivalents include, in the balance sheet and in the cash flow statement, cash in hand, deposits held at call with banks and other investments in securities with original maturities of three months or less. Measurement of other investment in securities takes place at amortized cost.

### 1.11 Financial instruments

Financial instruments are classified into the following categories: financial assets measured at fair value via profit or loss, loans and receivables, as well as financial assets which are available for sale. The classification is dependent on the aim for which the instrument was acquired. Management determines the classification of instruments on the initial accounting date, and reviews this decision at every reporting date. All financial instruments are recognized from the transaction date.

*(a) Financial assets measured at fair value via profit or loss (in the item Other income and changes in value)*

Financial assets which are held for trading are carried at fair value via profit or loss. A financial asset is to be classified in this category if it was acquired principally for the purpose of selling in the short-term or if this classification is determined by management.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Characteristically, they arise when the group supplies money, goods or services directly to a customer without the intention of trading the resulting receivable. They are included in current assets, with the exception of items with maturities more than 12 months after the end of the reporting date, which are classified as non-current assets. Loans and receivables are included in the item Trade receivables and other receivables in the balance sheet (see Note 14 Trade receivables and other receivables).

At the end of each reporting period, the group assesses whether there is objective evidence that an impairment need exists in respect of a financial asset or a group of financial assets. Where such an impairment need has been identified, the asset is impaired to its fair value.

### 1.12 Provisions

Provisions for obligations, such as legal requirements and product warranties, are recognized when the group has an existing legal or constructive obligation in consequence of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If there are a number of similar obligations, the probability that an outflow of resources will be required for the settlement of this group as a whole is assessed. A provision is recognized even if the probability of an outflow in respect of one specific item in this group of obligations is low.

The provisions are measured at the present value of the amount that is expected to be required to settle the obligation.

### 1.13 Income taxes

Recognized tax expense includes tax payable or recoverable in respect of the current year, adjusted for prior years' tax as well as changes in deferred tax. All tax liabilities and tax assets are measured at their nominal amount in accordance with the tax laws and the tax rates enacted or announced and which there is a considerable degree of certainty will be enacted. For items recognized in the income statement, the associated tax consequences are recognized in profit or loss. Taxes related to items of other comprehensive income is recognized in other comprehensive income.

The tax consequences of items which are recognized directly against equity are recognized against equity. Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities. Deferred tax assets and tax liabilities are offset if there is a legal right to offset current tax assets and tax liabilities and when the deferred tax assets and tax liabilities pertain to taxes charged by the same tax authority and where there is an intention to settle the balances through a net payment. Deferred tax assets in respect of a loss carryforward are recognized to the extent that it is probable that the loss

carryforward can be set off against a surplus for future taxation. For 2015, deferred taxes were reclassified from current liabilities to non-current assets of SEK 39 M.

Untaxed reserves are recognized in the parent company. We have allocated the untaxed reserves between equity and deferred tax in the consolidated financial statements.

### 1.14 Cash flow statement

The consolidated cash flow statement has been prepared in accordance with the indirect method. Changes for the year in cash and cash equivalents are divided up into operating activities, investing activities and financing activities. The starting point for the indirect method is the operating profit or loss adjusted for transactions which do not involve receipts or disbursements. The term cash and cash equivalents refers to cash in hand, deposits held at call with banks and investments in securities with original maturities of three months or less. All items included in cash and cash equivalents can be readily converted to cash.

### 1.15 Leasing

Leases are classified as either finance or operating leases. Financial leasing exists when the economic risks and benefits associated with the leasing object in all material have been transferred to the lessee. Otherwise, it is an operating lease. The group has no significant financial leasing why all leases accounted for as operating leases and the lease payment is distributed linearly over the leasing period. The group holds essentially lease for rent. For further information about the minimum lease payments, see note 9.

### 1.16 Revenue recognition

Revenue is measured at the fair value of what was received or will be received, and corresponds to the amounts received for goods sold and services rendered less discounts, returns, VAT and similar taxes. The group recognizes revenue when the amount can be measured reliably and it is probable that future economic benefits will accrue to the company.

The group's revenue mainly consists of product sales. Revenue from product sales is recognized when the risks and rewards of ownership have been transferred to the buyer, which normally occurs when the products are delivered. Revenue from services rendered is recognized when the services have been performed. Revenue from sales of extended warranties is recognized on a straight line basis over the contract period.

The recognition of interest income is allocated over the term in question using the effective interest method.

See Note 3 For further information about the group's revenue.

### 1.17 Borrowing costs

All borrowing costs, apart from those related to a qualifying asset, are expensed continually as they arise. Borrowing related to qualifying assets is capitalized.

### 1.18 Pensions

The group operates both defined benefit and defined contribution pension plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate legal entity. The group has no legal or constructive obligations to pay further contributions if this legal entity has insufficient assets to pay all remuneration to employees that is connected with the employees' service during current or prior periods. A defined benefit plan is a pension scheme that is not defined contribution. Characteristic for defined benefit plans is that they state the amount of the pension benefit an employee will receive after retirement, generally based on one or more factors such as age, period of service and salary.

For defined contribution plans, the group pays contributions to public or privately managed pension insurance plans on an mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognized as personnel expenses in the period in which they are earned.

Defined benefit pension plans in the group mainly consist of the ITP 2 plan's defined benefit obligations for retirement and family pension. The ITP 2 plan is secured

through insurance with Alecta. According to statement UFR 10 from the Swedish Financial Accounting Standards Council's Emerging Issues Task Force, Recognition of the ITP 2 pension plan, which is financed through insurance with Alecta, this is a multi-employer defined-benefit plan. For the fiscal year 2016, the company did not have access to the information required to report its proportional share of the plan's obligations, plan assets and costs, which means that it has not been possible to report it as a defined benefit plan. The ITP 2 pension plan is therefore recognized as a defined contribution plan.

### 1.19 Critical estimates and assessments for accounting purposes

#### Warranties

The group offers a three-year warranty on all its network products. Management makes an estimate of the provision required for future warranty requirements based on information regarding historical warranty requirements.

#### Intangible assets

Group management makes the assessment that the necessary technological knowledge and financial strength exists in order to complete the capitalized intangible assets into marketable products. The market for the future products is expected to be the same as where the group's products are sold today.

Goodwill and intangible assets with an indefinite useful life or intangible assets are tested annually, or more often, for possible impairment. An impairment is made by the amount by which the carrying amount of the asset exceeds its recoverable amount. The annual impairment test for goodwill and other intangible assets with an indefinite useful life, including performed sensitivity analysis, did not reveal any impairment. See Note 5 for more information.

#### Accrued discounts

Axis' sales model contains a discount element which is adjusted after delivery. The scale of the discounts depends on a number of factors, including volume and what type of partner the distributor sells the products too. Management makes an estimate of the provision required for accrued discounts based on information regarding historical discount levels and expected outcomes.

#### Acquisitions

Acquisitions requires estimates from management where a major portion relates to the allocation of purchase price to acquired assets and liabilities and the necessary adjustments to the group's accounting policies. In connection with the acquisition analysis, several assumptions were made, including future cash flows, growth, discount rate and the choice of model for valuation.

## Note 2 Financial risk management

### 2.1 Financial risk factors

Risk management is handled by a central treasury department in accordance with the policies adopted by the board of directors. The treasury department identifies, evaluates and hedges financial risks in close cooperation with the group's operating units. The board has drawn up written principles both for overall risk management and for specific areas, such as foreign exchange risk, interest risk, credit risk, the use of derivative and non-derivative financial instruments and the investment of excess liquidity.

Through its operations, Axis is exposed to a number of different financial risks: a) market risk (including foreign exchange risk, price risk and interest risk), b) credit risk and c) liquidity risk). The group's overall risk management policy focuses on the unpredictability of the financial markets and aims to minimize potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures.

#### (a) Market risk

The group's finance policy defines how foreign exchange risk should be optimized. Foreign exchange risk is divided into two main categories: a) transaction risk and b) translation risk. Transaction risk means the risk that fluctuations in exchange rates on the net cash flow in foreign currencies may have a negative impact on the group's results. Translation risk means the risk that exchange-rate fluctuations in the group's net investments in subsidiaries may have a negative impact on the group's results.

From January 1, 2010 the finance policy does not prescribe any hedging requirement. No hedging was conducted during 2016 (2015).

Price risk arises when the group's costs rise as a result of suppliers increasing the price of goods and services. By using several suppliers, we ensure that our purchasing prices are market competitive.

The board has defined interest risk as the risk that fluctuations in market interest rates have a negative impact on the group's net financial items. The finance policy states that the Treasury department must minimize the interest expense as much as possible. The average interest rate refixing period for short-term financing must not exceed 6 months. Under the financial policy, the Treasury department may deploy interest rate derivatives to ensure that interest rates are fixed on average for a maximum of 6 months. At the end of 2016, the group had short-term interest-bearing liabilities of SEK 0 M (2015: 0).

Excess cash and cash equivalents are invested in fixed-interest securities with a maximum remaining term of one year, and an average term of no more than 6 months. At December 31, 2016, SEK 0 M (2015: 0) was invested in fixed-interest securities. The interest risk in the excess cash and cash equivalents is handled so that the average interest rate on all investments must not exceed 6 months.

#### Sensitivity analysis

The table below indicates the effect of the most important factors on the group's results for the fiscal year 2016. Apart from currency exposure, the factors assessed as having the greatest effect on results are purchase prices and payroll expenses. As a substantial part of sales and purchasing are made in USD, Axis has a natural match for currency exposure in USD.

| Factor            | Change, % | Effect on operating profit, SEK M |
|-------------------|-----------|-----------------------------------|
| Currency, SEK/USD | +/-5      | +/- 64                            |
| Currency, SEK/EUR | +/-5      | +/- 51                            |
| Purchasing        | +/-5      | +/- 136                           |
| Personnel         | +/-5      | +/- 102                           |

#### (b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Only independently rated banks and financial institutions that have obtained the long-term rating A or better, in accordance with Moody's or Standard & Poor's, are accepted as counterparties. The short-term rating must be Moody's P1 or Standard & Poor's K1 or A1. If customers have been credit assessed by independent raters, these assessments are used. In cases where no credit assessment exists, a risk assessment is performed of the customer's credit worthiness where their financial position is considered as well as previous experience and other factors. Individual risk limits are adopted on the basis of internal or external credit assessments in accordance with the limits established by the board. The use of credit limits is regularly monitored. Advance payments or letters of credit are employed when the risk is considered too high. During 2016, credit risk insurance was taken out for some of our customers. These insurance policies were not utilized.

For risk assessment of trade receivables see the age distributed accounts receivable ledger in Note 14.

#### (c) Liquidity risk

The group's liquidity position is continuously analyzed in order to minimize liquidity risk. The finance policy states that the treasury department should ensure that the group always has credit facilities with at least one bank. According to this policy, Axis must have access at all times to SEK 200 M in cash and cash equivalents or unutilized credit facilities. At December 31, 2016, Axis had SEK 858 M (2015: 1,016) in cash and cash equivalents and unutilized credit facilities of SEK 50 M (2015: 50). The credit facilities are effective until December 31, 2017.

The credit facilities are contingent on special requirements of the banks.

These requirements state that: a) the interest coverage ratio, expressed as EBITDA/Financial Net Payable, (profit before net financial items, taxes, depreciation and impairment losses on non-current assets in relation to financial net expenditure) measured every end of quarter as a rolling twelve-month value does not fall below 4; b) Net Debt/EBITDA (interest bearing liabilities less cash and bank balances and other short-term investments in relation to profit before net financial items, taxes, depreciation and impairments of non-current assets) measured every end of quarter as a rolling twelve-month value does not exceed 3.

For details regarding the group's and the parent company's liquidity trend refer to the cash flow statement for the group and the parent company.

## 2.2 Recognition of derivative instruments and hedging measures

When Axis holds derivative financial instruments, primarily currency futures, it is with the aim of protecting sales and procurement in foreign currency, as well as net assets in foreign subsidiaries. The Group applies hedge accounting.

When the transaction is entered into, the group documents the relationship between the hedging instrument and the hedged item, along with the objective of the risk management and the strategy for taking other hedging action. The group also documents its assessment, both when the hedge instrument is taken out and during its term, of the effectiveness of the derivative instrument used in hedging transactions in the evening out of fluctuations in the fair value or cash flow of hedged items. Should a hedging measure prove ineffective, recognition immediately takes place via the income statement (Other income and changes in value).

### (a) Fair value hedge

At December 31, 2016, (2015) Axis had no derivative instruments that were used for fair value hedges.

### (b) Cash flow hedge

At December 31, 2016 (2015), Axis had no derivative instruments that were used for cash flow hedges.

### (c) Hedges of a net investment in a foreign operation

From fiscal year 2010, Axis has amended the finance policy to not hedge net investment in foreign subsidiaries. The outcome of previously entered into hedges remains in equity. Accumulated gains and losses in equity are recognized in the income statement when the foreign operation is sold.

## 2.3 Fair value measurement

The fair value of financial instruments which are traded on an active market, such as derivative instruments quoted on a market, is based on quoted market prices at the end of the reporting period. The quoted market price for the group's financial assets, is the current purchase price while the quoted market price for the financial liabilities is the current selling price.

The fair value of financial instruments which are not traded on an active market is determined using valuation techniques. The group uses a number of different methods, and makes assumptions based on the prevailing market conditions at the end of the reporting period. Other techniques, such as discounted cash flow measurements, are used to determine the fair value of the remaining financial instruments. The fair value of currency future contracts is determined through the use of market prices for currency futures at the end of the reporting period.

For trade receivables and trade payables, nominal value, less any expected credits, is assumed to equal their fair value. The fair value of financial liabilities is measured by discounting the future contracted cash flow at the current market interest rate available for the group for similar financial instruments.

At the end of 2016 (2015), the group had no financial instruments of the type that must be disclosed based on the fair value hierarchy in IFRS 7.

## 2.4 Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

To maintain or adjust the capital structure, the group may adjust the amount of dividends paid to the shareholders, issue new shares or sell assets, reduce or increase indebtedness.

Since 2007, Axis holds a AA rating according to Dun & Bradstreet.

## Note 3 Segment information

The group management has been identified as Axis' chief operating decision-maker. Operating segments have been determined based on the information that is considered by group management and which is used as a basis for allocating resources and evaluating results. Axis' group management controls, manages and monitors the operations based on three geographical regions; EMEA, Americas and Asia, with sales growth as the main focus. In light of what is stated below, Axis considers that it fulfills the requirements for aggregation of the three geographic regions into one segment.

The group's common technology platform is the foundation for the entire innovative and broad product portfolio for network video. Continuous global sales forecasts are compiled of a separate production planning function located at the headquarters in Lund. A central purchasing department is responsible for sourcing of critical components and procurement and placing of production among contract manufacturers around the world. The very close cooperation with contract manufacturers creates a good insight into manufacturing and quality assurance processes. Production takes place in essentially the same way at all manufacturers.

Axis has an indirect sales model, which means that sales take place via distributors that sell on to system integrators that in turn sell to the end users. The ambition is first to work with a small number of distributors in each country, and then achieve scalability in the second stage through a very large number of system integrators. The number of system integrators currently identified by Axis amounts to over 80,000 globally. The sales model is identical and is applied in the same way throughout the world. Sales are monitored and analyzed in a company-wide CRM system. Distribution occurs through a small number of logistics centers placed in logistically suitable locations around the world.

Legal requirements in the form of local rules and regulations exist but are not deemed to impact the group appreciably. Stricter legal requirements from public authorities in specific areas can imply new business opportunities and may sometimes also limit the possibility of operating in that very local market. Through a central development department it is possible, when required, to rapidly adapt specific products to new demands.

Through a uniform global approach regarding product development and sales model, the three geographical regions lack real significance. From a group and network video perspective, they have a similar economic basis. The network video market is driven by an underlying global technology shift from analog to digital technology, among other things. Growth opportunities, margins and risks do not differ significantly between the three segments.

In light of the above reasoning, the group only recognizes one segment. Accordingly, the segment information consists of the group as a whole.

Due to acquisitions, reporting routines will be revised during 2017.

| Net sales per geographical market  | 2016           | 2015           |
|------------------------------------|----------------|----------------|
| EMEA (Europe, Middle East, Africa) | 2,645.7        | 2,366.3        |
| Americas                           | 3,855.7        | 3,489.7        |
| Asia                               | 884.3          | 778.7          |
| <b>Total</b>                       | <b>7,385.7</b> | <b>6,634.7</b> |

| Revenues per country | 2016           | 2015           |
|----------------------|----------------|----------------|
| Sweden               | 15.0           | 0.0            |
| USA                  | 3,561.7        | 3,213.5        |
| Other countries      | 3,809.0        | 3,421.2        |
| <b>Total</b>         | <b>7,385.7</b> | <b>6,634.7</b> |

Revenues have been allocated per country based on where the customers are located

| Non-current assets by country | 2016           | 2015         |
|-------------------------------|----------------|--------------|
| Sweden                        | 562.4          | 359.1        |
| Czech Republic                | 426.4          | 0.3          |
| Other countries               | 122.1          | 50.4         |
| <b>Total</b>                  | <b>1,111.0</b> | <b>409.8</b> |

Non-current assets have been allocated per country based on where they are located. Goodwill and surplus values from business combinations have been allocated to the country where the acquired company is domiciled.

## Note 4 Property, plant and equipment

### Group

| 2016                                    | Land        | Equipment & fittings | Improvement measures in leased properties | Constructions in progress | Total         |
|---|-------------|----------------------|---|---------------------------|---------------|
| Opening acquisition value               | -           | 423.2                | 72.6                                      | -                         | 495.8         |
| Investments                             | 50.6        | 81.4                 | 28.0                                      | 54.7                      | 214.7         |
| Acquisition of business (Note 29)       | -           | 7.8                  | -   | 1.3                       | 9.1           |
| Sales/disposals                         | -           | -28.5                | -1.2                                      | -                         | -29.7         |
| Reclassifications                       | -           | -0.2                 | 1.7                                       | -1.6                      | -0.1          |
| Translation differences                 | -           | 5.6                  | 4.0                                       | 0.7                       | 10.3          |
| <b>Closing acquisition value</b>        | <b>50.6</b> | <b>489.4</b>         | <b>105.1</b>                              | <b>55.1</b>               | <b>700.1</b>  |
| Opening accumulated depreciation        | -           | -280.4               | -31.2                                     | -                         | -311.6        |
| Depreciation for the year               | -           | -72.7                | -15.2                                     | -                         | -87.9         |
| Sales/disposals                         | -           | 25.4                 | 0.6                                       | -                         | 26.0          |
| Reclassifications                       | -           | -0.1                 | -   | -                         | -0.1          |
| Translation differences                 | -           | -4.4                 | -2.5                                      | -                         | -6.9          |
| <b>Closing accumulated depreciation</b> | <b>-</b>    | <b>-332.2</b>        | <b>-48.4</b>                              | <b>-</b>                  | <b>-380.5</b> |
| <b>Carrying amount</b>                  | <b>50.6</b> | <b>157.2</b>         | <b>56.7</b>                               | <b>55.1</b>               | <b>319.6</b>  |

In the income statement, depreciation/amortization is included in cost of goods sold of SEK 10.8 M, in selling and marketing expenses of SEK 22.1 M, in administrative expenses of SEK 1.1 M and in research and development expenses of SEK 53.9 M

| 2015                                    | Land     | Equipment & fittings | Improvement measures in leased properties | Constructions in progress | Total         |
|---|----------|----------------------|---|---------------------------|---------------|
| Opening acquisition value               | -        | 343.3                | 45.5                                      | -                         | 388.8         |
| Investments                             | -        | 89.9                 | 21.1                                      | -                         | 111.0         |
| Sales/disposals                         | -        | -2.2                 | -   | -                         | -2.2          |
| Reclassifications                       | -        | -7.1                 | 7.1                                       | -                         | 0.0           |
| Translation differences                 | -        | -0.7                 | -1.1                                      | -                         | -1.8          |
| <b>Closing acquisition value</b>        | <b>-</b> | <b>423.2</b>         | <b>72.6</b>                               | <b>-</b>                  | <b>495.8</b>  |
| Opening accumulated depreciation        | -        | -229.4               | -17.0                                     | -                         | -246.4        |
| Depreciation for the year               | -        | -56.2                | -11.9                                     | -                         | -68.1         |
| Sales/disposals                         | -        | 1.6                  | -   | -                         | 1.6           |
| Reclassifications                       | -        | 3.0                  | -3.0                                      | -                         | 0.0           |
| Translation differences                 | -        | 0.6                  | 0.7                                       | -                         | 1.3           |
| <b>Closing accumulated depreciation</b> | <b>-</b> | <b>-280.4</b>        | <b>-31.2</b>                              | <b>-</b>                  | <b>-311.6</b> |
| <b>Carrying amount</b>                  | <b>-</b> | <b>142.8</b>         | <b>41.4</b>                               | <b>-</b>                  | <b>184.2</b>  |

## Note 5 Intangible assets

### Group

| 2016                              | Goodwill     | Capitalized development work | Patents, trademarks and other rights | Customer contracts | Total          |
|-----------------------------------|--------------|------------------------------|--------------------------------------|--------------------|----------------|
| Opening acquisition value         | -            | 387.4                        | 38.0                                 | -                  | 425.4          |
| Investments                       | -            | 76.8                         | 5.6                                  | -                  | 82.3           |
| Acquisition of business (Note 29) | 343.7        | 85.6                         | 58.9                                 | 27.8               | 516.0          |
| Sales/disposals                   | -            | -                            | -5.4                                 | -                  | -5.4           |
| Reclassifications                 | -            | -                            | -                                    | -                  | -              |
| Translation differences           | 9.4          | 2.6                          | 5.5                                  | 0.9                | 18.5           |
| <b>Closing acquisition value</b>  | <b>353.1</b> | <b>552.4</b>                 | <b>102.6</b>                         | <b>28.6</b>        | <b>1,036.8</b> |

|   |              |               |              |             |               |
|---|--------------|---------------|--------------|-------------|---------------|
| Opening accumulated amortization        | -            | -169.0        | -30.8        | -           | -199.8        |
| Amortization for the year               | -            | -39.6         | -5.2         | -3.1        | -47.9         |
| Sales/disposals                         | -            | -             | 5.4          | -           | 5.4           |
| Reclassifications                       | -            | -             | -            | -           | -             |
| Translation differences                 | -            | 0.2           | -3.4         | 0.1         | -3.1          |
| <b>Closing accumulated amortization</b> | <b>-</b>     | <b>-208.4</b> | <b>-33.9</b> | <b>-3.0</b> | <b>-245.3</b> |
| <b>Carrying amount</b>                  | <b>353.1</b> | <b>344.0</b>  | <b>68.6</b>  | <b>25.7</b> | <b>791.4</b>  |

In the income statement, depreciation/amortization is included in cost of goods sold of SEK 0,6 M, in selling and marketing expenses of SEK 0.6 M, in administrative expenses of SEK 2.9 M and in and research and development expenses of SEK 43.8 M

| 2015                                    | Goodwill | Capitalized development work | Patents, trademarks and other rights | Customer contracts | Total         |
|---|----------|------------------------------|--------------------------------------|--------------------|---------------|
| Opening acquisition value               | -        | 318.4                        | 38.0                                 | -                  | 356.4         |
| Investments                             | -        | 69.0                         | -                                    | -                  | 69.0          |
| Sales/disposals                         | -        | -                            | -                                    | -                  | -             |
| Reclassifications                       | -        | -                            | -                                    | -                  | -             |
| Translation differences                 | -        | -                            | -                                    | -                  | -             |
| <b>Closing acquisition value</b>        | <b>-</b> | <b>387.4</b>                 | <b>38.0</b>                          | <b>-</b>           | <b>425.4</b>  |
| Opening accumulated amortization        | -        | -138.0                       | -26.3                                | -                  | -164.3        |
| Depreciation for the year               | -        | -31.0                        | -4.5                                 | -                  | -35.5         |
| Sales/disposals                         | -        | -                            | -                                    | -                  | -             |
| Reclassifications                       | -        | -                            | -                                    | -                  | -             |
| Translation differences                 | -        | -                            | -                                    | -                  | -             |
| <b>Closing accumulated amortization</b> | <b>-</b> | <b>-169.0</b>                | <b>-30.8</b>                         | <b>-</b>           | <b>-199.8</b> |
| <b>Carrying amount</b>                  | <b>-</b> | <b>218.4</b>                 | <b>7.2</b>                           | <b>-</b>           | <b>225.6</b>  |

#### Impairment testing of goodwill

Each year the Group examines if any impairment need exists for goodwill. Goodwill and intangible assets with indefinite useful lives are allocated to the cash-generating unit (CGU). The recoverable amount for a CGU is determined by calculating the value in use, which requires certain assumptions to be made. These calculations are based on cash flow projections using financial forecasts estimated by management for the next five years. Sales have been assumed to grow by 17.1 percent on average and gross margin has been estimated at 78.3 percent on average. As companies are operating in a volatile growth industry with a high growth rate in the first few years, an estimate is also made for the next five year period, based on a normalization of the business, prior to making an assumption of the terminal value and long-term market growth. For these five years, average sales have been estimated to increase by 5.7 percent and gross margin is expected to be 78.3 percent. Cash flows beyond a ten year period are extrapolated using a growth rate of 2 percent as an assumption of long-term market growth. The growth rate used corresponds to sector forecasts for the CGE's industry. Discount rates have been determined on the basis of a calculated "Weighted Average Cost of Capital" (WACC) before tax, of an average of 12.9 percent in the CGE.

| 2016  | Acquisitions |
|---|--------------|
| Carrying amount of goodwill                                       | 353.1        |
| Carrying amount of intangible assets with indefinite useful lives | 52.9         |
| <b>Total</b>  | <b>406.0</b> |

A sensitivity analysis was carried out and the result of it is that if WACC increases by 1 percent more than the company's established base value, the recoverable amount will decrease by 11 percent. If EBITDA had been 1 percent lower than the company's expectations, the recoverable amount would decrease by 8 percent. If sales growth had been 3 percent lower than the company's expectations, the recoverable amount would decrease by 16 percent. None of these hypothetical assumptions would lead to an impairment.

#### Parent company

| 2016                                    | Patents and other rights | Total        |
|---|--------------------------|--------------|
| Opening acquisition value               | 19.7                     | 19.7         |
| Investments                             | 2.5                      | 2.5          |
| <b>Closing acquisition value</b>        | <b>22.2</b>              | <b>22.2</b>  |
| Opening accumulated amortization        | -15.0                    | -15.0        |
| Amortization for the year               | -2.5                     | -2.5         |
| <b>Closing accumulated amortization</b> | <b>-17.5</b>             | <b>-17.5</b> |
| <b>Carrying amount</b>                  | <b>4.8</b>               | <b>4.8</b>   |

| 2015                                    | Patents and other rights | Total        |
|---|--------------------------|--------------|
| Opening acquisition value               | 19.7                     | 19.7         |
| Investments                             | -                        | -            |
| <b>Closing acquisition value</b>        | <b>19.7</b>              | <b>19.7</b>  |
| Opening accumulated amortization        | -12.6                    | -12.6        |
| Amortization for the year               | -2.4                     | -2.4         |
| <b>Closing accumulated amortization</b> | <b>-15.0</b>             | <b>-15.0</b> |
| <b>Carrying amount</b>                  | <b>4.7</b>               | <b>4.7</b>   |

#### Note 6 Costs allocated per type of cost

|  | 2016            | 2015            |
|--|-----------------|-----------------|
| Depreciation and impairment losses               | -135.8          | -103.6          |
| Expenses for remuneration to employees           | -1,779.8        | -1,433.3        |
| Cost of purchasing and handling goods for resale | -3,678.9        | -3,262.2        |
| Other external expenses*                         | -969.7          | -921.8          |
|  | <b>-6,564.2</b> | <b>-5,720.9</b> |

\*Other external expenses for 2015 includes Axis' expenses for handling Canon Inc's bid process. The expenses amounted to approximately 0.2 percent of the value of the bid.

#### Note 7 Audit fees

The 2016 AGM resolved to elect Ernst & Young AB as the group's auditors for the period until the next AGM. In 2015, PricewaterhouseCoopers AB were the group's auditors.

|  | Group       |            |
|--|-------------|------------|
|  | 2016        | 2015       |
| <b>EY</b>                                  |             |            |
| The audit assignment                       | 1.9         | -          |
| Audit work apart from the audit assignment | 0.3         | -          |
| Tax consultancy                            | 0.0         | -          |
| Other services                             | 0.0         | -          |
|  | <b>2.2</b>  | <b>-</b>   |
| <b>PwC</b>                                 |             |            |
| The audit assignment                       | 0.4         | 1.7        |
| Audit work apart from the audit assignment | 3.0         | 0.2        |
| Tax consultancy                            | 0.6         | 0.7        |
| Other services                             | 0.3         | 0.6        |
|  | <b>4.3</b>  | <b>3.2</b> |
| <b>Grant Thornton (minority auditor)</b>   |             |            |
| The audit assignment                       | 1.7         | 0.8        |
|  | <b>1.7</b>  | <b>0.8</b> |
| <b>Other auditors</b>                      |             |            |
| The audit assignment                       | 2.9         | 2.9        |
| Audit work apart from the audit assignment | -           | -          |
| Tax consultancy                            | 0.8         | 0.7        |
| Other services                             | 0.6         | 0.4        |
|  | <b>4.3</b>  | <b>4.0</b> |
| <b>Group total</b>                         | <b>12.5</b> | <b>8.0</b> |

The audit fees and other fees to the parent company's auditors have been charged in their entirety to the subsidiary, Axis Communications AB.

#### Note 8 Other income and expenses

|                      | Group       |              |
|----------------------|-------------|--------------|
|                      | 2016        | 2015         |
| Exchange differences | 61.0        | -32.6        |
| Other items          | 2.5         | -            |
|                      | <b>63.5</b> | <b>-32.6</b> |

#### Note 9 Lease obligations\*

Leasing costs for the year amounted to SEK 172.5 M (2015: 122.8) in the group. The cost refers to minimum lease payments in its entirety as no variable payments or further letting occurs. Contracted future rental and leasing agreements are due for payment as follows.

|                               | Group                  |                        |
|-------------------------------|------------------------|------------------------|
|                               | 2016                   | 2015                   |
|                               | Minimum lease payments | Minimum lease payments |
| Leasing within 1 year         | 162.2                  | 127.3                  |
| Leasing between 1 and 5 years | 306.8                  | 149.9                  |
| Leasing more than 5 years     | 35.1                   | 17.6                   |
|                               | <b>504.1</b>           | <b>294.8</b>           |

Agreements mainly refer to rent for premises.

\*Relates to operating leases pertaining to normal agreements for the operations within stated range regarding non-cancellable leases and other operating leases. Most lease agreements regarding premises contain terms and conditions that give the right to extend the lease in question during a predetermined period, and do not contain any transfer of ownership to the property at the end of the term or any economic benefits regarding appreciation in value of the leased property.

#### Note 10 Income taxes

|              | Group         |               | Parent Company |               |
|--------------|---------------|---------------|----------------|---------------|
|              | 2016          | 2015          | 2016           | 2015          |
| Current tax  | -200.2        | -183.1        | -126.7         | -135.1        |
| Deferred tax | -45.3         | -45.3         | -              | -             |
|              | <b>-245.5</b> | <b>-228.4</b> | <b>-126.7</b>  | <b>-135.1</b> |

#### Reconciliation between theoretical tax expense and recognized income tax

|   | 2016          | 2015          | 2016          | 2015          |
|---|---------------|---------------|---------------|---------------|
| Tax according to current tax rate in the parent company | -194.5        | -193.7        | -125.9        | -134.2        |
| Tax effect relating to non-deductible items             | -24.3         | -16.2         | -0.8          | -0.9          |
| Tax effect relating to non-taxable items                | 4.2           | 2.3           | -             | -             |
| Differences in foreign tax rates                        | -30.9         | -20.8         | -             | -             |
| <b>Recognized income tax</b>                            | <b>-245.5</b> | <b>-228.4</b> | <b>-126.7</b> | <b>-135.1</b> |

\*The current tax rate for 2016 is 22.0 percent (2015: 22.0).

The tax, which is attributable to components in other comprehensive income amounted to the following:

|                      | 2016        |            |             | 2015        |            |             |
|----------------------|-------------|------------|-------------|-------------|------------|-------------|
|                      | Before tax  | Tax effect | After tax   | Before tax  | Tax effect | After tax   |
| Exchange differences | 16.6        | -          | 16.6        | 13.8        | -          | 13.8        |
|                      | <b>16.6</b> | <b>-</b>   | <b>16.6</b> | <b>13.8</b> | <b>-</b>   | <b>13.8</b> |

#### Note 11 Earnings per share

##### Earnings per share before dilution

Earnings per share before dilution is calculated by dividing the profit/loss attributable to the parent company's shareholders by a weighted average of the number of outstanding.

|   | 2016   | 2015   |
|---|--------|--------|
| Earnings attributable to the parent company's shareholders        | 638.7  | 652.1  |
| Weighted average number of outstanding ordinary shares, thousands | 69,461 | 69,461 |
| Earnings per share before dilution, SEK                           | 9.20   | 9.39   |

##### Earnings per share after dilution

In calculating earnings per share after dilution, the weighted average number of outstanding ordinary shares is adjusted for the dilutive effect of all potential ordinary shares.

|  | 2016   | 2015   |
|--|--------|--------|
| Earnings attributable to the parent company's shareholders                       | 638.7  | 652.1  |
| Weighted average number of outstanding ordinary shares, thousands                | 69,461 | 69,461 |
| Weighted average number of outstanding ordinary shares after dilution, thousands | 69,461 | 69,461 |
| Earnings per share after dilution, SEK   | 9.20   | 9.39   |

## Note 12 Deferred tax

The group's temporary differences have resulted in deferred tax assets and deferred tax liabilities in respect of the following:

|  | Group        |              |
|--|--------------|--------------|
|  | Dec 31, 2016 | Dec 31, 2015 |
| <i>Deferred tax receivables</i>                                |              |              |
| Property, plant and equipment and intangible assets            | 4.1          | 0.9          |
| Loss carryforwards   | 22.5         | -            |
| Financial instruments  | 2.7          | 2.7          |
| Inventories  | 8.9          | 12.3         |
| Accrued discounts  | 13.0         | 13.2         |
| Other accrued expenses   | 23.4         | 23.4         |
| Other items  | 1.1          | 1.5          |
| <b>Total deferred tax assets</b>                               | <b>75.7</b>  | <b>54.0</b>  |
| Amounts offset against deferred tax assets under set-off rules | -27.2        | -15.2        |
| <b>Net deferred tax assets</b>                                 | <b>48.5</b>  | <b>38.8</b>  |
| <i>Deferred tax liabilities</i>                                |              |              |
| Tax allocation reserve   | 214.1        | 184.5        |
| Property, plant and equipment and intangible assets            | 93.4         | 48.0         |
| Other items  | 2.2          | -            |
| <b>Total deferred tax liabilities</b>                          | <b>309.7</b> | <b>232.5</b> |
| Amounts offset against deferred tax assets under set-off rules | -27.2        | -15.2        |
| <b>Net deferred tax liabilities</b>                            | <b>282.5</b> | <b>217.3</b> |

|   | Group         |               |
|---|---------------|---------------|
|   | Dec 31, 2016  | Dec 31, 2015  |
| Opening deferred tax assets/tax liabilities*          | -178.5        | -133.1        |
| Change during the year in:                            |               |               |
| - property, plant and equipment and intangible assets | -42.2         | -8.5          |
| - loss carryforwards                                  | 22.5          | -             |
| - inventories   | -3.4          | 2.5           |
| - accrued discounts                                   | -0.2          | 2.1           |
| - other accrued expenses                              | 0.0           | 4.4           |
| - other items   | -2.6          | -0.9          |
| - tax allocation reserve                              | -29.6         | -45.0         |
| <b>Closing deferred tax assets/tax liabilities</b>    | <b>-234.0</b> | <b>-178.5</b> |

\* The amount includes SEK 0 M (2015: 0) which refers to income tax attributable to components in other comprehensive income (Note 10).

|  | 2016 | 2015 |
|--|------|------|
| <b>Loss carryforwards</b>  |      |      |
| Unutilized loss carryforwards for which no deferred tax assets has been recognized | 88.9 | 63.6 |
| Potential tax benefits   | 30.2 | 21.6 |

The unutilized loss carryforwards relate to a subsidiary where there is uncertainty as to whether they will generate taxable income in the foreseeable future. There are no time limits regarding the use of the loss carryforwards.

## Note 13 Inventories

|                  | Group          |                |
|------------------|----------------|----------------|
|                  | Dec 31, 2016   | Dec 31, 2015   |
| Goods for resale | 1,106.5        | 1,022.2        |
|                  | <b>1,106.5</b> | <b>1,022.2</b> |

Write down of inventories to net realizable value amounted to SEK 112 M (2015: 29). The impairment was recognized in the income statement as cost of goods sold.

## Note 14 Trade receivables and other receivables

|  | Group        |              |
|--|--------------|--------------|
|  | Dec 31, 2016 | Dec 31, 2015 |
| Trade receivables                        | 672.7        | 430.2        |
| Provision for doubtful trade receivables | -16.2        | -7.2         |
| Trade receivables-net*                   | 656.5        | 423.0        |
| Other receivables                        | 133.9        | 51.6         |
| Prepaid expenses and accrued income      | 86.3         | 72.8         |
|  | <b>876.7</b> | <b>547.4</b> |

\*The amount includes contract manufacturers of SEK 1.9 M (2015: 6.2). Contract manufacturers refers to invoices issued to subcontractors when products are sent for reprocessing.

Axis applies net accounting of trade receivables in cases where Axis' counterparty in turn has claims on Axis in the form of accrued discounts connected to purchasing from Axis. At December 31, 2016, the effect of this net accounting, was a reduction in trade receivables of SEK 382 M (2015: 336).

Changes in the provision for doubtful receivables are as follows:

|  | Group        |              |
|--|--------------|--------------|
|  | Dec 31, 2016 | Dec 31, 2015 |
| <b>Opening balance</b>   | <b>-7.2</b>  | <b>-6.7</b>  |
| Provision for doubtful receivables                               | -10.0        | -0.8         |
| Receivables written off during the year that are not recoverable | 0.7          | 0.1          |
| Reversed unutilized amount                                       | 0.3          | 0.2          |
| <b>Closing balance</b>   | <b>-16.2</b> | <b>-7.2</b>  |

Age distribution of trade receivables

|                                     | Group        |              |
|-------------------------------------|--------------|--------------|
|                                     | Dec 31, 2016 | Dec 31, 2015 |
| Not due                             | 630.3        | 424.1        |
| Due for up to 3 months              | 42.3         | 4.5          |
| Due over 3 months                   | 0.1          | 1.6          |
| Total trade receivables             | 672.7        | 430.2        |
| Provision for doubtful receivables  | -16.2        | -7.2         |
| <b>Recognized trade receivables</b> | <b>656.5</b> | <b>423.0</b> |

The verified customer losses during 2016 totaled SEK - 1.6 M (2015: 0.1).

Credit rating, customers (according to Dun & Bradstreet)

| Risk range               | Group        |              |
|--------------------------|--------------|--------------|
|                          | Dec 31, 2016 | Dec 31, 2015 |
| Lowest risk              | 180.5        | 134.3        |
| Low risk                 | 65.0         | 178.9        |
| Medium risk              | 284.3        | 38.5         |
| High risk                | 14.8         | 16.6         |
| Highest risk             | 8.9          | 1.6          |
| Unclassified             | 119.1        | 59.0         |
| No Dun & Bradstreet data | 0.0          | 1.3          |
| <b>Total</b>             | <b>672.7</b> | <b>430.2</b> |

## Note 15 Other financial assets

|             | Group        |              |
|-------------|--------------|--------------|
|             | Dec 31, 2016 | Dec 31, 2015 |
| Depositions | 3.7          | 3.6          |
| Other       | 4.7          | 0.7          |
|             | <b>8.4</b>   | <b>4.3</b>   |

All non-current receivables fall due within five years of the end of the reporting period.

## Note 16 Cash and cash equivalents

|                           | Group        |                | Parent Company |              |
|---------------------------|--------------|----------------|----------------|--------------|
|                           | Dec 31, 2016 | Dec 31, 2015   | Dec 31, 2016   | Dec 31, 2015 |
| Cash and bank balances    | 858.3        | 1,015.8        | 312.1          | 578.2        |
| Investments in securities | -            | -              | -              | -            |
|                           | <b>858.3</b> | <b>1,015.8</b> | <b>312.1</b>   | <b>578.2</b> |

Credit rating of cash and cash equivalents

|             | Group        |             |                |             |
|-------------|--------------|-------------|----------------|-------------|
|             | Dec 31, 2016 | Rating 2016 | Dec 31, 2015   | Rating 2015 |
| Danske Bank | 0.0          | A           | 200.0          | A           |
| HSBC        | 190.4        | AA-         | 78.4           | AA-         |
| Nordea      | 622.8        | AA-         | 719.3          | AA-         |
| Others      | 45.1         | -           | 18.1           | -           |
|             | <b>858.3</b> |             | <b>1,015.8</b> |             |

At December 31, 2016, Axis had no investments in securities. Nor did the group have any investments in securities during 2015. Axis has an unutilized credit facility of SEK 50 M (2015: 50). The credit facility is effective until December 31, 2017 and is contingent on the bank's special requirements. During 2016, no violations of these requirements occurred.

## Note 17 Share capital

The company's share capital consists of 69,461,250 (2015: 69,461,250) shares of the same class. The share's quota value amounts to SEK 0.01.

## Note 18 Other reserves in Equity

|   | Hedging reserve | Translation reserve | Total       |
|---|-----------------|---------------------|-------------|
| Opening balance, January 1, 2015          | -8.5            | -7.1                | -15.6       |
| Translation differences                   | -               | 13.8                | 13.8        |
| <b>Closing balance, December 31, 2015</b> | <b>-8.5</b>     | <b>6.7</b>          | <b>-1.8</b> |
| Opening balance, January 1, 2016          | -8.5            | 6.7                 | -1.8        |
| Translation differences                   | -               | 16.6                | 16.6        |
| <b>Closing balance, December 31, 2016</b> | <b>-8.5</b>     | <b>23.3</b>         | <b>14.8</b> |

The amount in respect of cash flow hedges, which has been transferred from equity to the income statement during the year is recognized net after tax and totaled SEK 0 M (2015: 0).

## Note 19 Personnel

Average number of employees

|                      | 2016         |               | 2015         |               |
|----------------------|--------------|---------------|--------------|---------------|
|                      | Of whom men  | Of whom women | Of whom men  | Of whom women |
| Parent Company       | -            | -             | -            | -             |
| Argentina            | 2            | 1             | 2            | 1             |
| Australia            | 16           | 13            | 16           | 13            |
| Brazil               | 22           | 15            | 35           | 20            |
| Canada               | 24           | 15            | 21           | 13            |
| Czech Republic       | 146          | 111           | 14           | 10            |
| Chile                | 5            | 5             | 4            | 4             |
| China                | 75           | 49            | 88           | 57            |
| Colombia             | 3            | 2             | 4            | 2             |
| Croatia              | 1            | 1             | -            | -             |
| Finland              | 2            | 2             | 2            | 2             |
| France               | 53           | 38            | 30           | 19            |
| Germany              | 43           | 27            | 44           | 25            |
| Hong Kong            | 29           | 15            | 29           | 16            |
| India                | 18           | 14            | 18           | 15            |
| Italy                | 20           | 16            | 21           | 16            |
| Japan                | 34           | 17            | 31           | 18            |
| Kenya                | 2            | 2             | -            | -             |
| Korea                | 11           | 7             | 11           | 7             |
| Malaysia             | 6            | 4             | 6            | 4             |
| Mexico               | 20           | 12            | 18           | 10            |
| The Netherlands      | 21           | 17            | 16           | 14            |
| Norway               | 1            | 1             | 1            | 1             |
| New Zealand          | 4            | 4             | 1            | 1             |
| Poland               | 6            | 4             | 5            | 3             |
| Qatar                | 1            | 1             | -            | -             |
| Russia               | 27           | 17            | 26           | 17            |
| Singapore            | 43           | 22            | 37           | 20            |
| South Africa         | 19           | 11            | 21           | 14            |
| Spain                | 15           | 12            | 13           | 11            |
| Sweden               | 1,398        | 1,052         | 1,258        | 954           |
| Taiwan               | 11           | 4             | 11           | 5             |
| Thailand             | 8            | 3             | -            | -             |
| Turkey               | 4            | 2             | 3            | 2             |
| UK                   | 35           | 27            | 31           | 24            |
| United Arab Emirates | 31           | 24            | 23           | 17            |
| USA                  | 258          | 199           | 225          | 173           |
| <b>Group total</b>   | <b>2,414</b> | <b>1,766</b>  | <b>2,065</b> | <b>1,508</b>  |

Gender distribution among senior executives

|                    | 2016                             |       | 2015                             |       |
|--------------------|----------------------------------|-------|----------------------------------|-------|
|                    | Number at the balance sheet date | Women | Number at the balance sheet date | Women |
| Board of Directors | 8                                | 25 %  | 8                                | 13 %  |
| Group Management   | 10                               | 20 %  | 9                                | 22 %  |

Salaries and other remuneration allocated among senior executives and others

|                    | Board of Directors,<br>President and other<br>senior executives |             | Others         |                | Total          |                |
|--------------------|---|-------------|----------------|----------------|----------------|----------------|
|                    | 2016  | 2015        | 2016           | 2015           | 2016           | 2015           |
|                    | Parent Company  | -           | -              | -              | -              | -              |
| Subsidiaries       | 31.3  | 27.9        | 1,333.8        | 1,055.5        | 1,365.1        | 1,083.4        |
| <b>Group total</b> | <b>31.3</b>   | <b>27.9</b> | <b>1,333.8</b> | <b>1,055.5</b> | <b>1,365.1</b> | <b>1,083.4</b> |

Salaries and other remuneration above include remuneration to the board member and senior executives who are employed in the group.

Salaries and remuneration to the President and CEO and the board member who is employed in the group were paid through the subsidiary company, Axis Communications AB.

|                    | Salaries and other<br>remuneration |                | Social security<br>contributions |              | (of which pension<br>expenses) |             |
|--------------------|------------------------------------|----------------|----------------------------------|--------------|--------------------------------|-------------|
|                    | 2016                               | 2015           | 2016                             | 2015         | 2016                           | 2015        |
|                    | Parent Company                     | -              | -                                | -            | -                              | -           |
| Subsidiaries       | 1,365.1                            | 1,083.4        | 414.7                            | 349.9        | 106.5                          | 93.2        |
| <b>Group total</b> | <b>1,365.1</b>                     | <b>1,083.4</b> | <b>414.7</b>                     | <b>349.9</b> | <b>106.5</b>                   | <b>93.2</b> |

Remuneration to the board of directors

|  | Group           |      |
|--|-----------------|------|
|  | 2016            | 2015 |
|  | Directors' fees | 2.0  |
|  | 2.0             | 2.0  |

#### Remuneration to the Board and other senior executives

The board received directors' fees for 2016 of SEK 2.0 M in total in accordance with the resolution of the AGM. Of the approved fees, SEK 800,000 is payable to the chairman of the board, and SEK 400,000 to each of the other board members. However, no fees are payable to Toshizo Tanaka.

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 and pension. Remuneration to nine persons in the group management also currently includes "stay on board" remuneration, which was agreed and introduced in accordance with the guidelines for remuneration adopted at the 2015 AGM. Other benefits and other remuneration are received on a corresponding basis to other employees.

The objective of Axis AB's remuneration policy for the senior executives shall be to offer compensation that promotes the recruitment of skilled expertise and retaining it in the company. The basic salary shall be determined on the basis that it should be competitive. The absolute level shall depend on the specific position and the individual's performance. Variable remuneration (bonus) to the President and other senior executives is based on the financial goals of the group and is calculated as a function of the sales growth and the profit margin for the year in question. The bonus to the President is maximized at 240 percent of the annual salary and for the other senior executives the highest individual bonus amount is maximized at 80 percent of the annual salary.

In 2015, the nine persons who were members of the management team at the time of Canon Inc's public offer, each received "stay on board" remuneration of 3 monthly salaries. In September 2015, the board approved further "stay on board" remuneration to the same nine members of the management team. For the President, the amount of remuneration is 100 percent of the gross annual salary. For the other senior executives concerned, the remuneration varies up to 100 percent of the gross annual salary. Half of the remuneration was disbursed on June 30, 2016 and the other half will be disbursed on June 30, 2017, provided that the senior executive is still employed on the payment date, has not had his/her employment terminated or has not resigned from his/her position. This remuneration is not pension-qualifying.

The results for the 2016 fiscal year have been charged with SEK 2.6 M (2015: 1.5) in bonus for the President and CEO and SEK 6.6 M (2015: 6.7) to the other senior executives.

Remuneration and other benefits in respect of the board of directors and senior executives are shown in the table below.

| 2015   | Basic<br>salary/fees*     | Bonus      | Other<br>benefits | Pension<br>expense | Other<br>remuneration | Total       |
|--|---------------------------|------------|-------------------|--------------------|-----------------------|-------------|
|  | <b>Board of Directors</b> |            |                   |                    |                       |             |
| Biörn Riese<br>(Chairman)                        | 0.8                       | -          | -                 | -                  | -                     | 0.8         |
| Toshizo Tanaka                                   | -                         | -          | -                 | -                  | -                     | -           |
| Håkan Kirstein                                   | 0.4                       | -          | -                 | -                  | -                     | 0.4         |
| Bert Nordberg                                    | 0.4                       | -          | -                 | -                  | -                     | 0.4         |
| Martin Gren<br>(employed by Axis)                | 1.0**                     | 0.0        | -                 | 0.3                | -                     | 1.3         |
| <b>Group Management</b>                          |                           |            |                   |                    |                       |             |
| Ray Mauritsson<br>(President & CEO)              | 2.9                       | 1.5        | -                 | 1.4                | 0.0                   | 5.8         |
| Others persons in the<br>Group Management<br>(8) | 15.8                      | 6.7        | -                 | 3.4                | 0.2                   | 26.1        |
|  | <b>21.3</b>               | <b>8.2</b> | <b>-</b>          | <b>5.1</b>         | <b>0.2</b>            | <b>34.8</b> |

| 2016  | Basic<br>salary/fees*     | Bonus      | Other<br>benefits | Pension<br>expense | Other<br>remuneration | Total       |
|---|---------------------------|------------|-------------------|--------------------|-----------------------|-------------|
|   | <b>Board of Directors</b> |            |                   |                    |                       |             |
| Biörn Riese<br>(Chairman)                     | 0.8                       | -          | -                 | -                  | -                     | 0.8         |
| Toshizo Tanaka                                | -                         | -          | -                 | -                  | -                     | -           |
| Håkan Kirstein                                | 0.4                       | -          | -                 | -                  | -                     | 0.4         |
| Bert Nordberg                                 | 0.4                       | -          | -                 | -                  | -                     | 0.4         |
| Martin Gren<br>(employed by Axis)             | 1.0**                     | 0.0        | -                 | 0.3                | -                     | 1.3         |
| <b>Group Management</b>                       |                           |            |                   |                    |                       |             |
| Ray Mauritsson<br>(President & CEO)           | 3.3                       | 2.6        | -                 | 1.4                | 0.3                   | 7.6         |
| Others persons in the<br>Group Management (9) | 18.3                      | 6.6        | 0.2               | 4.8                | 0.2                   | 30.1        |
|   | <b>24.2</b>               | <b>9.2</b> | <b>0.2</b>        | <b>6.5</b>         | <b>0.5</b>            | <b>40.6</b> |

The bonus shown in the tables includes the bonus that relates to the current fiscal year and which is disbursed during the next fiscal year as well as "stay on board" remuneration to nine members of the group management. Bonus for fiscal year 2016 will be disbursed during 2017. Bonus of SEK 1.6 M (2015:2.1) for the fiscal year 2015 was disbursed during 2016 to the President and CEO and a total of SEK 7.1 M (2015: 2.7) to other senior executives. Of this sum, SEK 1.5 M represented "stay on board" remuneration to the President and "stay on board" remuneration of SEK 6.8 M to the 8 other members of the group management.

\* Of the directors' fees approved by the AGM.

\*\* Of which, directors' fees SEK 0.4 M.

#### Pensions

The group operates both defined benefit and defined contribution pension plans. The majority of the employees in the foreign units have defined-contribution pension plans. The ITP agreement applies for employees in Sweden, which is an agreement between the Confederation of Swedish Enterprise and the Council for Negotiation and Co-operation (PTK) governing salaried employees' occupational pensions. The ITP agreement contains two parts; ITP 1 and ITP 2. ITP 1 is a defined-contribution pension plan while ITP 2 has a defined-benefit retirement and family pension.

The ITP 2 plan's defined-benefit retirement and family pension obligations are secured through insurance with Alecta. According to statement UFR 10 from the Swedish Financial Accounting Standards Council's Emerging Issues Task Force, Recognition of the ITP 2 pension plan, which is financed through insurance with Alecta, this is a multi-employer defined-benefit plan. For the fiscal year 2016, the company did not have access to the information required to report its proportional share of the plan's

obligations, plan assets and costs, which means that it has not been possible to report it as a defined benefit plan. The ITP 2 pension plan secured through insurance with Alecta is therefore recognized as a defined-contribution plan. The premium for the defined-benefit retirement and family pension is individually calculated and depends on factors such as salary, previously earned pension and anticipated remaining period of service. The pension contributions for the ITP insurance with Alecta amounted to SEK 30.0 M in 2016 (2015:23.7).

Expected fees for the next fiscal year amount to SEK 30.8 M. The group's share of the combined fees to the plan is negligible. At year-end 2016, Alecta's surplus in the form of the collective consolidation level was 148 percent\* (2015:153).

The collective consolidation level is defined as the market value of Alecta's assets as a percentage of the insurance commitments calculated in accordance with Alecta's accordance with Alecta's actuarial calculation assumptions, which do not comply with IAS 19.

\* The figure is preliminary.

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

#### 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

#### Change of control-clause

No agreements exist, with the exception of employment contracts, the essential contents of which have been commented upon above, between the company and the directors or employees which prescribe that remuneration shall be payable if they: give notice; are served with notice without reasonable grounds; or if their employment is terminated for various reasons.

#### Preparation and decision-making process

Subsequent to the AGM on April 13, 2016, the board established a remuneration committee composed of Biörn Riese and Bert Nordberg. During the period between the AGMs on June 15, 2015 and April 13, 2016, the entire board constituted the remuneration committee.

During the year, the remuneration committee advised the board of its recommendations in respect of principles for remuneration of senior executives. The recommendations covered the proportions between fixed salary and variable remuneration, and the size of any salary increases. The remuneration committee also proposed criteria for assessing bonus outcomes etc. The board discussed the remuneration committee's proposals, and reached decisions in line with the committee's recommendations.

The Annual General Meeting 2016 resolved to adopt the board's proposal for guidelines regarding determination of salary and other remuneration to the President and CEO and other senior executives.

During the period after the AGM 2016, the board followed and evaluated the application of the guidelines for determination of salaries and other remuneration to the President and other members of the company management, which were adopted by the AGM as well as ongoing and completed during the year programs for variable

remuneration to the company management as well as remuneration structures and rates of compensation in the company.

## Note 20 Other provisions

|                              | Group        |              |
|------------------------------|--------------|--------------|
|                              | Dec 31, 2016 | Dec 31, 2015 |
| Warranty provision           | 119.6        | 105.3        |
| Of which short-term portion* | -43.4        | -44.1        |
|                              | <b>76.2</b>  | <b>61.2</b>  |

|   | Group       |             |
|---|-------------|-------------|
|   | 2016        | 2015        |
| Provisions brought forward                  | 61.2        | 49.9        |
| Changes during the year, warranty provision | 15.0        | 11.3        |
| <b>Provisions carried forward</b>           | <b>76.2</b> | <b>61.2</b> |

\* Refers to the portion which is expected to be settled within one year. The short-term portion of the warranty provision is classified under trade payables and other liabilities. See Note 21

## Note 21 Trade payables and other liabilities

|   | Group          |              |
|---|----------------|--------------|
|   | Dec 31, 2016   | Dec 31, 2015 |
| Trade payables                                | 621.3          | 532.9        |
| Other liabilities                             | 80.0           | 55.2         |
| Short-term portion of warranty provision      | 43.4           | 44.1         |
| Social security contributions and other taxes | 102.3          | 74.1         |
| Deferred income                               | 23.0           | 14.4         |
| Accrued expenses                              | 381.8          | 272.3        |
|   | <b>1 251.8</b> | <b>993.0</b> |

## Note 22 Financial income

|   | Parent Company |            |
|---|----------------|------------|
|   | 2016           | 2015       |
| Anticipated dividends from subsidiaries | -              | -          |
| Interest income, external               | 0.4            | 0.1        |
| Exchange differences                    | 0.5            | 0.4        |
|   | <b>0.9</b>     | <b>0.5</b> |

## Note 23 Financial expenses

|                             | Parent Company |             |
|-----------------------------|----------------|-------------|
|                             | 2016           | 2015        |
| Interest expenses, external | -1.8           | -0.7        |
| Exchange differences        | -27.0          | -2.4        |
| Other financial expenses    | -0.2           | -0.1        |
|                             | <b>-29.0</b>   | <b>-3.2</b> |

## Note 24 Appropriations

|                                      | Parent Company |              |
|--------------------------------------|----------------|--------------|
|                                      | 2016           | 2015         |
| Additional depreciation              | 1.7            | -0.9         |
| Provision to tax allocation reserve  | -192.0         | -204.7       |
| Reversal from tax allocation reserve | 57.8           | -            |
| Group contributions received         | 676.1          | 820.2        |
| Group contributions paid             | -1.4           | -0.2         |
|                                      | <b>542.2</b>   | <b>614.4</b> |

## Note 25 Participations in subsidiaries

| Shares owned by the parent company       | Registered office | Corporate registration no. | Share of votes and equity | Number of shares | Par value | Carrying amount |              |
|--|-------------------|----------------------------|---------------------------|------------------|-----------|-----------------|--------------|
|  |                   |                            |                           |                  |           | Dec 31, 2016    | Dec 31, 2015 |
| Axis Alfa AB                             | Sweden, Lund      | 556599-4547                | 100.0%                    | 500              | 0.1       | 0.1             | 0.1          |
| Axis Communications AB                   | Sweden, Lund      | 556253-6143                | 99.9%*                    | 1,599            | 0.2       | 0.3             | 0.3          |
| Axis Gamma AB                            | Sweden, Lund      | 556599-4562                | 100.0%                    | 500              | 0.1       | 0.1             | 0.1          |
| Axis Stockholmsledet 11 AB               | Sweden, Lund      | 559011-4384                | 100.0%                    | 1,000            | 0.1       | 38.9            | -            |
| Axis Technologies AB                     | Sweden, Lund      | 556485-0765                | 100.0%                    | 500              | 0.1       | 0.1             | 0.1          |
| Gren & Karlsson Firmware AB              | Sweden, Lund      | 556304-6209                | 100.0%                    | 500              | 0.1       | 0.1             | 0.1          |
| 2N Holding AB (formerly Axis Beta AB)    | Sweden, Lund      | 556599-4588                | 100.0%                    | 500              | 0.1       | 0.1             | 0.1          |
| Axis Communications de Argentina SA      | Argentina         |                            | 10.0%*                    | 50,000           | 0.1       | 0.0             | 0.0          |
| Axis Comunicaciones Chile Limitada       | Chile             |                            | 1.0%*                     | 0                | 0.1       | 0.0             | 0.0          |
| Axis Video Systems India Private Limited | India             |                            | 0.1%*                     | 1                | 0.0       | 0.0             | 0.0          |
| Axernet Communications Kenya Limited     | Kenya             |                            | 1.0%*                     | 10               | 0.0       | 0.0             | -            |
|  |                   |                            |                           |                  |           | <b>39.6</b>     | <b>0.8</b>   |

\* The remaining share is owned by other group companies.

| Shares owned by subsidiaries                          | Registered office    | Corporate registration no. | Share of equity |
|---|----------------------|----------------------------|-----------------|
| Axis Communications AB                                | Sweden, Lund         | 556253-6143                | 0.1%*           |
| Axis Network AB                                       | Sweden, Lund         | 556505-3450                | 100.0%          |
| Axis Peripherals AB                                   | Sweden, Lund         | 556505-1785                | 100.0%          |
| Cognimatics Aktiefbolag                               | Sweden, Lund         | 556644-9996                | 100.0%          |
| Axis Communications de Argentina SA                   | Argentina            |                            | 90.0%*          |
| Axis Communications Pty Ltd                           | Australia            |                            | 100.0%          |
| Axis Communications Com e Serv Ltda                   | Brazil               |                            | 100.0%          |
| Axis Communications Inc. Canada                       | Canada               |                            | 100.0%          |
| Axis Communications s.r.o.                            | Czech Republic       |                            | 100.0%          |
| 2N Telekomunikace a.s                                 | Czech Republic       |                            | 100.0%          |
| Axis Comunicaciones Chile Limitada                    | Chile                |                            | 99.0%*          |
| Axis Communications Ltd                               | China, Hong Kong     |                            | 100.0%          |
| Citilog Asia Pacific Limited                          | China, Hong Kong     |                            | 100.0%          |
| Shanghai Axis Communication Equipment Trading Co. Ltd | China, Shanghai      |                            | 100.0%          |
| Axis Communications Colombia SAS                      | Colombia             |                            | 100.0%          |
| Axis Communications d.o.o. za usluge                  | Croatia              |                            | 100.0%          |
| Axis Communications Oy                                | Finland              |                            | 100.0%          |
| Axis Communications SA                                | France               |                            | 100.0%          |
| Citilog SA  | France               |                            | 100.0%          |
| Axis Communications GmbH                              | Germany              |                            | 100.0%          |
| Axis Video Systems India Private Limited              | India                |                            | 99.9%*          |
| Axis Communications S.r.l.                            | Italy                |                            | 100.0%          |
| Axis Communications KK                                | Japan                |                            | 100.0%          |
| Axernet Communications Kenya Limited                  | Kenya                |                            | 99.0%*          |
| Axis Communications Korea Co. Ltd                     | Korea                |                            | 100.0%          |
| Axis Communications Video Sdn. Bhd.                   | Malaysia             |                            | 100.0%          |
| Axis LAC S.A. de C.V.                                 | Mexico               |                            | 100.0%          |
| Axis Communications BV                                | Netherlands          |                            | 100.0%          |
| Axis Communications Norge AS                          | Norway               |                            | 100.0%          |
| Axis Communications New Zealand Ltd                   | New Zealand          |                            | 100.0%          |
| Axis Communications Poland Sp. z o.o.                 | Poland               |                            | 100.0%          |
| Axis Communications OOO                               | Russia               |                            | 100.0%          |
| Axis Communications (S) Pte Ltd                       | Singapore            |                            | 100.0%          |
| Axis Communications SA Pty Ltd                        | South Africa         |                            | 100.0%          |
| Axernet Communications SA                             | Spain                |                            | 100.0%          |
| Axis Communications Taiwan Co., Ltd                   | Taiwan               |                            | 100.0%          |
| Axis Communications (Thailand) Ltd                    | Thailand             |                            | 100.0%          |
| Axis Komünikasyon Hizmetleri Ve Ticaret Ltd Şirketi   | Turkey               |                            | 100.0%          |
| Axis Communications FZE                               | United Arab Emirates |                            | 100.0%          |
| Axis Communications (UK) Ltd                          | UK                   |                            | 100.0%          |
| Axis Communications Inc                               | USA                  |                            | 100.0%          |
| Citilog Inc.  | USA                  |                            | 100.0%          |
| 2N USA LLC  | USA                  |                            | 100.0%          |

\* The remaining share is owned by Axis AB.

## Note 26 Contingent liabilities

|   | Group        |              | Parent Company |              |
|---|--------------|--------------|----------------|--------------|
|   | Dec 31, 2016 | Dec 31, 2015 | Dec 31, 2016   | Dec 31, 2015 |
| Customs bond  | 6.0          | 6.0          | -              | -            |
| Contingent liabilities on behalf of other group companies | -            | -            | -              | 27.4         |
|   | <b>6.0</b>   | <b>6.0</b>   | <b>-</b>       | <b>27.4</b>  |

## Note 27 Cash flow from operations

|   | Group        |              | Parent company |             |
|---|--------------|--------------|----------------|-------------|
|   | 2016         | 2015         | 2016           | 2015        |
| Net profit/loss for the period before financial items | 885.0        | 881.2        | 58.0           | -1.9        |
| Adjusted for:   |              |              |                |             |
| - depreciation of property, plant and equipment       | 87.9         | 68.1         | -              | -           |
| - amortization of intangible assets                   | 47.9         | 35.5         | 2.5            | 2.4         |
| - other items not affecting cash flow*                | -38.5        | 67.5         | -              | -           |
| Change in working capital                             |              |              |                |             |
| - inventories   | -25.4        | -299.9       | -              | -           |
| - trade receivables and other receivables             | -261.2       | 184.1        | 1.0            | -0.5        |
| - trade payables and other liabilities                | 235.9        | 58.9         | 7.8            | -0.3        |
| <b>Cash flow from operations</b>                      | <b>931.6</b> | <b>995.4</b> | <b>69.3</b>    | <b>-0.3</b> |

\* This item includes foreign currency translation effects.

## Note 28 Related parties

On December 31, 2016, the parent company's non-current receivables from group companies amounted to SEK 27 M (0) and current receivables from group companies amounted to SEK 1,903 M (1,169). Current liabilities to group companies amounted to SEK 2.3 M (1.0). Related party transactions are priced on market-related terms.

All group companies are described in Note 25 Participations in subsidiaries. Information about board members and members of the group management and remuneration of these members is reported in Note 19 Personnel. Apart from the remuneration to board members and the group management that is described in Note 19, no transactions with related physical persons have taken place. The group has not provided loans, provided indemnities or issued guarantees for any members of the board or other senior executives. Axis has not had any significant financial transactions with the principal owner Canon Inc or its subsidiaries. Certain Axis group companies, from the time before Canon Inc's offer, lease business equipment from subsidiaries of Canon Inc. Axis has during the year started to resell Canon Network video products in EMEA and Americas.

Axis continually has a number pilot studies and collaboration projects in progress with various companies. All pilot studies and collaboration projects are well-defined, are based on market-related terms, are of clear benefit to the Axis group and are governed, when required, by Non Disclosure Agreements or other agreements. Already, prior to Canon's bid Axis has had a number of pilot studies and collaboration projects with companies in the Canon group. In total, there are about 10 signed Non Disclosure Agreements and a small number of agreements. The most important agreements govern joint development projects, for example the development of the network camera with 20MP resolution that Axis released during the year. Pilot studies are currently ongoing regarding potential purchasing synergies that could

benefit Axis, access to know how and technology components from Canon and regarding Axis' use of know how and cross-licensing agreements in the Canon group. If these pilot studies should result in agreements and financial transactions between Axis and Canon, these will also be based on market-related and favorable terms for Axis.

## Note 29 Acquisitions

The significant business acquisitions completed by the group during 2016 are shown below. No business acquisitions occurred during 2015.

### 29.1 Citilog SA

On January 31, 2016, Axis Communications AB acquired 100 percent of the shares in Citilog SA, a leading provider of video monitoring solutions for the transportation sector. The acquisition broadens Axis' product portfolio with reliable video analytics tools for transportation monitoring. The group can thus offer a more comprehensive traffic solution, generating increased opportunities in the fast-growing traffic analytics market.

#### Purchase price - cash outflow

The purchase price amounted to SEK 91.1 M and was paid in cash.

|  |             |
|--|-------------|
| Cash purchase price  | 91.1        |
| Less: acquired cash and cash equivalents                               | -28.0       |
| <b>Net outflow of cash and cash equivalents - investing activities</b> | <b>63.1</b> |

#### Fair value of identifiable assets and liabilities on the acquisition date

|  |              |
|--|--------------|
| Property, plant and equipment                      | 0.5          |
| Intangible assets: trademarks                      | 4.5          |
| Intangible assets: contracts with customers        | 5.1          |
| Intangible assets: technology                      | 16.7         |
| Deferred tax assets                                | 21.9         |
| Other financial assets                             | 0.6          |
| Inventories  | 4.1          |
| Trade receivables                                  | 16.4         |
| Other current receivables                          | 4.0          |
| Cash and cash equivalents                          | 28.0         |
| <b>Total assets</b>                                | <b>101.8</b> |
| Non-current liabilities                            | 6.6          |
| Deferred tax liabilities                           | 8.7          |
| Trade payables                                     | 3.9          |
| Other current liabilities                          | 8.3          |
| <b>Total liabilities</b>                           | <b>27.5</b>  |
| <b>Total identifiable net assets at fair value</b> | <b>74.3</b>  |
| <b>Goodwill</b>                                    | <b>16.8</b>  |

The goodwill arising through the acquisition is related to Citilog's strong position in the market. No portion of the acquired goodwill is expected to be deductible for tax purposes.

#### Revenue and profit in acquired business

Citilog contributed revenue of SEK 51 M and a net profit of SEK 1 M to the group for the period January 31 to December 31, 2016. If the acquisition had been carried out on January 1, 2016, the consolidated pro-forma for revenue and profit would show SEK 56 M and SEK 0 M respectively on December 31, 2016. These amounts were calculated using the subsidiary's results while adjusting for differences in accounting policies between the group and the subsidiary.

#### Acquisition-related expenses

Acquisition-related expenses of SEK 3.9 M are included in the operating profit and in operating activities in the statement of cash flows.

### 29.2 2N Telekomunikace a.s.

On May 30, 2016, Axis Beta AB (now 2N Holding AB) acquired 100 percent of the shares in 2N Telekomunikace a.s. and 2N USA LLC. 2N is a leading player in the IP intercom field and is also active in other areas such as IP audio and communication solutions for lifts. The company has well-established sales channels, through electricians and telecom installers as well as lift manufacturers, which will complement Axis' present global sales channels. Together with 2N, Axis can meet the increased demand for integrated solutions based on open standards that deliver increased security. An important shared mission is to accelerate the shift from analog to IP-based intercom systems and to develop new opportunities. The market is growing and Axis can continue to drive the market trend through this acquisition.

#### Purchase price - cash outflow

The purchase price amounted to SEK 475.9 M, of which SEK 437.8 M was paid in cash on the acquisition date. The remainder of the purchase price will be settled in two parts, the first half of which shall be paid 12 months after the acquisition date and the other half 24 months after the acquisition date.

|  |              |
|--|--------------|
| Initial cash purchase price  | 437.8        |
| Less: acquired cash balances   | -20.5        |
| <b>Net outflow of cash and cash equivalents - investing activities</b> | <b>417.3</b> |

#### Fair value of identifiable assets and liabilities on the acquisition date

|  |              |
|--|--------------|
| Property, plant and equipment                      | 8.2          |
| Intangible assets: trademarks                      | 52.9         |
| Intangible assets: contracts with customers        | 22.7         |
| Intangible assets: technology                      | 69.0         |
| Intangible assets: rights                          | 1.8          |
| Other financial assets                             | 3.7          |
| Inventories  | 54.7         |
| Trade receivables                                  | 40.1         |
| Other current receivables                          | 4.8          |
| Cash and cash equivalents                          | 20.5         |
| <b>Total assets</b>                                | <b>278.4</b> |
| Deferred tax liabilities                           | 27.5         |
| Trade payables                                     | 29.3         |
| Other current liabilities                          | 18.1         |
| <b>Total liabilities</b>                           | <b>74.9</b>  |
| <b>Total identifiable net assets at fair value</b> | <b>203.5</b> |
| <b>Goodwill</b>                                    | <b>272.4</b> |

The goodwill arising through the acquisition is related to 2N's strong position in the market. No portion of the acquired goodwill is expected to be deductible for tax purposes.

#### Revenue and profit in acquired business

2N contributed revenue of SEK 165 M and a net profit of SEK 4 M to the group for the period May 30 to December 31, 2016. If the acquisition had been carried out on January 1, 2016, the consolidated pro-forma for revenue and profit would show SEK 290 M and SEK 16 M respectively on December 31, 2016. These amounts were calculated using the subsidiary's results while adjusting for differences in accounting policies between the group and the subsidiary.

#### Acquisition-related expenses

Acquisition-related expenses of SEK 4.2 M are included in the operating profit and in operating activities in the statement of cash flows.

### 29.3 Cognimatics AB

On June 3, 2016 Axis Communications AB acquired 100 % of the shares in Cognimatics AB. Cognimatics is a leading company within solutions primarily for store optimization for retailers. The company provides a suite of video analytics applications that are used to increase knowledge about customer behavior and movement patterns, thereby improving the customer experience and providing more efficient and secure operation of the stores. Access to Cognimatics' knowledge and technology strengthens Axis' offering in the fast growing retail segment. Axis Communications and Cognimatics have collaborated for several years when it comes to technology and sales in order to offer integrated solutions to a number of common customers.

#### Purchase price - cash outflow

The purchase price amounted to SEK 61.7 M which was paid in cash.

#### Preliminary purchase price analysis\*

|  |             |
|--|-------------|
| Initial cash purchase price  | 61,7        |
| Less: acquired cash balances   | -7,2        |
| <b>Net outflow of cash and cash equivalents - investing activities</b> | <b>54,5</b> |

#### Fair value of identifiable assets and liabilities on the acquisition date

|  |             |
|--|-------------|
| Trade receivables                                  | 2,4         |
| Other current receivables                          | 0,3         |
| Cash and cash equivalents                          | 7,2         |
| <b>Total assets</b>                                | <b>9,9</b>  |
| Deferred tax liabilities                           | 0,8         |
| Trade payables                                     | 0,8         |
| Other current liabilities                          | 1,2         |
| <b>Total liabilities</b>                           | <b>2,8</b>  |
| <b>Total identifiable net assets at fair value</b> | <b>7,1</b>  |
| <b>Goodwill</b>                                    | <b>54,6</b> |

#### Revenue and profit in acquired business

Cognimatics contributed revenues of SEK 12 M and a net profit of SEK 5 M to the group for the period from June 3 to December 31, 2016. If the acquisition had been carried out on January 1, 2016, the consolidated pro-forma for revenue and profit would show SEK 21 and SEK 9 M respectively on December 31, 2016. These amounts were calculated using the subsidiary's results while adjusting for differences in accounting policies between the group and the subsidiary.

#### Acquisition-related expenses

Acquisition-related expenses of SEK 1.7 M are included in the operating profit and in operating activities in the statement of cash flows.

\*Pending a final purchase price analysis, all surplus values have been allocated to goodwill

### Note 30 Post-balance sheet events

There are no significant events to report.

### Not 31 Appropriation of profits

(Amounts in SEK)

At the disposal of the annual general meeting:

|  |                      |
|--|----------------------|
| Accumulated profit and other non-restricted reserves | 831,431,161          |
| Net profit for the year                              | 445,351,467          |
| <b>Total</b>   | <b>1,276,782,628</b> |

The board of directors and the President propose that the profits at the disposal of the annual general meeting be appropriated as follows:

|                       |                      |
|-----------------------|----------------------|
| to be carried forward | 1 276 782 628        |
| <b>Total</b>          | <b>1 276 782 628</b> |

### Note 32 Key ratios

| Key ratios                 | Definitions   | Purpose   |
|----------------------------|---|---|
| Return on equity           | Profit after financial items and tax divided by average equity.                                   | The key ratio shows the operation's return on the equity contributed by the shareholders and is thus a measurement of how profitable the group is. Investors can compare this metric with current bank interest or returns from alternative investments. The metric can also be used to compare profitability between companies in the same industry. |
| Return on capital employed | Profit after financial items plus financial expenses divided by average average capital employed. | The key ratio shows the operation's return on the equity that the shareholders and lenders have made available. The metric thus shows the group's return, independent of financing choice, and can be used in connection with investment evaluations.   |
| Gross margin               | Gross profit as a percentage of net sales   | The key ratio shows the margin before personnel costs and other external expenses.  |
| Earnings per share         | Net profit for the year divided by the average number of shares.                                  | The key ratio is important for a share's valuation as together with the price per share it can be used to compute the P/E ratio.  |
| Operating margin           | Operating profit as a percentage of net sales.  | The key ratio shows the margin before financial items and taxes   |
| Equity ratio               | Equity as a percentage of the balance sheet total   | The key ratio shows how large a proportion of the assets are financed with equity. The metric can be of interest when evaluating the group's solvency in the longer term  |
| Profit margin              | Profit before tax as a percentage of net sales.   | The key ratio shows the margin before tax.  |

| Return on equity                          | 2016         | 2015         |
|---|--------------|--------------|
| Profit after financial items R12          | 884          | 881          |
| Taxes                                     | -195         | -194         |
| Profit after financial items R12 less tax | 690          | 687          |
| Average equity                            | 2,047        | 1,420        |
|   | <b>33.7%</b> | <b>48.4%</b> |

| Return on capital employed                                | 2016         | 2015         |
|---|--------------|--------------|
| Profit after financial items R12                          | 884          | 881          |
| Financial expenses R12                                    | -3           | -1           |
| Profit after financial items R12 + financial expenses R12 | 887          | 882          |
| Average capital employed                                  | 2,049        | 1,420        |
|   | <b>43.3%</b> | <b>62.1%</b> |

Some of the key ratios may be easily computed from the financial statements and are therefore not presented above.



## Signatures

The board of directors approved these financial statements and consolidated financial statements for publication on March 29 2017. The income statements and balance sheets of the parent company and the group will be submitted to the Annual General Meeting on April 20, 2017 for adoption.

The board of directors and the President affirm that the consolidated financial statements have been prepared in accordance with international accounting standards, IFRS as adopted by the EU and provide a true and fair view of the group's financial position and results of operations. The financial statements have been prepared in accordance with generally accepted accounting principles and give a true and fair view of the parent company's financial position and results of operations.

The statutory administration report for the group and the parent company provides a true and fair review of the development of the group's and the parent company's operations, financial position and results of operations and describes material risks and uncertainties facing the parent company and the companies forming part of the group.

Axis AB, 556241-1065

Lund, March 29, 2017

Biörn Riese  
*Chairman*

Ray Mauritsson  
*President and CEO*

Martin Gren  
*Board member*

Toshizo Tanaka  
*Board member*

Bert Nordberg  
*Board member*

Håkan Kirstein  
*Board member*

Haris Mustafic  
*Employee representative*

Madhavi Kagganti  
*Employee representative*

Marie Nässlind  
*Employee representative*

Our audit report was submitted on March 29, 2017.

Ernst & Young AB

Grant Thornton Sweden AB

Johan Thuresson  
*Authorized Public Accountant*

Stefan Hultstrand  
*Authorized Public Accountant  
Minority auditor*

# Audit report

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

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of Axis AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 69-96 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31st of December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31st of December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the consolidated statement of comprehensive income and consolidated balance sheet for the group.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Other Matters

The audit of the Annual Report 2015 has been performed by another auditor, who has presented an auditors report with the appointed minority auditor, dated 14th of March 2016 with unmodified opinion in Report on the annual accounts and consolidated accounts.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

### Revenue Recognition

The revenues amounted SEK 7,385.7 million in 2016. The revenue recognition principles are described in note 1. A revenue from sale of

goods is recognized upon delivery and acceptance by the customer, which has occurred when the significant risks and benefits have transferred to the buyer. The company's sales model includes rebates and other sales incentives which are settled in retrospective, as described in note 1. Due to the variety and complexity of contractual terms across the Group's markets, and the magnitude of the data involved in making the estimations, we have considered the estimation of rebates and other sales incentives recognised based on sales during the year to be complex. We have therefore determined the revenue recognition to be a key audit matter.

During our audit we have evaluated and tested the process of revenue recognition and accrual of rebates and other sales incentives. Amongst other procedures, we have tested the company's controls over revenue recognition and accounting for rebates and executed analytical audit procedures over the historical accuracy of judgments made. We have also performed analytics over product sales compared to the prior year, compared sales trends to expectations, tested contractual agreements, conducted sample testing over revenue cutoff at year-end and obtained external accounts receivable confirmations.

We have evaluated whether the disclosures within the annual report are appropriate.

### Acquisition of 2N Telekomunikace a.s. and Citilog SA

The group acquired 2N Telekomunikace a.s. and Citilog SA in 2016. The acquisition price for 2N Telekomunikace a.s. amounted SEK 475.9 million and acquired intangible assets SEK 418.8 million of which goodwill amounted SEK 272.4 million. The acquisition price for Citilog SA amounted SEK 91.1 million and acquired intangible assets SEK 43.1 million of which goodwill amounted SEK 16.8 million.

The company's disclosures over the acquisitions are included in note 29 and note 1. The accounting for these two acquisitions has required a significant amount of management estimation. The key judgments relate to the allocation of the purchase price to the assets and liabilities acquired and adjustments made to align with the group's accounting policies. In preparing the purchase price allocation the company applied various assumptions in respect of future cashflows, growth, discount rates and selection of valuation model. The purchase price allocation is a key audit matter as the assessment process requires significant management judgement and imposes significant estimates.

We assessed and tested management's processes for preparing the purchase price allocation for example by assessing the reasonableness in future cashflows and growth assumptions. Our valuation specialists have supported us in testing the company's models and methods for the purchase price allocation and the reasonableness in selecting a valuation model, as well as assumptions on for example discount rate and future cashflows as well as economic life of assets. We also tested the adjustments made to align the acquired companies' accounting principles with those of the group.

We have evaluated the appropriateness of the disclosures within the annual report.

## Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-68 and pages 100-103 and pages 111-116. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- > Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- > Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- > Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- > Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- > Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- > Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Axis AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

## Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

## Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- > has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- > in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Lund, March 29, 2017  
Ernst & Young AB

Grant Thornton Sweden AB

Johan Thuresson  
*Authorized Public Accountant*

Stefan Hultstrand  
*Authorized Public Accountant  
Minority Auditor*

# Multi-year summary

| INCOME STATEMENT (SEK M)            | 2012           | 2013           | 2014           | 2015           | 2016           |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net sales                           | 4,183.5        | 4,716.8        | 5,449.7        | 6,634.7        | 7,385.7        |
| Cost of goods and services sold     | -2,080.0       | -2,286.6       | -2,627.7       | -3,262.2       | -3,678.9       |
| <b>Gross profit</b>                 | <b>2,103.5</b> | <b>2,430.2</b> | <b>2,822.0</b> | <b>3,372.5</b> | <b>3,706.8</b> |
| Other income and changes in value   | -30.0          | -8.0           | -1.6           | -32.6          | 63.5           |
| Selling and marketing expenses      | -747.5         | -864.4         | -1,019.6       | -1,180.8       | -1,353.0       |
| Administrative expenses             | -171.0         | -208.9         | -226.7         | -292.2         | -298.9         |
| Research and development expenses   | -579.7         | -708.6         | -858.7         | -985.7         | -1,233.4       |
| <b>Operating profit</b>             | <b>575.3</b>   | <b>640.3</b>   | <b>715.4</b>   | <b>881.2</b>   | <b>885.0</b>   |
| Net financial items                 | -6.5           | -3.1           | -1.5           | -0.7           | -0.8           |
| <b>Profit after financial items</b> | <b>568.8</b>   | <b>637.2</b>   | <b>713.9</b>   | <b>880.5</b>   | <b>884.2</b>   |
| Tax on net profit                   | -141.5         | -158.3         | -174.6         | -228.4         | -245.5         |
| <b>Net profit for the year</b>      | <b>427.3</b>   | <b>478.9</b>   | <b>539.3</b>   | <b>652.1</b>   | <b>638.7</b>   |

| BALANCE SHEET (SEK M)     | Dec 31, 2012   | Dec 31, 2013   | Dec 31, 2014   | Dec 31, 2015   | Dec 31, 2016   |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| Non-current assets        | 210.9          | 270.5          | 338.3          | 452.9          | 1,167.9        |
| Inventories               | 536.0          | 636.8          | 722.3          | 1,022.2        | 1,106.5        |
| Trade receivables         | 391.9          | 592.0          | 636.5          | 423.0          | 656.5          |
| Other receivables         | 92.8           | 105.9          | 95.0           | 124.4          | 220.1          |
| Cash and cash equivalents | 464.5          | 337.7          | 414.6          | 1,015.8        | 858.3          |
| <b>Total</b>              | <b>1,696.1</b> | <b>1,942.9</b> | <b>2,206.7</b> | <b>3,038.3</b> | <b>4,009.4</b> |
| Equity                    | 809.8          | 936.9          | 1,097.1        | 1,741.5        | 2,352.3        |
| Non-current liabilities   | 124.6          | 159.3          | 187.4          | 282.2          | 391.0          |
| Current liabilities       | 761.7          | 846.7          | 922.2          | 1,014.6        | 1,266.1        |
| <b>Total</b>              | <b>1,696.1</b> | <b>1,942.9</b> | <b>2,206.7</b> | <b>3,038.3</b> | <b>4,009.4</b> |

| CASH FLOW STATEMENT (SEK M)  | 2012        | 2013          | 2014        | 2015         | 2016          |
|--|-------------|---------------|-------------|--------------|---------------|
| Cash flow from operating activities before change in working capital | 416.7       | 567.6         | 689.2       | 860.1        | 772.1         |
| Change in working capital  | -56.1       | -90.1         | -88.7       | -56.9        | -50.7         |
| Cash flow from operating activities                                  | 360.6       | 477.5         | 600.5       | 803.2        | 721.4         |
| Cash flow from investing activities                                  | -79.1       | -117.0        | -141.6      | -180.5       | -831.6        |
| Cash flow from financing activities                                  | -242.0      | -487.3        | -382.0      | -21.5        | -47.2         |
| <b>Cash flow for the period</b>                                      | <b>39.5</b> | <b>-126.8</b> | <b>76.9</b> | <b>601.2</b> | <b>-157.4</b> |
| Cash and cash equivalents at the beginning of the period             | 425.0       | 464.5         | 337.7       | 414.6        | 1,015.8       |
| Cash and cash equivalents at the end of the period                   | 464.5       | 337.7         | 414.6       | 1,015.8      | 858.3         |

| OPERATING CASH FLOW (SEK M)  | 2012         | 2013         | 2014         | 2015         | 2016         |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Profit after financial items | 568.8        | 637.2        | 713.9        | 880.5        | 884.2        |
| Depreciation/amortization    | 50.0         | 55.4         | 72.1         | 103.6        | 135.8        |
| Taxes                        | -237.4       | -128.2       | -103.8       | -191.5       | -210.8       |
| <b>Total</b>                 | <b>381.4</b> | <b>564.4</b> | <b>682.2</b> | <b>792.6</b> | <b>809.2</b> |
| Change in working capital    | -56.1        | -90.1        | -88.7        | -15.0        | -50.7        |
| Net investments              | -79.1        | -117.0       | -141.6       | -180.5       | -831.6       |
| <b>Operating cash flow</b>   | <b>246.2</b> | <b>357.3</b> | <b>451.9</b> | <b>597.1</b> | <b>-73.1</b> |

| KEY RATIOS                                   | 2012  | 2013  | 2014  | 2015  | 2016  |
|--|-------|-------|-------|-------|-------|
| Net sales growth, %                          | 16.9  | 12.7  | 15.5  | 21.7  | 11.3  |
| Gross margin, %                              | 50.3  | 51.5  | 51.8  | 50.8  | 50.2  |
| Operating margin, %                          | 13.8  | 13.6  | 13.1  | 13.3  | 12.0  |
| Profit margin, %                             | 13.6  | 13.5  | 13.1  | 13.3  | 12.0  |
| Depreciation/amortization, SEK M             | 50.0  | 55.4  | 72.0  | 103.6 | 135.8 |
| Equity, SEK M                                | 810   | 937   | 1,097 | 1,742 | 2,352 |
| Equity/assets ratio, %                       | 47.7  | 48.2  | 49.7  | 57.3  | 58.7  |
| Balance sheet total, SEK M                   | 1,696 | 1,943 | 2,207 | 3,038 | 4,009 |
| Interest-bearing liabilities, SEK M          | 140   | -     | -     | -     | 3     |
| Net debt, SEK M                              | 325   | 338   | 415   | 1,016 | 855   |
| Capital employed, SEK M                      | 950   | 937   | 1,097 | 1,742 | 2,355 |
| Return on capital employed, %                | 66.9  | 67.9  | 70.5  | 62.1  | 43.3  |
| Return on equity, %                          | 53.1  | 56.9  | 54.8  | 48.4  | 33.7  |
| Number of employees (average for the period) | 1,278 | 1,532 | 1,797 | 2,065 | 2,414 |
| Sales per employee, SEK M                    | 3.3   | 3.1   | 3.0   | 3.2   | 3.1   |
| Operating profit per employee, SEK M         | 0.5   | 0.4   | 0.4   | 0.4   | 0.4   |

| PER-SHARE DATA                                       | 2012   | 2013   | 2014   | 2015   | 2016   |
|--|--------|--------|--------|--------|--------|
| Profit after financial items, SEK per share          | 8.19   | 9.17   | 10.28  | 12.67  | 12.73  |
| Cash flow, SEK per share                             | 0.57   | -1.83  | 1.11   | 8.65   | -2.27  |
| Equity, SEK per share                                | 11.66  | 13.49  | 15.79  | 25.06  | 33.87  |
| Share price at end of the period                     | 177.50 | 223.80 | 199.60 | 343.40 | 340.60 |
| Price/equity, percent per share                      | 1,523  | 1,659  | 1,264  | 1,370  | 1,006  |
| Dividend paid  | 5.50   | 5.00   | 5.50   | 0.31   | 0.64   |
| P/E ratio  | 29     | 32     | 26     | 37     | 37     |
| P/S ratio  | 2.95   | 3.30   | 2.54   | 3.60   | 3.20   |
| Earnings per share before dilution, SEK              | 6.15   | 6.89   | 7.76   | 9.39   | 9.20   |
| Earnings per share after dilution, SEK               | 6.15   | 6.89   | 7.76   | 9.39   | 9.20   |
| Number of shares before dilution, average, thousands | 69,461 | 69,461 | 69,461 | 69,461 | 69,461 |
| Number of shares after dilution, average, thousands  | 69,461 | 69,461 | 69,461 | 69,461 | 69,461 |
| Number of outstanding shares, thousands              | 69,461 | 69,461 | 69,461 | 69,461 | 69,461 |
| Average number of shares, thousands                  | 69,461 | 69,461 | 69,461 | 69,461 | 69,461 |

## Quarterly data

|  | Q1             | Q2             | Q3             | Q4             | Q1             | Q2             | Q3             | Q4             | Full year      |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Invoiced sales per product group (SEK M) | 2015           | 2015           | 2015           | 2015           | 2016           | 2016           | 2016           | 2016           | 2016           |
| Video                                    | 1,347.5        | 1,607.6        | 1,885.5        | 1,738.8        | 1,546.9        | 1,714.9        | 1,864.1        | 1,941.8        | 7,067.7        |
| Other                                    | 6.8            | 8.7            | 20.2           | 19.6           | 20.1           | 47.8           | 133.1          | 117.0          | 318.0          |
| <b>Total</b>                             | <b>1,354.3</b> | <b>1,616.3</b> | <b>1,905.7</b> | <b>1,758.4</b> | <b>1,567.0</b> | <b>1,762.7</b> | <b>1,997.2</b> | <b>2,058.8</b> | <b>7,385.7</b> |

|                                   | Q1             | Q2             | Q3             | Q4             | Q1             | Q2             | Q3             | Q4             | Full year      |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Invoiced sales per region (SEK M) | 2015           | 2015           | 2015           | 2015           | 2016           | 2016           | 2016           | 2016           | 2016           |
| EMEA                              | 470.4          | 554.2          | 602.2          | 739.5          | 585.7          | 565.2          | 671.0          | 823.8          | 2,645.7        |
| Americas                          | 713.0          | 859.9          | 1,084.8        | 832.0          | 810.0          | 984.1          | 1,068.9        | 992.7          | 3,855.7        |
| Asia                              | 170.9          | 202.2          | 218.7          | 186.9          | 171.3          | 213.4          | 257.3          | 242.3          | 884.3          |
| <b>Total</b>                      | <b>1,354.3</b> | <b>1,616.3</b> | <b>1,905.7</b> | <b>1,758.4</b> | <b>1,567.0</b> | <b>1,762.7</b> | <b>1,997.2</b> | <b>2,058.8</b> | <b>7,385.7</b> |

|                                     | Q1           | Q2           | Q3           | Q4           | Q1           | Q2           | Q3           | Q4           | Full year    |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Income statement (SEK M)            | 2015         | 2015         | 2015         | 2015         | 2016         | 2016         | 2016         | 2016         | 2016         |
| Net sales                           | 1,354.3      | 1,616.3      | 1,905.7      | 1,758.4      | 1,567.0      | 1,762.7      | 1,997.2      | 2,058.8      | 7,385.7      |
| Gross profit                        | 710.1        | 821.7        | 973.6        | 867.1        | 785.5        | 876.0        | 989.4        | 1,056.0      | 3,706.9      |
| Gross margin %                      | 52.4         | 50.8         | 51.1         | 49.3         | 50.1         | 49.7         | 49.5         | 51.3         | 50.2         |
| <b>Operating profit</b>             | <b>144.8</b> | <b>116.5</b> | <b>388.7</b> | <b>231.2</b> | <b>153.1</b> | <b>166.8</b> | <b>312.2</b> | <b>252.9</b> | <b>885.0</b> |
| Operating margin %                  | 10.7         | 7.2          | 20.4         | 13.1         | 9.8          | 9.5          | 15.6         | 12.3         | 12.0         |
| <b>Profit after financial items</b> | <b>144.5</b> | <b>116.2</b> | <b>388.7</b> | <b>231.1</b> | <b>153.2</b> | <b>166.2</b> | <b>312.0</b> | <b>252.8</b> | <b>884.2</b> |

## Definitions

### Capital employed

Total assets less non interest-bearing liabilities including deferred tax liability.

### Cash flow per share

Cash flow for the year divided by the average number of shares.

### Earnings per share

Net profit for the year by the average number of shares.

### Equity per share

Equity divided by the number of outstanding shares.

### Equity ratio

Equity as a percentage of the balance sheet total

### Gross margin

Gross profit as a percentage of net sales.

### Net debt

Net interest-bearing receivables and liabilities.

### Operating margin

Operating profit as a percentage of net sales.

### Operating margin after depreciation of property, plant and equipment

Operating profit after depreciation of property, plant and equipment as a percentage of sales.

### P/E

Market value divided by profit after full tax.

### P/S

Market value divided by net sales.

### Profit margin

Profit before tax as a percentage of net sales.

### Profit per employee

Operating profit after depreciation/amortization divided by the average number of full-time employees.

### Return on capital employed

Profit after financial items plus financial expenses divided by average capital employed.

### Return on total assets

Profit after financial items plus financial expenses divided by average balance sheet total.

### Sales per employee

Sales divided by the average number of full-time employees.

# 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](http://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 %                     |
| <b>Total</b>                        | <b>69,461,250</b> | <b>100.0 %</b>            |

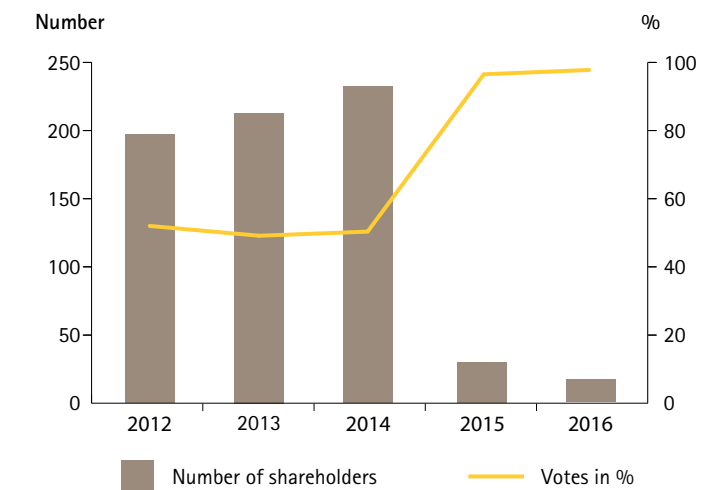
## Provisions in Articles of Association

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.

## 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](http://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<br>(employee representative for IF Metall)               | 2015         | -           | -          | -                      | 5 (12)         | -                  |
| Cristian Ionescu-Ildbohrn<br>(employee representative for SACO, deputy) | 2013         | -           | -          | -                      | 8 (12)         | -                  |
| Madhavi Kagganti<br>(employee representative for SACO)                  | 2015         | -           | -          | -                      | 12 (12)        | -                  |
| Marie Nässlind<br>(employee representative for Unionen)                 | 2015         | -           | -          | -                      | 9 (12)         | -                  |
| Mats Friberg<br>(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 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.

## 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

## 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

# Board of Directors and Auditors



## Biörn Riese

Chairman of the Board since 2015

Born: 1953

Board member since: 2015

Board member of: American Chamber of Commerce, Swedish Anti-corruption Institute (IMM), Mercuri Urval Foundation, My Special Day (Min Stora Dag) Foundation

Education: Master of Laws (LLM) and a Graduate degree in Economics/Business Administration, Stockholm university

Work experience: Mannheimer Swartling Advokatbyrå AB, Carl Swartling Advokatbyrå, District Court Service

Principal employment: Senior Adviser & Lawyer, Jurie Advokat AB

Shares in Axis: 0



## Martin Gren

Born: 1962

Board member since: 1984

Chairman of: Aktiebolag Grenspecialisten AB, Eikos Aktiebolag, Grenspecialisten Förvaltning AB, Handelsbolaget Dekad, H. Lundén Holding Aktiebolag, Tobii Technology AB

Education: Lund University, Honorary doctor HC, Lund University

Work experience: Founder of Axis

Principal employment: Employed by Axis Communications AB

Shares in Axis: 0



## Bert Nordberg

Born: 1956

Board member since: 2015

Chairman of: Innovativa Solutions Sweden AB, Sigma Connectivity AB, Vestas Wind Systems A/S

Board member of: Aktiebolaget Electrolux, LU Holding AB, Rothschild Nordic AB, SAAB Aktiebolag, SCA Hygiene AB, SkiStar Aktiebolag, Svenska Cellulosa Aktiebolaget SCA

Education: Degree in Electrical Engineering from Malmö's Tekniska Läroverk, Sweden

Work experience: Chairman and CEO Sony Mobile Communications AB (previously Sony Ericsson), Ericsson Group, Data General Corporation, Digital Equipment Corporation

Principal employment: Various directorships  
Shares in Axis: 0



## Håkan Kirstein

Born: 1969

Board member since: 2015

Chairman of: Companies in the Eltel group, The InfraNet Company AB

Board member of: Cherrystone AB, companies in the Eltel group

Education: M.Sc. in Economics, Stockholm University, Sweden

Work experience: Niscayah Group AB, StatoilHydro Sweden AB, Svenska Statoil AB, Statoil Detaljist AB, Imtech Nordic AB

Principal employment: President and CEO for the Eltel Group

Shares in Axis: 0



## Toshizo Tanaka

Born: 1940

Board member since: 2015

Board member of: Canon Inc.

Education: Degree in Economics from Keio University, Japan

Work experience: Various executive positions in the Canon group

Principal employment: Representative Director & Executive Vice President, Canon Inc. and Chief Financial Officer, Canon Inc. and several executive positions in the Canon group, incl. Vice Chairman of the Board of Supervisory Directors of Océ N.V.

Shares in Axis: 0

## Employee representatives:

### Cristian Ionescu-Idbohn

Board member since: 2013

Employee representative for SACO (deputy)

Shares in Axis: 0

### Madhavi Kagganti

Board member since: 2015

Employee representative for SACO (ordinary)

Shares in Axis: 0

### Haris Mustafic

Board member since: 2015

Employee representative for IF Metall (ordinary)

Shares in Axis: 0

### Marie Nässlind

Board member since: 2015

Employee representative for Unionen (ordinary)

Shares in Axis: 0

### Mats Friberg

Board member since: 2015

Employee representative for Unionen (deputy)

Shares in Axis: 0

## Auditors:

Ernst & Young AB.

Auditor in charge: Johan Thuresson, born 1964. Authorized Public Accountant. Assigned to Axis since 2016.

Grant Thornton Sweden AB.

Auditor in charge: Stefan Hultstrand, born 1955. Authorized Public Accountant. Assigned to Axis since 2015. Minority auditor



# Management team



## Ray Mauritsson

President and Chief Executive Officer

**Born:** 1962  
**Employed by Axis since:** 1995  
**Education:** Master of Science, Engineering physics, Lund University and Executive MBA from the Institute of Economics, Lund University  
**Previous employment:** TAC  
**Directorships:** HMS Networks AB  
**Shares in Axis:** 0



## Bodil Sonesson

Vice President, Global Sales

**Born:** 1968  
**Employed by Axis since:** 1996  
**Education:** Master of Business Administration, International Finance, Lund University and Konstanz University, Germany  
**Previous employment:** Lars Weibull  
**Directorships:** Swedish Chamber of Commerce in Paris, Tomra Systems ASA  
**Shares in Axis:** 0



## Fredrik Nilsson

General Manager, North America

**Born:** 1967  
**Employed by Axis since:** 1996  
**Education:** Master of Science, Electrical Engineering, Lund University, Economics studies at Lund University and the University of Uppsala  
**Previous employment:** ABB  
**Shares in Axis:** 0



## Per Ädelroth

Vice President, Operations

**Born:** 1966  
**Employed by Axis since:** 1994  
**Education:** Master of Science, Industrial Engineering and Management, Chalmers, Gothenburg  
**Previous employment:** Accenture  
**Directorships:** Color your life by Elisabet Ädelroth AB, JLT Mobile Computers AB (publ) and JLT Mobile Computers Sweden AB  
**Shares in Axis:** 0



## Fredrik Sjöstrand

Vice President, Finance and Chief Financial Officer

**Born:** 1969  
**Employed by Axis since:** 1998  
**Education:** Master of Business Administration, Lund University  
**Previous employment:** E.ON, PwC  
**Shares in Axis:** 0



## Johan Paulsson

Chief Technology Officer

**Born:** 1963  
**Employed by Axis since:** 2008  
**Education:** Master of Science, Electrical Engineering, Lund University  
**Previous employment:** Ericsson, Anoto  
**Directorships:** poLight AS, SaFP and Winplantan AB  
**Shares in Axis:** 0



## Malin Ruijsenaars

Chief Personnel Officer

**Born:** 1971  
**Employed by Axis since:** 2004  
**Education:** PA program, Lund University, Master of European Studies Brügge, Belgium, Postgraduate studies, UC Berkeley, USA  
**Previous employment:** Mercedes-Benz Customer Assistance Center, DaimlerChrysler Denmark Sweden  
**Directorships:** Arcam Aktiebolag (publ), Auranest Holding AB and RU Konsult  
**Shares in Axis:** 0



## Lars Åberg

Vice President, Marketing

**Born:** 1966  
**Employed by Axis since:** 2008  
**Education:** Master of Business Administration, Lund University, IFL Executive General Management Program, Stockholm School of Economics  
**Previous employment:** Unilever, Ericsson Mobile Communications, Bona Kemi  
**Shares in Axis:** 0

## Jonas Hansson

Chief Information Officer

**Born:** 1967  
**Employed by Axis since:** 2000  
**Education:** Master of Science, Chemical Engineering, Lund University and Degree in Journalism, Lund University  
**Previous employment:** Netch Technologies  
**Directorships:** Creofant AB  
**Shares in Axis:** 0



## Peter Lindström

Director New Business

**Born:** 1970  
**Employed by Axis since:** 2003  
**Education:** Technical Engineer, Lund University, Degree in Electro science, Executive MBA, EFL Lund University School of Economics and Management  
**Previous employment:** Sony, BPE Broadcast Professional Europe, GoPoint, Gandalf Data  
**Directorships:** Formpipe Software AB  
**Shares in Axis:** 0

# Glossary

## ASIC (Application Specific Integrated Circuit)

ASIC is a circuit that is designed for a specific application rather than a circuit for more general functions, such as a microprocessor. The use of ASIC as a component in electronic products can enhance performance, reduce power consumption, improve security and lower the cost.

## CCTV (Closed Circuit Television)

CCTV is a private video system within a building or facility which is used to visually supervise a location for security or industrial purposes.

## HDTV (High Definition Television)

HDTV offers up to five times higher resolution and double linear resolution compared with traditional, analog TV and is usually transmitted in widescreen (widescreen 16:9). HDTV is built on the SMPTE 296 and SMPTE 274M standards which are defined by the Society of Motion Picture and Television Engineers, SMPTE.

## Linux

Linux is an open source operating system within the Unix family. Due to its stability and accessibility, Linux has gained popularity both within the open source world and as regards commercial applications.

## Network camera

Digital video camera with built-in Ethernet network connection and web server. The digitally compressed video from the camera can be seen immediately from all computers which are connected to a network.

## Protocol

A set of formal rules describing how data shall be transmitted over a network. Low-level protocols define electrical and physical standards and high-level protocols are concerned with data formatting. TCP and IP are examples of high-level protocols.

## Server

A computer or software application providing services to other computers which are connected to it via a network. The most common example is a file manager which has a local disk and which handles inquiries from clients regarding reading and writing files on the disk.

## IP (Internet Protocol)

A communication transport protocol used in order to transmit data via Internet. Also see TCP/IP.

## TCP/IP

### (Transmission Control Protocol over Internet Protocol)

The TCP/IP protocol defines how data is transmitted securely between networks. TCP/IP is the most widespread communication standard and the basis for how the Internet works.

## Video encoder

A video encoder has an in-built network connection and web server, among other things. Its function is to take analog video (PAL/NTSC) from traditional analog cameras, digitalize and compress video and allow the digital video stream to be accessible over a network.

# Invitation to Annual General Meeting

The Annual General Meeting will be held at the company's premises at Edison Park, Emdalavägen 14, Lund, on Thursday, April 20, 2017 at 3.00 p.m. The notification of participation must be received by Axis AB no later than 4.00 p.m. on Wednesday April 12, 2017. The notification should include the shareholder's name, Swedish civil registration or corporate registration number, address and phone number as well as the number of shares represented.

Shareholders who wish to participate in the annual general meeting must be listed as a shareholder in the print-out of the share register produced by Euroclear Sweden AB on Wednesday April 12, 2017. Shareholders whose shares are held through nominees, must get the nominee to register the shares in their own name, so that the shareholder concerned is registered in the share register on Wednesday, April 12, 2017. Such registration may be temporary.

The notice is available on [www.axis.com](http://www.axis.com) and is sent free of charge to shareholders on request to their specified postal address.

Notification and ordering the notice can occur

- > in writing to Axis AB, attn. Adrienne Jacobsen, Emdalavägen 14, 223 69 Lund, Sweden or
- > by phone on +46 46 272 18 00 to Axis AB's headquarters.

The notification must also state the number of assistants (however, not more than two) the shareholder wishes to bring to the annual general meeting. If participation is through power of attorney, including – in the case that the grantor of a power of attorney is a legal entity – a certified certificate of incorporation or other document showing the competency of the authorised signatory, shall be submitted in good time prior to the annual general meeting.

The original power of attorney must be presented. The power of attorney form is available from the company and on the company's website [www.axis.com](http://www.axis.com).

The final day for trading in the company's shares including right to dividend is Thursday, April 20, 2017

## Financial information 2017

Annual General Meeting: Thursday April 20 April, 2017  
Interim report, January–March: Friday April 21  
Interim report, January–June: Wednesday July 12  
Interim report, January–September: Friday October 20

Reports may also be ordered from:

Axis AB  
Emdalavägen 14  
SE-223 69 Lund, Sweden  
Phone: +46 46 272 18 00  
Fax: +46 46 13 61 30  
E-mail: [pressoffice@axis.com](mailto:pressoffice@axis.com)

**Financial information is available in Swedish and English on Axis' website: [www.axis.com](http://www.axis.com)**

### Contact for the annual and sustainability report:

Björn Hallerborn, PR & Corporate Communications Manager  
Phone: +46 46-272 18 00  
E-mail: [pressoffice@axis.com](mailto:pressoffice@axis.com)

# About Axis Communications

Axis offers intelligent security solutions that enable a smarter, safer world. As the market leader in network video, Axis is driving the industry by continually launching innovative network products based on an open platform - delivering high value to customers through a global partner network. Axis has long-term relationships with partners and provides them with knowledge and ground-breaking network products in existing and new markets.

Axis has more than 2,600 dedicated employees in more than 50 countries around the world, supported by a global network of over 90,000 partners. Founded in 1984, Axis is a Sweden-based company listed on NASDAQ Stockholm under the ticker AXIS.

For more information about Axis, please visit our website [www.axis.com](http://www.axis.com).

Corporate identity number 556241-1065

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